KUDELSKI GROUP
INTERIM REPORT 2016

65 YEARS
OF INNOVATION
1951-2016

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2016 (UNAUDITED)

In CHF'000	January/ June 2016	January/ June 2015 (restated)
Revenues and other operating income	481 832	431 657
Margin after cost of material	336 474	317 265
Margin after cost of material in % of revenues and other operating income	69.83%	73.50%
Operating income (pro forma)	33 439	35 905
Operating income in % of revenues and other operating income	6.94%	8.32%
Net income for the period	**21 036**	**9 774**
Earnings per bearer share for the period		
– basic	0.3135	0.1295
– diluted	0.3135	0.1295

In CHF'000	30.06.2016	31.12.2015
Equity	452 257	447 006
Cash and cash equivalents	87 469	136 840
Market capitalization	959 972	714 714
Share price (in CHF)	19.35	14.45

FIRST HALF 2016 HIGHLIGHTS

- SOLID GROUP PERFORMANCE WITH REVENUES & OTHER OPERATING INCOME UP BY +11.6% AND NET PROFIT INCREASING BY +115.2%

- ROBUST PERFORMANCE OF THE INTEGRATED DIGITAL TV DIVISION WITH +51.8% GROWTH IN ASIA/PACIFIC & AFRICA

- FURTHER WINS IN CORE DIGITAL TV MARKETS ON ALL CONTINENTS

- EXPANDING THE DIGITAL TV TECHNOLOGY PORTFOLIO THROUGH R&D AND ACQUISITION OF NEXGUARD, THE WATERMARKING LEADER (JULY 2016)

- CONTINUED PATENT LICENSING MOMENTUM WITH THE ADDITION OF NEW MAJOR LICENSEES INCLUDING VERIZON, YAHOO AND A FORTUNE 50 COMPANY

- ESTABLISHING THE BASIS FOR FUTURE GROWTH FOR KUDELSKI SECURITY IN THE USA BY SETTING UP THE PHOENIX KUDELSKI SECURITY HQ, ACQUIRING MILESTONE AND RECRUITING KEY GLOBAL EXECUTIVES

- EXECUTING UPON THE GLOBAL EXPANSION STRATEGY OF PUBLIC ACCESS INITIATED IN 2015 WITH STRONG MOMENTUM AND REVENUE GROWTH REACHING 51.3%

- POSITIVE OUTLOOK FOR 2016 WITH A GUIDANCE OF MORE THAN CHF 1 BILLION IN REVENUES AND BETWEEN CHF 90-100 MILLION OF OPERATING INCOME

LETTER TO SHAREHOLDERS

First Half 2016

For the first half 2016, total revenues and other operating income increased by 11.6% to reach CHF 481.8 million, with operating income of CHF 33.4 million, which is 6.9% lower as compared to the first half 2015. Net income increased by 115.2% to CHF 21 million compared to the first half 2015.

The Kudelski Group was able to deliver solid performance during the first half 2016 as a result of previous strategic decisions and in spite of adverse market conditions in some countries. More specifically, the Group's performance during the first half benefitted primarily from the following factors:

- SKIDATA experienced strong revenue growth primarily in its non-European business, which reflects the solid execution of the company's strategic expansion plan. The broader application of the percentage-of-completion accounting method (POC) at SKIDATA has also reduced the volatility of the company's results, which allows us to better report the operational reality.
- Robust performance of the integrated Digital TV division, in spite of adverse market conditions in South America and in some countries in Europe, demonstrates the division's diversified customer footprint and product portfolio.
- Efforts to optimize the Group's cost structure continue, including through an evolution of the Group's overall geographic location mix.

iDTV Business

During first half 2016, iDTV revenues were substantially stable compared to the same period in 2015 primarily due to the following factors:

- Revenues from the Americas region were 20% lower than during first half 2015 due to difficult market conditions in South America. North American revenues were slightly lower than during first half 2015, driven by the volatility of intellectual property licensing revenues. In 2016, intellectual property licensing revenues will be stronger in the second half of the year, whereas in 2015, such revenues were stronger in the first half of the year.
- Revenues from Europe were comparable to the first half 2015 following the strong performance seen during first half 2015. Despite challenging market conditions, we have been able to achieve solid results in this region.
- Revenues in the Asia/Pacific and Africa region increased by 51.8%, primarily driven by growth in India, Taiwan, Singapore and South Africa. Our solid performance in this region is the consequence of an optimized product offering targeted for this region as well as the excellent performance of Conax. The growth rate achieved during first half 2016 is materially higher than the 15.6% growth seen in first half 2015.

Public Access

Following important strategic decisions taken in 2015, SKIDATA is realizing the benefits of its extra-European expansion strategy. With global revenues increasing by 51.3% compared to first half 2015, SKIDATA is well-positioned as the global market leader both in terms of market share and pace of growth. Key customer wins in first half 2016 include the parking systems for the City of San Francisco and for MGM hotels in Las Vegas, Nevada. These significant projects demonstrate the strong growth momentum seen at SKIDATA.

Kudelski IP & Innovation

Since 2012, the Kudelski IP team has worked to establish the Kudelski Group as an important player in the intellectual property domain. The primary objectives have been to protect the valuable intellectual property that the Kudelski Group develops as a result of our significant investment in R&D, enable opportunities to access relevant third party intellectual property and generate licensing revenues from third parties who use our intellectual property.

With new license agreements signed in 2016 with Verizon, Yahoo, Apple (2nd half 2016), RPX (2nd half 2016) and Hulu (2nd half 2016), Kudelski IP has shown efficiency in delivering concrete results with third parties. Moreover, the size and stature of the companies licensing our intellectual property confirms the relevance of our portfolio and evidences the importance these companies place on securing appropriate rights from us for the future of their products and solutions.

Cybersecurity

Following the decision taken in 2015 to expand the footprint of Kudelski Security globally, the Group undertook major investments and actions, including:

- establishing a Kudelski Security HQ. in Phoenix, Arizona to better address the US market;
- acquiring Milestone, an important player in the US cybersecurity market, to accelerate our market entry. Milestone serves the cybersecurity needs of major US corporations;
- appointing key executives to better address the global cybersecurity market; and
- reinforcing the collaboration with technology partners in order to better address client needs.

With these moves, Kudelski Security confirms its position as a global player in the cybersecurity space, and we expect to continue to reinforce the positioning of Kudelski Security in this high potential sector. In addition, an important focus will be to further develop the unique, next generation cybersecurity technologies that will serve as a key differentiator for the Group.

Outlook

During first half 2016, the Kudelski Group took bold decisions that further strengthen our foundation for future development, including:

- Establishing a dual headquarters structure, with Cheseaux (Switzerland) and Phoenix (Arizona – USA) enabling the Group to be closer to its most important market and to benefit from the USA's unparalleled potential for new business opportunities, while at the same time maintaining its Swiss and international roots.
- Though the acquisition of NexGuard, expanding our Digital TV security offering by adding watermarking technologies in order to better protect content security once it is delivered to the end user. This expansion confirms the positioning of the Group as the key player in global content security.
- By expanding aggressively Kudelski Security, both in terms of market presence in the USA through the acquisition of Milestone and core expertise by further expanding its high performance executive team.

The Kudelski Group continues to execute its strategy by building the next generation of digital TV technologies, investing in the expansion of its Kudelski Security business, continuing its intellectual property initiatives and expanding the global footprint and revenues of SKIDATA.

For the full year 2016, total revenues and other operating income are expected to exceed CHF 1 billion, and operating income is expected to be between CHF 90-100 million.

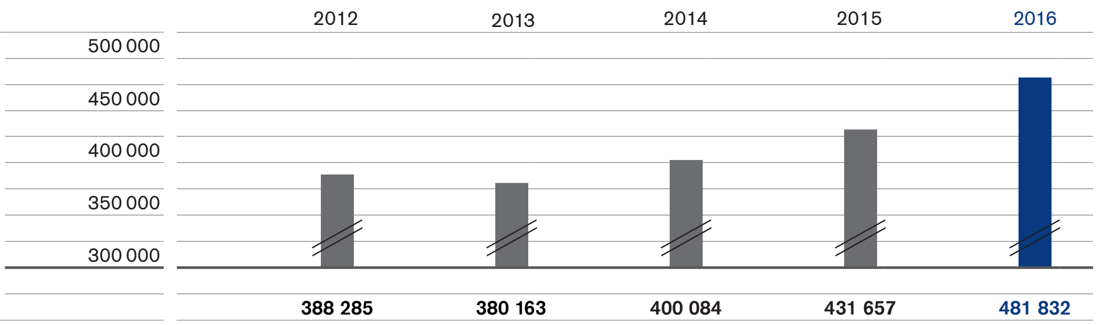
We would like to take this opportunity to thank our clients, partners, employees and shareholders for their continued trust in this challenging environment, where important efforts are required to deliver sustainable results for the future.

ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

KEY FIGURES FIRST HALF 2016*

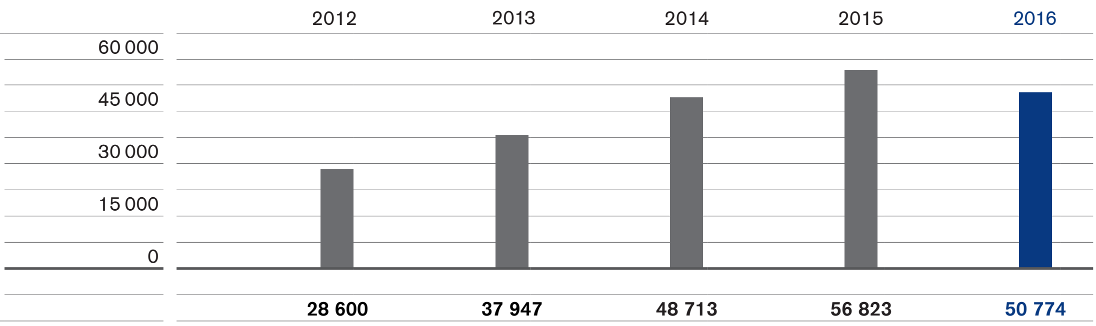
In CHF '000

Revenues and other operating income



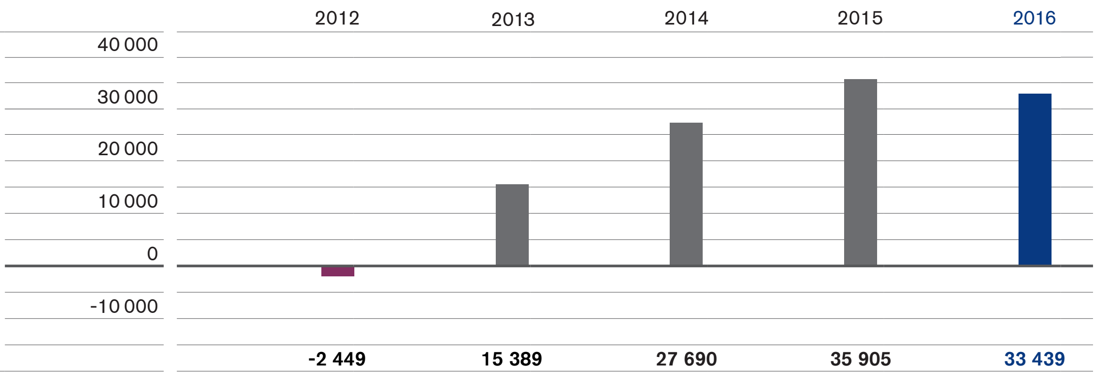
In CHF '000

OIBDA



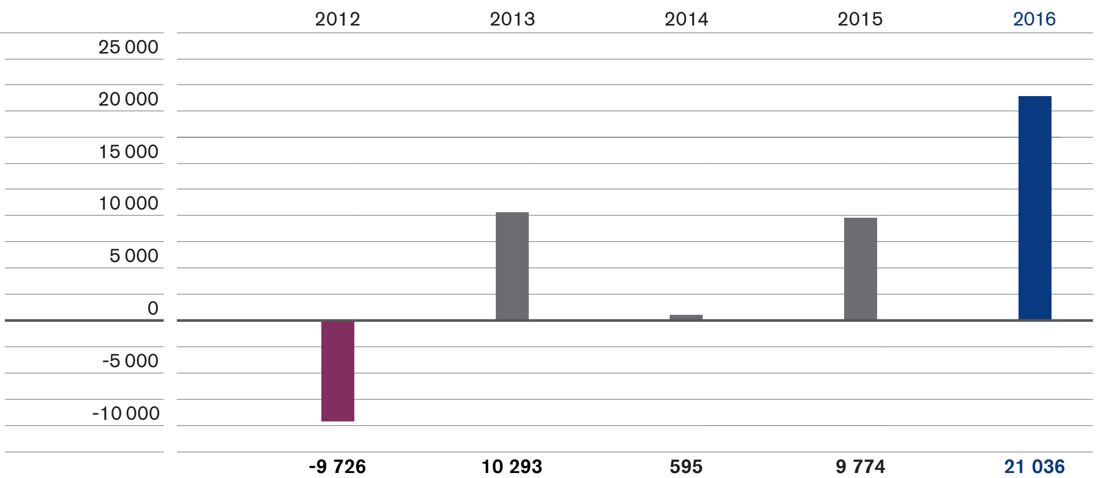
In CHF '000

Operating income



In CHF '000

Net income



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

FIRST HALF 2016 RESULTS

In the first half 2016, the Kudelski Group grew its consolidated revenues, while maintaining solid profitability.

A less pronounced seasonality compared to previous years resulted in a strong first half 2016 for Public Access, which delivered its best ever first half revenue growth and absolute profitability. Revenues grew by over 50%, and Public Access posted its first ever positive first half operating income. As SKIDATA is now tracking deployment projects with a higher level of granularity, the Group started to systematically apply the percentage of completion (POC) method to such projects, which better matches revenue recognition with the actual progress of the work performed. Applying the first half 2015 revenue recognition method, Public Access would have achieved revenue growth of 28.3%.

The integrated Digital TV (iDTV) segment was resilient in this first half, with a stable core digital TV business and strong momentum at Conax. The Group continued to develop its intellectual property (IP) licensing activities, entering into additional patent licensing agreements. However, both revenue and profit contribution from IP licensing activities were lower than in the first half of last year, which was driven by an even stronger set of agreements.

In the first half of this year, the Group achieved significant progress in implementing its cyber security strategy. On May 3, the Group completed the acquisition of Milestone Systems, a well-established provider of security services in the network security domain. Milestone Systems provides the Group with a proven platform for the deployment in North America of cybersecurity technologies and managed service capabilities currently under development. Total consideration for this acquisition was CHF 41.3 million. At the first half run rate, the newly acquired business will contribute, on an annualized basis, CHF 77 million in revenues and a positive net income. On August 2, Kudelski Security formally launched its US operations at Black Hat USA 2016, integrating the newly acquired Milestone Systems operations and announcing a number of senior leadership appointments to expand its global presence. As a result of these developments, Kudelski Security will now benefit from a broader portfolio of tier one customers across multiple industries and geographies and a growing ecosystem of strategic technology partners, including F5, Palo Alto Networks, Crowdstrike and RSA.

Overall, total Group revenues for the first half 2016 increased by 12.5% to CHF 475.5 million, primarily driven by the 51.3% growth of the Public Access segment. At constant currency rates, Group revenues increased by 9.0%. Compared to the strong first half 2015, which was supported by a higher revenue base from IP licensing agreements, iDTV revenues for the first half 2016 grew by 1.7%.

The Group reported operating income of CHF 33.4 million, representing a CHF 2.5 million decline from the previous first half. Net income more than doubled, growing from CHF 9.8 million to CHF 21.0 million.

In 2015, the accounting treatment of foreign exchange differences was revised to consider all exchange differences in connection with subsequent measurements and settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences related to debtors and suppliers as part of revenue and cost of material, licenses and services. As a result of this change, restated first half 2015 revenues increased by CHF 6.7 million in 2015, while cost of material increased by CHF 1.2 million. Restated first half 2015 operating income is therefore CHF 5.5 million higher than the previously reported operating income, while other finance income decreased by the same amount.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for the first half 2016 increased by CHF 50.1 million to CHF 481.8 million. Revenues grew by CHF 52.7 million, while other operating income declined by CHF 2.5 million, as first half 2015 other operating income included a one-off CHF 4.1 million gain from the acquisition of Echostar's European set-top box operations.

"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 19.2 million to CHF 336.5 million. Relative to total revenues, margin after cost of material decreased from 73.5% to 69.8%. The main driver of this margin reduction relates to a shift of the revenue mix from relatively higher margin iDTV revenues to Public Access revenues. In the first half 2016, Public Access accounted for 29.2% of total revenues compared to 21.7% in the first half of last year.

Personnel expenses increased by CHF 21.2 million to CHF 212.9 million. Growth of personnel costs was primarily driven by higher SKIDATA headcount required to support business expansion, growth of the Group's cybersecurity activities and the consolidation for a full period of the Echostar International operations acquired on May 18, 2015. Total Group headcount increased by 217 to 3'676 employees as of June 30, 2016. SKIDATA was one of the drivers of this headcount increase, accounting for an additional 88 employees, mainly in North America. The acquisition of Milestone Systems added a further 88 employees in the United States. In Switzerland, the Group increased cybersecurity and core security technologies headcount by 17 employees reaching 784 at the end of June. Finally, the Group continues to expand its Indian operations, both in the iDTV and in the Public Access segments, adding another 48 employees for a total headcount of 359.

Compared to the first half 2015, other operating expenses increased by CHF 4.1 million to CHF 72.8 million. Legal costs, mainly related to IP litigation that was settled in the first weeks of this second half, were CHF 2.8 million higher, as compared to the first half 2015.

The Group's operating income before depreciation and amortization was CHF 50.8 million for the first half 2016, a CHF 6.0 million decrease over the first half 2015. At CHF 17.3 million, depreciation, amortization and impairment was CHF 3.6 million lower than in the first half 2015, reflecting the reduced levels of capital expenditures over the last five years. Overall, the Group generated operating income of CHF 33.4 million, compared to CHF 35.9 million in the previous first half.

At CHF 4.8 million, interest expense in the first half 2016 was CHF 4.3 million lower than in the previous first half, as the Group fully repaid the remaining CHF 165 million credit facility obtained in 2014 to finance the acquisition of Conax and issued a new CHF 200 million bond carrying a lower interest rate. The Group posted CHF 2.7 million of net finance expenses, representing a CHF 12.5 million decrease from the first half 2015. This improvement is due to the substantial reduction of negative foreign exchange effects compared to the previous year. Income tax expense increased from CHF 2.2 million to CHF 5.2 million. Overall, the Group improved net income by CHF 11.2 million, reaching CHF 21.0 million in the first half 2016.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 1.7% to CHF 336.7 million, representing a constant currency decline of 1.8% over the prior year period.

The Group's European iDTV business posted growth of 3.6%, reaching CHF 120.5 million. Growing revenues from Eastern European markets reflect the strong performance of Conax. Nagra anyCAST CONNECT deployments with Altice operators represent a further positive highlight from the European region.

In the first half 2016, reported revenues from the segment's Americas region declined by 20.0%. Brazil continued to slow down, generating less than half the revenues than it generated in the first half 2015. Other South American markets were also weaker compared to previous periods. In North America, the iDTV segment benefitted from the robust development of the core digital TV business, while patent licensing revenues were lower compared to the first half 2015.

The Asia/Pacific and Africa region posted revenue growth of 51.8% in this first half. Positive highlights included significant progress at Starhub in Singapore, where the headend migration project is on track and Starhub launched Netflix in May using the Group's MediaLive and anyCAST CONNECT solutions. In Taiwan, the Group continues to benefit from favorable momentum with cable operators. In India, Conax deployed high volumes of smartcards in this first half. Finally, the Group continued to expand its African footprint, with highlights in South Africa, where material volumes of SmarDTV set-top boxes were deployed in the first half, and Nigeria, where Nagra was selected for a nationwide digital terrestrial project.

Overall, operating income for the iDTV segment reached CHF 42.3 million, compared to CHF 59.4 million in the first half 2015. A resilient core digital TV business and a robust profit contribution from Conax are among the positive highlights for the iDTV segment.

In the first half 2015, segment profitability benefitted from patent licensing agreements with Netflix, Google, Disney and Bloomberg. In the first half 2016, profit contribution from patent licensing activities was lower than in the previous first half. However, this line of business continued to develop favorably, signing additional licensing agreements with Verizon, Fine Swiss Metals, Yahoo! and an unnamed Fortune 50 company in this first half and with further robust profit contribution accruing in the second half from new licensing agreements signed with Apple, RPX and Hulu, which resulted in the settlement of all ongoing patent litigation with Apple and Hulu.

While still loss making, the Group's cybersecurity business is starting to gain traction, as Kudelski Security assembled a strong leadership team, gained critical mass in the United States market through the acquisition of Milestone Systems and continued to expand its technology ecosystem through a broad network of partnerships.

PUBLIC ACCESS

SKIDATA posted a 51.3% sales increase in the first half 2016, reaching CHF 138.8 million revenue, as it managed to reduce the strong seasonality of its business. Using the same revenue recognition methods as last year, SKIDATA would have achieved a 28.3% sales increase.

In Europe, revenues grew by 40.3% compared to the previous first half. Highlights of the European segment performance include a strong development of the Austrian business, driven by upgrades of software and related equipment and of the Dutch business with a newly won smart parking tender with the city of Amsterdam. Further European markets with positive momentum included in particular Switzerland, France and Germany.

In the Americas, the acquisition and integration of Sentry drove last year's growth, while organic development supported this first half. First half 2016 highlights include the installation of access control solutions in ten Las Vegas MGM hotels and winning the largest contract in SKIDATA's history, a multi-year agreement with the City of San Francisco that is expected to generate revenues of USD 20 million.

Revenues for Asia/Pacific and Africa grew by 45.5%. The consolidation of SKIDATA's Australian parking subsidiary drove last year's growth, while organic development supported this first half. In addition to a continued strong performance in Australia, the Group benefited from positive momentum in other markets, such as Japan, where SKIDATA won the access control business of fifteen ski resorts in the Hakuba Valley.

Within the two year period 2014-2016, SKIDATA increased extra-European first half revenues from CHF 18.7 million to CHF 62.2 million.

Public Access operating income improved from a CHF 15.3 million loss in the first half of 2015 to positive CHF 0.2 million. For the first time in its history, SKIDATA generated a positive first half operating income. The profitability improvement was driven by the top line expansion and was achieved in spite of continued investments for the further expansion of the business, including, for example, the opening of new offices in Dubai and Mexico. Using the same revenue recognition methods as last year, Public Access operating income would have improved by CHF 5.6 million compared to the first half 2015.

BALANCE SHEET AND CASH FLOW

Total non-current assets increased by CHF 38.9 million in the first half 2016, with tangible fixed assets increasing by CHF 1.3 million and intangible fixed assets by CHF 41.8 million. The first time consolidation of Milestone Systems added CHF 31.6 million to goodwill and CHF 8.1 million to customer list.

Compared to December 31, 2015, total current assets decreased by CHF 21.8 million. A CHF 7.3 million increase of inventory is mainly due to a larger than usual chip inventory established to hedge against potential supply bottlenecks from a chip vendor. The Group increased trade accounts receivable by CHF 7.9 million, as newly acquired Milestone Systems added CHF 9.5 million and SmarDTV increased its receivables by CHF 7.7 million. The CHF 12.5 million increase in other current assets is mainly due to other receivables increasing by CHF 7.8 million, including in particular a shift from long-term to short-term assets of amounts due for government grants. As of June 30, 2016, cash and cash equivalents amounted to CHF 87.5 million.

Total equity increased by CHF 5.2 million,mainly reflecting a CHF 21.0 million net income and a CHF 19.0 million capital distribution to shareholders.

Total non-current liabilities increased by CHF 1.0 million to CHF 310.9 million. Non-current liabilities include the CHF 200 million bond maturing in August 2022. Total current liabilities increased by CHF 10.9 million to CHF 343.4 million. Current liabilities include CHF 100.2 million of the CHF 110 million bond maturing in December 2016. In the first half 2016, the Group bought back CHF 2.7 million of this bond. A CHF 3.8 million increase of deferred/contingent consideration to CHF 15.2 million primarily relates to estimated future consideration for the acquisition of Milestone Systems that is contingent upon the company's achievement of certain earn-out targets.

During the first half 2016, the Group generated CHF 19.9 million of cash from operating activities, representing a decrease of CHF 15.5 million compared to cash flows generated during the first half of 2015. Change in working capital had a negative impact of CHF 19.4 million on the first half 2016 cash flows from operating activities. The Group used CHF 54.5 million of cash for investing activities, including cash used for acquisitions of CHF 32.0 million. Cash used for financing activities amounts to CHF 14.8 million, including CHF 19.0 million repaid as a capital distribution to Kudelski SA's shareholders.

OUTLOOK

For the full year 2016, the Group expects growing iDTV revenues, driven, in particular by the expansion of the Group's cybersecurity operations and strong results from IP licensing. Second half iDTV revenues and operating income are forecasted to be higher than in the first half.

In the Public Access segment, seasonality effects are expected to be less pronounced compared to previous years. The strong first half momentum of SKIDATA is expected to continue in the second half, resulting in a robust full year growth and profitability that exceeds last year's.

For the full year, the Group forecasts continued strong cash generation with operating free cash flow in the same range as in recent years.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

In CHF'000	January/ June 2016	January/ June 2015 (restated)
Revenues	475 527	422 838
Other operating income	6 305	8 819
Total revenues and other operating income	**481 832**	**431 657**
Cost of material, licenses and services	-145 358	-114 392
Employee benefits expense	-212 852	-191 744
Other operating expenses	-72 848	-68 698
Operating income before depreciation, amortization and impairment	**50 774**	**56 823**
Depreciation, amortization and impairment	-17 335	-20 918
Operating income	**33 439**	**35 905**
Interest expense	-4 805	-9 145
Other finance income/(expense), net	-2 622	-15 220
Share of results of associates	237	470
Income before tax	**26 249**	**12 011**
Income tax expense	-5 213	-2 237
Net income for the period	**21 036**	**9 774**
Attributable to:		
- Equity holders of the company	17 004	7 001
- Non controlling interests	4 032	2 773
	21 036	**9 774**

EARNINGS PER SHARE (unaudited)

In CHF	January/ June 2016	January/ June 2015
Earnings per bearer share - basic and diluted:	0.3135	0.1295
Earnings per registered share (not listed) - basic and diluted:	0.0313	0.0129

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

In CHF'000	January/ June 2016	January/ June 2015
Net income	**21 036**	**9 774**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	3 546	-37 815
Cash flow hedges, net of income tax	312	-76
Net gain on available-for-sale financial assets, net of income tax	-93	-177
	3 766	**-38 068**
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	-15	-68
Total other comprehensive income, net of income tax	**3 751**	**-38 136**
Total comprehensive income/(loss) for the period	**24 787**	**-28 362**
Attributable to:		
- Equity holders of the company	21 250	-29 508
- Non controlling interests	3 537	1 146
	24 787	**-28 362**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2016 AND DECEMBER 31, 2015 (UNAUDITED)

Assets

In CHF'000	30.06.2016	31.12.2015
Non-current assets		
Tangible fixed assets	140 385	139 120
Intangible assets	390 922	349 127
Investment property	–	1 096
Investments in associates	5 537	4 499
Deferred income tax assets	62 471	61 407
Financial assets and other non-current assets	38 936	44 051
Total non-current assets	**638 251**	**599 300**
Current assets		
Inventories	55 438	48 087
Trade accounts receivable	264 861	256 977
Other current assets	60 369	47 892
Derivatives financial instruments	263	365
Cash and cash equivalents	87 469	136 840
Total current assets	**468 401**	**490 161**
Total assets	**1 106 652**	**1 089 461**

Equity and liabilities

Capital and reserves		
Share capital	433 928	540 911
Reserves	-7 369	-117 777
Equity attributable to equity holders of the parent	**426 559**	**423 135**
Non-controlling interests	25 699	23 872
Total equity	**452 257**	**447 006**
Non-current liabilities		
Long-term financial debt	199 283	199 660
Deferred income tax liabilities	11 303	11 509
Employee benefits liabilities	81 889	77 823
Other long-term liabilities and derivative financial instruments	18 481	20 952
Total non-current liabilities	**310 956**	**309 944**
Current liabilities		
Short-term financial debt	127 420	123 459
Trade accounts payable	55 691	50 662
Other current liabilities	134 937	123 409
Current income taxes	7 534	9 739
Advances received from clients	15 074	22 040
Derivative financial instruments	311	434
Provisions for other liabilities and charges	2 472	2 768
Total current liabilities	**343 439**	**332 511**
Total liabilities	**654 395**	**642 455**
Total equity and liabilities	**1 106 652**	**1 089 461**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

In CHF'000	January/ June 2016	January/ June 2015 (restated)
Net income for the period	**21 036**	**9 774**
Adjustments for net income non-cash items:		
- Current and deferred income tax	5 213	2 237
- Interests, allocation of transaction costs and foreign exchange differences	5 354	19 433
- Depreciation, amortization and impairment	17 335	20 918
- Change in fair value of financial assets at fair value through profit or loss	293	-2 164
- Share of result of associates	-237	-470
- Non-cash employee benefits expense	5 206	4 562
- Deferred cost allocated to income statement	4 336	4 475
- Additional provisions net of unused amounts reversed	28	-81
- Non-cash government grant income	-2 716	-2 531
- Other non-cash income/expenses	-11 384	-10 613
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non operating cash items	-1 485	-42
Adjustements for change in working capital:		
- Change in inventories	1 737	-9 972
- Change in trade accounts receivable	4 588	20 651
- Change in trade accounts payable	-7 917	-16 284
- Change in deferred costs and other net current working capital headings	-17 784	-4 836
Government grant from previous periods received	3 071	5 108
Dividends received from associated companies	–	462
Interest paid	-668	-4 491
Interest received	463	559
Income tax paid	-6 559	-1 274
Cash flow from/(used in) operating activities	**19 910**	**35 421**
Purchases of intangible fixed assets	-7 614	-4 157
Purchases of tangible fixed assets	-11 493	-7 377
Proceeds from sales of tangible and intangible fixed assets	557	96
Proceeds from sale of investment property	2 346	–
Investment in financial assets and loan granted	-5 598	-182
Divestments of financial fixed assets and loans reimbursement	239	1 191
Acquisition of subsidiaries, cash outflow	-31 977	-12 148
Acquisition of associated companies	-980	–
Cash flow from/(used in) investing activities	**-54 520**	**-22 577**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-3 838	-167 190
Increase in bank overdrafts, long term loans and other non-current liabilities	7 881	200 481
Proceeds from employee share purchase program	10	12
Proceeds from non controlling interests	135	–
Dividends paid to shareholders	–	-16 225
Partial repayment of Share capital	-18 984	
Proceeds from a partial sale of subsidiary and loan not resulting in a loss of control	–	12 741
Cash flow from/(used in) financing activities	**-14 796**	**29 819**
Effect of foreign exchange rate changes on cash and cash equivalents	35	-5 529
Net increase/(decrease) in cash and cash equivalents	**-49 371**	**37 134**
Cash and cash equivalents at the beginning of the period	136 840	92 382
Cash and cash equivalents at the end of the period	87 469	129 516
Net increase/(decrease) in cash and cash equivalents	**-49 371**	**37 134**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

In CHF'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non controlling interests	Total equity
January 1, 2015	**539 047**	**32 828**	**-50 791**	**-2 767**	**-87 604**	**22 731**	**453 444**
Net result for the period			7 001			2 773	9 774
Other comprehensive (loss) / income for the period			-68	-335	-36 107	-1 626	-38 136
Total comprehensive (loss)/income for the period	**–**	**–**	**6,933**	**-335**	**-36,107**	**1,147**	**-28,362**
Employee share purchase program	18	-1					17
Shares issued for employes	1 783	-522					1 261
Dividend paid to shareholders		-10 817	-5 408				-16 225
Transaction with non-controlling interests			7 858			-1 867	5 991
Non-controlling interests arising on business combinations						3 449	3 449
June 30, 2015	**540 848**	**21 488**	**-41 408**	**-3 102**	**-123 711**	**25 460**	**419 575**
January 1, 2016	**540 911**	**21 495**	**-14 439**	**-3 262**	**-121 571**	**23 872**	**447 006**
Net result for the period			17 004			4 032	21 036
Other comprehensive (loss) / income for the period			-15	219	4 041	-495	3 751
Total comprehensive (loss)/income for the period	**–**	**–**	**16,989**	**219**	**4,041**	**3,537**	**24,787**
Employee share purchase program	9	5					14
Shares issued for employes	1 488	62					1 550
Share capital value reduction and reimbursement	-108 481	89 497					-18 984
Transaction with non-controlling interests			-406			-1 845	-2 251
Equity contribution from non-controlling interests						135	135
June 30, 2016	**433 927**	**111 059**	**2 144**	**-3 043**	**-117 530**	**25 699**	**452 257**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (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 2015 annual report.

2. BASIS OF PREPARATION

These interim condensed financial statements for the six month ended June 30, 2016 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, 2015.

3. 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, 2015.

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.

4. 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. The new system and methodology implemented during H1-2016 allowed SKIDATA to partially mitigate its seasonality (further changes are included in Note 11, Impact of Changes in Accounting Policies and Accounting Estimates).

5. SHARE-BASED PAYMENTS

As of June 30, 2016, 1 014 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 kCHF 4.

6. FINANCIAL DEBT

During the first half 2016, the Group repurchased kCHF 2 735 of its CHF 110 million bond issued on June 16, 2011.

7. SHARE CAPITAL REDUCTION

The annual shareholders' general assembly, held on 22 March 2016, decided to reduce the share capital of Kudelski SA by the decrease of the nominal value of CHF 2.00 per bearer share and CHF 0.20 per nominal share.

The capital reduction was used as follows:

- Reimbursement of CHF 0.35 per bearer share and CHF 0.035 by nominal share
- The residual amount was allocated to the legal reserves from capital contribution

The reimbursement was processed on June 8, 2016.

8. TRANSACTION WITH NON CONTROLLING INTERESTS

On June 30, 2016, the Group acquired the remaining 50% interest of SKIDATA Australasia Pty Ltd for a total consideration of kCHF 2 228, including contingent consideration related to the achievement of targeted financial performances and payable in two tranches. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kCHF 406 and non-controlling interests for kCHF 1 845.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

9. BUSINESS COMBINATIONS

ARISING IN 2016

On April 21, 2016, the Group signed a share purchase agreement whereby it acquired 100% of Milestone Systems, Inc, for a total consideration of kCHF 41 295. Total consideration includes an earn-out estimate of kCHF 2 744 and deferred consideration of kCHF 1 472. The actual earnout payment will be based on 2016 gross profit and specific customer retention targets. Management based its earnout estimate on the business plan used to establish the purchase price allocation and support the transaction. Founded in 2000, Milestone Systems, Inc. is headquartered in Minneapolis, USA and is focused on enterprise network infrastructure and security as well as support services including certified training, project management, consulting, managed services, and 24x7x365 technical support.

The goodwill arising from this acquisition amounts to kCHF 31 582 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors, including expected synergies resulting from acquiring a workforce experienced in service support as well as valuable sales knowledge and expertise in the relevant market. For the acquisition, the Group made an election for tax purposes whereby the acquisition qualifies as an asset purchase rather than a stock purchase, which allows the difference between the net tax assets acquired and the purchase consideration to be amortized over time. Acquisition related costs of kCHF 179 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 9 694 is expected to be fully collectable leading to a fair value of kCHF 9 694.

From the date of acquisition, the acquired company has contributed kCHF 12 352 to revenues and kCHF 546 to the net income of the Group. If the acquisition had taken place on January 1, revenues from continuing operations would have been approximately kCHF 501 650 and the net income from continuing operations for the period for the Group would have been approximately kCHF 21 888.

ARISING IN 2015

In exchange for 22.5% of SmarDTV SA and a cash payment (see Transaction with Non-Controlling Interests), SmarDTV SA acquired 100% of the share capital of Eldon Technology Limited (UK), Echostar Technologies Limited (UK), DCS Copy Protection Limited (UK) and EIC Spain II S.L. (Spain), resulting in the Group owning a 77.5% interest in those companies through SmarDTV SA. The acquired companies are active in the set-top-box industry. Through this acquisition, SmarDTV benefits from extended engineering capabilities. The Group determined for this acquisition a fair value of nil and only considered as purchase price the working capital adjustment amounting to kCHF 530.

The acquisition of these companies qualifies as a 'bargain purchase' as the amounts of the identifiable net assets acquired exceed the sum of the value of consideration transferred and the non-controlling interest in the acquired companies. The bargain purchase results from the acquisition of loss-making operations for which material restructuring costs will be incurred. As a result, the Group recognized a gain amounting to kCHF 4 135 in the income statement which is disclosed under 'other operating income'.

This transaction did not give rise to material external acquisition costs. The gross contractual amount of trade receivables is kCHF 1 304 which are considered to be fully collectable, leading to a fair value of kCHF 1 304.

On January 7, 2015, SKIDATA Inc., USA, signed a share purchase agreement whereby it acquired 60% of the shares of Sentry Control Systems LLC, USA, for consideration of kCHF 13 999. Sentry Control Systems provides premium parking solutions and is Skidata's largest distributor in the US. Hence, this acquisition allows Skidata to strengthen its position in the US market. The agreement includes option mechanisms for the seller to sell and for the purchaser to buy the remaining shares. If the options are not exercised, the agreement stipulates that Skidata will subsequenty acquire the remaining 40% for a fixed amount and a contingent consideration based on the target's revenue, gross margin and free cash flow. The fixed amount to be paid for the acquisition of the remaining 40% interest is structured as four payments of USD 2 million each, payable yearly on March 31, 2016 to 2019, resulting in a transfer to Skidata of a 10% interest each year. The Group accounted for this acquisition as a 100% interest and recognized a deferred/contingent consideration for the 40% share resulting in a total acquisition cost of kCHF 23 906.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

The goodwill arising from this acquisition amounts to kCHF 18 449 and is allocated to the Public Access operating segment. The goodwill arises from a number of factors including expected synergies resulting from acquiring a workforce experienced in service support as well as a valuable sales knowledge and expertise in the relevant market. None of the goodwill is expected to be deductible for tax purposes. Acquisition related costs of kCHF 300 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 7 046 is expected to be fully collectable leading to a fair value of kCHF 7 046.

Starting January 1, 2015, the Group gained control over SKIDATA Australasia Pty Ltd without any additional consideration paid, and since that date the company is accounted for as a subsidiary. The Group initially acquired 50% interest in its Australian distributor and partner WTS (renamed into SKIDATA Australasia Pty Ltd following the acquisition) in 2014 and treated it as an associate for accounting purposes. The purchase agreement included a call option whereby the Group had the ability to purchase the remaining 50% interest in the company from January 1, 2015. A non-controlling interest of kCHF 2 095 and no goodwill arose from this business combination. The gross contractual amount of trade receivables due is kCHF 5 862, which are considered to be fully collectable, leading to a fair value of kCHF 5 862.
In 2015, SKIDATA also completed a non-significant asset deal in the United States acquiring assets of a smaller distributor for an aggregate amount of CHF 0.5 m qualifying for as business combination according to IFRS 3.

From the date of acquisition, the acquired companies have contributed kCHF 24 560 of revenues and kCHF -2 283 to the net income to the continuing operations of the Group. If the acquisition had taken place on January 1, revenues from continuing operations would have been approximately kCHF 422 261 and the net income from continuing operations for the period for the Group would have been approximately kCHF 9 479.

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 CHF'000	Fair value of assets acquired 30.06.2016	Fair value of assets acquired 30.06.2015
Tangible fixed assets	319	7 262
Intangible fixed assets (Goodwill excl.)	8 359	4 812
Other non current assets	274	39
Trade accounts receivable	9 694	15 165
Other current assets	480	11 199
Cash and cash equivalents	8 110	2 307
Trade accounts payable	-12 943	-9 946
Other current liabilities	-4 580	-10 041
Non current liabilities	–	-4 675
Total identified net assets	**9 713**	**16 122**
Non controlling interest resulting from a business combination	–	-3 449
Group's net asset portion prior to gain in control	–	-2 095
Goodwill	31 582	18 449
Bargain purchase	–	-4 135
Total consideration	**41 295**	**24 892**
Total consideration, of which:		
- cash	37 079	14 455
- deferred	1 472	7 140
- contingent	2 744	3 297
Total consideration	**41 295**	**24 892**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

10. 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, 2016 and December 31, 2015. For additional information on the levels and valuation methods, please refer to Note 46 to the consolidated financial statement in the 2015 annual report.

In CHF'000		30.06.2016	31.12.2015
Financial assets:			
- marketable securities	Level 1	325	417
- derivative financial instruments	Level 2	263	365
- equity instuments with no quoted market price	Level 3	400	400
- contingent asset	Level 3	7 443	7 383
Total financial assets		**8 431**	**8 565**
Financial liabilities:			
- derivative financial instruments	Level 2	311	434
- contingent consideration /short-term portion)	Level 3	5 593	686
- contingent consideration /long-term portion)	Level 3	3 392	4 012
Total financial liabilities		**9 296**	**5 132**

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, 2016, there were no transfers from one level to another. A Level 3 contingent asset consisting of an earn-out has been calculated using projections of revenues of a disposed company, as estimated by management. The fair value measurement uses a 5% discount rate.

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 5.0 and 7.6%.

Reconciliation of level 3 fair values:

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

In CHF'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2016	400	7 383	-4 698
Assumed in a business combination	–	–	-2 775
Assumed in a transaction with non-controlling interest			-2 228
Settlements			466
Remeasurement (recognised in other operating income)			266
Discount effect (recognised in interest expense)		179	-87
Exchange difference		-119	24
Currency translation adjustment	–	–	47
Balance at June 30, 2016	**400**	**7 443**	**-8 985**

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 CHF'000	Carrying amount 30.06.2016	Fair value 30.06.2016
Financial liabilities		
- CHF 110 million bond	100 160	102 190
- CHF 200 million bond	199 248	204 200

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

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

11. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

CHANGE IN TREATMENT FOR FOREIGN EXCHANGE DIFFERENCES (COMPARATIVE FIGURES)

In 2015, the Group changed its accounting treatment of foreign exchange differences. The impact on the comparative figures as of June 30, 2015 is as follows:

In CHF'000	30.06.2015
Increase/(decrease) in Revenues	6 696
Decrease/(increase) in Cost of material, licences and services	-1 229
Increase/(decrease) in Other finance income/(expense), net	-5 467
Impact on net income for the period	**–**

Additional information on this change can be found in note 37 of the Group's annual financial statements for the year ended December 31, 2015.

CHANGE IN ACCOUNTING ESTIMATES - SKIDATA

Starting in 2016, SKIDATA has established a system and methodology to precisely track its construction projects. This has allowed SKIDATA to remove uncertainties on the outcome of certain construction contracts, and as a result SKIDATA is now in a position to extend the application of the percentage of completion method for the majority of its projects and is able to more precisely match revenue recognition with the actual progress of the work performed. This new methodology also allows to partially mitigating the seasonality of its business. Comparative information cannot be provided as the data to retrospectively compute the impact on past projects is not available.

The impact of this change on the balance sheet is as follows:

In CHF'000	30.06.2016
Increase in trade accounts receivable	20 789
Decrease in inventories	-10 993
Decrease in deferred tax assets	-2 449
Net impact on equity	**7 347**
Equity attributable to equity holders of the parent	7 347
Non-controlling interests	–

The impact of this change on the income statement is as follows:

In CHF'000	30.06.2016
Increase in revenues	21 039
Increase in cost of material, licences and services	-11 125
Increase in income tax expense	-2 478
Impact on net profit for the period	**7 435**
Attributable to equity holders of the parent	7 435
Non-controlling interests	–

There was no impact on other comprehensive income

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

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	
	30.06.2016	31.12.2015	30.06.2016	30.06.2015
1 USD	0.974	0.990	0.982	0.947
1 EUR	1.083	1.082	1.096	1.058

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
- 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 sheetassets.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

In CHF'000	Integrated Digital Television January/ June 2016	Integrated Digital Television January/ June 2015 (restated)	Public Access January/ June 2016	Public Access January/ June 2015 (restated)	Total January/ June 2016	Total January/ June 2015 (restated)
Total segment Revenues	**336 942**	**331 246**	**138 847**	**91 787**	**475 789**	**423 033**
Inter-segment revenues	-254	-196	-7	–	-261	-196
Revenues from external customers	**336 688**	**331 050**	**138 840**	**91 787**	**475 528**	**422 837**
Depreciation and amortisation	-12 817	-16 532	-4 504	-3 925	-17 321	-20 457
Impairment	-15	-460	–	–	-15	-460
Operating income - excluding corporate common functions	**42 322**	**59 424**	**228**	**-15 278**	**42 550**	**44 146**
Corporate common functions					-9 111	-8 241
Interest expense and other Finance income/(expense), net					-7 427	-24 364
Share of result of associates					237	470
Income before tax					**26 249**	**12 011**
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Total segment Assets	**860 911**	**806 671**	**225 705**	**243 624**	**1 086 616**	**1 050 295**

In CHF'000	30.06.2016	31.12.2015
Total Segment Assets	1 086 616	1 050 295
Cash & Cash equivalents	3 924	28 603
Other current assets	540	87
Financial assets and other non-current assets	15 572	10 476
Total Assets as per Balance Sheet	**1 106 652**	**1 089 461**

14. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 7 July 2016 the Group acquired all of the issued shares in NexGuard Labs BV (formerly Civolution BV), a leader in digital content watermarking solutions.

The Group has not established a purchase accounting at the date of release of these interim financial statements.

Release of 2016 financial results:
16 February 2017

Kudelski SA
22-24, route de Genève
PO Box 134
1033 Cheseaux
Switzerland

Tel. +41 21 732 01 01
Fax +41 21 732 01 00
info@nagra.com
www.nagra.com

Investor relations:
Santino Rumasuglia
Tel. +41 21 732 01 24
ir@nagra.com

Disclaimer

This document contains forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives. These statements are subject to known and unknown risks and uncertainties and could be affected by other factors that could cause actual results, plans and objectives to differ materially from those expressed or implied in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, performance of financial market, competitive factors and changes in laws and regulations.

KUDELSKI SA

22-24, ROUTE DE GENÈVE P.O. BOX 134 1033 CHESEAUX SWITZERLAND
T +41 21 732 01 01 F +41 21 732 01 00 INFO@NAGRA.COM WWW.NAGRA.COM