Kudelski Group
Interim Report
January/June 2003

2003 Interim Report Kudelski Group
Message to the Shareholders

Dear Madam,
Dear Sir,

A year ago, the European digital TV market was still dominated by vertically integrated groups and beyond the reach of independent actors such as Kudelski. Within 12 months, the Kudelski Group was able to take the opportunity of the digital TV crisis in Europe to benefit from the industry shake-up and establish a strong presence in the German and the French markets.

Downturn periods are often difficult to go through both within a company and in its environment, as they lead to the destruction of values that have taken years to build. Economically unjustified structures maintained in a favorable economic environment are questioned when a crisis occurs.

A difficult time can also provide the opportunity to question and upgrade existing structures, speeding up the implementation of a strategy capable of supporting the next phase of growth. With this spirit, the Kudelski Group undertook the following actions over the last 12 months:

- The Group reorganized its management structure creating two distinct "Digital TV" and "Physical Access" units. This approach resulted in a better focus of activities in each of the sectors. Additionally, a new Chief Financial Officer was appointed to strengthen the management team.

- Within the context of the crisis in the second half of 2002, the Kudelski Group reviewed its main lines of business and processes. This led to the decision to introduce new management methods, to discontinue several lines of activity and to adapt staffing levels as necessary. The measures decided at the end of 2002 have been finalized.

- The digital TV downturn in Europe harshly affected the Kudelski Group, particularly because its business model was mainly linked to the growth of operators. Therefore, a new rental-based business model was introduced during the first half of 2003. While this new model negatively impacts the current financial year, it will contribute significantly to revenue growth from 2004 on.

- Following the downturn of the European digital TV market, the Group succeeded in gaining substantial market share with the Premiere and MSG contracts in Germany, as well as Sogecable in Spain. Furthermore, the Group signed an agreement for the acquisition of MediaGuard from Thomson, a decisive step that should lead Kudelski to the number one position in the worldwide conditional access market.

The Group's strategic choices will impact its long-term development. The Group succeeded in simultaneously improving its presence on the European market, becoming the leader in the region, and reducing its dependence on USD revenues with the planned increase in Euro and Swiss Franc revenues.

First half results are showing signs of recovery, while anticipated volumes for the second half of the year clearly place the Group in a strong growth position. It is only the migration of important customers to a rental-based mode that will prevent the Group to benefit this year from the full economic impact of the newly established company dynamics.

On 12 September 2003, we shipped more than 7 million smart cards. We anticipate the delivery of 12 to 13 million units for the whole year. In comparison, 7.5 million cards were shipped in 2002.

While the last 12 months were challenging, they allowed the Kudelski Group to once again demonstrate its ability to overcome difficulties in a period characterized by market discontinuities.

André Kudelski

2003 Interim Report Kudelski Group
Key figures - 1st half-year 2003

in kCHF	January/June 2003 unaudited	January/June 2002 unaudited	in %
Total revenues	176 882	165'736	6.7%
Gross margin	108 013	104 143	3.7%
Gross margin in % of total revenues	61.1%	62.8%	
EBITDA,	3 634	-4 196	
EBITDA in % of total revenues	2.1%	-2.5%	
EBIT, operating income	-6 361	-14 160	
EBIT in % of total revenues	-3.6%	-8.5%	
Net income	4 480	-17 895	
Earnings per share (in CHF)			
Basic earnings per share	0.09	-0.35	

in kCHF	30.06.2003 unaudited	31.12.2002 audited	in %
Shareholders' equity including minority interest	590 427	580 910	1.6%
Cash and cash equivalents	638 871	753 082	-15.2%
Market capitalization	1 147 218	876 185	
Share price (in CHF)	24.55	18.75	

Activity in the first half of 2003

Introduction

The first half of 2003 saw a recovery of the digital TV market and the initial favorable top line impact of the recent spurt of new customer acquisitions. Productivity gains and cost savings obtained through ongoing consolidation and restructuring as well as the streamlining of the Group business portfolio led to an improvement of the operational performance of our core digital TV business. However, the upfront expenditures on the development of solutions for newly acquired TV customers, subdued investment activities in the physical access sector, as well as the continued weakening of the USD partly offset the productivity gains.

Compared to the first half of 2002 (1H02), the Kudelski Group improved its performance on all dimensions, including sales, profitability and cash flows. Compared to 1H02, the Group's perimeter of consolidation was expanded to include Logiways and Ticketcorner Germany.

Sales

Total revenues for the first half of 2003 reached CHF 176.9 million compared to CHF 165.7 million in 1H02. This represents a 6.7% increase in Swiss Francs. In local currencies, total revenues grew by 12.7%.

Total revenues in the digital TV segment developed pleasingly, increasing from CHF 105.1 million in 1H02 to CHF 117.1 million, in line with the recovery of the TV market and the initial positive impact of new customer acquisitions. The full impact of new customer acquisitions, however, is expected for 2004. The favorable development of US sales, partially due to earlier than usual order inflows, more than compensated the negative impact of the USD weakness. In local currencies, digital TV total revenues increased by 21.1% compared to 1H02.

Physical access total revenues in the first half year were below last year's, decreasing from CHF 60.6 million in 1H02 to CHF 59.8 million, in spite of the increased perimeter of consolidation now including Ticketcorner's German operations. In particular, the slow down of investment activities in the physical access market affected the system sales of our SkiData unit.

Profitability

Gross margin as percentage of total revenues decreased from 62.8% in 1H02 to 61.1%, mainly reflecting the negative impact of the USD weakness in a period of high USD-based sales.

Our core digital TV business operated at lower cost levels than last year's, while handling an increased business volume. SkiData slightly reduced operating expenses in line with the slow down of its system business. However, the Group's perimeter of consolidation was increased, adding Ticketcorner Germany's and Logiways's to 1H03 operational expenses.

Overall, EBITDA was improved from the CHF 4.2 million loss in 1H02 to a CHF 3.6 million profit. The loss at EBIT level was reduced by CHF 7.8 million to CHF 6.4 million.

Activity in the first half of 2003

Once again, financial income added a substantial contribution to the net result, due to the gain on the partial repurchasing of the convertible bond: the net outstanding amount was reduced from USD 229.6 million at the end of 2002 to USD 171.9 million on June 30, 2003.
Net results also include a CHF 10 million impairment of the Group's investment in Swiss International Air Lines Ltd.

The net result of the Group for the first half 2003 was CHF 4.5 million, improving by CHF 22.4 million compared to 1H02. In spite of the positive net profit, taxes remained very low due to the tax relief on the profit from the repurchasing of the convertible bond.

Cash flow

Operating cash flow improved by CHF 30.1 million compared to 1H02 from minus CHF 27.9 million to positive CHF 2.2 million, reflecting in particular a CHF 13.8 million cash flow improvement, a CHF 28.9 million reduction of trade accounts receivable and a CHF 9.1 million reduction of inventory.

Balance sheet

At the end of the first half 2003, the Group maintained a very solid balance sheet. The CHF 114.2 million cash reduction was mainly due to the partial repurchasing of the convertible bond, capital expenditures as well as the currency effect on the USD cash balance. At the end of 2003, we expect a substantial reduction of the cash balance due to the cash outflow from the acquisition of MediaGuard, provided that the transaction closure will take place before year end.

Compared to year end 2002, the Group continued to improve working capital, in particular reducing trade accounts receivables by CHF 29.0 million, inventories by CHF 9.1 million and work in progress by CHF 2.1 million.

On the liability side, the Group further reduced the outstanding convertible bond liability by CHF 85.4 million to CHF 233.8 million. The Group also decreased current liabilities by CHF 49.2 million mainly through a reduction of trade payables as well as accrued liabilities and other payables.

Outlook

Following the recovery of the worldwide TV market and in line with the traditional seasonality of our TV and physical access businesses, we expect a stronger second half-year.

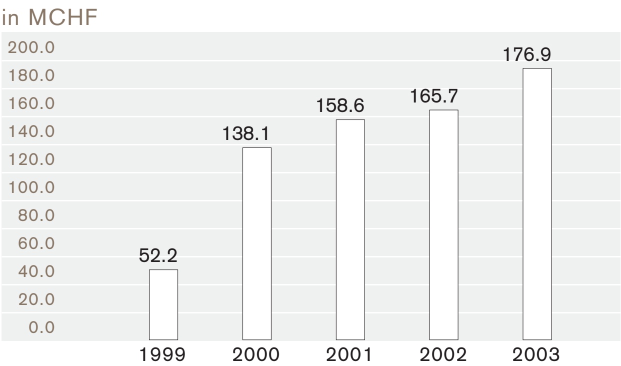
For the full year, the Kudelski Group expects to deliver a total revenues improvement compared to last year and to break-even at EBIT level.

Revenues and profitability for the full year will not fully reflect the business performance of the Kudelski Group, since an important share of the Smart Cards shipped in the second half will be in rental mode.

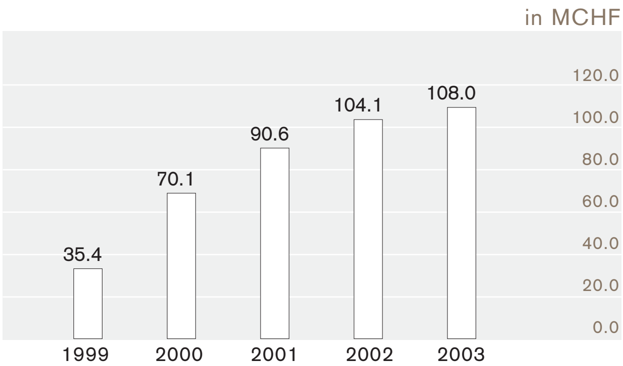
For 2004, we expect a strong growth at both revenue and EBIT levels due to recuring revenues generated by the new contracts won in 2003, including the lease contracts.

5 years comparison January/June

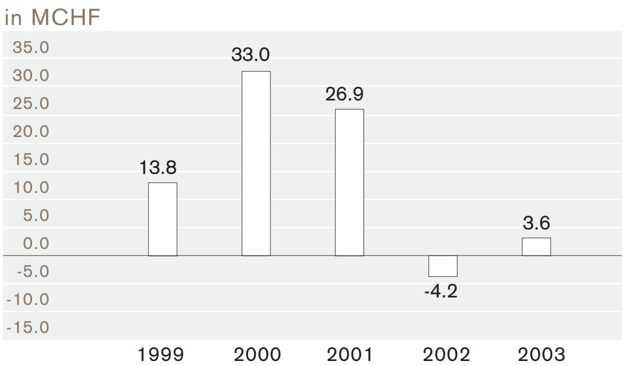
Total revenues



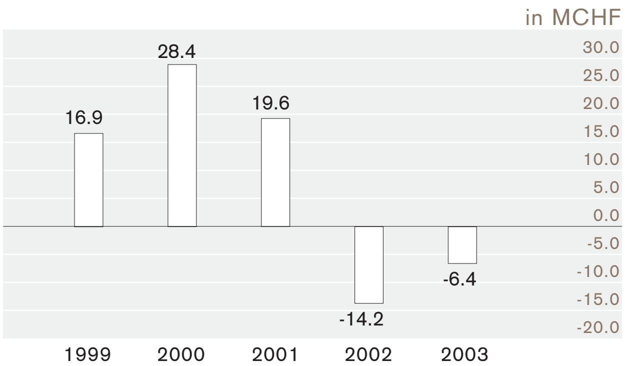
Gross margin



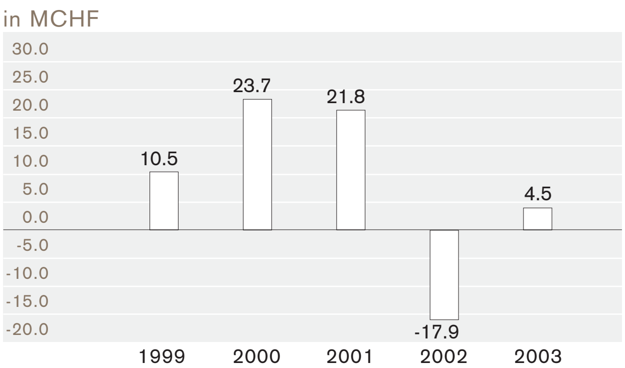
EBITDA



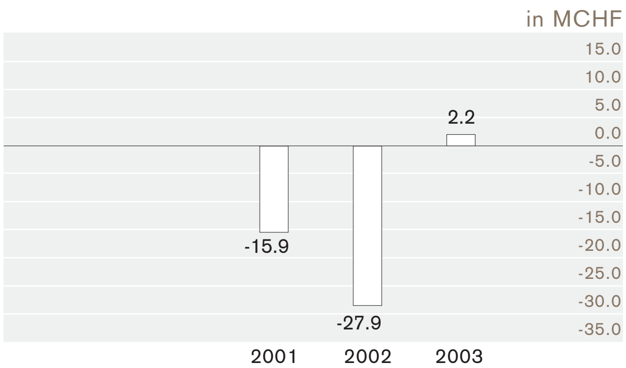
EBIT



Net income



Operating cash flow



Consolidated balance sheets

Assets

in KCHF	30.06.2003 unaudited	31.12.2002 audited	Variation	in %
Fixed assets				
Intangible fixed assets	38 788	22 733		
Financial fixed assets	18 218	10 882		
Tangible fixed assets				
Land and buildings	31 761	32 318		
Fixtures and fittings	31 510	25 983		
Total fixed assets	120 277	91 916	28 361	30.9%
Current assets				
Inventories	40 056	49 107		
Work in progress	6 907	8 981		
Trade accounts receivable	183 786	212 836		
Other receivables	36 140	33 662		
Cash and cash equivalents	638 871	753 082		
Total current assets	905 760	1 057 668	-151 908	-14.4%
Total assets	1 026 037	1 149 584	-123 547	-10.7%

Shareholders' equity and liabilities

Shareholders' equity				
Share capital	513 599	513 599		
Share premium and reserves	55 428	46 709		
Total shareholders' equity, Group's interest	569 027	560 308	8 719	1.6%
Minority interests	21 400	20 602		
Total shareholders' equity	590 427	580 910	9 517	1.6%
Long-term liabilities				
Convertible bond	233 800	319 191		
Provisions	27 015	22 548		
Other long-term debt	7 881	10 852		
Total long-term liabilities	268 696	352 591	-83 895	-23.8%
Current liabilities				
Bank overdrafts	30 755	36 470		
Trade accounts payable	77 391	101 283		
Advances received from clients	6 964	9 377		
Short-term provisions	22 167	21 900		
Accrued liabilities and other payables	29 637	47 053		
Total current liabilities	166 914	216 083	-49 169	-22.8%
Total Shareholders' equity and liabilities	1 026 037	1 149 584	-123 547	-10.7%

Consolidated income statements (unaudited)

in KCHF	January/June 2003	January/June 2002	Variation	in %
Sales	167 780	158 755		
Capitalized developments and installations	9 102	6 981		
Total revenues	176 882	165 736	11 146	6.7%
Cost of material and components sold	-68 869	-61 593		
Gross margin	108 013	104 143	3 870	3.7%
Salaries and wages	-63 673	-63 378		
Operating expenses	-16 311	-16 651		
Sales and administration costs	-24 430	-23 909		
Change in provisions	35	-4 401		
EBITDA, Operating income before interest, taxes depreciation and amortization	3 634	-4 196	7 380	
Depreciation and amortization	-9 995	-9 964		
EBIT, Operating income	-6 361	-14 160	7 799	
Financial income	37 383	11 653		
Financial expenses	-22 206	-15 566		
Extraordinary expenses	-3 158	—		
Net income before tax and minority interests	5 658	-18 073	23 731	
Income tax	-87	-98		
Net income of consolidated companies	5 571	-18 171	23 742	
Minority interests	-1 091	276		
Net income, Group's interest	4 480	-17 895	22 375	
As percentage of total income				
Operating income	-4%	-9%		
Net income	3%	-11%		
Earnings per share (in CHF)				
Basic earnings per share	0.09	-0.35		

2003 Interim Report Kudelski Group
Consolidated cash flows statements (unaudited)

in kCHF	January/June 2003	January/June 2002
Net income, Group's interest	4 480	-17 895
Financial income	-11 530	-6 954
Financial expenses	22 206	7 512
Income tax	87	98
Depreciation and amortization	9 995	9 964
Issuance cost and convertible bond discount amortization	2 366	2 609
Profit on redemption of convertible bond	-25 853	—
Change in long-term provisions	4 361	-706
Change in deferred tax liability	100	31
Use of provision for restructuring	-3 319	-4 168
Minority interest in net income	1 091	-276
Cash flow	3 984	-9 785
Change in inventories	9 051	-8 480
Change in work in progress	2 074	412
Change in trade accounts receivable	28 857	57'029
Change in other assets	5 860	1'599
Change in trade accounts payable	-22 392	-31'169
Change in other liabilities	-28 429	-36'548
Change in short-term provisions	3 196	-912
Operating cash flow	2 201	-27 854
Interest paid	-4 490	-2 509
Interest received	3 192	5 465
Tax paid	-3 418	-8 688
Net cash from operating activities	-2 515	-33 586
Acquisition (net) in intangible fixed assets	-16 339	-6 792
Acquisition (net) in tangible fixed assets	-14 506	-10 037
Acquisition (net) in financial fixed assets	-11 098	126
Repayment of loan	—	15 703
Sale of subsidiaries, net of cash sold	-2	—
Net cash used in investing activities	-41 945	-1 000
Purchase of treasury shares	-380	—
Change in long-term loans and banks	-2 255	-14 416
Issuance of convertible bond net of issuance fees	—	472 884
Redemption of convertible bond	-54 776	—
Interest paid on convertible bond	-3 740	—
Net cash from/used in financing activities	-61 151	458 468
Effect of exchange rate changes on cash and cash equivalents	- 8 600	-4 517
Change in cash and cash equivalents	-114 211	419 365
Cash and cash equivalents at January 1	753 082	415 857
Cash and cash equivalents at June 30	638 871	835 222
Change in cash and cash equivalents	-114 211	419 365

Consolidated statements of changes in Shareholders' equity (unaudited)

in kCHF	Share capital	Treasury shares	Share premium	Reserve for treasury shares	Other reserves	Goodwill	Consolidated shareholders' equity, Group's interest	Minority interests	Total share-holders' equity
At January 1, 2002	512 941		49 798		215 736	-217 545	560 930	19 921	580 851
Shares issued for employees	658						658		658
Change in scope of consolidation						770	770	1 855	2 625
Adjustment on goodwill at acquisition						7 456	7 456		7 456
Dividends paid to minority interests							—	-1 000	-1 000
Currency translation adjustment					-15 073		-15 073	-3 162	-18 235
Write down of Swiss International Air Lines Ltd. shares					-4 464		-4 464		-4 464
Net income					10 031		10 031	2 988	13 019
At December 31, 2002	513 599	—	49 798	—	206 230	-209 319	560 308	20 602	580 910
Treasury shares acquisition		-380		380	-380		-380		-380
Currency translation adjustment					-1 631		-1 631		-1 631
Reverse of write down of Swiss International Air Lines Ltd. shares					6 250		6 250		6 250
Net income					4 480		4 480	798	5 278
At June 30, 2003	513 599	-380	49 798	380	214 949	-209 319	569 027	21 400	590 427

Notes to the consolidated financial statements (unaudited)

General comments and principles of consolidation

The unaudited interim consolidated financial statements are prepared in accordance with Swiss GAAP FER and give a true and fair view of the financial position and results of the Group. The accounting conventions and accounting policies are the same as those applied in the year end 2002 consolidated financial statements.

Modification of the scope of consolidation

During the first half 2003, the scope of consolidation of the Kudelski Group has changed due to the sale of its share of interest in e-prica AG, Lyss.

In 2002, the scope of consolidation has changed to include the following entities:

- Kudelski Financial Services Holding SCA	LU - Luxembourg	100%
- Kudelski Luxembourg Sàrl	LU - Luxembourg	100%
- Kud Sàrl	LU - Luxembourg	100%
- Ticketcorner GmbH	DE - Bad Homburg	100%
- Nagra Public Access SA	CH - Cheseaux	100%
- Logiways SA	CH - Cheseaux	51%
- Soft Technology SA	FR - Brives	51%

Furthermore, the 2002 scope of consolidation has changed due to the mergers between NagraID and Thermoplex F. Droz SA and between Nagravision SA, Lysis International SA and Lysis SA. Nagra Italia SRL, Précision Electronique Precel SA, and Lysis Asia Pte Ltd left the consolidation scope of the Group on 31st December 2002.

Convertible bond

in kCHF			2003	2002
At January 1	kUSD	229 634	319 191	—
Issue			—	557 296
Redemption and partial cancellation	kUSD	-59 725	-80 629	-143 600
Exchange rate effects			-7 466	-90 308
Allocated issuing costs	kUSD	1 610	2 174	-6 493
Reconstitution of the redemption value	kUSD	393	530	2 296
At June 30/at December 31	kUSD	171 912	233 800	319 191

The convertible bond is quoted at the Luxembourg stock exchange, the ISIN value is XS0140968842.

Notes to the consolidated financial statements (unaudited)

Legal and arbitration proceedings

The Group is subject to three lawsuits relating to the alleged infringement of intellectual property rights under the American and German courts. Provisions for legal proceedings are booked according to the best management estimate of risk and relate essentially to the following:

Nagravision SA and NagraStar LLC are subject to a pending lawsuit before the Federal Court of the District of Delaware. The claimants are IPPV Entreprise, LLC and MAAST, Inc., and the Defendants are EchoStar Communication Corp., Nagravision SA and NagraStar LLC. The Claimants argue that the Defendants have breached several of their patents, which is denied by the Defendants.

In April 2002, the judge gave verdicts clearing Nagravision SA and NagraStar LLC. Final and absolute judgment has not yet been given. A supplementary provision amounting to kCHF 3 158 was charged as extraordinary item to cover a potential post judgmental interest for a pending lawsuit.

Segmental analysis

The allocation by geographical area and by business sectors of sales is as follows for the first half 2003 and first half 2002:

January/June 2003 in kCHF	Europe	America	Asia and Oceania	Africa	Total
Pay television and broadband internet	34 546	52 652	21 198	250	108 646
Physical access control and data access	54 287	3 461	1 386	0	59 134
Total for January/June 2003	88 833	56 113	22 584	250	167 780

January/June 2002 in kCHF	Europe	America	Asia and Oceania	Africa	Total
Pay television and broadband internet	36 152	39 014	21 113	2 620	98 899
Physical access control and data access	54 299	4 219	1 338	0	59 856
Total for January/June 2002	90 451	43 233	22 451	2 620	158 755

Notes to the consolidated financial statements (unaudited)

Principal exchange rates

CHF for	1 USD	1 EUR	1 GBP
Average January / June 2003	1.35	1.49	2.18
Average January / June 2002	1.64	1.47	2.37
Rates for end of June 2003	1.36	1.55	2.24
Rates for end of December 2002	1.39	1.46	2.23
Rates for end of June 2002	1.48	1.47	2.27

Post balance sheet events

According to the convertible bond prospectus, initial strike price has been reset from CHF 127.50 to CHF 100.00 per bearer share, representing a new initial conversion ratio of 16.936 starting July 31, 2003 (previously: 12.8596).

Agenda 2004

Release of 2003 financial results	12 March 2004
Annual general meeting	26 May 2004

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