KUDELSKI GROUP
INTERIM REPORT 2011

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2011 (UNAUDITED)

In CHF'000	January/ June 2011	January/ June 2010
Revenues and other operating income	404 508	517 106
Margin after cost of material	312 940	393 216
Margin after cost of material in % of revenues and other operating income	77.36%	76.00%
OIBDA 1)	27 658	77 649
OIBDA in % of revenues and other operating income	6.84%	15.00%
Operating (loss)/income	-3 088	47 518
Operating income in % of revenues and other operating income	-0.76%	9.20%
Net income	**-11 475**	**31 999**
(Loss)/earnings per bearer share (in CHF)		
– basic	-0.2351	0.6015
– diluted	-0.2351	0.6015

[1] OIBDA: operating income before interest, taxes, depreciation and amortization

In CHF'000	30.06.2011	31.12.2010
Equity	418 696	466 618
Cash and cash equivalents	274 056	199 031
Market capitalization	633 631	971 459
Share price (in CHF)	13.00	20.00

FIRST HALF 2011 HIGHLIGHTS

- Strong Swiss Franc affects the Group's results
- Major new wins in Internet TV and Middleware
- Positive operating income expected for full year
- 149 million active smart cards/modules

LETTER TO SHAREHOLDERS

After a strong first half 2010, the Kudelski Group has seen its profitability heavily impacted by the exchange rates issue. As anticipated, the strong Swiss Franc compared to the weakening US Dollar and Euro affected our results. This translates into a CHF 3.1 million operating loss and a CHF 11.5 million net loss for the first six months of the year.

In spite of the ongoing strengthening of the Swiss Franc, the 2011 full year results are expected to be positive. We expect indeed a return to the usual seasonality pattern, with a Digital TV second half materially stronger than the first half, contrary to 2010 which had a reverse seasonality.

Segment by segment, here are some global comments on the first six months:

- While most of the segment revenues are denominated in USD and EUR, a large proportion of Digital TV's operations are based in Switzerland and as such are denominated in Swiss Francs. Hence, most of the negative currency impact on operating income affects the Digital TV segment. This could lead us to challenge some of our Swiss activities in the following months.
- The Middleware & Advertising segment was substiantially stable during the first six months, thanks to cost cutting measures driving most of the improvement. In this second half, the Group will further rationalize the development portfolio with the goal of further reducing Middleware and Advertising's cost base.
- Public Access' operating income recovered compared to the first half of 2010, mainly reflecting a careful cost management. As in previous years, Public Access has a strong seasonality resulting in low revenues and an operating loss in the first half and a higher, profitable revenue base in the second half year.

These fundamental elements show that we are facing a negative environment but, more important, that we are determined to act by

- intensifying our costs saving programme;
- challenging our portfolio of activities;
- rebalancing our location mix where feasible and relevant;
- exploring new business opportunities.

Moreover we will build on our ongoing success in ermerging markets as well as in the promising Internet TV segment, where we have won significant new clients and extended existing partnerships over the last months. Besides, the Kudelski Group is expanding its footprint in the Telcos segment, with some major client wins.

While traditional TV growth is negativeley impacted by the economic crisis, Internet-based TV continues to expand year after year. A number of service providers, be they cable, satellite or telco operators, are turning to the Kudelski Group for its expertise and innovation capabilities to address this growing trend. Customers are leveraging NAGRA solutions to enable an Internet-connected environment for their viewers as a natural extension of their existing services.

The base of Internet-connected TVs and set-top boxes is growing and is expected to continue to develop as operators see the opportunity to offer these services to their viewers, while maintaining secure access to all types of content.

Whether for TVs, PCs, mobile devices or tablets, NAGRA has become the preferred partner for TV operators by supporting service providers to integrate new technologies and turn them into successful revenue-generating and customer loyalty strategies.

In terms of emerging markets, Latin America has shown to be a successful business case, with a model that could be applied with the same success in other promising markets such as India, China or Russia. Indeed, our presence in South America continues to grow with our customers, notably in Brazil where our advanced technologies are proving critical to support the explosion of pay-TV. Today, thanks to our large network of solutions, we are able to address the specific needs and strategies of each service provider and enable them to deploy services quickly and efficiently.

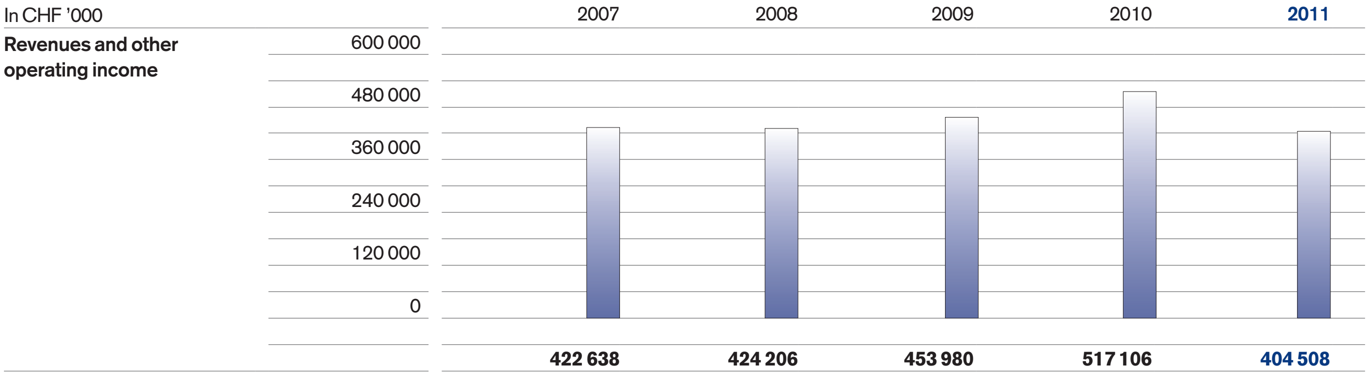
Recently, Tier-1 telcos have chosen to go "NAGRA" on a global basis, which demonstrates our good positioning and product portfolio for this segment. As an example, Telefónica, one of the world's leading operators in the telecommunications sector and current NAGRA customer, has selected NAGRA to enable advanced services for its global operations, extending our technology partnership beyond conditional access to include the next generation of OpenTV middleware, as well as our solution allowing Telefónica to deliver hybrid and Internet-based services to its worldwide subscriber base.

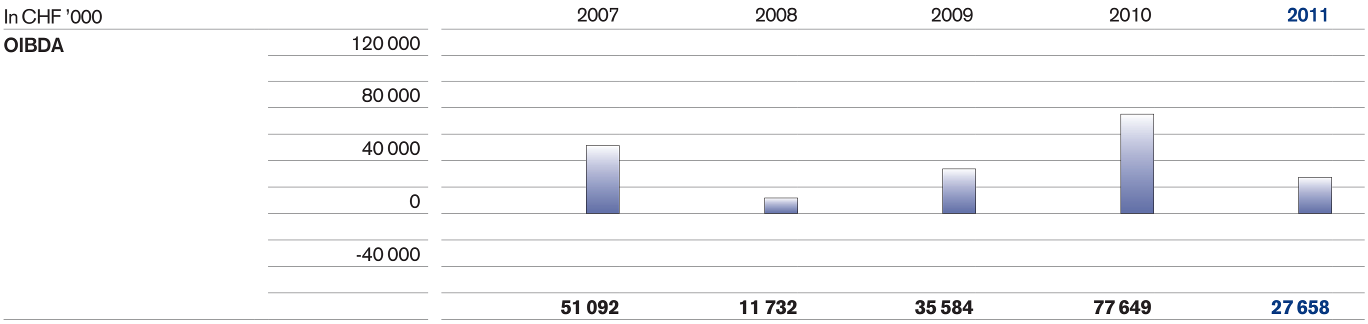
Again, the Kudelski Group is facing a challenging environment which currently affects its profitability. We are determined to take the appropriate measures to address this issue. The implementation of such measures will take us outside our comfort zone. However, this is the price to pay for improving the long-term performance of our Group. We are confident that our Group is well positioned to further build our sustained growth in promising new markets and segments.

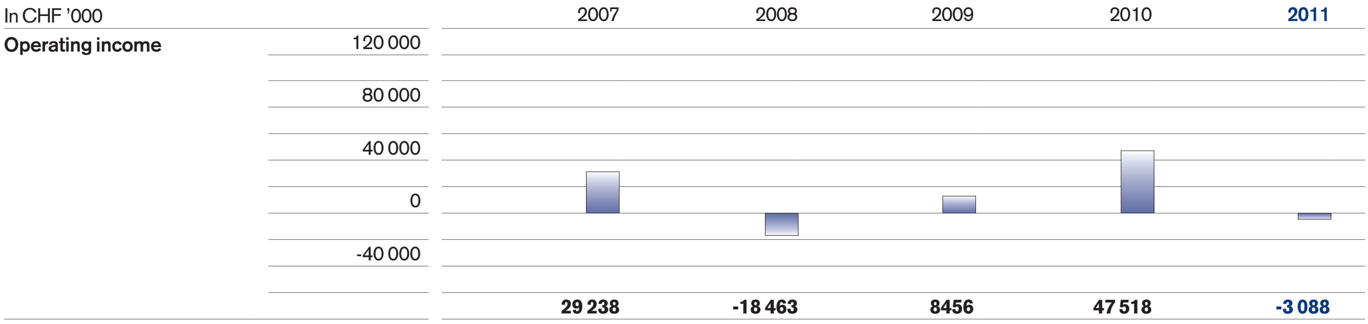
On behalf of the Board of Directors, I would like to thank our customers and you, our shareholders, for your trust. I would also like to express my gratitude to our teams, which contribute each and every day to the Group's growth across five continents.

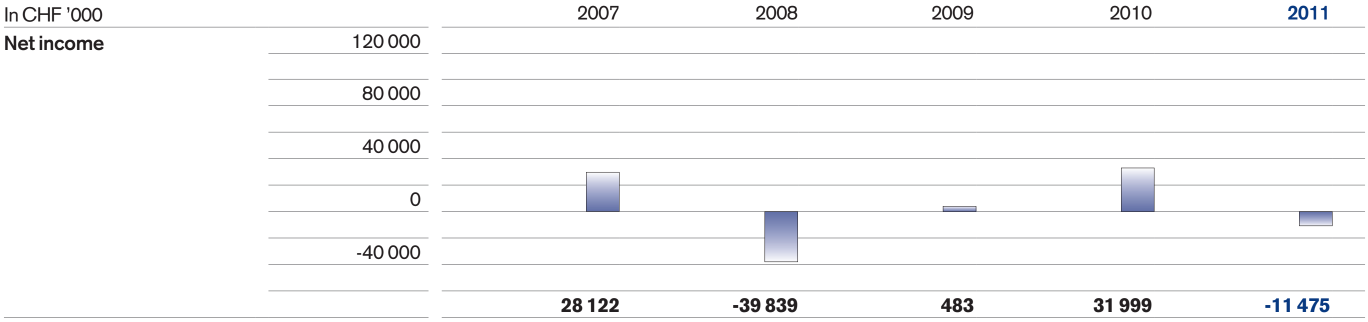
André Kudelski

KEY FIGURES FIRST HALF 2011









FIRST HALF 2011 RESULTS

Falling USD and EUR exchange rates heavily affected the Group first half results. Compared to the first half 2010, declining exchange rates against the Swiss Franc had a negative impact of CHF 67.0 million on Group's revenues and CHF 27.4 million on Group's operating income.
Group revenues in constant currency declined by 8.5%, while reported revenues dropped by 21.9% compared to the first half of last year, reaching CHF 392.2 million, with the Digital TV segment driving most of the revenue inflection.
As the aforementioned currency effects materially affected profitability, the Group posted a CHF 3.1 million operating loss for the first half year. In spite of the ongoing strengthening of the Swiss Franc, full year results are expected to be positive.

LOWER GROUP REVENUE AND COST BASE

Total revenues and other operating income for the first half year declined from CHF 517.1 million to CHF 404.5 million.
The "Margin after cost of material" (a pro-forma non-IFRS item) decreased by CHF 80.3 million to CHF 312.9 million. Relative to total revenues, margin after cost of material continued to grow from 71.4% in the first half 2009 to 76.0% in the first half 2010 and 77.4% in this first half 2011. The high other operating income contributed to both last and this year's high margin, as the Group benefits from innovation subsidies ("Crédit d'Impôt Recherche") accrued to its French operations.
Moreover, the revenue mix was particularly favorable in this first half with a higher share of royalty-based revenues and less system business than in previous periods.
The Group reduced personnel expenses by CHF 11.9 million, 5.8% of the previous first half's cost, with currency effects driving most of the cost reduction. Overall, Group headcount at the end of the first half was at 3'010 compared to 3'068 at the end of 2010. The end of June headcount includes 50 employees in the newly set-up Group Indian operations. Net of India, the Group decreased its headcount by 108 units in the last six months. Most of the headcount reduction is due to portfolio measures. In the first half, the Group sold Nagra Thompson Licensing and liquidated Medioh and EmbedICs. The above headcount reduction also includes the effect of the sale of Polyright, completed at the beginning of this second half year.
Personnel expenses include CHF 3.2 million pension-related charges.
The Group reduced other operating expenses by CHF 18.4 million, 16.7% of the previous first half's cost, with currency effects driving roughly half of the cost reduction. In particular, legal and consultancy costs are CHF 5.5 million lower, as the Group systematically reduced such costs in 2011. Moreover, the Group reduced all other operating expenses with the exception of development and engineering costs, which further increased compared to the first half of 2010.
The Group operating income before depreciation and amortization amounts to CHF 27.7 million, representing a CHF 50.0 million decrease compared to the first half of last year.
Depreciation, amortization and impairments were substantially stable at CHF 30.7 million. As a result, the Group booked an operating loss for CHF 3.1 million.
Interest expenses of CHF 7.4 million mainly consist of charges related to the outstanding convertible bond. The Group reduced interest expenses by CHF 1.2 million as it repaid the last tranche of the loan aimed at financing the full acquisition of OpenTV. Net finance income amounts to CHF 0.3 million. At CHF 0.2 million, the share of results of associates is CHF 3.9 million lower than in the comparable 2010 period, as last year the Group booked a CHF 3.1 million gain related to the sale of its remaining stake in Ticketcorner. Income tax expenses amount to 1.4 million, reflecting the decrease in profitability. Overall, the Group generated a net loss of CHF 11.5 million, representing a decrease of CHF 43.5 million compared to the previous first half.

STRONG SEASONALITY EXPECTED IN 2011 FOR DIGITAL TV

Digital TV revenues declined by CHF 92.1 million to CHF 257.6 million, while operating income declined by CHF 59.8 million to CHF 14.6 million.
The strength of the Swiss Franc had a particularly strong negative impact on the Digital TV segment. Currency effects had a negative impact of CHF 46.5 million on segment revenues.
While most of the segment revenues are denominated in USD and EUR, a large proportion of Digital TV's operations are based in Switzerland and as such are denominated in Swiss Francs. Hence, most of the CHF 27.4 million negative currency impact on operating income affects the Digital TV segment.
Compared to an exceptionally strong first half 2010, Digital TV constant currency revenues were 13% lower. In the first half 2010, the Group reported an exceptional 21.4% constant currency growth as it posted material revenues from the replacement of the Virgin Media installed base of smart cards. As no such one-off revenues were booked in this first half, the number of smart cards delivered declined by 6.5 million units to 13.9 million.
The European Digital TV business experienced a severe slow-down in the first half year, with a 35.1% reduction of reported revenues to CHF 131.8 million. In constant currency, the revenue decline amounts to 25.2%. The main factor driving the lower revenue base is the base effect from the 2010 Virgin Media swap-out. The Group Italian and Spanish digital terrestrial delivered a particularly strong performance in the first half of last year, both in the core conditional access and in SmarDTV module businesses. In the second half of last year, these sales already materially slowed down and in this first half they remained at roughly the same levels as in the second half 2010. The newly launched German HD+ retail business was a strong contributor to the first half 2010 sales as distribution pipelines were filled to support the launch. As the base effect from the launch ceased, this business generated materially lower revenues in this first half.
Digital TV's American business maintained a strong momentum with a constant currency growth of 19.7%. Digital TV's revenues for the region amount to CHF 92.5 million. Once again, Latin American operations represented a particularly strong growth driver. Dish/Echostar-related revenues were lower as

the first inactive cards are reaching the minimum period, for which all cards have to pay a service fee, and hence stop paying such fee.
Asian Digital TV revenues for the first half amount to CHF 33.2 million. In constant currency, regional revenues declined by 25.1%, as the system business as well as mobile TV volumes were materially lower than in the previous year.
Digital TV posted a CHF 37.5 million Operating income before depreciation and amortization, decreasing by CHF 58.6 million from the previous first half. Following a strong first half 2010, Digital TV Operating income before depreciation and amortization reverts to a level close to the CHF 37.5 million posted in the first half 2009.
For 2011, we expect the usual seasonality patterns with a Digital TV second half materially stronger than the first half, contrary to 2010 which had a reverse seasonality.

RECOVERING PUBLIC ACCESS

Public Access posted a sales increase of 2.9% in constant currency, translating in an 8.3% reduction of reported revenues. Europe's constant currency growth was in line with the overall segment growth at 2.9%. The American region continues to deliver a strong performance, with a further 17.4% constant currency growth rate, following the 25% growth rate posted in the first half 2010. Asia Pacific/ Africa, on the other hand, continue to fluctuate around a small revenue base: while constant currency revenues grew by 37.7% in the first half 2010, they now shrunk by 19.2% reverting to a level close to the first half 2009's.
Public Access's Operating Income recovered compared to the first half of 2010, improving by CHF 3.0 million to a CHF 6.7 million loss, mainly reflecting a careful cost management. As in previous years, Public Access has a strong seasonality resulting in low revenues and an operating loss in the first half and a higher, profitable revenue base in the second half year.

STABLE MIDDLEWARE AND ADVERTISING

With a 0.3% constant currency growth, middleware and advertising revenues were substantially stable. Europe posted a 2.5% constant currency decline, while the Americas grew by 1% and Asia/Pacific & Africa by 2.6%.
At CHF 0.7 million, the segment operating loss is improving by CHF 5.3 million compared to first half 2010.
Cost cutting measures drove most of the improvement. In this second half, the Group will further rationalize the development portfolio with the goal of further reducing Middleware and Advertising's cost base.

BALANCE SHEET AND CASH FLOW

Total non-current assets remained substantially stable in this first half, with a CHF 4.0 million reduction compared to year end 2010. The CHF 19.7 million increase of tangible fixed assets is mainly due to the acquisition of the building hosting the OpenTV San Francisco headquarters, adding CHF 33.5 million to the Group's balance sheet. A 49.9%-owned entity controlled by the Group acquired the building: hence, the entity is fully consolidated in the Group's financial statements.
Currency translation effects led to a decrease of the remaining non-current asset items.
Total current assets rose by CHF 37.9 million to CHF 636.5 million. The CHF 1.6 million increase of inventories reflects higher stock levels at SkiData and a reduction within Digital TV. In addition to currency effects and a lower sales volume, a careful management of trade accounts receivable allowed a reduction by CHF 59.9 million to CHF 185.6 million compared to year end. Other current assets rose by CHF 21.8 million to CHF 88.1 million, as subsidies due from the French Government and VAT receivables increased over the period.
At the end of the first half, cash and cash equivalents amounted to CHF 274.1 million, representing an increase of CHF 75.2 million from year end 2010. On June 16, 2011, Kudelski SA issued a new CHF 110 million straight bond, with a 5.5-year maturity and a 3% interest rate. Moreover, the Group repaid the remainder of the loan taken out for the acquisition of OpenTV.
The June 30, 2011 balance sheets includes Assets of disposal group classified as held for sale for CHF 1 million and Liabilities of disposal group classified as held for sale for CHF 1.3 million. These items relates to the Group 50% share of Polyright, the Group decided to sell in the first half and actually sold on July 18, 2011.
Total equity for the period decreased by CHF 47.9 million, reflecting, among others, a currency translation adjustment of CHF 27.2 million and a CHF 16.0 million dividendpayment.
Total non-current liabilities rose by CHF 124.0 million, including the aforementioned newly issued straight bond and a CHF 15.7 million mortgage on the newly acquired San Francisco building. The Group reduced total current liability by CHF 42.4 million. The reduction of short-term financial debt relates to the repayment of the OpenTV loan. SkiData materially reduced trade accounts payable in line with its usual business seasonality patterns. Similarly, other current liabilities were lower, reflecting a seasonal reduction of payroll –related provisions.
In the first half, the Group generated CHF 35.4 million cash from operating activities, including a CHF 15.6 million reduction of working capital net of translation effects. The Group used CHF 52.9 million cash for investing activities. This includes a CHF 33.5 million cash out for the acquisition of the OpenTV building and CHF 19.6 million of capital expenditures and software acquisition and external developments to support the Group's operations. Cash flow from financing activities amounts to CHF 99.0 million, including in particular the proceeds from the issuance of the new straight bond and the mortgage proceeds related to the San Francisco building. Cash flow from financing activities also includes CHF 16.0 million dividend payment.

OUTLOOK

The ongoing turbulence in the foreign exchange market is likely to affect the Group second half results. Against this backdrop, the Group will intensify its cost savings program starting in this second half. Tangible results from this program are expected from 2012 on.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

In CHF'000	January/ June 2011	January/ June 2010
Revenues	392 205	501 950
Other operating income	12 303	15 156
Total revenues and other operating income	**404 508**	**517 106**
Cost of material	-91 568	-123 890
Employee benefits expense	-193 815	-205 731
Other operating expenses	-91 467	-109 836
Operating income before depreciation, amortization and impairment	**27 658**	**77 649**
Depreciation, amortization and impairment	-30 746	-30 131
Operating (loss)/income	**-3 088**	**47 518**
Interest expense	-7 405	-8 588
Other finance income/(expense), net	283	-5 526
Share of results of associates	177	4 100
(loss)/income before tax	**-10 033**	**37 504**
Income tax expense	-1 442	-5 505
Net (loss)/income for the period	**-11 475**	**31 999**
Attributable to:		
– Equity holders of the company	-12 539	32 802
– Non controlling interests	1 064	-803
	-11 475	**31 999**

EARNINGS PER SHARE (UNAUDITED)

In CHF	January/ June 2011	January/ June 2010
(Loss)/earnings per bearer share		
– basic	-0.2351	0.6015
– diluted	-0.2351	0.6015
(Loss)/earnings per registered share (not listed)		
– basic	-0.0235	0.0602
– diluted	-0.0235	0.0602

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In CHF'000	January/ June 2011	January/ June 2010
Net loss/income	-11 475	31 999
Currency translation differences	-27 220	-508
Cash flow hedges	-1 073	3 516
Net gain on available-for-sale financial assets	20	11
Total comprehensive (loss)/income for the period	**-39 748**	**35 018**
Attributable to:		
– Equity holders of the company	-38 540	34 655
– Non controlling interests	-1 208	363
	-39 748	**35 018**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2011 AND DECEMBER 31, 2010 (UNAUDITED)

In CHF'000

ASSETS

	30.06.2011	31.12.2010
Non-current assets		
Tangible fixed assets	166 365	146 723
Intangible assets	208 462	223 511
Investments in associates	6 251	7 624
Deferred income taxes assets	55 809	56 471
Financial assets and other non-current assets	65 928	72 476
Total non-current assets	**502 815**	**506 805**
Current assets		
Inventories	87 291	85 703
Trade accounts receivable	185 638	245 458
Other current assets	88 125	66 255
Financial assets (short term)	1 420	2 103
Cash and cash equivalents	274 056	199 031
Total current assets	**636 530**	**598 550**
Assets of disposal group classified as held for sale	**1 022**	**–**
Total assets	**1 140 367**	**1 105 355**

EQUITY AND LIABILITIES

	30.06.2011	31.12.2010
Capital and reserves		
Share capital	533 709	533 683
Reserves	-136 963	-82 384
Treasury shares	-326	-489
Equity attributable to equity holders of the parent	**396 420**	**450 810**
Non controlling interests	22 276	15 808
Total equity	**418 696**	**466 618**
Non-current liabilities		
Long-term financial debt	475 268	352 899
Deferred income tax liabilities	5 537	5 854
Employee benefits liabilities	30 951	27 737
Provisions for other liabilities and charges	2 192	2 397
Other long-term liabilities	3 406	4 438
Total non-current liabilities	**517 354**	**393 325**
Current liabilities		
Short-term financial debt	47 417	61 596
Trade accounts payable	41 007	55 980
Other current liabilities	85 656	102 024
Current income taxes	2 912	2 599
Advances received from clients	16 751	12 643
Derivative financial instruments	–	456
Provisions for other liabilities and charges	9 296	10 114
Total current liabilities	**203 039**	**245 412**
Liabilities of disposal group classified as held for sale	**1 278**	**–**
Total liabilities	**721 671**	**638 737**
Total equity and liabilities	**1 140 367**	**1 105 355**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

In CHF'000	January/ June 2011	January/ June 2010
Net (loss)/income for the period	**-11 475**	**31 999**
Adjustments for:		
Current and deferred income tax	1 442	5 505
Interest expense and other finance income/(expense), net	880	-66
Allocation of the equity conversion component and transaction costs of the convertible bond and borrowings	3 594	4 264
Depreciation, amortization and impairment	30 746	30 131
Change in fair value of financial assets at fair value through profit or loss	-291	1 218
Share of result of associates	-542	-693
Dividends received from associated companies	849	624
Non-cash employee benefits expenses	3 398	1 929
Change in provisions (short and long term)	37	-4 458
Gain on sale of an associated company	–	-3 080
Other non operating cash items	-489	-2 571
Other non cash income/expenses	-2 728	-125
	25 421	**64 677**
Change in inventories	-3 150	-12 893
Change in trade accounts receivable	54 809	43 850
Change in trade accounts payable	-14 295	-2 309
Change in deferred costs and other net working capital headings	-21 794	-39 561
Interest paid	-736	-1 557
Interest received	456	8 003
Income tax paid	-5 359	-2 660
Cash flow from operating activities	**35 352**	**57 550**
Purchases of intangible fixed assets	-9 982	-12 748
Purchases of tangible fixed assets	-43 106	-16 299
Proceeds from sales of tangible and intangible fixed assets	199	–
Investment in financial assets and loan granted	-95	-7 660
Divestments of financial fixed assets and loans reimbursement	921	74 503
Acquisition of subsidiaries, net of cash acquired	-666	-1 048
Acquisition of associated companies	-168	-1 049
Proceeds from sale of an associated company	–	3 080
Cash flow (used in)/from investing activities	**-52 897**	**38 779**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-33 410	-90 848
Increase in bank overdrafts, long term loans and other non-current liabilities	140 672	17 129
Proceeds from employee share purchase program	31	33
Cash received from exercise of stock options	–	112
Proceeds from non controlling interest	7 705	–
Dividends paid to non controlling interests	-29	–
Dividends paid to shareholders	-16 011	-15 958
Acquisition of treasury shares	–	-489
Proceeds from sale of treasury shares	–	605
Acquisition of non controlling interests, cash outflow	–	-31 320
Cash flow from/(used in) financing activities	**98 958**	**-120 736**
Effect of foreign exchange rate changes on cash and cash equivalents	-6 259	1 488
Net increase/(decrease) in cash and cash equivalents	**75 154**	**-22 919**
Cash and cash equivalents at the beginning of the period	199 031	210 139
Cash and cash equivalents at the end of the period	274 185	187 220
Net increase/(decrease) in cash and cash equivalents	**75 154**	**-22 919**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

In CHF'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2010	**531 935**	**58 614**	**-139 830**	**30 571**	**-42 344**	**-380**	**33 079**	**471 645**
Total comprehensive income for the period			**32 802**	**3 527**	**-1 674**		**363**	**35 018**
Employee share purchase program	19	25						44
Shares issued for employees	2	2						4
Acquisition of treasury shares						-489		-489
Sale of treasury shares			225			380		605
Dividend paid to shareholders			-15 958					-15 958
Impact of transactions with non controlling interests			-9 685				-16 910	-26 595
Impact of subsidiaries share based payments			-993					-993
June 30, 2010	**531 956**	**58 641**	**-133 439**	**34 098**	**-44 018**	**-489**	**16 532**	**463 281**
January 1, 2011	**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**466 618**
Total comprehensive (loss)/income for the period			**-12 539**	**-1 053**	**-24 948**		**-1 208**	**-39 748**
Employee share purchase program	26	17						43
Dividend paid to shareholders			-16 011					-16 011
Dividend paid to non controlling interests							-29	-29
Impact of transactions with non controlling interests							7 705	7 705
Restricted shares granted to employees			-163			163		–
Restricted shares allocated over the vesting period			118					118
June 30, 2011	**533 709**	**59 053**	**-129 007**	**31 151**	**-98 160**	**-326**	**22 276**	**418 696**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 (UNAUDITED)

1. BASIS OF PREPARATION

These condensed interim financial statements were prepared in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements were prepared under the historical cost convention, except for items to be recorded at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except those described below.

The Group has adopted for the first time the following new standards and amendments to standards for the financial year beginning January 1, 2011:

- Improvements to IFRS 2010: among amendments, those related to IAS 34 and IFRS 7 impact disclosures as of June 30, 2011.

Items that will be applied by the Group at December 31, 2011 which will have limited impact or will not be relevant for Group operations:

- IAS 24 (revised) – Related Party Disclosures (effective from 1 January 2011) clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government-related entities.
- IAS 32 (amendment) - (effective from 1 February 2010) implies that rights issues are required to be classified as equity in certain conditions.

The following IFRIC is mandatory for the first time for the financial year beginning 1 January 2011, but had limited impact or was not relevant for Group operations:

- IFRIC 14, Prepayments of a minimum funding requirement.
- IFRIC 19, Extinguishing financial liabilities.

3. SEASONALITY

Seasonality impacts the business segments as follows:

DIGITAL TELEVISION SOLUTIONS:

In the Digital Television Solutions business, Christmas sales usually lead to higher volumes for some of our clients and therefore higher revenues for the Group.

Furthermore, the Digital Television Solutions business may be subject to abnormal seasonality due to bulk orders of smart cards from large customers (e.g. for swap outs) which can also substantially impact annual revenues.

PUBLIC ACCESS:

SkiData has strong seasonal revenue variations in particular in the ski access business as it earns most of its revenues in the fourth quarter.

MIDDLEWARE & ADVERTISING:

In the Middleware business, Christmas set-top-box sales are usually higher, resulting in higher revenues in the last quarter and in the first quarter of the following year due to the time lag of royalty reports. There is no seasonality in the Advertising business.

4. BUSINESS COMBINATIONS

On April 12, 2011, Kudelski SA purchased 100% of EnMedia Software Technologies Pvt Ltd, India, for a consideration of kCHF 366. EnMedia Software Technologies Pvt Ltd provides software services, consultation, end to end system design, development and delivery of embedded software to customers. No goodwill arose from this acquisition.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 (UNAUDITED)

The assets and liabilities arising from this business combination are as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	16	50
Intangible fixed assets (Goodwill excl.)	–	322
Trade accounts receivable	73	73
Other current assets	27	27
Cash and cash equivalents	69	69
Trade accounts payable	-27	-27
Other current liabilities	-148	-148
Deferred tax liabilities		
Net assets	**10**	**366**
Non controlling interests purchased	–	–
Fair value of net assets acquired		**366**
Purchase consideration:		
– cash paid		366
Fair value of net assets acquired		-366
Goodwill		**–**
Purchase consideration in cash:		
– cash paid		366
Cash and cash equivalents acquired		-69
Net cash outflow from acquisitions		**297**

CONTRIBUTION AND PRO FORMA DATA INCLUDING BUSINESS COMBINATIONS FOR THE PERIOD ENDED JUNE 30, 2011

The acquired business contributed to Group net income kCHF -347 for the period from acquisition date to June 30, 2011.
If the acquisition had occurred on January 1, the consolidated revenues and net income would have been approximately kCHF 392 258 and kCHF -11 525 respectively.

DIVESTMENTS

On June 16, 2011, the Group disposed of its 50% stake of the joint venture Nagra Thomson Licensing for kCHF 536.

5. SHARE-BASED PAYMENTS

EMPLOYEE SHARE PLAN

As of June 30, 2011, 2600 bearer shares were underwritten by employees according to the articles of the Employee Share Plan. The attributable expense in the income statement is kCHF 12 for the bearer shares.

OTHER SHARE-BASED PAYMENTS

In 2010, following OpenTV Corp acquisition, 16'752 bearer shares were granted to employees as retention with restrictions lapsing one-third on each of June 30, 2011, June 30, 2012 and June 30, 2013. These shares have been purchased on the stock market for an average consideration of CHF 29.20 per bearer share. The share-based compensation amounts to kCHF 489 and is allocated against the income statement over the vesting period. On June 30, 2011, kCHF 163 of these shares vested and were transferred to the benefiting employees.

6. TREASURY SHARES

In March 2010, the Group sold 20 155 treasury shares on the stock market for a total consideration of kCHF 605. The book value for these shares was kCHF 380. The profit resulting from the sale of this transaction has been recognized in the equity.
The Group purchased in May 2010 on the stock market 16 752 bearer shares allocated to a retention plan for a consideration of kCHF 489 (see note 5).

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 (UNAUDITED)

7. BONDS ISSUANCE 2011/2016

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016 with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounts to kCHF 110 312 less issuance costs of kCHF 1 786 totaling a net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%.

8. ACQUISITION OF NON CONTROLLING INTERESTS

In the first half 2010, the Group acquired non controlling interests of OpenTV Group for a cash consideration of kCHF 31 320. On April 5, 2011, the Group reissued and amended its 2010 financial statements to modify the classification of such transactions in the cash flow statement (reclassification of the cash flows related to the acquisition of non controlling interests from investing to financing activities). Hence, prior year cash flow statement figures have been restated to reflect such change.

9. PAID DIVIDEND

On April 12, 2011, the Group paid a dividend of CHF 0.30 per bearer share and CHF 0.03 per registered share. The dividend amounts to kCHF 16 011.

10. SIGNIFICANT EVENTS AND TRANSACTIONS

During the first half 2011, the Group invested 49.9% in a newly created company that acquired the building hosting the OpenTV Inc headquarters in San Fransisco for a total consideration of CHF 33.5 million. To acquire the building, the newly created company contracted a mortgage of CHF 18.1 million. The remaining 50.1% are held by a related party. As the Group has control over the main decisions, this company is consolidated as a subsidiary.

11. EVENTS SUBSEQUENT TO BALANCE SHEET DATE AND DISPOSAL GROUP

The assets and liabilities of the joint-venture polyright SA, Sion (hereafter “polyright” and part of the Public Access segment) have been presented as held for sale following the decision to dispose of this operation. polyright assets and liabilities are a disposal group. polyright is not a discontinued operation at June 30, 2011 as it does not represent a major line of business.

On July 18, 2011, the Group signed a share purchase agreement to dispose of polyright. Assets and liabilities of the disposal Group are disclosed at carrying amount, as the sale price is higher than the carrying amount.

In CHF’000	30.06.2011
Assets classified as held for sale:	
– Tangible fixed assets	61
– Intangible assets	48
– Financial assets	26
– Trade and other receivables	412
– Inventories	304
– Cash and cash equivalents	129
– Other current assets	42
Total assets of the disposal group	**1 022**
Liabilities classified as held for sale:	
– Trade and other payables	361
– Long-term financial debts	350
– Other current liabilities	566
Total liabilities of the disposal group	**1 278**
Total net assets of the disposal group	**-255**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2011 (UNAUDITED)

12. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2011	31.12.2010	30.06.2011	30.06.2010
1 USD	0.845	0.935	0.905	1.084
1 EUR	1.220	1.250	1.269	1.435

13. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker.

Group operating segments represent strategic business units that offer different products and services for which internal reporting is provided to the chief operating decision maker. The chief operating decision maker reviews internal reports in order to allocate resources to the segment and to assess its performance.

The Group is organized operationally on a worldwide basis in 3 operating segments:

- Digital Television Solutions
- Public Access
- Middleware & advertising

These operating segments, which are reflected in internal management reporting, can be described as follows:

The Digital TV division provides open conditional access solutions allowing digital TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and important events as well as multifunctional cards for universities and corporations.

The Middleware & Advertising division provides middleware software, applications, including advanced advertising and interactive services as well as professional services for digital and interactive television.

Income and expenses relating to Corporate include the costs of Group Headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions".

The measure of income statement presented to manage Segment performance is the segment operating income/(loss). Segment operating income/(loss) is based on the same accounting policies as consolidated operating income/loss except that intersegment sales are eliminated only at the consolidation level.

Reportable segment assets include Total assets allocated by segment with the exclusion of Intersegment balances which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance sheet assets.

	Operating divisions	
	Digital Television Solutions	
In CHF'000	January/June 2011	January/June 2010
Total segment Revenues	**258 822**	**350 301**
Inter-segment revenues	-1 252	-611
Revenues from external customers	**257 570**	**349 690**
Operating income - excluding corporate common functions	**14 593**	**74 385**
Corporate common functions		
Interest expense and other Finance income/(expense), net		
Share of result of associates		
Income before tax		
	30.06.2011	31.12.2010
Total segment Assets	**718 768**	**733 402**

In CHF'000	30.06.2011	31.12.2010
Total Segment Assets	1 036 989	1 069 204
Cash & Cash equivalents	98 670	30 981
Other current assets	140	602
Financial assets and other non-current assets	4 568	4 568
Total Assets as per Balance Sheet	**1 140 367**	**1 105 355**

Public Access		Middleware & Advertising		Total	
January/June 2011	January/June 2010	January/June 2011	January/June 2010	January/June 2011	January/June 2010
78 686	**85 730**	**65 405**	**70 335**	**402 913**	**506 366**
-95	-35	-9 361	-3 770	-10 708	-4 416
78 591	**85 695**	**56 044**	**66 565**	**392 205**	**501 950**
-6 669	**-9 750**	**-676**	**-5 973**	**7 248**	**58 662**
				-10 336	-11 144
				-7 122	-14 114
				177	4 100
				-10 033	**37 504**
30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
132 031	**155 422**	**186 190**	**180 380**	**1 036 989**	**1 069 204**

AGENDA 2012

Release of 2011 financial results	23 February 2012
Annual general meeting	15 May 2012

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