

Kudelski SA
Balance sheets at December 31, 2007 and 2006

Assets

In CHF'000	Notes	31.12.2007	31.12.2006
Fixed assets			
Financial fixed assets			
Investments	3.1	382 177	314 138
Loans to Group companies		466 405	266 271
Total fixed assets		848 582	580 409
Current assets			
Accounts receivable from Group companies		135 176	134 546
Other accounts receivable and accruals	3.2	1 101	2 396
Treasury shares	3.4	380	380
Marketable securities		-	7 320
Cash and cash equivalents	3.3	40 267	119 343
Total current assets		176 924	263 985
Total assets		1 025 506	844 394

Shareholders' equity and liabilities

In CHF'000	Notes	31.12.2007	31.12.2006
Shareholders' equity			
Share capital		521 594	519 352
General reserve		75 727	68 249
Reserve for treasury shares		380	380
Retained earnings		206 379	169 568
Net income		53 782	72 320
Total shareholders' equity	3.4	857 862	829 869
Long-term liabilities			
Loans from Group companies		124 180	-
Total long-term liabilities		124 180	-
Current liabilities			
Short-term loans from Group companies		42 185	13 702
Other liabilities and accruals		1 279	823
Total current liabilities		43 464	14 525
Total liabilities		167 644	14 525
Total shareholders' equity and liabilities		1 025 506	844 394

Income statements for the years ended December 31, 2007 and 2006

In CHF'000	Notes	2007	2006
Financial income	4.1	78 246	84 255
Gain on sale of investment	4.2	-	300
Release of provision	4.3	-	1 856
Administrative and other expenses	4.4	-5 561	-5 729
Financial expenses and exchange result	4.5	-11 281	-1 350
Impairment of financial fixed assets	4.6	-7 457	-6 967
Depreciation and amortization		-	-40
Income before tax		53 947	72 325
Income tax		-165	-5
Net income		53 782	72 320

Proposal for appropriation of available earnings for the year 2007

In CHF'000	Notes	2007
Balance brought forward from previous year		206 379
Net income		53 782
Total available earnings		260 161
Proposal of the Board of Directors:		
Ordinary dividend:		
- CHF 0.30 on 47'529'417* bearer shares		14 258
- CHF 0.03 on 46'300'000 registered shares		1 389
General reserve allocation		2 700
Balance to be carried forward		241 814
Total available earnings		260 161

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2007. It may fluctuate due to the exercise of option and conversion rights between December 31, 2007 and the ordinary General meeting date.

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.

3. Notes to the balance sheets

3.1 Investments

Company	Location	Activity	Share capital	Percentage held	
				2007	2006
		Solutions for Digital TV			
Nagravision SA	CH – Cheseaux	and audio products	kCHF 12 000	100	100
NagraCard SA	CH – Cheseaux	Secure smart cards	kCHF 100	100	100
Lysis SA	CH – Cheseaux	No activity	kCHF 100	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	KEUR 3	100	100
		Solutions for Digital TV			
Nagra France SAS	FR – Paris	and audio products	KEUR 32 833	100	100
Nagra Kudelski (GB) Ltd	GB – St. Albans	Sales and support	kGBP 1	100	100
Nagravision GmbH	DE – Hildesheim	Services	KEUR 25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD 10	100	100
Nagra Public Access AG	CH – Zug	Physical access holding	kCHF 15 000	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF 2 000	50	50
NagraID SA	CH – Chaux-de-Fonds	Smart card production	kCHF 4 000	100	100
Nagra Trading SA	CH – Cheseaux	Trading of set-top-boxes	kCHF 100	100	100
		Chipsets for iDTV and			
SmarDTV SA	CH – Cheseaux	conditional access modules	kCHF 1 000	100	100
Kudelski Financial					
Services Holding SCA	LU – Luxembourg	Finance	kCHF 37 050	100	100
Kudelski Luxembourg Sàrl	LU – Luxembourg	Finance	KEUR 13	100	100
		Intellectual			
Leman Consulting SA	CH – Nyon	property consulting	kCHF 100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD 100	100	100
Kudelski Malaysia					
SDN. BHD.	MA – Kuala Lumpur	Services	kMYR –	100	100
		Research & development			
Abilis Systems Sàrl	CH – Plan-les-Ouates	for mobile phones	kCHF 20	100	70
Nagravision Shanghai		Software integration			
Technology	CN – Shanghai	for Digital TV	KUSD 200	100	100
Quative Ltd	UK – London	IPTV Solutions	KGBP 1 000	100	100
TESC Test Solution					
Center GmbH	DE – Munich	Services	KEUR 25	75	25
Nagravision Italy Srl	IT – Milan	Services	KEUR 10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF 50	100	100
		Digital broadcasting			
Acetel Co Ltd	SK – Seoul	solution provider	kKRW 1 460	15	15
		Worldwide brokerage for			
Thema SAS	FR – Paris	existing audio-visual	KEUR 46	10	10
		thematic channels			

3.2 Other receivables

In CHF'000	31.12.2007	31.12.2006
Other accounts receivable	141	615
Prepaid expenses and accrued income	467	1 337
Withholding tax	493	444
	1 101	2 396

3.3 Cash and cash equivalents

In CHF'000	31.12.2007	31.12.2006
Cash at bank and in hand	6 267	2 411
Short-term deposits	34 000	116 932
	40 267	119 343

3.4 Change in shareholders' equity

In CHF'000	Share capital	General reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2005	516 829	62 659	380	187 449	767 317
General reserve allocation		2 341		-2 341	-
Dividend				-15 540	-15 540
Share capital increase	2 523	3 249			5 772
Net income				72 320	72 320
As of December 31, 2006	519 352	68 249	380	241 888	829 869
General reserve allocation		4 251		-4 251	-
Dividend				-31 258	-31 258
Share capital increase	2 242	3 227			5 469
Net income				53 782	53 782
As of December 31, 2007	521 594	75 727	380	260 161	857 862

Treasury shares

	Number of bearer shares	Book value in CHF'000
As of December 31, 2006 and December 31, 2007	20 155	380

No transaction occurred during the last two financial years. 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

In CHF'000	31.12.2007	31.12.2006
47'529'417 / 47'305'240 bearer shares, at CHF 10 each	475 294	473 052
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	521 594	519 352

The Registered Shares are not listed nor traded on any stock exchange. The Bearer Shares have been listed on the main market of the SWX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360). They are included in the SMIM (Swiss Market Index Mid-Cap).

Conditional share capital (article 6 of Articles of incorporation)

In CHF'000	2007	2006
Conditional share capital as of January 1	112 085	114 609
Increase of conditional share capital	-	-
Employee share purchase plan	-184	-47
Exercise of options	-1 180	-778
Shares allotted to employees	-877	-1 699
Conditional share capital at December 31	109 844	112 085
Of which may be utilized as of December 31 for:		
- convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- options or share subscriptions to employees:		
984'339 / 1'208'516 bearer shares, at CHF 10 each	9 844	12 085
	109 844	112 085

The shareholders of Kudelski SA met in an Extraordinary General Meeting on September 30, 2005 and approved an increase of the conditional share capital of up to a total amount of CHF 100 million, through the issue of 10 000 000 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. Furthermore the ordinary 2005 General Assembly approved an increase of the conditional share capital for options exercises or share subscriptions to employees up to a maximal amount of CHF 15 841 760 consisting of 1 584 176 bearer shares of a nominal value of CHF 10.

Authorized share capital (Article 7 of Articles of Incorporation)

In CHF'000	31.12.2007	31.12.2006
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	40 882	40 882

The Board of Directors is authorized to increase the share capital in one or more stages until May 2, 2008, for the purpose of acquiring companies or parts of companies.

Major shareholders

	Voting rights		Shareholdings	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Kudelski family pool	57%	57%	22%	22%

4. Notes to the income statements

4.1 Financial income

In CHF'000	2007	2006
Dividends received from Group subsidiaries	52 700	69 950
Interest income third parties	2 412	2 654
Interest on loans to Group subsidiaries	23 134	11 651
	78 246	84 255

4.2 Gain on sale of investment

Following the purchase of the remaining 50% of Mediacrypt, Kudelski SA sold the 100% of the company to another Group company and merged it. This transaction resulted in a gain of kCHF 300.

4.3 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. It has been released against income statement in 2006 for an amount of kCHF 1 856.

4.4 Administrative and other expenses

In CHF'000	2007	2006
Administrative expenses	-4 058	-4 314
Taxes other than income tax	-1 503	-1 415
	-5 561	-5 729

4.5 Financial expenses and exchange results

In CHF'000	2007	2006
Net currency exchange losses	-4 068	-1 076
Interest on loans from Group subsidiaries	-7 073	-255
Interest expenses and bank charges	-140	-19
	-11 281	-1 350

4.6 Impairment of financial fixed assets

In CHF'000	2007	2006
Allocation to provisions on Group investments and loans	-9 511	-6 967
Reversal of provision on third party loan	2 054	-
	-7 457	-6 967

5. Commitments and contingencies

In CHF'000	31.12.2007	31.12.2006
Guarantee commitments		
Guarantees for the repayment of the capital and interest of the convertible bond	350 000	350 000
Commitment in favor of third parties	45 200	48 800
Deposits and guarantees in favor of third parties	-	1 600
Guarantees for a subsidiary commitment	866	866
	396 066	401 266
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 and guarantees signed in favor of Group companies	p.m.	p.m.

6. Board and Executive compensation disclosures

The disclosures required by article 663b bis of Swiss Code of Obligations on Board and Executive compensation are shown in the Kudelski Group consolidated financial statements.

Report of the statutory auditors
to the general meeting of Kudelski SA
Cheseaux-sur-Lausanne

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) included on pages 59 to 66 of Kudelski SA for the year ended December 31, 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.



PricewaterhouseCoopers SA

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to be 'FR'.

Felix Roth
Auditor in charge

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to be 'SJA'.

Stéphane Jaquet

Lausanne, February 28, 2008