

Press Release

## Kudelski Group 1<sup>st</sup> half 2008 – migration to service mode on track

- 1<sup>st</sup> half results in line with expectations
- Transition to the service mode impacts 1<sup>st</sup> half 2008 results
- 92.3 million active devices for Nagravision conditional access
- Digital TV with expanded global reach – new customer wins including China Satellite Broadcast Network
- Successful OpenTV turnaround
- Strong Public Access segment confirms long-term upwards trend
- Full year outlook confirmed

### Key figures in CHF '000, 1<sup>st</sup> half

	January/June 2008 unaudited	January/June 2007 unaudited	Variation %
Revenues	418'386	416'631	+0.4%
Other operating income	5'820	6'007	-3.1%
<b>Total</b>	<b>424'206</b>	<b>422'638</b>	<b>+0.4%</b>
OIBDA	11'732	51'092	-77.0%
Operating Income / (loss)	-18'463	29'238	
Net Income / (loss)	-39'839	28'122	

**Cheseaux, August 29, 2008** – The Kudelski Group (SWX: KUD.VX), a global leader in digital security covering a wide range of applications requiring access control and rights management today announced marginally increasing sales and an operating loss for its first half year ended June 30, 2008. First half 2008 results were in line with expectations, as the transition to the service model is negatively impacting top line growth and profitability. At the end of June, the Group has delivered about 7 million swap cards in service mode. However, the first half year statements only include immaterial revenues for these swap cards.

Total revenues and other operating income came in at CHF 424.2 million, which is slightly up compared to the first half 2007. The compounded annual growth rate for the first half year results in the period 2004 to 2008 was 11.4%. The 15% decline of the USD exchange rate against the CHF compared to first half 2007 had a negative impact on sales, operating margin and net income. At a constant first half 2007 exchange rate, total sales have increased by CHF 45.5

million, corresponding to 10.8% growth. The negative CHF 43.7 million exchange rate impact reduced reported growth to CHF 1.8 million.

The shift in the revenue mix from higher margin Digital TV to lower margin Public Access sales and the impact of the USD weakness were only partially offset by the material cost reduction achieved through purchasing optimization initiatives. Personnel and other operating expenses increased by CHF 32.0 million in the first half 2008 to CHF 294.0 million. Most of this increase took place in the second half 2007. In the first half 2008, net of the additional personnel costs from newly acquired companies and of the one-off costs related to smart card swap-outs, total personnel and other operating costs compared to the second half of last year actually decreased by CHF 6.8 million.

This led to an operating loss of CHF 18.5 million and a net loss of CHF 39.8 million. The Group forecasts to deliver a profitable second half, while the bulk of the economic benefit from the migration of cards to the service model is expected to materialize starting in 2009.

The Digital TV segment generated CHF 268.6 million sales, translating in a 4.2% decrease compared to the first half 2007. At constant rates it however increased by 5.4%. In the first half 2008, Nagravision expanded its global reach with 92.3 million active devices for conditional access.

Sales at constant rates in Europe increased by 3.1%. New customers such as Portugal Telecom, as well as established customers such as Virgin Media and UPC were among the growth contributors. While sales from digital terrestrial operators and Eastern European customers more than doubled in 2007, in the first half 2008, they went through a consolidation phase.

The impact of the USD exchange rate decline was particularly strong in the Americas and in Asia. In the Americas, growth at constant rates was at 4.5%, hence sales reported in CHF were lower than in the first half 2007. First half EchoStar volumes decreased due to the upcoming swap out, while other American customers more than compensated this revenue decline, in particular with stronger smart card sales. Asia continued to develop particularly well growing by 13.9% at fixed rates, again with strong smart card sales.

Besides renewing its contract with Premiere in Germany, several additional contracts were signed in the first half of the year.

- Germany's largest cable based television provider, Kabel Deutschland (KDG), selected Nagravision's latest CAS version to protect the content rights and revenues for its forthcoming commercial deployments. The companies entered in a new long term agreement to support KDG's business model and the expected business growth. KDG will deploy a new generation of smart cards in autumn 2008.
- CANAL+ Group is adopting the newest version of Nagravision's CAS and has completed the replacement of smart cards for more than 3 million subscribers. Nagra+ has also collaborated with Canal+ Group for the commercial launch of LA CLE CANAL+, the world's first digital terrestrial pay-television device in high-definition integrated in a USB key that can be used anywhere, on personal computers. LA CLE CANAL+ allows subscribers to access CANAL+' premium offering as well as 18 DTT free-to-air channels and local channels. In particular, Nagra+ has developed the USB device as well as the

content protection solution, and was in charge of for the integration of the solution on PC.

- Net Serviços de Comunicação S.A., the largest cable company in Brazil expanded its Nagravision CAS to protect the pay TV services added by its acquisition of Vivax. Two new regional headends and 10 additional cities will bring the number of pay TV subscribers accessing content through Nagravision's CAS to over 2 million.
- Quative end-to-end interactive turnkey solutions were selected by B.NET Croatia for its broadband cable system. The integrated solution features the Quative Service Delivery Platform and Lysis Content Management System. As the end-to-end systems integrator, Quative is combining industry leading systems from Harmonic and Technotrend to create a comprehensive and seamless on-demand cable and IPTV solution.
- Dish Network is the first pay TV operator worldwide offering all standard and high definition programs in the MPEG4 market. The Dish signal secured by Nagravision technology is available to new customers in designated markets in the eastern half of the US, who sign up for a Dish HD package.
- Using the Nagravision CAS to protect its pay TV content and revenues and Lysis Traffic and scheduling system, StarHub Digital Cable of Singapore has launched its suite of true on-demand services called *Demand TV*. With *Video-On-Demand*, StarHub Digital Cable customers can make one-off purchases of content and view the selected content whenever and as many times as they wish, over a specific time period.

## **New businesses**

In this first half 2008, sales in new business areas were roughly in line with the first half 2007. Having more than doubled in 2007, Digital Terrestrial maintained the revenue base achieved last year. In the PCMCIA market, first half sales were under the revenue base of the first half 2007, yet the order book is significantly stronger. Both the IPTV and the mobile TV markets continued to generate new contracts however, still not translating into a material revenue base. Overall, net contribution from new business areas in the first half was still in the negative high single digit million range.

- China Satellite Mobile Broadcast Limited (CSM), a company held under Wireless Bureau of China's State Administration of Radio, Film, and TV (SARFT), selected Nagravision as the sole conditional access provider for a nationwide mass-market Mobile TV service. The services were launched in time for the Beijing 2008 Olympic Games, in major province capitals and in the six Olympic sites covered by the signal. The Mobile TV service is available on a range of devices including handsets, portable media players and computers.
- Building on Nagravision's leadership in Mobile TV over DVB-H, Nagravision is extending its Mobile TV footprint into the DVB-SH market by supporting two important trials: Eutelsat in Europe and ICO in the US. In Europe, Eutelsat, the leading satellite operator, will conduct a Mobile TV DVB-SH trial. They are preparing for a commercial service launch in 2009. In the US, ICO Global Communications Limited is developing an advanced hybrid system, combining satellite and terrestrial communications services to offer voice, data, and Internet services throughout the United States on portable devices.
- Alsumaria TV, the independent broadcaster Iraqi Satellite TV Network selected Nagravision's CAS for its DVB-H services. Alsumaria TV's Mobision is the first ever Middle East Mobile Pay TV DVB-H bouquet to be based on Nagravision's MicroSD

Cards with embedded security. The Nagravision cards allow Alsumaria TV to offer Mobile TV services to consumers with both connected and unconnected devices such as mobile handsets, media players and GPS systems.

- Continuing the strong momentum of TV manufacturers using SmarCAM Italia, SmarDTV announced that Samsung has completed DGTVi certification and will be offering SmarCAM Italia together with its TV sets in Italy. Samsung has also bundled a Mediaset smart card with the SmarCAM, thus providing consumers with superior ease-of-use and many hours of premium TV viewing.
- NagraID strengthens its offering in the financial services segment. Through its proprietary cold lamination process, NagraID is the only company worldwide capable of producing a fully ISO-compliant OTP Display Card. This technology primarily targets the financial services sector, in particular enabling credit cards and debit cards supporting advanced security functions for online banking and payment services. To gain full control of the value chain for the OTP Display Card, NagraID has set up a dedicated entity and has acquired the R&D and electronic and firmware design capabilities to design and produce in-house the next generation display cards. Before the end of 2008, the entity will bring to the market an advanced display card based on a RFID chip.

### **Successful OpenTV turnaround**

The turnaround initiated in the second half of last year resulted in a strong improvement of OpenTV's profitability. Compared to the first half 2007, Middleware and Advertising segment operating income contribution improved by CHF 10.0 million reaching CHF 7.3 million, corresponding to an operating income margin increase of 15.4%. OpenTV continued to build on its strength by expanding the business with existing customers as well as acquiring new customers and had more than 111 million enabled devices as of the end of the first half 2008. This footprint is spread across more than 50 customers around the world with a strong mix among satellite, cable, and terrestrial markets. In addition, OpenTV continues to equip customers with the solutions to address the growing market demands for advanced services, such as PVR, High Definition TV, Video on Demand, advanced user interfaces, and other emerging digital technologies.

### **Strong Public Access segment performance**

Public Access delivered a strong 16.6% growth. At constant rates, Public Access growth was at 24.4%, materially over the 10% target. European markets continued to develop favorably, in spite of the already strong leadership of SkiData in the Ski sector. The Car Access sector, in particular, delivered a substantial contribution to the 10.5% local currency growth of Public Access in Europe.

Sales in the Americas at constant rates increased substantially with a growth of 68.7% and in Asia more than doubled, continuing to shift the balance of Public Access beyond Europe. This development confirms the trend of the last four years: compared to the first half 2004, the Public Access extra-European revenue share increased from 7.8% to 24.5%.

Public Access experienced the usual seasonality patterns yet kept improving profitability with first half operating income before depreciation and amortization CHF 2.5 million and operating income CHF 1.6 million higher compared to the previous first half. This confirms a steady positive trend with segment operating income improved by 9.2 million compared to the first half 2004, more than 14 percent revenue points in spite of the deconsolidation of Ticketcorner.

## **Full year outlook confirmed**

A shift of close to 30 million smart cards to the service model was announced in the outlook for the full year 2008. With a resilient, secure solution, this model is expected to generate materially higher revenues per card, thus providing a favorable return on the company's ongoing investments in new security solutions. The replacement process is progressing according to plan for all involved customers including in particular Echostar and Bell ExpressVu. As expected, this migration will negatively impact the 2008 profit and loss account as the full revenues generated by the cards to be delivered this year will not be recognized.

Public Access is expected to follow the usual seasonality patterns, with a significantly stronger second half, both in terms of revenues and profits.

In the Middleware and Advertising segment, the second half of the year is expected to be somewhat weaker than the first half. In line with original expectations, full year segment results, however, are expected to be significantly stronger than last year's.

The Kudelski Group expects 2008 total revenues in the range of CHF 1'030 million to CHF 1'050 million and 2008 Operating Income in a range between CHF 5 million and CHF 10 million.

## **Note**

The 2008 Half Year Report PDF is available on <http://www.nagra.com>

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## **About the Kudelski Group**

The Kudelski Group (SWX: 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](http://www.nagra.com)

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