NAGRA
KUDELSKI GROUP

2011 ANNUAL RESULTS

MANAGEMENT DISCUSSION & ANALYSIS

The continued fall of USD and EUR rates affected the Group’s 2011 financial results. The fall of the average USD rate from 1.04 in 2010 to 0.89 in 2011 and of the EUR rate from 1.38 to 1.23 had a negative impact of CHF 121.7 million on full-year revenues and CHF 46.5 million on operating income.

Group revenues in constant currency declined by 3.8%, corresponding to CHF 39.6 million, while reported revenues dropped by 15.6% to CHF 873.9 million in 2011, with the Digital TV segment driving most of the decline in revenue.

On a year-on-year basis, 2010 was positively impacted by certain one-off contributions, which were not available at the same levels in 2011. In 2010, the Group’s other operating income benefited from government grants that had accrued for work performed in prior years. 2011 saw a return to a more normal level of grants received by the Group, resulting in other operating income declining by CHF 11.4 million to CHF 22.8 million on a year-on-year basis. In 2010, the Group recognized material revenues from the replacement of the installed base of smart cards for Virgin Media in the United Kingdom. No comparable replacement event occurred in 2011, so revenues from the UK declined by CHF 37.6 million compared to the prior year. 2011 smart card volumes also declined on all sizeable platforms in Italy, Spain and Portugal, which resulted in a decline in revenue from these three markets of CHF 33.8 million compared to 2010.

While the above one-off factors significantly affected both Group revenues and operating income, structural developments in the Digital TV segment remained positive, with selected regions, such as Latin America, continuing to deliver strong growth in constant currency, new customer wins and positive traction for the Group’s latest generation of products.

In addition, the Public Access segment continued to grow its revenue in local currency and, as it was less affected by currency fluctuations, it raised its operating income to CHF 12.5 million.

2011 also saw the turnaround of the Middleware and Advertising segment reach another important milestone, with the segment reverting to profitability on a full year basis.

It should also be noted that the Group’s restructuring program announced late last year has already delivered its first tangible results, with CHF 15.8 million in savings realized in 2011. The series of measures aimed at reducing the Group’s total annual operating expenses by CHF 90 million are progressing according to our original plan.

GROUP REVENUES AND PROFITABILITY

Total annual revenues and other operating income declined from CHF 1’069.3 million in 2010 to CHF 896.6 million in 2011.

The “Margin after cost of material” (a pro-forma, non-IFRS item) decreased by CHF 152.9 million to CHF 656.2 million in 2011. Relative to total revenues, this item remained at a high level with the normalized second half revenue mix and the CHF 11.4 million year-on-year decline of other operating income driving a 2.5% decline to 73.2%.

Personnel expenses decreased CHF 26.0 million in 2011, primarily due to currency effects. Compared to the end of 2010, total headcount decreased by 69 to 2'999 FTEs at the end of 2011. This headcount includes 100 FTEs in the Group's newly organized operations in India. However, this figure does not reflect the impact of the restructuring announced by the Group late last year, which is being implemented during the first few months of 2012.

The Group reduced other operating expenses by CHF 44.9 million in 2011, a 19.2% reduction from the prior year. In addition to the currency-driven reduction, the lower cost base reflects initial efforts undertaken by the Group as part of its overall cost-reduction program. Compared to the previous year, aggregate development, engineering, legal, expert and consultancy expenses in 2011 were reduced by CHF 24.9 million. The ongoing systematic replacement of external resources with lower cost internal resources has helped drive this cost reduction. In addition, significant progress was made by the Group to reduce other operating expense items in 2011 as compared with the prior year, including a reduction of CHF 7.6 million in travel, entertainment and lodging expenses and a reduction of CHF 7.2 million in administrative expenses.

2011 operating expenses include CHF 9.9 million of restructuring costs, with CHF 6.6 million of this representing a provision.

The Group's operating income before depreciation and amortization was CHF 91.0 million in 2011, representing a CHF 82.0 million decrease from the previous year. Depreciation, amortization and impairments increased by CHF 2.6 million to CHF 65.6 million. This resulted in an operating income of CHF 25.4 million in 2011 compared to CHF 110.0 million in 2010. Net of restructuring costs, the Group's 2011 operating income was CHF 35.3 million.

At constant currency, operating income before restructuring costs was CHF 81.8 million in 2011, representing a CHF 28.2 million decline from 2010.

Interest expense of CHF 16.6 million in 2011 includes convertible bond related charges of CHF 11.7 million, as well as interest costs for the straight bond issued in 2011 and charges related to the Group's outstanding bank loans.

The net other finance expense of CHF 17.6 million in 2011 was primarily driven by foreign exchange-related charges incurred in connection with the Group's operations.

The CHF 8.6 million income tax expense recorded in 2011 primarily relates to income taxes paid by the Group's Nagra France and SkiData AG subsidiaries.

Overall, the Group generated a net loss of CHF 17.7 million in 2011, representing a decrease of CHF 84.4 million from the prior year.

DIGITAL TV

Digital TV revenues, on a constant currency basis, declined 7% in 2011, as compared with the prior year period. For the full year 2011, the segment reported revenues of CHF 555.5 million, which was CHF 129.0 million lower than in 2010. Second half revenues from this segment were stronger than the first half of 2011 by CHF 40.3 million.

Operating income for the Digital TV segment declined by CHF 100.5 million in 2011 to CHF 28.9 million. While most of the segment revenues are denominated in USD and EUR, a large proportion of Digital TV's operations are based in Switzerland, with expenses denominated in Swiss Francs. Accordingly, most of the CHF 46.5 million negative foreign exchange impact on the Group's operating income affected the profitability of the Digital TV segment.

On a geographic basis, the Group's European Digital TV business was impacted by the severe slowdown in the region, with a 25.6% reduction of reported revenues to CHF 273.7 million. In constant currency, the revenue decline amounted to 16.8%. Most of the decline took place in the first half of the year, which generated CHF 131.8 million in revenues, while revenues in the second half of the year were CHF 141.9 million, in spite of the weaker EUR rates in the second half.

2010 European Digital TV revenues were particularly strong in the UK, as the Group delivered close to 4 million smart cards to Virgin Media, replacing older generation cards. 2011 deliveries to this customer reverted to a more normal volume level. Demand from the Italian and Spanish terrestrial platforms was materially lower in 2011 than in the prior year period, which affected both the Group's conditional access and SmarDTV businesses.

Digital TV revenues in the Americas rose by 10.5% in local currencies, driven by strong demand in South America for the Group's products, with Brazil representing double digit revenue growth and the region generally benefitting from the ongoing growth and expansion of other Latin American markets. In the United States, a significant number of smartcards delivered in the last Dish/Echostar replacement cycle that are now inactive are reaching the minimum period for which such cards have to pay a service fee. As a result, Dish-related revenues will be negatively impacted in 2012.

In Asia, the Group's Digital TV revenues was CHF 33.2 million in the first half of 2011, but second half revenues recovered to CHF 47.9 million. For the full year, this translates to a constant currency revenue decline of 7.8% compared to 2010, as the Group's system and semi-conductor businesses and mobile TV volumes were materially lower than in the previous year.

PUBLIC ACCESS

Following the divestment of the Group's remaining stake in Polyright, the Public Access segment now includes SkiData as its only operating unit. In 2011, SkiData maintained its track record of resilient growth and profitability. For each year since 2004, SkiData has delivered an operating margin of at least 4.5% and year-on-year local currency growth irrespective of the economic cycle.

Public Access posted a sales increase of 4.2% in 2011 on a constant currency basis, which translated to a 5.9% reduction in reported revenues. Europe grew by 2.7% on a constant currency basis, with France and Germany delivering strong growth rates. The Americas region continued to perform strongly in 2011, experiencing a 18.1% growth in local currency, thereby maintaining the strong momentum of the past few years. After a weak first half with CHF 5.2 million of revenues, Asia/Pacific and Africa recovered in the second half of 2011 with sales reaching CHF 9.9 million. For the full year, however, on a constant currency basis, revenues for the region declined by 3.4% from the previous year.

Public Access operating income recovered in 2011, improving by CHF 3.7 million to CHF 12.5 million as compared with 2010, which reflects careful cost management.

MIDDLEWARE AND ADVERTISING

With a 1.0% decline in revenues, on a constant currency basis, middleware and advertising revenues were substantially stable. In constant currency, revenues from Europe declined 1.1%, with declines primarily coming from the UK and Italy, revenues from the Americas declined by 2.0%, in spite of a strong revenue contribution from Brazil, and Asia/Pacific and Africa saw a nominal decline. With a substantial balance between the three regions, Asia/Pacific and Africa remains the strongest region in this segment.

As a result of the significant R&D investments undertaken by the Group starting in 2010, development of the Group's next generation middleware solutions was accelerated, with initial deployments of such solutions commencing in 2011. Following such deployments, some of the R&D resources were released. This contributed to a lower cost base that enabled the middleware and advertising segment to achieve positive operating income for the year.

BALANCE SHEET AND CASH FLOW

Total non-current assets in 2011 increased by CHF 23.3 million to CHF 530.1 million. The CHF 19.7 million increase of tangible fixed assets is primarily due to the acquisition of the building in which OpenTV's San Francisco headquarters is located. The entity that acquired the building is controlled by the Group, so it is fully consolidated in the Group's financial statements. This added CHF 33.5 million to the Group's balance sheet. Financial assets and other non-current assets rose by CHF 16.0 million in 2011, primarily reflecting the classification of CHF 19.5 million of government grants as non-current assets due to the fact that cash will not be received within the next 12 months.

Total current assets rose by CHF 50.8 million to CHF 649.4 million at the end of 2011. Inventories decreased by CHF 22.6 million to CHF 63.1 million, with the Digital TV segment driving most of this decrease, as the segment's business accelerated in the last weeks of the year. In addition, the inventory relating to the Group's audio business, which was sold at the end of 2011, was removed from the Group's financial statements. Trade accounts receivables continued to improve, with a balance of CHF 228.2 million at the end of 2011, compared with CHF 245.5 million at the end of 2010. Receivables past due by more than 6 months declined in 2011 from CHF 19.5 million to CHF 11.7 million.

At the end of 2011, cash and cash equivalents were CHF 289.6 million, representing an increase of CHF 90.6 million. On June 16, 2011, Kudelski SA issued a CHF 110 million straight bond, with a 5.5-year maturity and a 3% interest rate. This was offset by the repayment made by the Group of the CHF 23.7 million balance of the loan used to finance the acquisition of OpenTV in 2010.

Total equity decreased by CHF 29.5 million to CHF 437.2 million at the end of 2011, reflecting, among other things, the CHF 17.7 million net loss, a CHF 16.0 million dividend payment and a positive currency translation adjustment of CHF 5.5 million.

As the outstanding CHF 350 million convertible bond matures in October 2012, it was reclassified from non-current to current liabilities. In addition, the CHF 110 million straight bond issued in 2011 and the CHF 15.7 million mortgage on the building purchased in San Francisco are reflected as non-current liabilities in the balance sheet. Accordingly, total non-current liabilities decreased by CHF 220.9 million and total current liabilities rose by CHF 324.4 million from 2010.

In 2011, the Group generated CHF 86.7 million in operating cash flow. The Group used CHF 72.8 million of cash for investing activities. This includes CHF 33.5 million in cash used for the acquisition of the building in San Francisco and CHF 39.3 million of capital expenditures for tangible fixed assets, software, third party developments and other assets needed to support the Group’s operations. Cash flow from financing activities was CHF 77.4 million in 2011, reflecting in particular the issuance by the Group of the straight bond in 2011 and the mortgage proceeds related to the San Francisco building. Cash flow from financing activities also reflects the CHF 16.0 million dividend payment made in 2011.

OUTLOOK

On October 31, 2011, the group announced measures targeting a net annual cost reduction of CHF 90 million, with initial effects expected in late 2011 and the cost reductions becoming fully effective in the course of the second half of 2012. The implementation of these measures is progressing as planned. As part of this program, Digital TV and Middleware and Advertising operations have been fully integrated as of the beginning of 2012. Accordingly, these activities will be reported as a single segment, called Digital TV, as of January 1, 2012.

The new Digital TV segment is expected to continue to benefit from favorable fundamentals and a solid Group competitive positioning. However, Group top line is expected to decrease from 2011 to 2012, as the Polyright, Medioh, Embedics and Nagra Audio businesses are fully deconsolidated, government grants are expected to be lower and the expected expiration of a contract provision with a large customer will result in the application of a lower base of paying smart cards for the purpose of license fee calculations.

Public Access is expected to maintain its momentum both on the top line as well as from a profitability perspective.