KUDELSKI GROUP INTERIM REPORT 2019

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2019 (UNAUDITED)

In USD'000	January/ June 2019	January/ June 2018
Revenues and other operating income	400 632	437 747
Margin after cost of material	284 008	314 447
Margin after cost of material in % of revenues and other operating income	70.89%	71.83%
OIBDA	15 503	-8 815
OIBDA in % of revenues and other operating income	-3.87%	-2.01%
Net income for the period	**-20 408**	**-38 022**
Earnings per bearer share for the period – Basic and diluted	-0.4205	-0.7383

In USD'000	30.06.2019	31.12.2018
Equity	417 809	443 162
Cash and cash equivalents	60 279	85 979
Market capitalization (in CHF'000)	323 184	281 497
Share price (in CHF)	6.45	5.64

The above key figures represent the latest published figures for any presented accounting period (incl. restatements, where applicable).

FIRST HALF 2019 HIGHLIGHTS

- USD 10.0 MILLION IMPROVEMENT OF OIBDA EX-RESTRUCTURING COSTS
- ADAPTED GROUP'S MANAGEMENT TEAM TO BETTER ADDRESS FUTURE OPPORTUNITIES
- CONTINUING TRANSFORMATION IN DIGITAL TV
- SHIFTING CYBERSECURITY BUSINESS MIX TO HIGHER VALUE-ADDED PRODUCTS
- LAUNCHED SECURE INTERNET OF THINGS PLATFORM
- TRANSFORMATION PROGRAM IN PUBLIC ACCESS
- CONFIRMED OIBDA GUIDANCE AT USD 80 TO 95 MILLION EX RESTRUCTURING COSTS

LETTER TO SHAREHOLDERS

First half 2019
For the first half 2019, total revenues and other operating income from continuing operations decreased by 6% in constant currency to USD 400.6 million, with an operating profit, before depreciation, amortization, impairment and restructuring costs, of USD 29.2 million. Net loss for the period was USD 20.4 million, which included USD 13.7 million of restructuring costs.

The financial results of the Kudelski Group during the first half 2019 reflect the significant investments being made in the Group's Cybersecurity and IoT businesses as well as costs incurred in connection with the Group's previously announced restructuring program.

As part of the Group's ongoing transformation and cost reduction initiative, we have taken measures during the first half 2019 to adapt the Group's management team in order to better address future opportunities.

In the DTV segment, Nancy Goldberg, a seasoned executive with experience in Internet and media content businesses, joined the Group as EVP, Chief Marketing Officer, assuming the role from Pierre Roy, who is retiring after 25 years of service with the Group. Our goal is to resume stable growth within the DTV business by addressing promising new areas of the Digital TV market, particularly in places like the US, which is being rapidly transformed by new technologies, such as Cloud and IP-based networks. We would like to take this opportunity to thank Pierre Roy for his strong contributions to the success and growth of the Group's DTV business during his long career with the Group.

Important changes are also underway at SKIDATA. With a clear objective to improve both the cash flow generation and profitability of this business, we have appointed Dave Luken as the new CEO of SKIDATA. Dave will bring his considerable experience to bear as he undertakes the changes necessary to fundamentally transform the operations of SKIDATA to improve operational excellence and enhance customer service and support. He will also look for additional synergies and cross-selling opportunities between SKIDATA and the other entities of the Group, including DTV, Kudelski Security and IoT. This will help enable the Group to tap into new markets across our business segments.

Since the creation of Kudelski Security, we have followed a phased approach to the development and expansion of this business. In the first phase, our priority was to validate the business model by focusing on our home market in Switzerland. The second phase started in 2016 with our acquisition of Milestone Systems in the US, which provided us with a distribution network in the largest cybersecurity market in the world. We are now in our third phase of development of Kudelski Security, where the focus is squarely on developing proprietary high value-added products and solutions. As the new CEO of Kudelski Security, Andrew Howard has the ideal profile to deliver results in this third phase by leveraging his prior experience as a CTO. Under Andrew's leadership, we expect sales of our proprietary products and solutions to progressively gain momentum, but at the same time, we will also continue to focus on our technology resale business, which serves as an important distribution channel. While we are seeing the effects of increased competition in the US resale market, we are well-positioned to develop at a healthy pace in the Swiss and European markets.

The IoT segment is developing as planned, as we continue to make the investments necessary to reach critical mass in this business. However, the pace of development still has some uncertainties due to the nascent nature of the market for secure IoT solutions.

The Group's transformation progresses, with a streamlined management team and new executives who bring fresh perspectives to our business. This approach will enable the Group to continue serving our current client base with our industry leading products and services, while at the same time developing a compelling range of new product offerings to drive growth of our business in the future.

One example of such a new product offering is our Insight analytics solution, which is rapidly gaining traction with some key DTV clients by delivering operational data that the clients can use to improve their own business results. Another example is the Group's myCinema solution, which is looking to transform the delivery of media content to the cinema industry. The myCinema team is proud to bring the exclusive release of Apocalypse Now Final Cut to hundreds of American movie screens. Finally, the Kudelski Security Blockchain Center of Excellence is proving to be a key solution for the Group, serving not only the Group's current client base, but more importantly opening new markets for the Group' other segments.

In terms of investment strategy, the Group remains focused on maximizing its innovation and R&D capabilities for new product development, while streamlining the efforts required to maintain legacy technologies. As part of its transformation process, the Group is further optimizing the efficiency of its R&D team in order to innovate more per dollar invested.

Outlook
The Board of Directors, Group management and our employees are keenly focused on the development of promising new products, technologies and businesses, while at the same time making all the necessary efforts to improve the efficiency of our operations.

We expect a stronger second half in 2019 for all segments, and we confirm our initial guidance for 2019 operating income before depreciation, amortization and impairment of between USD 80 and 95 million before restructuring costs. For the second half, we also expect stronger cash flow from operations, as compared to the first half.

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

FIRST HALF 2019 RESULTS

Beginning with its 2018 financial statements, the Group presents its results based on four segments: Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access. While Public Access has been disclosed in prior financial statements, the former Integrated Digital TV segment is now divided into three new segments.

KUDELSKI GROUP SEGMENTS

The Digital TV segment provides secure, open, integrated platforms and applications for broadcast, broadband and mobile networks, enabling compelling and personalized viewing experiences. Such platforms allow digital TV operators and content providers to offer a wide range of high value-added pay TV services.

The Cybersecurity segment provides end-to-end cybersecurity solutions to a wide variety of customers across multiple sectors. The portfolio is based on four pillars: advisory services, technology, managed security services and proprietary R&D. The Cybersecurity segment leverages the Group's historical strengths in R&D to fuel a highly differentiated product and service offering across each of the four pillars.

With the IoT segment, Kudelski offers a resilient and easy-to-integrate and operate security solution. The Group's IoT offering includes the Kudelski IoT Security Platform, a pre-integrated, end-to-end solution providing device and data protection, and Kudelski IoT Security Services, such as advanced lab services and managed security services.

In the Public Access segment, SKIDATA, the Group's subsidiary, designs and delivers integrated solutions to provide seamless, user-friendly access for people and vehicles to sites and installations such as car parks, ski-lifts, stadiums, arenas and amusement parks.

GROUP RESULTS

In the first half 2019, total revenues and other operating income decreased from USD 437.7 million to USD 400.6 million. Net revenues for the Group decreased by 9.2% to USD 394.5 million, a 6.0% decrease in constant currency, mainly driven by the Digital TV segment, which posted a USD 32.2 million decline. The Cybersecurity segment experienced a USD 4.7 million year-on-year decline. IoT generated marginal revenues as the segment's primary focus continues to be the development of a secure IoT platform solution for the market. Public Access revenues were USD 3.7 million lower than in the previous first half due to negative foreign exchange effects.

Other operating income increased by USD 3.0 million to USD 6.2 million, mainly reflecting additional contributions from the sale of working capital items and the provision of services related to a past M&A transaction as well as the attainment of an additional earn-out.

Margin after cost of material decreased from USD 314.4 million to USD 284.0 million. Relative to total revenues, margin after cost of material decreased from 71.8% to 70.9%, due to the shift of revenue mix from higher margin Digital TV to lower margin Public Access business. Relative margins increased in both the Cybersecurity and the Public Access segments, reflecting a concerted effort to focus on higher value-added services. Cybersecurity was the segment with the largest improvement due to the growing share of proprietary technologies in the segment revenue mix.

Compared to the first half 2018, the Group reduced personnel expenses by USD 32.8 million. A significant reduction of Digital TV headcount, partly offset by headcount increases at SKIDATA, drove the reduction of personnel expenses. Total Group headcount decreased by 182 to 3'560 employees as of June 30, 2019. Headcount in the relatively high cost locations of Western Europe decreased by 83 units. In Asia, Group headcount decreased by 88 units, as employees previously engaged in SmarDTV-related activities were transferred to the buyer of the SmarDTV assets. Total SKIDATA headcount increased by 18 to 1'519 employees as of the end of June 2019.

In the first half 2019, the Group reduced other operating expenses by USD 21.9 million. As of January 1, 2019, the Group adopted IFRS 16, without restating the comparable 2018 numbers. With the adoption of this new standard, USD 8.3 million of operating leases previously recognized as other operating expenses are booked as depreciation in this first half 2019 income statement. This is the main driver of the USD 9.8 million reduction of building and infrastructure costs. In addition, the Group reduced legal and consultancy costs by USD 5.5 million, reflecting in particular a further reduction of legal expenses related to IP licensing activities.

The USD 54.8 million net reduction of Group operating expenses in the first half 2019 includes USD 29.9 million of cost savings achieved with the ongoing restructuring program, net of the cost of additional investment in the Group's key growth areas.

The restructuring program enabled a further substantial reduction of recurring Digital TV expenses. Key measures implemented in this first half include the integration of the Security and User Experience R&D organizations into a consolidated unit, the streamlining of the product portfolio with an increased focus on profitable products that address new growth markets, a custom development approach to product areas lacking critical mass, the full integration of Conax and NAGRA operations and a further rationalization of the Group's global presence with the closure of smaller locations and further specialization of existing sites.

The total reduction of Group recurring operating expenses between the first half 2018 and 2019 amounts to USD 29.9 million. In the first half 2019, the Group incurred USD 13.7 million of restructuring and run-down costs for the restructuring of its Digital TV activities, compared to USD 28.0 million in the first half 2018. In addition, year-on-year development of Group operating expenses benefitted from favorable currency effect. First half 2018 operating expenses, at average 2019 currency rates, were USD 10.6 million lower compared to first half 2018 reported expenses.

The Group's operating income before depreciation and amortization net of restructuring costs was USD 29.2 million, a USD 10.0 million increase over the previous first half. Reported operating income before depreciation and amortization was USD 15.5 million, representing an improvement of USD 24.3 million from the first half 2018. At USD 28.9 million, depreciation, amortization and impairment were USD 7.5 million higher than in the first half 2018, mainly due to the introduction of IFRS 16. Overall, the Group generated an operating loss of USD 13.5 million for the half year, compared to a loss of USD 30.2 million in the prior period.

At USD 5.1 million, interest expense was USD 0.8 million lower than in the prior first half. The Group's primary interest-bearing liabilities include the CHF 200 million bond with a 1.875% interest rate maturing in August 2022, the CHF 150 million bond with a 1.5% interest rate maturing in September 2024 and EUR 87.4 million bank debt at SKIDATA. The Group posted USD 0.9 million of net finance income in the first half 2019. Income tax expense was USD 3.1 million, resulting in a net loss for the period of USD 20.4 million, a USD 17.6 million improvement from the prior first half.

DIGITAL TV

Reported Digital TV revenues decreased by 14.5% to USD 190.5 million, representing a constant currency decline of 12.0%. The digital TV market continues to contract, as a number of established pay TV operators report lower subscriber numbers. In particular, Conax operations generated lower revenues compared to the previous first half. In addition, the Group did not book any IP licensing revenues in the first half 2019.

The Group's European Digital TV business posted 6.4% lower revenues, but this was largely due to the negative development of the EUR-USD exchange rate. European constant currency revenues declined by 0.6% in the first half 2019. In terms of sales activity, most European markets were resilient, with the Group benefitting from the extension of partnerships with large customers. Emerging product lines, such as watermarking and the Group's cloud-based security platform, gained traction, as large operators such as Vodafone and Canal selected these Group products.

At USD 70.7 million, the Americas business posted 23.6% lower revenues in the first half 2019. The main factor for this revenue decline relates to the IP licensing business, which did not generate any revenue in this first half. The North American satellite business continues to experience an erosion of its subscriber base. Latin American markets also generated lower volumes in this first half. The Asia Pacific and Africa region posted 10.9% lower revenues in 2019, which is primarily due to a revenue decline in the Australian market. Digital TV margin after cost of material remains high in this first half at close to 90%.

Digital TV generated USD 53.6 million of operating income before depreciation and amortization net of restructuring cost, representing a USD 1.6 million improvement from the previous first half. This segment's profitability benefits from the reduction of operating expenses driven by the Group's restructuring program. In the first half 2019, the Group reduced Digital TV operating costs by USD 32.0 million net of restructuring costs. Reported Digital TV operating income before depreciation and amortization was USD 39.9 million, compared to USD 24.0 million in the first half 2018, while reported operating income was USD 22.9 million, increasing by USD 13.1 million from the previous first half.

CYBERSECURITY

In the first half 2019, Cybersecurity revenues were lower than in the previous first half, while margin after cost of material increased, as the business mix continues to shift from lower margin technology reselling to higher margin advisory services, managed security services and proprietary technology sales. The Group's managed security service portfolio continues to expand; in this first half, it added native integration of market leading cloud service providers, including Amazon Web Services (AWS), Google Cloud Platform and

Azure. The Group's offering has been recognized in Gartner's Market Guide for the third consecutive year and was named one of the top 10 key players in Europe for managed security services.

Kudelski cybersecurity's business generated USD 72.9 million of gross revenues in the first half 2019, a 3.3% decrease from the first half 2018. With the IFRS 15 revenue recognition standard introduced in 2018, revenues from third-party support contracts, software subscription and cloud-based services are recognized on a net basis. An additional USD 8.4 million of cybersecurity revenues for the first half 2018 are netted out, reflecting newly introduced netting principles. As a result, cybersecurity net revenues were at USD 43.6 million in the first half 2019. The European region posted strong growth in this first half, increasing net revenues to USD 7.7 million, an 81.2% year-on-year improvement. The European region achieved high profiles wins in Germany and France, where it previously had little exposure. The Americas were most affected by the shift of business mix, with net revenues declining by 18.6% to USD 35.8 million.

Margin after cost of material increased to USD 18.9 million in this first half. In relative terms, margin after cost of material increased from 37.5% in the first half 2018 to 43.4% in this first half.

The Cybersecurity segment generated a USD 10.7 million operating loss before depreciation and amortization, representing USD 1.5 million improvement from the previous year.

INTERNET OF THINGS (IOT)

The Group launched an IoT Security Center of Excellence in 2017, providing secure IoT solutions, hardware and software assessments and evaluations, recommendations and implementations of design and control frameworks and countermeasures to mitigate risks and protect investments.

Last year, the Group ramped-up investments in the IoT domain with the development of a full IoT security platform, providing a pre-integrated, end-to-end solution on a variety of hardware devices and software-based clients. The Group has secured an initial portfolio of customers that is starting to generate early revenues and has built a funnel of prospects.

The development of the platform continued to progress in this first half and an initial launch was completed both on premise and on the AWS cloud platform. On-boarding of first customers and initial device ramp-up are expected in the last quarter of this year.

In this first half, IoT generated revenues of USD 1.2 million, mainly from the IoT Center of Excellence, and an operating loss before depreciation and amortization of USD 11.5 million, reflecting the early development stage of this business.

PUBLIC ACCESS

Reported Public Access revenues decreased by 2.3% in the first half 2019 compared to the prior year period. In constant currency, revenues increased by 2.9%. At USD 83.7 million, European sales increased by 2.8% from the previous year, representing a 9.6% growth in constant currency. The main markets driving growth were Switzerland, Italy and Germany. In the Americas, SKIDATA generated revenues of USD 53.5 million, representing a 12.2% increase compared to the previous year. The US market posted a recovery after the weak development of last year. Revenues for Asia/Pacific and Africa declined by 34.9%, reaching USD 22.1 million. The Australian market delivered a weak first half, following several years of sustained growth. Further drivers of this soft first half were Russia and Western Asian markets.

Margin after cost of material relative to revenues further increased from 58.6% to 59.4%. Public Access operating income before depreciation and amortization was USD 4.7 million, a USD 6.6 million improvement from last year's period. In this first half, Public Access reduced its operating loss by USD 3.4 million to USD 4.1 million.

As SKIDATA increased its working capital by USD 9.1 million during the period, the Public Access segment generated negative free cash flow in this first half.

BALANCE SHEET AND CASH FLOWS

Total non-current assets increased by USD 26.5 million to USD 723.2 million. Investments in technical equipment and machinery in the Digital TV segment were lower compared to the previous year. As a result, tangible fixed assets decreased by USD 1.0 million. The USD 8.0 million decrease in intangible fixed assets is mainly due a low investment level and the depreciation of assets capitalized with the acquisition of Conax. With the adoption of the IFRS 16 standard, leases are recorded on the balance sheet. As of end of June 2019, newly recorded right-of-use assets amount to USD 45.6 million. The related liabilities consist of USD 32.5 million of long-term lease obligations and USD 16.1 million of short-term lease obligations. Financial fixed assets at amortized cost decreased by USD 9.4 million, as we cashed in IP licenses accrued during previous periods.

Compared to December 31, 2018, total current assets decreased by USD 31.1 million to USD 495.8 million. The USD 10.5 million increase of inventories is mainly due to USD 6.3 million higher stock at SKIDATA. The Group decreased trade receivables by USD 52.4 million, as SKIDATA reduced outstanding receivables by USD 30.7 million.

Contract assets consist of amounts due from clients for projects recognized on a percentage of completion basis. Out of the total USD 78.0 million of total contract assets, USD 74.1 million relate to SKIDATA. SKIDATA was also the main driver of the year-on-year increase. Other financial assets at amortized costs increased by USD 15.1 million to USD 56.1 million. Short-term government grants receivables, indirect tax receivables and receivables from IP licenses due in the next 12 months drove this increase.

At the end of the period, cash and cash equivalents amounted to USD 60.3 million.

Total equity decreased by USD 25.4 million, mainly reflecting the negative net income for the period and the USD 5.5 million cash distribution to Kudelski shareholders.

Total non-current liabilities increased by USD 21.7 million to USD 506.1 million. Long-term financial debt decreased by USD 5.2 million to USD 393.0 million, including a USD 2.9 million decrease at SKIDATA. Total current liabilities decreased by USD 1.1 million to USD 309.3 million. Short-term financial debt increased by USD 15.6 million to USD 79.7 million, mainly due to a USD 12.0 million increase at SKIDATA.

During the first half 2019, the Group used USD 2.0 million of cash flow from operating activities, compared to USD 43.1 million in the previous first half. The main drivers of the year-on-year improvement are net income and accounts receivables. While net income improved by USD 17.6 million from the previous first half, the net positive cash impact from the reduction of receivables amounts to USD 38.4 million.

The Group used USD 10.1 million cash for investing activities, including USD 2.3 million to purchase intangible fixed assets and USD 7.0 million for tangible fixed assets. The Group reduced cash used for investing activities by USD 15.4 million compared to the first half 2018.

Net cash-out for financing activities amounted to USD 13.7 million, compared to a net cash in of USD 74.1 million in the first half 2018. The cash outflow includes the USD 5.5 million cash distribution paid to Kudelski SA shareholders. USD 8.6 million of the reduction of lease liabilities previously booked as operating cash flow are booked as outflow from financing activities.

OUTLOOK

In the second half 2019, the Group expects revenues in the Digital TV segment to be higher compared to the first half. The Group will incur further restructuring costs, resulting in a reported operating income before depreciation and amortization that is in the same range as the first half.

In the Cybersecurity segment, the Group will continue to drive the development of higher margin product lines and expects margin after cost of material to grow compared to the first half. The Group is targeting an improvement of segment operating income before depreciation and amortization compared to the first half.

Investment levels in the IoT domain are expected to stabilize in the second half, while revenues will continue to grow. For the full year, the Group expects IoT revenues to remain in the single digit million range.

In the Public Access segment, SKIDATA is expected to deliver higher revenues in the second half, in line with the seasonality patterns of the past years. Similarly, the Group expects a materially stronger operating income before depreciation and amortization, resulting in a significant year-on-year improvement of segment profitability.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018 (UNAUDITED)

In USD'000	January/ June 2019	January/ June 2018
Revenues	394 458	434 571
Other operating income	6 174	3 176
Total revenues and other operating income	**400 632**	**437 747**
Cost of material, licenses and services	-116 624	-123 300
Employee benefits expense	-209 441	-242 251
Other operating expenses	-59 063	-81 011
Operating income before depreciation, amortization and impairment	**15 503**	**-8 815**
Depreciation, amortization and impairment	-28 969	-21 418
Operating income	**-13 466**	**-30 233**
Interest expense	-5 097	-5 856
Other finance income/(expense), net	947	2 505
Share of results of associates	346	-301
Income before tax	**-17 270**	**-33 886**
Income tax expense	-3 138	-2 597
Net income for the period from continuing operations	**-20 408**	**-36 483**
Net result from discontinued operations	–	-1 539
Net income for the period	**-20 408**	**-38 022**
Attributable to:		
- Equity holders of the company	-23 013	*-40 252*
- Non-controlling interests	2 605	*2 230*

Earnings per share (in USD)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.4205	-0.7383
- Continuing operations	*-0.4205*	*-0.7158*
- Discontinued operations	-	*-0.0225*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0420	-0.0738
- Continuing operations	*-0.0420*	*-0.0716*
- Discontinued operations	-	*-0.0022*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018 (UNAUDITED)

In USD'000	January/ June 2019	January/ June 2018
Net income	**-20 408**	**-38 022**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-587	1 436
Cash flow hedges, net of income tax	285	-764
	-301	**672**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Change in Fair value of equity investment at fair value through other comprehensive income	–	57
Remeasurements on post employment benefit obligations, net of income tax	5 706	-2 702
Total other comprehensive income, net of income tax	**5 404**	**-1 973**
Total comprehensive income for the period	**-15 004**	**-39 995**
Attributable to:		
- Equity holders of the company	-17 603	-42 115
- Continuing operations	*-17 603*	*-41 108*
- Discontinued operations	*-*	*-1 007*
- Non-controlling interests	2 599	2 120
	-15 004	**-39 995**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2019 AND DECEMBER 31, 2018 (UNAUDITED)

In USD'000	30.06.2019	31.12.2018
ASSETS		
Non-current assets		
Tangible fixed assets	127 220	128 176
Intangible assets	423 667	431 723
Right-of-use assets	45 630	–
Investments in associates	6 613	6 191
Deferred income tax assets	60 530	61 612
Financial assets at fair value through comprehensive income	512	508
Financial assets at amortized cost	57 864	67 251
Other non-current assets	1 124	1 227
Total non-current assets	**723 160**	**696 687**
Current assets		
Inventories	70 424	59 868
Trade accounts receivable	204 682	257 092
Contract assets	77 974	59 987
Other financial assets at amortized cost	56 112	41 021
Other current assets	25 780	22 915
Derivative financial instruments	507	64
Cash and cash equivalents	60 279	85 979
Total current assets	**495 759**	**526 926**
Assets classified as held for sale	14 300	14 401
Total assets	**1 233 218**	**1 238 014**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	335 019	333 456
Reserves	49 044	73 164
Equity attributable to equity holders of the parent	**384 062**	**406 620**
Non-controlling interests	33 747	36 541
Total equity	**417 809**	**443 162**
Non-current liabilities		
Long-term financial debt	392 998	398 161
Long-term lease obligations	32 459	–
Deferred income tax liabilities	8 117	6 878
Employee benefits liabilities	62 979	66 319
Provisions for other liabilities and charges	76	97
Other long-term liabilities	9 448	12 946
Total non-current liabilities	**506 077**	**484 400**
Current liabilities		
Short-term financial debt	79 677	64 122
Short-term lease obligations	16 124	–
Trade accounts payable	51 208	79 608
Contract liabilities	60 715	50 570
Other current liabilities	86 905	95 746
Current income taxes	7 971	8 848
Derivative financial instruments	134	190
Provisions for other liabilities and charges	6 598	11 368
Total current liabilities	**309 332**	**310 452**
Total liabilities	**815 409**	**794 852**
Total equity and liabilities	**1 233 218**	**1 238 014**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018 (UNAUDITED)

In USD'000	January/ June 2019	January/ June 2018
Net income for the period	**-20 408**	**-38 022**
Adjustments for net income non-cash items:		
- Current and deferred income tax	2 966	1 730
- Interests, allocation of transaction costs and foreign exchange differences	1 906	6 414
- Depreciation, amortization and impairment	28 969	23 016
- Change in fair value of financial assets at fair value through profit or loss	-214	-344
- Share of result of associates	-346	301
- Non-cash employee benefits expense	3 522	4 043
- Deferred cost allocated to income statement	115	254
- Additional provisions net of unused amounts reversed	-237	9 900
- Non-cash government grant income	-724	-3 167
- Other non-cash (income) / expense	-2 984	-977
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non-operating cash items	11	90
Adjustments for change in working capital:		
- Change in inventories	-7 683	921
- Change in trade accounts receivable and contract assets	38 435	2 223
- Change in trade accounts payable and contract liabilities	-18 697	-20 433
- Change in deferred costs (short and long term portions)	–	-255
- Change in current income taxes liabilities	-2 820	-2 384
- Change in accrued expenses	-9 942	-13 174
- Change in other net current working capital headings	-11 828	-7 325
Government grant from previous periods received	2 162	20
Dividends received from associated companies	–	344
Interest paid	-1 514	-881
Interest received	516	357
Income tax paid	-3 177	-5 709
Cash flow from/(used in) operating activities	**-1 972**	**-43 057**
Purchases of intangible fixed assets	-2 294	-5 776
Purchases of tangible fixed assets	-6 984	-8 124
Proceeds from sales of tangible and intangible fixed assets	219	185
Investment in financial assets at amortized costs and other non-current assets	-1 439	-1 521
Divestments of financial fixed assets and loans reimbursement	697	2 094
Acquisition of subsidiaries, cash outflow (net of cash acquired):		
- Cash consideration arising from business combinations	–	-3 893
- Cash acquired from business combinations	–	3 332
- Payment arising from prior years business combinations	-281	-11 760
Cash flow from/(used in) investing activities	**-10 082**	**-25 463**
Reimbursement of bank overdrafts, long-term loans and other non-current liabilities	-13 958	-33
Increase in bank overdrafts, long-term loans and other non-current liabilities	19 696	79 717
Payments of lease obligations	-8 601	–
Proceeds from employee share purchase program	29	90
Dividends paid to non-controlling interests	-5 394	-19
Dividends and partial share capital repayment to shareholders	-5 473	-5 637
Cash flow from/(used in) financing activities	**-13 701**	**74 117**
Effect of foreign exchange rate changes on cash and cash equivalents	56	-2 200
Net increase/(decrease) in cash and cash equivalents	**-25 700**	**3 396**
Cash and cash equivalents at the beginning of the period	85 979	71 911
Cash and cash equivalents at the end of the period	60 279	75 307
Net increase/(decrease) in cash and cash equivalents	**-25 700**	**3 396**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2019 AND 2018 (UNAUDITED)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non controlling interests	Total equity
January 1, 2018 (published)		**332 222**	**85 345**	**35 549**	**-2 626**	**26 187**	**21 653**	**498 329**
Change in accounting policy	8	–	–	-9 172	25	-496	803	-8 840
January 1, 2018 (restated)		**332 222**	**85 345**	**26 377**	**-2 601**	**25 691**	**22 456**	**489 490**
Net result for the period		–	–	-40 252	–	–	2 230	-38 022
Other comprehensive income for the period		–	–	-2 702	-707	1 544	-108	-1 973
Total comprehensive income for the period		**–**	**–**	**-42 954**	**-707**	**1 544**	**2 122**	**-39 995**
Employee share purchase program		120	12	–	–	–	–	132
Shares issued for employees		1 029	138	–	–	–	–	1 167
Dividend paid to shareholders		–	-5 637	–	–	–	–	-5 637
Dividend paid to non-controlling interests		–	–	–	–	–	-20	-20
Non controlling interests arising on business combinations		–	–	–	–	–	2 274	2 274
June 30, 2018		**333 371**	**79 858**	**-16 577**	**-3 308**	**27 235**	**26 832**	**447 411**
January 1, 2019 (published)		**333 456**	**79 892**	**-15 373**	**-2 998**	**11 643**	**36 541**	**443 162**
Change in accounting policy	8	–	–	-429	–	–	–	-429
January 1, 2019 (restated)		**333 456**	**79 892**	**-15 802**	**-2 998**	**11 643**	**36 541**	**442 733**
Net result for the period		–	–	-23 013	–	–	2 605	-20 408
Other comprehensive income for the period		–	–	5 706	285	-581	-5	5 404
Total comprehensive income for the period		**–**	**–**	**-17 307**	**285**	**-581**	**2 599**	**-15 004**
Employee share purchase program		121	-43	–	–	–	–	78
Shares issued for employees		1 442	-572	–	–	–	–	870
Dividend paid to shareholders		–	-5 473	–	–	–	–	-5 473
Dividend paid to non-controlling interests		–	–	–	–	–	-5 394	-5 394
June 30, 2019		**335 019**	**73 803**	**-33 109**	**-2 712**	**11 062**	**33 747**	**417 809**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (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, Cybersecurity, Internet of Things (IoT) and Public Access businesses. The principal activities of the Group are described in the 2018 annual report.

2. BASIS OF PREPARATION

These interim condensed financial statements for the six month ended June 30, 2019 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, 2018.

Certain comparative figures have been represented to conform to the current year's presentation. These representations were not material and had no effect on the Group's reported operating income, net income or shareholders' equity for the period ending June 30, 2018. The representations result from the application of IFRS 15, Revenues from Contracts with Customers, relating to certain software subscription arrangements whereby during 2018 the Group changed its accounting to record revenue for these transactions on a net basis. This change resulted in a decrease in revenue and cost of materials, licenses and services of kUSD 8 359 for the period ended June 30, 2018.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases. The impact of the adoption of the new standard and the new accounting policies are disclosed in Note 8. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Group.

4. SEASONALITY

In the Digital TV business, Christmas sales usually lead to higher volumes, and therefore higher revenues, in the last quarter of the year. 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 both the parking and ski access business since it earns a significant portion of its revenues in the fourth quarter.

Cybersecurity services, including managed security, advisory services, and research and development, are not seasonally sensitive, however, technology consulting and resale services could be impacted by fiscal year ends and budget constraints of public, private and governmental organizations leading to higher revenues in the second half of the year.

The Group's IoT segment is currently in an early development phase. Revenues can be volatile until a stable customer base is established. Bulk orders and revenue recognition effects from large projects can also lead to material revenue variations between the first and second half-year in both the Cybersecurity and the IoT segments.

5. SHARE-BASED PAYMENTS

As of June 30, 2019, 15 072 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 24. The Group issued 180 199 bearer shares as part of 2018 management bonus payment which expense was fully accrued for at December 31, 2018.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

6. DIVIDEND

On April 16, 2019, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 5 473.

7. CONTINGENT CONSIDERATION

Remeasurement of contingent consideration for past business combinations resulted in a net gain amounting to kUSD 79 and is included in other finance income/(expense), net.

8. CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019, where they are different to those applied in prior periods.

IMPACT ON THE FINANCIAL STATEMENTS

The Group has adopted IFRS 16 Leases retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

Upon adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.40% The reconciliation of the lease liability at January 1, 2019 is as follows:

In USD'000	Financial lease liability
Operating lease commitments disclosed at December 31, 2018	44 171
Contracts reassessed as leasing arrangements	13 389
Operating lease commitments at December 31, 2018 - adjusted	**57 560**
Adjustments as a result of different treatment of extension and termination options	3 717
Short-term and low-value leases recognized on a straight-line basis	-824
Discount using the Group's incremental borrowing rate of 3.40%	-4 321
Total lease obligations at January 1, 2019	**56 132**
Of which are:	
Short-term lease obligations	16 775
Long-term lease obligations	39 356
	56 132

The associated right-of-use assets were measured at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments relating to that lease recognized in the balance sheet at December 31, 2018. For leases subject to a sublease arrangement, no right-of-use asset was recognized and instead the amounts to be received were reflected in the balance sheet as financial assets at amortized cost. The recognized right-of-use assets relate to the following types of assets:

In USD'000	30.06.2019	1.1.2019
Land and buildings	40 638	47 128
Equipment and machines	4 991	5 988
Total right-of-use assets	**45 630**	**53 116**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

In USD'000	1.1.2019
Right-of-use assets	53 116
Deferred income tax assets	-114
Financial assets at amortized cost - long-term portion	1 359
Financial assets at amortized cost - short-term portion	825
Other current assets	-503
Total assets	**54 682**
Reserves	-429
Long-term lease obligations	39 356
Short-term lease obligations	16 775
Other current liabilities	-1 021
Total equity and liabilities	**54 682**

Operating lease costs, which were previously fully recognized as an operational expense, are now recorded as depreciation expense in the amount of kUSD 8 280 and interest expense of kUSD 843. In addition, lease payments of kUSD 8 601 which represent the reduction of the lease liability is recognized in the cash flow statement as an outflow from financing activities, which was previously fully recognized as an outflow from operating activities.

In applying IFRS 16 for the first time, the Group has elected to use the following practical expedients permitted by the standard:
- use of a single discount rate to a portfolio of leases with reasonaly similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate

SIGNIFICANT ACCOUNTING POLICIES

Leases

The Group leases various properties, equipment and vehicles. Rental contracts are typically made for fixed periods between one and 10 years and may contain extension options as described below. Lease terms are negotiated on an individual basis and contain a wide variety of different terms and conditions. The lease agreements generally do not impose financial covenants, however, leased assets are not allowed to be used as collateral for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are valued at the net present value of the future lease payments, which include fixed lease payments, variable payments based on indexes and rates, residual value guarantees, purchase options and termination penalties. The lease payments are discounted using the interest rate implicit in the lease, or if that rate cannot be determined, the Group's incremental borrowing rate based on the currency in which it finances its local operations.

Right-of-use assets are measured at cost, comprising the amount of the initial lease liability plus or minus any lease payments made at or before the commencement date of the lease, any lease incentives received, initial direct costs and any estimated restoration costs.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are defined as leases with a term of 12 months or less. Low-value assets comprise general office furniture and IT equipment.

Extension and termination options are included in a number of property and equipment leases throughout the Group. These terms are used to maximize operational flexibility as the Group's needs change, with the majority of extension and termination options being exercisable only by the Group and not by the respective lessor.

9. 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, 2019 and December 31, 2018. For additional information on the levels and valuation methods, please refer to Note 45 to the consolidated financial statement in the 2018 annual report.

In USD'000		30.06.2019	31.12.2018
Financial assets at fair value through comprehensive income:			
- derivative financial instruments	Level 2	507	64
- equity instuments with no quoted market price	Level 3	512	508
Total financial assets		**1 019**	**571**
Financial liabilities:			
- derivative financial instruments	Level 2	134	190
- contingent consideration (short-term portion)	Level 3	744	352
- contingent consideration (long-term portion)	Level 3	1 475	2 142
Total financial liabilities		**2 353**	**2 684**

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. 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 and discount rates comprised between 6.6 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 liabilities
Balance at January 1, 2018	410	-7 781
Settlements	–	6 049
Impairment	-406	–
Remeasurement (recognised in other operating income)	–	-116
Reclassification	512	–
Discount effect (recognised in interest expense)	–	-824
Exchange difference	-4	-54
Currency translation adjustment	-4	232
Balance at December 31, 2018	**508**	**-2 494**
Settlements	–	281
Remeasurement	–	79
Discount effect (recognised in interest expense)	–	-36
Currency translation adjustment	4	-49
Balance at June 30, 2019	**512**	**-2 219**

Reclassification relates to available-for-sale equity instruments with no quoted market price that were previously measured at cost less impairment, which has been reclassified at fair value through OCI.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

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 30.06.2019	Fair value 30.06.2019
Financial liabilities		
- CHF 200 million bond	204 523	184 221
- CHF 150 million bond	153 238	124 488

The fair value of the bonds are based on their market price as of June 30. Limited trading liquidity results in material volatility of such prices.

10. 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 four operating segments which are reflected in internal management reporting: Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access.

The Digital TV 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 Intellectual Property activities.

The Cybersecurity division provides end-to-end cybersecurity solutions to a wide range of customers across multiple sectors, including advisory services, technology and resale services, managed security and custom developed proprietary solutions in domains not covered by existing commercial products. The Cybersecurity division is a combination of organic developments and the former acquisitions of Milestone Systems, Inc. and M&S Technologies.

The IoT division extends the existing Digital Television secure platform into new domains, enabling device security through identity authentication and firmware protection, data security to ensure the confidentiality, integrity and authenticity of sensitive data, and access management and active security protections to enable secure processing, local decision making and threat detection and response.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and other major events.

The measure of income presented to manage segment performance is the segment operating income before depreciation, amortization and impairment. This measure is based on the same accounting policies as the consolidated total 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.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

In USD'000	Digital TV January/ June 2019	Public Access January/ June 2019	Cyber-security January/ June 2019	Internet of Things January/ June 2019	Total January/ June 2019
Revenues from external customers	190 490	159 216	43 593	1 158	394 458
Other operating income	6 136	17	–	21	6 174
Total segment revenues and other operating income	**196 626**	**159 233**	**43 593**	**1 179**	**400 632**
Cost of materials, licenses and services	-27 056	-64 726	-24 668	-175	-116 624
Operating expenses	-129 675	-89 769	-29 656	-12 482	-261 582
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**39 896**	**4 738**	**-10 730**	**-11 478**	**22 426**
Depreciation, amortization and impairment	-16 996	-8 788	-2 840	-344	-28 969
Operating income - excluding corporate common functions	**22 900**	**-4 050**	**-13 571**	**-11 822**	**-6 543**
Corporate common functions					-6 922
Interest expense and other Finance income/(expense), net					-4 150
Share of result of associates	–	346	–	–	346
Income before tax from continuing operations					**-17 270**
	30.06.2019	30.06.2019	30.06.2019	30.06.2019	30.06.2019
Total segment Assets	**655 541**	**377 182**	**142 893**	**36 868**	**1 212 484**

In USD'000	Digital TV Restated January/ June 2018	Public Access Restated January/ June 2018	Cyber-security Restated January/ June 2018	Internet of Things Restated January/ June 2018	Total Restated January/ June 2018
Revenues from external customers	222 720	162 948	48 261	641	434 571
Other operating income	2 757	400	5	14	3 176
Total segment revenue and other operating income	**225 478**	**163 348**	**48 267**	**655**	**437 747**
Cost of materials, licenses and services	-25 494	-67 640	-30 164	-2	-123 300
Operating expenses	-175 948	-97 578	-30 306	-10 785	-314 617
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**24 035**	**-1 870**	**-12 203**	**-10 132**	**-169**
Depreciation, amortization and impairment	-14 268	-5 605	-1 110	-434	-21 418
Operating income - excluding corporate common functions	**9 767**	**-7 475**	**-13 313**	**-10 566**	**-21 588**
Corporate common functions					-8 645
Interest expense and other Finance income/(expense), net					-3 352
Share of result of associates	–	-301	–	–	-301
Income before tax from continuing operations					**-33 886**
	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Total segment Assets	**671 105**	**351 272**	**148 105**	**36 290**	**1 206 772**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019 (UNAUDITED)

In USD'000	30.06.2019	31.12.2018
Total Segment Assets	1 212 484	1 206 772
Cash & Cash equivalents	2 589	13 021
Other current assets	1 604	1 193
Financial assets and other non-current assets	2 241	2 627
Asset of disposal group classified as held for sale	14 300	14 401
Total Assets as per Balance Sheet	**1 233 218**	**1 238 014**

REVENUE CATEGORIES

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Digital TV		Public Access		Cybersecurity		Internet of Things	
In USD'000	January/ June 2019	Restated January/ June 2018	January/ June 2019	Restated January/ June 2018	January/ June 2019	Restated January/ June 2018	January/ June 2019	Restated January/ June 2018
Europe	78 697	84 088	83 677	81 411	7 732	4 268	1 158	641
Americas	70 693	92 520	53 469	47 638	35 829	43 994	–	–
Asia & Africa	41 100	46 112	22 070	33 899	33	–	–	–
	190 490	**222 720**	**159 216**	**162 948**	**43 593**	**48 261**	**1 158**	**641**
Sale of goods	51 795	68 165	99 921	106 291	17 318	19 445	–	–
Services rendered	93 222	108 199	44 141	42 795	16 152	20 749	1 158	641
Royalties and licenses	45 474	46 357	15 154	13 862	10 122	8 067	–	–
	190 490	**222 720**	**159 216**	**162 948**	**43 593**	**48 261**	**1 158**	**641**

11. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2019	31.12.2018	30.06.2019	30.06.2018
1 CHF	1.025	1.015	1.000	1.034
1 EUR	1.136	1.145	1.130	1.210

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