

Message from the President

In 2006, our Group once again posted excellent results even though we had anticipated the past fiscal year to be a transitional year in which the effort made, both in terms of product lines and Group organization, would essentially deliver results as from 2007.

The Group's performance is primarily expressed in record figures: revenues increasing by 8.5% to CHF 756.2 million (including gain on the sale of Ticketcorner), EBIT growing by 24% and the best-ever net income reaching CHF 138.5 million, representing close to 60% increase from the previous year.

But figures alone are insufficient to describe the intensity of 2006. In parallel with our strong operational activity, the most significant part of our energy has focused on decisions and strategic developments impacting our business over the medium and the long term.

Convergence between the worlds of television, telecommunications and computer sciences is revealing exceptional opportunities. However, it requires particular effort on the part of those who want to play a key role in the media landscape that will emerge from this evolution.

Driven by the willingness to occupy a leading position, the Kudelski Group has refined its strategy with a view to having an influence on the digital television ecosystem. This ambition has led us to surpass our traditional objectives of creating and optimizing added value in order to become an actor capable of shaping the digital television market.

In the context of convergence involving all actors from all market segments, it is no longer possible to limit our action to only one activity sector such as conditional access. It is therefore essential to have a real influence on the strategic players, either through strong partnerships or through acquisitions such as the strategic investments we made in 2006 in OpenTV and in SmarDTV (Digital TV division of SCM).

Committed to promoting competitiveness of the digital TV ecosystem, we intend to develop our activities not only in conjunction with our conditional access solution suites, but also with third parties. The Nagravision, OpenTV, Lysis, Quative and/or SmarDTV solutions are used by most of the principal television operators throughout the world. This presence confers on the Kudelski Group a privileged place of actor and observer of digital television that will ensure it a central role in the development of this sector.

Additionally, strengthened by the complementary expertise of its companies, the Group envisages further intensifying internal synergies in order to propose flexible and modular integrated solutions, meeting the present and future needs of its clients.

The substantial increase of research and development investments, decided during the second half of 2005, has borne fruits beyond our expectations. The additional effort not only opened new sectors that are proving to be strong growth markets, but has also led to a faster than expected acceptance of these new technologies by the market, as shown by the success of Nagra Mobile DVB-H and Quative solutions recently introduced on the market.

The new product lines on which the Group focused during the last eighteen months, namely IPTV, mobile TV, Push VOD and digital TV access modules, should generate revenues of more than CHF 100 million as from 2007, almost double the corresponding amount in 2006.

This success confirms our policy of sustained investment in research and development, with the perspective of anticipating the needs of the market. It goes without saying that these new opportunities are exploited alongside the strategic investments carried out in the core business of our Group, namely conditional access. There too, we identified important development potential which forms an integral part of our current R&D programs.

Nagra Public Access also achieved an excellent fiscal year. The measures taken over the last few years boosted sales outside Europe and led to the launch of new technologies, resulting in strong revenue growth and improved profitability. Restructuring initiatives, both at management level and in production processes, have also contributed to the new dynamics of the division.

In order to ensure its future development, Nagra Public Access will continue to invest in innovation, open systems and interoperability to offer its clients value-added physical access control solutions.

Thanks to the good results of our Group in 2006 and to the gain on the sale of Ticketcorner, the Board of Directors of Kudelski SA has decided to propose to the General Meeting of Shareholders the payment of an exceptional dividend of CHF 0.30 per bearer share in supplement to the ordinary dividend of CHF 0.30 per bearer share, thus bringing the 2006 dividend to CHF 0.60 per bearer share. This corresponds to a dividend of CHF 0.06 per registered share.

The future of a company depends on the decisions taken yesterday and today. In this respect, we must develop what does not exist today while consolidating the base on which the success of our Group has rested until now.

With these dynamics, the Kudelski Group intends to pass the one billion Swiss Francs revenue mark by 2008.

This could not be done without the support and the confidence of our customers and shareholders, nor without the commitment of employees. Thanks to each of them, our Group has been able to progress, invest and position itself as a key player of a sector that is both highly competitive and rich in opportunities.

I address my most sincere thanks to them all.

André Kudelski



Figures alone are insufficient to describe the intensity of 2006 for our Group. In parallel with our strong operational activity, the most significant part of our energy has focused on decisions and strategic developments impacting our business over the medium and the long term.