

Press Release

SOLID FIRST HALF 2010

STRONG GROWTH AND IMPROVED PROFITABILITY

- + 17% Revenue growth in constant currency
- Operating margin of 20.5% in Digital TV
- 133 million active smart cards / module - 63.5 million in service mode
- Ongoing flow of new contracts and competitive wins
- First end-to-end Digital TV solution contract win in US cable
- Strong acceleration of the Middleware & Advertising roadmaps
- Confirmation of full year guidance

Key figures half-year 2010

(in CHF '000)	January/June 2010	January/June 2009	Variation %
Revenues	501'950	447'608	12.1%
Other operating Income	15'156	6'372	137.9%
Total	517'106	453'980	13.9%
OIBDA	77'649	35'584	118.2%
Operating income	47'518	8'456	461.9%
Net Income	31'999	483	6525.1%

Cheseaux, Switzerland – August 24, 2010 - The Kudelski Group (SIX:KUD.VX), the world's leading provider of media content protection and value-added service technology, announced today its 2010 half year results. First half 2010 Group results benefit from a solid performance in a fundamentally robust digital TV market. In this first half, the Group delivered a robust two digit growth, in spite of the weakening EUR and USD exchange rates. Profitability materially increased, mainly driven by the Digital TV segment with an operating margin of over 20%, reaping the harvest from the migration of large customers to the service model. Cash generation remained strong with an operating cash flow of CHF 57.6 million in the first half, translating in an operating cash flow of CHF 194.8 million over the last 12 months.

First half net revenues rose by 12.2% to reach CHF 502 million. At constant exchange rate, the Group achieved a 16.9% revenue growth rate. In constant currency, each region in all three segments delivered higher revenues.

With an operating income of CHF 47.5 million, the Group restored a solid profitability. The pay-off from the transition to the service model lifted Digital TV's profitability, driving up the Group's operating income.

Strong Group Operating Margin

Total revenues and other operating income for the first half year rose by 13.9% to reach CHF 517.1 million. The "Margin after cost of material" (a pro-forma non-IFRS item) is CHF 69.2 million higher to reach CHF 393.2 million. Relative to total revenues, this translates in a 4.6% increase to 76%.

Personnel expenses rose by CHF 20.5 million from the first half 2009, representing an 11.1% increase to reach CHF 205.7 million. In this first half, the Group significantly strengthened its middleware operations, through a reassignment of former Digital TV resources and a targeted hiring effort at OpenTV, resulting in the addition of over 100 Full Time Equivalents to the middleware headcount.

The Group consolidated operating income before depreciation and amortization amounts to CHF 77.6 million, more than doubling compared to the first half of last year. In this first half, the Group reached an operating income of CHF 47.5 million, representing a CHF 39.1 million increase.

First half net income rises to CHF 32 million compared with CHF 0.5 million in the first half of last year.

Over 20% Constant Currency Growth in Digital TV

The sustained growth of the Digital TV market and the Group's ability to expand its market share in the core conditional access business together with an improved contribution from new business areas have resulted in a strong set of results for the Digital TV segment.

Beyond the core conditional access market, Digital TV segment results benefit from the improved momentum of our other businesses. SmarDTV's Conditional Access Modules business was among the positive highlights of this first half delivering a solid double-digit growth and a positive operating margin. Equally solid growth rates supported mobile TV's top line, with China as the main driver of growth. Abilis semiconductor business started to take off generating a double-digit million top line and a positive contribution margin in the period under review. 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.

In line with a seasonality pattern less pronounced than in previous years, the Digital TV segment increased sales by 16.1% to CHF 349.7 million, corresponding to a 21.4% growth in constant currency.

Once again, the European Digital TV business was a strong driver of growth with revenues soaring by 20.8%, corresponding to a 29.9% growth in constant currency, to reach CHF 202.9 million. The Group Italian business, once again, performed particularly well, benefitting both from the continued growth of Mediaset Premium cards as well as the further increase of SmarDTV Common Interface module sales. With the August 2010 launch of the "Premium CAM HD", the first and only device that can be used to access pay TV in HD without a decoder, the Group expects to sustain this momentum into the second half year.

Digital TV's American business maintained a positive momentum, with a growth of 5.6%, corresponding to a 6% growth in constant currency, in spite of lower Dish / Echostar-related revenues, as last year we recognized the delivery fees related to swap cards. Latin American operators more than made up this revenue decline, driven in particular by the continued extension of the customer base. In this first half year, the Group delivered more than 100'000 cards to 10 different American customers.

Asian Digital TV sales accelerated in the first half, with an increase of 19.5%, corresponding to a 20.2% growth in constant currency, to reach CHF 52.1 million. Early this year, SkyLife has started to deploy our conditional access. Further, SMD sales in the Chinese mobile market developed well in the first half, with the number of units delivered more than doubling total 2009 volumes. Finally, the Abilis CMOS RF Modulators product line materially contributed to the Group first half's Asian sales growth.

Nagravision's technologies are currently being used by more than 120 leading Pay-TV operators worldwide, securing content delivered to over 133 million active smart cards and devices.

Digital TV With Over 20% Operating Margin

Overall, Digital TV operating income rose from CHF 20.9 million to CHF 74.4 million in the period under review, representing an operating margin 20.5%. Higher sales, a favorable revenue mix and the positive economic impact from the migration of large customers to the service model drove the profitability improvement. Further factors sustaining first half profitability include a high other operating income and cost control measures resulting in a limited headcount increase and substantially stable other operating expenses. All these factors more than compensated the negative impact of the weaker EUR and USD exchange rates.

Public Access Growing, With Lower Margins

The lingering effects of the market downturn continue to affect Public Access target market. In spite of the challenging market environment, Public Access revenues rose by 5.9%, corresponding to a 8.9% growth in constant currency, to reach CHF 85.7 million. European sales rose by 4% in constant currency, while the Americas and Asia/Pacific and Africa strongly recovered with a constant currency growth rate of 25% respectively 37.7%. Overall, extra-European sales represent 22.6% of total Public Access sales for the period. On the other hand, Public Access gross margins declined in this first half. While Public Access managed to further extend its market share in this challenging environment, this gain came at the cost of a lower margin. Hence, first half operating loss widened by CHF 2.3 million to reach CHF 9.7 million.

Middleware And Advertising Turnaround Ahead of Plan

Additional R&D investments aimed at accelerating the deployment of the Group next generation middleware solutions affected the results of the Middleware and Advertising segment. The ramp-up of such R&D investments is ahead of plan, resulting in a cost base higher than originally planned, but also in a faster than originally planned availability of an upgraded product portfolio.

In addition to a strong sales pipeline, these measures allowed for the effective protection of our middleware and advertising revenue base, increasing by 6% in constant currency compared to the first half of last year. Europe was particularly strong, delivering a constant currency growth of 13.5%, but the Americas and Asia/Pacific and Africa also delivered a higher top line with a constant currency growth of 2.5% resp. 1.7%.

Due to the aforementioned R&D cost increase, operating margins decreased by CHF 11.4 million resulting in an operating loss of CHF 6 million.

Significant new contract wins

In the first half of 2010 and driven by innovation and market leading solutions, the Kudelski's Group DTV division continued to grow its worldwide footprint in established and emerging markets through new agreements and contract extensions.

The new contract wins include:

- **The first breakthrough in the US cable with the win of Cable One with an end-to-end digital TV solution**
- **Winning market share against competition with Sky Life (Korea), Ono (Spain) and HOT (Israel)**
- **Addressing new market opportunities**

a) Contract wins

- Nagravision signed an agreement with Cable One, Inc., one of the top cable service providers in the United States, to enable the roll out of the operator's new digital television service. This agreement marks the first all digital roll-out of its kind and the entry into the US cable market of a Nagravision end-to-end solution. Cable ONE serves approximately 720,000 customers in 19 states with cable television, telephone and high-speed Internet services.
- Nagravision's latest conditional access solution was selected to secure ONO's next generation TV platform leading to the replacement of ONO's incumbent competing conditional access system with the new, state-of-the-art, and feature-rich Nagravision solution which is expected to secure all of ONO's next generation services. The offer will also combine ONO's Pay-TV service with access to Internet-based content enabling ONO viewers to benefit from a wider array of content choices.
- In Israel, Nagravision extended its partnership with HOT to include an advanced cross-platform solution designed to provide a compelling user experience powered by OpenTV middleware and offering advanced security capabilities through the NAGRA Media PRM. This new agreement will allow HOT to provide secure and high-quality programming to its subscribers while enriching its offering of advanced services. These services will include an advanced HD experience based on OpenTV Core nX, and allow for a single user interface across multiple devices. HOT's new offering will also provide advanced PVR functionality, home networking and video streaming, content discovery through search, recommendation and social networking, as well as disk security and set-top box refurbishment capabilities. A total of 1.3 million households in Israel subscribe to HOT's multiplatform services.
- Following the win of CNS, Nagravision further strengthens its leadership in the Taiwanese market with the win of DishHD. Nagravision provides its most advanced Conditional Access System to secure this new satellite TV service launched last month. DishHD offers the widest variety of high definition video channels in Taiwan and delivers more than 30 HD channels from Asia and around the world.

- CTBC, a Brazilian telecom company, selected Nagravision's latest conditional access and has started securing its new satellite service since June 2010 as part of its triple play offering to its 1.4 million subscribers. This agreement further reinforces Nagravision's presence in Brazil, adding to the existing customers including Embratel, TVA, Oi and NET Serviços.

b) Client updates

- Liberty Global announced plans to work with Nagravision in the development of a Multimedia Home Gateway project to build a new device for its digital TV customers. This multimedia home gateway will be an all-IP platform capable of distributing video, voice and data content through the home and to multiple video displays. Nagravision will also provide the new NAGRA Media Access conditional access and security solution.
- In Korea, SkyLife, the country's sole DTH pay TV service provider, selected Nagravision's conditional access system to secure their new HD platform, one of the largest and most advanced satellite platforms in Asia. Nagravision has now started supporting the fast-paced migration from standard definition (SD) to high definition (HD) and cooperating with Korean companies to jointly develop local solutions to support SkyLife's current and future business. This agreement has now been further extended to include 3DTV solutions.
- Polish operator Cyfrowy Polsat announced the extension of their long-term agreement with Nagravision. Through this new agreement, Nagravision reinforces its long-term commitment to Cyfrowy Polsat and its confidence in the on-going growth of digital pay TV in Poland. Cyfrowy Polsat will benefit from the most innovative security solutions available on the market through a customized solution roadmap.
- Beijing Gehua CATV Network Co. Ltd (BGCTV), the sole cable operator in Beijing and surrounding area, with more than 3.5 million subscribers, signed a new agreement extending a long-standing relation to introduce Nagravision's latest generation conditional access technology, Nagra Media PRM content protection and a new Push VOD on-demand solution.
- Numericable, France's leading cable operator serving more than three million subscribers will integrate the latest release of OpenTV middleware onto its platform. Numericable which already benefits from a comprehensive Nagravision's end-to-end solution has further selected Nagravision for the cable operator's roll-out of widget applications. Further, both parties have agreed to partner on a joint 3DTV program to be launched in Q4.
- Taiwan Broadband Communications (TBC), one of the leading multi-system cable operators in Taiwan with more than 750,000 subscribers and a Nagravision customer since 2008, has signed a new contract for the launch of its turnkey Push VOD project. Nagravision is the system integrator and will deploy Nagra Media PRM, content management and video servers solutions within the operator's systems.

Outlook

As the Digital TV segment delivered a particularly strong first half result, seasonality is expected to be softer than in previous years. Furthermore, the current USD and EUR exchange rates suggest that second half foreign exchange effects are likely to negatively impact both sales and profitability.

Middleware and advertising is in the midst of a fundamental restructuring process, aimed at restoring a sustainable growth momentum. The restructuring measures initiated with the full acquisition of OpenTV are expected to sustain our middleware top line growth starting in 2012. In

the short-term, we expect our middleware division to continue to deliver a substantially stable top line and a margin in line with the first half's.

Public Access will experience the customary seasonality with a stronger second half, both in terms of top line and profitability. The EUR weakness, however, will impact the top line, with total yearly sales expected to be roughly in line with previous year's and with a slight decline of operating margins.

The original full 2010 guidance is confirmed with total revenues expected to reach between CHF 1'100 and 1'140 million and with an operating income between CHF 105 and 120 million.

Note

The 2010 half year Financial Report PDF is available on: <http://www.nagra.com/cms/Investors-doc-center.html>

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Note to the editor

About the Kudelski Group

The Kudelski Group (SIX: KUD.VX) is a world leader in digital security and convergent media solutions for the delivery of digital and interactive content. Its technologies are used in a wide range of services and applications requiring access control and rights management to secure the revenue of content owners and service providers for digital television and interactive applications across broadcast, broadband and mobile delivery networks. The Kudelski Group is also a world technology leader in the area of access control and management of people or vehicles to sites and events. It additionally offers professional recorders and high-end hi-fi products. The Kudelski Group is headquartered in Cheseaux-sur-Lausanne, Switzerland. For more information, please visit www.nagra.com

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