

Kudelski Group

Interim report 2008

Key figures (Unaudited)

In CHF'000	January/June 2008	January/June 2007
Revenues and other operating income	424 206	422 956
Gain/(loss) on sale of subsidiary	-	-318
Margin after cost of material	305 765	313 104
Margin after cost of material in % of revenues and other operating income	72.1%	74.0%
OIBDA ¹⁾	11 732	51 092
OIBDA in % of revenues and other operating income	2.8%	12.1%
Operating income	-18 463	29 238
Operating income in % of revenues and other operating income	-4.4%	6.9%
Net income	-39 839	28 122
Earnings per bearer share (in CHF)		
– Basic	-0.8793	0.5570
– Diluted	-0.8793	0.5561

¹⁾ OIBDA: operating income before interest, taxes, depreciation and amortization

In CHF'000	30.06.2008	31.12.2007
Equity	543 491	625 555
Cash and cash equivalents	249 832	278 140
Market capitalization ²⁾	659 510	1 169 414
Share price (in CHF)	12.59	22.42

²⁾ Bearer shares and registered shares are included in the calculation of the market capitalization.

Kudelski Group 1st half 2008 results

1st half results in line with expectations

Transition to the service mode impacts 1st 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

Message to shareholders

During the first half of 2008, total revenues and other operating income for the Group were slightly up compared to the first half 2007, despite the transition process underway in the digital TV segment and the strong dollar depreciation. Good results in the Public Access segment as well as a successful OpenTV turnaround have partially compensated for the development of the digital TV segment. At constant first half 2007 exchange rate however, Digital TV results would have grown by 5,4%.

Establishing the Kudelski Group as leading player in the digital TV business has been a consistent priority of the Board of Directors of Kudelski SA. More recently, we put particular focus on positioning the Group as a turn-key solutions provider and extending our leadership onto emerging platforms. We are well on our way in implementing this strategy: today, the Kudelski Group is the only technology supplier with proven scalable deployments in cable, satellite, terrestrial, IPTV and mobile. Our Group's breadth of supported devices, including not only set-top boxes but also CA modules, mobile phones and portable media players, is unparalleled; our network-agnostic deployments of modular solutions are recognized and valued by several operators as ground-breaking. In parallel with this structural transformation, the Group has decided to migrate a majority of its active smart card/module base from the sale to the service mode.

In adopting this strategy, the Board was well aware that there would be a price to pay for this transition in the short term – a strongly reduced operating result. The decision to migrate to service mode was based on the fundamental economic benefits of this mode and in particular on the fact that this model is expected to optimize the profitability of the digital TV business in the medium and long term.

As at mid-2008, the migration is proceeding well and the most complex phase of the process has been completed. The majority of the card replacement programs, including the transitions to service mode, are in the deployment phase, including operators such as EchoStar/Dish, Bell ExpressVu, Canal Satellite, Premiere and Sogecable.

While most of the migration of active cards is planned to take place during the second half of the year, development and installation objectives to date have been broadly achieved.

Another important development to be noted is the significant extension of the Group's footprint in Asia. In addition to the launch of Reliance's BIG TV satellite bouquet, Nagravision has won a contract as the conditional access provider for mobile TV in China, with gradual deployment in China's principal cities starting in the second half of 2008 – probably the most ambitious project ever in the mobile TV sector. Further, OpenTV has been chosen by Skylife, Japan's leading satellite television operator, for its middleware and interactivity solutions.

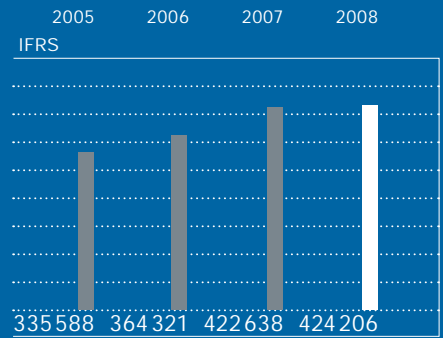
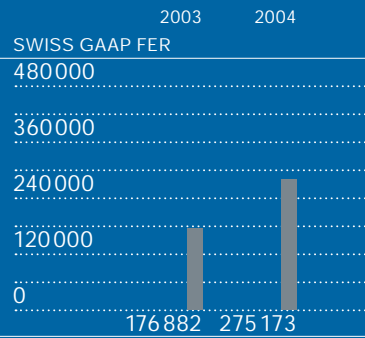
Profitability is expected to improve during the second half of the year, aided by the contribution of the Public Access segment which continues to grow with a seasonality pattern positively impacting second half results. The outlook for the full year remains unchanged with total revenues projected in the range CHF 1.030 – 1.050 billion and an operating income of CHF 5 – 10 million. The massive smart card migration to service mode will have a significant positive impact from 2009 on.

We would like to thank our teams for their sustained high level of commitment and our shareholders for the trust they have placed in our Group during this complex and promising transition phase.

André Kudelski

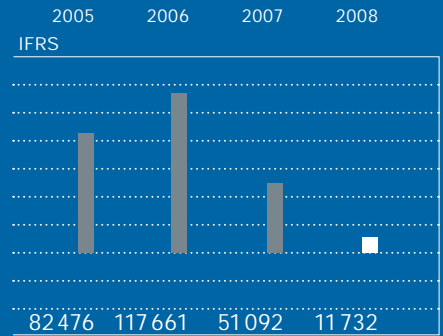
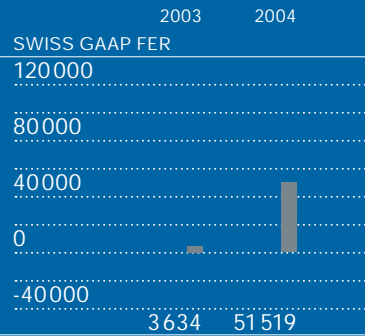
First half – in CHF '000

Revenues, other operating income and gain/(loss) on sale of subsidiary



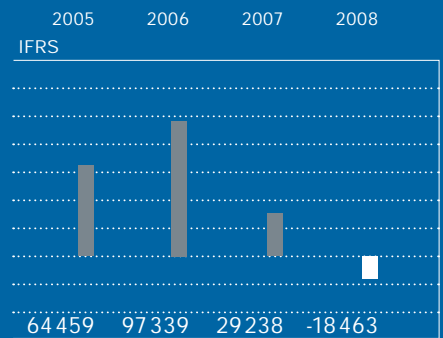
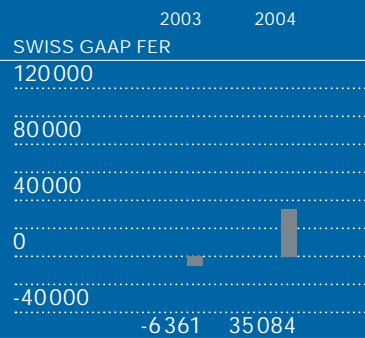
First half – in CHF '000

OIBDA



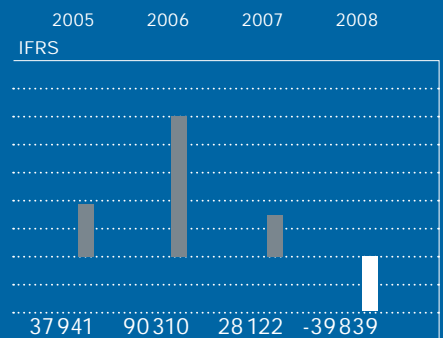
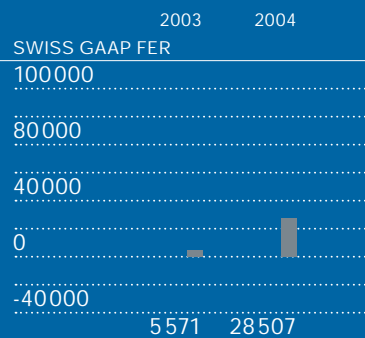
First half – in CHF '000

Operating income/(loss)



First half – in CHF '000

Net income/(loss)



First half 2008 – in million CHF

Revenue breakdown by sector and by region

	Europe	Americas	Asia/Pacific	Africa	2008
Digital TV	155.7	62.8	48.8	1.3	268.6
Public Access	64.3	12.2	8.7	0.0	85.2
Middleware/Advertising	24.1	21.4	14.0	5.1	64.6
Revenues					418.4
Revenues, other operating income and gain/(loss) on sale of subsidiary					424.2

Revenues by sector first half 2008

Digital TV
Public Access
Middleware/Advert.



Revenues by region

Europe
Americas
Asia/Pacific
Africa



Digital TV

Public Access

Middleware/Advertising



First half 2008 results

First half 2008 results are in line with expectations. Total revenues and other operating income for the Group came in at CHF 424.2 million, only slightly up compared to the first half 2007. The compounded annual growth rate for the first half year results 2004 to 2008 was 11.4%.

The 15% decline of the USD exchange rate against the CHF 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. The negative CHF 43.7 million exchange rate impact reduces reported growth to CHF 1.8 million.

The first half 2008 was consequently marked by an operating loss of CHF 18.5 million and a net loss of CHF 39.8 million.

At the end of June, the Group has delivered about 7 million swap cards in service mode. However, the first half statements only include immaterial revenues for these swap cards.

Operating loss influenced by the transition to the service model

The "Margin after cost of material", a pro forma non-IFRS item, is at CHF 305.8 million, which is 72.1% of total revenues, CHF 7.3 million lower than in the first half 2007. The unfavorable 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 expenses grew by CHF 13.6 million in the first half 2008 to CHF 176.9 million. This includes CHF 5.0 million from the newly acquired entities EmbedICs, EDSI, TESC, SkiBadge and Parking Access Control Technologies. Other operating expenses increased by CHF 18.4 million compared to the first half 2007 to CHF 117.2 million, including a CHF 10.7 million increase in the first half 2008 compared to the second half 2007. This includes one-off costs related to smart card swap outs for an amount of CHF 16.5 million. Net of these one-off costs, other operating expenses decreased by CHF 5.8 million compared to the second half 2007.

In the first half, the Group generated an operating loss of CHF 18.5 million. The Group incurred additional depreciation and amortization charges of CHF 8.3 million, including a CHF 2.5 million increase compared to the second half of last year due among others to the accelerated depreciation of selected software assets.

Interest expenses of CHF 6.8 million mainly consist of convertible bond charges, while FOREX losses due to the declining USD exchange rate are the main driver of the CHF 9.9 million net finance expenses.

Overall, this results in a net loss of CHF 39.8 million, including a CHF 46.0 million loss for equity holders and a CHF 6.2 million gain for minority interests. Basic and diluted EPS are at negative CHF 0.8793.

Stable Digital TV sales

The Digital TV segment generated CHF 268.6 million sales, translating in a 4.2% decrease compared to the first half 2007. Sales at constant rates increased by 5.4%. The Digital TV segment generated an operating loss of CHF 12.2 million.

Sales in Europe at constant rates 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 constant rates, again with strong smart card sales.

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 which, however, are 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.

Strong Public Access segment

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 continue 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 at constant rates.

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 keeps 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.

Successful OpenTV turnaround

The turnaround initiated in the second half of last year has resulted in a strong improvement of the consolidated OpenTV profitability. Compared to the first half 2007, Middleware and Advertising segment Operating Income contribution has improved by CHF 10.0 million reaching CHF 7.3 million, corresponding to an Operating Income margin increase of 15.4%.

Balance sheet and cash flow statement

The acquisitions of EmbedICs, EDSI, and a SkiData affiliate led to an increase of goodwill of CHF 28.7 million. On the other hand, OpenTV goodwill was reduced in line with the lower USD exchange rate.

The replacement of smart cards in service mode at various customers drove both the increase of CHF 8.9 million in tangible fixed assets and the CHF 13.4 million increase in financial assets and other non-current assets. This item includes deferred long-term contract costs for cards delivered in service mode where title is transferred to the customer.

Higher inventories were driven by an increase in the Public Access segment, where SkiData inventories were CHF 8.2 million higher compared to year end and now represent over 40% of consolidated inventories. Accounts receivables were CHF 4.2 million lower, with an increase in the Digital TV segment more than compensated by a material reduction at SkiData.

With CHF 15.6 million, cash flow from operating activities was only marginally down from the CHF 19.1 million in the first half of last year.

Cash flow for investing activities was at CHF 68.2 million, with investments for the roll-out of replacement cards in service mode and the acquisitions of EmbedICs, EDSI, TESC and two small SkiData affiliates representing the bulk of the investment.

Net cash flow from financing activities includes in particular additional bank debt for CHF 58.1 million within Public Access aimed at introducing some financial leverage at SkiData and a dividend payment of CHF 15.7 million.

Outlook

A shift of close to 30 million smart cards to the service model was announced in the outlook for the full year 2008. The replacement process is progressing according to plan. 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 Advertising and Middleware 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.

Kudelski Group
Consolidated income statements for the period ended June 30, 2008 and 2007 (Unaudited)

In CHF'000	January/June 2008	January/June 2007
Revenues	418 386	416 631
Other operating income	5 820	6 325
Gain/(loss) on sale of subsidiary	-	-318
	424 206	422 638
Cost of material	-118 441	-109 534
Employee benefits expense	-176 852	-163 245
Other operating expenses	-117 181	-98 767
Operating income before interest, taxes, depreciation, amortization and impairment	11 732	51 092
Depreciation, amortization and impairment	-30 195	-21 854
Operating income/(loss)	-18 463	29 238
Interest expense	-6 797	-6 197
Other finance income/(expense), net	-9 930	13 131
Share of results of associates	292	111
Income/(loss) before tax	-34 898	36 283
Income tax expense	-4 941	-8 161
Net income/(loss) for the period	-39 839	28 122
Attributable to:		
- Equity holders of the company	-46 034	28 993
- Minority interest	6 195	-871
	-39 839	28 122

In CHF	January/June 2008	January/June 2007
Earnings/(loss) per bearer share		
- basic	-0.8793	0.5570
- diluted	-0.8793	0.5561
Earnings/(loss) per registered share (not listed)		
- basic	-0.0879	0.0557
- diluted	-0.0879	0.0556

Kudelski Group
Consolidated balance sheets at June 30, 2008 and December 31, 2007 (Unaudited)

Assets

In CHF'000	30.06.2008	31.12.2007
Non-current assets		
Tangible fixed assets	186 542	177 596
Intangible assets	223 692	204 117
Investments in associates	9 818	10 700
Deferred income taxes	40 876	39 750
Financial assets and other non-current assets	51 830	38 474
Total non-current assets	512 758	470 637
Current assets		
Inventories	100 059	93 813
Trade accounts receivable	256 057	260 239
Other current assets	56 507	78 030
Financial assets (short term)	8 386	23 310
Cash and cash equivalents	249 832	278 140
Total current assets	670 841	733 532
Total assets	1 183 599	1 204 169

Equity and liabilities

In CHF'000	30.06.2008	31.12.2007
Capital and reserves		
Share capital	523 837	521 594
Reserves	-82 666	-1 201
Treasury shares	-380	-380
Equity attributable to equity holders of the parent	440 791	520 013
Minority interest	102 700	105 542
Total equity	543 491	625 555
Non-current liabilities		
Long-term financial debt	375 370	324 868
Deferred income tax liabilities	5 391	4 470
Employee benefits liabilities	21 176	20 050
Provisions for other liabilities and charges	8 441	9 363
Other long-term liabilities	2 688	1 560
Total non-current liabilities	413 066	360 311
Current liabilities		
Short-term financial debt	21 903	11 954
Trade accounts payable	65 874	70 993
Other current liabilities	97 816	95 005
Current income taxes	6 761	10 790
Advances received from clients	25 989	21 645
Derivative financial instruments	-	359
Provisions for other liabilities and charges	8 699	7 557
Total current liabilities	227 042	218 303
Total liabilities	640 108	578 614
Total equity and liabilities	1 183 599	1 204 169

Kudelski Group
Consolidated cash flow statements for the period ended June 30, 2008 and 2007
(Unaudited)

In CHF'000	January/June 2008	January/June 2007
Net income/(loss) for the period	-39 839	28 122
Adjustments for:		
Current and deferred income tax	4 941	8 161
Interest expense and other finance income/(expense), net	13 110	-9 189
Allocation of the equity conversion component and transaction costs of convertible bond	2 750	2 677
Depreciation, amortization and impairment	30 195	21 854
Change in fair value of financial assets at fair value through profit or loss	-483	-
Share of result of associates	-292	-111
Dividends received from associated companies	808	1 221
Non-cash employee benefits expenses	4 620	2 966
Net gain on sale of subsidiary	-	318
Other non cash income/expenses	-5 654	-81
	10 156	55 938
Change in inventories	-7 527	-48 619
Change in trade accounts receivable	-4 257	31 346
Change in trade accounts payable	-3 496	-23 234
Change in other net current working capital items	25 968	7 926
Interest paid	-1 164	-650
Interest received	4 093	6 417
Income tax paid	-8 209	-9 986
Cash flow from operating activities	15 564	19 138
Purchases of intangible fixed assets	-13 356	-14 290
Purchases of tangible fixed assets	-36 819	-19 662
Proceeds from sales of tangible and intangible fixed assets	1 547	-
Investment in financial assets	-3 826	-23 605
Divestment of financial fixed assets and loan reimbursement	16 907	41 351
Disposal of subsidiaries, cash inflow/outflow	-	667
Acquisition of subsidiaries, cash outflow	-32 628	-107 262
Cash flow used in investing activities	-68 175	-122 801
Change in bank overdrafts, long term loans and other non-current liabilities	58 063	971
Proceeds from employee share purchase program	301	15
Cash received from exercise of stock options	11	2 489
Increase of capital in a subsidiary by minority interest	1 258	-
Dividends paid to minority interest	-37	-85
Dividends paid to shareholders	-15 703	-31 250
Cash flow used in/from financing activities	43 893	-27 860
Effect of foreign exchange rate changes on cash and cash equivalents	-19 590	1 772
Net increase/(decrease) in cash and cash equivalents	-28 308	-129 751
Cash and cash equivalents at the beginning of the period	278 140	444 007
Cash and cash equivalents at the end of the period	249 832	314 256
Net increase/(decrease) in cash and cash equivalents	-28 308	-129 751

Kudelski Group
Consolidated statement of changes in equity (Unaudited)

In CHF'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Minority interest	Total equity
January 1, 2007	519 352	56 533	-119 688	33 470	-945	-380	26 926	515 268
Currency translation adjustment					-459		567	108
Net gain / (loss) on available-for-sale financial assets				7			17	24
Net income/(loss)			28 993				-871	28 122
Total recognized income & expense for the period	-	-	28 993	7	-459	-	-287	28 254
Employee share purchase program	6	17						23
Employee stock option plan			150					150
Exercise of stock options by employees	1 099	1 099						2 198
Shares issued for employees	877	1 845						2 722
Dividend paid to shareholders			-31 250					-31 250
Minority interest arising on business combinations							90 118	90 118
Impact of transactions with minority interests			-48				48	-
Impact of subsidiaries share based payments			793				2 203	2 996
Dividends paid to minority interests							-85	-85
June 30, 2007	521 334	59 494	-121 050	33 477	-1 404	-380	118 923	610 394
January 1, 2008	521 594	59 761	-86 975	33 478	-7 465	-380	105 542	625 555
Currency translation adjustment					-16 066		-10 305	-26 371
Net gain / (loss) on available-for-sale financial assets				-43			-92	-135
Net income/(loss)			-46 034				6 195	-39 839
Total recognized income & expense for the period	-	-	-46 034	-43	-16 066	-	-4 202	-66 345
Employee share purchase program	328	46						374
Employee stock option plan			48					48
Exercise of stock options by employees								-
Shares issued for employees	1 915	183						2 098
Dividend paid to shareholders			-15 703					-15 703
Minority interest arising on business combinations							1 258	1 258
Impact of transactions with minority interests			-4 356				-836	-5 192
Impact of subsidiaries share based payments			460				975	1 435
Dividends paid to minority interests							-37	-37
June 30, 2008	523 837	59 990	-152 560	33 435	-23 531	-380	102 700	543 491

Kudelski Group

Selected notes to the condensed interim consolidated financial statements for the period ended June 30, 2008 (Unaudited)

1. Basis of preparation

These condensed interim financial statements were prepared in accordance with International Accounting Standard (IAS 34), Interim Financial Reporting.

2. Summary of significant accounting policies

These condensed interim consolidated financial statements were prepared under the historical cost convention, except for items to be recorded at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2007.

3. Seasonality

Seasonality impacts the business segments as follows:

Digital Television Solutions:

In the Digital Television Solutions business, Christmas sales usually lead to higher volumes for some of our clients and therefore higher revenues for the Group.

Public Access:

SkiData has strong seasonal revenue variations in particular in the ski access business as it earns most of its revenues in the fourth quarter.

Middleware & Advertising

In the Middleware business, Christmas set-top-box sales are usually higher, resulting in higher revenues in the last quarter and in the first quarter of the following year due to the time lag of royalty reports. There is no seasonality in the Advertising business.

Furthermore, the Digital Television Solutions business may be subject to abnormal seasonality due to bulk orders of smart cards from large customers (e.g. for swap outs) which can also substantially impact annual revenues.

4. Business combinations

Digital Television Solutions:

On February 29, 2008, the Group purchased 100 % of SAS EDSI, France for a cash consideration of EUR 7.0 million (CHF 11.1 million). SAS EDSI is specialized in the development of high security software solutions for Digital TV, mobile phone and banking applications. The goodwill amounting to CHF 6.8 million is attributable to a specialized workforce to develop smartcard software solutions and to potential synergies in the development of smartcard-based software. The goodwill is allocated to the Digital Television Solutions cash generating unit.

On March 7, 2008, the Group closed an asset deal to acquire the assets of Embedics Inc., USA, active in embedded software and cryptography and providing hardware and software solutions to Digital TV operators, for a total consideration of USD 19.2 million (CHF 20.1 million), of which USD 17.0 million (CHF 17.8 million) were paid in cash. The Group created a new company Embedics LLC, USA to acquire the assets of Embedics Inc. The goodwill amounting to USD 19.1 million (CHF 20.0 million) is allocated to the Digital Television Solutions cash generating unit and is mainly attributable to the knowledge of employees to optimize system security and synergies enabling the Group to reduce its development costs.

Public Access:

On June 2, 2008, the Group purchased 100 % of Skibadge International, France for a cash consideration of EUR 1.1 million (CHF 1.7 million) and a contingent consideration of up to EUR 0.8 million depending upon 2008/2009 and 2009/2010 revenue and gross margin targets. Skibadge International is a provider of automated ski ticket vending equipment. The goodwill amounting to EUR 1.2 million (CHF 1.9 million) is allocated to the Public Access cash generating unit. It is attributable to the workforce and potential synergies.

Kudelski Group

Selected notes to the condensed interim consolidated financial statements for the period ended June 30, 2008 (Unaudited)

The aggregated assets and liabilities arising from the above business combinations are as follows:

In CHF'000	Acquirees carrying amount	Fair value of assets acquired
Tangible fixed assets	316	316
Intangible fixed assets (goodwill excl.)	3	964
Deferred income taxes		137
Inventories	153	153
Trade accounts receivable	1 681	1 681
Other current assets	163	163
Cash and cash equivalents	4 036	4 036
Trade accounts payable	-97	-97
Other current liabilities	-1 141	-873
Current income taxes	-483	-572
Advances received from clients		-
Deferred tax liabilities		-320
Long term liabilities	-227	-558
Net assets	4 404	5 030
Minority interest purchased		-
Fair value of net assets acquired		5 030
Purchase consideration:		
– cash paid		30 567
– contingent consideration		2 945
– acquisition costs		180
Fair value of net assets acquired		-5 030
Goodwill		28 662
Purchase consideration in cash:		
– cash paid		30 567
– acquisition costs		180
Cash and cash equivalents acquired		-4 036
Net cash outflow from business combinations		26 711

Furthermore, on January 31, 2008, the Group created a new company with its Spanish distribution partner Siatron, SkiData Iberica SL and holds a controlling interests of 51%. The remaining 49% are subject to a put option from 01.01.2009 to 31.12.2012 that entitles the partner to sell its interests to SkiData Iberica SL and a call option from 01.01.2013 to 31.12.2014 that entitles the Group to purchase the remaining interests. This newly created company is distributing SkiData parking systems. The transaction resulted in Minority Interests of kEUR 784 (kCHF 1 258).

Correction of previous purchase price

In August 31, 2007 the Group bought 51 % of Parking Access Control Technologies SA, Belgium. The remaining 49 % are subject to a forward contract agreement and will be bought in several stages until March 2010. For consolidation purposes, the acquisition of this company has been considered with a 100 % interest and a contingent consideration has been taken into consideration. In 2008, the Group paid a cash consideration of EUR 0.5 million (CHF 0.7 million) and as the company results exceed the plan set-up when calculating the initial contingent consideration, the contingent consideration has been adapted within one year of the acquisition to reflect new best management estimates of the amounts to be paid. Hence, an additional goodwill and contingent consideration amounting to CHF 0.8 million have been considered while establishing the interim 2008 financial statements.

Transactions with Minority Interests

The Kudelski Group acquired additional OpenTV Corp shares for a consideration of kCHF 1 049 on the NASDAQ stock exchange in the first half of 2008. The acquisition of the above shares is treated as a transaction with minority interests and was allocated to retained earnings for kCHF 419 and minority interests for kCHF 630. Share based payments, exercise of options and conversion rights at OpenTV Corp led to a dilution effect amounting to kCHF 172 recognized in equity.

On January 1, 2008, the Group purchased the remaining 25% interests of TESC, Test Solution Center GmbH, Germany for a cash consideration of kCHF 4 144. This acquisition of shares is treated as a transaction with minority interests and is allocated to retained earnings for kCHF 3 765 and minority interests for kCHF 379.

Kudelski Group

Selected notes to the condensed interim consolidated financial statements for the period ended June 30, 2008 (Unaudited)

Contribution and pro forma data including business combinations for the period ended June 30, 2008

The acquired businesses contributed a net income of kCHF -1 458 to the Group for the period from acquisition dates to June 30, 2008. If the acquisitions had occurred on January 1, 2008 the consolidated revenues and net income would have been approximately kCHF 419 562 and kCHF -40 858 respectively.

5. Issuances of equity securities

Shares issued for employees

As of June 30, 2008, 191 512 bearer shares of Kudelski SA were distributed to employees as part of their remuneration of which 130 562 shares include a seven year blocking period and 39 720 shares include a 3 year blocking period. The fair value recognized for this equity based compensation is kCHF 2 099 and was fully accrued in the prior year.

Employee share plan

As of June 30, 2008, 32 715 bearer shares were underwritten by employees according to the articles of the Employee Share Plan. The attributable expense in the income statement is kCHF 73 for the bearer shares.

Employee stock option plan

As of June 30, 2008, employees have exercised no options for bearer shares.

6. Paid dividend

On April 25, 2008, the Group paid a dividend of CHF 0.30 per bearer share and CHF 0.03 per registered share. The dividend amounts to kCHF 15 703.

7. Principal currency translation rate

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2008	31.12.2007	30.06.2008	30.06.2007
1 USD	1.020	1.130	1.050	1.228
1 EUR	1.605	1.655	1.606	1.632

Kudelski Group
 Selected notes to the condensed interim consolidated financial statements for the period
 ended June 30, 2008 (Unaudited)

8. Segment information

The primary segment information for the period ended June 30, 2008 and 2007 is as follows:

In CHF'000	Operating divisions			
	Digital Television Solutions		Public Access	
	January/June 2008	January/June 2007	January/June 2008	January/June 2007
Revenues				
External sales	268 644	280 540	85 148	73 039
Inter-segment sales	1 545	1 322	29	46
Total revenues	270 189	281 862	85 177	73 085
Income statement				
Operating income/(loss)	-12 215	47 945	-4 158	-5 739
Interest expense and other Finance income/(expense), net				
Share of result of associates	-	-155	249	266
Income/(loss) before tax				
Income tax expense				
Net income/(loss) for the period				

Expenses relating to Corporate include the costs of Group headquarters and the items of expenses which are not directly attributable to specific divisions.

Secondary segments

Sales are follows:

In CHF'000	Digital Television Solutions		Public Access		Middleware & Advertising		Total	
	January/June 2008	January/June 2007	January/June 2008	January/June 2007	January/June 2008	January/June 2007	January/June 2008	January/June 2007
	Europe	155 737	156 117	64 256	58 843	24 074	24 695	244 067
Americas	62 820	74 883	12 217	8 798	21 434	18 882	96 471	102 563
Asia & Pacific	48 773	48 923	8 654	5 163	14 023	16 868	71 450	70 954
Africa	1 314	617	21	235	5 063	2 607	6 398	3 459
	268 644	280 540	85 148	73 039	64 594	63 052	418 386	416 631

Kudelski Group

Selected notes to the condensed interim consolidated financial statements for the period ended June 30, 2008 (Unaudited)

<u>Middleware & Advertising</u>		<u>Corporate</u>		<u>Eliminations</u>		<u>Total</u>	
January/June 2008	January/June 2007	January/June 2008	January/June 2007	January/June 2008	January/June 2007	January/June 2008	January/June 2007
64 594	63 052					418 386	416 631
4 360				-5 934	-1 368	-	-
68 954	63 052	-	-	-5 934	-1 368	418 386	416 631
7 320	-2 632	-9 410	-10 336			-18 463	29 238
						-16 727	6 934
43	-	-	-			292	111
						-34 898	36 283
						-4 941	-8 161
						-39 839	28 122

Agenda 2009

Release of 2008 financial results 27 February 2009
Annual general meeting 28 April 2009

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Disclaimer

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