KUDELSKI GROUP INTERIM REPORT 2017

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2017 (UNAUDITED)

In USD'000	January/ June 2017	January/ June 2016
Revenues and other operating income	551 953	490 814
Margin after cost of material	347 913	342 785
Margin after cost of material in % of revenues and other operating income	63.00%	69.80%
Operating income	6 748	34 090
Operating income in % of revenues and other operating income	1.22%	6.95%
Net income for the period	**-5 728**	**21 448**
Earnings per bearer share for the period		
– basic	-0.1622	0.3197
– diluted	-0.1622	0.3197

In USD'000	30.06.2017	31.12.2016
Equity	485 927	491 618
Cash and cash equivalents	97 581	174 440
Market capitalization (in CHF'000)	813 432	875 804
Share price (in CHF)	16.35	17.65

FIRST HALF 2017 HIGHLIGHTS

- REVENUES AND OOI UP 12.7% TO USD 545.7 MILLION, OPERATING PROFIT DECREASED TO USD 6.7 MILLION

- +56% REVENUE GROWTH IN AMERICAS DRIVEN BY KUDELSKI SECURITY AND PUBLIC ACCESS, WHILE REVENUES FROM EUROPE DECLINED MAINLY DUE TO THE WEAK PERFORMANCE OF TRADITIONAL DIGITAL TV BUSINESS

- FURTHER WINS IN ADVANCED DIGITAL TV MARKETS AND EXTENDED PARTNERSHIPS WITH KEY OPERATORS, WITH FOCUS ON IPTV AND INTERNET TV

- FURTHER EXPANSION OF THE SOLUTION PORTFOLIO IN DIGITAL TV WITH END-TO-END CONTENT SECURITY AND THE ACQUISITION OF DVNOR FOR DIGITAL CONTENT DISTRIBUTION

- FURTHER DEVELOPMENT OF A SECURE INTERNET OF THINGS PLATFORM AND ESTABLISHMENT OF PARTNERSHIPS WITH LEADING PLAYERS IN THE IOT DOMAIN

- SUSTAINED PATENT LICENSING MOMENTUM WITH THE ADDITION OF NEW MAJOR LICENSEES, INCLUDING AT&T, TURNER, ADVANCE MAGAZINE PUBLISHERS, SCRIPPS NETWORKS, TWITTER AND ARRIS

- CONTINUED SIGNIFICANT INVESTMENT IN NEW ACTIVITIES, WHILE SIMPLIFYING THE STRUCTURE AND REDUCING COSTS IN THE DIGITAL TV BUSINESS

- CONFIRMATION OF FULL YEAR 2017 REVENUE GUIDANCE (USD 1.15 - 1.20 BILLION), WHILE LOWERING THE OPERATING INCOME GUIDANCE TO USD 45 - 65 MILLION

LETTER TO SHAREHOLDERS

First Half 2017
For the first half 2017, total revenues and other operating income increased by 12.5% to reach USD 552 million, with operating income of USD 6.7 million, which is USD 27.3 million lower as compared to the first half 2016. Net income for the period was USD -5.7 million compared to USD + 21.4 million for the first half 2016.

The performance of the Kudelski Group during the first half 2017 varied across its business lines:
- Kudelski Security's revenues continued to grow at a fast pace, driven by the Kudelski Security expansion on the U.S. market and positive momentum in Europe.
- Market demand for Internet of Things (IoT) security continues to increase. In response, the Group has steadily ramped up its investment in the development of a secure IoT platform and expanded its dedicated center of excellence.
- The Group's profitability for the first half 2017 was impacted by a decline in revenues from its traditional Digital TV business, particularly in Europe.
- Although the Group's Internet-based Digital TV business experienced positive momentum during the first half 2017, continued investment is required to further develop the business, and revenue levels do not fully compensate for the decline in revenues from the Group's traditional Digital TV markets.
- The Kudelski Intellectual Property and Innovation business continued to expand by closing several agreements in the first half 2017, including a multi-year cross-licensing agreement with AT&T.
- SKIDATA grew its revenues by more than 12% and continued to increase its footprint in the U.S. and globally.

Overall, the Group has significantly increased its market presence in the Americas. This region now represents more than 51% of the Integrated Digital TV segment (+60% growth in constant currency) and 36% of the Public Access segment (+46% growth in constant currency). The U.S. is for the first time home to the largest number of the Group's employees, followed by Switzerland.

The robust evolution of its business in the Americas demonstrates that the Group has the ability to offer solutions that address the needs of what is arguably the most competitive market in the world. At the same time, the Group is experiencing a decline in business in Europe, where the downside of the legacy Digital TV business remains real, and opportunities from new business lines are still at an early stage. We believe that the decision to invest strongly in the cybersecurity and IoT Security markets in the US is key to securing the Group's leadership position in these two sectors.

The transformation of the markets in which the Kudelski Group operates accelerated during the first half 2017. One of the major challenges of transformation is speed. The Group recognizes the need to accelerate the pace of its transformation by further investing in new high potential activities such as Kudelski Security, IoT and Internet TV in order to seize these new market opportunities. At the same time, the Group must actively review its cost structure at Group and unit levels.

In this respect, the Group must streamline its traditional Digital TV structure and cost base to be in a position to further fund the development of high potential activities, while maintaining the best in class quality of service that is expected by our clients. Historically, a key asset of the Kudelski Group has been the quality and the know-how of its employees. As the Group accelerates its business transformation, we will leverage these assets to develop new business lines and commercialize new products and technologies.

In terms of investment strategy, the Group remains focused on maximizing its R&D capabilities for new product development, while streamlining the efforts required to maintain legacy technologies.The Group is committed to allocating resources to projects and activities offering the most promising returns in the medium and long term.

Outlook
Taking into consideration the evolution of the markets in which we operate, we are undertaking the following actions:
- Further develop the Kudelski Security business by focusing on the U.S. and European markets and introducing new proprietary cybersecurity solutions. In the short term, this means that we expect Kudelski Security to increase its investment levels. Over the medium to long term, we expect this approach to contribute to the growth of the business as well as to structurally improve profitability.
- Further develop a secure IoT Security platform based on the Group's proprietary technologies. The Group's IoT activities are gaining traction in the market through the development of a comprehensive platform and the establishment of partnerships with leading players in the IoT marketplace. We expect this activity to remain in the investment phase over the next two years.
- Invest in new solutions for IPTV and Internet-based Digital TV with a special focus on end-to-end security, including content traceability, user experience and analytics.
- Streamline operations of the Digital TV activities by simplifying structures, eliminating redundant functions and integrate the Nagra and Conax entities, whilst maintaining the different go to market offerings and approaches of the two business lines.
- Further develop the Kudelski IP and Innovation business by continuing to generate valuable IP and entering into new cross licensing agreements.
- Grow the SKIDATA business both geographically and in terms of product portfolio, while optimizing profitability and cash generation.

The Board of Directors, Group management and our employees are keenly focused on the development of promising new business, while at the same time streamlining the organization and actively reducing our cost structure.

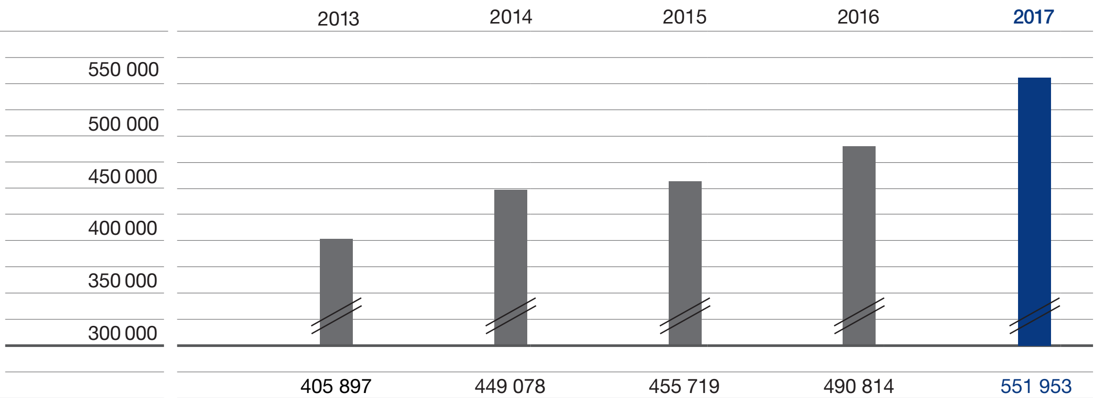
For the full year 2017, total revenues and other operating income are expected to be in the USD 1.15 to 1.20 billion range, and operating income is expected to be between USD 45 and 65 million. While expected Group's revenues remain in line with our original 2017 guidance, we plan with a lower operating income. This is mainly due to the weaker than expected business outlook for the classical DTV business, particularly related to the Conax legacy business evolution, and expectations of additional costs required for the Group's business transformation. Overall, improved revenue expectations for new business in 2017 should compensate for the aforementioned loss of revenues, but is not expected to compensate for the shortfall in profitability due to the continued investment required to transform the Group's business.

We would like to take this opportunity to thank our clients, partners, employees and shareholders for their continued trust in this challenging environment, where important efforts are required to deliver sustainable results for the future.

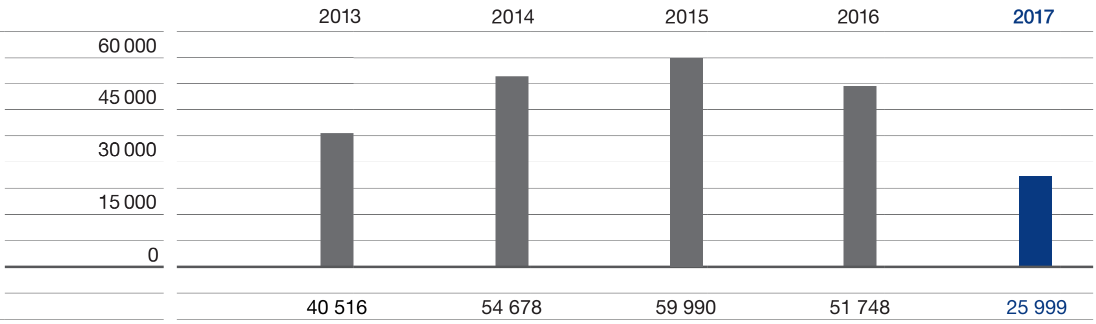
ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

KEY FIGURES FIRST HALF 2017*

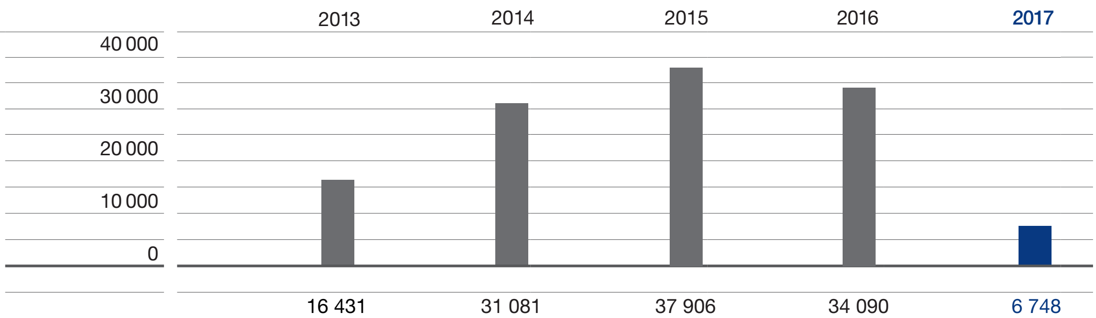
In USD '000
Revenues and other operating income



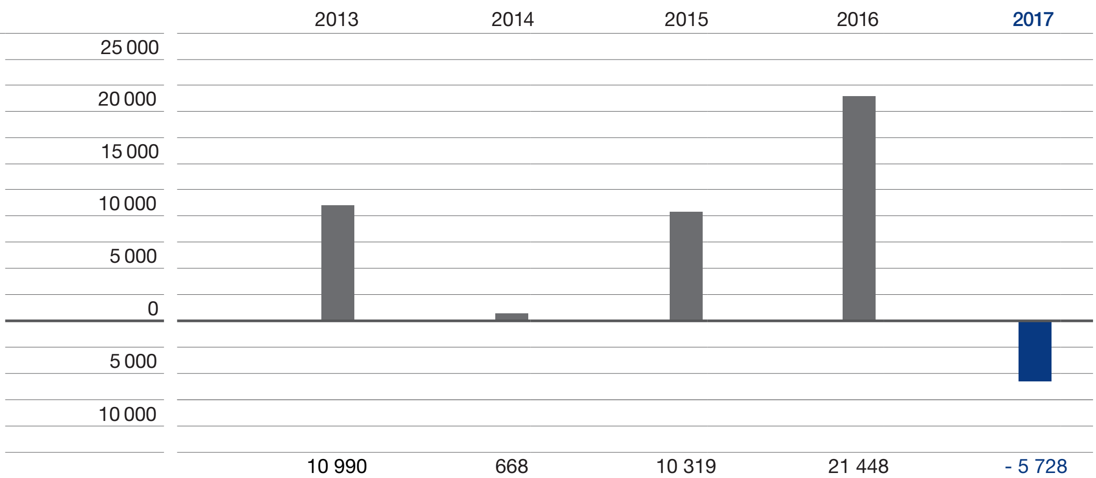
In USD '000
OIBDA



In USD '000
Operating income



In USD '000
Net income (loss)



*The above key figures represent the latest published figures for any presented accounting period (incl. restatements, where applicable). 2013-2015 figures have been restated in USD using the average USD/CHF rates of the respective periods.

2017 HALF YEAR RESULTS

In the first half 2017, the Kudelski Group grew consolidated revenues by 12.7% reaching USD 545.7 million, while delivering USD 6.7 million operating profit, a decline of USD 27.3 million compared to the first half 2016.

As over 60% of its revenues are denominated in USD, the Group changed its reporting currency from CHF to USD beginning this year. Accordingly, prior year's numbers have been restated in USD for comparison purposes.

The integrated Digital TV segment (iDTV) grew its topline by 12.9% to USD 387.3 million, with operating income of USD 13.1 million compared to USD 43.1 million in the first half 2016. In the Group's core digital TV business, the saturation of traditional pay TV offerings in developed markets resulted in decreased revenues, particularly in Europe where several established pay TV operators continued to lose subscribers. However, the Group was able to further develop its intellectual property (IP) licensing activities in the first half 2017 by entering into additional patent licensing agreements.

Revenues from the cybersecurity business gained strong traction in the first half 2017. However, the Group also widened its losses from this business, as it continued to invest to develop its proprietary technology portfolio in enterprise security. The Group successfully integrated Milestone Systems, acquired in May 2016, and M&S Technologies, a Dallas-based cyber and network security provider acquired in January of this year. These two acquisitions, together with the organization built organically, provide a strong platform for the deployment of the Group's proprietary cybersecurity technologies and managed service capabilities.

In the Public Access segment, revenues grew by 12.0% over the first half 2016, which represents a strong result considering the growth of over 50% in the previous first half-year. Public Access operating profits were also higher, reaching USD 1.5 million compared to USD 0.2 million in the first half 2016.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for the first half 2017 grew by USD 61.2 million to reach USD 552.0 million. Revenues grew by USD 61.3 million to USD 545.7 million, while other operating income was stable at USD 6.3 million.

Margin after cost of material increased by USD 5.2 million to USD 347.9 million. Relative to total revenues, margin after cost of material decreased from 69.8% to 63.0%. The main driver of this margin reduction relates to a shift of revenue mix from relatively higher margin core digital TV revenues to cybersecurity. While cybersecurity currently generates low margins, the Group expects them to increase in line with the growing share of proprietary technologies in the cybersecurity revenue mix.

Compared to the first half 2016, personnel expenses increased by USD 20.8 million in the first half of 2017 to USD 237.6 million. This increase was primarily driven by the addition of substantial headcount to the Group's cybersecurity operations, including headcount from newly acquired M&S Technologies, and by new hires at SKIDATA required to support business expansion. In the first half 2017, the Group also fully consolidated the NexGuard watermarking business acquired in July 2016 and DVNor, the Norwegian-based provider of media asset management services acquired in May 2017. Total Group headcount increased by 149 to 3'950 employees as of June 30, 2017. US headcount increased by 112 to 782 employees, mainly driven by the expansion of Kudelski Security and SKIDATA's North American operations and the establishment of the Group's second headquarters in Phoenix, Arizona. In India, the Group continues to grow, adding an additional 67 employees in the first half 2017 to reach a total headcount of 470. In Switzerland, headcount was substantially stable at 778 employees as of June 30, 2017.

In the first half 2017, other operating expenses increased by USD 10.1 million to USD 84.3 million. Main drivers of this increase were USD 3.7 million in higher legal expenses driven by the Group's IP licensing activities, as well as a USD 2.4 million increase of operating expenses at SKIDATA and a USD 1.8 million increase in cybersecurity.

The Group's operating income before depreciation and amortization was USD 26.0 million for the first half 2017, a USD 25.7 million decrease over the first half 2016. At USD 19.3 million, depreciation, amortization and impairment was USD 1.6 million higher than in the first half 2016. Overall, the Group generated operating income of USD 6.7 million in the first half 2017, compared to USD 34.1 million in the previous first half.

At USD 4.4 million, interest expense in the first half 2017 was USD 0.5 million lower than in the previous first half. The Group's primary interest-bearing liabilities include the CHF 200 million bond issued in 2015 with a 1.875% interest rate and the CHF 150 million bond issued in 2016 with a 1.5% interest rate. The Group posted USD 8.3 million of net finance expenses in the first half 2017, representing an increase of USD 5.6 million from the first half 2016. This increase is due to negative net foreign exchange effects.

Overall, the Group generated a USD 5.7 million net loss in the first half 2017 compared to USD 21.4 million net income in the first half 2016.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 12.9% to USD 387.3 million, representing a constant currency growth of 14.2%.

The Group's European iDTV business declined by 16.5% in constant currency, generating USD 100.1 million of revenues in the first half 2017. The larger Western European markets continue to experience a declining traditional pay TV subscriber base. In France, satellite pay TV lost half a million subscribers in 2016, after a loss of 300'000 subscribers in the previous year. In Italy, the main digital terrestrial pay TV operator has been focused on improving the profitability, while reducing the emphasis on subscriber growth.

The Group's Americas business posted a 59.9% constant currency growth in spite of lower volumes from Dish Network. The consolidation of newly acquired M&S Technologies and strong organic growth are driving revenues from the Group's cybersecurity operations. Brazil also contributed to regional growth, as first half 2017 revenues improved compared to the previous first half.

The Asia/Pacific and Africa region posted 6.4% lower constant currency revenues, which was primarily due to the base effect of a strong first half 2016. In the first half 2016, regional revenues grew by 51.8%, driven by a large project with StarHub in Singapore and strong momentum in India. While StarHub continues to represent a positive highlight for the Group, the bulk of revenues from the large project was earned last year. In India, sales by Conax normalized in the first half 2017 following the exceptional volumes generated in 2016. In Africa, SmarDTV, while still well positioned, generated materially lower volumes in this first half compared to the first half 2016.

Overall, operating income for the iDTV segment was USD 13.1 million compared to USD 43.1 million in the first half 2016, reflecting lower core digital TV profitability and higher investments in the growing cybersecurity business. Conax's contribution was materially lower compared to the first half 2016. In this first half, Conax signed a reseller agreement with ZTE, a major system integrator in the IPTV space, and closed the acquisition of DVNor. DVNor provides media asset management services through an all-in-one platform for metadata, digital file management, transcoding, storage, distribution and post-production. Total consideration for the DVNor acquisition was USD 4.3 million.

In spite of the decline in traditional pay-tv volumes, the Group continues to gain traction in emerging video distribution markets. In this first half 2017, the Group entered into an agreement with IBCAP to fight illegal content streaming through the deployment of its advanced monitoring and detection technologies. In Germany, Nagravision launched, in cooperation with Samsung, TVKey, a disruptive USB-based product that replaces set-top boxes.

In the first half 2017, IP licensing activities continued to progress. The Group completed IP licensing agreements with AT&T, Turner, Scripps Networks, Advance Magazine Publishers and Twitter.

The Group's cybersecurity business continues to gain traction. Completed in January, the acquisition of M&S Technologies added a strong foothold in the South Central region of the United States. Total consideration for this transaction was USD 10.4 million. Kudelski Security added several anchor customers in the first half 2017, both in Europe and in the United States. Among the highlights, Kudelski Security signed 26 new advisory projects, leveraging its newly introduced secure blueprint framework, and won three new cyber fusion center customers in Europe.

In the newly launched Internet of Things Center of Excellence, the Group continues to drive innovation leveraging its track record with end-to-end secure architectures and device security and through partnerships with market leaders.

While these initiatives drive top line growth, they also resulted in a widening loss from cybersecurity operations compared to the first half of last year.

PUBLIC ACCESS

SKIDATA maintained its strong momentum from 2016, posting a 13.3% constant currency growth in first half 2017 to achieve revenues of USD 158.4 million.

At USD 74.5 million, revenues generated in Europe were 1.8% lower in constant currency compared to the previous first half. Among the markets doing well, Austria posted higher revenues primarily due to the sale of payment terminals driven by a newly introduced regulation.

In the Americas, SKIDATA generated revenues of USD 57.3 million, representing constant currency growth of 45.7%. Over the past three years, SKIDATA has increased its first half revenues in the Americas more than fivefold. Highlights from the first half 2017 include new customer wins involving installations at the Raleigh, North Carolina airport, the Atlanta Falcons' stadium and with Disney in Anaheim, California.

Revenues for Asia/Pacific and Africa grew by 8.9% in constant currency, reaching USD 26.5 million in the first half 2017. SKIDATA continues to extend its footprint in this region; for example, in this first half, SKIDATA completed its first installation in the Philippines. Over the past three years, regional first half revenues increased more than threefold.

The Public Access segment generated positive first half operating income of USD 1.5 million, compared to USD 0.2 million in the first half 2016. This improvement was driven by top line expansion and was achieved in spite of continued investment to further expand its business, including, for example, the opening of new offices in Ireland and in US states such as Virginia and Georgia.

BALANCE SHEET AND CASH FLOW

Total non-current assets increased by USD 59.7 million in the first half 2017 to USD 732.0 million, with tangible fixed assets increasing by USD 8.4 million and intangible fixed assets by USD 22.9 million. The acquisition of M&S Technologies and DVNor, as well as currency translation effects, added USD 15.1 million to goodwill. Financial fixed assets increased by USD 24.7 million, mainly due to higher deferred revenues from IP licensing transactions and higher receivables from government institutions for tax credits.

Compared to December 31, 2016, total current assets decreased by USD 45.6 million. A USD 5.8 million increase of inventory is mainly due to higher stock levels at SKIDATA. The Group increased trade receivables by USD 21.2 million, as newly acquired M&S added USD 11.5 million and other cybersecurity activities added an additional USD 3.7 million.

SKIDATA added USD 4.6 million to trade receivables mainly due to the application of the percentage of completion method to revenue recognition, introduced last year. The USD 4.5 million increase of other current assets is mainly due to higher accrued income and income tax receivables. As of June 30, 2017, cash and cash equivalents amounted to USD 97.6 million.

Total equity decreased by USD 5.7 million, mainly reflecting a positive USD 17.7 million of other comprehensive income and the USD 19.1 million distribution to shareholders in March 2017.

Total non-current liabilities increased by USD 10.6 million to USD 455.4 million. Long-term financial debt includes the CHF 200 million 1.875% bond maturing in August 2022 and the CHF 150 million 1.5% bond maturing in September 2024. As both these bonds are denominated in CHF, long-term financial debt increased by USD 20.2 million primarily due to foreign exchange translation effects. Other long-term liabilities decreased by USD 7.6 million due to a USD 6.2 million reduction of long-term advances from customers and a USD 2.2 million reduction of deferred and contingent consideration.

Total current liabilities increased by USD 9.2 million to USD 318.1 million. Short-term financial debt increased by USD 24.4 million, reflecting higher short-term borrowings by SKIDATA, while overall the Group reduced other current liabilities by USD 13.2 million, mainly through a USD 9.5 million reduction of accrued expenses.

During the first half 2017, the Group used USD 49.5 million of cash flows for operating activities, mainly reflecting a negative USD 38.4 million in other net current working capital items. This variation reflects, in particular, the USD 24.7 million increase of financial fixed assets and the USD 4.5 million increase of other current assets. The Group used USD 32.0 million of cash for investing activities. The net cash consideration for the acquisition of M&S Technologies and DVNor amounted to USD 9.9 million. In the first half 2017, the Group invested USD 11.5 million for purchases of tangible assets, including USD 4.6 million at SKIDATA and USD 7.8 million for purchases of intangible assets, including for the deployment of a new ERP system for the Group. Cash used for financing activities amounted to USD 1.6 million, including in particular USD 19.1 million repaid as a distribution to Kudelski SA's shareholders in March 2017.

OUTLOOK

The slowdown of the traditional pay TV business is expected to continue into the second half of this year, reflecting the continued major transformation of the digital TV landscape. While new opportunities are emerging, in particular for end-to-end security solutions in the Internet video space, revenues from these new areas are not expected yet to fully replace the decline of traditional pay TV revenues. As a result, the Group expects declining revenues and margins in its legacy digital TV business and is implementing measures to adapt its cost base accordingly, including in particular the full integration of Nagravision and Conax.

Revenue contribution from IP licensing activities remains volatile; early in the second half, the Group announced a new patent licensing transaction with Arris, the world largest set-top box provider.

The Group's cybersecurity business is expected to maintain its top line momentum in the second half of the year, delivering sustained organic growth. However, as the Group continues to invest in this emerging business, cybersecurity will continue to generate negative contribution margins in the second half year.

In the Public Access segment, SKIDATA is expected to maintain its momentum in the second half, resulting in robust full year growth and higher operational profitability as compared to last year.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

In USD'000	**January/ June 2017**	**January/ June 2016**
Revenues	545 685	484 392
Other operating income	6 269	6 422
Total revenues and other operating income	**551 953**	**490 814**
Cost of material, licenses and services	-204 040	-148 029
Employee benefits expense	-237 645	-216 831
Other operating expenses	-84 269	-74 206
Operating income before depreciation, amortization and impairment	**25 999**	**51 748**
Depreciation, amortization and impairment	-19 251	-17 658
Operating income	**6 748**	**34 090**
Interest expense	-4 368	-4 895
Other finance income/(expense), net	-8 280	-2 671
Share of results of associates	448	241
Income before tax	**-5 451**	**26 767**
Income tax expense	-277	-5 319
Net income for the period	**-5 728**	**21 448**
Attributable to:		
- Equity holders of the company	-8 819	17 340
- Non-controlling interests	3 091	4 107
	-5 728	**21 448**

EARNINGS PER SHARE (unaudited)

In USD	**January/ June 2017**	**January/ June 2016**
Earnings per bearer share - basic and diluted:	-0.1622	0.3197
Earnings per registered share (not listed) - basic and diluted:	-0.0162	0.0320

The Group changed its presentation currency to USD. Prior year figures have been represented (refer to Note 3 for additional information).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

In USD'000	January/ June 2017	January/ June 2016
Net income	**-5 728**	**21 448**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	10 749	11 051
Cash flow hedges, net of income tax	-74	318
Net gain on available-for-sale financial assets, net of income tax	-228	-88
	10 447	**11 281**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	7 265	-16
Total other comprehensive income, net of income tax	**17 712**	**11 265**
Total comprehensive income for the period	**11 984**	**32 713**
Attributable to:		
- Equity holders of the company	8 905	28 705
- Non-controlling interests	3 079	4 008
	11 984	**32 713**

The Group changed its presentation currency to USD. Prior year figures have been represented (refer to Note 3 for additional information).

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2017 AND DECEMBER 31, 2016 (UNAUDITED)

Assets

In USD'000	30.06.2017	31.12.2016	01.01.2016
Non-current assets			
Tangible fixed assets	154 202	145 770	140 525
Intangible assets	450 649	427 722	352 654
Investment property	–	-0	1 107
Investments in associates	5 563	4 939	4 544
Deferred income tax assets	64 246	61 186	62 027
Financial assets and other non-current assets	57 370	32 708	44 496
Total non-current assets	**732 029**	**672 326**	**605 354**
Current assets			
Inventories	59 048	53 221	48 573
Trade accounts receivable	300 451	279 289	259 573
Other current assets	70 217	65 701	48 376
Derivatives financial instruments	134	350	369
Cash and cash equivalents	97 581	174 440	138 222
Total current assets	**527 431**	**573 001**	**495 113**
Total assets	**1 259 460**	**1 245 327**	**1 100 466**

Equity and liabilities

Capital and reserves			
Share capital	332 142	331 091	439 615
Reserves	129 139	138 688	-12 188
Equity attributable to equity holders of the parent	**461 281**	**469 779**	**427 427**
Non-controlling interests	24 646	21 839	24 095
Total equity	**485 927**	**491 618**	**451 522**
Non-current liabilities			
Long-term financial debt	363 751	343 595	201 676
Deferred income tax liabilities	11 215	10 847	11 625
Employee benefits liabilities	64 108	66 379	78 610
Other long-term liabilities and derivative financial instruments	16 344	23 987	21 164
Total non-current liabilities	**455 418**	**444 807**	**313 075**
Current liabilities			
Short-term financial debt	55 891	31 471	124 706
Trade accounts payable	72 953	66 797	51 174
Other current liabilities	140 765	153 990	124 656
Current income taxes	4 061	14 608	9 837
Advances received from clients	37 287	31 989	22 263
Derivative financial instruments	81	97	439
Provisions for other liabilities and charges	7 077	9 948	2 795
Total current liabilities	**318 115**	**308 901**	**335 869**
Total liabilities	**773 533**	**753 709**	**648 944**
Total equity and liabilities	**1 259 460**	**1 245 327**	**1 100 466**

The Group changed its presentation currency to USD. Prior year figures have been represented (refer to Note 3 for additional information).

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

In USD'000	January/ June 2017	January/ June 2016
Net income for the period	**-5 728**	**21 448**
Adjustments for net income non-cash items:		
- Current and deferred income tax	848	5 319
- Interests, allocation of transaction costs and foreign exchange differences	7 121	5 454
- Depreciation, amortization and impairment	19 251	17 658
- Change in fair value of financial assets at fair value through profit or loss	121	298
- Share of result of associates	-448	-241
- Non-cash employee benefits expense	4 420	5 303
- Deferred cost allocated to income statement	8 522	4 417
- Additional provisions net of unused amounts reversed	2 610	29
- Non-cash government grant income	-2 932	-2 767
- Other non-cash income/expenses	-6 116	-11 596
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non operating cash items	-1	-1 513
Adjustements for change in working capital:		
- Change in inventories	-2 507	1 769
- Change in trade accounts receivable	7 497	4 865
- Change in trade accounts payable	-4 698	-8 321
- Change in deferred costs (short and long term portions)	-3 720	-744
- Change in current income taxes liabilities	-10 771	-2 467
- Change in accrued expenses	-17 228	899
- Change in other net current working capital headings	-38 364	-15 968
Government grant from previous periods received	3 007	3 128
Interest paid	-858	-680
Interest received	541	472
Income tax paid	-10 076	-6 681
Cash flow from/(used in) operating activities	**-49 510**	**20 081**
Purchases of intangible fixed assets	-7 743	-6 966
Purchases of tangible fixed assets	-11 455	-11 701
Proceeds from sales of tangible and intangible fixed assets	327	567
Proceeds from sale of investment property	–	2 390
Investment in financial assets and loan granted	-291	-5 697
Divestments of financial fixed assets and loans reimbursement	2 272	243
Acquisition of subsidiaries, cash outflow (net of cash acquired):		
- Cash consideration arising from business combinations	-12 283	-38 504
- Cash acquired from business combinations	2 394	8 422
- Payment arising from prior years business combinations	-5 187	-3 064
Acquisition of associated companies	–	-998
Cash flow from/(used in) investing activities	**-31 965**	**-55 308**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-3 301	-3 910
Increase in bank overdrafts, long term loans and other non-current liabilities	21 120	8 028
Proceeds from employee share purchase program	53	10
Acquisition of non controlling interest	-281	137
Dividends paid to non controlling interests	-9	–
Dividends and partial share capital repayment to shareholders	-19 139	-19 338
Cash flow from/(used in) financing activities	**-1 557**	**-15 073**
Effect of foreign exchange rate changes on cash and cash equivalents	6 173	1 882
Net increase/(decrease) in cash and cash equivalents	**-76 859**	**-48 418**
Cash and cash equivalents at the beginning of the period	174 440	138 222
Cash and cash equivalents at the end of the period	97 581	89 804
Net increase/(decrease) in cash and cash equivalents	**-76 859**	**-48 418**

The Group changed its presentation currency to USD. Prior year figures have been represented (refer to Note 3 for additional information).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

In USD'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non controlling interests	Total equity
January 1, 2016	**439 615**	**7 483**	**-20 414**	**-3 522**	**4 265**	**24 095**	**451 522**
Net result for the period			17 340			4 107	21 448
Other comprehensive income for the period			-15	230	11 150	-100	11 265
Total comprehensive income for the period	**–**	**–**	**17 325**	**230**	**11 150**	**4 008**	**32 713**
Employee share purchase program	10	5					14
Shares issued for employees	1 516	63					1 579
Par value reduction of share capital	-110 503	91 165					-19 338
Transaction with non-controlling interests			-418			-1 880	-2 298
Equity contribution from non-controlling interests						137	137
June 30, 2016	**330 637**	**98 716**	**-3 507**	**-3 292**	**15 415**	**26 360**	**464 330**
January 1, 2017	**331 091**	**98 464**	**39 591**	**-2 536**	**3 169**	**21 839**	**491 618**
Net result for the period			-8 819			3 091	-5 728
Other comprehensive income for the period			7 265	-302	10 761	-12	17 712
Total comprehensive income for the period	**–**	**–**	**-1 554**	**-302**	**10 761**	**3 079**	**11 984**
Employee share purchase program	41	33					74
Shares issued for employees	1 010	629					1 639
Dividend paid to shareholders		-13 671	-5 468				-19 139
Dividend paid to non-controlling interests						-9	-9
Non controlling interests arising on business combinations						41	41
Transaction with non-controlling interests			23			-304	-281
June 30, 2017	**332 142**	**85 455**	**32 592**	**-2 838**	**13 930**	**24 646**	**485 927**

The Group changed its presentation currency to USD. Prior year figures have been represented (refer to Note 3 for additional information).

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

1. GENERAL INFORMATION
Kudelski SA is listed on the Swiss stock exchange and incorporated and domiciled in Switzerland. Kudelski SA and its subsidiaries (together the "Group") are active in the digital TV and public access businesses. The principal activities of the Group are described in the 2016 annual report.

2. BASIS OF PREPARATION
These interim condensed financial statements for the six month ended June 30, 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2016.

3. CHANGE IN PRESENTATION CURRENCY
As the majority of revenues are denominated in U.S. Dollars, the Group announced on June 1, 2016, that it will change the currency in which it presents its financial results from the Swiss Franc (CHF) to the U.S. Dollar (USD) beginning January 1, 2017. To assist shareholders with this change, comparative financial information at December 31, 2016 and for the period ended June 30, 2016 have been re-presented in USD.

In order to satisfy the requirements of IAS 21 with respect to a change in presentation currency, the condensed financial information at December 31, 2016 and for the six months ended June 30, 2016 has been restated from CHF to USD using the procedures described below:

Assets and liabilities of foreign operations where the functional currency is other than USD were translated to USD at the relevant closing rates of exchange.

Non-USD income/expense results were translated to USD at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the period have been taken to the foreign currency translation reserve (CTA).

The cumulative foreign currency translation reserve was set to nil at January 1, 2004, the date of transition to IFRS. All subsequent movements comprising differences on the retranslation of the opening net assets of non-USD subsidiaries have been taken to the foreign currency translation reserve. Share capital, share premium and other reserves were translated at the historic rates prevailing at the dates of the transactions.

All exchange rates used were extracted from the Group's underlying accounting records, as previously reported in the annual reports.

4. ACCOUNTING POLICIES
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, 2016.

A number of new or amended standards became applicable for the current reporting period. However, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

5. SEASONALITY
In the Integrated Digital Television business, Christmas sales usually lead to higher volumes, and therefore higher revenues, in the last quarter for certain customers where the sale model applies. Revenues generated under the service model have limited seasonality. This operating segment may also be subject to abnormal seasonality due to bulk orders of smart cards from large customers (e.g. for swap outs) and due to products and services delivered to newly acquired customers and the completion of large patent licensing contracts.

The Public Access segment (SKIDATA) has strong seasonal revenue variations, in particular in the ski access business since it earns a significant portion of its revenues in the fourth quarter.

6. SHARE-BASED PAYMENTS
As of June 30, 2017, 5 070 bearer shares have been underwritten by employees in accordance with the articles of the Employee Share Plan. The attributable expense in the income statement is kUSD 23. The Group issued 125 558 bearer shares as part of 2016 management bonus payment which expense was fully accrued for at December 31, 2016.

7. DIVIDEND
On March 29, 2017, the Group paid a distribution of CHF 0.35 per bearer share and CHF 0.035 per registered share. The distribution amounted to kUSD 19 139.

8. TRANSACTION WITH NON CONTROLLING INTERESTS
On April 13, 2017, the Group acquired an additional 19.5% of Hantory Co., Ltd. for total consideration of kUSD 281. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kUSD -23 and non-controlling interests for kUSD 304.

9. CONTINGENT CONSIDERATION
Remeasurements of contingent consideration for two past business combinations resulted in a net gain amounting to kUSD 1 581 and is included in other operating income.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

10. BUSINESS COMBINATIONS

ARISING IN 2017

On January 11, 2017, the Group signed a share purchase agreement whereby it acquired 100% of M&S Technologies, Inc. for total consideration of kUSD 10 400. Total consideration includes deferred consideration of kUSD 1 000. Founded in 2004, M&S Technologies, Inc. is headquartered in Dallas, USA and is a specialist provider of cyber and network security solutions. The acquisition is expected to broaden the customer and partnership base of Kudelski Security, the Group's growing cybersecurity division.

The goodwill arising from this acquisition amounts to kUSD 8 092 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors, including expected synergies resulting from acquiring an experienced workforce and valuable sales knowledge and expertise in the relevant market. The gross contractual amount of trade receivables of kUSD 11 467 is expected to be fully collectable leading to a fair value of kUSD 11 467.

On May 2, 2017, the Group, through its subsidiary Conax, signed a share purchase agreement whereby it acquired 100% of Digital Video Norge Holding AS, including its subsidiaries Digital Video Norge Drift, Digital Video Health and Sweet Chili Entertainment (together DVNor) for total consideration of kUSD 4 300. Total consideration includes an earn-out estimate of kUSD 1 359 and deferred consideration of kUSD 58. The actual earn-out payment will be based on gross profits and customer retention targets over the next three years. Management has based its earn-out estimate on the business plan used to establish the purchase price allocation and support the transaction. Founded in 2005, DVNor is a Norwegian company that develops and delivers media asset management services and provides transcoding, storage, distribution and post-production services to customers around the world.

The goodwill arising from this acquisition amounts to kUSD 1 096 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors, including technology and competence highly complementary to the Conax content security portfolio, further strengthening Conax position in the industry for media consumption. The gross contractual amount of trade receivables of kUSD 518 is expected to be nearly fully collectible leading to a fair value of kUSD 510.

From the date of acquisition, the acquired companies have contributed kUSD 25 056 to revenues and kUSD -22 to the net income of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kUSD 547 005 and the net income from continuing operations for the period for the Group would have been approximately kUSD -5 558.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

CONSIDERATION TRANSFERED AND FAIR VALUE OF IDENTIFIABLE ASSETS AND LIABILITIES

The fair values of the identifiable assets and liabilities for all Business Combinations as at the date of acquisition were as follows:

In USD'000	Fair value of assets acquired 30.06.2017
Tangible fixed assets	198
Intangible fixed assets (Goodwill excl.)	6 171
Other non-current assets	3
Trade accounts receivable	11 977
Other current assets	403
Cash and cash equivalents	2 394
Short-term financial liabilities	-2 900
Trade accounts payable	-7 752
Other current liabilities	-2 784
Non current liabilities	-472
Deferred income tax liabilities	-1 683
Total identified net assets	**5 555**
Non-controlling interest resulting from a business combination	-42
Goodwill	9 187
Total consideration	**14 700**
Total consideration, of which:	
- cash	12 283
- deferred	1 058
- contingent	1 359
Total consideration	**14 700**

Acquisition costs relating to business combinations of kUSD 18 are included in other operating expenses.

11. FINANCIAL INSTRUMENTS - FAIR VALUE DISCLOSURES

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of June 30, 2017 and December 31, 2016. For additional information on the levels and valuation methods, please refer to Note 44 to the consolidated financial statement in the 2016 annual report.

In USD'000		30.06.2017	31.12.2016
Financial assets:			
- marketable securities	Level 1	387	612
- derivative financial instruments	Level 2	134	350
- equity instuments with no quoted market price	Level 3	417	394
Total financial assets		**938**	**1 356**
Financial liabilities:			
- derivative financial instruments	Level 2	81	97
- contingent consideration (short-term portion)	Level 3	2 869	5 429
- contingent consideration (long-term portion)	Level 3	2 972	3 601
Total financial liabilities		**5 922**	**9 127**

The fair value of Level 3 equity instrument with no quoted market price is determined using a discounted cash flow method provided by the company on a yearly basis. During the six-month period ended June 30, 2017, there were no transfers from one level to another.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

Level 3 contingent liabilities consists of earn-out payments calculated on companies that have been acquired. The fair value is measured using projections reviewed by management. Long-term contingent assets and liabilities are discounted with rates comprised between 4.0 and 10.2%.

Reconciliation of level 3 fair values:
The following table shows a reconciliation for the level 3 fair values:

In USD'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2016	404	7 458	-4 745
Assumed in a business combination			-5 655
Assumed in a transaction with non-controlling interest			-827
Settlements			474
Impairment		-7 731	1 518
Remeasurement (recognised in other operating income)			271
Discount effect (recognised in interest expense)		552	-88
Exchange difference		-124	25
Currency translation adjustment	-10	-155	-3
Balance at December 31, 2016	**394**	**–**	**-9 030**
Assumed in a business combination			-1 360
Settlements			3 187
Remeasurement (recognised in other operating income)			1 581
Discount effect (recognised in interest expense)			-126
Currency translation adjustment	23		-93
Balance at June 30, 2017	**417**	**–**	**-5 841**

Except as detailed below, management considers that the carrying amount of financial assets and liabilities recorded at amortized cost is a reasonable approximation of fair value:

In USD'000	Carrying amount 30.06.2017	Fair value 30.06.2017
Financial liabilities		
- CHF 200 million bond	207 891	217 518
- CHF 150 million bond	155 783	158 525

The fair value of the bonds are based on their market price.

12. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2017	31.12.2016	30.06.2017	30.06.2016
1 CHF	1.043	0.985	1.006	1.019
1 EUR	1.141	1.058	1.083	1.117

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

13. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker. Group operating segments represent strategic business units that offer products and services for which such internal reporting is maintained. The chief operating decision maker reviews the internal segment reporting in order to allocate resources to the segments and assess their performance. The Group is organized operationally on a worldwide basis into two operating segments which are reflected in internal management reporting: Integrated Digital Television and Public Access.

The Integrated Digital Television division provides end-to-end integrated solutions, including open conditional access solutions, which allow TV operators and content providers to operate a wide range of high value-added pay TV services on a secure platform, and middleware software solutions for set-top-boxes and other consumer devices, enabling an advanced end-user experience. The Integrated Digital Television operating segment also includes the Group's Cybersecurity and Intellectual Property activities.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events. The measure of income presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) except that intersegment sales are eliminated at the consolidation level. Income and expenses relating to Corporate include the costs of Group headquarters and the items of income and expense which are not directly attributable to specific divisions. These elements are reported under the "Corporate common functions".

Reportable segment assets include total assets allocated by segment with the exclusion of intersegment balances, which are eliminated. Unallocated assets include assets managed on a centralized basis, included in the reconciliation to balance sheet assets.

In USD'000	Integrated Digital Television January/ June 2017	Integrated Digital Television January/ June 2016	Public Access January/ June 2017	Public Access January/ June 2016	Total January/ June 2017	Total January/ June 2016
Total segment Revenues	**387 533**	**343 223**	**158 400**	**141 435**	**545 933**	**484 658**
Inter-segment revenues	-247	-259	-1	-7	-248	-266
Revenues from external customers	**387 286**	**342 964**	**158 399**	**141 428**	**545 685**	**484 392**
Depreciation and amortization	-14 371	-13 055	-4 859	-4 588	-19 230	-17 643
Impairment	–	-15	-20	–	-20	-15
Operating income - excluding corporate common functions	**13 134**	**43 138**	**1 454**	**233**	**14 588**	**43 371**
Corporate common functions					-7 839	-9 281
Interest expense and other Finance income/(expense), net					-12 648	-7 565
Share of result of associates					448	241
Income before tax					**-5 451**	**26 766**
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Total segment assets	**954 407**	**945 433**	**298 770**	**278 567**	**1 253 177**	**1 224 000**

In USD'000	30.06.2017	31.12.2016
Total segment assets	1 253 177	1 224 000
Cash and cash equivalents	2 943	18 386
Other current assets	552	128
Financial assets and other non-current assets	2 788	2 813
Total Assets as per Balance Sheet	**1 259 460**	**1 245 327**

Release of 2017 financial results:
14 February 2018

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