

**PRESS RELEASE**

**2017 HALF YEAR RESULTS**

**Highlights:**

- Revenues and OOI up 12.5% to USD 552.0 million, operating profit decreased to USD 6.7 million
- +56% revenue growth in Americas driven by Kudelski Security and Public Access, while revenues from Europe declined mainly due to the weak performance of traditional Digital TV business.
- Further wins in advanced digital TV markets and extended partnerships with key operators, with focus on IPTV and Internet TV
- Further expansion of the solution portfolio in Digital TV with end-to-end content security and the acquisition of DVnor for digital content distribution
- Further development of a secure Internet of Things platform and establishment of partnerships with leading players in the IoT domain
- Sustained patent licensing momentum with the addition of new major licensees, including AT&T, Turner, Advance Magazine Publishers, Scripps Networks, Twitter and Arris
- Continued significant investment in new activities, while simplifying the structure and reducing costs in the Digital TV business
- Confirmation of full year 2017 revenue guidance (USD 1.15 - 1.20 billion), while lowering the operating income guidance to USD 45 - 65 million

**KEY FIGURES HALF YEAR 2017**

<b>(In million USD)</b>	<b>1H 2017</b>	<b>1H 2016</b>	<b>Variation</b>
<b>Revenues and Other Operating Income</b>	<b>552.0</b>	<b>490.8</b>	<b>+12.5%</b>
<b>Operating Income</b>	<b>6.7</b>	<b>34.1</b>	<b>-80.2%</b>
<b>Net Income (loss)</b>	<b>-5.7</b>	<b>21.4</b>	<b>N/A</b>

**Cheseaux-sur-Lausanne, Switzerland and Phoenix (AZ), USA – August 17, 2017** - The Kudelski Group (SIX: KUD.S), a leading provider of media content protection and value-added service technology, announced today its 2017 half year results.

In the first half 2017, the Kudelski Group grew consolidated revenues by 12.7% reaching USD 545.7 million, while delivering USD 6.7 million operating profit, a decline of USD 27.3 million compared to the first half 2016.

The structural change of the markets in which the Group is active has accelerated during the first half 2017. While demand for cybersecurity, Internet TV and Internet of Things solutions is strongly increasing, especially in the US market, demand for traditional Digital-TV solutions is weaker due in particular to subscriber losses at several traditional European pay-TV operators. This market evolution has shifted the geographical revenue mix, with an increasing importance of the American region primarily driven by cyber security and public access, compensating for the weaker demand for legacy Digital TV solutions, especially in Europe.

The integrated Digital TV segment (iDTV) grew its topline by 12.9% to USD 387.3 million, with operating income of USD 13.1 million compared to USD 43.1 million in the first half 2016. In the Group's core digital TV business, the saturation of traditional pay TV offerings in developed markets resulted in decreased revenues, particularly in Europe where several established pay TV operators continued to lose subscribers. However, the Group was able to further develop its intellectual property (IP) licensing activities in the first half 2017 by entering into additional patent licensing agreements.

Revenues from the cybersecurity business gained strong traction in the first half 2017. However, the Group also widened its losses from this business, as it continued to invest to develop its technology portfolio in areas such as Internet of Things (IoT). The Group successfully integrated M&S Technologies, a Dallas-based cyber and network security provider acquired in January of this year. This acquisition, together with the organization built organically, provides a strong platform for the deployment of the Group's proprietary cybersecurity technologies and managed service capabilities.

In the Public Access segment, revenues grew by 12.0% over the first half 2016, which represents a strong result considering the growth of over 50% in the previous first half-year. Public Access operating profits were also higher, reaching USD 1.5 million compared to USD 0.2 million in the first half 2016.

## **EXPANDING FOOTPRINT IN DIGITAL CONTENT VALUE CHAIN**

The Kudelski Group announced in May 2017 the acquisition of Digital Video Norge AS (DVnor), an Oslo-based provider of media asset management services. DVnor's technology and competencies are highly complementary to the Group's content security portfolio, and will therefore further strengthen its position in the industry for media consumption.

DVnor is uniquely positioned to serve content producers and distributors with highly scalable technologies for metadata handling, transcoding, storage and distribution and will, combined with the Kudelski Group's portfolio of other offerings, bring new, innovative and secure solutions both to traditional and emerging pay-TV providers.

## **END-TO-END SECURITY AND ANTI-PIRACY INITIATIVES**

The Kudelski Group's offerings in the anti-piracy area continued to strengthen through technological developments and new partnerships.

NexGuard, the Group's watermarking business, launched the NexGuard File Delivery solution to give content owners traceability of premium video-on-demand assets during distribution. The company also expanded its solution portfolio by offering combined solutions for anti-piracy monitoring services and watermarking, targeting, for example, live sports.

NAGRA's anti-piracy services leveraging NexGuard watermarking and the Group's anti-piracy expertise are being adopted by customers such as Groupe Canal+ and NOS in Portugal – who will extend its existing NAGRA solution with the NAGRA Security Services platform. Additionally, DFL Deutsche Fußball Liga selected NAGRA's anti-piracy content protection services to support the organization's continued efforts to fight illegal content sharing of the Bundesliga championships over the Internet (IPTV).

## **ALIGNING DTV OPERATIONS WITH NEW MARKET REALITIES**

In order to leverage its footprint in the DTV market and take advantage of new opportunities, while being extremely careful in respect of its cost base, the Group is implementing measures to realize key synergies among its entities, especially regarding product development, sales network and location mix.

A specific team has been created to target new customers and increase the Group's market share, while the product portfolio is widened to increase the Group's offerings. End-to end security, media asset management and analytics are some of the most prominent examples of product development efforts.

## **FURTHER WINS IN CORE DIGITAL TV MARKETS AND EXPANDED RELATIONSHIPSWITH KEY OPERATORS**

The Group entered into several new contracts and completed new deployments in the digital TV segment.

In Europe, NAGRA continued to strengthen its partnerships with major operators, supporting them in their transition to IPTV and in improving their operational efficiency. For instance, in Spain, NAGRA signed an agreement with Vodafone Spain to move from NAGRA's ELK (embedded link) CAS solution to the NAGRA CONNECT solution for their IPTV network. HOT Telecom, an Altice

Group subsidiary and lead cable operator in Israel, recently launched a new innovative streaming service, NEXT, powered by the NAGRA OpenTV suite and secured by the NAGRA PRM solution.

NAGRA's footprint in Africa continues to grow, driven by successful deployments in South Africa and Nigeria.

In the Americas, the Group signed its first customer deals in the U.S. to support the Hollywood studios' Early Window VOD initiative with NAGRA NexGuard, the Group's secure anti-piracy framework and watermarking technology. Denver-based Evolution Digital selected the Conax multi-DRM solution for its eVUE-TV platform. In Latin America, leading pay-TV service providers America Movil and NET Brazil continue to introduce their subscribers to a range of next-generation TV services and user experience features made possible by the powerful NAGRA OpenTV Platform and OS.

In the Asia Pacific region, NAGRA continues to experience good momentum, supporting its large client operators in their transition to IP-based services alongside the traditional broadcast networks. NAGRA is playing a key role in helping operators achieve the migration of their platform. Several key operators (StarHub and TBC for example) have selected NAGRA as their system integrator. NAGRA delivered the seamless migration of all of StarHub's 280 TV channel services in July 2017.

## **KUDELSKI SECURITY FURTHER STRENGTHENING MARKET PRESENCE AND SOLUTION OFFERING**

Kudelski Security, the Group's cybersecurity division, continued to implement its expansion strategy, benefitting from a dual structure with Group headquarters both in Switzerland and Phoenix (AZ) in the United States.

In the first half of 2017, the acquisition by the Group of M&S Technologies enabled Kudelski Security to increase its geographic footprint in the U.S. market. In addition, Kudelski Security has continued to expand organically.

Kudelski Security is also continuously strengthening its solution offering by adopting cutting-edge technologies and approaches that better match the security demands created by a continuously evolving threat landscape. In May 2017, Kudelski Security announced the integration of illusive networks' innovative deception-based technology into its Managed Security Services solution, creating the most robust enterprise-class protection offering available in the market.

In early 2017, Kudelski Security launched its Phoenix-based Cyber Fusion Center to remotely manage client security environments in conjunction with its Swiss Center.

In the Managed Services business, Kudelski Security concluded new client deals in EMEA with multi-year agreements to remotely manage their security environments; and following the launch of its Advisory Services team in the US in the 4<sup>th</sup> quarter of 2016, Kudelski Security has closed 26 projects and engagements.

In terms of proprietary solutions development, Kudelski Security continues to focus on secure communication, cloud security, convergence of physical and logical systems, next generation managed security services and purpose-built chief information security officer tools.

## **INCREASED FOCUS ON INTERNET OF THINGS SECURITY**

In early 2017, the Group launched its Internet of Things (IoT) Security Center of Excellence to address demand for increasing protection of connected devices, capitalizing on the expertise of Kudelski Security and leveraging its 25 years of innovation in the fields of digital content and device protection.

The Group continued to increase its commitment to the IoT space by creating a dedicated unit aimed at leveraging the Group's proven engineering capabilities, unique expertise in specific fields like analytics and well-developed sales network to address market needs in a more proactive way and better seize business opportunities for the Group.

## **SUSTAINED PATENT LICENSING MOMENTUM**

In the first half of 2017, the Group continued to extend the scope of its intellectual property and technology licensing activities, concluding patent license agreements with Turner, Conde Nast and Scripps.

Significant new license agreements were also announced with AT&T and Arris (H2). The patent cross license agreement with AT&T, one of the world's leading providers of premium TV entertainment, provides AT&T worldwide access to Kudelski Group's world-class patent portfolio that covers fundamental aspects of end-to-end video distribution, further validating the strong relevance of the Group's patent portfolio to satellite, cable and OTT video distribution.

The Kudelski Group's innovation and patent program continues to be strong, with a worldwide portfolio of approximately 5,400 issued patents and pending applications.

## **CONTINUED STRONG MOMENTUM IN PUBLIC ACCESS**

In the first half of 2017, SKIDATA continued to strengthen its position as a world leader in the Public Access sector, achieving substantial growth and another record first half. The parking sector is showing very good traction, in particular outside of Europe.

Some of SKIDATA's most prominent new installations in this area include the airport of Raleigh (USA), Disneyland Anaheim (USA), Palladium Curitiba Shopping Center (Brazil), Parque Puebla (Mexico), Tiger Resort Manila Bay (Philippines), University of Manchester (UK), Aachen Airport Maastricht (Netherlands), Ballitico Junction Mall (South Africa) and Legoland Billund (Denmark).

On the event side, SKIDATA benefited from Russia 2018 and the company's great reputation in the soccer stadia market. First half installations in this sector include the Atlanta Falcons stadium (USA), Emelec Stadium Ecuador (Ecuador) as well as Stade de Genève (Switzerland) and Lipo-Park Stadion Schaffhausen (Switzerland).

## **CONFIRMATION OF FULL YEAR 2017 REVENUE GUIDANCE (USD 1.15 - 1.20 BILLION), WHILE LOWERING THE OPERATING INCOME GUIDANCE TO USD 45 – 65 MILLION**

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

While the Group expects to reach its original revenue guidance for the full 2017 fiscal year (USD 1.15-1.20 billion), the accelerated Group transformation in 2017 will have a short-term negative cost impact of about USD 15 million. The revised operating income guidance for 2017 is USD 45 – 65 million. This is mainly due to the weaker than expected business outlook for the traditional DTV business, particularly related to the Conax legacy business evolution, and expectations of additional costs required for the Group's business transformation. Overall, improved revenue expectations for new business in 2017 should compensate for the aforementioned loss of revenues, but is not expected to compensate for the shortfall in profitability due to the continued investment required to transform the Group's business.

**Note to the editors:**

The 2017 first half Financial Statements and MD&A are available in PDF format under:  
[www.nagra.com](http://www.nagra.com) >> Investors >> Publications.

**About the Kudelski Group**

The Kudelski Group (SIX: KUD.S) is a world leader in digital security and a provider of end-to-end convergent media solutions to the digital entertainment industry, including services and applications requiring access control and rights management to secure the revenue in digital television, internet, mobile and interactive applications. The Group also offers cybersecurity solutions and services focused on helping companies assess risks and vulnerabilities and protect their data and systems. It also supplies integrated solutions to manage access control of people and vehicles to sites and events. The Kudelski Group is headquartered in Cheseaux-sur-Lausanne, Switzerland and Phoenix (AZ), USA. For more information, please visit [www.nagra.com](http://www.nagra.com).

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