

2009 ANNUAL RESULTS

MANAGEMENT DISCUSSION & ANALYSIS

SOLID 2009 RESULTS

Following the completion of the transition of selected large accounts to the service model in the first half 2009, the Kudelski Group delivered strong second half results, both in terms of top line and profitability. This robust second half resulted in a growing top line for the full year and a material improvement in profitability compared to the previous year.

Total revenues including other operating income rose by 2.3% to reach CHF 1'060.8 million in 2009, in spite of the negative impact of the weakening EUR. At constant exchange rates, the Group achieved a 4.7% top line growth. While the established North American and European markets were remarkably resilient in spite of the challenging economic environment, emerging markets, including Asia, Latin America and Africa generated a solid growth across all Group segments.

Profitability recovered in the second half, resulting in an operating margin before depreciation and amortization of CHF 137.8 million and an operating income of CHF 73.3 million for the full year. In the second half 2009, the Group delivered a best ever operating margin before depreciation and amortization of CHF 102.2 million, reaping the economic benefit of large service card volumes and of a careful cost control resulting in a net decrease of operating expenses compared to the previous year.

Solid 2009 Group results

2009 net Group revenues rose by 2.4% to CHF 1'052.3 million. At constant exchange rates, this translates into a 4.7% growth rate.

The "Margin after cost of material" (a pro forma non-IFRS item) grew by CHF 42.8 million to CHF 739.3 million. Relative to total revenues, this translates into a 2.5% percentage points increase from 2008 to 69.7% in 2009. The accounting treatment of the EchoStar card replacement, whereby the Group fully expenses the cost of cards upon delivery affected both 2008 and – to a lesser extent – 2009 margin. Net of such effect, the margin after cost of material exceeded 70% both in 2008 and 2009.

Personnel expenses rose by CHF 14.7 million from 2008, representing a 4.1% increase, to reach CHF 373.8 million. Average costs per headcount declined in 2009 as a result of the accelerated build up of the Group Chinese operations. At the end of 2009, the Group's headcount in China was at 257 units.

Compared to the previous year, other operating expenses declined by CHF 17.5 million. CHF 28 million one-off costs for card replacements at three operators were included in the 2008 accounts. Net of such one-off costs, the Group other operating expenses rose by CHF 10.5 million, mainly driven by higher R&D costs. Total R&D costs for the year grew by CHF 15.2 million to reach CHF 236.7 million, representing 22.5% of revenues.

The Group consolidated operating income before depreciation and amortization amounts to CHF 137.8 million, representing a CHF 45.7 million increase from the previous year. Depreciation,

amortization and impairments were CHF 9.1 million lower than in 2008, mainly due to a CHF 6.8 million reduction of impairments. This resulted in a CHF 73.3 million operating income for the full year, compared to CHF 18.5 million in 2008.

Interest expenses of CHF 14.4 million include interest costs for the outstanding convertible bond. CHF 9.4 million income tax expenses reflect the Group's optimized tax structure. Overall, the Group generated a CHF 51.1 million net income for the full year, improving by CHF 58.1 million compared to the previous year's CHF 7 million loss.

Sustained positive momentum for Digital TV

2008 results were affected by the delivery of 25 million replacement cards to customers moving to the service model. In the first half 2009, the Group delivered further 6 million such cards, completing the transition to the service model. The base effect of the 2008 transition, including in particular the recognition of the smartcard delivery fees and of their full costs upon card delivery resulted in a material improvement of Digital TV segment profitability and in a lower reported growth in 2009.

Digital TV segment revenues for the full year rose by 3.6%, or 5.9% at constant currency rates, to reach CHF 685 million. Digital TV sales in the second half were particularly strong growing by 27.3% compared to the first half. The aforementioned base effect from the EchoStar revenue recognition affects the comparability of the 2008 and 2009 Digital TV revenue lines. As an indicator of the Digital TV segment structural growth, the compounded growth rate between 2007 and 2009 was 9.3%, respectively 15.8% at constant exchange rates.

The European Digital TV business was highly resilient in 2009, generating CHF 375 million revenues, an increase of 2.8% from 2008 at constant rates. This follows a strong 2008 in which revenues grew by 24.8% in local currency. Europe performed remarkably well in the second half, with a 23.2% revenue increase compared to the first half. Among the key contributors to European results, digital terrestrial operators played once again a striking role. In addition to the continued development of Mediaset, the newly launched Abertis platform in Spain generated the largest revenue increase of all Digital TV customers.

Digital TV's American business maintained its momentum in 2009, with the ongoing extension of the base of customers generating material business for the Group. In addition to the longstanding North American satellite operators Dish Network and Bell, the Group Digital TV customer base includes an increasing number of growing Latin American operators such as Embratel, Net, OiTV, Telefonica and TV Azteca materially contributing to the Digital TV segment top line.

The quality of North American revenues improved year-on-year as well as in the second half 2009 compared to the first half, due to the EchoStar sales mix moving from low-margin card delivery fees from swap cards to higher margin service fees.

Finally, Asian Digital TV sales accelerated in the second half with an increase of over 50% compared to the first half, resulting in 10.6% year-on-year growth. The recent decision of SkyLife, one of the leading Asian satellite operators, to replace its legacy conditional access with a Kudelski Group solution further underlines Digital TV's successful expansion in Asia.

Digital TV operating income for the year rose from CHF 7.3 million in 2008 to CHF 67.5 million in 2009, following the completion of the transition to the service model in the first half 2009.

Strong fundamental Digital TV market drivers

Fundamentals in the Digital TV industry remain robust amid expectations for continued growth due to the ongoing digitization of transmission networks. Both in industrialized countries and in emerging markets, the Group continues to see a sustained extension of digital networks. In industrialized countries, cable network upgrades, analog switch-off of terrestrial broadcasting networks but also the emergence of hybrid, multi-network solutions and mass digital offerings on satellite continue to materially expand the Group's addressable market. In emerging markets, the launch of new operators and the broadening share of the population with enough purchasing power to afford paid broadcasting content are setting the stage for a growth momentum that is likely to sustain the Group's growth for several years.

Moreover, the Group continues to benefit from a healthy pipeline of innovation with selected product lines, such as in particular common interface modules and mobile TV content protection solutions already materially contributing to the 2009 top line and others, such as Abilis semiconductor business, NagraID one-time password display cards and Nagravision widget creation and publishing platform expected to materially contribute to the segment top line starting this year (2010).

Resilience of Public Access

Adverse factors related to the lingering effects of the market downturn have affected Public Access target market. In such challenging environment, Public Access has shown a strong resilience, managing to maintain and even slightly increase its constant currency top line. The 2.2% revenue increase at constant exchange rate was driven by highly resilient European sales, up 3.6% in constant currency and Asia Pacific and African sales generating a 0.9% constant currency increase. This region benefitted from a strong second half 2009, with revenues three times higher than in the first half, with the World Cup in South Africa among the factors contributing to this growth.

Public Access posted an operating income of CHF 16.8 million in 2009, representing an operating margin of 7.1%. Efficiency gains through operating improvements and careful cost containment initiatives enabled Public Access to maintain a robust profitability in a difficult market environment.

Stability of Middleware and Advertising

The Middleware and Advertising segment mainly consists of OpenTV. OpenTV managed to deliver a growing top line thanks to a strong aggregate performance of the Asia/Pacific and Africa regions. Overall aggregate revenues for these two regions amounted to CHF 50.4 million in 2009, rising by 20.6% in local currency compared to the previous year. Due to their continued top performance, these two regions now represent the top revenue contributor for this segment. The performance of the Asia/Pacific and Africa regions more than offset declining American and European revenues.

Middleware and Advertising operating income rose by CHF 0.3 million to reach CHF 10.5 million in 2009.

Completing the full OpenTV acquisition

On November 27, 2009, Kudelski announced the closing of its tender offer to acquire the OpenTV shares not already owned. With the acquisition of the tendered shares, Kudelski increased its interest stake to 88.5% and its stake of voting rights to 96.1%. On February 24, 2010, OpenTV announced that it is redeeming all of its outstanding shares not yet owned by Kudelski. As a result,

Kudelski expects to be able to complete a squeeze out of the remaining minority interests in March 2010 and subsequently delist OpenTV.

The full acquisition of OpenTV will facilitate the alignment of the middleware roadmaps with the overall Group technology roadmap, resulting in more compelling solutions for customers. Following the completion of the transaction, Kudelski will drive a much closer integration of the Nagravision and OpenTV organizations and roadmaps. Nevertheless, Kudelski will maintain its modular approach allowing customers to implement selected components of its portfolio in conjunction with best-of-breed third-party products or to roll-out the full Group solution suite. Kudelski expects to increase R&D investments in the middleware domain to accelerate the upgrade of OpenTV product portfolio.

Balance Sheet and Cash Flow

Financial assets and other non-current assets rose by CHF 33.8 million in the 2009 balance sheet compared to 2008. Upon signing of a new 10-year agreement in December 2009, the Group awarded a monetary consideration to EchoStar and netted out such consideration against receivables. As a result, the deferred contract cost balance sheet item rose by CHF 50.3 million. Moreover, financial assets and other non-current assets include a cash equivalent of CHF 10.2 million invested in fixed income instruments.

As no material expenditures for the replacement of smart cards in service mode took place in 2009, tangible fixed assets decreased by CHF 19.7 million from the end of 2008.

The Group reduced inventories by CHF 15.1 million, as inventories at the end of 2008 included EchoStar swap out cards delivered in early 2009. Further, the Group decreased account receivable by CHF 61.9 million and reduced the aggregate overdue amount by CHF 98.5 million compared to 2008.

Other current assets rose by CHF 31.8 million, mainly due to the transfer of a CHF 26.5 million loan to Ticketcorner from long-term to current assets. The Group expects that this loan will be reimbursed in the first quarter 2010, as Kudelski sold its 28% stake in the company in February 2010.

Cash and cash equivalents decreased by CHF 37.7 million in 2009 to reach CHF 210.1 million at the end of the year. However, available for sale marketable securities rose by CHF 38.3 million over the same time period. Hence, the aggregate cash, cash equivalents and available for sale marketable securities increased by CHF 0.6 million over the year.

Total non-current liabilities rose by CHF 25.1 million and total current liabilities by CHF 35.7 million mainly due to bank loans for the financing of the OpenTV acquisition.

In 2009, the Group generated a strong cash flow from operating activities of CHF 135.2 million, representing an increase of CHF 142.6 million compared to 2008. The Group used CHF 224.2 million of cash for investing activities. This amount includes CHF 132.2 million of cash outflow for acquisitions (mainly OpenTV) and net investments in financial assets of CHF 41.5 million. Net of these two items, Group capital expenditures amounted to CHF 50.5 million.

Outlook – Strong 2010

In 2010, the Digital TV segment will fully benefit from the migration to the service model. The core digital TV business is expected to maintain the growth momentum of the last years. Moreover, top line contribution from new product lines will further support the Group growth. The profitability

improvement trend is expected to continue into 2010, with full year operating margin further improving compared to the second half 2009.

The late cycle nature of the Public Access business leads the Group to a conservative outlook for 2010. The Group targets a top line and an operating margin roughly in line with 2009.

Finally, OpenTV will be fully integrated in 2010. Integration costs together with additional R&D investments aimed at accelerating the deployment of next generation middleware solutions are likely to depress profitability. Nonetheless, the Group expects a positive 2010 operating margin from this segment.