

2010 ANNUAL RESULTS

MANAGEMENT DISCUSSION & ANALYSIS

In a difficult environment characterized by plummeting exchange rates against the CHF, with the EUR average rate down 8.6% and year-end rate down 15.8%, the USD average rate down 4.2% and the year-end rate down 9.2%, Kudelski managed to deliver a robust operating result, with an operating income before depreciation and amortization of CHF 173.0 million, representing a best ever mark for the Group and a strong operating cash flow at CHF 149.1 million.

Group total revenues and other operating income rose by 7.6% in local currency, driven by strong organic growth in the Digital TV division, posting a sales growth of 6.8% in local currency, and by a one-off positive contribution from government grants. These effects contrast with weaker growth rates in the Middleware and Advertising and Public Access segments, posting constant currency growth of 0.5% and 2.1% respectively.

SOLID 2010 GROUP PROFITABILITY

Reported total revenues and other operating income for the year rose by CHF 8.5 million to reach CHF 1'069.3 million. The "Margin after cost of material" (a pro-forma non-IFRS item) rose by CHF 69.9 million to CHF 809.1 million. Relative to total revenues, this translates to a 6% increase to 75.7%, reflecting a second half margin materially higher than in previous years. The Group's ability to defend prices in a difficult environment and the beneficial impact of supply chain improvements were instrumental in allowing the Group to expand its gross margin in spite of the challenging macroeconomic environment. Further, 2010 margins benefit from CHF 29.8 million of R&D government grants including a one-off entitlement accrued from work performed in previous years and fulfilling Group revenue recognition criteria in 2010.

Personnel expenses rose by CHF 28.4 million from 2009, representing a 7.6% growth. This increase took place mainly in the first half, when personnel expenses rose by CHF 20.5 million. Following the full acquisition of OpenTV, the Group has significantly strengthened its middleware operations through new hires and transfers from the DigitalTV segment resulting in an increase of close to 150 Full Time Equivalents of the Middleware and Advertising headcount. In 2010, total Group headcount expanded by 3.9% to 3'068 employees.

Other operating expenses rose by CHF 6.3 million from 2009, representing a 2.8% increase. Incremental costs were generated in the first half, when other operating expenses rose by CHF 6.6 million. The main driver of this increase relates to legal and consultancy costs increased by 5.7 million compared to 2009 including a new CHF 7.5 million litigation provision for legal fees and litigations related to a suit filed by Echostar et al (including Nagrastar) against NDS.

The Group operating income before depreciation and amortization amounts to CHF 173.0 million, representing a CHF 35.2 million improvement from the previous year. Depreciation, amortization and impairments were at CHF 63.0 million. This resulted in a CHF 110.0 million operating income for the full year, compared to CHF 73.3 million in 2009, an increase of 50%.

At constant currencies, operating margins for 2010 were CHF 22 million higher at CHF 132 million. Adjusted operating income, net of the aforementioned one-off other operating income

and litigation provision amounts to CHF 116 million, representing a 58.3% increase from 2009.

Interest expenses of CHF 16.7 million include, in addition to the charges related to the outstanding convertible bond, the interest charges for the loans - now fully refunded - aimed at financing the full acquisition of OpenTV. The CHF 16.7 million net finance expenses are mainly driven by a CHF 17.5 million net foreign exchange transaction loss, while the share of results of associates includes a CHF 3.1 million gain related to the sale of our 28% stake in Ticketcorner. Overall, the Group generated CHF 66.7 million net income for the full year, an improvement of CHF 15.6 million from the previous year.

DIGITAL TV BUSINESS DRIVEN BY STRONG FIRST HALF

A very strong first half with a constant currency growth of over 20% drove Digital TV full year results. For the full year, reported revenues were substantially stable, translating to a 6.8% revenue lift in constant currency.

Following the sustained double digit growth of the last reporting periods, European Digital TV sales in constant currency experienced a slow down with a 6.4% rise for the full year. First half reported growth was at 20.8% while second half sales were lower than in the first half year. The steep decline of the Euro in the second half significantly affected reported sales. Moreover, seasonality patterns reversed compared to previous years, as several customers delivered an exceptionally strong first half.

In the first half, the Group posted material revenues from the swap out of the Virgin Media installed base of smart cards. The Group Italian business delivered a particularly strong performance in the first half, benefitting from the continued growth of Mediaset Premium cards as well as sustained sales of SmarDTV Common Interface modules. In the second half, these sales materially slowed down compared to the first half. The Spanish digital terrestrial business, a material contributor to 2009 sales as retail distribution channels were filled to support the launch of the new digital terrestrial operations, generated materially lower volumes in 2010. Finally, a mixed picture characterized the Eastern European landscape, with some operators suffering from a tougher economic environment in the second half, resulting in a slower subscriber acquisition.

Digital TV revenue in the Americas rose 12.1% in local currencies, with the Brazilian market representing the strongest growth driver. At a consolidated level, the Group's Brazilian revenues more than doubled to reach CHF 72.7 million, with close to 90% of these sales generated in Digital TV.

Finally, Asian Digital TV sales were substantially stable year-on-year as well as in both half-years, with the core conditional access business posting solid growth rates and Abilis' CMOS RF Modulators product line with a shrinking second half top line, following a strong first half.

Digital TV operating income for the year climbed from CHF 67.5 million to CHF 129.5 million, representing a 91.8% increase and an operating margin of 18.9%.

Overall, Digital TV profitability was ahead of target, as the core conditional access continued to deliver a strong performance and segment results benefitted from the improved profitability of new business areas. In particular, year-on-year profitability of SmarDTV's Common Interface business developed favorably. Other operating income materially contributed to segment profitability. Finally, Quative's mission was recast to extend the existing Service Delivery Platform business into the middleware space: hence, Quative results are now included in the Middleware and Advertising segment.

On the other hand, the aforementioned European slowdown resulted in a shrinking volume of cards delivered in the second half as compared to the first half. The contraction of the Italian and Spanish terrestrial markets affected second-half profits from the Group's digital terrestrial operations and from the Common Interface business. Further, the Group's semiconductor business was down from the first to the second half and mobile TV equally consolidated its top line contribution following a successful first half.

SUBDUED PUBLIC ACCESS GROWTH AND PROFITABILITY

In a difficult environment, Public Access delivered a 2.1% revenue growth in constant currency. European revenues declined by 0.8% in constant currency, with Italy and Germany as the main underperforming markets. Public Access, on the other hand, continued to extend its extra-European business, in particular with a 37.9% constant currency growth in the Americas. Following a strong 2009, driven in particular by the access business from the World Cup in South Africa, Asia Pacific and Africa consolidated 2010 sales decreased by 9.2%.

A lower gross margin and a continued growth of the operating cost base resulted in a Public Access Operating Income decline of CHF 8.0 million to CHF 8.8 million.

MIDDLEWARE AND ADVERTISING TURNAROUND

With the full acquisition of OpenTV completed at the beginning of 2010, the Group launched a turnaround plan, with a reconfiguration of the product roadmap representing the key milestone of the program. This program resulted in a ramp-up of R&D investments aimed at accelerating the deployment of the next generation Group middleware solution. With a material headcount increase, this ramp-up mainly took place in the first half year, resulting in an operating loss of CHF 6.0 million for the first half. Further, the recognition of one-off government grants supported segment profitability. In the second half of 2010, the operating loss was reduced to CHF 0.4 million, while the development of the next generation solutions continued to progress as planned.

Against this backdrop, the substantial top line stability, with a 0.5% year-on-year growth in constant currency represented a satisfactory result. Similarly to Digital TV, American revenues developed particularly well driven, in particular, by the strong performance of Brazilian operators.

BALANCE SHEET AND CASH FLOW

Total non-current assets decreased by CHF 36.4 million to CHF 506.8 million. The item mainly driving such decrease was Financial assets and other non-current assets declining from CHF 97.0 million to CHF 72.5 million, as the Group sold most marketable securities and continued to amortize deferred contract costs for assets provided to Digital TV customers in a service model.

Total current assets decreased by CHF 116.4 million to CHF 598.6 million. Inventories were substantially stable, posting a CHF 3.4 million increase to CHF 85.7 million, mainly due the segmentation of customized chip platforms for conditional access customers. Trade accounts receivable continued to improve, with a reduction of CHF 46.6 million to CHF 245.5 million. Past due Trade accounts receivable improved by CHF 31.1 million to reach CHF 82.2 million.

Other current assets declined by CHF 26.6 million, with the reduction driven, among other factors, by the repayment of an outstanding loan to the former associate Ticketcorner early in the year. The sale of Ticketcorner and the loan repayment resulted in a total cash-in of over CHF 30 million. The sale of most outstanding marketable securities reduced Short-term financial assets by CHF 35.6 million to CHF 2.1 million. Cash and cash equivalents at the end of 2010 were at CHF 199.0 million.

Total equity decreased by CHF 5.0 million, reflecting, among others, the effect of the squeeze out of OpenTV minority interests booked against equity. Total liabilities decreased by CHF 147.8 million as the Group paid back most of the loans taken up for the acquisition of OpenTV.

In 2010, the Group generated a strong cash flow from operating activities of CHF 149.1 million, representing an increase of CHF 13.9 million compared to 2009. The Group used CHF 41.0 million of cash for investing activities, consisting of a net CHF 62.8 million inflow from the divestment of financial assets, including the repayment of the aforementioned Ticketcorner loan, a CHF 32.0 million net outflow for acquisitions (mainly related to the squeeze out of OpenTV minority interests) and net capital expenditures of CHF 71.8 million. Finally, a CHF 108.7 million cash flow was used for financing activities, mainly consisting of the reimbursement of bank loans and of a CHF 16.0 million dividend payment.

OUTLOOK

Currency headwind is likely to continue affecting Group total revenues and operating income. Average USD and EUR exchange rates in for the first 7 weeks of 2011 lost a further 7% to 9% compared to average 2010 rates.

If the current exchange rate environment persists for the remainder of the year, the Group would report declining total revenues in 2011. Operating profits would also be further affected by a two-digit million amount.

To contain the negative macroeconomic developments, the Group has launched a set of profitability improvement initiatives in each segment.

In the Digital TV segment, the Group is strengthening its focus on emerging markets. To this end, it set up a sales unit specifically targeting these markets with customized offers. Further, the Group is systematically replacing external development and engineering resources in high cost locations with its own resources in lower cost locations. To this end, it set up a new engineering unit in India, already staffed with 35 employees. This unit will serve both the Digital TV and the Middleware and Advertising segments. The Group expects to start reaping economic benefits from these initiatives in 2012.

In Middleware and Advertising, the Group started restructuring its roadmap as it acquired full control of OpenTV in early 2010. As originally planned, the initial outcome of this effort is expected in 2012. Furthermore, the Group announced that it will organize its advertising operations in a joint entity with Korean satellite operator SkyLife. This entity will develop a groundbreaking advanced advertising platform and initially deploy this solution in the Korean market.

Finally, the Group launched a targeted cost reduction program in the Public Access segment. This program is aimed at reducing operating expenses effective this year.