KUDELSKI GROUP
INTERIM REPORT 2012

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2012 (UNAUDITED)

In CHF'000	January/ June 2012	January/ June 2011
Revenues and other operating income	388 285	404 508
Margin after cost of material	291 435	312 940
Margin after cost of material in % of revenues and other operating income	75.06%	77.36%
Operating (loss)/income ex-restructuring costs 1)	17 680	-3 088
Operating income ex-restructuring costs in % of revenues and other operating income	4.55%	-0.76%
Net income	**-9 047**	**-11 475**
(Loss)/earnings per bearer share (in CHF)		
– basic	-0.1688	-0.2351
– diluted	-0.1688	-0.2351

1) Pro forma

In CHF'000	30.06.2012	31.12.2011
Equity	418 116	437 152
Cash and cash equivalents	286 689	289 591
Market capitalization	352 631	414 374
Share price (in CHF)	7.20	8.50

FIRST HALF 2012 HIGHLIGHTS

- Resilient Revenue Base
- Beneficial Effects of restructuring
- Recovering Profitability and Solid Cash Flow Generation
- Strong Momentum in Emerging Markets
- Ongoing Progress with New Initiatives
- Revenues and Operating Profit Guidance Increase

LETTER TO SHAREHOLDERS

With total revenues and other operating income of CHF 388.3 million and operating income before restructuring costs reaching CHF 17.7 million in the first half of 2012, the Kudelski Group achieved its short-term goal of regaining operational profitability, notwithstanding the challenging economic environment. Due to restructuring charges of CHF 19.8 million, the net result was a loss of CHF 9 million for the period.

During the first half of 2012, the Group merged its Digital TV and Middleware and Advertising activities into a single Digital TV Solutions Division, which better reflects the tighter integration of the Group's Digital TV-related operations. Accordingly, these formerly separate business segments will now be reported as a single segment going forward.

Strong demand for the Group's products in Latin America again drove first half revenues, with Brazil delivering solid double-digit revenue growth. We expect other South American markets to follow a similar path as the Group continues to win new contracts in the region.

Our Public Access Division posted a sales increase of 2.9% in constant currencies during the first half of 2012. Following the disposal of the Group's 50% stake in Polyright SA in July 2011, Public Access' organic growth accelerated in 2012 compared to the first half of 2011. As in previous years, Public Access continues to show strong seasonality, traditionally posting an operating loss in the first half of the year followed by strong revenue acceleration and operating margin development in the second half.

The corrective measures taken by the Group in the second half of 2011 to improve profitability have already delivered first results. If we exclude one-time restructuring costs, the effective operating cost reduction achieved by the Group by the end of the first half of 2012 reached CHF 42.6 million, which is well in-line with our cost reduction target for the full-year 2012. In addition, while the exchange rate situation was critical early in the second half of 2011, the current situation appears to have stabilized, with the corrective measures taken by the Group better insulating us from the volatile currency environment.

The cost reduction program is just one part of the strategic plan undertaken by the Group to improve our medium term profitability. While optimizing our cost structure, we have carefully selected the cost reduction measures in a manner that enables us to continue making important investments for the future of the Group. Our first priority has been to discontinue non-core and/or non-profitable activities, such as Polyright, Embedics, Medioh, Nagra-Thomson Licensing and Nagra Audio. In addition to this strategic portfolio review, we have optimized our continuing activities, simplified our operating structure and rebalanced our location mix in order to improve efficiency. We have also reduced our sensitivity to exchange rate fluctuation, both for USD and Euro.

As part of our development strategy, we have:

- Continued to invest in promising growth initiatives, such as Over-the-Top Internet television and Multi-screen TV solutions;
- Optimized our product offerings targeted at emerging markets, with a new line of solutions addressing the specific demands of these markets. This approach has already improved our positioning in Latin America and Asia;
- Organized a Cybersecurity Services unit to address the fast growing business of protecting against cyber-threats. This unit has been created by leveraging our highly skilled specialists that have spent the last 20 years fighting against all forms of piracy on a global scale; and
- Established a highly-skilled Intellectual Property competence center to take a more strategic approach to managing and developing our Intellectual Property assets, while better monetizing our existing portfolio of over 4 000 patents worldwide.

Overall, with this approach, we have been able to continue winning new business with a special focus on innovative solutions and emerging markets.

However, in a fast-changing environment, the Kudelski Group will continue to periodically review its investment priorities in order to better focus on promising opportunities.

Notwithstanding the current economic situation in developed countries and the volatility of exchange rates, the Kudelski Group will continue to innovate in order to maintain a sustainable competitiveness in evolving digital TV and security markets.

As of July 1, 2012, Charles Egli retired as CEO of SKIDATA and was elected Chairman of its supervisory board. On behalf of the Board of Directors of the Group, I would like to thank Mr. Egli for the significant contributions he has made to the Group and especially to SKIDATA over the last 24 years. Hugo Rohner assumed the role of CEO of SKIDATA as of July 1st, and I am convinced that he will lead SKIDATA to the next level of development, especially in expanding its business outside of Europe.

The combination of our cost reduction efforts, growth in emerging markets and a stabilized exchange rate environment have enabled the Kudelski Group to revise upward our guidance for the full year 2012. Our full year revenues are now expected to be in the range of CHF 855 – 875 million and operating income – before restructuring costs – is expected to be between CHF 50 and 65 million.

On behalf of the Board of Directors of the Kudelski Group, I would like to thank our employees, who have made important efforts to achieve our cost reduction program, and our shareholders for their continued trust during the challenging and difficult economic environment.

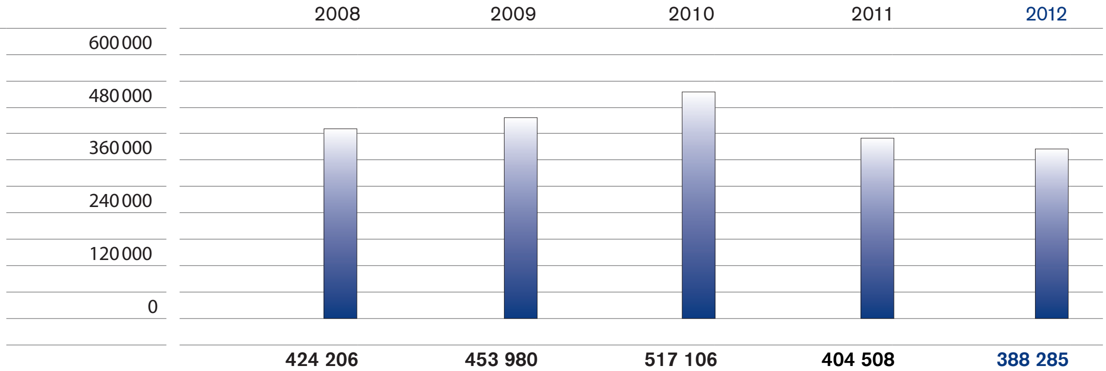
Sincerely,

André Kudelski

KEY FIGURES FIRST HALF 2012

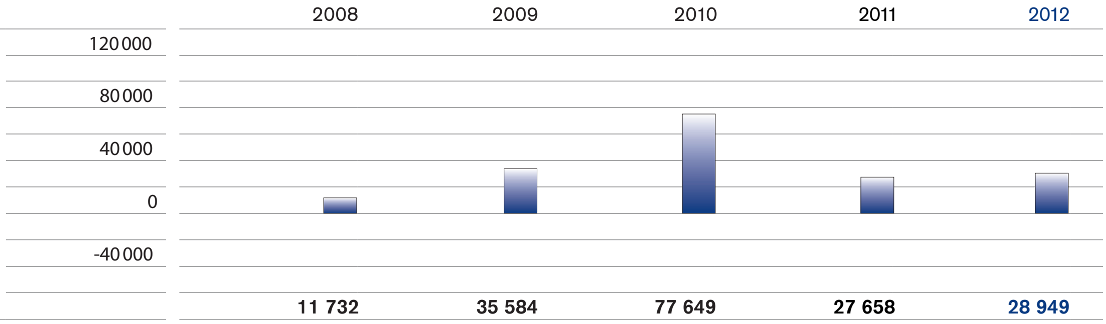
In CHF '000

Revenues and other operating income



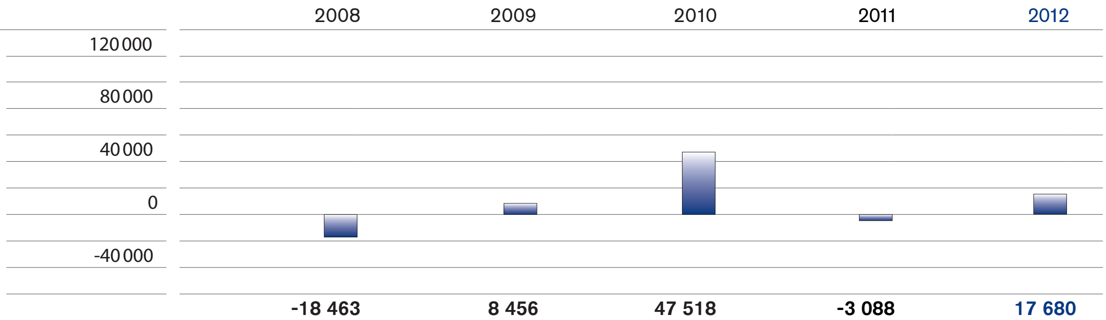
In CHF '000

OIBDA



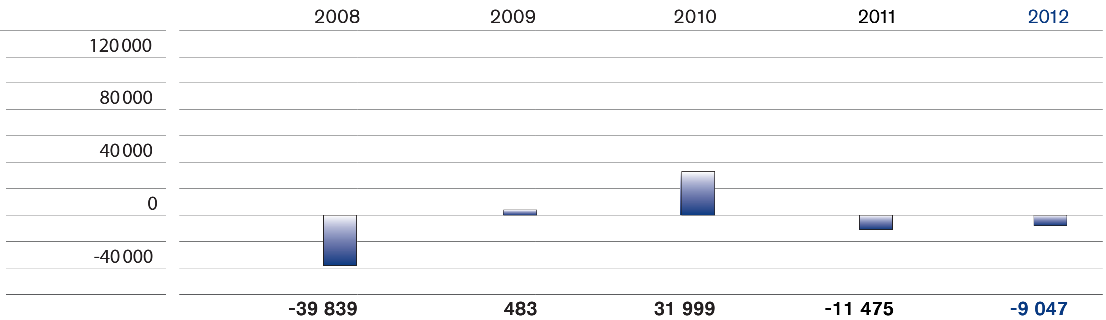
In CHF '000

Operating income (ex-restructuring costs)



In CHF '000

Net income



FIRST HALF 2012 RESULTS

Stable revenues and a streamlined cost base drove first half 2012 Group results. Compared to prior periods, currency effects had a minor impact, as the USD rate increased from 0.905 in the first half 2011 to 0.929 and the EUR rate declined from 1.269 to 1.205.
Group revenues in constant currency declined by 1.8%, while reported revenues dropped by 3.0% compared to the first half of last year, reaching CHF 380.3 million. Considering last year's divestment of the audio business, Polyright, EmbedICs, Medioh and Nagra Thomson Licensing, constant currency revenues for the current perimeter of consolidation were roughly at the same level as the first half 2011.
The Group reported a CHF 2.1 million operating loss for the first half. Out of the total expected CHF 30 million restructuring costs for the full year, in this period, the Group booked CHF 19.8 million of restructuring costs, including a CHF 10.6 million provision for measures to be taken in this second half. Net of restructuring costs, the Group posted a CHF 17.7 million operating income.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for the first half year declined from CHF 404.5 million to CHF 388.3 million. The CHF 4.3 million decline in other operating income reflects a reduction of innovation subsidies to French operations ("Crédit d'Impôt Recherche").
The "Margin after cost of material" (a proforma, non-IFRS item) decreased by CHF 21.5 million to CHF 291.4 million. Relative to total revenues, margin after cost of material remained at a high level, with the ongoing reversion to the historical revenue mix and lower other operating income driving a 2.4% reduction to 75.0%.
Personnel expenses decreased by CHF 5.7 million. In this first half, the Group booked a CHF 10.6 million provision under personnel expense for headcount reduction measures taking effect in this second half. Overall, Group headcount at the end of the first half was at 2901 full time equivalents compared to 2999 at the end of 2011. In this first half, the Group continued to rebalance the geographical mix of its operations, by reducing its Swiss headcount by 96 units while increasing the aggregate headcount in India and China by 27 units. In the last 18 months, the Group reduced its total headcount by 167 units.
The Group reduced other operating expenses by CHF 17.1 million, 18.7% of the previous first half's cost. In particular, aggregate development & engineering and legal & consultancy costs are CHF 16.1 million lower than in the first half 2011. This is an outcome of the ongoing systematic replacement of external resources with lower cost internal resources.
This first half's operating expenses include CHF 19.8 million restructuring costs. Net of these costs, recurring operating expenses for this first half amount to CHF 242.7 million. This represents a CHF 42.6 million reduction compared to the first half of last year.
The Group's operating income before depreciation and amortization was CHF 28.9 million, a CHF 1.3 million increase from the previous first half. Depreciation, amortization and impairment were at CHF 31.0 million, resulting in an operating loss of CHF 2.1 million, a CHF 1.0 improvement compared to the previous first half.
Net of the CHF 19.8 million restructuring costs, the first half operating income was CHF 17.7 million, representing a CHF 20.8 million improvement from the first half of last year.
Interest expenses of CHF 8.6 million include charges related to the outstanding convertible bond, interest costs for the straight bond issued last year and charges related to the Group's outstanding bank loans. The positive net finance result is primarily driven by foreign exchange-related gains. Income tax expenses were marginal as the Group booked a loss before tax in this first half. Overall, the Group generated a net loss of CHF 9.0 million, representing a CHF 2.5 million improvement from the prior first half.

DIGITAL TV SOLUTIONS

As a result of the restructuring measures announced on October 31, 2011, the Group has merged the former Digital TV and Middleware & Advertising activities into an integrated Digital TV Solutions unit. Accordingly, these formerly separate segments are now reported as a single segment.
Digital TV Solutions revenues on a constant currency basis declined by 3%, with nominal revenues for the first half year reaching CHF 302.4 million.
At CHF 12.0 million, the reported segment operating income was marginally lower than in the first half of last year. Early stage businesses such as the semiconductor business, advanced advertising and display cards still represent a burden for the segment profitability as they generated an operating loss in this first half. As the CHF 19.8 million restructuring costs relate to a large extent to Digital TV operations, this result reflects a material improvement of the segment's operating profitability.
Weak consumer sentiment continued to affect the European Digital TV business resulting in a CHF 18.0 million revenue decline to CHF 133.3 million. In constant currency, this represents an 8.5% decline. Southern Europe continues to be weak, with total segment revenues from Italy, Spain, France and Portugal declining by CHF 25.4 million compared to the first half of last year.
The American business, on the other hand, posted a 3.3% constant currency growth, reaching CHF 115.4 million in this first half. Once again, a strong demand for the Group's products in Latin America drove first half's revenues, with Brazil delivering solid double digit revenue growth. As previously announced, a significant number of smartcards delivered in the last Dish/Echostar replacement cycle that are now inactive have reached the minimum period for which such cards have to pay a service fee, negatively impacting Dish-related revenues in this first half.
Asian segment revenues for the first half amount to CHF 53.8 million, roughly at the same level of the previous first half. The Indian market delivered a strong first half, while other markets, Japan and China in particular, were weaker. Similarly, our semiconductor business delivered lower revenues compared to the previous year.

PUBLIC ACCESS

Public Access posted a sales increase of 2.9% in constant currency. As the Group disposed of its 50% stake in Polyright SA on July 18, 2011, the segment's organic growth accelerated compared to the first half 2011.

In Europe, Germany and the Netherlands were the markets delivering the strongest growth rates. Overall, European revenues rose by 6.0% in local currency. In the Americas, on the other hand, revenues declined by 12.3% in local currency reflecting limited revenue recognition for a large project. Finally, Asian local currency revenues rose by 3.8%.

With an increase of CHF 1.1 million, Public Access Operating Income continues to improve. As in previous years, Public Access experiences a strong seasonality, posting an operating loss in the first half and a stronger revenue base and operating margin in the second half.

BALANCE SHEET AND CASH FLOW

Total non-current assets decreased by CHF 21.3 million in this first half. The CHF 9.8 million decrease of tangible fixed assets is mainly due to the aggregate effect of a stringent management of capital expenditures and the ongoing depreciation of existing assets. Intangible fixed assets decreased by CHF 7.1 million, mainly reflecting a reduction of the Technology asset position, as the Group incurred limited capital expenses for such assets. The CHF 3.8 million reduction of Financial assets and other non-current assets is mainly driven by lower long-term deferred contract costs.

Total current assets decreased by CHF 28.2 million. Seasonal fluctuations led to a CHF 11.6 million increase of inventories, mainly consisting of Digital TV chips. Trade accounts receivable continue to improve, resulting in a CHF 44.4 million decrease compared to the end of last year. A CHF 9.8 million increase of advance payments to suppliers and employees is the main driver of the CHF 7.4 million increase in Other current assets. At the end of the first half, cash and cash equivalents amounted to CHF 286.7 million, representing a decrease of CHF 2.9 million from year end 2011.

Total equity decreased by CHF 19.1 million to CHF 418.1 million, reflecting, in particular, a CHF 9.0 million net loss, a CHF 5.4 million dividend paid to shareholders and a CHF 7.0 million dividend paid to non-controlling interests.

Total non-current liabilities rose by CHF 4.3 million, with a long-term financial debt increase to CHF 134.0 million driving most of the increase. Total current liabilities decreased by CHF 34.7 million, reflecting a reduction of outstanding bank loans. Short-term financial debt is CHF 6.0 million lower than at year end at CHF 377.4 million. Short-term financial debt includes a CHF 350 million convertible bond maturing in October 2012. The Group will reimburse this bond through its cash position (CHF 286.7 million as of end of June) and available committed credit lines.

SkiData materially reduced trade accounts payable in line with its usual business seasonality, while Digital TV entities posted a lower trade accounts payable balance reflecting a reduction in the usage of external development and engineering resources.

In the first half, the Group generated CHF 26.3 million cash from operating activities. The Group used CHF 11.8 million cash for investing activities, due a tight control of capital expenditures. Cash used for financing activities amounts to CHF 17.6 million. This includes a CHF 5.4 million Kudelski SA dividend and a CHF 7.0 dividend paid to non-controlling interests. Moreover, the Group reimbursed CHF 5.4 million of bank loans. The effect of foreign exchange rate changes on cash and cash equivalents was negligible in this first half.

OUTLOOK

For the second half, the Group expects a favorable seasonality, yet less pronounced that in previous years, in the Digital TV Solutions segment. Furthermore, Digital TV Solutions results will benefit from the positive impact of the restructuring program. Public Access will experience a similar seasonality as in previous years, generating a positive operating income for the full year.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)

In CHF'000	January/ June 2012	January/ June 2011
Revenues	380 315	392 205
Other operating income	7 970	12 303
Total revenues and other operating income	**388 285**	**404 508**
Cost of material	-96 850	-91 568
Employee benefits expense	-188 100	-193 815
Other operating expenses	-74 386	-91 467
Operating income before depreciation, amortization and impairment	**28 949**	**27 658**
Depreciation, amortization and impairment	-31 049	-30 746
Operating (loss)/income	**-2 100**	**-3 088**
Interest expense	-8 597	-7 405
Other finance income/(expense), net	1 845	283
Share of results of associates	502	177
(loss)/income before tax	**-8 350**	**-10 033**
Income tax expense	-697	-1 442
Net (loss)/income for the period	**-9 047**	**-11 475**
Attributable to:		
– Equity holders of the company	-9 093	-12 539
– Non controlling interests	46	1 064
	-9 047	**-11 475**

EARNINGS PER SHARE (UNAUDITED)

In CHF	January/ June 2012	January/ June 2011
(Loss)/earnings per bearer share		
– basic	-0.1688	-0.2351
– diluted	-0.1688	-0.2351
(Loss)/earnings per registered share (not listed)		
– basic	-0.0169	-0.0235
– diluted	-0.0169	-0.0235

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In CHF'000	January/ June 2012	January/ June 2011
Net loss/income	-9 047	-11 475
Currency translation differences	1 499	-27 220
Cash flow hedges	-153	-1 073
Net gain on available-for-sale financial assets	16	20
Total comprehensive (loss)/income for the period	**-7 685**	**-39 748**
Attributable to:		
– Equity holders of the company	-7 746	-38 540
– Non controlling interests	61	-1 208
	-7 685	**-39 748**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2012 AND DECEMBER 31, 2011 (UNAUDITED)

In CHF'000

ASSETS

	30.06.2012	31.12.2011
Non-current assets		
Tangible fixed assets	156 617	166 355
Intangible assets	207 596	214 713
Investments in associates	4 042	3 996
Deferred income taxes assets	55 770	56 465
Financial assets and other non-current assets	84 759	88 549
Total non-current assets	**508 784**	**530 078**
Current assets		
Inventories	74 727	63 102
Trade accounts receivable	183 756	228 219
Other current assets	75 868	68 465
Financial assets (short term)	116	–
Cash and cash equivalents	286 689	289 591
Total current assets	**621 156**	**649 377**
Total assets	**1 129 940**	**1 179 455**

EQUITY AND LIABILITIES

	30.06.2012	31.12.2011
Capital and reserves		
Share capital	536 065	533 798
Reserves	-127 638	-113 225
Treasury shares	-290	-326
Equity attributable to equity holders of the parent	**408 137**	**420 247**
Non controlling interests	9 979	16 905
Total equity	**418 116**	**437 152**
Non-current liabilities		
Long-term financial debt	134 015	129 953
Deferred income tax liabilities	4 666	5 545
Employee benefits liabilities	34 071	32 386
Provisions for other liabilities and charges	2 207	2 298
Other long-term liabilities	1 814	2 280
Total non-current liabilities	**176 773**	**172 462**
Current liabilities		
Short-term financial debt	377 354	383 376
Trade accounts payable	40 149	54 196
Other current liabilities	82 011	93 820
Current income taxes	1 397	2 067
Advances received from clients	20 748	16 497
Derivative financial instruments	–	2 540
Provisions for other liabilities and charges	13 392	17 345
Total current liabilities	**535 051**	**569 841**
Total liabilities	**711 824**	**742 303**
Total equity and liabilities	**1 129 940**	**1 179 455**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)

In CHF'000	January/ June 2012	January/ June 2011
Net (loss)/income for the period	**-9 047**	**-11 475**
Adjustments for:		
Current and deferred income tax	697	1 442
Interest expense and other finance income/(expense), net	4 150	880
Allocation of the equity conversion component and transaction costs of the convertible bond and borrowings	3 190	3 594
Depreciation, amortization and impairment	31 049	30 746
Change in fair value of financial assets at fair value through profit or loss	-2 657	-291
Share of result of associates	-502	-542
Dividends received from associated companies	496	849
Non-cash employee benefits expenses	2 640	3 398
Change in provisions (short and long term)	9 850	37
Other non operating cash items	–	-489
Other non cash income/expenses	4 353	-2 728
	44 219	**25 421**
Change in inventories	-11 763	-3 150
Change in trade accounts receivable	43 099	54 809
Change in trade accounts payable	-13 855	-14 295
Change in deferred costs and other net working capital headings	-33 808	-21 794
Interest paid	-825	-736
Interest received	965	456
Income tax paid	-1 736	-5 359
Cash flow from operating activities	**26 296**	**35 352**
Purchases of intangible fixed assets	-6 173	-9 982
Purchases of tangible fixed assets	-6 690	-43 106
Proceeds from sales of tangible and intangible fixed assets	25	199
Investment in financial assets and loan granted	-121	-95
Divestments of financial fixed assets and loans reimbursement	1 159	921
Acquisition of subsidiaries, net of cash acquired	–	-666
Acquisition of associated companies	–	-168
Cash flow (used in)/from investing activities	**-11 800**	**-52 897**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-15 063	-33 410
Increase in bank overdrafts, long term loans and other non-current liabilities	9 692	140 672
Proceeds from employee share purchase program	112	31
Proceeds from non controlling interest	–	7 705
Dividends paid to non controlling interests	-6 987	-29
Dividends paid to shareholders	-5 359	-16 011
Cash flow from/(used in) financing activities	**-17 605**	**98 958**
Effect of foreign exchange rate changes on cash and cash equivalents	207	-6 259
Net increase/(decrease) in cash and cash equivalents	**-2 902**	**75 154**
Cash and cash equivalents at the beginning of the period	289 591	199 031
Cash and cash equivalents at the end of the period	286 689	274 185
Net increase/(decrease) in cash and cash equivalents	**-2 902**	**75 154**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

In CHF'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non controlling interests	Total equity
January 1, 2011	**533 683**	**59 036**	**-100 412**	**32 204**	**-73 212**	**-489**	**15 808**	**466 618**
(Loss) / profit for the period			-12 539				1 064	-11 475
Other comprehensive (loss) / income for the period				-1 053	-24 948		-2 272	-28 273
Total comprehensive (loss)/income for the period	**–**	**–**	**-12 539**	**-1 053**	**-24 948**	**–**	**-1 208**	**-39 748**
Employee share purchase program	26	17						43
Dividend paid to shareholders			-16 011					-16 011
Dividend paid to non controlling interests							-29	-29
Impact of transactions with non controlling interests							7 705	7 705
Restricted shares granted to employees			-163			163		–
Restricted shares allocated over the vesting period			118					118
June 30, 2011	**533 709**	**59 053**	**-129 007**	**31 151**	**-98 160**	**-326**	**22 276**	**418 696**
January 1, 2012	**533 798**	**59 036**	**-134 661**	**30 115**	**-67 715**	**-326**	**16 905**	**437 152**
(Loss) / profit for the period			-9 093				46	-9 047
Other comprehensive (loss) / income for the period				-61	1 408		15	1 362
Total comprehensive (loss)/income for the period	**–**	**–**	**-9 093**	**-61**	**1 408**	**–**	**61**	**-7 685**
Employee share purchase program	281	-124						157
Shares issued for employes	1 986	-1 160						826
Dividend paid to shareholders		-5 359						-5 359
Dividend paid to non controlling interests							-6 987	-6 987
Restricted shares granted to employees			-37			37		–
Restricted shares allocated over the vesting period			12					12
June 30, 2012	**536 065**	**52 393**	**-143 779**	**30 054**	**-66 307**	**-289**	**9 979**	**418 116**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 (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 2011 annual report.

2. BASIS OF PREPARATION

These interim condensed financial statements for the six month ended June 30, 2012 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, 2011.

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, 2011, except for the adoption of new standards and interpretations as of January 1, 2012 described below.

The following amendments to IFRS standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 - Deferred tax: Recovery of Underlying Assets (amendment);
- IFRS 7– disclosures: Transfer of Financial Assets (amendment);
- IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (amendment).

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. SEASONALITY

In the Integrated Digital Television business, Christmas sales usually lead to higher volumes and therefore higher revenue in the last quarter for some 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 when new customers are gained and related products and services delivered.

The Public Access segment (SkiData) has strong seasonal revenue variations in particular in the ski access business as it earns most of its revenues in the fourth quarter.

5. SHARE-BASED PAYMENTS

EMPLOYEE SHARE PLAN

As of June 30, 2012, 28 068 bearer shares were underwritten by employees according to the articles of the Employee Share Plan. The attributable expense in the income statement is kCHF 45.

OTHER SHARE-BASED PAYMENTS

In 2010, following OpenTV Corp acquisition, 16 752 bearer shares were granted to employees as retention with restrictions lapsing one-third on each of June 30, 2011, June 30, 2012 and June 30, 2013. These shares have been purchased on the stock market for an average consideration of CHF 29.20 per bearer share. The share-based compensation amounts to kCHF 489 and is allocated against the income statement over the vesting period. On June 30, 2012, 1 250 shares vested and were transferred to the benefiting employees out of the treasury shares representing a kCHF 37 amount.

6. CONVERTIBLE BOND

In the first half 2012, the Group partially repurchased on the stock market kCHF 3 171 of the 2005-2012 convertible bond.

7. REVERSAL OF RESTRUCTURING PROVISION

As of 31 December 2011, restructuring provision amounted to kCHF 7 579. No remaining unused amount of the 2011 restructuring provision was reversed in the income statement during the first half 2012.

8. LITIGATION SETTLEMENTS

On March 2012, the Group paid kCHF 7 574 to settle the NDS litigation. The 2011 financial statements included a provision for kCHF 8 460 to cover this risk, hence an amount of kCHF 886 has been released in the income statement.

9. DIVIDEND

On May 23, 2012, the Group paid a dividend of CHF 0.10 per bearer share and CHF 0.01 per registered share. The dividend amounts to kCHF 5 359.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 (UNAUDITED)

10. BUSINESS COMBINATION

No business combination occurred in the first half 2012. On April 12, 2011, Kudelski SA purchased 100% of EnMedia Software Technologies Pvt Ltd, India, for a consideration of kCHF 366. EnMedia Software Technologies Pvt Ltd provides software services, consultation, end to end system design, development and delivery of embedded software to customers. No goodwill arose from this acquisition.

In CHF'000	Fair value of assets acquired
Tangible fixed assets	50
Intangible fixed assets (Goodwill excl.)	322
Trade accounts receivable	73
Other current assets	27
Cash and cash equivalents	69
Trade accounts payable	-27
Other current liabilities	-148
Net assets	**366**
Non controlling interests purchased	–
Fair value of net assets acquired	**366**
Purchase consideration:	
– cash paid	366
Fair value of net assets acquired	-366
Goodwill	**–**
Purchase consideration in cash:	
– cash paid	366
Cash and cash equivalents acquired	-69
Net cash outflow from acquisitions	**297**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 (UNAUDITED)

11. EVENTS SUBSEQUENT TO BALANCE SHEET DATE AND DISPOSAL GROUP

The assets and liabilities of the joint-venture polyright SA, Sion (hereafter "polyright" and part of the Public Access segment) was presented as held for sale in the first half 2011 following the decision to dispose of this operation. Polyright assets and liabilities were a disposal group. On July 18, 2011, the Group signed a share purchase agreement to dispose of polyright. Assets and liabilities of the disposal Group were disclosed at carrying amount, as the sale price was higher than the carrying amount.

In CHF'000	30.06.2011
Assets classified as held for sale:	
– Tangible fixed assets	61
– Intangible assets	48
– Financial assets	26
– Trade and other receivables	412
– Inventories	304
– Cash and cash equivalents	129
– Other current assets	42
Total assets of the disposal group	**1 022**
Liabilities classified as held for sale:	
– Trade and other payables	361
– Long-term financial debts	350
– Other current liabilities	566
Total liabilities of the disposal group	**1 278**
Total net assets of the disposal group	**-255**

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	
	30.06.2012	31.12.2011	30.06.2012	30.06.2011
1 USD	0.950	0.940	0.929	0.905
1 EUR	1.203	1.215	1.205	1.269

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2012 (UNAUDITED)

13. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified based on internal reporting that is regularly reviewed by the chief operating decision maker.

Group operating segments represent strategic business units that offer different products and services for which internal reporting is provided to the chief operating decision maker. The chief operating decision maker reviews internal reports in order to allocate resources to the segment and to assess its performance.

As result of the restructuring program announced in October 2011, the Group adapted its structures to the convergence between Digital Television and Internet Television and integrated Middleware & Advertising and Digital Television Solutions into one segment named Integrated Digital Television as of January 1, 2012. Key functions of both segments such as sales, service, marketing and administration were merged as a result. Prior period figures have been restated for comparison purposes.

Following the above change, the Group is organized operationally on a worldwide basis in 2 operating segments:

- Integrated Digital Television
- Public Access

These operating segments, which are reflected in internal management reporting, can be described as follows: The « Integrated Digital Television » division provides end-to-end integrated solutions including open conditional access solutions allowing digital 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 user experience. Advanced advertising solutions are part of Integrated Digital Television.

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

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".

The measure of income statement 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 inter-segment sales are eliminated only at the consolidation level.

Reportable segment assets include Total assets allocated by segment with the exclusion of Intersegment balances which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance sheet assets.

In CHF'000	Integrated Digital Television January/June 2012	Integrated Digital Television January/June 2011	Public Access January/June 2012	Public Access January/June 2011	Total January/June 2012	Total January/June 2011
Total segment Revenues	**303 452**	**314 857**	**77 909**	**78 686**	**381 361**	**393 543**
Inter-segment revenues	-1 041	-1 243	-5	-95	-1 046	-1 338
Revenues from external customers	**302 411**	**313 614**	**77 904**	**78 591**	**380 315**	**392 205**
Depreciation and amortisation	-25 725	-26 449	-4 057	-4 297	-29 782	-30 746
Impairment	-1 266	–	–	–	-1 266	–
Operating income - excluding corporate common functions	**12 003**	**13 917**	**-5 567**	**-6 669**	**6 436**	**7 248**
Corporate common functions					-8 536	-10 336
Interest expense and other Finance income/(expense), net					-6 752	-7 122
Share of result of associates					502	177
Income before tax					**-8 350**	**-10 033**
	30.06.2012	31.12.2011	30.06.2012	31.12.2011	30.06.2012	31.12.2011
Total segment Assets	**873 615**	**918 511**	**121 987**	**145 327**	**995 602**	**1 063 838**

In CHF'000	30.06.2012	31.12.2011
Total Segment Assets	995 602	1 063 838
Cash & Cash equivalents	128 723	110 717
Other current assets	1 092	377
Financial assets and other non-current assets	4 523	4 523
Total Assets as per Balance Sheet	**1 129 940**	**1 179 455**

AGENDA 2013

Release of 2012 financial results	28 February 2013
Annual general meeting	30 April 2013

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