

## ANNUAL RESULTS 2017

### HIGHLIGHTS:

- Revenues & OOI from continuing operations up by 7.1% to USD 1'068\* million driven by cybersecurity and Public Access performance
- 47% of Group revenues generated in the Americas
- Operating income from continuing operations and before restructuring costs down to USD 48.1 million
- Group profitability impacted by further slowdown of traditional TV activities
- Transformation and restructuring costs having material impact on 2017 and 2018 results
- Cybersecurity, Internet of Things and Public Access activities becoming key growth drivers for the future of the Group
- Expansion of the iDTV product portfolio with new innovative offerings, including the acquisition of DVNor (Media Asset Management)
- SKIDATA enters Chinese parking market through Cytel acquisition
- Sustained patent licensing momentum through new agreements with industry leaders
- The Group has maintained its R&D effort with USD 189 million invested in 2017 to address new business opportunities including in cybersecurity, IoT, Internet TV and Public Access
- Outlook for 2018: Revenues in line with 2017, Operating income USD 30-45 million before restructuring costs
- Proposing a cash distribution (dividend) of CHF 0.10 per bearer share

### KEY FIGURES 2017

(In million USD)	2017	2016
Revenues and Other Operating Income **	1'068.7	998.2
Operating Income before restructuring **	48.1	113.5
Net Income **	2.7	88.5

\*USD 1'138 million including discontinued operations

\*\* from continuing operations

**Cheseaux-sur-Lausanne, Switzerland, and Phoenix (AZ), USA – February 14, 2018** – The Kudelski Group (SIX: KUD.S), the world leader in digital security, announced today its 2017 annual results.

In 2017, the Group increased its consolidated revenues and other operating income from continuing operations by 7.1% to USD 1'068.7 million. SmarDTV's revenues are not included in the reported revenue line as they are classified as discontinued operations. Operating income excluding restructuring costs decreased from USD 113.5 million to USD 48.1 million in 2017. After USD 22.5 million restructuring costs, 2017 operating income was USD 25.6 million.

iDTV segment revenues increased by 4.2% in 2017, reaching USD 688.4 million.

Kudelski Security, the Group's cybersecurity business, more than doubled its revenue contribution in 2017, reflecting the full consolidation of M&S Technologies as of January 2017 and the strong performance of its European operations. M&S Technologies is a Dallas-based cyber and network security provider that extends the Group's cybersecurity presence into the South-Central region of the United States.

Public Access maintained its strong top line momentum, with revenues growing at two-digit rates to reach USD 361.3 million, representing 11.7% growth.

As over 56% of its revenues are denominated in USD and 47% of Group revenues are generated in the Americas, the Group changed its reporting currency from CHF to USD as of January 1, 2017. Accordingly, prior year's numbers have been restated in USD for comparison purposes.

## **TRANSFORMING THE IDTV STRUCTURE TO ADDRESS NEW OPPORTUNITIES**

In 2017, the Group accelerated its efforts to align its digital TV operations with the new market realities to seize new opportunities more effectively. This transformation involved the streamlining of Digital TV core operations and the full integration of its Conax subsidiary. This integration enables the Group to deliver a broader end-to-end integrated solution offering, stimulates innovation as well as increases operational synergies between the entities.

The Group also reviewed the geographic distribution of its activities with the goal of consolidating operations into core locations by having each of the Group's activities focus on specific sites. While restructuring in Switzerland, Norway and USA was completed in 2017, the Group is planning further significant restructuring measures aimed at streamlining operations in other European locations. In 2017 cost reduction of USD 23.3 million have been already achieved and further USD 50-70 million will be achieved in 2018.

In a changing environment, Digital TV is continuing its own transformation to cloud-based solutions with new deployments planned for 2018. The measures undertaken by the Group involved changes in operations management responsibility, with the role of DTV Chief Operating Officer (COO) being split into two positions focusing on sales and marketing on the one hand and on operations on the other hand.

In connection with the ongoing efforts to streamline its core digital TV operations, the Group is seeking to establish strategic partnerships with best-of-breed set-top box and conditional access module suppliers, which comprise the Group's SmarDTV subsidiary. Such partnerships are likely to encompass a transfer of relevant assets and resources to the selected partners. Hence, SmarDTV's results are reported as "discontinued operations".

In parallel, the Group is streamlining its DTV solution portfolio, and selectively invest in digital TV innovative solutions to expand its end-to-end offering and address the future needs of the industry.

## **EXTENDING PARTNERSHIPS WITH INDUSTRY'S KEY PLAYERS AND LAUNCHING FORWARD-LOOKING SOLUTIONS**

In iDTV, the Group has extended its partnerships with key players in the industry, providing them with pioneering solutions:

- In the United States, as part of NAGRA's new multi-year agreement with the Altice Group, Altice USA selected NAGRA CONNECT and the NAGRA OpenTV platform to enable content security and multiscreen experience for Altice One, a new connectivity platform launched in November 2017. Altice USA is one of the largest broadband communications and video service providers in the United States.
- In Latin America, NAGRA achieved several major projects for AMVL Claro. In Colombia, NAGRA launched an end-to-end solution to provide Network DVR, Catch-up and Start-over to the operator entire base of installed NAGRA subscribers using the NAGRA MediaLive/OpenTV5 platform. All the technology is provided centrally, removing the need for extensive hard drives in the home. AMVL Claro continued to add DTH subscribers in the Central America region with NAGRA's CAS products and services. In Brazil, Claro continued to roll-out advanced features on their MediaLive/OpenTV5 platform. NAGRA also begun to transition many of the operator's value-added features from broadcast to IP.
- In France, CANAL+ adopted NAGRA Insight, the Group's pay-TV data intelligent platform that enables operators to pilot their business using data and make better strategic decisions. It leverages big data and artificial intelligence to understand individual TV watcher's taste and recommend actions that will increase both customer satisfaction and bottom line.
- In India – where the cable digitization momentum continues with millions of subscriber additions – NAGRA announced the launch of the TVKey product in partnership with Samsung.
- In the United States, Conax will be providing Evolution Digital with its multi-DRM solution for the operator's Evue-TV platform, a platform that provides IP services as well as advanced features to Tier2 and Tier3 cable operators.
- In Spain, NAGRA deployed for Vodafone Spain its security solution, NAGRA CONNECT, to secure Vodafone's latest-generation set-top box. Vodafone Group and NAGRA have been working together in integrating NAGRA security solutions into the Vodafone Group TV solution. This solution will be deployed across several countries within the next years.

The Group added new forward-looking solutions including:

- With the evolution of the video content distribution landscape and recognizing the importance and the complexity of handling the versioning and the metadata of each asset, the Group acquired DVNor in 2017. DVNor's flagship product is DVNor Organizer, an automated all-in-one platform for metadata and digital tile management, transcoding, storage, distribution and post-production services.
- As part of its OpenTV Suite, NAGRA launched OpenTV Signature Edition, a turnkey, cloud-based and multi-tenant solution that provides the most complete, cloud-based and always-evolving pay-TV video ecosystem to help service providers build a better video business.

## **STRENGTHENING THE GROUP'S GLOBAL INTELLECTUAL PROPERTY POSITION**

In 2017, the Group continued its successful execution on its strategic intellectual property and innovation plan. It expanded its patent holdings, securing access to valuable IP rights of third parties. The Group completed licensing agreements and/or settled litigations with industry leaders like AT&T, Roku, ARRIS, Turner, Scripps Networks Interactive, Advanced Magazine Publishers, Twitter and Comcast; this is in addition to many of the marquee agreements concluded in prior years such as Apple, Cisco, Google, Netflix, Disney, Hulu, Yahoo and Verizon.

## **GLOBAL PURE-PLAY PROVIDER OF CYBERSECURITY SOLUTIONS**

In 2017, Kudelski Security experienced solid growth on both sides of the Atlantic, becoming the largest pure-play cybersecurity solutions provider in Switzerland, one of the fastest growing cybersecurity solutions providers in the United States, and earning important recognition from industry analysts, technology partners and customers along the way.

Throughout 2017 Kudelski Security continued to launch innovative products and services and expand geographically, resulting in a significant increase in new clients in Switzerland, Europe and the United States.

## **SECURING THE ENTIRE INTERNET OF THINGS (IOT) ECOSYSTEM**

In early 2017, capitalizing on the expertise of Kudelski Security and decades of innovation in protecting digital TV contents and devices, the Kudelski Group launched its Internet of Things (IoT) Security Center of Excellence to address demand for increased protection of connected devices. The Center provides solutions to help companies across all industries secure their IoT devices and business models during the design phase and throughout their entire product lifecycles.

Building on the successful first year of the Center, the Kudelski Group launched its IoT Security Suite during CES (Consumer Electronic Show) 2018 in Las Vegas. The comprehensive suite of services and technologies targets device manufacturers and service providers who need solid security foundations in order to enable long-term monetization, privacy and safety of their devices and enable new sustainable business models.

Two real-world applications of the IoT Security Suite include WHITE NOISE Secure Communications, a secure hardware-based mobile communication solution, adopted by Sennheiser for a secure headset, and a Surveillance Camera Security solution.

## **WORLD LEADER IN PUBLIC ACCESS**

In 2017, SKIDATA continued to strengthen its position as a global leader in access and revenue management solutions, providing fast and safe access for people and vehicles. The company increased its international footprint by entering new markets and deploying with more than 700 new installations during the past year.

SKIDATA also launched a new Mountain Resort Management Software called Summit.Logic which allows with its graphical operations and management centers easy set-up and management for ski access and revenue management. In 2017, overall, SKIDATA sold more than 5'150 Barriers, more than 4'900 Gates, more than 2'100 automatic payment machines and almost 2'000 turnstiles.

In 2017, SKIDATA concluded significant new deals, including football stadiums (such as the CSKA Arena in Moscow, Russia), airports (such as the Lovefield Airport in Dallas, USA), and shopping centers (such as the Westfield Century City Center in Los Angeles, USA).

In early 2018, SKIDATA completed the acquisition of a controlling stake in Cytel, the market leader in the Chinese premium access control parking solutions market. With this acquisition, SKIDATA gains a strong foothold in a promising market and access to a portfolio including innovative license plate-based parking access control product set.

With innovative ideas, the company has developed to an internationally successful digital solution provider and the world market leader in access and visitor management with over 10'000 installations in over 100 countries.

### **OUTLOOK FOR 2018: REVENUES IN LINE WITH 2017, OPERATING INCOME USD 30-45 MILLION BEFORE RESTRUCTURING COSTS**

The slowdown of the traditional pay TV business is expected to continue into 2018, reflecting the continued major transformation of the digital TV landscape. While new opportunities are emerging, in particular for end-to-end security solutions in the Internet video space, revenues from these new areas are not yet expected to fully replace the decline of traditional pay TV revenues. As a result, the Group expects declining revenues and margins in its legacy digital TV business and is implementing measures to adapt its cost base accordingly. These measures include efficiency improvements in core digital TV and corporate functions, the full integration of NAGRA and Conax operations, the rationalization of the iDTV global presence with the closure of smaller locations and the downsizing of underutilized sites.

The Group's cybersecurity business is expected to maintain its top line momentum in 2018, delivering sustained organic growth both in the United States and Europe. However, as the Group continues to invest in this emerging business, cybersecurity is expected to continue to generate materially negative contribution margins in 2018.

In the Public Access segment, SKIDATA is expected to continue extending its market leadership and delivering growth. In 2018, the Group also expects SKIDATA to achieve higher profitability and cash generation.

For 2018, the Group expects revenues in line with 2017, and operating income of USD 30-45 million before restructuring costs.

### **PROPOSING A CASH DISTRIBUTION (DIVIDEND) OF CHF 0.10 PER BEARER SHARE**

Taking into account the Group's 2017 results and outlook profitability, the Board of Directors is proposing a CHF 0.10 "dividend" per bearer share for approval at the 2018 Annual Shareholders' Meeting. It is proposed that this cash distribution be treated as a return of capital.

Regarding the Board of Directors of Kudelski SA, Mr. Joseph Deiss has expressed his willingness not to apply for a new mandate as a Board Member. The Board is sincerely thankful to Mr. Joseph Deiss for his involvement in the multiple Board and Committee sessions over the past years.

**Note to the editors:**

The 2017 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. For more information, please visit [www.nagra.com](http://www.nagra.com).

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