



Kudelski Group
Annual report 2002

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Staying a step ahead

Whether employed in the field of digital television or that of physical access control, Kudelski's security solutions enjoy the very highest of reputations across the world.

Tried and tested millions of times over in the most demanding environments, they bring an unparalleled level of protection to the whole digital communication chain, from the creation of content to its final destination.

The uncompromising technologies from which they have developed for two decades constitute one of the key factors in their success. Just as essential, though, is the very spirit in which they were conceived.

For the Kudelski Group, security is first and foremost a state of mind, an active process based on the permanent monitoring of all forms of attack on security.

It is a process which, by drawing on a unique wealth of experience, allows us to keep a vital step ahead in every upgrade, every development and every new generation of product.

Message from the President

2002 was a difficult year for the Kudelski Group; this was mainly due to a significant deterioration in the financial resources of digital television operators in Europe. While the difficulties of some operators were apparent by the end of 2001, the speed with which they spread to most of the other European players and their intensity were, however, much less predictable.

The rapid decline in the dollar was the second driving factor of the downturn, leading to a deterioration in revenues and margins both in the American market and in the growing Asian market.

The geographical diversification of Nagravisión activities, initiated almost ten years ago, has allowed us to limit the negative impact of the financial crisis affecting European operators: effectively 72% of our digital television revenues now come from outside of Europe.

A further disappointment in 2002 was the failure of the merger between EchoStar and DirecTV. The Kudelski Group was counting on this to consolidate its position on the American satellite television market. To support this merger, we had intended to invest in EchoStar and had issued a USD 325 million convertible bond.

The upheavals in the digital television market imposed heavy constraints on the Kudelski Group in 2002. Instead of submitting passively, however, we took these as a new challenge and an opportunity to reassess our structures and to refine our medium and long-term strategy.

In particular, we introduced the following measures:

- we reinforced the structure of the Group, creating two distinct management positions, one for the Digital Television unit and another for the Public Access Control unit;
- we reorganized the financial department with, in particular, the appointment of a new CFO, whose task is to introduce a forward-looking financial management approach;
- we reorganized the Digital Television unit with the objective of both improving productivity and reducing operating costs. This reorganization also implied a reorientation of some strategic projects, a simplification of the project portfolio and a targeted reduction in staffing levels;
- we created the Nagra Public Access sub-holding to strengthen our physical access business;
- we abandoned or sold some activities which were no longer of strategic importance.

In parallel with this restructuring, particular attention was paid to further improve the competitiveness of the Group in the years to come.

In the digital television sector, Nagravisión has made intensive efforts to increase its market share in Europe. Several negotiations were started in 2002 and one major result was the signature of a long-term contract with Premiere, the reference for pay TV in German-speaking countries, thus opening the door to the largest market in Europe.

Outside of Europe, Nagravision continued to develop, particularly in the Asian market, where a significant number of new contracts have been signed.

With 26 new systems installed in 2002, Nagravision has once again demonstrated its ability to capture new markets, despite difficult conditions. Although the average size of the systems sold during this year is smaller than in previous years, these new clients represent a considerable potential for future business development.

Starting in 2003, Nagravision has introduced a new business model for a number of selected operators. The aim is to offer these clients an access control infrastructure billed monthly for a fee based on the number of active subscribers. This new model enables a fundamental reduction in the volatility of revenues. This is the ideal solution for operators, such as Premiere, with a considerable client base, and allows better alignment of the interests of the operator and the technology supplier.

The efforts undertaken in the area of public access control are also bringing results. Not only have we increased market share in a difficult environment, we have also been able to maintain our profitability applying a careful, dynamic management approach.

Ticketcorner (ticketing) has become the third largest European player in this industry both by natural growth and by the acquisition of the assets of the German operator Qivive. This move strengthens Ticketcorner as an operator and also allows it to control its own ticketing technology. This will be a key advantage for the international development of public access control activities and for other projects representing our vision of convergence.

2003 will continue to be a difficult year on a day-to-day basis. The partial introduction of the new business model, based on the principle of a rental infrastructure, will displace some of the economic impact of the growth generated in 2003 to the following years.

The expansion phase initiated during the first few months of 2003 is only a beginning. In its wake, we expect to win new clients and anticipate being able to realize our convergence projects over more fertile ground.

Ultimately, we will remember 2002 as a year where the digital TV organization underwent a major learning phase. We have discovered, sometimes to our cost, how quickly a market can deteriorate and produce unexpected negative effects on the development of our business.

At the same time, we have been able to observe, in the turmoil or the sudden collapse of some media giants, that this instability and these upheavals could sometimes redraw the game board and create opportunities for the Kudelski Group.

2002 has brought us its fair share of bad news, but it has also raised unprecedented medium and long-term possibilities. We have been forced to gain a better understanding of our weaknesses and to take the necessary corrective measures. Finally, we are now better aware of our strengths, whether technological, commercial or financial.

It is up to us to exploit this enriching experience and to transform it into the engine of our future growth with a mixture of optimism and vigilance.

André Kudelski

Key figures

In the financial year 2002, the Kudelski Group achieved total income of CHF 402.4 M (-11.7%), EBITDA of CHF 8.6 M and net income of CHF 10.0 M (-86.1%) after exceptional items for reorganization amounting to more than CHF 42 M.

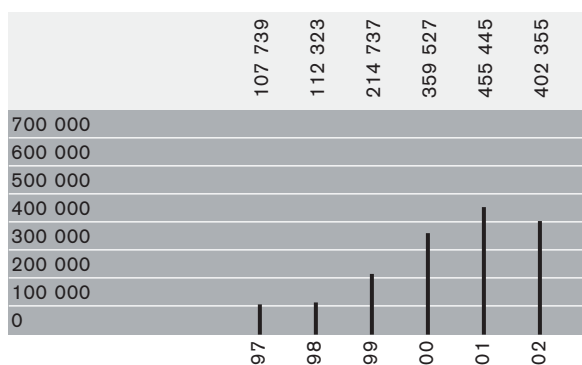
	2002	2001	2000	1999	1998	1997
Total Income	402 355	455 445	359 527	214 737	112 323	107 739
Gross Margin	250 033	269 794	178 316	103 371	72 289	54 190
Reported EBITDA	8 608	99 172	86 820	48 501	27 278	21 866
EBITDA excluding non-recurring items (reorganization)	31 143	99 172	86 820	48 501	27 278	21 866
Reported EBIT	-32 022	82 973	75 405	40 388	25 038	15 318
EBIT excluding non-recurring items (reorganization)	10 421	82 973	75 405	40 388	25 038	15 318
Net Income	10 031	72 086	66 618	35 427	16 468	10 109
Equity, including minority interests	580 910	580 851	639 156	154 208	111 464	56 808
Net Cash	397 421	364 114	543 611	58 663	47 609	10 390
Number of employees	1 220	1 173	425	239	170	141

Financial data in kCHF

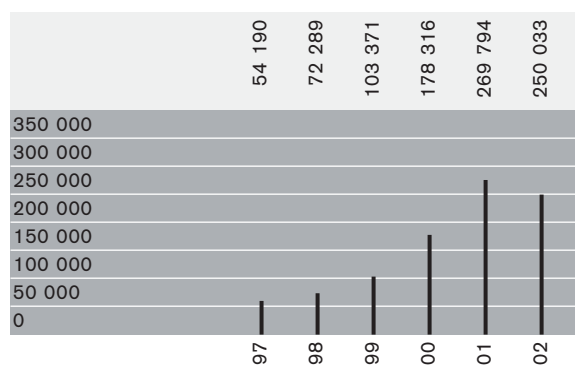
EBITDA: earnings before interest, tax, depreciation and amortization

EBIT: earnings before tax

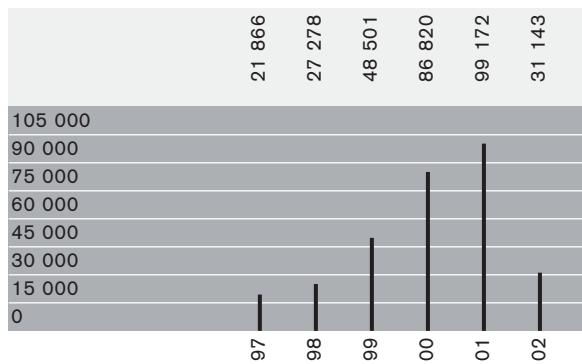
Total Income



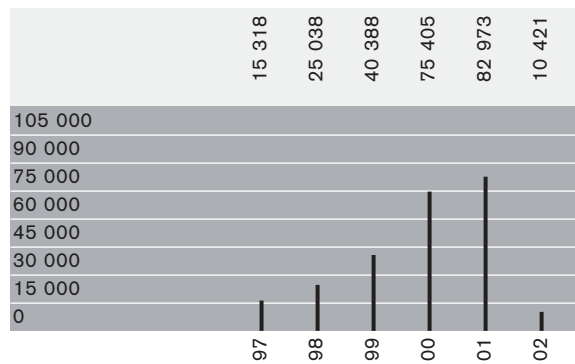
Gross Margin



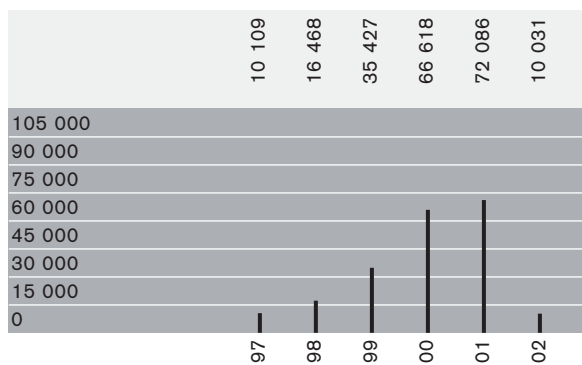
EBITDA excluding non-recurring items



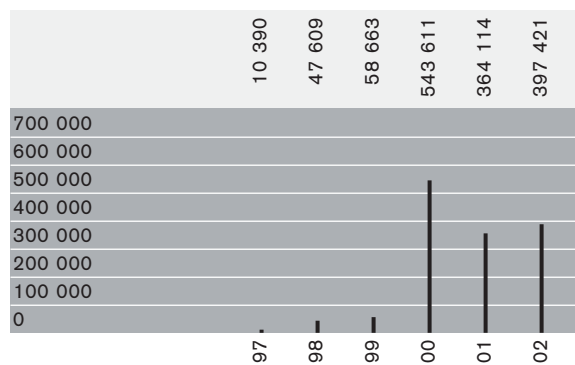
EBIT excluding non-recurring items



Net Income



Net Cash



Historical overview

1951

Birth of the first portable recorder, the Nagra I.

1959

Release of the Nagra III.

1965

First Nagra SN (Série Noire), miniature device.

1984

First Nagra VPR-5 video recorder.

1986

The company is listed on the stock market.

1989

Canal+ adopts Kudelski's access control system for pay television.

1991

André Kudelski succeeds Stefan Kudelski.
First million analog decoders sold.
The company concentrates its activities on conditional access television.

1992

Creation of Nagra+, a joint venture with Canal+.
Launch of the Nagra-D, the first portable digital recorder.

1995

First order (from EchoStar) for a Nagravision digital system, marking the arrival of Nagravision on the North American market.
Dassault buys a stake in the company.

1996

85% of sales are achieved in the conditional access television sector.
Full conversion of the convertible loan (1986-1996) within the framework of a PEO.

1997

Nagravision breaks through in Europe.
Digital pay television becomes the company's core business sector.
Nagra Audio launches a range of high-end Hi-Fi products.

1998

Nagravision conquers the British cable market.
Creation of NagraStar, a joint venture with EchoStar.
Creation of NagraCard.
First systems offering mixed pay TV/Internet solutions.
Capital increase and 1st indirect split of the Kudelski share (5+1).
The stock appreciates by 210% (best performance on the Swiss stock market).

1999

First encryption systems designed for broadband networks.
Creation of MediaCrypt and investment in NagralD.
The company becomes a holding company.
Kudelski stock is listed on the principal market of the SWX Swiss Exchange.

2000

Investment in SportAccess.
The Group continues to expand in the field of the secure distribution of digital content over broadband networks.
Capital increase and 2nd indirect split (12).
Introduction of Kudelski on the SMI (Swiss Market Index) and MSCI (Morgan Stanley Capital International).

2001

Acquisition of SkiData.
Acquisition of Ticketcorner.
Acquisition of Lysis.
Acquisition of Livewire.
Creation of the e-prica and of AccessArena joint ventures.
The Kudelski share is split by 10.
A very volatile year for the stock.
Launch of a convertible bond of USD 325 M.
The operation is heavily over-subscribed.

2002

A difficult year for Kudelski, which suffers from the impact of difficulties in the television market, particularly in Europe, and 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 and reduces its staff.
Creation of the holding company Nagra Public Access (grouping together the companies SkiData, Ticketcorner and SportAccess).

Kudelski Group companies

Digital TV

Nagravision

One of the world's leading suppliers of integrated security software solutions for digital television operators and content providers.

NagraCard

Security technology using smart cards for digital television and other applications such as physical access.

Lysis

Content and rights management solutions (digital television).

Livewire

Development of software for digital decoders, particularly for the cable market.

Nagra Plus

Security systems for analog pay television. Equally owned with Canal+ (F).

NagraStar

Conditional access and smart cards used by EchoStar's DISH Network American satellite television system and its affiliated companies. Equally owned with EchoStar (USA).

MediaCrypt

Fundamental encryption technology based on Ascom's IDEA™. algorithm. Equally owned with Ascom (CH).

Logiways

Digital television navigation software products. Joint-venture with A-Novo (F).

Public access

SkiData

Integrated access and management solutions for car parks, ski-lifts and installations such as stadiums, exhibition or concert halls.

Ticketcorner

One of the principal ticketing organizations in Europe and the number one in Switzerland.

NagraID

Development and production of modules and smart cards for contact and contactless identification systems.

SportAccess

Open-ended rights and services management solutions for communities, hospitals and corporations. Management and development of the Group's convergence projects.

AccessArena

Destination management solutions enabling visitors to a tourist region to access different services using just one smart card.

e-prica

Personalized health card solutions for the secure management and transmission of data. Joint-venture with Galenica (CH).

Nagra Audio

Nagra Audio

Portable digital recorders for professionals; products in the high-end Hi-Fi sector.



The year gone by

Crisis in the digital television industry

For structural and macroeconomic reasons, the digital television sector went into 2002 on the back of a period of significant upheaval, the negative effects of which were felt most directly on the development of the Group's business. Having actually realized almost 75% of its revenue from that sector in 2001, the Group saw this percentage fall to 62% in 2002.

The Kudelski Group expected digital television business to decline in the first half of 2002 due to the restructuring of several operator clients of the Group in Europe. The situation in the rest of the world remained satisfactory, without nevertheless being able to make up for the weakness observed in Europe.

The Group was counting on the second semester to balance this situation, thanks to the finalization of the restructuring process and to the acquisition of new clients. Activity in the digital television sector is characterized by its seasonal nature: for many years, a significant part of the Group's turnover had been achieved over the last three months of the year.

Combination of unfavorable factors

However, restructuring among operators proved to be longer and more complex than predicted while negotiations on new contracts tended to drag on longer than foreseen. These twin factors combined to exert a negative impact on the revenues of the Group in 2002.

Moreover, the growth in operating expenses linked in particular to the proposed EchoStar-DirecTV merger, losses on exchange rates and interest income that came in lower than expected also weighed heavily on the financial year.

Foreseeing that these elements would have a decisive impact on its revenues and profitability between September and December 2002, the Kudelski Group decided to publish, on 29th August 2002, a profit warning for the year 2002.

In this harsh environment, the Group's strategy to establish a presence on diversified markets proved to be appropriate. Over the course of the year, 26 digital television systems were installed and 22 new operators became clients.

Satisfactory physical access sector

While activities in the field of digital television proved to be disappointing, those in the physical access and ticketing sector were much more satisfactory. After a very good financial year 2001, they held up well despite a difficult climate.

For the physical access sector, the first six months were in line with expectations, although some slowdown was felt on several European markets. A rigorous cost-control policy allowed the Group to maintain the profitability of this segment, whose seasonal nature remains strong.

A vital adjustment to the environment

For the Kudelski Group, 2001 was a year of external growth. Six new companies joined the Group, which then embarked on a program of integration from the end of the year.

The primary objective was to organize activities coherently around two well-defined axes: digital television and physical access (Nagra Public Access). A further aim was to regroup forces into product development and product marketing.

In-depth internal reorganization

The deterioration of business in 2002 led the Group to accelerate and deepen the reorganization process. By the end of an analysis conducted with the help of the external experts, it had become clear in the autumn that additional measures would have to be taken in order to enhance the efficiency of the company and improve its competitiveness, its potential for technological innovation and its ability to service clients in an optimal way.

In an environment which had become markedly more difficult, the objective was to react sufficiently early in order to shelter the company in the best possible way from the consequences of any further deterioration. It was also to prioritize between strategic activities and those which are less strategically essential.

The measures decided focused in particular on reinforcing the management and adapting the structure of the departments. Management methods and financial techniques were redefined to enable better evaluation of project profitability.

Job reductions

The adjustment of staffing levels proved to be one of the necessary measures. The Group thus had to reduce its staff by 110 jobs. Accompanying measures were implemented for the persons made redundant in the framework of the job reduction process.

Sale of Precel

Having spun off the electronic assembly activities of its subsidiary Précision Electronique Precel SA in Neuchâtel to the benefit of Biwi in Glovelier in November 2002, the Kudelski Group sold the mechanical sector of this subsidiary to the company PFL Antralux, based in Landeron in the canton of Neuchâtel. With this last transaction, which took place in December 2002, the Group has sold off the entirety of Precel. This operation forms part of the job reduction plan.

Strengthening of the management structures

Board of Directors

On 4th April 2002, Mr. Claude Smadja, a member of the Board of Directors since 1999, was appointed Deputy Chairman of this body. This appointment allows the Group to draw still further on the expertise of Mr. Smadja, a specialist in macroeconomic strategy.

Group management

Between October 2002 and February 2003, the Board of Directors implemented several changes in the management of the Group.

Finance

In order to strengthen the financial management of the Group, Mr. Mauro Saladini was appointed Chief Financial Officer (CFO) of the Kudelski Group in November 2002. Also Executive Vice President of the Kudelski Group, he commenced his duties in early 2003.

Operations

Two separate units – Digital Television and Nagra Public Access (physical access and ticketing) – were created with a corresponding management structure.

In January of 2003, Mr. Pierre Roy was appointed COO of the Digital Television unit and Executive Vice President of the Kudelski Group. Mr. Roy has been collaborating with the company on strategic projects for pay television since 1992.

Until then COO of the Kudelski Group, Mr. Charles Egli took up the post of CEO of the Nagra Public Access division, established as a holding company in December 2002. He was also appointed Executive Vice President of the Kudelski Group.

Mr. Alan Guggenheim, CEO of NagraStar (a Denver-based joint venture between Kudelski and EchoStar), was appointed Executive Vice President of the Kudelski Group.

Sales and Marketing

In October 2002, the Board of Directors decided to modify the management structure of the digital TV division. This necessitated the centralization of management at Cheseaux to enable reaction times to be improved. As a result, Mr. John Markey, based in the United States and until then Sales & Marketing Director of the Kudelski Group, became strategic advisor to the CEO of the Group.

Creation of competence centers

Alongside the changes at the management level of the Group, the structure of the TV division was completely reviewed, with the aim in particular to allow greater involvement of all management.

The creation of competence centers is one of the principal innovations designed to achieve an organization that is entirely focused on the market and that integrates the needs of clients right down to product conception level.

Reorganization of the Nagra Audio network

Nagra Audio has carried out a reorganization of its sales network. The subsidiary in Italy has been sold, while the American branch office, previously in Nashville, was relocated to Los Angeles, where the NagraVision office is based. Other realignments are planned for 2003 with the goal of reducing operating expenses in the sales structure and increasing the profitability of this activity.

Acquisition in the field of ticketing

The Group member that specializes in event-based ticketing, Ticketcorner, took over the assets of the German company Qivive in July 2002, thus becoming the second biggest player on this market in Germany and one of the leaders in the European ticketing market.



Digital television

A global security strategy

The Kudelski Group built up an international reputation in security technology at the end of the 1980s with its access control systems for analog television. Upgraded versions of these systems still serve more than four million users under the Nagra+ brand name today.

Oriented to digital television since the beginning of the 1990s, the Kudelski Group security solutions extend to all levels of the content distribution chain, from the creator to the end user, covering the following fields:

Conditional access (broadcast)	Nagravision CAS
Conditional access (IP networks)	Nagravision (NagraIP)
Pre-encryption and streaming encryption (IP networks)	Nagravision (NagraIP)
Content management	Lysis
Copyright management	Lysis (SmartContent)
Subscriber management	Nagravision (SMS)
Fundamental encryption	MediaCrypt (IDEA)
Decoder software	Livewire (Tsunami)
Secure smart cards	NagraCard

Security: a dynamic process

The security concept at the heart of Kudelski's solutions is founded on a twin-track approach: on the one hand the utilization of cutting-edge technology, and on the other a proactive approach to the management of these technologies, giving rise to the constant evolution of systems in response to the threats to which they are exposed.

Cutting-edge technologies

The **smart card** plays a dominant role in Kudelski's security concept, managing access authorization securely. **NagraCard** is the entity in the Group which develops smart card technology for the needs not just of pay television, but also of other applications, particularly in the field of physical access control.

In terms of fundamental technology, Kudelski's solutions are based on encryption algorithms that are recognized to be among the most powerful in the world, in particular the **IDEA algorithm** (International Data Encryption Algorithm). This is supplied under license by MediaCrypt, a company equally owned by the Kudelski Group and Ascom.

This technology is applied to both digital television and data transmission on broadband networks. It is likewise used by major banking institutions for secure Internet transactions and by the media industry for copyright protection.

Proactive management of technologies

Kudelski's security solutions stem from a dynamic approach to security which incorporates to a significant extent the monitoring of the threats, or even attacks, to which they are exposed.

The security systems installed with the clients of the Group have the ability to evolve during their lifecycle in response to this monitoring.

Monitoring carried out on the Kudelski systems enables a certain volume of data to be collected which will then flow into the development of subsequent versions of the security solution. This rigorous monitoring is a key factor in the active role which the Group is playing in the fight against piracy.

Aladin, the new generation of Nagravision conditional access systems, integrates all the benefits of constant observation in real conditions. It offers a degree of protection that is as yet unequalled while at the same time affording new functionalities, notably at smart card level: a double benefit for operator clients.

A sector on the road to consolidation

Not as quick as analysts had initially predicted, the migration towards digital television should reach 160 million households in 2005 and be concluded in Europe and the USA towards 2010, the year in which these two regions have indicated that the analog signal will cease to be broadcast in their territory.

For the TV broadcasting industry, the stakes are as high as this market is huge. The migration towards digital demands investment on a very large scale, but it does, in return, open up an important source of new revenue.

In this context, the size of operators will become a dominant factor. The market is currently undergoing a process of significant consolidation. One of the temporary effects is a slowdown in business development. Once achieved, however, this restructuring will invigorate the sector.

A rather similar trend can be observed among conditional access system suppliers, who are being compelled to earmark ever more capital spending to the development of security systems that are capable of withstanding the growing attacks of piracy.

Occupying a leadership position, collaborating with long-standing key operators and boasting the most advanced technologies, Nagravision can count on drawing strategic benefit from this movement towards consolidation.

Products meeting vital needs

Operators are experiencing a delicate period of transition, facing very high subscriber acquisition costs and often excessive operating expenses when compared against revenues.

The careful targeting of investment has thus taken on central importance, since it is essential to maintain and to adapt the product range to the behavior and to the real needs of the users. The objective is to invest in developments which may return a profit over a reasonable period of time.

At present, the simpler products (subscription to channels or bouquets, films on demand) are the most successful among subscribers. The acceptance speed of interactive services was overestimated. The situation is the same in the telecom sector.

For the operators, what matters for the moment is to have a competitive product offering and to reduce subscriber acquisition costs rather than multiplying the number of applications with too distant profitability.

As a partner to these operators, the Kudelski Group is eager to offer an appropriate response to a demand that is substantially different from that which had been predicted just a short time ago.

This strategic observation is what guided the recent developments of Nagravision towards lighter solutions offering a particularly advantageous price/performance ratio.

Servicing clients

Adapting to the needs of clients and supporting them in their development: these are currently two of the priorities of the Kudelski Group in this phase of transformation that requires particularly close collaboration.

These priorities are reflected in the new internal organization of the Group, which integrates the needs of operators right down to engineering level in order to offer the best calibrated and the speediest responses to meet the expectations of the market.

The new structure of the digital television division is based around competence centers. Their objective is to follow a project from its inception through to its implementation with the client, liaising with the latter throughout the process.

Technical and strategic responses

Nucleus is an entry-level Nagravision access control system that enables operators to launch pay television services rapidly and at a very competitive cost. It is a platform that brings together a defined selection of partners and offers the advantage of being able to evolve easily towards the standard line of the Nagravision product range.

Nucleus will be launched on the market in the course of 2003.

Tsunami is a software suite aimed at decoder manufacturers. It was developed and brought onto the market in 2002 by **Livewire**, an American company, member of the Kudelski Group. This development is typical of the philosophy of the Group: to achieve an end product that is not only outstanding in terms of technology, but also perfectly tailored to the effective needs of the client.

Decoder manufacturers are currently faced with requests from operators for devices which are simple yet very reliable, and come at a reduced cost so that they can improve the attractiveness of their subscription packages. Tsunami offers an appropriate response, removing from these manufacturers the expense of developing their own software.

While contributing to a reduction in the cost price of decoders, Tsunami allows an appreciable time saving in the development cycle for new devices and in their time to market. The software exists in basic form for entry-level products but, by being configurable and modular in design, it can become the centerpiece of sophisticated versions (PVR). Delivered with a Nagravision conditional access system in its base definition, it is totally compatible with the other systems on the market.

Additionally, Tsunami is compatible with existing middleware such as OpenTV and Liberate.

Six Asian decoder manufacturers including the Samsung group acquired a Tsunami license in 2002.

The PVR – a sophisticated decoder

VOD services (Video On Demand) constitute one of the chief successes among the additional services which operators offer to their subscribers. Nevertheless, their implementation is a heavy-duty operation: being extremely hungry in terms of bandwidth (simultaneous broadcasting of multiple films), these services demand a high-capacity infrastructure. They are currently restricted to cable networks as they require a return path to enable interactivity.

In this context, the current boom in the PVR (Personal Video Recorder) opens up interesting prospects. Apart from the fact that it has the functionality of a sophisticated video recorder, the PVR (which is a sort of decoder with a hard disk) now allows satellite operators to include VOD in their packages without the need for significant infrastructure development on their part.

The operator broadcasts the already encrypted films to the hard disk of the client at off-peak times such as during the night. The subscriber can then view the stored films at a time of his or her convenience. The smart card allows the film (which remains stored in encrypted form on the hard disk) to be decrypted and manages the transaction and the billing process.

The PVR seems destined for a bright future: of the more than 8 million subscribers which the operator DISH Network (EchoStar) has in the United States, hundreds of thousands have already opted for such a device in place of the traditional decoder.

Nagravision conditional access technology supports the functionalities that are essential to the PVR.

SmartRight: security on private networks

With the ever wider availability of digital content on domestic devices (PVR, recordable DVDs etc.), and moreover to the possibility of interconnecting these devices, the protection of content becomes a critical issue.

The control of copies and of their illegal distribution demands systems which are all the more secure given that the reproductibility of digital content is perfect. It goes without saying that this issue is of vital importance for the cinema and record industries in particular.

This concern led Nagravision to participate in the SmartRight consortium alongside other major suppliers of digital television systems (Gemplus, Micronas, etc.) and manufacturers of consumer electronics devices (Pioneer, Thomson, etc.). The objective of the SmartRight alliance is to promote an international standard designed to protect digital content in the domestic environment.

Nagravision is involved in the framework of this concept at two levels: helping to define the standard as an expert in security, and as a supplier of conditional access systems.

The SmartRight consortium currently constitutes the largest initiative on the market for imposing a standard in copy protection. In this regard it represents a significant additional asset for Nagravision. The concept was unveiled at the CES trade fair in the United States in January 2003.

Logiways: heading towards public digital television

The creation with A-Novo of the joint venture Logiways in 2002 reflects the desire of the Kudelski Group to have a presence in the field of free-to-air (public) digital television, which will in the long term account for a significant segment of the global market.

Under the Magello brand name, Logiways offers software modules for the control and personalization of the functionalities of digital television equipment: electronic program guide, channel list, record programming application, parental control application, etc.

The Magello solutions are installed in both the decoders and the television sets themselves. Designed to meet the requirements of large-scale industrial production, they have been adopted by Philips, Toshiba and several other Asian manufacturers.

Like its pay counterpart, free-to-air digital television will evolve towards various interactive functions and will often be bundled with PVR hard disk recorders. Again, this sector will see the security of transactions and anti-piracy measures become major concerns – and that is territory on which the Kudelski Group is well able to provide widely proven solutions.

The markets in 2002: contrasting results

As was the case in so many other industries, the recession which is affecting the world economy had a considerable dampening effect on the development of digital television in 2002. It led to a sharp slowdown in investment by operators, put a brake on the migration of consumers towards digital technology and demonstrated all the more clearly the need for structural consolidation of the market, without which some players cannot hope to achieve the critical mass they require if they are to face up to the very heavy financial demands of the industry.

Europe: collapse in turnover

Europe was the region most affected by the deterioration in the market, with the industry as a whole suffering a sharp decline in turnover. Some operators disappeared, including clients of the Kudelski Group, while others were forced to postpone their plans and development timetables. Many platform upgrades were thus pushed back, causing a significant gap in earnings for Nagravision, especially in **Spain** and in **Great Britain**.

Nevertheless, some success was recorded in several countries.

In **Switzerland**, the domestic market of the Group, Nagravision strengthened its presence in cable. Its conditional access system was chosen by Digital Cable Group, which includes three cable operators with a total of 110 000 subscribers. This solution was also adopted by the operator EW Buchs.

In **France**, Nagravision delivered the turnkey installation of the platform of operator France Citévision in Amiens, allowing it to achieve a very rapid start to its activities.

Americas: sustained growth

The **Etats-Unis** remains a market of primary importance for Nagravision, which continued its progress there and chalked up new developments in 2002.

EchoStar – DISH Network

The long-standing partnership with EchoStar (DISH Network) remains one of the central pillars of the American activities of the Kudelski Group. The two firms share ownership of the company NagraStar, which supplies conditional access systems and smart cards used by EchoStar and its affiliated companies. This entity also handles research and development services, support and maintenance.

With two new launches in 2002, EchoStar boasts eight satellites covering the whole of the United States and broadcasting more than 500 national digital channels. A new satellite is to be put into orbit in 2003.

The operator recorded the strongest growth in the market in 2002, adding 1.32 million clients. It now numbers 8.18 million subscribers, representing more than 13 million active decoders.

2002 was also the year chosen by EchoStar to undertake the rollout of the new generation of the Nagravision system, called Aladin.

Announced in fall 2001, the plans to merge EchoStar and DirecTV (Hugues Electronics – General Motors) did not receive the approval of the American competition authorities after twelve months of negotiations. The project was finally abandoned in October 2002.

New contracts

Nagravision obtained its first North American contract in the cable broadcasting sector with Atlantic Telecom Cable. The agreement covers the conversion to digital of its existing subscribers, currently served by analog technology.

Comcast is another of the new clients of the Kudelski Group, with a contract for a test system for TV broadcast in MPEG 4 standard, based on a Nagravision conditional access system. Since its recent purchase of AT&T Cable, Comcast has become the biggest global operator in digital television.

In **Canada**, Bell ExpressVu, one of the key clients of Nagravision, is developing very well. The operator now has more than 1.2 million subscribers, representing close to 2 million active decoders.

Nagravision made its first appearance in the cable sector in Latin America with the deployment in **Venezuela** of a system for the company Supercable.

In **Barbados**, Nagravision strengthened its leadership in MMDS technology (Multichannel Multipoint Distribution System) thanks to the agreement reached with CBC Barbados. Many operators in the region are beginning their migration towards digital.

Asia: excellent evolution

2002 brought real satisfaction for the Asian area. This region actually accounted for the majority of the growth in cable in the world, estimated at 8%, raising the total number of subscribers from 299 million in 2001 to 320 million by the end of 2002. China and India alone generated almost 60% of this global growth.

The Kudelski Group has already maintained a strong presence in **China** since 1999. In 2002, this position was strengthened still further by the important contract concluded with Shanghai Cable Network, the major cable operator in China, for the deployment of its digital services. Shanghai Cable is planning to migrate its 3.5 million subscribers to digital.

This contract is strategically important for the Kudelski Group. Like other large operators, Shanghai Cable is likely to play an important role in the probable market consolidation in China. In addition, this cable operator plans to extend to other provinces in China using Nagravision technology. Finally, Shanghai is a key region in China in terms of economic development and innovation. The other regions are likely to follow its choices when the time comes.

Furthermore, in the city of Dalian, situated in one of China's richest provinces, some 300 km from Beijing, Dalian Cable TV opted for a Nagravision system brokered by the integrator Lands Digital for the digital migration of its 500 000 subscribers. Regarded as a model installation, this showcase of Nagravision technology is attracting the interest of other operators in the region.

China remains a priority market for Nagravision, which has offices in the two largest economic centers of the country, Beijing and Shanghai.

In **Hong Kong**, the problems of piracy encountered by Hong Kong Cable with its former analog system led it to commission Nagravision with the security of its systems on its migration to digital. The launch of the digital services of Hong Kong Cable for the soccer World Cup 2002 was a success, and by the end of 2002 the operator had 250 000 digital subscribers on its network.

With Raj TV, Nagravision installed its first conditional access system on the actual mainland of **India**. The installations previously broadcasted from Singapore.

In 2002, the Kudelski Group also enjoyed significant success in **Japan**, where Nagravision signed its first digital television contract. The satellite operator Space Communications Corp., which selected Nagravision with Matsushita Techno Trading (MTT), has a medium-term potential situated between 200 000 and 300 000 subscribers.

In **Indonesia**, the most important Internet supplier in the country, Indosat Mega Media, purchased a Nagravision system for its cable network subscribers.

In **Korea**, Qrix, the first cable operator to undertake the migration towards digital, chose a Nagravision conditional access system. The operation will affect 450 000 subscribers.

In **Taiwan**, the Kudelski Group pulled off one of its most interesting Asian deals. Its client EMC, which numbers some 1.5 million subscribers, is making the last preparations before the launch of its new digital service, scheduled for the start of 2003. Using a Nagravision conditional access system, EMC is the principal multisystem cable operator in Taiwan.

Prospects for 2003

The deals concluded between the end of 2002 and the end of 2003 will only have a visible impact from the beginning of 2004 because of the complexity of the projects and the introduction of a new rental business model.

Public access

A sector in full development

SkiData systems: success after success

Ticketcorner: European expansion

Multifunctional cards: for the benefit of the user



Public access

A sector in full development

Creation of the Nagra Public Access unit

Physical access control and ticketing activities have seen significant growth over the last few years. In 2002, the Kudelski Group decided to gather the main companies in these sectors into a common unit, called Nagra Public Access. Alongside the digital television entity, it constitutes the second pillar of the Group's activities.

The creation of one single operational entity will contribute to further develop synergies between companies and strengthen the Group's ability to offer integrated solutions using their respective expertise and know-how in an optimal way.

Already, cooperation between members of the Group has led to the implementation of projects involving different skills areas within the Group.

Geneva Stadium: a model concept

The Geneva stadium complex is unique in Europe. Apart from being a 30 000-seater stage for soccer, it has its own administrative center, a shopping center and a leisure center, a restaurant seating 800 and a 130-bedroom hotel. It also has a covered car park with 950 spaces.

Operation of the center began at the end of 2002 with the opening of the shopping center. As for the stadium, 16th March 2003 saw it play host to its first match in the Swiss soccer league.

A site of this scale demanded a high-performance global access solution integrating the wide range of services available in the complex.

Thanks to its expertise in secure access (SkiData, NagraCard), ticketing (Ticketcorner) and electronic cash management (SportAccess), the Kudelski Group was able to elaborate a modular and evolutionary solution based around a hybrid smart card.

The car park for the complex is already fitted with a SkiData system, but the project as a whole provides for numerous functionalities.

With just one single card, users will be able to access the stadium and, where appropriate, the VIP area, car park and hotel rooms. Using this same device, they will also be able to pay for their snacks from vending machines or at refreshment stalls and make purchases in the center's shops. In addition, they will have the option of enjoying the facilities of the leisure center.

The integrated system plays a significant part in simplifying management tasks and encourages an active marketing approach (loyalty program, special benefits for fans, customer database, etc.).

In terms of technology, this global solution illustrates the notion of convergence that is at the heart of the Kudelski Group strategy.

It will be possible to buy tickets in advance through the Ticketcorner call center, the Internet, by mobile phone or (later) pay television. Tickets will be issued in the classic format (paper document and barcode) or in the form of a smart card giving access to all the services associated with the card (subscriptions to matches, electronic purse, etc.).

World Economic Forum: high security a priority

Physical access control generally requires a level of security that is less rigorous than for the transmission of content in the world of digital television, for example. In the first case, the primary concern is to manage flows of persons or of vehicles. No individual identification of the user is required.

In certain contexts, however, security must be taken to its very highest level: the access system installed for the Annual Meeting of the World Economic Forum in Davos, Switzerland, where the highest political and economic authorities on the planet meet, is a perfect illustration of such a case.

In January 2003, and for the fifth consecutive year, Kudelski implemented a complete physical access control solution based on contactless badges allowing the rapid and reliable identification of participants at different entry points of the conference.

A sector in full development

The system was globally designed and developed by NagraCard, while another Kudelski Group company, NagraID, ensured production of the badges. Year on year, the solution is evolving towards ever more functionalities for participants and new applications enabling the World Economic Forum to achieve greater efficiency in staging the event.

A sophisticated system

The system implemented for the Annual Meeting of the World Economic Forum must meet numerous requirements.

In the first place is security: it is essential that every person (participant, personnel, security, etc.) be identified in a way that is both rapid and reliable and that all situations are catered for (loss of badge, fake badge, etc.) and can be addressed without delay.

In the second place is the management of complexity: the system must make allowance for very different situations in terms of the validation of authorization in time (access to the entirety of the conference or to some sessions) or in space (who is authorized to go where).

Finally, the diversity of control points and the number of entries managed: for the 2003 edition of the Annual Meeting, Kudelski controlled more than 50 000 movements at the Congress Center and more than 30 000 entries to sessions held in over 20 hotels.

Security ink

For the 2003 event, a new protective device was introduced into the production process of the badges, complementing the electronic security provided by the smart card.

The process, which makes it extremely difficult to produce forged cards, consists in using OVI® security ink on an area of the visible face of the badge to produce an optical effect of varying color which can be immediately identified by the naked eye.

This ink, used in the printing of banknotes in more than 80 countries, is produced by the SICPA Group, the world's leading supplier of security inks.

Streaming: a bonus for participants

The Kudelski Group collaborated with two other partners of the World Economic Forum, HP and Accenture, in order to offer participants the possibility of viewing the conferences (live or on-demand) using Internet terminals provided for their use on site (the Kiosks) or on their pocket computer, the "Davos Companion".

SkiData systems: success after success

In the course of financial year 2002, SkiData maintained its growth in its three sectors: parking, ski and event solutions. Several new international projects were added to its portfolio of achievements.

The European market still remains the main source of revenue, but the Asian region and the United States are showing promising development.

To reinforce this positive dynamic growth, SkiData bolstered its workforce, particularly in the areas of research and development and in customer care.

Additionally, SkiData took over the ski activities from SportAccess as part of the integration process between these companies.

Solutions for car parks

In 2001 SkiData made a high-visible entry into the United States with the installation of 85 access systems for car parks. This success was confirmed in 2002 with the implementation of the hundredth system in that country.

Globally, SkiData saw its market share in the parking sector grow in numerous markets – Scandinavia, the United Kingdom, Germany, Italy, the United States, Hong Kong, Australia – over all five continents.

Airports are amongst the most important SkiData installations in the parking sector. More than 50 airports are equipped with such systems, including Heathrow (London, UK), Malpensa (Milan, Italy), Dubai (U.A.E.), Orly (Paris, France), Munich (Germany), Schiphol (Amsterdam, the Netherlands), Kingsford Smith (Sydney, Australia), etc.

Solutions for ski resorts

SkiData's solutions for pre-booking ski passes over the Internet or by mobile phone met with enormous success on European markets. Skiers were very receptive to this concept, which has now become an integral part of their way of life.

SkiData concluded several major new deals for the installation of systems in Finland, Norway and Sweden, while the first contract was signed in Japan.

In addition, the market welcomed the launch of a new software module designed to produce statistics and to support management and marketing processes.

In Switzerland, the SportAccess systems used in resorts in the canton of Valais were replaced by new SkiData systems. This standardization of technologies ensures greater comfort for users.

Solutions for sports stadiums, exhibition and concert halls

SkiData achieved a major breakthrough in the management of access to stadiums thanks to the latest version of Handshake, the multiformat software system that has now become the European standard in that field. The system is in use at sites such as the soccer stadiums of FC Kaiserslautern and VFL Wolfsburg in Germany.

In Switzerland, SkiData equipped its first ice rinks in the cities of Lausanne and Fribourg.

Some spas and leisure centers have also opted for SkiData systems. New major installations were set up at Beirut Water Park and at Legoland in Germany. This sector is expected to show strong development.

The direct-to-access platform with credit card functionality represents one of the major successes of SkiData for the year 2002. Since its introduction on the market, this system has received an enthusiastic welcome from operators of exhibition halls. The possibility of buying tickets in advance by credit card has also been very well received.

Thanks to its new functionalities and its modularity, the direct access system offers a global solution that meets all the requirements in terms of ticketing and conditional access.

Ticketcorner: European expansion

For Ticketcorner, the leading ticketing organization in Switzerland, 2002 was a year of growth. The company laid the initial foundations of a strategy which should, in the medium term, put it among the leaders in ticketing in Europe.

Strategic acquisition in Germany

On 2nd July 2002, Ticketcorner acquired the assets of Qivive in Germany, whose network covers 6 000 sales points across the country. With this acquisition, Ticketcorner doubled its ticketing volume to become a heavyweight player on the European scene.

Since this acquisition, the company has worked to conclude agreements with the main clients of Qivive such as Hamburg Tourism, Munich Ticket, Frankfurt Ticket, Nordwest Ticket and Tibs Freiburg.

Adopting the Swiss model, Ticketcorner GmbH is working on the implementation, throughout Germany, of a central distribution platform with a very attractive package. Whereas the regional ticketing agencies previously used their own distribution networks, it has now become possible to reserve, through Ticketcorner, tickets for more than 40 000 events.

Good progress on the domestic market

In Switzerland, where Ticketcorner enjoys leadership, more than 300 new contracts were signed. In particular, partnership agreements were reached with Association Suisse de Football SFV/ASV (the Swiss Soccer Association), the musical comedy "Deep" in Zurich and EHC Basle.

A new Internet platform

On the technical side, a new Internet platform was implemented. The section reserved for members was enhanced; containing more than 130 000 personal profiles, this zone constitutes a highly efficient tool for one-to-one marketing. In the same spirit of improving customer service, the call center was optimized.

New corporate identity

The start of 2003 was marked by the launch of a new corporate identity. The design communicates the values of security, credibility and high-end "made in Switzerland" technology.

Multifunctional cards: for the benefit of the user

Solutions for universities

The concept of "e-education" presented by NagraCard continues to attract interest from Swiss universities. Following Neuchâtel in 2000 and Fribourg and Berne in 2001, it was adopted by the University of Lausanne in 2002.

The concept is based on a NagraCard smart card which manages the security of student access to different parts of the campus as well as to the I.T. network. The card also contains many user-friendly functionalities such as access to photocopiers, library, cafeteria, etc.

The success of the NagraCard system among the major Swiss universities and colleges gives it the status of a standard, opening up the possibility of evolution towards the implementation of a true common technological platform.

EngadinCard: a global marketing concept

The EngadinCard of the company AccessArena enjoyed great success with the public. Launched in December 2002, this card offers visitors to the Engadine region exceptional comfort. It serves as a ticket for ski-lifts and public transportation; it can be used as a hotel room key and functions as a credit card. It can be easily topped up over the telephone, on the Internet or from partner businesses.

The company Destination Management Center (DMC) Engadin SA, founded in August 2002 by 84 shareholders (tourist offices, hotels, ski-lift operators, restaurants), manages the database and the cards.

AccessArena supplied this company with the concept, the cards and the entirety of the management system, including the databases and a card personalization system.

This project was the result of close collaboration between several Kudelski Group companies: NagraCard and NagraID for the development of the smart cards and SportAccess for the personalization system.

SportAccess: multifunctional solutions

Active primarily in Switzerland, SportAccess is the specialist in the Kudelski Group in multifunctional access control systems for hospitals, communities and corporations.

Under the brand name MultiSpAK, it develops and markets solutions based on the principle of using a single universal badge to ensure security, access management, control of attendance times, selective use of infrastructure and payment of purchases. This principle not only enhances user-friendliness, but also significantly simplifies management tasks.

MultiSpAK systems are in use at the Olympic Museum in Lausanne, SUVA's rehabilitation center in Sion and the Haute Ecole Valaisanne in Sierre.

Consulting activities

SportAccess provides customized developments for clients requiring specific functionalities. The company also supplies software solutions to other members of the Kudelski Group involved in global integration projects.

Whether inside the Kudelski Group or for outside clients, SportAccess also provides consulting services including preliminary studies, concept design and project implementation.

SportAccess' experts were particularly involved in the AccessArena project (EngadinCard) and in the Geneva stadium project described above.



Nagra Audio

New structures

Following the example of other entities in the Kudelski Group, Nagra Audio carried out a reorganization of its structures and its distribution network during 2002.

The offices in the United States and in Italy were realigned in order to satisfy the dual requirements of offering better service to clients and reducing operating costs in order to increase profitability. Nagra Italia was sold to the manager of the branch, while in the USA the Nashville office was relocated with Nagravision in Los Angeles.

The growth in sales of the two product ranges of Nagra Audio (professional and high-end Hi-Fi) confirmed the strategy of establishing separate distribution channels for the two sectors where the needs of clients and agents are very different. By strengthening its sales network, Nagra is able to offer an even more efficient presence on the market.

In terms of sales, and despite a less than encouraging global economic climate, turnover climbed 20% (compared with 7.5% between 2000 and 2001). Nagra's flagship products continued to progress, whether in the radio range, products for the cinema or the Hi-Fi line. Nagra presented two major innovations in the course of 2002; these products are already expected to achieve great success.

Favorite of radios

The **Ares** range continues to consolidate its leading position on the radio market. The BBC equipped its regional services with the Ares P, a miniature device. The Ares family is already well established in French-speaking countries, thanks in particular to the reputation of clients such as RFI, Radio France and RTBF in Belgium. The arrival of the BBC will allow Nagra sphere of influence to be extended towards English-speaking countries.

This success is just reward for the efforts put into the development and expansion of the range. Nagra is confirming its position as the number one choice for both journalists and technicians

New structures



Nagra Ares-P



Nagra V



Nagra PL-L



Nagra VPA

Successful Nagra V

Announced at the beginning of 2002 and presented at the NAB exhibition in Las Vegas in April 2002, the **Nagra V** has enjoyed commercial success since its launch on the market. More than one hundred units of this new generation of Nagra, the successor to the prestigious Nagra IV-S, were sold in just a few months.

This stereo device records to a 2.5" hard disk. The use of a digital device provides large storage capacity at low cost. The removable medium integrates directly into the post-production chain in which the use of computers has become widespread. As well as a gain in quality, the savings in time are a further argument that is winning over both sound engineers and producers.

The Nagra V is designed around the chassis of the Ares C. The deck, which accommodates the hard disk, is modular. Thus the chassis and the electronics will remain while the digital devices evolve, ensuring that clients will be able to keep their recorders at the cutting edge of technology and amortize their investment over a long period of time.

Hi-Fi range

The success of both technically and commercially **high-end Hi-Fi** products persuaded Nagra to broaden its range by offering converters.

The DAC (Digital to Analog Converter) was presented for the first time at the CES in Las Vegas in January. At the same time, the DAP (DA Processor) adds the functions of decoding for the audio tracks of DVDs. Intended for the growing home cinema market, the DAP will enable the most demanding audiophiles to develop their installation into a multi-channel environment.

Montreux Jazz Festival: a laboratory of convergence

The Kudelski Group once again confirmed its place as a strategic partner to the Montreux Jazz Festival. Since its creation in 1966, the Festival has shown its confidence in Nagra recorders to capture all the subtleties of its concerts. In 2002, the Kudelski Group became further involved in the project, employing its know-how and expertise in several areas.

Nagra immortalized the Casino concerts on the Nagra V hard disks. The precious archives of Claude Nobs, the Director of the Festival, are now stored on DVDs.

Moreover, for the 2002 edition, the Kudelski Group provided the badge access control system for staff, musicians and sponsors, as well as the ticketing platform. The partnership that the Group has with the Montreux Jazz Festival was strengthened thanks to the coordinated involvement of SkiData, Ticketcorner and NagraID.

For the Kudelski Group, the Montreux Jazz Festival represents a laboratory of convergence, bringing together the various parameters that will allow it to achieve the first important step, namely the convergence of the physical access and ticketing technologies.

The international reputation of the Festival makes it a fantastic showcase where the Kudelski Group can present the extent of its competencies.



Corporate governance

Note concerning corporate governance

This report has been prepared in conformity with the Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange and entered into force on 1st July 2002. Unless otherwise mentioned, the information given in this report reflects the situation as at 31.12.2002.

In the absence of any mention in this report of an article of the Directive issued by the SWX, the particular article does not apply to Kudelski SA or the company has nothing of significance to report on the subject.

Points 1.1.2 (listed companies belonging to the issuer's group) and 1.1.3 (non-listed companies belonging to the issuer's consolidated entities) of Chapter 1 "Group Structure and Shareholders" are provided in the audited 2002 financial reports of the Kudelski Group.

In respect of chapter 6 "Shareholders' participation rights", the provisions in the Articles of Association governing the participation rights of shareholders are in conformity with the positive right provided for in the "Code des Obligations".

Group structure and shareholders

Group structure

Kudelski SA is registered in Cheseaux-sur-Lausanne.

The company has been structured as a holding company since 1999 and its shares have been listed on the SMI (Swiss Market Index) since 2000.

From an operational point of view, the activities of the Group are divided into two sectors: digital television and public access.

Following the restructuring of the Group, a Nagra Public Access holding company comprising the principal enterprises active in the physical access control and ticketing sector (SkiData, SportAccess and Ticketcorner) was created in December 2002. Operationally, the companies AccessArena, NagraID and e-prica are likewise included in this entity.

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, which in turn is fully owned by Kudelski SA.

Major shareholders

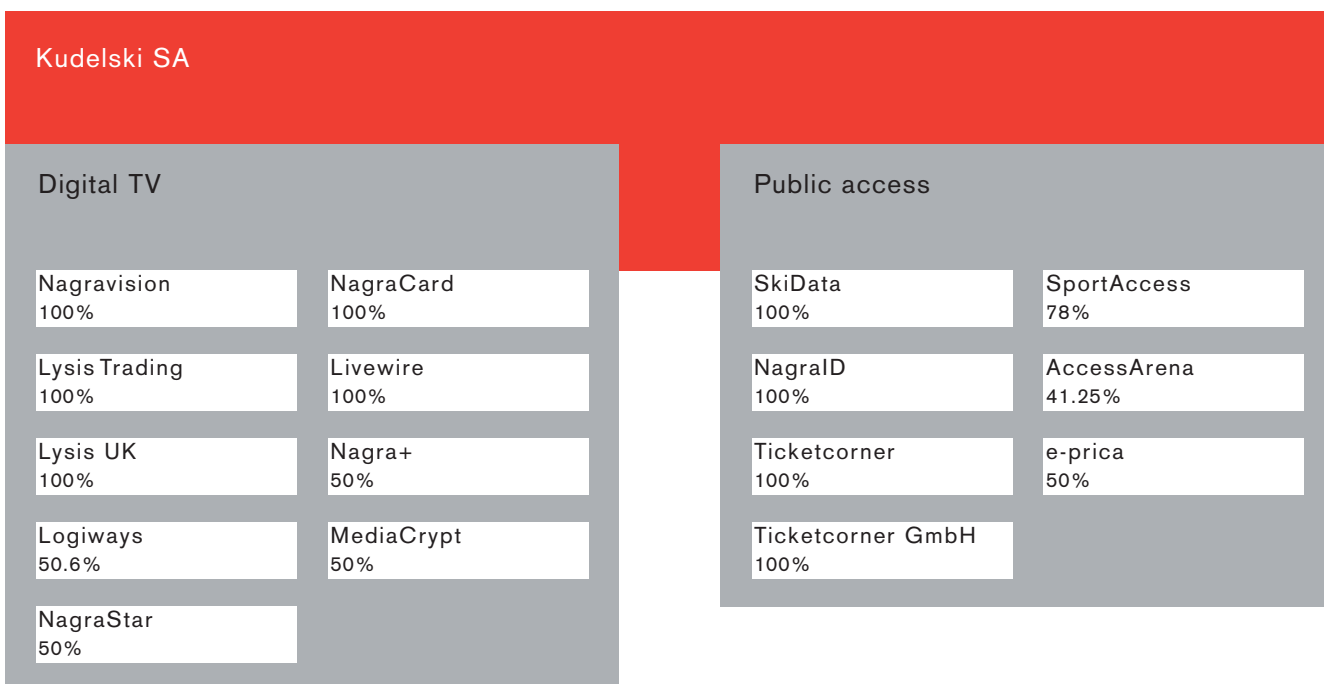
The principal shareholder of Kudelski SA is the Kudelski family. No other shareholder holds more than 5% of the capital. There are no cross-shareholdings.

On 31.12.02

Kudelski family	
Listed bearer shares KUD	12 890 095
Unlisted registered shares	46 300 000
Voting rights	63.62%
Share capital held	34.11%

Publication of 07.01.02

Kudelski family	
Bearer shares	12 838 800
Registered shares	46 300 000



International presence

Digital TV

Nagra Audio

Public access

	Digital TV	Nagra Audio	Public access
Europe			
Switzerland	■	■	■ ●
Austria			■
Spain	▲		
France	■	▲	▲
Germany	▲	▲	▲
Italy			▲
Netherlands			▲
Sweden			▲
United Kingdom, Rep. of Ireland	▲	▲	
America			
USA	■ ●	●	▲
Brazil	▲		
Asia			
Singapore	●		
China	▲		

- head office
- regional headquarters
- ▲ office

Capital structure

Ordinary capital

The share capital amounts to CHF 513 598 680. It is divided into 46 729 868 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 24th May 2004, by a maximum total of CHF 41 486 320 through the issue of 3 828 632 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 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

Kudelski SA has conditional capital which may exist in two forms.

The first is a maximum total of CHF 9 734 200 through the issue of a maximum of 973 420 bearer shares with a nominal value of CHF 10, to be fully paid-up, as and when the option rights which will be granted to employees of the company and of affiliated companies are exercised.

The second is a maximum total of CHF 60 000 000 through the issue of a maximum of 6 000 000 bearer shares with a nominal value of CHF 10, to be fully paid-up, as and when the conversion rights linked to bonds with warrants of the company or its subsidiaries are exercised. Preferential subscription rights for its shareholders are excluded.

Changes of capital over the last three financial years

	31.12.02	31.12.01	31.12.00
in kCHF			
Registered share capital	46 300	46 300	45 000
Bearer share capital	467 299	466 641	454 310
Legal reserve	57 719	53 589	52 082
Profit carried forward	160 965	140 040	58 973
Total equity	732 283	706 570	610 365

Shares

The capital of Kudelski SA on 31st December 2002 was made up of 46 300 000 registered shares and 46 729 868 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. The company did not pay any dividend in 2002.

Limitations on transferability

The Articles of Association of Kudelski SA contain limitations on the transferability of the registered shares. These shares are not listed.

Convertible bond

On 31st January 2002, Kudelski Financial Services S.C.A (the issuer), a fully-owned subsidiary of Kudelski SA, issued a convertible bond of USD 325 M.

The conversion price was fixed at CHF 127.50 per ordinary bearer share of Kudelski SA. Kudelski SA unconditionally and irrevocably underwrites this issue.

The annual coupon is 2.25 % calculated on the nominal total of the bond and payable twice a year (on 31st January and 31st July) from 31st July 2002.

The redemption price of the bonds is 105.79 % of the principal on maturity on 31st January 2009. Bonds may be redeemed early after 31st January 2005 and until 31st January 2007.

The convertible bond is listed on the Luxembourg stock exchange under reference number ISIN XS0140968842.

During the 2002 financial year, a bond repurchase operation was conducted on the market. Kudelski SA repurchased USD 92.347 M in nominal value. These bonds have been cancelled. Following this operation, the nominal total bonds in circulation on 31.12.2002 stood at USD 232.653 M.

Board of Directors

The Board of Directors is the highest decision-making body within the company and is responsible for monitoring the decisions taken at management level. Today, it is made up of 7 members elected by the General Meeting.

On 1st April 2002 the Board of Directors established an Audit Committee, a Strategy Committee and a Remuneration Committee.

Members of the Board of Directors

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

Claude Smadja
Deputy Chairman of the Board of Directors (since 1.4.2002)

Norbert Bucher

Laurent Dassault

Patrick Føetisch

Stefan Kudelski

Gérard Limat

Secretary to the Board: Adrienne Corboud Fumagalli,
Corporate Secretary

	Year of birth	Position on the Board	Nationality	Executive/ Non-executive	1 st election at the Board
André Kudelski	1960	Chairman and Chief Executive Officer	Swiss	Executive	1987
Claude Smadja	1945	Deputy Chairman	Swiss	Non-executive	1999
Norbert Bucher	1931	Member	Swiss	Non-executive	1992
Laurent Dassault	1953	Member	French	Non-executive	1995
Patrick Føetisch	1933	Member	Swiss	Non-executive	1992
Stefan Kudelski	1929	Member	Swiss	Non-executive	1968
Gérard Limat	1940	Member	Swiss	Non-executive	1995

From left to right:
Claude Smadja, Norbert Bucher, Stefan Kudelski,
André Kudelski, Gérard Limat, Laurent Dassault,
Patrick Føetisch.



André Kudelski

André Kudelski obtained a degree in physical engineering from the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology) in 1984. He then held the position of R&D Engineer at Kudelski SA and in Silicon Valley, before becoming Pay TV Product Manager and then Director of Nagravision, Kudelski SA's pay TV division. In 1991, André Kudelski succeeded his father Stefan Kudelski to the post of President and Chief Executive Officer of Kudelski SA. He has been a member of Kudelski SA's Board of Directors since 1987.

André Kudelski sits on the Board of the Edipresse Group, of Nestlé, of Swiss International Airlines and of Dassault Systèmes (France), among others. In addition, he is a member of the Advisory Board of Crédit Suisse Group and of the management committee of economiesuisse. He is also a member of Lutry district council in Switzerland.

André Kudelski has presided over the Board's Strategy Committee since 1st April 2002, when the Committees were set up.

He also holds positions on the Board of a number of companies in the Kudelski Group: Nagravision SA (as Chief Executive Officer), NagraCard SA (Chief Executive Officer) Nagra Plus (President and Chief Executive Officer), MediaCrypt AG (President), SkiData AG (member of the Board) and e-prica AG (President).

Claude Smadja

Claude Smadja is a politics graduate from the University of Lausanne. After a number of years as Deputy Editor of the Information Department at Télévision Suisse Romande (TSR), the TV channel for French-speaking Switzerland, in 1987 he joined the management of the World Economic Forum, a post that he was to hold until 1992. He then returned to TSR as Information Director until 1996, when he was appointed Managing Director of the World Economic Forum. In 2001, Claude Smadja set up his own strategy consultancy, Smadja & Associates, Strategic Advisory.

Claude Smadja sits on the Board of the Edipresse Group and of Infosys, where he also holds the post of Chairman of the Nomination Committee. In addition, he is Chairman of the Board of Overseers of the Illinois Institute of Technology and member of the International Advisory Board of Korn Ferry International.

A member of the Kudelski SA Board of Directors since 1999, Claude Smadja became Deputy Chairman of that body on 1st April 2002, when this position on the Board was created. At the same time, he was appointed Chairman of the Audit Committee and made a member of the Board's Strategy Committee.

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 postgraduate 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, moving on to 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 has also been a member of the Board's Audit Committee since that was set up on 1st April 2002. Norbert Bucher is also a member of the Board of Nagra Plus and Chairman of the Board of Directors of Ticketcorner.

Laurent Dassault

A business law graduate, Laurent Dassault also holds a degree from the Paris ESSCA (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 1990.

In 1992, he joined Groupe Industriel Marcel Dassault (GIMD), where he now holds important positions within its various French and foreign structures. Thus he is Chairman and Managing Director of Dassault Belgique Aviation, Managing Director of Immobilière Dassault SA and a member of the board of GIMD, Dassault Systèmes, SOGITEC Industries SA, IPS (Industrial Procurement Services) and APRO (Aero Precision Repair and Overhaul Company). He is also Chairman of Midway Aircraft and of Dassault Falcon Jet Do Brazil.

Patrick Fœtisch

Patrick Fœtisch 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.

He sits on the Board of a number of companies in the Kudelski Group: Nagravision SA (as President), NagraCard SA (President) Nagra Plus (member of the Board), NagraID SA (President), Lysis Trading SA (President), Lysis UK Ltd (President), Logiways (President), Nagra-Futuris SA (member of the Board) and Livewire, Inc. (President).

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 of the University of 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 the standard tool of 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 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 BKSTS (British Kinematograph 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.

Gérard Limat

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

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

In addition, he sits on the Board of Cendres et Métaux in Bienne and of Olympic Tools Hellas in Greece.

Appointed to the Kudelski SA Board of Directors in 1995, he 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 AG.

Election and term 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. Ms Adrienne Corboud Fumagalli, Corporate Secretary of the Kudelski Group, has occupied this post since 14th December 2000. She is not a member of the Board of Directors.

Internal organizational structure

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 seven members, six 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 in its entirety 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.

Composition, tasks and areas of responsibility for each Committee

Each Committee is governed by a chart 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.

	Audit Committee	Strategy Committee	Remuneration Committee
André Kudelski		■	
Claude Smadja	■	●	
Norbert Bucher	●		
Patrick Føetisch			■
Gérard Limat	●	●	●

- Chairman
- Member

Remuneration Committee

The Remuneration Committee oversees and approves the remuneration policy put in place 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 conformity of the accounting methods with the 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 is to have proven experience in the field of accounting. All the members must have knowledge or practical experience in financial management. The members are appointed by the Board of Directors.

Strategy Committee

The task of this Committee is constantly to 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 the Deputy Chairman. It meets at least twice a year.

Work methods of the Board of Directors and its Committees

In 2002, the Board and its Committees met as follows:

Board of Directors	9 times
Strategy Committee	3 times
Audit Committee	3 times
Remuneration Committee	4 times

The average attendance at the meetings of the Board of Directors was more than 90%. The majority of meetings lasted between 3 and 4 hours.

Definition of areas of responsibility

The Board of Directors has delegated co-ordination of the day-to-day operations of the Group 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.

Information and control instrument vis-a-vis the group management

Kudelski SA began to implement an Oracle E-Business Suite system for the Cheseaux-based companies at the beginning of January 2002. The purpose of this system is to allow the allocation of income and costs to project accounting and to supply additional high-grade client-product-technology information to assist in the taking of strategic and operational decisions.

During the third quarter of 2002, the Kudelski Group also adopted an automated process for the management of the portfolio of projects which allows the risks and benefits to be qualified and followed up throughout the lifetime of a project: from definition to startup and from deployment to maintenance. This system in particular permits the management of financial and operational risks.

Group management

On 31st March 2003, the date on which the annual report 2002 went to press, the Group management was made up of the following persons:

André Kudelski
President and Chief Executive Officer (CEO)

Pierre Roy
Chief Operating Officer (COO), Digital TV
Executive Vice President

Charles Egli
Chief Executive Officer (CEO), Nagra Public Access
Executive Vice President

Alan Guggenheim
Chief Executive Officer (CEO) of NagraStar
Executive Vice President

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

Adrienne Corboud Fumagalli
Corporate Secretary to the Group

Nicolas Gøetschmann
Senior Vice President Finance, NagraVision/NagraCard
and Group Administration

On 31st December 2002, the Group management was made up of the following members:

André Kudelski, President and Chief Executive Officer (CEO)
Adrienne Corboud Fumagalli, Corporate Secretary
Charles Egli, Chief Operating Officer (COO)
Nicolas Gøetschmann, Chief Financial Officer (CFO)
John Markey, Chief Marketing Officer (CMO) (*)

(*) until 18th October 2002; from then Strategy Consultant to the Kudelski Group.

Changes in the Group management

Certain changes were made to the Group management in early 2003.

Due to the consolidation of the firm's activities into two operational sectors, digital television and physical access (Nagra Public Access), the operational management function was reviewed accordingly. Mr. Pierre Roy was appointed COO of the digital TV entity, while Mr. Charles Egli became CEO of the Nagra Public Access entity, established as a holding company. Both are also Executive Vice Presidents.

The Board also decided to reinforce the financial management of the Group. Mr. Mauro Saladini was appointed to the position of Chief Financial Officer (CFO) for the Group as well as Executive Vice President, while Mr. Gøetschmann became Senior Vice President Finance for NagraVision/NagraCard and Director of Group Administration.

Mr. Alan Guggenheim (NagraStar CEO) also joined the Group management team at the beginning of 2003 as Executive Vice President.

Governing bodies

Board of Directors

Group management

A. Kudelski
CEO Group

A. Corboud Fumagalli
Corporate Secretary

P. Roy
COO DTV

Ch. Egli
CEO Public Access
Nagra Audio

A. Guggenheim
CEO NagraStar

M. Saladini
CFO Group

Group management



André Kudelski

André Kudelski (1960)

Chairman and Chief Executive Officer (CEO)

Swiss nationality

André Kudelski obtained a degree in physical engineering from the Ecole Polytechnique Fédérale de Lausanne (Swiss Federal Institute of Technology) in 1984. He then held the position of R&D Engineer at Kudelski SA and in Silicon Valley, before becoming Pay TV Product Manager and then Director of Nagravision, Kudelski SA's pay TV division. In 1991, André Kudelski succeeded his father Stefan Kudelski to the post of President and Chief Executive Officer of Kudelski SA. He has been a member of Kudelski SA's Board of Directors since 1987.

André Kudelski sits on the Board of the Edipresse Group, of Nestlé, of Swiss International Airlines and of Dassault Systèmes (France), among others. In addition, he is a member of the Advisory Board of Crédit Suisse Group and of the management committee of economiesuisse. He is also a member of Lutry district council in Switzerland.

André Kudelski has presided over the Board's Strategy Committee since 1st April, when the committees were set up.

He also holds positions on the Board of a number of companies in the Kudelski Group: Nagravision SA (as Chief Executive Officer), NagraCard SA (Chief Executive Officer) Nagra Plus (President and Chief Executive Officer), MediaCrypt AG (President), SkiData AG (member of the Board) and e-prica AG (President).



Pierre Roy



Charles Egli

Pierre Roy (1952)

Joined the Group management on 17th January 2003

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 1975 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 Nagra Audio, Business Development Director Nagravision and Managing Director of Preceel 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. In January 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 SA, NagraCard SA, Logiways and Livewire, Inc.

Charles Egli (1948)

Chief Operating Officer (COO) – until 16th January 2003

Chief Executive Officer (CEO), Nagra Public Access – Executive Vice President since 17th January 2003

Swiss nationality

Charles Egli has a degree in electronic engineering from the technical college ETS. 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 in January 2003 Chief Executive Officer of Nagra Public Access and Executive Vice President.

Charles Egli sits on the Board of several companies in the Kudelski Group: Nagravision SA (as a member of the Board), NagraCard SA (member of the Board), Nagra ID SA (member of the Board), Nagra-Futuris SA (member of the Board), Ticketcorner AG (Deputy Chairman), SportAccess SA (member of the Board), e-prica AG (member of the Board), Lemman Consulting SA (President), MediaCrypt AG (member of the Board), SkiData AG (Deputy Chairman) and AccessArena AG (Deputy Chairman).



Alan Guggenheim



Mauro Saladini



Adrienne Corboud Fumagalli



Nicolas Gøetschmann

Alan Guggenheim (1950)

Joined the Group management on 17th January 2003

Chief Executive Officer (CEO), NagraStar – Executive Vice President
French nationality - American nationality since 1991

Alan Guggenheim is an engineering graduate from the ESTP (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 Conseil Régional du Patronat de la Guadeloupe (local representative of the CNPF and the CGPME). Until 1981 he was 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 1982 and 1986 and a founding member of the board of the Pacific State 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 at the beginning of 2003.

Mauro Saladini (1966)

Joined the Group management on 1st February 2003

Chief Financial Officer (CFO) – Executive Vice President
Swiss nationality

Mauro Saladini holds 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.

At the start of 2003 he joined the Kudelski Group as Chief Financial Officer and Executive Vice President.

Adrienne Corboud Fumagalli (1958)

Corporate Secretary

Swiss nationality – Italian nationality since 1993

A doctor of economics and social sciences and graduate of the University of Fribourg, Adrienne Corboud Fumagalli was for several years a researcher, lecturer and consultant in the field of media and information technology policies for various institutions (University of Fribourg, DAMS Bologna, CNRS Paris and McGill University, Montreal). Between 1997 and 2000, she held various positions with Swisscom in Bern, in particular as Business Development Manager and then Marketing Director. In November 2000, she joined the Kudelski Group as Corporate Secretary.

Adrienne Corboud Fumagalli is a member of the Board of a number of companies in the Kudelski Group: NagraID SA, Lysis Trading SA, Lysis UK Ltd., Nagra-Futuris SA, Livewire Inc. and AccessArena AG.

She is also Corporate Secretary to the Board of Directors of Kudelski SA.

Nicolas Gøetschmann (1960)

Chief Financial Officer (CFO) until 31st January 2003

Senior Vice President, Nagravision/NagraCard and Director of Group Administration since 1st February 2003

Swiss nationality

Nicolas Gøetschmann is an economics graduate from the University of Fribourg. Between 1986 and 1989 he held the position of Private Client Executive for Crédit 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 2003 he became Chief Financial Officer of Nagravision/NagraCard and Group Administration Officer.

Nicolas Gøetschmann is a member of the Board of various companies in the Kudelski Group: Nagravision SA, Nagra Trading SA, Logiways and Leman Consulting SA.

Compensations, shareholdings and loans

Content and method of determining the compensations

The Remuneration Committee of the Board of Directors 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.

Members of the Board of Directors

The global remuneration of 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.

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 remuneration of members of the Group management includes a salary as well as a bonus based on the individual's performance and the achievement of the Group's objectives. Some of the bonus may be payable in the form of Kudelski SA bearer shares.

Compensations for acting members of governing bodies

The total compensations granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2002 to members of the Board of Directors and/or members of the Group management came to CHF 4 410 529; of this total, CHF 4 128 529 was paid to executive members of the Board of Directors and CHF 282 000 to non-executive members of the Board. These figures include the bonuses relating to the financial year in question, even if they were paid at a later date.

No farewell compensation was paid to persons whose duties on the governing bodies had come to an end during the financial year 2002.

Compensations for former members of governing bodies

A total of CHF 205 020 was paid to a former member of the Group management in 2002.

Share allotment in the year under review

There was no allotment of shares to executive and non-executive members of the Board of Directors in the financial year 2002, nor to any parties closely linked to such persons, to members of the Group management of Kudelski SA or parties closely linked to such persons.

Share ownership

The number of Kudelski SA shares held on 31st December 2002 by the entirety of the executive members of the Board of Directors and by members of the Group management of Kudelski SA and by the entirety of the parties closely linked to such persons was 12 893 885 bearer shares and 46 300 000 registered shares.

Excluding the Kudelski family, the number of Kudelski SA shares held on 31st December 2002 by the entirety of the other members of the Board of Directors and by the entirety of the parties closely linked to such persons was 1 000 bearer shares.

Options

The company did not allocate stock options or other kinds of options to members of the Board of Directors or Group management.

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 2002 to members of the Board of Directors and to parties closely linked to them were as follows: CHF 455 374 to Mr. Patrick Fœtisch as legal advisor for the various requests of the Kudelski Group.

Loans granted to governing bodies

For the financial year 2002, Kudelski SA has 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.

Highest total compensation

The highest total compensation granted to a member of the Board of Directors for the financial year 2002 was CHF 1 967 942, all in cash.

Auditors

Duration of the mandate and term of office of the head auditor

The auditors of Kudelski SA are PricewaterhouseCoopers SA. Some affiliated companies of the Group are audited by other auditors.

The mandate of PricewaterhouseCoopers SA began in 1985 and has been under the responsibility of Mr. Dominique Lustenberger since 1995.

Auditing fees and additional fees

Kudelski SA paid the following fees to PricewaterhouseCoopers SA for professional services rendered in relation to the preparation of the annual accounts:

in kCHF

Auditing services	728
Additional services	932
Exceptional services	692
Subtotal	2 352
Services transferred to IBM	796
Total	3 148

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 SA. Some audit assignments were placed with other auditors.

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.

Exceptional services are understood to mean the work linked to the legal and fiscal aspects of the issuance of the convertible bond in January 2002.

The services transferred to IBM concern the implementation of the Oracle E-Business Suite system (transactional accounting software).

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.

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.

Issued in conformity with the rules in force on the Swiss Stock Exchange concerning factual publicity, the press releases are available on the Group's web site (www.nagra.com) 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 over the course of the last three years. The press releases are generally published in French and in English. In certain specific cases a German version is likewise provided.

Each company in the Group may publish information independently in accordance with the regulations of the Swiss Stock Exchange.

The financial results are presented to investors and financial analysts in a press conference which is 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).

Directory

Kudelski Group headquarters

Kudelski SA

22, route de Genève
P.O. Box 134
1033 Cheseaux
Switzerland
Tel. +41 21 732 0101
Fax +41 21 732 0100
info@nagra.com
www.nagra.com

Digital TV

Nagravision SA

22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 0311
Fax +41 21 732 0300
nagravision@nagra.com
www.nagravision.com

NagraCard SA

22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 0560
Fax +41 21 732 0561
nagracard@nagra.com
www.nagracard.com

Lysis Trading SA

Ch. de la Chapelle 4-6
1033 Cheseaux
Switzerland
Tel. +41 21 732 3000
Fax +41 21 732 3090
hq@lysis.com
www.lysis.com

Lysis UK Ltd.

334 Chiswick High Road
London W4 5TA
United Kingdom
Tel. +44 208 742 7719
Fax +44 208 742 8397
uk@lysis.com

Livewire Inc.

828 Ralph McGill Blvd
Suite 318
Atlanta, GA 30306
USA
Tel. +1 404 525 0940 (ext-100)
Fax +1 404 525 0790
tedg@lw.net
www.livewire-tv.com

Logiways

22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 0101
Fax +41 21 732 0100
info@logiways.com
www.logiways.com

NagraStar, LLC.

22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 0400
Fax +41 21 732 0401
info@nagrastar.com
www.nagrastar.com

NagraStar, LLC.

90 Inverness Circle East
Englewood, CO 80112
USA
Tel. +1 303 706 5700
Fax +1 303 706 5719
info@nagrastar.com
www.nagrastar.com

Nagra Plus

22, route de Genève
1033 Cheseaux
Switzerland
Tel. +41 21 732 0311
Fax +41 21 732 0300
nagraplus@nagra.com
www.nagraplus.com

MediaCrypt AG

Technoparkstrasse 1
8005 Zurich
Switzerland
Tel. +41 1 445 3070
Fax +41 1 445 3071
info@mediacrypt.com
www.mediacrypt.com

Public Access

SkiData AG

Untersbergstrasse 40
5083 Gartenau
Austria
Tel. +43 6246 888-0
Fax +43 6246 888-7
info@skidata.com
www.skidata.com

Ticketcorner SA

Riedmatt-Center
Postfach
8153 Rümlang
Switzerland
Tel. +41 1 818 3111
Fax +41 1 818 3110
info@ticketcorner.ch
www.ticketcorner.ch

Ticketcorner GmbH

Nehringstrasse 2
61352 Bad Homburg
Germany
Tel. +49 6172 101 70
Fax +49 6172 101 71 01
info@ticketcorner.de
www.ticketcorner.de

Nagra ID SA

12, rue des Champs
P.O. Box 1419
2301 La Chaux-de-Fonds
Switzerland
Tel. +41 32 924 0404
Fax +41 32 924 0400
info@nagraID.com
www.nagraID.com

SportAccess SA

10, rue de l'Industrie
1950 Sion
Switzerland
Tel. +41 27 323 0910
Fax +41 27 323 0911
info@sportaccess.com
www.sportaccess.com

AccessArena AG

Hofwisenstrasse 24
8153 Rümlang
Switzerland
Tel. +41 1 818 18 08
Fax +41 1 818 18 09
info@accessarena.com
www.accessarena.com

e-prica SA

Untermattweg 8
3027 Bern
Switzerland
Tel. +41 58 851 27 37
Fax +41 58 851 27 38
info@e-prica.com
www.e-prica.com

Nagra Audio

Nagra Audio

Nagravision SA – Kudelski Group
Route de Genève 22
1033 Cheseaux
Switzerland
Tel. +41 21 732 01 01
Fax +41 21 732 01 00
audio@nagra.com
www.nagraaudio.com

Other

Leman Consulting SA

Route de Clémenty 62
1260 Nyon
Switzerland
Tel. +41 22 363 78 78
Fax +41 22 363 78 70
info@leman-ips.ch
www.leman-ips.ch

International support

Digital TV

Spain

Nagravision Iberica S.L.

C/Principe de Vergara, 112, 1°E
28002 Madrid

Spain

Tel. +34 91 590 3950

Fax +34 91 562 8757

nagravision.iberica@nagra.com

United Kingdom

Nagra Kudelski (GB) Ltd

Abbey House

18-24 Stoke Road

Slough SL2 5AG

United Kingdom

Tel. +44 1753 722 120

Fax +44 1753 722 033

nagravision.uk@nagra.com

Germany

Nagravision SA

Auf der Heide 32

31141 Hildesheim

Germany

Tel. +49 5121 878 814

Fax +49 5121 878 815

nagravision.germany@nagra.com

USA

Nagravision

2041 Rosecrans Avenue #350

El Segundo, CA 90245

USA

Tel. +1 310 335 5225

Fax +1 310 335 5227

nagravision.usa@nagra.com

Brazil

Nagravision

P/a Tecnoworld

Rua Beira Rio 57, 8° andar

Sao Paulo-SP - CEP 04548-050

Brazil

Tel. +55 11 3846 6001

Fax +55 11 3845 8198

nagravision.brasil@nagra.com

Singapore

Nagravision SA

302 Orchard Road

#07-02 Tong Building

Singapore 238862

Singapore

Tel. +65 6836 6720

Fax +65 6836 6717

nagravision.asia@nagra.com

China

Nagravision SA

Shanghai Office

#1802 Shanghai Kerry Centre

No. 1515 West Nanjing Road

Jing An District

Shanghai 200040

China

Tel. +86 21 5298 5398

Fax +86 21 5298 5368

nagravision.china@nagra.com

Nagravision SA

Beijing Office

#2,3/FL, Beijing Kerry Centre

North Tower

No. 1 Guang Hua Road

Chao Yang District

100020 Beijing

China

Tel. +86 10 8529 8893/8894

Fax +86 10 8529 8866

nagravision.china@nagra.com

Nagra Audio

USA

Nagra USA, Inc.

PO Box 817

White Bluff, TN 37187

USA

Tel. +1 615 726 5191

Fax +1 615 726 5189

audio.usa@nagra.com

Germany

Nagra Kudelski GmbH

Tegernseer Landstr. 161/11

81539 Munich

Germany

Tel. +49 (0)89 697 1207

Fax +49 (0)89 691 1964

audio.germany@nagra.com

United Kingdom

Nagra Kudelski (GB) Ltd

Unit 3g

St. Alban's Enterprise Centre,

Long Spring

Porters Wood

St. Albans Herts. AL3 6EN

United Kingdom

Tel. +44 (0)1727 810 002

Fax +44 (0)1727 837 677

audio.uk@nagra.com

France

Nagra France Sàrl

118/130, av. Jean Jaurès

75019 Paris

France

Tel. +33 (0)1 42 03 9900

Fax +33 (0)1 42 08 8920

audio.france@nagra.com

Public Access

USA

SkiData Inc.

One Harvard Way, Suite 5

Hillsborough, NJ 08844

USA

Tel. +1 908 243 0000

Fax +1 908 243 0660

info@skidatausa.com

Switzerland

SkiData (Schweiz) AG

Werkstrasse 10

9444 Diepoldsau

Switzerland

Tel. +41 71 737 93 93

Fax +41 71 737 93 00

info@skidata.com

Other SkiData subsidiaries:

France

Germany

Italy

The Netherlands

Sweden

Please contact the SkiData
head office in Austria.

Project management

Corporate Communications, Kudelski Group

Support, coordination

Desrochers Communication

Photography

Pierre Fantys

Design

www.messischmidt.ch

Print

Imprimeries Réunies Lausanne, Switzerland

This report is published in French with
English and German translations

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