



## 2012 RESULTS

### Management Discussion & Analysis

In spite of a CHF 29.8 million decrease in revenue and a CHF 6.5 million reduction of other operating income, in 2012 the Group delivered operating income of CHF 35.7 million, an increase of CHF 10.3 million from the previous year, and net income of CHF 16.1 million, reversing the CHF 17.7 million loss in 2011.

The successful completion of the restructuring program initiated in 2011 was the main driver of the turnaround in profitability. The restructuring program enabled the Group to achieve total savings of CHF 86.8 million, of which CHF 71.0 million were delivered in 2012. Restructuring charges of CHF 32.0 million were booked under employee benefits expenses and other operating expenses. Net of such restructuring charges, the Group achieved a better than expected operating income of CHF 67.7 million, as compared to CHF 35.3 million in 2011.

Net currency effects in 2012 had a positive impact on revenues and operating income, yet the absolute impact was materially lower than in previous years, as the average USD rate increased from 0.886 to 0.938, while the average EUR rate declined from 1.233 to 1.205.

#### GROUP REVENUES AND PROFITABILITY

Total annual revenues and other operating income declined from CHF 896.6 million to CHF 860.3 million, as revenue was down by CHF 29.8 million and other operating income by CHF 6.5 million compared to 2011.

Reported revenues declined by 3.4%, while constant currency revenues were 5.0% lower than in the previous year. The revenue reduction was partly driven by the 2011 divestments of the audio business, Polyright, EmbediCs, Medioh, and Nagra Thomson Licensing. The lower other operating income reflects a reduction of innovation subsidies to the Group's French operations ("Crédit d'Impôt Recherche").

The "Margin after cost of material" (a pro-forma, non-IFRS item) decreased by CHF 40.3 million to CHF 615.9 million. Relative to total revenues, margin after cost of material remained at a high level, with the reversion to the historical revenue mix and the lower other operating income driving a 1.6% reduction to 71.6%.

Personnel expenses decreased by CHF 7.5 million in 2012. Group headcount at the end of the year stood at 2'931 full time equivalents compared to 2'999 at the end of 2011. Between the end of 2010 and the end of 2012, headcount declined by 137, as the Group significantly rebalanced the geographic mix of its operations. Over this 24-month time period, the Group reduced Swiss-based headcount by 175 and US-based headcount by 66 units, while India-based headcount increased

by 130. In the second half of 2012, however, the Group raised its headcount by 30, due to targeted hiring by SKIDATA and for the Group's new Cyber Security and IP Licensing business lines.

In 2012, the Group achieved savings of CHF 41.4 million in other operating expenses, as compared to 2011. This 22% spending reduction follows the CHF 44.9 million reduction of other operating expenses in 2011. Over this two-year period, the Group achieved total savings of CHF 86.3 million in other operating expenses, representing 37% of the Group's 2010 spending base. Development and engineering expenses represent the main driver of this cost savings, with reductions of CHF 23.1 million in 2012, as compared to 2011, and CHF 31.0 million over the 2010-2012 period. The systematic replacement of expensive external resources with new lower cost internal resources was the key enabler of these cost savings. Legal and consultancy represented an additional area of cost reduction, with such costs declining by CHF 5.1 million compared to 2011 and by CHF 22.0 million over the 2010-2012 period.

The Group posted an operating income before depreciation and amortization of CHF 99.5 million in 2012, an increase of CHF 8.5 million from 2011. Depreciation, amortization and impairment decreased by CHF 1.8 million to CHF 63.8 million, resulting in operating income of CHF 35.7 million in 2012.

Net of the CHF 32.0 million in restructuring costs, the Group's operating income for 2012 was CHF 67.7 million, representing a CHF 32.4 million improvement from 2011.

2012 interest expense was CHF 15.7 million, which was CHF 0.8 million lower than the previous year, reflecting in particular a reduction in expense related to the convertible bonds which matured in October 2012. Further, interest expense included full year charges for the 5-year straight bond issued in 2011 and charges related to a new syndicated credit facility.

The positive net other finance income was primarily driven by CHF 2.1 million in interest income, while foreign exchange-related items had a minor impact in 2012.

The CHF 7.1 million income tax expense recorded in 2012 primarily relates to income taxes paid by the Group's Nagra France and SKIDATA subsidiaries.

Overall, the Group generated CHF 16.1 million of net income in 2012, reversing the CHF 17.7 million loss from the previous year.

## **INTEGRATED DIGITAL TV**

As a result of the restructuring measures announced on October 31, 2011, the Group merged the former Digital TV and Middleware & Advertising activities into an Integrated Digital TV unit (hereafter "iDTV"). Accordingly, these formerly separated segments are now reported as a single segment.

iDTV revenues on a constant currency basis declined by 5.7% in 2012, as compared with the prior year. For the full year 2012, the segment reported revenues of CHF 641.3 million, down by CHF 21.3 million from 2011.

The market downturn and weak consumer sentiment continued to affect European sales, which was CHF 268.2 million in 2012, down CHF 41.8 million from the previous year. In constant currency, this represents a 13.8% decline. Southern European markets experienced a noticeable downturn, with aggregate revenues from France, Italy, Spain and Portugal declining by CHF 34.4 million. This was partially offset by the continued growth of German satellite households, which increased by 3% year-on-year to 18.1 million at the end of 2012, and SES's switch-off of analog satellite broadcasting in April 2012.

Revenues from the Group's Americas region grew by 6.5% in 2012, or 1.6% in constant currency, reaching CHF 246.8 million, which was driven by a further year of strong demand for digital TV solutions in South America. Brazil continued to fuel growth, even on the back of the strong growth experienced in 2011. As previously announced, in 2011 a significant number of smartcards delivered in the last Dish/Echostar replacement cycle that are now inactive have reached the minimum period for which such cards have to pay a service fee, negatively impacting the year-on-year Dish-related revenue growth.

The Asia/Pacific and Africa region posted a 4.6% revenue growth or 1.1% in constant currency. Regional revenues in the first half of 2012 were CHF 53.8 million, while second half revenues increased to CHF 72.5 million. The Indian market delivered a particularly strong first half, while Africa was one of the key drivers fueling growth in the second half of the year. Compared to the previous year, Japan and Hong Kong posted a lower revenue base, the latter driven by a declining top line from Abilis, the Group's semi-conductor business unit, which was sold in December 2012.

Operating income for the iDTV segment recovered in 2012, improving by CHF 12.7 million to CHF 43.8 million. While the one-time restructuring costs of CHF 32 million in 2012 reduced the positive impact on operating income reported for the segment in 2012, the reduction of employee benefits and other operating expenses from the restructuring program represents the main driver of the segment's profitability improvement. Furthermore, the segment's depreciation, amortization and impairment was CHF 3.4 million lower than in the previous year.

## **PUBLIC ACCESS**

Public Access revenues declined by 4.1%, or 3.0% in constant currency, reaching CHF 202.7 million for the full year. The Group disposed of its 50% stake in Polyright SA on July 18, 2011: On an adjusted basis that removes the impact of Polyright, segment revenues in 2012 were close to the previous year.

In Europe, constant currency revenues declined by 1.7% reaching CHF 161.2 million. Southern European markets also suffered in the Public Access sector, with total revenues from France, Italy, Spain and Portugal declining by CHF 3.2 million from the previous year. Revenues from Switzerland declined by CHF 3.6 million due primarily to the disposal of Polyright. Among the positive highlights, SKIDATA's new subsidiary in Russia was awarded important new deals in that region, including parking systems for the Bolshoi theater in Moscow and the first parking installation in Kazan.

In the Americas, revenues recovered in the second half of 2012 resulting in a 2.7% growth of reported revenues for the full year. SKIDATA continues to equip major North American stadiums

and to grow its market share in the parking business. Furthermore, the factory acceptance test for a large US parking project was successfully passed, thus allowing for the recognition of related revenues. In Latin America, SKIDATA won the first stadium projects for the 2014 FIFA World Cup and entered new markets such as Peru, Colombia and Venezuela. While no material revenues were generated out of these markets in 2012, they are expected to start contributing to SKIDATA top line revenues beginning in 2013.

Sales in Asia/Pacific and Africa declined from CHF 15.1 million to CHF 11.8 million in 2012, primarily driven by the completion of some significant projects in 2011. In 2012, SKIDATA opened an office in South Africa and won its first projects in the Sub Saharan region and in Mauritius.

Public Access operating income in 2012 was CHF 3.3 million lower than in the previous year, mainly driven by the slowdown of the European ski business. In addition to the lower top line revenue, a CHF 1.7 million increase of depreciation, amortization and impairment due to the impairment of selected assets drove the reduction in operating income.

## **BALANCE SHEET AND CASH FLOW**

Total non-current assets in 2012 decreased by CHF 51.0 million to CHF 479.1 million. The CHF 11.6 million decrease of tangible fixed assets consists of a CHF 2.8 million net book value increase of land and buildings and a CHF 14.4 million decrease of equipment and machines. The increase in land and buildings is mainly due to a CHF 9.7 million investment in a new building hosting SmarDTV operations in France. The full depreciation over the 2011-2012 time period of assets made available to clients and generating recurring service revenues, including in particular smart cards and equipment, contributed to the decrease of equipment and machines.

Intangible fixed assets decreased by CHF 26.5 million, primarily driven by a CHF 16.5 million lower technology asset item and a CHF 6.6 million lower software asset item. This reduction reflects a lower level of capital expenses, the full amortization and impairment of selected items and the sale of Abilis in December 2012. The new CHF 1.6 million investment property position is due to a change in use of a building formerly used by a Group entity and now rented out to third parties. The CHF 14.4 million reduction of financial assets and other non-current assets is primarily driven by a CHF 13.4 million reduction of long-term deferred contract costs, including the ongoing release of deferred costs related to a capitalized asset linked to the Echostar contract. Similarly, short-term deferred contract cost (an item within other current assets) declined by CHF 6.8 million to CHF 11.6 million.

Total current assets decreased by CHF 217.3 million to CHF 432.1 million, as the Group's cash position was reduced due to the repayment of the CHF 350 million convertible bond: overall, cash and cash equivalents decreased by CHF 179.5 million to CHF 110.1 million at the end of 2012. In addition, a larger volume of Digital TV chips in stock led to a CHF 5.5 million increase in inventory to CHF 68.6 million. Compared to the end of June 2012, however, the Group reduced inventories by CHF 6.1 million. Trade accounts receivables continued to improve in 2012, with a CHF 31.8 million decrease to CHF 196.4 million, as compared to the end of 2011, and with past due amounts of more than one month declining by a further CHF 6.2 million to CHF 39.1 million at year end.

Total equity increased marginally by CHF 0.6 million to CHF 437.8 million, reflecting the CHF 16.1 million of net income, the CHF 5.4 million dividend paid to shareholders and the CHF 7.1 million paid to non-controlling interests in 2012.

Total non-current liabilities increased by CHF 64.0 million in 2012 due to an increase in long-term financial debt to CHF 194.7 million. In 2012, the Group secured a CHF 145 million syndicated credit facility aimed at financing the repayment of the outstanding convertible bond and drew down CHF 100 million of this facility, of which CHF 70 million were booked as long-term financial debt and CHF 30 million as short-term financial debt. The Group reduced total current liabilities by CHF 332.9 million to CHF 237.0 million, mainly through a CHF 309.3 million reduction of short-term debt to CHF 74.1 million. The declining short-term debt balance was driven by the repayment of the CHF 350 million convertible bond. In addition, the Group reduced trade accounts payable by CHF 14.1 million to CHF 40.1 million, with the iDTV units, NagraVision and Nagra France, contributing CHF 11.6 million of this decrease, reflecting the material savings in other operating expense items such as development and engineering expenses. Provisions for other liabilities and charges were CHF 7.2 million lower, mainly reflecting the use of CHF 7.6 million for the settlement of a litigation.

In 2012, the Group generated cash flows from operating activities of CHF 110.5 million, representing an increase of CHF 23.8 million from the previous year. The Group used CHF 27.7 million of cash for investing activities. This included purchases of tangible and intangible assets for an aggregate amount of CHF 38.2 million and a cash inflow of CHF 7.4 million in connection with the sale of the Group's Abilis subsidiary. Cash used for financing activities amounted to CHF 261.3 million. This includes the impact of the CHF 350 million cash outflow for the repayment of the convertible bond, which matured in October 2012, the CHF 100 million cash inflow from a new syndicated credit facility, the CHF 5.4 million Kudelski SA dividend and the CHF 7.1 million dividend paid to non-controlling interests. The effect of foreign exchange rate changes on cash and cash equivalents was negligible in 2012.

## **OUTLOOK**

In spite of the deconsolidation of Abilis, a subsidiary disposed of on December 13, 2012, the Group targets growing top line revenues from its iDTV segment. Growth initiatives, including new Digital TV solutions, NagraID Security's display cards and to a lesser extent the new Cyber Security and IP licensing business lines, are forecasted to drive the segment's top line growth. In the core Digital TV market, weak fundamentals in Europe will continue to affect volumes. In 2013, iDTV's profitability will fully benefit from the effects of the restructuring program, as all restructuring costs have been booked in 2011 and 2012. Moreover, the Group expects a further positive operating income impact from a reduction of the segment's depreciation and amortization compared to previous years.

In the Public Access segment, the Group expects growth to recover to historical levels as well as a positive development of profitability.