KUDELSKI GROUP
2014 INTERIM REPORT

NAGRA
KUDELSKI GROUP

KEY FIGURES FIRST HALF 2014 (UNAUDITED)

In CHF'000	January/ June 2014	January/ June 2013
Revenues and other operating income	400 084	380 163
Margin after cost of material	308 130	277 134
Margin after cost of material in % of revenues and other operating income	77.02%	72.90%
Operating (loss)/income (pro forma)	27 690	15 389
Operating income in % of revenues and other operating income	6.92%	4.05%
Net income for the period from continuing operations	**18 307**	**10 745**
Earnings per bearer share for the period from continuing operations (in CHF)		
– basic	0.2772	0.1668
– diluted	0.2772	0.1668

In CHF'000	30.06.2014	31.12.2013
Equity	421 532	446 501
Cash and cash equivalents	109 180	100 273
Market capitalization	766 127	668 552
Share price (in CHF)	15.55	13.60

FIRST HALF 2014 HIGHLIGHTS

- GROWTH IN FIRST HALF REVENUES, OPERATING INCOME AND CASH FLOW
- WITH CONAX ACQUISITION THE KUDELSKI GROUP IS THE LEADING PROVIDER OF CAS WORLDWIDE
- OPTIMIZED SOURCING FOR SMART CARDS WITH POSITIVE IMPACT ON OPERATING INCOME
- INCREASED GUIDANCE FOR FULL YEAR REVENUES AND PROFITABILITY
- CONTINUED EXPANSION OF CUSTOMER FOOTPRINT WITH FOCUS ON EMERGING MARKETS

LETTER TO SHAREHOLDERS

First Half 2014

Total revenues and other operating income for the first half increased by 5.2%, reaching CHF 400.1 million, and operating income increased to CHF 27.7 million, which is an improvement of 79.9% compared to first half 2013. Net income from continuing operations similarly increased, reaching CHF 18.3 million, representing an increase of 71.3% over the same period last year.

Since 2011, the Kudelski Group has increased its focus on emerging markets. In the last three years, the Group has made a concerted effort to win new customers in these regions and to develop new technologies optimized for these markets.

During the first half 2014, the Group made significant enhancements to its product portfolio in its Integrated Digital TV (iDTV) segment. The acquisition in April of Conax, a well-established conditional access solution (CAS) provider, complements the Group's iDTV product portfolio by providing highly competitive solutions targeted at emerging markets and entry level deployments.

With the acquisition of Conax, the Kudelski Group is now the world's leading player in the global CAS market – with a significant presence in emerging markets. This leading position will further improve the Group's capabilities to serve its customers, develop compelling products and win new deals.

In parallel with the acquisition of Conax, the Group undertook important steps to optimize its supply chain for conditional access components by implementing a new sourcing strategy. This strategy not only promises to be more cost-effective for the Group but is also expected to be more efficient in fulfilling market requirements, particularly in the emerging markets. As part of this strategy, the Group decided to divest NagraID and its 50% stake in NagraID Security.

iDTV Business

During first half 2014, iDTV revenues increased by 11.1% in constant currency. For the full year, the Group expects year-on-year growth in constant currency in all regions and more specifically:

- in the Americas, sustained growth in spite of a challenging business environment in Brazil;
- in Europe, growth primarily due to the stabilization of markets, such as Italy and Germany, and the acquisition of Conax; and
- in Asia/Pacific and Africa, growth mainly driven by the acquisition of Conax, notwithstanding the business uncertainty affecting first half results in India.

The integration of Conax within the Kudelski Group is expected to generate tangible synergies starting from 2015, with initial benefits coming from cross-selling opportunities for SmarDTV, OpenTV5 and NAGRA MediaLive solutions. Better alignment of the NAGRA and Conax CAS solution portfolios, together with optimization of the Group's security offerings globally, is expected to generate additional cost synergies.

Public Access

The SKIDATA business continued to grow during the first half 2014, posting a year-on-year increase of 3.7% in constant currency. SKIDATA installed more than 250 new solutions and further expanded its footprint in the airport segment. For the full year, the Group expects to grow both revenues and operating income.

Kudelski IP & Innovation

The patent cross-license agreement between the Group and Cisco announced in February 2014 represented Kudelski IP's first highly visible milestone. Kudelski IP has established a solid track record by providing tangible value to the iDTV and Public Access businesses through enhanced focus on innovation activities, increased attention to customer IP issues and support of the Group's M&A transactions. The Group's leading patent portfolio continues to grow in important ways that protect its R&D investments and its customers, and today, the Group owns more IP assets than at any other time in its history. In addition, current innovation initiatives are promising and are expected to deliver growth opportunities for the future.

Cyber Security

Kudelski Security continues to develop its business and acquire first-class clients in finance, public sector/defense and media sectors. The Group is committed to making the important investments necessary to develop a unique portfolio of products and services and establish Kudelski Security as a leader in the field of cyber security.

In parallel, Kudelski Security continues to provide its expertise to the Group's iDTV business in the area of advanced operational security.

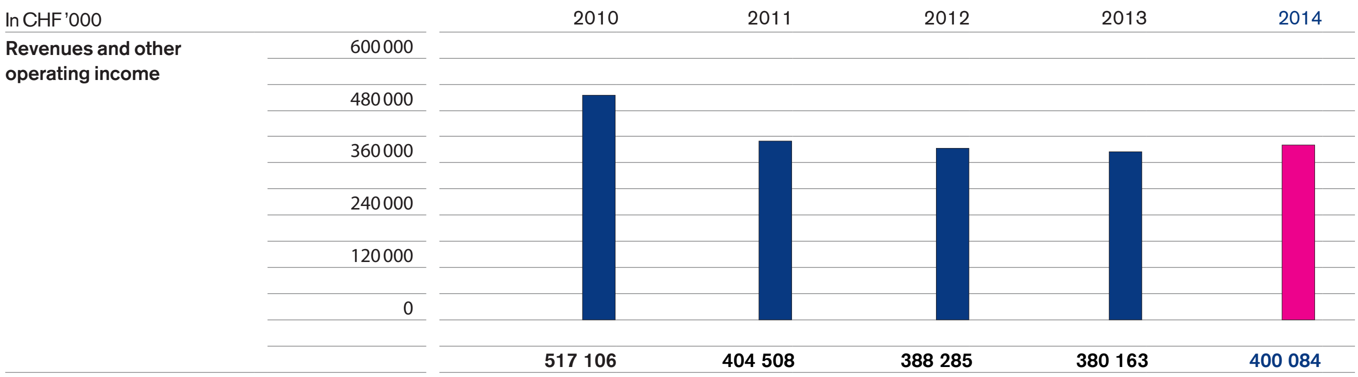
Outlook

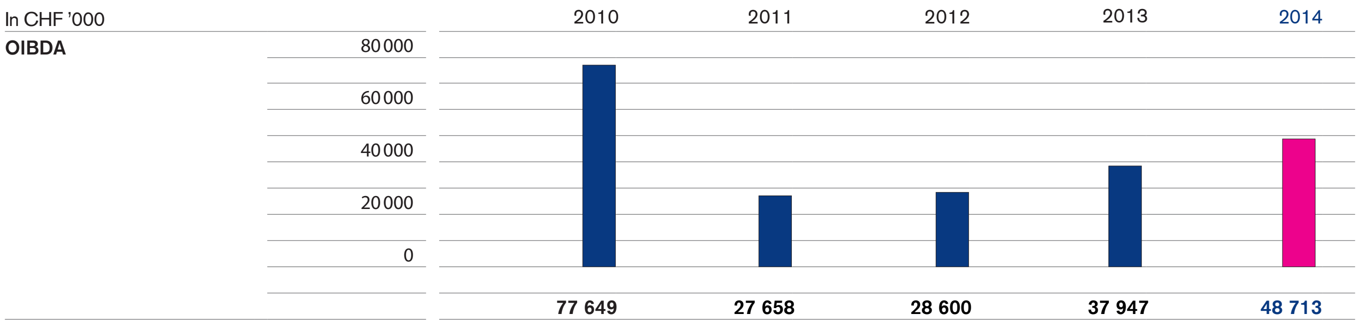
The Group continues to make key investments in Kudelski Security, IP initiatives and new innovation projects. The integration of Conax within the Group is ongoing, with the first tangible benefits expected to be realized in 2015. Taking into account the acquisition of Conax as well as the divestiture of NagraID and NagraID Security, the Group is raising its full year guidance, targeting total revenues and other operating income in the range of CHF 895 - 915 million and operating income in the range of CHF 60 - 70 million.

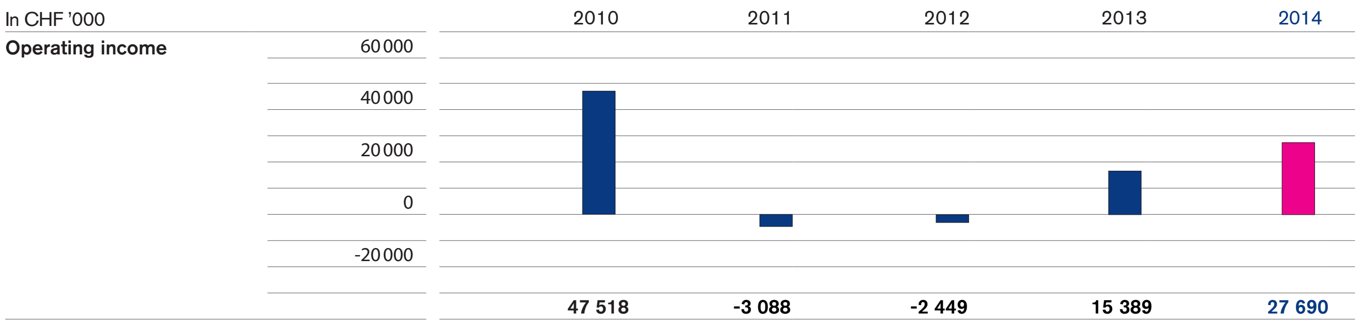
We would like to take this opportunity to thank our shareholders, customers, partners and employees for their continued trust and support in a challenging environment, where important efforts are needed to deliver sustainable results over the long-term.

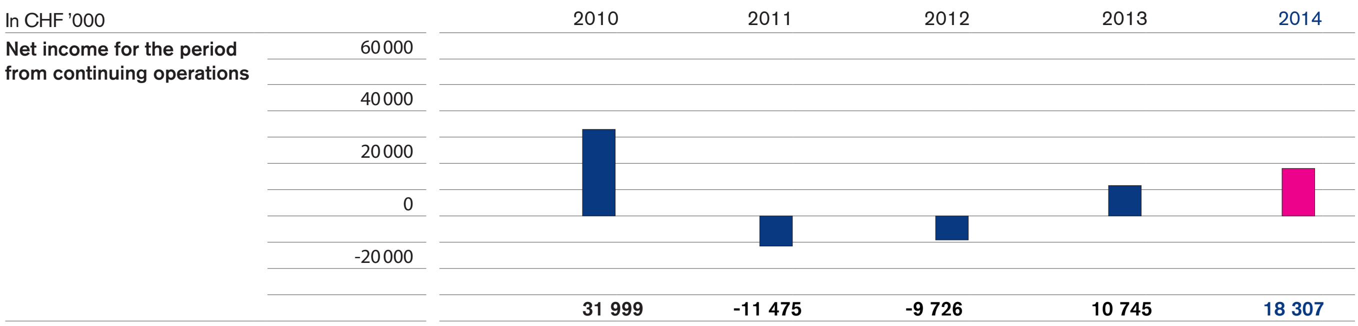
ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

KEY FIGURES FIRST HALF 2014*









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

FIRST HALF 2014 RESULTS

During the first half of 2014, the Group embarked upon a business portfolio restructuring, further strengthening its position in the digital TV conditional access market with the acquisition of Norway-based Conax. With this acquisition, the Group adds to its portfolio a highly efficient provider of flexible, cost-effective content security solutions for telcos, cable, satellite, IP, mobile and terrestrial operators, enabling the Group to offer a full spectrum of solutions across a broad range of markets and customers.

On May 2, the Group announced the sale of its NagraID subsidiary, reaching a further milestone in the process of streamlining its supply chain and enabling a material reduction of smart card production costs. In addition, the Group announced on August 19 that it had signed an agreement with Oberthur Technologies for the divestment of its 50% equity stake in the display card provider NagraID Security. The transaction includes an earn-out component, which will allow the Group to share the prospective upside of the display card market.

As NagraID and NagraID Security were, respectively, divested and held for sale at the reporting date, they are presented separately in these financial statements. The entities' results are presented as "Net loss from discontinued operations" in the consolidated income statements and the first half 2013 income statements are restated accordingly.

Finally, in January the Group signed a significant patent cross licensing agreement with Cisco, providing a positive contribution to this first half's income statement and supporting the increasing levels of investments in the IP licensing area.

Group revenues for the first half 2014 in constant currency increased by 9.5% over the same period in 2013, primarily driven by the one-time licensing revenues from the Cisco agreement and by the consolidation of Conax's revenue starting in April 2014. Reported first half revenues increased by 6.1% to CHF 395.3 million. The Group reported operating income of CHF 27.7 million, representing growth of 79.9% over the first half 2013. Net income from continuing operations improved from CHF 10.7 million to CHF 18.3 million.

Currency effects were marginally negative during the first half 2014, as the average USD/CHF rate declined to 0.891 as compared with 0.937 for the first half 2013.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for the first half 2014 increased by CHF 19.9 million to CHF 400.1 million. While revenues grew by CHF 22.5 million, other operating income declined by CHF 2.6 million, reflecting a reduction of innovation incentives received by the Group's operations in France ("Crédit d'Impôt Recherche") as the Group continued to reduce its French cost base.

"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 30.9 million to CHF 308.1 million. Relative to total revenues, margin after cost of material increased from 72.9% for the first half 2013 to 77.0% for the same period of 2014, due to the favorable impact of the Cisco patent cross licensing agreement and the significant margin improvement obtained by outsourcing the production of digital TV cards. The Group's Integrated Digital TV business started to benefit from these cost savings through lower arm's length transfer prices from the beginning of this year. The loss generated at NagraID during the first half 2014 is reported in the line item "net loss from discontinued operations."

Personnel expenses increased by CHF 11.3 million to CHF 186.6 million during the first half 2014 compared with the same period of 2013. Total Group headcount increased by 69 to 3'147 as of June 30, 2014. This includes 152 employees in Norway who joined the Group following the acquisition of Conax and an increase of 37 employees in India, primarily for R&D. In Switzerland, the Group reduced overall headcount by 127 primarily due to the divestment of NagraID.

Compared to the first half 2013, other operating expenses grew by CHF 8.8 million in 2014 to CHF 72.8 million. Legal and consultancy expenses increased by CHF 3.6 million, partly due to the CHF 1.8 million expense related to the acquisition of Conax. Change in provisions increased by CHF 3.2 million, as the Group released a CHF 2.7 million provision in the first half 2013.

The Group's operating income before depreciation and amortization was CHF 48.7 million for the first half 2014, a CHF 10.8 million increase over the first half 2013. At CHF 21.0 million, depreciation, amortization and impairment are CHF 1.5 million lower than in the first half 2013, reflecting the reduced levels of capital expenditures over the past three years and the deconsolidation of the capital intensive card production business.

Overall, the Group generated operating income of CHF 27.7 million in the first half 2014, representing a CHF 12.3 million improvement compared to the same period of 2013.

At CHF 5.6 million, interest expense for the first half 2014 was CHF 1.3 million higher than in the previous first half, as the Group entered into a new syndicated credit facility in connection with the acquisition of Conax and fully amortized transaction costs of the previous facility. The Group posted a CHF 0.3 million net finance expense for the first half 2014 compared to a CHF 2.4 million net finance income for the prior year period, primarily due to negative foreign exchange effects. Income tax expense increased by CHF 0.4 million to CHF 3.8 million. Overall, the Group improved net income from continuing operations by CHF 7.6 million to CHF 18.3 million.

As of the reporting date, NagraID was divested and NagraID Security was classified as held for sale. Accordingly, their results are presented as Net loss from discontinued operations. The Group retained all patents related to NagraID and NagraID Security. Proceeds from the sale of NagraID primarily consisted of an earn-out component. As only a limited earn-out was capitalized, the transaction resulted in a book loss of CHF 9.0 million. The new transfer prices for digital TV cards applied from January 1, 2014, which resulted in a further CHF 4.5 million loss for NagraID. No proceeds were capitalized for NagraID Security, as the transaction is not expected to close until second half 2014.

Overall, net loss from discontinued operations amounted to CHF 17.9 million for the first half 2014, resulting in net income for the period of CHF 0.4 million.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 7.2% to CHF 314.2 million for the first half 2014, representing constant currency growth of 11.1% over the prior year period.

Following the sustained market downturn in Europe, the Group's European iDTV business began to stabilize in the first half 2014, posting a 2.5% constant currency increase and reaching CHF 113.7 million. Both the Italian and German markets generated higher sales for the Group in 2014, as compared with 2013 when the Group experienced a decline in revenues from these markets.

The Group's Americas region posted a 20.5% constant currency growth, reaching CHF 148.1 million in the first half 2014. In addition to the solid performance of Dish Network in North America, the patent licensing agreement with Cisco drove this region's top line growth. In Brazil, following a sustained period of growth, the revenue consolidation experienced in the second half 2013 continued into 2014, resulting in a declining top line compared to the first half 2013.

The Group's Asia/Pacific and Africa region posted a 6.4% constant currency growth, as compared with the first half 2013. As Conax revenues were consolidated as of April 2014, this translated into declining revenues from this region at a constant perimeter of consolidation. Softer demand from Indian operators also contributed to declining revenues from this region in 2014 as compared to the first half 2013.

Overall, operating income from the iDTV segment improved by 42.5%, reaching CHF 44.6 million in the first half 2014. The patent licensing agreement with Cisco materially contributed to both segment top line and profitability. Beginning in April 2014, the iDTV segment benefitted from the consolidation of the newly acquired Conax business.

Furthermore, the material reduction of smart card production costs enabled by the divestment of NagraID allowed a further profitability increase. On the other hand, fundamentals in the core digital TV market continue to face significant headwinds, in spite of the stabilization of the European market.

PUBLIC ACCESS

SKIDATA posted a 3.7% revenue increase in constant currency, reaching CHF 81.1 million for the first half 2014.

In Europe, constant currency revenues developed strongly, translating to an 8.7% growth rate. Among the positive highlights, the Spanish market posted solid revenue growth, benefitting from large parking projects at the Madrid and Bilbao airports.

In the Americas, constant currency revenues declined by 31.9% in the first half 2014, which is consistent with the level of revenues generated in first half 2012. In the first half 2013, SKIDATA recognized material revenues from the Dallas airport installation and benefitted from new contracts for airport parking projects in several South American markets.

Finally, constant currency revenues for Asia/Pacific and Africa increased by 53.6%, reaching CHF 8.3 million in the first half 2014. This reflects initial successes in markets such as Singapore and South Africa as well as the development of SKIDATA's presence in Australia, where SKIDATA now owns 50% of the local distributor.

Overall, this segment's operating income for the first half 2014 was stable compared to the same period of 2013, having posted a CHF 0.1 million decline.

BALANCE SHEET AND CASH FLOW

Total non-current assets increased by CHF 190.5 million in the first half 2014, with tangible fixed assets decreasing by CHF 18.7 million and intangible fixed assets growing by CHF 206.2 million. The Group's continued tight control of capital expenditures enabled a further reduction of tangible fixed assets. The increase in intangible fixed assets was primarily due to the consolidation of Conax, which resulted in additional goodwill of CHF 145.0 million and an additional CHF 74.9 million of intangible fixed assets relating to customer lists and software.

Compared to December 31, 2013, total current assets decreased by CHF 11.6 million during the first half 2014. The divestments of NagraID and NagraID Security were the main drivers of the CHF 6.7 million reduction in inventory. Trade accounts receivable continued to improve during the first half 2014, resulting in a CHF 22.5 million decrease compared to the end of last year. As of June 30, 2014, cash and cash equivalent amounted to CHF 109.3 million. Total assets include CHF 6.4 million of NagraID Security assets classified as held for sale.

Total equity declined by CHF 25.0 million, mainly reflecting a marginally positive net income and a CHF 16.2 million dividend distribution during the first half 2014. Total non-current liabilities increased by CHF 213.1 million, primarily reflecting an increase in long-term debt of CHF 198.8 million. In connection with the Conax acquisition, the Group obtained a long-term credit facility of CHF 235 million with a five-year term and drew CHF 200 million of this facility to finance the acquisition of Conax.

The addition of intangible assets from the Conax transaction led to a CHF 14.8 million increase of deferred income tax liabilities. The Group reduced total current liabilities by CHF 4.5 million during the first half 2014, mainly through a CHF 11.5 million reduction of short-term financial debt. CHF 1.6 million from Nagra ID Security are booked as “Liabilities of disposal group classified as held for sale.”

During the first half 2014, the Group generated CHF 71.5 million of cash from operating activities, representing an improvement of CHF 19.6 million as compared to cash flows generated during the first half 2013. The Group used CHF 225.8 million of cash for investing activities. This includes the CHF 211.5 million investment for the acquisition of Conax. Continued tight management of capital expenditures during the first half of 2014 otherwise enabled the Group to support its strong cash generation, with cash used for purchasing tangible and intangible assets representing less than CHF 9 million during the first half 2014.

Cash from financing activities amounted to CHF 163.5 million. This includes in particular CHF 200 million from the new syndicated loan facility entered in connection with the Conax acquisition, a CHF 30 million repayment of the previous credit facility as well as the CHF 16.2 million dividend paid by Kudelski SA in the first half 2014. The effect of changes in foreign exchange rates on cash and cash equivalents was marginally negative at CHF 0.2 million during the first half 2014.

OUTLOOK

For the full year 2014, the Group expects iDTV seasonality patterns for operating income to be different than in previous years because first half 2014 results include the positive one-time effect of the Cisco transaction. As the Group will consolidate Conax for the full second half, iDTV revenues are expected to grow compared to the firs half. In the Public Access segment, the Group expects a similar seasonality pattern as experienced in previous years, resulting in higher top line revenues and operating income for the second half 2014 as compared with the first half.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

In CHF'000	January/ June 2014	January/ June 2013
Revenues	395 253	372 746
Other operating income	4 831	7 417
Total revenues and other operating income	**400 084**	**380 163**
Cost of material	-91 954	-103 029
Employee benefits expense	-186 583	-175 248
Other operating expenses	-72 834	-63 939
Operating income before depreciation, amortization and impairment	**48 713**	**37 947**
Depreciation, amortization and impairment	-21 023	-22 558
Operating income	**27 690**	**15 389**
Interest expense	-5 594	-4 321
Other finance income/(expense), net	-281	2 398
Share of results of associates	315	679
Income before tax	**22 130**	**14 145**
Income tax expense	-3 823	-3 400
Net income for the period from continuing operations	**18 307**	**10 745**
Net loss from discontinued operations	-17 882	-452
Net income for the period	**425**	**10 293**
Attributable to:		
- Equity holders of the company	-771	10 530
- Non controlling interests	1 196	-237
	425	**10 293**

The net income attributable to Equity holders of the company amounting to kCHF -771 includes a loss of CHF -15 710 from discontinued operations and a net income of kCHF 14 939 from continuing operations.

Earnings per share (unaudited)

In CHF	January/ June 2014	January/ June 2013
Earnings/(loss) per bearer share - basic and diluted:		
- from continuing operations	0.2772	0.1668
- from discontinued operations	-0.2915	0.0286
- for the period	-0.0143	0.1954
Earnings/(loss) per registered share (not listed) - basic and diluted:		
- from continuing operations	0.0277	0.0167
- from discontinued operations	-0.0291	0.0029
- for the period	-0.0014	0.0195

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

In CHF'000	January/ June 2014	January/ June 2013
Net income	**425**	**10 293**
Other comprehensive income to be reclassified to net income/(loss) in subsequent periods:		
Currency translation differences	-5 907	8 798
Cash flow hedges, net of income tax	143	-2
Net gain on available-for-sale financial assets, net of income tax	170	6
	-5 594	**8 802**
Other comprehensive income not to be reclassified to net income/(loss) in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	-118	-109
Total other comprehensive income, net of tax	**-5 712**	**8 693**
Total comprehensive income/(loss) for the period	**-5 287**	**18 986**
Attributable to:		
- Equity holders of the company	-6 544	18 637
- Non controlling interests	1 257	349
	-5 287	**18 986**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2014 AND DECEMBER 31, 2013 (UNAUDITED)

Assets

In CHF	30.06.2014	31.12.2013
Non-current assets		
Tangible fixed assets	128 804	147 487
Intangible assets	375 539	169 250
Investment property	1 382	1 459
Investments in associates	6 264	4 768
Deferred income taxes assets	54 392	56 118
Financial assets and other non-current assets	63 433	60 198
Total non-current assets	**629 814**	**439 280**
Current assets		
Inventories	57 618	64 383
Trade accounts receivable	174 743	197 233
Other current assets	58 595	49 959
Financial assets (short term)	24	–
Cash and cash equivalents	109 180	100 273
Total current assets	**400 160**	**411 848**
Assets of disposal goup classified as held for sale	**6 425**	**–**
Total assets	**1 036 399**	**851 128**

Equity and liabilities

Capital and reserves		
Share capital	538 986	537 882
Reserves	-119 875	-96 999
Equity attributable to equity holders of the parent	**419 111**	**440 883**
Non controlling interests	2 421	5 618
Total equity	**421 532**	**446 501**
Non-current liabilities		
Long-term financial debt	322 213	123 444
Deferred income tax liabilities	15 298	491
Employee benefits liabilities	60 943	61 281
Provisions for other liabilities and charges	175	288
Other long-term liabilities and derivative financial instruments	2 317	2 288
Total non-current liabilities	**400 946**	**187 792**
Current liabilities		
Short-term financial debt	47 756	59 257
Trade accounts payable	34 405	37 729
Other current liabilities	105 107	98 034
Current income taxes	1 700	2 137
Advances received from clients	20 168	13 620
Derivative financial instruments	8	–
Provisions for other liabilities and charges	3 170	6 058
Total current liabilities	**212 314**	**216 835**
Liabilities of disposal goup classified as held for sale	**1 607**	**–**
Total liabilities	**614 867**	**404 627**
Total equity and liabilities	**1 036 399**	**851 128**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

In CHF'000	January/ June 2014	January/ June 2013
Net income for the period	**425**	**10 293**
Adjustments for net income non-cash items:		
- Current and deferred income tax	3 829	3 841
- Interest expense and other finance income/(expense), net	4 777	4 119
- Allocation of the equity conversion component and transaction costs of convertible bond and borrowings	134	130
- Depreciation, amortization and impairment	22 919	25 672
- Change in fair value of financial assets at fair value through profit or loss	-16	237
- Share of result of associates	-315	-678
- Non-cash employee benefits expense	3 169	3 964
- Additional provisions net of unused amounts reversed	182	-1 798
- Loss on sales of subsidiaries	10 563	–
- Non-cash government grant income	-3 225	-2 214
- Other non-cash income/expenses	3 378	2 255
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non operating cash items	-3	13
Adjustements for change in working capital:		
- Change in inventories	-1 812	-7 682
- Change in trade accounts receivable	41 942	43 276
- Change in trade accounts payable	-6 515	-6 959
- Change in deferred costs and other net current working capital headings	-5 469	-21 299
Dividends received from associated companies	1 178	–
Interest paid	-1 903	-1 233
Interest received	755	583
Income tax paid	-2 447	-618
Cash flow from operating activities	**71 546**	**51 902**
Purchases of intangible fixed assets	-3 386	-2 788
Purchases of tangible fixed assets	-5 534	-9 920
Proceeds from sales of tangible and intangible fixed assets	112	38
Investment in financial assets and loan granted	-3 823	-170
Divestments of financial fixed assets and loans reimbursement	775	1 539
Acquisition of subsidiaries, cash outflow	-211 523	–
Disposal of subsidiaries, cash outflow	-256	–
Acquisition of associated companies	-2 193	–
Cash flow from/(used in) investing activities	**-225 828**	**-11 301**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities	-33 799	-61 142
Increase in bank overdrafts, long term loans and other non-current liabilities	217 908	1 625
Proceeds from employee share purchase program	16	43
Dividends paid to non controlling interests	-4 455	-21
Dividends paid to shareholders	-16 170	-10 757
Cash flow from/(used in) financing activities	**163 500**	**-70 252**
Effect of foreign exchange rate changes on cash and cash equivalents	-171	1 080
Net increase/(decrease) in cash and cash equivalents	**9 047**	**-28 571**
Cash and cash equivalents at the beginning of the period	100 273	110 086
Cash and cash equivalents at the end of the period	109 320	81 515
Net increase/(decrease) in cash and cash equivalents	**9 047**	**-28 571**

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, 2013	**536 122**	**52 380**	**-104 277**	**-619**	**-74 326**	**-290**	**9 425**	**418 415**
(Loss) / profit for the period			10 530				-237	10 293
Other comprehensive (loss) / income for the period			-109	4	8 212		586	8 693
Total comprehensive (loss)/income for the period	**–**	**–**	**10,421**	**4**	**8,212**	**–**	**349**	**18,986**
Employee share purchase program	60	-14						46
Shares issued for employes	1 681	-536						1 145
Dividend paid to shareholders		-8 068	-2 689					-10 757
Dividend paid to non controlling interests							-21	-21
Restricted shares granted to employees			-37			37		–
Restricted shares allocated over the vesting period			5					5
June 30, 2013	**537 863**	**43 762**	**-96 577**	**-615**	**-66 114**	**-253**	**9 753**	**427 819**
January 1, 2014	**537 882**	**43 758**	**-61 458**	**-1 577**	**-77 722**	**–**	**5 618**	**446 501**
(Loss) / profit for the period			-771				1 196	425
Other comprehensive (loss) / income for the period			-118	241	-5 897		62	-5 712
Total comprehensive (loss)/income for the period	**–**	**–**	**-889**	**241**	**-5,897**	**–**	**1,258**	**-5,287**
Employee share purchase program	21	3						24
Shares issued for employes	1 083	-164						919
Dividend paid to shareholders		-10 780	-5 390					-16 170
Dividend paid to non controlling interests							-4 455	-4 455
June 30, 2014	**538 986**	**32 817**	**-67 737**	**-1 336**	**-83 619**	**–**	**2 421**	**421 532**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 (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 2013 annual report.

2. BASIS OF PREPARATION
These interim condensed financial statements for the six month ended June 30, 2014 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, 2013.

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, 2013, except for the adoption of new standards and interpretations as of January 1, 2014 described below.

IFRIC 21 - 'Levies' (effective from 1 January 2014) had only limited impact on the accounting policies, financial position or performance of the Group.

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 certain customers where the sale model applies. Revenues generated under the service model have limited seasonality. This operating segment may also be subject to abnormal seasonality due to bulk orders of smart cards from large customers (e.g. for swap outs) and when new customers are acquired 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
As of June 30, 2014, 2 124 bearer shares have been underwritten by employees in accordance with the articles of the Employee Share Plan. The attributable expense in the income statement is kCHF 8.

6. BANK LOANS
This year and in relation with the acquisition of Conax AS, the Group has obtained a new long term committed syndicated facility of CHF 235m for a period of 5 years, through March 31, 2019. This facility replaces the former facility of CHF 145m maturing in March 2015. As of June 30, 2014, the Group has drawn CHF 200m which was used for the acquisition of Conax AS, and repaid the outstanding CHF 30m under the former syndicated credit facility.

7. DIVIDEND
On April 16, 2014, the Group paid a distribution of CHF 0.30 per bearer share and CHF 0.03 per registered share. The distribution amounts to kCHF 16 170.

8. DISCONTINUED OPERATIONS, DISPOSAL GROUP AND EVENT SUBSEQUENT TO BALANCE SHEET DATE

8.1 DIVESTMENTS
On May 2, 2014 the Group disposed of its 100% owned embedded card-based product manufacturer NagraID SA, based in La Chaux-de-Fonds, to a group of investors including NagraID's management team. NagraID's intellectual property was transferred to the Group prior to disposal. No cash consideration was involved. Total consideration includes contingent assets (earn-out payments and profit sharing on disposal of some underlying assets of the company).

8.2 DISPOSAL GROUP
The assets and liabilities related to NagraID Security SA and its subsidiaries (hereafter "NIDS"), a 50% owned subgroup, have been presented as held for sale. The disposal of this subgroup occurred after the balance sheet date on August 18, 2014.
The assets and liabilities of NIDS are a disposal group and were remeasured to the lower of carrying amount or fair value less cost to sell at the date of held-for-sale classification.
The major classes of assets and liabilities of activities treated as a disposal group are as follows:

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 (UNAUDITED)

In CHF'000	30.06.2014
Assets classified as held for sale:	
- Tangible fixed assets	2 018
- Financial assets	26
- Trade and other receivables	875
- Inventories	2 874
- Cash and cash equivalents	140
- Other current assets	492
Total assets of the disposal group	**6 425**
Liabilities classified as held for sale:	
- Trade and other payables	526
- Other current liabilities	795
- Employee benefits liabilities	286
Total liabilities of the disposal group	**1 607**
Total net assets of the disposal group	**4 818**

8.3 DISCONTINUED OPERATIONS.

The decision of Kudelski SA's Board to dispose of its manufacturing units for smartcards including NagraID and NagraID Security has led the Group to treat those companies as discontinued operations. These businesses mainly operate their manufacturing activities in different geographical areas than the core iDTV businesses, and represent a significant portion of the Group's costs. Financial information relating to the manufacturing smartcard units' operations for the period to the date of disposal or reporting date is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued. Comparative figures have been restated.

In CHF'000	January/ June 2014	January/ June 2013
Revenue	10 927	47 633
Expenses	-17 563	-46 104
Operating profit	**-6 636**	**1 529**
Finance costs	-677	-1 540
Profit before tax from discontinuated operations	**-7 313**	**-11**
Income tax	-6	-441
Profit after tax from discontinuated operations	**-7 319**	**-452**
Pre-tax loss recognised on disposal of discontinued operations	-10 563	–
Income tax	–	–
Post-tax loss recognised on disposal of discontinued operations	-10 563	–
Profit from discontinuated operations	**-17 882**	**-452**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 (UNAUDITED)

The cash flows relating to the operating, investing and financing activities of the discontinued operations that are included in the cash flow statement are as follows:

In CHF'000	January/ June 2014	January/ June 2013
Operating	-1 874	11 599
Investing	-868	-551
Financing	1 721	-10 977

9. BUSINESS COMBINATION

On April 7, 2014, the Group purchased 100% of Conax AS, Norway, from Telenor Broadcast Holding AS, for total consideration of kCHF 211 904. Conax AS is a global provider of content protection for digital TV services over broadcast, broadband and connected devices. The goodwill arising from this acquisition amounts to kCHF 144 980 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors including expected synergies considered when purchasing the company, a highly skilled and experienced workforce, as well as a complementary geographic footprint and solution portfolio. With this acquisition, the Group further expends its customer portfolio in Asia, Latin America, Eastern Europe and Scandinavia. Conax's customer base will benefit of the Group's broad portfolio of best-in-class products.

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

In CHF'000	Fair value of assets acquired
Tangible fixed assets	2 719
Intangible fixed assets (Goodwill excl.)	74 933
Trade accounts receivable	19 559
Other current assets	6 182
Cash and cash equivalents	381
Trade accounts payable	-5 148
Other current liabilities	-31 702
Fair value of net assets acquired	**66 924**
Purchase consideration:	
- cash paid	211 904
Fair value of net assets acquired	-66 924
Goodwill	**144 980**
Purchase consideration in cash:	
- cash paid	211 904
Cash and cash equivalents acquired	-381
Net cash outflow from acquisitions	**211 523**

Acquisition-related costs of kCHF 1 772 have been charged to Other operating expenses in the consolidated income statement for the period. The gross contractual amount of trade receivables due is kCHF 20 088, of which kCHF 528 is expected to be uncollectable, leading to a fair value of kCHF 19'559. From the date of acquisition, Conax AS has contributed kCHF 23 894 of revenues and kCHF 2 456 to the net income from the continuing operations of the Group.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 (UNAUDITED)

If the acquisition had taken place on January 1, revenues from continuing operations would have been approximately kCHF 419 776 and the net income from continuing operations for the period for the Group would have been approximately kCHF 21 536.

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, 2014 and December 31, 2013. For additional information on the levels and valuation method, please refer to note 49 to the consolidated financial statement in the 2013 annual report.

In CHF'000		30.06.2014	31.12.2013
Financial assets:			
- marketable securities	Level 1	1 200	1 030
- derivative financial instruments	Level 2	24	–
- equity instuments with no quoted market price	Level 3	1 400	1 400
- contingent asset	Level 3	4 402	–
Total financial assets		**7 026**	**2 430**
Financial liabilities:			
- derivative financial instruments	Level 2	619	753
Total financial liabilities		**7 645**	**3 183**

Level 3 equity instruments with no quoted market price are calculated using a discounted cash flow method provided by the company. At June 30, 2014, the fair value was not updated as the business plan has not changed. A contingent asset consisting of an earn-out has been calculated using projections of revenue of a disposed company, as estimated by management at the date of disposal. The fair value estimate is based on a discount rate of 5%.

During the first six-month period ended June 30, 2014, there were no changes in the valuation techniques, no significant transfers from one level to another, and no transactions associated with level 3 financial instruments.

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

In CHF'000	Carrying amount 30.06.2014	Fair value 30.06.2014
Financial liabilities		
- CHF 110 million bond	109 308	114 565

The fair value of the bond is based on its market price.

11. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets 30.06.2014	31.12.2013	Average rates used for the consolidated income and cash flow statements 30.06.2014	30.06.2013
1 USD	0.890	0.890	0.891	0.937
1 EUR	1.215	1.225	1.221	1.230

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014 (UNAUDITED)

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
- 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. 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.

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.

	Integrated Digital Television		Public Access		Total	
In CHF'000	**January/ June 2014**	**January/ June 2013**	**January/ June 2014**	**January/ June 2013**	**January/ June 2014**	**January/ June 2013**
Total segment Revenues	**314 900**	**294 086**	**81 086**	**79 649**	**395 986**	**373 735**
Inter-segment revenues	-733	-983	-1	-6	-734	-989
Revenues from external customers	**314 167**	**293 103**	**81 085**	**79 643**	**395 252**	**372 746**
Depreciation and amortisation	-17 204	-16 990	-3 803	-3 366	-21 007	-20 356
Impairment	-16	-2 202		–	-16	-2 202
Operating income - excluding corporate common functions	**44 575**	**31 274**	**-7 839**	**-7 723**	**36 736**	**23 551**
Corporate common functions					-9 046	-8 163
Interest expense and other Finance income/(expense), net					-5 875	-1 922
Share of result of associates					315	679
Income before tax					**22 130**	**14 145**
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Total segment Assets	**872 246**	**698 042**	**137 039**	**141 198**	**1 009 285**	**839 240**

In CHF'000	**30.06.2014**	**31.12.2013**
Total Segment Assets	1 009 285	839 240
Cash & Cash equivalents	15 081	7 590
Other current assets	4 197	1 034
Financial assets and other non-current assets	7 836	3 264
Total Assets as per Balance Sheet	**1 036 399**	**851 128**

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