KUDELSKI GROUP INTERIM REPORT 2018

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2018 (UNAUDITED)

In USD'000	January/ June 2018	January/ June 2017
Revenues and other operating income	446 106	497 151
Margin after cost of material	314 447	334 978
Margin after cost of material in % of revenues and other operating income	70.49%	67.38%
Operating income	-30 233	7 501
Operating income in % of revenues and other operating income	-6.78%	1.51%
Net income for the period from continuing operations	**-36 483**	**-5 305**
Earnings per bearer share for the period		
– basic	-0.7383	-0.1700
– diluted	-0.7383	-0.1700

In USD'000	30.06.2018	31.12.2017
Equity	447 411	491 625
Cash and cash equivalents	75 307	71 911
Market capitalization (in CHF'000)	464 058	813 432
Share price (in CHF)	9.30	16.35

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

FIRST HALF 2018 HIGHLIGHTS

- TOTAL REVENUES AND OOI FROM CONTINUING OPERATIONS DECREASED BY 10.3% TO USD 446.1 MILLION, WITH AN OPERATING LOSS EX-RESTRUCTURING COSTS OF USD 2.2 MILLION
- FURTHER STREAMLINING OF DTV OPERATIONS, IN LINE WITH COST REDUCTION PLAN
- DIVESTMENT OF SMARDTV'S CONDITIONAL ACCESS MODULE (CAM) AND SET-TOP BOX BUSINESSES
- BROADENED RELATIONSHIPS WITH LONG-STANDING DTV CUSTOMERS; EXPANDED PRODUCT PORTFOLIO IN HIGH POTENTIAL AREAS
- STRONGER CYBERSECURITY OFFERING OF PROPRIETARY SOLUTIONS, INCREASED FOOTPRINT AND FURTHER NEW CUSTOMER ACQUISITIONS
- CONTINUED INVESTMENTS IN IOT SECURITY, WITH STRONG INDUSTRY-SPECIFIC PARTNERSHIPS
- PURSUED EFFORTS IN MANAGING PATENT PORTFOLIO; LICENCE AGREEMENT WITH NFL ENTERPRISES
- CONTINUED REVENUE AND PORTFOLIO MOMENTUM IN PUBLIC ACCESS, DESPITE HIGHER SEASONALITY
- EXPECTED IMPROVEMENT IN SECOND HALF 2018 AND CONFIRMATION OF FULL YEAR 2018 GUIDANCE WITH OPERATING INCOME OF USD 30 TO 45 MILLION BEFORE RESTRUCTURING COSTS

LETTER TO SHAREHOLDERS

First Half 2018
For the first half 2018, total revenues and other operating income from continuing operations decreased by 10.3% to reach USD 446.1 million, with an operating loss, before restructuring costs, of USD 2.2 million. Net loss for the period was USD 36.5 million, impacted by USD 28 million of restructuring costs.

The financial performance of the Kudelski Group during the first half 2018 was impacted by structural market developments and the Group's ongoing cost reduction efforts:

- Digital TV division revenues remained resilient in advanced economies, while they declined in emerging markets. Due to its focus on emerging markets, Conax has seen its revenues materially decrease during the first half.

- Kudelski Security implemented its strategy to focus on higher margin advisory services, managed security services and proprietary technology sales. As a result, gross profit has increased during the first half 2018, driven by growing sales of high added value solutions, while the resale of third party products was lower than in the first half 2017.

- IoT security continues to gain traction by establishing a security platform ecosystem that is integrated with a growing number of partners. Commercially, a number of new partnerships has been established, increasing the Kudelski IoT footprint.

- IP licensing activity continues to strengthen the Group's IP portfolio. However, the revenue contribution from this activity was a fraction of the previous year's when we completed several important licensing transactions.

- The myCinema initiative to enable the digital transformation of cinemas with its revolutionary on-line content market place is receiving a favorable response from the market, and we plan the commercial launch of myCinema in the USA during the second half 2018.

- SKIDATA continues to grow its worldwide footprint and global client base, expanding most recently in Mainland China. The effect of seasonality in 2018 is higher than in 2017, with growth expected in the second half 2018, while the first half has been comparable to the first half of 2017.

- As announced in the second half 2017, the Group implemented cost reduction measures during first half 2018. Due to the regulatory complexity in some countries where cost reductions are ongoing, the restructuring costs have been material during first half 2018, reaching USD 28 million.

The Group is in the midst of a deep transformation, which takes into account the evolution of the markets where the Group is currently present and the markets in which the Group plans to expand. As part of this process, the following measures have been taken:

- For Digital TV, the Group will focus on core activities where it has or will reach a critical mass that generates profitability to fund the Group's growth initiatives. This will be accompanied by a simplification of decision making and internal processes in order to improve efficiencies and further reduce operational costs.

- For the Group's growth initiatives, priority will be given to projects that can reach a critical mass and with an attractive contribution margin.

- For Kudelski Security and IoT, the priority will be to grow activities with attractive contribution margins, including advisory services, managed security services, secure IoT platforms and devices and proprietary technology sales.

- The divestment of the Group's set top box and conditional access module businesses is expected to close in August 2018.

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 effectively streamline operations.

We expect a stronger second half in 2018, including:

- A positive evolution for the Group's Digital TV business, especially in Asia/Pacific and Africa;

- Growth of the SKIDATA business;

- A positive evolution of Kudelski Security's activity, benefitting from new customer acquisitions in the first half; and

- Reduced operating expenses as a result of the implemented cost reduction measures.

As a result, we confirm our initial 2018 operating income guidance of USD 30 to 45 million before restructuring costs. For the second half, we also expect both a positive operating cashflow and a positive investment cashflow.

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 2018 RESULTS

In the first half 2018, revenues in the integrated digital TV (iDTV) segment decreased compared to the first half of the previous year. The core digital TV business was resilient in Europe, while it declined in Asia. Conax revenues materially decreased compared to the first half of last year. The Group cybersecurity unit focused on the strategic target of migrating its business mix to higher margin business lines. As a result, cybersecurity revenues were lower compared to the previous first half, while gross profits increased, as the business mix continued to shift from lower margin technology reselling to higher margin advisory services, managed security services and proprietary technology sales. In this first half 2018, revenue contribution from IP licensing was a fraction of the previous half year's, when we completed several licensing transactions.

The Group is completing its previously announced restructuring program. As part of this program, the iDTV organization has implemented a major transformation that involved, in particular, the full integration of Nagravision and Conax and the streamlining of digital TV operations in Switzerland, France and Norway. The Group also consolidated its operations, downsizing several locations and closing smaller sites.

In connection with the ongoing efforts to streamline its core digital TV operations, in this second half 2018, the Group has announced the sale of the set-top box and conditional access module activities of its SmarDTV subsidiary. SmarDTV's income statement items are reported as discontinued operations in the current period and in the comparative previous period, and the assets and liabilities included in the sale transaction have been reclassified as held for sale at the end of the reporting period. Upfront cash consideration from the sale transaction amounts to USD 20 million, subject to customary closing adjustments, with the potential for additional earn-out payments that are primarily based on sales volumes of conditional access modules (CAM) and set-top boxes (STB) in the period up to the end of 2021. Kudelski entities will continue to sell SmarDTV CAMs and Kudelski is retaining certain assets, including in particular SmarDTV's buildings and patents.

In the Public Access segment, SKIDATA is experiencing a higher seasonality than in previous years, resulting in first half revenues substantially at the same level of the previous first half and an operating loss for this reporting period. In January 2018, SKIDATA completed the acquisition of 51% of Cytel, a market leader for access control systems in the Chinese parking market, for total consideration of USD 5.8 million.

As of January 1, 2018, the Group adopted IFRS 15, restating 2017 numbers accordingly. The adoption of IFRS 15 results in a USD 15.0 million reduction of first half 2017 revenues and an operating income reduction of USD 1.1 million. Principal versus agent considerations are the main restatement driver as they result in the recording of cybersecurity related maintenance revenues on a net basis, while such revenues were previously recognized on a gross basis. The principal vs agent revenue impact on first half 2017 revenues amounts to USD 13.5 million. The impact of discontinued operations on the first half 2017 revenues amounts to USD 39.8 million, while the restated operating income is USD 1.9 million higher.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for the first half 2018 decreased to USD 446.1 million from USD 497.2 million in the first half 2017. Revenues decreased by USD 49.5 million to USD 442.9 million, while other operating income decreased by USD 1.5 million to USD 3.2 million.

Margin after cost of material decreased by USD 20.5 million to USD 314.4 million. Relative to total revenues, margin after cost of material increased from 67.4% to 70.5%, despite the shift of revenue mix from higher margin iDTV to lower margin public access business. Within the iDTV, cybersecurity increased its margins, benefitting from the higher share of managed security services and proprietary technologies in the revenue mix.

Compared to the first half 2017, personnel expenses increased by USD 13.3 million in the first half 2018 to USD 242.3 million. Restructuring costs and run down costs related to headcount reduced in the context of the 2018 restructuring program are included in personnel costs. In addition, the Group booked provisions related to employees leaving the Group in the second half 2018. In particular, provisions related to the restructuring of French operations amounted to USD 10.1 million as of the end of June 2018. The increase in personnel costs was also driven by the addition of further headcount in the Group's Internet of Things (IoT) unit and by new hires supporting the continued expansion of SKIDATA's operations.

Total Group headcount decreased by 54 to 3'908 employees as of June 30, 2018. Headcount in high cost locations such as Switzerland, Norway and the US decreased by

100 employees. French headcount will decrease by over 100 units in the second half. Related costs were fully provisioned in the first half. In India, the Group continues to grow, adding an additional 40 employees in this first half 2018 to reach a total headcount of 553.

In the first half 2018, other operating expenses increased by USD 0.9 million to USD 81.0 million. Provisions increased by USD 6.5 million, compared to the first half 2017, while legal costs decreased by USD 7.0 million, reflecting in particular a reduction of legal expenses related to IP licensing activities.

In the first half 2018, the Group booked USD 28.0 million of restructuring costs as operating expenses, compared to USD 7.9 million in the first half 2017. Between the first half 2017 and the first half 2018, total recurring operating expenses for continuing operations decreased by USD 18.7 million to USD 295.3 million in constant currency. IoT security platform investments, the expansion of SKIDATA operations and a newly established sales development organization in core iDTV resulted in an operating cost increase of USD 16.2 million. The 2018 restructuring program resulted in a USD 34.9 million cost reduction, mainly through efficiency improvements in the core digital TV domain and cost synergies from the integration of Conax and Nagravision. Considering the expected cost savings in the second half, the Group is on its way to achieve the USD 50 to 70 million operating cost reductions targeted for the full year 2018.

The Group's operating income before depreciation and amortization net of restructuring costs was USD 19.2 million in the first half 2018, a USD 14.5 million decrease over the previous first half. At USD 21.4 million, depreciation, amortization and impairment were USD 3.1 million higher than in the first half 2017, due to the depreciation of a newly introduced ERP system. Overall, the Group generated an operating loss of USD 30.2 million in the first half 2018, compared to an operating income of USD 7.5 million in the previous first half. Operating loss net of restructuring costs for the first half 2018 was at USD 2.2 million, compared to an operating income of USD 15.4 million in the first half 2017.

At USD 5.9 million, interest expense in the first half 2018 was USD 1.6 million higher than in the previous first half, as the Group paid interest on a higher debt balance. The Group posted USD 2.5 million of net finance income, representing an improvement of USD 10.9 million from the first half 2017. This improvement is due to positive foreign exchange effects.

Overall, the Group generated a USD 36.5 million net loss from continuing operations in the first half 2018, a decrease of USD 31.2 million from the first half 2017. Net loss from discontinued operations increased by USD 0.3 million to USD 1.5 million in the first half 2018. Including discontinued operations, the Group booked a USD 38.0 million net loss for the period.

INTEGRATED DIGITAL TV

Reported iDTV revenues decreased by 16.4% to USD 280.0 million, representing a constant currency decline of 18.8%.

The Group's European business posted a 5.3% growth, generating USD 90.7 million in the first half 2018. Overall, European iDTV business was stable. While some markets, such as Italy, generated lower revenues compared to the first half 2017, these cases generally reflect developments specific to certain customers. Most European markets were resilient in this first half and are expected to deliver a second half in line with the previous year.

The Group's Americas business posted 21.3% lower revenues in the first half 2018 after a growth of 59.9% in the first half 2017. In cybersecurity, the Group shifted its focus from lower margin technology resales to higher margin advisory, managed security services and proprietary technology sales. As a result, first half revenue contribution from cybersecurity is lower compared to the first half 2017, while gross margins grew. In the first half 2018, IP licensing revenue was a fraction of the first half 2017. In the core iDTV business, the shrinking satellite subscriber base of Dish Network translates into lower revenues for the Group. In South America, Brazilian revenues declined from the first half 2017.

The Asia/Pacific and Africa region posted 30.8% lower revenues, which was primarily due to the absence of set-top box sales in the first half 2018. Revenues in the Indian market were materially lower than in the first half 2017, due in particular to a material reduction of sales in this market experienced at Conax.

Overall, operating income excluding restructuring costs for the iDTV segment was USD 13.9 million compared to USD 22.5 million in the first half 2017. Conax materially reduced its revenue and contribution margin compared to the first half 2017. Operating profitability of the Group's core digital TV activities improved in spite of the lower top line, benefitting from the reduction of operating expenses driven by this year's restructuring program.

Selected activities in the core digital TV domain are growing. The Group's anti-piracy services business continues to benefit from a positive momentum. Among the highlights of the first half, the Group's watermarking technology, NexGuard, was certified by the ChinaDRM Lab and was adopted by several tier one operators, including Canal+ and Skylife.

Demand for the Group's cybersecurity solutions remains strong, resulting in a further increase of newly acquired clients in the first half 2018. In particular, the Group's cybersecurity business posted strong growth in Europe and is expected to further benefit from the opening of a new office in Zurich to expand the Group's cybersecurity footprint in German-speaking European markets. In this first half, the Group also extended its cybersecurity offering, launching Secure Blueprint, a SaaS-based platform that allows clients to centralize security program management, and earning industry accolades for its managed security services, including Kudelski Security's Endpoint Detection and Response, Attacker Detection and Threat Hunting. As a result of higher gross margin, the Group's cybersecurity activities posted lower operating losses in the first half 2018, benefitting in particular from higher gross margins. In the IoT domain, the Group further increased investments compared to the first half 2017.

In the first half 2018, the Group entered into an IP licensing agreement with the NFL and posted revenues related to agreements completed in the prior year. As the Group benefitted from strong IP licensing revenues in the first half 2017, contribution margin from IP licensing materially declined, in spite of lower legal costs in this reporting period.

PUBLIC ACCESS

SKIDATA constant currency revenues declined by 3.3% compared to the same period of last year, with revenues of USD 162.9 million in the first half 2018.

At USD 81.4 million, revenues generated in Europe were 0.2% lower in constant currency compared to the previous first half, reflecting a substantial stability in most key markets. In large European markets, such as Italy, France and Germany, SKIDATA posted increased revenues compared to the previous first half.

In the Americas, SKIDATA generated revenues of USD 47.6 million, representing a constant currency decrease of 18.4%. In spite of the lower revenue base, SKIDATA maintained its strong market position, increasing first half revenues more than fivefold between 2014 and 2017. In this first half, SKIDATA was awarded new parking installation contracts with the Detroit Airport, City of San Jose (California) and the University of Arkansas.

Revenues for Asia/Pacific and Africa grew by 20.8% in constant currency, reaching USD 33.9 million. In this region, SKIDATA continues to benefit from favorable momentum and to broaden its market footprint. Among the positive highlights, SKIDATA completed its first installations in Bahrain and Sri Lanka. Further major installations include the Everland theme park in Seoul and the Piazzo Shopping Mall in Istanbul. With the acquisition of Cytel, SKIDATA gained a strong foothold in the Chinese parking market.

The Public Access segment generated a USD 7.5 million operating loss in the first half 2018, compared to the USD 0.7 million operating income in the previous first half. In 2018, seasonality effects are expected to be stronger than in the previous year. For the full year, the Group expects constant currency growth and operating income higher than last year's.

BALANCE SHEET AND CASH FLOW

The fair value of the balance sheet items sold as part of the August 2018 sale of SmarDTV's CAMs and set-top box activities is reported as "Assets classified as held for sale" and "Liabilities classified as held for sale". Such assets represent USD 14.2 million, mainly consisting of inventory and intangible assets and the liabilities represent USD 4.0 million.

Total non-current assets increased by USD 19.3 million to USD 726.7 million. The reclassification of SmarDTV's buildings previously booked as held for sale into property, plant and equipment is the main driver of the USD 12.1 million increase of tangible assets. SmarDTV's buildings will stay with the Group following the closing of the SmarDTV sale transaction. Financial fixed assets at amortized cost increased by USD 12.3 million. USD 9.9 million of government grants previously classified as held for sale will remain with the Group following the closing of the SmarDTV sale transaction and, as a result, are reclassified as financial assets.

Compared to December 31, 2017, total current assets increased by USD 15.5 million. A USD 3.7 million increase of inventories is mainly due to a USD 2.5 million higher inventory level at SKIDATA. The Group decreased trade receivables by USD

30.4 million from year end. SKIDATA is the main driver of this decrease with a USD 34.3 million reduction, reflecting the high seasonality of the business with significant revenues booked in the last months of the year and converted to cash during the first quarter of the following year.

Contract assets consist of amounts due from clients for projects recognized on a percentage of completion basis. They were previously presented as trade accounts receivables. Out of the total USD 74.1 million contract assets, USD 62.8 million relate to SKIDATA. Contract assets usually increase throughout the year and decline at year end, as several SKIDATA projects are typically completed before the end of the calendar year.

Other financial assets at amortized costs increased by USD 15.2 million to USD 45.4 million. USD 8.6 million relate to SmarDTV's short-term subsidies previously presented as held for sale and now recognized as financial assets because they are not included in the SmarDTV sale transaction. As of the end of June 2018, cash and cash equivalents increased by USD 3.4 million to USD 75.3 million.

Total equity decreased by USD 44.2 million, mainly reflecting the negative net income for the period as well as the USD 5.6 million dividend payment. Total non-current liabilities increased by USD 12.8 million to USD 441.7 million. Long-term financial debt of USD 363.4 million includes the CHF 200 million bond maturing in August 2022 and the CHF 150 million bond maturing in September 2024. Long-term financial debt increased by USD 5.8 million due to an increase of Group long-term loans.

Total current liabilities increased by USD 46.2 million to USD 379.7 million. Short-term financial debt increased by USD 63.1 million, reflecting higher short-term borrowing at SKIDATA and Nagravision.

During the first half 2018, the Group used USD 43.1 million of cash flow for operating activities, compared to USD 49.4 million in the previous first half. In addition to the material restructuring costs incurred in this first half, a key driver of the negative operating cash flow for this first half was the USD 20.4 million reduction of accounts payable. The Group used USD 25.5 million cash for investing activities. In the first half 2018, the Group used USD 13.9 million for the acquisition of tangible and intangible assets. These investments include in particular USD 6.4 million of capital expenditures at SKIDATA, as well as USD 3.7 million software investments at Nagravision, mainly related to the introduction of a new ERP. The net cash consideration for the acquisition of Cytel by SKIDATA amounted to USD 3.9 million. USD 11.8 million of deferred consideration mainly relates to earn-outs paid by SKIDATA for its previous acquisition of Sentry in the United States. Cash from financing activities amounted to USD 74.1 million, including in particular a USD 79.7 million increase of loans and a USD 5.6 million dividend payment.

OUTLOOK

In the second half 2018, the Group expects revenues in the core digital TV domain to grow compared to the first half, driven by additional sales volumes from existing customers, in particular in the Asia/Pacific and Africa region. Second half 2018 revenues are also expected to exceed the first half's for the Group's cybersecurity activities, benefitting from positive customer acquisition momentum. In the iDTV segment, second half 2018 operating expenses are expected to be lower than the first half's, as the Group realizes the benefits of its 2018 restructuring program, including in particular the cost reduction from the completion of the restructuring of the iDTV's French operations.

In the Public Access segment, SKIDATA expects revenue acceleration in the second half, resulting in full year solid constant currency growth and higher operational profitability compared to the previous year.

Overall, the Group expects positive second half free cash flow, as cash from operating activities will reflect the improved second half profitability and cash from investing activities will include the proceeds related to the sale of the SmarDTV assets.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

In USD'000	January/ June 2018	Restated January/ June 2017
Revenues	442 930	492 422
Other operating income	3 176	4 729
Total revenues and other operating income	**446 106**	**497 151**
Cost of material, licenses and services	-131 659	-162 173
Employee benefits expense	-242 251	-229 000
Other operating expenses	-81 011	-80 117
Operating income before depreciation, amortization and impairment	**-8 815**	**25 861**
Depreciation, amortization and impairment	-21 418	-18 360
Operating income	**-30 233**	**7 501**
Interest expense	-5 856	-4 288
Other finance income/(expense), net	2 504	-8 374
Share of results of associates	-301	448
Income before tax	**-33 886**	**-4 713**
Income tax expense	-2 597	-592
Net income for the period from continuing operations	**-36 483**	**-5 305**
Net result from discontinued operations	-1 539	-1 207
Net income for the period	**-38 022**	**-6 512**
Attributable to:		
- Equity holders of the company	*-40 252*	*-9 245*
- Non-controlling interests	*2 230*	*2 733*

Earnings per share (in USD)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.7383	-0.1700
- Continuing operations	*-0.7158*	*-0.1526*
- Discontinued operations	*-0.0225*	*-0.01740*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0738	-0.0170
- Continuing operations	*-0.0716*	*-0.0152*
- Discontinued operations	*-0.0022*	*-0.0017*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

In USD'000	January/ June 2018	Restated January/ June 2017
Net income	**-38 022**	**-6 512**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	1 436	10 447
Cash flow hedges, net of income tax	-764	-217
Net gain on available-for-sale financial assets, net of income tax	–	-228
	672	**10 002**
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	-2 702	7 265
Total other comprehensive income, net of income tax	**-1 973**	**17 267**
Total comprehensive income for the period	**-39 995**	**10 755**
Attributable to:		
- Equity holders of the company	-42 115	8 034
- Continuing operations	*-41 108*	*9 625*
- Discontinued operations	*-1 007*	*-1 591*
- Non-controlling interests	2 120	2 721
	-39 995	**10 755**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2018 AND DECEMBER 31, 2017 (UNAUDITED)

In USD'000	30.06.2018	Restated 31.12.2017
ASSETS		
Non-current assets		
Tangible fixed assets	148 801	136 668
Intangible assets	449 118	451 136
Investments in associates	5 758	5 858
Deferred income tax assets	54 352	57 746
Financial assets at fair value through comprehensive income	1 384	1 344
Financial assets at amortized cost	65 439	53 101
Other non-current assets	1 850	1 581
Total non-current assets	**726 702**	**707 436**
Current assets		
Inventories	62 690	58 997
Trade receivables	257 008	287 351
Contract assets	74 148	44 775
Other financial assets at amortized cost	45 386	30 217
Other current assets	16 957	22 622
Derivative financial instruments	316	475
Cash and cash equivalents	75 307	71 911
Total current assets	**531 811**	**516 348**
Assets classified as held for sale	14 192	62 650
Total assets	**1 272 705**	**1 286 433**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	333 371	332 222
Reserves	87 208	136 947
Equity attributable to equity holders of the parent	**420 579**	**469 169**
Non-controlling interests	26 831	22 456
Total equity	**447 411**	**491 625**
Non-current liabilities		
Long-term financial debt	363 368	357 528
Deferred income tax liabilities	8 290	9 014
Employee benefits liabilities	57 595	52 311
Provisions for other liabilities and charges	–	10
Other long-term liabilities and derivative financial instruments	12 428	9 998
Total non-current liabilities	**441 681**	**428 861**
Current liabilities		
Short-term financial debt	129 955	66 902
Trade accounts payable	66 425	88 696
Contract liabilities	55 951	41 279
Other current liabilities	111 165	118 410
Current income taxes	2 404	7 502
Derivative financial instruments	453	202
Provisions for other liabilities and charges	13 308	10 420
Total current liabilities	**379 661**	**333 412**
Liabilities classified as held for sale	3 952	32 535
Total liabilities	**825 294**	**794 808**
Total equity and liabilities	**1 272 705**	**1 286 433**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

In USD'000	January/ June 2018	Restated January/ June 2017
Net income for the period	**-38 022**	**-6 512**
Adjustments for net income non-cash items:		
- Current and deferred income tax	1 730	615
- Interests, allocation of transaction costs and foreign exchange differences	6 414	7 105
- Depreciation, amortization and impairment	23 016	19 251
- Change in fair value of financial assets at fair value through profit or loss	-344	-22
- Share of result of associates	301	-448
- Non-cash employee benefits expense	4 043	4 420
- Deferred cost allocated to income statement	254	6 727
- Additional provisions net of unused amounts reversed	9 900	2 610
- Non-cash government grant income	-3 167	-2 932
- Other non-cash income/expenses	-977	-6 116
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non operating cash items	90	-1
Adjustements for change in working capital:		
- Change in inventories	921	-2 507
- Change in trade accounts receivable and contract assets	2 223	9 108
- Change in trade accounts payable and contract liabilities	-20 433	-10 190
- Change in deferred costs (short and long term portions)	-255	-2 292
- Change in current income taxes liabilities	-2 384	-10 771
- Change in accrued expenses	-13 174	-17 228
- Change in other net current working capital headings	-7 325	-32 873
Government grant from previous periods received	20	3 007
Dividends received from associated companies	344	–
Interest paid	-881	-858
Interest received	357	541
Income tax paid	-5 709	-10 076
Cash flow from/(used in) operating activities	**-43 057**	**-49 442**
Purchases of intangible fixed assets	-5 776	-7 809
Purchases of tangible fixed assets	-8 124	-11 456
Proceeds from sales of tangible and intangible fixed assets	185	327
Investment in financial assets at amortized costs and other non current assets	-1 521	-327
Divestments of financial fixed assets and loans reimbursement	2 094	2 308
Acquisition of subsidiaries, cash outflow (net of cash acquired):		
- Cash consideration arising from business combinations	-3 893	-12 283
- Cash acquired from business combinations	3 332	2 394
- Payment arising from prior years business combinations	-11 760	-5 187
Cash flow from/(used in) investing activities	**-25 463**	**-32 033**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-33	-3 301
Increase in bank overdrafts, long term loans and other non-current liabilities	79 717	21 120
Proceeds from employee share purchase program	90	53
Acquisition of non controlling interest	–	-281
Dividends paid to non controlling interests	-19	-9
Dividends and partial share capital repayment to shareholders	-5 637	-19 139
Cash flow from/(used in) financing activities	**74 117**	**-1 557**
Effect of foreign exchange rate changes on cash and cash equivalents	-2 200	6 173
Net increase/(decrease) in cash and cash equivalents	**3 396**	**-76 859**
Cash and cash equivalents at the beginning of the period	71 911	174 440
Cash and cash equivalents at the end of the period	75 307	97 581
Net increase/(decrease) in cash and cash equivalents	**3 396**	**-76 859**

Assets and liabilities of the disposal group reclassified as held for sale are reincluded in their corresponding balance sheet headings for cash flow statement purposes. Note 14 provides cash flow impacts of the discontinued operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2018 AND 2017 (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, 2017 (published)		**331 091**	**98 464**	**39 591**	**-2 536**	**3 169**	**21 839**	**491 618**
Change in accounting policy	8	–	–	-3 645	169	–	1 458	-2 018
January 1, 2017 (restated)		**331 091**	**98 464**	**35 946**	**-2 367**	**3 169**	**23 297**	**489 600**
Net result for the period		–	–	-9 245	–	–	2 733	-6 512
Other comprehensive income for the period		–	–	7 265	-445	10 459	-12	17 267
Total comprehensive income for the period		**–**	**–**	**-1 980**	**-445**	**10 459**	**2 721**	**10 755**
Employee share purchase program		41	33	–	–	–	–	74
Shares issued for employees		1 010	629	–	–	–	–	1 639
Dividend paid to shareholders		–	-13 671	-5 468	–	–	–	-19 139
Dividend paid to non-controlling interests		–	–	–	–	–	-9	-9
Non controlling interests arising on business combinations		–	–	–	–	–	41	41
Transaction with non-controlling interests		–	–	23	–	–	-304	-281
June 30, 2017		**332 142**	**85 455**	**28 521**	**-2 812**	**13 628**	**25 746**	**482 680**
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**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (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 2017 annual report.

2. BASIS OF PREPARATION
These interim condensed financial statements for the six month ended June 30, 2018 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, 2017.

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, 2017, except for the adoption of new standards effective as of January 1, 2018. 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 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The impact of the adoption of these new standards and the new accounting policies are disclosed in Note 8.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed financial statements of the Group.

4. SEASONALITY
In the Integrated Digital Television 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 particular in the ski access business since it earns a significant portion of its revenues in the fourth quarter.

5. SHARE-BASED PAYMENTS
As of June 30, 2018, 14 592 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 39. The Group issued 124 394 bearer shares as part of 2017 management bonus payment which expense was fully accrued for at December 31, 2017.

6. DIVIDEND
On March 22, 2018, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 5 637.

7. CONTINGENT CONSIDERATION
Remeasurements of contingent consideration for two past business combinations resulted in a net loss amounting to kUSD 1 350 and is included in other finance income/(expense), net.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

8. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

IMPACT ON THE FINANCIAL STATEMENTS

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. With the exception of certain aspects of hedge accounting, the Group applied IFRS 9 prospectively. The Group has adapted the classification and terminology of certain balance sheet headings to better align with IFRS 9 terminology. To improve comparability of the financial statements, December 31, 2017 comparative numbers have been reclassified. The adjustments arising from the new impairment rules are not reflected in the restated balance sheet as of December 31, 2017, but are recognized in the opening balance sheet on January 1, 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

In USD'000	December 31, 2017 As originally presented	Reclassification	IFRS 9 Hedging	IFRS 15	December 31, 2017 Restated	IFRS 9	January 1, 2018 Unaudited
Non-current assets							
Deferred income tax assets	55 212	–	5	2 529	57 746	288	58 034
Financial assets and other non-current assets	56 405	-56 405	–	–	–	–	–
Financial asset at faire value through other comprehensive income	–	1 344	–	–	1 344	–	1 344
Financial asset at amortized cost	–	53 101	–	–	53 101	–	53 101
Other non-current assets	–	1 959	–	-377	1 581	–	1 581
Current assets							
Trade receivables	340 357	-54 611	–	1 605	287 351	-2 345	285 006
Contract assets	–	54 611	–	-9 836	44 775	-79	44 696
Other current assets	53 469	-30 217	–	-630	22 622	–	22 622
Other financial assets at amortized cost	–	30 217	–	–	30 217	–	30 217
Total Assets	**505 443**	**–**	**5**	**-6 710**	**498 738**	**-2 136**	**496 602**
Equity							
Reserves	144 455	–	5	-7 512	136 947	-2 136	134 811
Non-controlling interests	21 653	–	–	803	22 456	–	22 456
Current liabilities							
Other current liabilities	137 794	-19 384	–	–	118 410	–	118 410
Contract liabilities	–	41 279	–	–	41 279	–	41 279
Advances received from clients	21 895	-21 895	–	–	–	–	–
Total equity and liabilities	**325 797**	**–**	**5**	**-6 710**	**319 092**	**-2 136**	**316 956**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

In USD'000	2017 As originally presented	Impact of discontin-ued operations	IFRS 15	IFRS 9 Hedging	2017 Restated
Revenues	551 953	-39 812	-14 990	–	497 151
Expenses	-545 205	41 674	13 881	–	-489 650
Operating income	**6 748**	**1 862**	**-1 109**	**–**	**7 501**
Finance costs	-12 199	-158	–	143	-12 214
Income before tax	**-5 451**	**1 704**	**-1 109**	**143**	**-4 713**
Income tax	-277	-498	213	-31	-593
Net income for the period before discontinued operations	**-5 728**	**–**	**-896**	**112**	**-5 305**
Net result from discontinued operations	–	-1 207	–	–	-1 207
Net income from continuing operations	**-5 728**	**–**	**-896**	**112**	**-6 512**
Attributable to:					
- Equity holders of the company	-8 819	–	-538	112	-9 245
- Non-controlling interests	3 091	–	-358	–	2 733
Earnings per share, basic and diluted in USD:					
- bearer shares	-0.1622	–	-0.0099	0.0021	-0.1700
- registered shares	-0.0162	–	-0.0010	0.0002	-0.0170
Other comprehensive income					
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:					
Currency translation differences	10 749	–	-303	1	10 447
Cash flow hedges, net of income tax	-74	–	–	-143	-217
Total other comprehensive income, net of income tax	**17 712**		**-303**	**-142**	**17 267**
Total comprehensive income for the period	**11 984**	**–**	**-1 199**	**-30**	**10 755**
Attributable to:					
- Equity holders of the company	8 905	–	-841	-30	8 034
- Non-controlling interests	3 079	–	-358	–	2 721
	11 984	**–**	**-1 199**	**-30**	**10 755**

IFRS 9 FINANCIAL INSTRUMENTS - IMPACT OF ADOPTION

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

Derivatives and hedging

The Group enters into foreign currency option contracts to reduce the exposure of its highly probable forecast transactions to foreign currency fluctuations.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

The foreign currency options in place as of January 1, 2018 qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. For foreign currency options, the Group only designates the intrinsic value as hedging instruments in cash flow hedge relationships.

Prior to January 1, 2018, changes in instrinsic value were recognized in comprehensive income, while changes in the time value were recognized in the statement of profit or loss. Since the adoption of IFRS 9, the Group recognizes changes in fair value of foreign currency options attributable to time value in the costs of hedging reserve within equity. This change has been applied retrospectively for foreign currency options in cash flow hedge relationships resulting in a reclassification of kUSD 169 from retained earnings to the costs of hedging reserves as of January 1, 2017 and kUSD 31 as of January 1, 2018; a decrease in other comprehensive income ("OCI") of kUSD 143 for the period ended June 30, 2017 and kUSD 143 for the full year 2017.

Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade accounts receivable
- Contract assets
- Financial assets carried at amortized cost, and
- Financial assets carried at fair value through OCI

The Group was required to revise its impairment methodology under IFRS 9 for each of these categories. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table above.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade accounts receivable and contract assets. To measure expected credit losses, trade accounts receivable and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in process and have substantially the same risk characteristics as the trade accounts receivable for the same types of contracts.

The loss allowances for trade accounts receivable and contract assets at December 31, 2017 reconcile to the opening loss allowance on January 1, 2018 as follows:

In USD'000	Contract assets	Trade accounts receivable
Loss allowance at December 31, 2017	30	26 453
Amounts restated through opening retained earnings	79	2 345
Opening loss allowance at January 1, 2018	**109**	**28 798**

Other financial assets carried at amortized costs and fair value through OCI are considered to have low credit risk, and any loss allowance recognized is therefore limited to 12 months expected credit losses. These assets include, among others, advance payments to suppliers, income and other tax receivables, the long-term portions of trade accounts receivable, including the discounted revenues related to the licensing of the Group's intellectual property portfolio, equity investments and marketable securities. Instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

SIGNIFICANT ACCOUNTING POLICIES

Classification

From January 1, 2018, the Group classifies its financial assets and liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group’s business model for managing the financial assets and liabilities and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through OCI.

There is no change to the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabiltiies that are desiginated at fair value through profit or loss and the Group does not have any such liabilities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the asset. For financial assets that are carried at fair value through profit or loss, transaction costs are expenses as incurred.

Subsequent measurement of loans and debt instruments depends on the Group’s business model for managing the asset and the cash flows characteristics of the asset. The Group classifies its debt instruments into three measurement categories, amortized cost, fair value through profit or loss or fair value through OCI.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these assets is included in other finance income/(expense), net using the effective interest rate method. Any gain or loss arising on derecognition is recognized in profit or loss and presented in other operating expense. Foreign exchange gains and losses are presented in other finance income/(expense), net.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other finance income/ (expense), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other finance income/(expense), net.

Assets that do not meet the criteria for amortized cost or fair value through OCI are measured at fair value through profit or loss and presented net within other operating income in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other other finance income/(expense), net when the right to receive payments is established.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other finance income/(expense), net in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through OCI are not reported separately from other changes in fair value.

Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Derivatives and hedging

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction (cash flow hedge). The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets, liabilities or cash flows. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

The currency instruments that may be used are forward foreign exchange contracts, currency swaps and zero cost option strategies with terms generally not exceeding one year, while interest rate instruments that may be used include interest rate swaps and collars strategies with maturities not exceeding the underlying contract maturity. Derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(a) Derivatives that do not qualify for hedge accounting

Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IFRS 9.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognized immediately in the income statement as part of 'other finance income/(expense), net'.

(b) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(c) Cash flow hedge

Changes in intrinsic value of derivative financial instruments that represent the effective portion are recognized in the "cash flow hedge reserve" within equity. Changes in fair value of derivative instruments attributable to time value are recognized in the "cost of hedging" reserve within equity. Gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other finance income/(expense), net'.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

The amounts accumulated in hedging reserves of OCI are reclassified to profit and loss in the same period during which the hedged expected future cash flow affects profit or loss. When the forecast transaction is no longer expected to occur or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss and deferred cost of hedging are immediately reclassified to profit or loss.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS - IMPACT OF ADOPTION

The details of the significant changes and quantitative impact of the changes are set for the below.

Presentation of assets and liabilities related to contracts with customers

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract assets were previously presented as part of trade accounts receivable
- Contract liabilities were previously included in advances received from clients and other current liabilities

Principal versus agent considerations

In sales transactions for certain security products that are sold with third-party delivered maintenance, we changed our accounting to record the maintenance revenue on a net basis, as the agent in the arrangement. Under previous guidance, based on the Group's credit risk exposure in connection with the contractual obligations, the Group was deemed a principal and reported these maintenance revenues on a gross basis. This change has no effect on reported gross profit associated with these transactions and resulted in a decrease in revenue and cost of material, licenses and services of kUSD 13514 for the six months ended June 30, 2017.

Transfer of control versus risks and rewards of ownership

In connection with a contract for a complete security solution, the Group bundled certain hardware, software and service elements whereby consideration received for the hardware elements (smartcards) was based on the performance of the solution. Under previous guidance, revenue for these elements was recognized when earned. Under IFRS 15, we consider that control of the goods has passed to the customer and recognize revenue upon delivery. The change related to this contract resulted in minor adjustments to opening retained earnings, deferred tax assets, other current assets and liabilities as well as earlier revenue recognition for sales of smartcards.

Arrangements where revenue recognition criteria are not met

IFRS 15 requires certain criteria be met for a contract to be accounted for using the five-step model in the revenue standard. Under previous guidance, the Group considered the criteria for recognizing revenue for a particular contract had been met although a definitive contract had not been signed by the customer. Under IFRS 15, we consider that each party's rights and obligations were not sufficiently identified to allow for recognition under the revised standard. This change resulted in a decrease in revenue and contract assets of kUSD 3798 for the period ended December 31, 2017.

Measuring progress towards complete satisfaction of a performance obligation

Under previous guidance, the Group used a variety of ways to measure progress towards satisfaction of its performance obligations. IFRS 15 requires an entity to apply a single method of measuring progress for each performance obligation satisfied over time and apply that method consistently to similar performance obligations. Upon adopting IFRS 15, the Group revised its accounting policies to conform to the new standard and reviewed its calculations for measuring progress. As a result, the timing of revenue recognition for certain contracts changed to a later point in time, resulting in a retained earnings adjustment of kUSD 3567 at January 1, 2017 and a decrease in contract assets of kUSD 6210 at December 31, 2017.

Other adjustments

In addition to the adjustments described above, upon the adoption of IFRS 15, other items of the primary financial statements such as deferred taxes, income tax expense, and retained earnings were adjusted as necessary. Furthermore, exchange

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

differences on translation of foreign operations were also adjusted.

SIGNIFICANT ACCOUNTING POLICIES

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer.

The Group sells hardware and software products on both a stand-alone basis without any services and as solutions bundled with services.

Generally, when we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under our contract with the customer as the distinct goods and services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is the price at which we would sell a promised good or service separately to a client. Observable stand-alone selling prices are used when readily available. If not available, we estimate the price based on observable inputs, including direct labor hours and allocable costs.

Description of revenues

The Group is organized operationally into two primary operating segments, Integrated Digital Television and Public Access (refer to Note 12 for additional information regarding the Group's reportable segments). Integrated Digital Television manufactures and sells a range of consumer devices in the digital television market, including smartcards, set-top boxes, conditional access modules and other 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. Integrated Digital Television 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 and other major events. The nature of the Group's contracts often requires that we sell multiple products and services to the same customer simultaneously which typically include hardware, software, maintenance and services.

Hardware

We recognize revenue from hardware sales when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to a specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the agreement, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. In certain instances, we leverage drop-shipment arrangements with our partners and suppliers to deliver products to our clients without having to physically hold the inventory at our warehouses. We recognize revenue for drop-shipment arrangements on a gross basis as the principal in the transaction when the product is received by the customer because we control the product prior to transfer to the customer. We also assume primary responsibility for fulfillment in the arrangement, we assume inventory risk if the product is returned, we set the price charged to the customer and we work closely with our customers to determine their hardware needs. This is consistent with our treatment prior to the adoption of IFRS 15.

Software, licenses and royalties

We recognize revenue from software sales at the point in time when the customer acquires the right to use the software under license and control transfers to the customer. Revenue from licensing arrangements is recognized upon commencement of the term of the license agreement or when the renewal term begins, as applicable. Royalty revenue is recognized upon sale or usage of the product to which the royalty relates.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

Maintenance and services

We design, implement and manage security and access solutions that combine hardware, software and services for our customers. Such services, including maintenance, may be provided by us or third-parties as part of bundled arrangements, or on a stand-alone basis as consulting or managed-service engagements. If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, revenue from maintenance and service engagements is recognized over time as we perform the underlying services by measuring progress toward complete satisfaction of the performance obligation. In contracts that contain a fixed fee per user, revenue is recognized in the amount in which we have the right to invoice the customer for services performed.

Specific revenue recognition practices for certain of our service offerings are described in further detail below.
Time and materials service contracts. We recognize revenue for services engagements that are on a time and materials basis based upon hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end. This is consistent with our accounting treatment prior to the adoption of IFRS 15.

Fixed fee service contracts. We recognize revenue on fixed fee services contracts using a proportional performance method of revenue recognition based on the ratio of direct labor and other allocated costs incurred to total estimated direct labor and other allocated costs. This is consistent with our accounting treatment prior to the adoption of IFRS 15.

Certain software maintenance agreements provide our clients with the right to obtain software upgrades, help desk and other support services directly from the software provider during the term of the agreement. We act as the selling agent in these arrangements and do not assume any performance obligation to the customer under the agreements. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the service is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction. As discussed above, this is a change to our accounting treatment under previous guidance, whereby the Group was deemed a principal in the transaction based on the Group's credit risk exposure. This change in policy has no effect on the reported gross profit associated with these transactions.

Significant financing components

Certain contracts with our customers may include payment terms that exceed one year. To the extent that a significant financing component exists in these arrangements, we record interest income associated with the financing component of the arrangement over the payment terms of the arrangement.

Variable consideration

For contracts that contain variable pricing elements, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration generally increases the amount of revenue that will be deferred. Variable consideration is reviewed at each reporting period and is measured using the most likely amount method which includes management appropriate estimates.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

9. BUSINESS COMBINATIONS

ARISING IN 2018

On January 30, 2018, the Group, through its subsidiary SKIDATA, signed a share purchase agreement whereby it acquired 51% of Cytel (Shanghai) Ltd. for total consideration of kUSD 5 830. Founded in 1972, Cytel (Shanghai) Ltd. is a pioneer and the market leader in the sales, installation and maintenance of high-quality access systems in China. The company has a long history of developing parking solutions to meet the specific needs of the Chinese market and its network of 18 sales and service locations in China's urban centers is expected to broaden the customer and partnership base of SKIDATA.

The goodwill arising from this acquisition amounts to kUSD 3 463 and is allocated to the Public Access operating segment. The goodwill arises from a number of factors, including expected synergies resulting from acquiring an experienced workforce and valuable sales knowledge and expertise in the relevant market. The gross contractual amount of trade accounts receivable acquired is kUSD 4 888, of which kUSD 792 is expected to be uncollectible.

From the date of acquisition, Cytel (Shanghai) Ltd. has contributed kUSD 2 008 to revenues and kUSD 215 to the net income of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kUSD 443 500 and the net income from continuing operations for the period for the Group would have been approximately kUSD -36 319.

CONSIDERATION TRANSFERED AND FAIR VALUE OF IDENTIFIABLE ASSETS AND LIABILITIES

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

In USD'000	**Fair value of assets acquired 30.06.2018**
Tangible fixed assets	77
Intangible fixed assets (Goodwill excl.)	2 389
Inventory	839
Trade accounts receivable	4 096
Other current assets	369
Cash and cash equivalents	3 332
Trade accounts payable	-521
Other current liabilities	-5 796
Deferred income tax liabilities	-145
Total identified net assets	**4 641**
Non-controlling interest resulting from a business combination	-2 274
Goodwill	3 463
Total consideration	**5 830**
Total consideration, of which:	
- cash	3 893
- deferred	1 937
Total consideration	**5 830**

Acquisition costs relating to business combinations of kUSD 62 are included in other operating expenses.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (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, 2018 and December 31, 2017. For additional information on the levels and valuation methods, please refer to Note 43 to the consolidated financial statement in the 2017 annual report.

In USD'000		30.06.2018	31.12.2017
Financial assets at fair value through comprehensive income:			
- marketable securities	Level 1	478	422
- equity instuments with no quoted market price	Level 3	906	410
- derivative financial instruments	Level 2	316	475
Total financial assets		**1 700**	**1 307**
Financial liabilities:			
- derivative financial instruments	Level 2	453	202
- contingent consideration (short-term portion)	Level 3	1 129	3 212
- contingent consideration (long-term portion)	Level 3	2 474	4 568
Total financial liabilities		**4 056**	**7 982**

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, 2018, there were no transfers from one level to another.

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

Reconciliation of level 3 fair values:

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

In USD'000	Equity instruments with no quoted market price	Contingent liabilities
Balance at January 1, 2017	394	-9 030
Assumed in a business combination	–	-2 857
Settlements	–	4 566
Remeasurement (recognised in other operating income)	–	-146
Discount effect (recognised in interest expense)	–	-126
Currency translation adjustment	16	-188
Balance at December 31, 2017	**410**	**-7 781**
Settlements	–	6 054
Remeasurement	–	-1 350
Reclassification	512	–
Discount effect (recognised in interest expense)	–	-599
Currency translation adjustment	-15	73
Balance at June 30, 2018	**907**	**-3 603**

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, 2018 (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 30.06.2018	Fair value 30.06.2018
Financial liabilities		
- CHF 200 million bond	200 896	195 972
- CHF 150 million bond	150 531	137 160

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

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	
	30.06.2018	31.12.2017	30.06.2018	30.06.2017
1 CHF	1.007	1.025	1.034	1.006
1 EUR	1.165	1.198	1.210	1.083

12. OPERATING SEGMENTS

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

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

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

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

In USD'000	Integrated Digital Television		Public Access		Total	
	January/ June 2018	Restated January/ June 2017	January/ June 2018	Restated January/ June 2017	January/ June 2018	Restated January/ June 2017
Total segment Revenues	**280 177**	**335 029**	**162 948**	**157 641**	**443 125**	**492 671**
Inter-segment revenues	-195	-247	–	-1	-195	-248
Revenues from external customers	**279 982**	**334 782**	**162 948**	**157 640**	**442 930**	**492 422**
Depreciation and amortization	-15 813	-13 480	-5 606	-4 859	-21 418	-18 339
Impairment	–	–	–	-20	–	-20
Operating income - excluding corporate common functions	**-14 113**	**14 645**	**-7 475**	**695**	**-21 588**	**15 340**
Corporate common functions					-8 645	-7 839
Interest expense and other finance income/(expense), net					-3 352	-12 662
Share of result of associates					-301	448
Income before tax					**-33 886**	**-4 713**
	30.06.2018	Restated 31.12.2017	30.06.2018	Restated 31.12.2017	30.06.2018	Restated 31.12.2017
Total segment assets	**910 630**	**874 087**	**335 258**	**344 314**	**1 245 888**	**1 218 401**

In USD'000	30.06.2018	Restated 31.12.2017
Total segment assets	1 245 888	1 218 401
Cash and cash equivalents	9 377	2 580
Other current assets	515	85
Financial assets and other non-current assets	2 733	2 717
Assets of disposal group classified as held for sale	14 192	62 650
Total Assets as per Balance Sheet	**1 272 705**	**1 286 433**

13.REVENUE FROM CONTRACT WITH CUSTOMERS

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

In USD'000	IDTV		Public Access	
	30.06.2018	Restated 30.06.2017	30.06.2018	Restated 30.06.2017
Europe	90 699	86 065	81 411	73 768
Americas	143 172	182 006	47 638	57 333
Asia & Africa	46 112	66 711	33 899	26 540
	279 982	**334 782**	**162 948**	**157 640**
Sale of goods	87 610	120 201	106 291	106 424
Services rendered	129 589	125 099	42 795	38 041
Royalties and licenses	62 783	89 481	13 862	13 176
	279 982	**334 782**	**162 948**	**157 640**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018 (UNAUDITED)

14. DISCONTINUED OPERATIONS

In December 2017, the Group announced its intention to dispose of most assets and resources linked to SmarDTV subsidiary's business. SmarDTV has been reported as a discontinued operation in the current and comparative prior period with the assets and liabilities likely to be transferred upon disposal reclassified as held for sale. Based on the current sale status (refer to Note 15) management believes the assets transferred will be significantly less than those classified as held for sale at December 31, 2017 as the transaction will be in a form of an asset deal and the Group will retain significant assets.

Financial information relating to the discontinued operation is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued.

In USD'000	January/ June 2018	January/ June 2017
Revenue	46 443	43 217
Expenses	-48 277	-45 079
Operating result	**-1 834**	**-1 862**
Finance costs	-345	158
Result before tax from discontinued operations	**-2 180**	**-1 704**
Income tax	640	498
Net result from discontinued operations	**-1 539**	**-1 207**

In USD'000	January/ June 2018	January/ June 2017
Cash flow used in operating activities	-7 440	-5 762
Cash flow used in investing activities	-57	-790
Cash flow from financing activities	13 485	4 020

15. POST BALANCE SHEET EVENT

On August 13, 2018, the Group has reached an agreement whereby SmarDTV's Conditional Access Module (CAM) and Set-Top -Box businesses are transferred to SmarDTV Global, a newly set up entity affiliated with a buyer. Upfront cash consideration amounts to USD 20 million, subject to customary closing adjustments, with the potential for additional earn-out payment that are primarily based on CAM and Set-Top-Box sales volumes in the period up to the end of 2021. The Group retains certain assets, in particular its buildings and all patents.

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