

Kudelski SA statutory accounts

Notes to the financial statements as of December 31, 2004 and 2003

1. General Comments

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies. The financial statements are presented in accordance with the requirements of the Swiss Code of Obligations. They are also prepared under the historical cost convention and on the accrual basis.

2. Accounting Policies

Financial fixed assets

Investments and loans to Group companies are accounted for at acquisition cost less adjustment for impairment of value.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits. Cash at bank consists of all funds in current accounts available within 48 hours. Short-term deposits generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

Exchange rate differences

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss it is charged to the income statement, whilst a net gain is deferred.

Kudelski SA statutory accounts

Notes to the financial statements as of December 31, 2004 and 2003

Kudelski SA
Financial statements 2004

3. Notes to the balance sheet

3.1 Intangible fixed assets

This item includes brands registered by the Group as well as the capitalization of software licenses.

3.2 Investments

Company	Location	Activities	Share capital	Percentage held	
				2004	2003
Nagravision SA	CH Cheseaux	Solutions for Digital TV and audio products	kCHF 12 000	100	100
NagraCard SA	CH Cheseaux	Secure smart cards	kCHF 100	100	100
Lysis SA (prev. Nagra Trading SA)	CH Cheseaux	No activity	kCHF 100	100	100
Nagravision Iberica SL	ES Madrid	Sales and support Digital TV	kEUR 3	100	100
Nagra France Sàrl	FR Paris	Solutions for Digital TV and audio products	kEUR 32 833	100	100
Nagra Kudelski (GB) Ltd	GB St. Albans	Sales and support	kGBP 1	100	100
Nagra Kudelski GmbH	DE Munich	Sales and support	kEUR —	L	100
Nagravision GmbH	DE Hildesheim	Services	kEUR 25	100	—
Nagra USA, Inc.	US Nashville	Sales and support	kUSD 10	100	100
Nagra Public Access AG	CH Zoug	Physical access holding	kCHF 15 000	100	100
Nagra Plus	CH Cheseaux	Analog TV	kCHF 2 000	50	50
Nagra-Futuris SA	CH Neuchâtel	Digital broadcast solutions	kCHF 1 000	S	50
NagraID SA	CH Chaux-de-Fonds	Smart card production	kCHF 4 000	100	100
MediaCrypt AG	CH Zurich	Fundamental scrambling technology	kCHF 3 000	50	50
Kudelski Financial Services Holding SCA	LU Luxembourg	Finance	kUSD 32 500	100	100
Kudelski Luxembourg Sàrl	LU Luxembourg	Finance	kEUR 13	100	100
Leman Consulting SA	CH Nyon	Intellectual property consulting	kCHF 100	100	100
Logiways	CH Cheseaux	Software solutions for digital TV	kCHF 3 710	S	100
Nagravision Asia Pte Ltd	SG Singapore	Services	kSGD 100	100	—
Kudelski Malaysia SDN. BHD.	MA Kuala Lumpur	Services	kMYR —	100	—
Nagra Travel Sàrl	CH Cheseaux	Travel agency	kCHF 50	100	100

(S: company sold)
(L: Liquidated)

3.3 Other receivables

	31.12.04	31.12.03
in kCHF		
Other accounts receivable	592	9 790
Prepaid expenses and accrued income	34	433
Withholding tax	260	6 049
	886	16 272

3.4 Cash and cash equivalents

	31.12.04	31.12.03
in kCHF		
Cash at bank and in hand	11 508	17 768
Short-term deposits	67 351	115 944
	78 859	133 712

3.5 Change in shareholders' equity

	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
in kCHF					
As of December 31, 2002	513 599	57 719	—	160 965	732 283
General reserve allocation		1 281		-1 281	—
Share capital increase	1 350				1 350
Acquisition of Treasury shares			380	-380	—
Net income				2 732	2 732
As of December 31, 2003	514 949	59 000	380	162 036	736 365
General reserve allocation		137		-137	—
Share capital increase	647	1 175			1 822
Net income				723	723
As of December 31, 2004	515 596	60 312	380	162 622	738 910

Kudelski SA statutory accounts

Notes to the financial statements as of December 31, 2004 and 2003

Kudelski SA
Financial statements 2004

Treasury shares

in kCHF	Number of bearer shares	Book value
As of January 1, 2003	—	—
Transactions during the financial year:		
– acquisitions	20 155	380
As of December 31, 2003	20 155	380
Transactions during the financial year:		
– no transaction during the financial year	—	—
As of December 31, 2004	20 155	380

Treasury shares are capitalized at the cost of acquisition or the stock market price, whichever is lower.

In compliance with Article 659 a para 2 of the Swiss Code of Obligations, the company allocated a total corresponding to the acquisition value of treasury shares to a separate reserve.

Composition of share capital

	31.12.04	31.12.03
46 929 580 / 46 864 936 bearer shares, of CHF 10 each	469 296	468 649
46 300 000 registered shares of CHF 1 each	46 300	46 300
	515 596	514 949

Conditional share capital (Article 6 of Articles of Incorporation)

in kCHF	2004	2003
Conditional share capital as of January 1	68 988	69 734
Employee Share purchase plan	-126	—
Shares allotted to employees	-520	-746
Conditional share capital as of December 31	68 342	68 988

In order to authorize the issuance of convertible bonds, the shareholders of Kudelski SA met in an Extraordinary General Meeting on January 25, 2002 and approved the increase of the conditional share capital of kCHF 60 000, through the issue of 6 000 000 bearer shares of a nominal value of CHF 10, to be issued as and when rights are exercised to convert the bonds of Kudelski SA and its subsidiaries. The conditions of the convertible bond issued by the Kudelski Group at the end of January 2002 are explained in note (3.10) of the consolidated accounts.

In compliance with the Articles of Incorporation, the balance of the conditional capital is reserved for the exercise of stock options granted to employees.

Authorized share capital (Article 7 of Articles of Incorporation)

	2004	2003
3 768 164 / 3 768 164 bearer shares of CHF 10 each	37 682	37 682
3 200 000 registered shares of CHF 1 each	3 200	3 200
Authorized share capital as of December 31	40 882	40 882
The change in authorized share capital was as follows:		
Authorized share capital as of January 1	40 882	41 486
Shares allotted for acquisition purposes	—	-604
Authorized share capital as of December 31	40 882	40 882

In an exchange offer in 2003, 60 468 Kudelski SA bearer shares were allotted to the minority shareholders of SportAccess SA, Sion, for the purpose of acquiring the entirety of the share capital.

The Board of Directors is authorized to increase the share capital in one or more stages until May 26, 2006, for the purposes of acquiring companies or parts of companies or financing the full or partial acquisition of other companies.

Major shareholders

	Voting rights		Shareholdings	
	31.12.04	31.12.03	31.12.04	31.12.03
Kudelski Family	64%	64%	34%	34%

3.6 Provision

The provision on sale of an investment is a tax-free reserve arising from a gain realized from the transfer of Nagrastar LLC to Nagra USA Inc. as on January 1, 1999. It can be dissolved with no tax impact on December 31, 2006 in accordance with article 207a LIFD.

3.7 Short-term provisions

This item mainly records the unrealized exchange gains on loans from/to affiliated companies in foreign currency, kCHF 12 395 for the year 2004 (2003: kCHF 14 300).

Kudelski SA statutory accounts

Notes to the financial statements as of December 31, 2004 and 2003

Kudelski SA
Financial statements 2004

4. Notes to the income statement

4.1 Financial income

	2004	2003
in kCHF		
Dividends received from Group subsidiaries	450	—
Financial revenues	—	2 933
Interest income third parties	1 047	635
Interest on loans to Group subsidiaries	3 353	3 189
Net currency exchange gains	2 225	12 382
Other income	151	237
	7 226	19 376

4.2 Administrative and other expenses

	2004	2003
in kCHF		
Administrative expenses	-3 923	-2 842
Taxes other than income tax	-1 270	-577
	-5 193	-3 419

4.3 Financial expenses

	2004	2003
in kCHF		
Interest on loans from Group subsidiaries	-857	-1 835
Interest expenses	-18	-212
Net exchange losses	—	-369
Other financial expenses	—	-184
	-875	-2 600

4.4 Value adjustment of financial fixed assets

	2004	2003
in kCHF		
Reversal of/ (allocation to) provisions on Group investments and loans	13 445	-5 884
Impairment of other long-term investments	-10 427	-3 750
Value adjustment on marketable securities and others	-190	—
	2 828	-9 634

4.5 Losses on sales of equity interests

2004 losses on the realization of financial fixed assets are due to the sale of Logiways.

In 2003, losses were due to the sale of the holdings in e-prica.

5. Commitments and contingencies

in kCHF	2004	2003
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	199 745	214 431
Deposits and guarantees in favor of third parties	1 600	3 517
	201 345	217 948
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters signed in favor of Group companies	p.m.	p.m.