

KUDELSKI GROUP
FINANCIAL STATEMENTS
2022

CONTENTS

KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021	P. 4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021	P. 5
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2022 AND 2021	P. 6
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021	P. 7
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021	P. 8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022	P. 9
REPORT OF THE STATUTORY AUDITOR	P. 55

KUDELSKI SA FINANCIAL STATEMENTS

BALANCE SHEETS AT DECEMBER 31, 2022 AND 2021	P. 61
INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2022	P. 62
NOTES TO THE FINANCIAL STATEMENTS 2022	P. 63
REPORT OF THE STATUTORY AUDITOR	P. 69

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021)

In USD'000	Notes	2022	2021
Revenues	4	705 883	753 932
Other operating income	5	9 995	24 900
Total revenues and other operating income		715 878	778 832
Cost of material, licenses and services		-200 464	-224 776
Employee benefits expense	6	-374 372	-386 152
Other operating expenses	7	-107 866	-95 547
Operating income before depreciation, amortization and impairment		33 176	72 356
Depreciation, amortization and impairment	8	-32 310	-42 128
Operating income		866	30 228
Interest expense	9	-10 000	-9 774
Other finance income/(expense), net	10	-2 929	2 107
Share of result of associates	16	1 674	2 111
Income before tax		-10 390	24 672
Income tax expense	11	-5 865	-3 222
Net income for the period from continuing operations		-16 255	21 451
Net result from discontinued operations	36	-	-1 089
Net income for the period		-16 255	20 362
Attributable to:			
- Equity holders of the company		-20 661	14 592
- Non-controlling interests		4 406	5 770
Earnings per share (in USD)			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	12	-0.3704	0.2637
- Continuing operations		-0.3704	0.2834
- Discontinued operations		-	-0.0197
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	12	-0.0370	0.0264
- Continuing operations		-0.0370	0.0284
- Discontinued operations		-	-0.0020

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021)

In USD'000	2022	2021
Net income	-16 255	20 362
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-19 891	-7 675
Cash flow hedges, net of income tax	-66	151
	-19 956	-7 524
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	18 095	21 156
	18 095	21 156
Total other comprehensive income, net of tax	-1 861	13 631
Total comprehensive income	-18 116	33 993
Attributable to:		
Shareholders of Kudelski SA	-22 441	28 168
- Continuing operations	-22 441	28 168
- Discontinued operations	-	-
Non-controlling interests	4 325	5 825

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2022 AND 2021)

In USD'000	Notes	31.12.2022	31.12.2021
ASSETS			
Non-current assets			
Tangible fixed assets	13	68 026	73 940
Intangible assets	14	359 028	380 607
Right-of-use assets	15	50 437	50 746
Investments in associates	16	10 667	9 335
Deferred income tax assets	17	39 593	44 054
Financial assets at amortized cost	18	22 742	31 792
Financial assets at fair value through profit and loss	18	1 137	1 152
Other non-current assets	18	976	896
Total non-current assets		552 607	592 523
Current assets			
Inventories	19	70 980	54 378
Trade accounts receivable	20	152 909	163 514
Contract assets	20	27 582	36 733
Other financial assets at amortized cost	21	43 380	49 655
Other current assets	22	55 196	43 450
Derivative financial instruments	34	143	699
Cash and cash equivalents	23	62 167	284 489
Total current assets		412 357	632 918
Total assets		964 964	1 225 441
EQUITY AND LIABILITIES			
Equity			
Share capital	24	344 190	340 484
Reserves		-9 871	21 145
Equity attributable to equity holders of the parent		334 319	361 629
Non-controlling interests	25	27 254	35 033
Total equity		361 573	396 662
Non-current liabilities			
Long-term financial debt	26	182 172	196 870
Long-term lease obligations	15	75 035	76 504
Deferred income tax liabilities	17	1 120	2 050
Employee benefits liabilities	28	4 662	24 715
Other long-term liabilities	29	10 364	10 070
Total non-current liabilities		273 352	310 209
Current liabilities			
Short-term financial debt	30	76 883	240 023
Short-term lease obligations	15	13 777	15 114
Trade accounts payable	31	67 972	68 586
Contract liabilities	32	71 520	83 298
Other current liabilities	33	94 685	105 718
Current income taxes		2 512	2 684
Derivative financial instruments	34	88	82
Provisions for other liabilities and charges	35	2 600	3 065
Total current liabilities		330 039	518 569
Total liabilities		603 391	828 778
Total equity and liabilities		964 964	1 225 441

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021)

In USD'000	Notes	2022	2021
Net income for the year		-16 255	20 362
Adjustments for net income non-cash items:			
- Current and deferred income tax		5 865	3 222
- Interests, allocation of transaction costs and foreign exchange differences		13 454	6 311
- Depreciation, amortization and impairment	8	32 310	42 128
- Share of result of associates	16	-1 674	-2 111
- Non-cash employee benefits (income) / expense		3 336	3 287
- Deferred cost allocated to income statement		0	187
- Additional provisions net of unused amounts reversed		-285	323
- Non-cash government grant income		-6 084	-4 265
- Other non-cash (income) / expenses		2 885	-11 600
Adjustments for items for which cash effects are investing or financing cash flows:			
- Other non-operating cash items		-24	-12 843
Adjustments for change in working capital:			
- Change in inventories		-18 712	5 193
- Change in trade accounts receivable		17 134	29 198
- Change in trade accounts payable		4 534	-836
- Change in accrued expenses		-179	-1 227
- Change in deferred costs and other net current working capital headings		-29 731	18 341
Government grant from previous periods received		5 050	16 309
Dividends received from associated companies	16	133	1 911
Interest paid		-10 135	-8 938
Interest received		768	698
Income tax paid		-882	-2 525
Cash flow from operating activities		1 508	103 127
Purchases of intangible fixed assets		-4 011	-6 474
Purchases of tangible fixed assets		-4 692	-7 417
Proceeds from sales of tangible and intangible fixed assets		3 829	98 004
Proceeds from sale of investment property		-	11 352
Divestment of financial assets and loan reimbursement		414	1 306
Acquisition of associated companies		-	-4 922
Cash flow from investing activities		-4 459	91 849
Reimbursement of bank overdrafts, long-term loans and other non-current liabilities		-216 058	-75 661
Increase in bank overdrafts, long-term loans and other non-current liabilities		47 808	42 591
Payments of lease liabilities		-16 249	-14 756
Proceeds from employee share purchase program	39	117	122
Acquisition of non-controlling interests		-	-355
Dividends paid to non-controlling interests		-12 105	-963
Dividends paid to shareholders	38	-5 999	-6 080
Cash flow from financing activities		-202 486	-55 102
Effect of foreign exchange rate changes on cash and cash equivalents		-16 885	-7 969
Net movement in cash and cash equivalents		-222 322	131 905
Cash and cash equivalents at the beginning of the year	23	284 489	152 584
Cash and cash equivalents at the end of the year	23	62 167	284 489
Net movement in cash and cash equivalents		-222 322	131 905

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2021		337 295	69 758	-65 470	-2 683	-449	30 580	369 031
Net income		-	-	14 592	-	-	5 770	20 362
Other comprehensive income		-	-	21 156	151	-7 731	56	13 631
Total comprehensive income		-	-	35 748	151	-7 731	5 825	33 993
Employee share purchase program	39	418	-242	-	-	-	-	176
Shares issued to employees	39	2 770	-1 911	-	-	-	-	859
Dividends paid to shareholders	38	-	-3 040	-3 040	-	-	-	-6 080
Dividends paid to non-controlling interests		-	-	-	-	-	-963	-963
Transactions with non-controlling interests		-	-	54	-	-	-409	-355
December 31, 2021		340 484	64 565	-32 708	-2 532	-8 180	35 033	396 662
Net income		-	-	-20 661	-	-	4 406	-16 255
Other comprehensive income		-	-	18 095	-66	-19 810	-81	-1 861
Total comprehensive income		-	-	-2 565	-66	-19 810	4 325	-18 116
Employee share purchase program	39	552	-384	-	-	-	-	168
Shares issued to employees	39	3 155	-2 193	-	-	-	-	962
Dividends paid to shareholders	38	-	-2 999	-2 999	-	-	-	-5 999
Dividends paid to non-controlling interests		-	-	-	-	-	-12 105	-12 105
December 31, 2022		344 190	58 989	-38 273	-2 598	-27 990	27 254	361 573

Fair value and other reserves as of December 31, 2022 include kUSD -2 598 (2021: kUSD -2 532) of unrealized loss on financial assets at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

The consolidated financial statements of the Kudelski Group (Group or Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all years presented. Prior year figures have been reclassified where necessary to better enable comparison. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries

also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises power to govern their financial and operating policies and bears an over-proportional responsibility for the main risks. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities assumed by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible assets. When determining the purchase price allocation, the Group primarily

considers development technologies, customer lists, trademarks and brands as intangibles.

Any contingent consideration which depends on the future financial performance of the acquired company ("earn out clause") is recognized at fair value on the acquisition date using management's best estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve months after the balance sheet date is discounted to its present value and disclosed within other long-term liabilities.

The Group recognizes non-controlling interests as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate value of the consideration transferred plus the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. The difference between the fair value of any consideration paid and the relevant acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean

that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the control of those policies. Significant influence is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(C) Foreign currencies

The consolidated financial statements of the Group are expressed in U.S. Dollars (USD), which is the presentation currency.

The local currency is generally the functional currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate prevailing at the balance sheet date. Transactions contracted in a currency other than the functional currency are recorded using the exchange rate at the time of the transaction. All resulting

foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.

Income, expense and cash flows of the consolidated companies have been translated into U.S. dollars using average exchange rates. Assets and liabilities are translated at the closing rate at the date of the balance sheet. All resulting translation differences, including those arising from the translation of any net investment in foreign entities, are recognized in other comprehensive income. The loss of control or total disposal of a subsidiary results in the reclassification of any translation difference to the income statement.

(D) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, and is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale, and after eliminating sales within the Group. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer.

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

Generally, when we provide a combination of hardware and software products with the provision of services, we separately identify our performance obligations under the contract as distinct goods and services that will be provided. The total transaction price for an arrangement with multiple performance obligations is allocated at contract inception to each distinct performance obligation in proportion to its stand-alone selling price. The stand-

alone selling price is the price at which we would sell a promised good or service separately to a customer. Observable stand-alone selling prices are used when readily available. If not available, we estimate the price based on observable inputs, including direct labor hours and allocable costs.

(a) Hardware

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

(b) Software, licenses and royalties

Revenue from software sales is recognized at the point in time when the customer acquires the right to use the soft-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

ware under license and control transfers to the customer. Revenue from licensing arrangements is recognized upon commencement of the term of the license agreement or when the renewal term begins, as applicable. Royalty revenue is recognized upon sale or usage of the product to which the royalty relates.

(c) Services

We design, implement and manage security and access solutions that combine hardware, software and services for our customers. Such services rendered may include system integrations, specific developments and customization, maintenance and training, and may be provided by us or by third-parties as part of bundled arrangements or on a stand-alone basis as consulting or managed service engagements.

If the services are provided as part of a bundled arrangement with hardware and software, the hardware, software and services are generally distinct performance obligations. In general, revenue from service engagements is recognized over time as we perform the underlying services by measuring progress toward complete satisfaction of the performance obligation. In contracts that contain a fixed fee per user, revenue is recognized in the amount in which we have the right to invoice the customer for services performed.

Specific revenue recognition practices for certain of our service offerings are described in further detail below.

(i) Time and materials service contracts.

Revenue for service engagements that are on a time and materials basis is recognized based upon the hours incurred for the performance completed to date for which we have the right to consideration, even if such amounts have not yet been invoiced as of period end.

(ii) **Fixed fee service contracts.** Revenue from fixed fee service contracts is recognized using a proportional performance method based on the ratio of direct labor hours and other allocated costs incurred to total estimated direct labor hours and other allocated costs.

Certain software maintenance agreements provide our customers the right to obtain software upgrades, help desk and other support services directly from the third-party software provider during the term of the agreement. We act as the selling agent in these arrangements and do not assume any performance obligation to the customer under the arrangement. As a result, we are the agent in these transactions and these sales are recorded on a net sales recognition basis. Under net sales recognition, the cost of the service is recorded as a reduction to sales, resulting in net sales equal to the gross profit on the transaction.

(d) Significant financing components

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

(e) Variable consideration

For contracts that contain variable pricing elements, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration generally increases the amount of revenue that will be deferred. Variable consideration is reviewed at

each reporting period and is measured using the most likely amount method which includes management appropriate estimates.

(f) Interest income

Interest income is recognized according to the effective interest rate method.

(E) Government grants

Grants from governments or similar organizations are recognized at their fair value when there is a reasonable assurance that the Group complies with all conditions associated with their grants receipt and use. Where a government grant is subject to audit before payment, the fair value is determined using management's best estimate of the audit risk. Grants are recognized in the income statement as operating income unless they are linked to a capitalized fixed asset, in which case they are deducted from the cost of the fixed asset.

(F) Cost of material, licenses and services

The cost of material, licenses and services includes direct costs which are attributable to selected revenues. The cost of material includes only the cost of materials paid to external suppliers in connection with recognized sales transactions. It therefore does not include other direct and indirect costs associated with the manufacturing process, such as labor costs, utilities or depreciation of manufacturing assets.

Cost of licenses includes amounts charged by external suppliers for sub-licenses on a per-unit basis for each unit of delivered product (e.g. CODEC licenses charged on each set-top-box sold). It therefore specifically excludes licenses paid independently of the number of units sold, deployed or used in a development process.

Cost of services includes outsourced services that are directly connected to a recognized sales transaction, such as subcontracting a portion of a maintenance agreement or outsourcing the implementation of a revenue-generating customer solution.

(G) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered in to and subsequently remeasured to fair value at the end of each reporting period. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The currency instruments that are generally used include forward foreign exchange contracts, currency swaps and zero cost option strategies with terms generally not exceeding one year. Derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(a) Derivatives that do not qualify for hedge accounting

Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IFRS 9. Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognized immediately in the income statement as part of 'other finance income/(expense), net'.

(b) Cash flow hedge

The Group designates the derivatives which qualify as hedges of a forecast transaction (cash flow hedge). The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the economic relationship exists between the hedged item and the hedging instrument. The Group enters into hedging instruments that have similar critical terms as the hedged items, such as reference rates, notional amounts and maturities.

Changes in intrinsic value of derivative financial instruments that meet hedge qualifying criteria are recognized in the 'cash flow hedge reserve' within equity. Changes in fair value of derivative instruments attributable to time value are recognized in the 'cost of hedging reserve' within equity. The amounts accumulated in hedging reserves of OCI are reclassified to profit or loss in the same period during which the hedged expected future cash flow affects the income statement.

In hedges of highly probable future sales transactions, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are any changes in the credit risk of the derivative counterparty.

When a cash flow hedge no longer meets the criteria for hedge accounting, the gains and losses that were previously recorded in equity remain deferred in equity until the hedged cash flow is recognized in the income statement. When the forecast transaction is

no longer expected to occur, the cumulative gain or loss and deferred cost of hedging are immediately reclassified to the income statement. Gain or loss, as well as cost of hedging, related to the ineffective portion is recognized in the income statement within 'other finance income/(expense), net'.

(H) Taxes

Taxes reported in the consolidated income statements include current and deferred taxes on profit, as well as non-reimbursable withholding taxes and tax adjustments relating to prior years. Income tax is recognized in the income statement, except to the extent that it relates to items directly taken either to equity or to other comprehensive income, in which case it is recognized either in equity or in other comprehensive income. Taxes on income are accrued in the same periods as the revenues and expenses to which they relate.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred taxes are determined using the comprehensive liability method and are calculated on the temporary differences at the substantively enacted rates of tax expected to prevail when the temporary differences reverse, except for those temporary differences related to investments in subsidiaries where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences and tax losses carried forward are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Temporary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

differences and tax losses which generate deferred tax assets and liabilities based on their future probable use are combined within each legal entity to provide a net deferred tax asset or liability amount. Deferred income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

(I) Tangible fixed assets

(a) General

Property, plant and equipment is measured at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes any expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Building acquisitions or construction and building improvements are allocated to components. The costs less residual values are depreciated over their useful lives on a straight-line basis. Such useful lives may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.

Depreciation is calculated on a straight-line basis over each asset's useful life, according to the following schedule:

Technical equipment and machinery

Useful life in years

Machinery and measurement instruments	4 - 7
Digital material and equipment	4 - 5
Computer and information networks	4
Fixed assets made available to clients	4 - 10

Other equipment

Useful life in years

Office furniture and equipment	5 - 7
Vehicles	4 - 5

Each assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is impaired immediately if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts, and are included in the consolidated income statements.

(b) Fixed assets made available to clients

The Group makes equipment as well as smart cards available to clients within the scope of complete security solutions. The assets given to these clients remain the property of the Group and are initially recognized at cost and disclosed in the balance sheet under technical equipment and machinery. These assets are depreciated over the shorter of the duration of the contract and the economic life of the individual components, and the related expense is disclosed under depreciation.

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production assets which take a substantial period of time to be ready for their intended use of sale, are added to the

cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(J) Intangible assets

(a) Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. It is denominated in the functional currency of the related acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets, while goodwill on acquisition of associates is included in investments in associates. All goodwill is considered to have an indefinite life, tested at least annually for impairment, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Gains and losses on the disposal of an entity include the carrying amount of goodwill associated with the entity sold.

(b) Internal research and development

Internal research and development expenses are fully charged to the income statement when incurred. The Group considers that economic uncertainties inherent in the development of new products preclude it from capitalizing such costs.

(c) External research and development

Expenditures with external parties for research and development, application software and technology contracts are charged to the income statement as incurred if they do not qualify for capi-

talization. When capitalized, they are amortized over 4 to 10 years once development is achieved and the resulting products are ready for sale.

(d) Computer software

Acquired computer software licenses are capitalized in the amount expended to acquire the software and get ready it for its intended use. These costs are amortized on a straight-line basis over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as expense as incurred.

(e) Customer lists, Trademarks and Brands

Customer lists, trademarks and brands not acquired through a business combination are initially measured at cost. Following initial recognition, they are carried at cost less any accumulated amortisation and impairment losses, and are amortised over their useful economic life. Internally generated customer lists, trademarks and brands are not capitalised.

(f) Other intangibles in connection with business combinations

Under IFRS 3, in-process research and development, core development technologies, customer lists and trademarks are valued as part of the process of allocating the purchase price in a new business combination. The respective values are recorded separately from goodwill and are allocated to cash-generating units. Acquired intangibles are amortized on a straight-line basis over the following periods, with the expense recorded in the income statement:

Over the useful life, in years

Core development technologies	4 - 10
Customer lists	<u>10</u>
Trademarks and brands	<u>5</u>

(K) Leases

The Group leases various properties, equipment and vehicles. Rental contracts typically cover fixed periods between one and 15 years and may contain extension options as described below. Lease terms are negotiated on an individual basis and include a wide variety of different terms and conditions. The lease agreements generally do not impose financial covenants, however, leased assets are not allowed to be used as collateral for borrowing purposes.

Leases are booked as a right-of-use asset and as a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is apportioned between the reduction of the outstanding lease liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are valued at the net present value of the future lease payments, which includes fixed lease payments, variable lease payments based on indexes and rates, residual value guarantees, purchase options and termination penalties. Lease payments are discounted using the interest rate implicit in the lease, or if that rate cannot be determined, the Group's incremental borrowing rate based on the currency in which it finances its local operations.

Right-of-use assets are measured at cost, comprising the amount of the initial lease liability adjusted by any lease payments made at or before the commencement date of the lease, any lease

incentives received, initial direct costs and any estimated restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are identified as leases with a term of 12 months or less. Low-value assets comprise general office furniture and IT equipment .

Extension and termination options are included in a number of property and equipment leases throughout the Group. These terms are used to maximize operational flexibility, with the majority of extension and terminations options being exercisable only by the Group and not by the respective lessor.

(K) Financial assets

(a) Classification

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities measured at fair value (either through other comprehensive income (OCI), or through profit or loss), and financial assets or financial liabilities measured at amortized cost. The classification depends on the Group's business model for managing the financial assets and liabilities and the contractual terms of the cash flows.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

(b) Measurement

At initial recognition, the Group measures financial assets and liabilities at fair value plus or minus any transaction costs that are directly attributable to the acquisition of the instrument. For financial assets that are carried at fair value through profit or loss, transaction costs are expensed as incurred.

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

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

Assets that are held for collection of contractual cash flows and for selling the financing assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognized in profit or loss. When the financing asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity

to profit or loss and recognized in 'other finance income/(expense), net'. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains or losses are presented in 'other finance income/(expense), net'.

Assets that do not meet the criteria for amortized cost or fair value through OCI are measured at fair value through profit or loss and presented as 'other finance income/(expense), net' in the period in which it arises.

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

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

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies a simplified approach permitted by IFRS 9 for trade accounts receivables and contract assets, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit characteristics and days past due. The Group therefore concludes that the expected loss rates for trade accounts receivables are a reasonable approximation of the loss rates for contract assets.

Expected loss rates are based on the payment profiles of sales over the 36 month period preceding the financial statement reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables.

(L) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of work in progress and manufactured finished goods is comprised of direct production costs and an appropriate proportion of production overhead and factory depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories which are no longer part of production and sales plans are charged to profit or loss.

(M) Deferred costs

Deferred costs are measured at cost and are allocated to the income statement over the shorter of their useful life

and the contract period. The portion of deferred cost to be expensed in the income statement during a period that exceeds 12 months from the balance sheet date is disclosed under other non-current assets.

(N) Trade accounts receivable

Trade accounts receivable are initially measured at fair value and subsequently valued using the amortized cost method.

(O) Contract assets

A contract asset is the entity's right to consideration in exchange for goods or services that the entity has transferred to the customer. A contract asset becomes a receivable when the entity's right to consideration is unconditional, which is the case when only the passage of time is required before payment of the consideration is due. Contract assets relate to unbilled work in progress and have substantially the same risk characteristics as trade receivables.

(P) Cash and cash equivalents

Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. Bank overdrafts are included in short-term financial debt in current liabilities on the balance sheet.

(Q) Share capital

Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital less directly attributable incremental costs and the nominal value of the share capital increase are considered as share premium and included in equity.

(R) Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid for the establishment of loan facilities are recognized as transaction costs of the loan if all of the facility will be drawn down. If there is no evidence that all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the loan facility.

Where borrowings are made available through COVID-19 relief packages with interest rates below market, the Group recognizes a portion of the proceeds as a government grant. The grants are initially deferred and recognized in earnings on a systematic basis over the term of the loan as 'Other operating income'.

(S) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recognized when the Group has developed a formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

(T) Employee benefits

(a) Pension obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by their employer, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.

The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehen-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

sive income in the period in which they arise.

The Group's contributions to the defined contribution plans are charged to the income statement in the year during which they are made.

(b) Other long-term employee benefits

Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. The cost of such deferred compensation arrangements is recognized on an accrual basis and included within employee benefits expense.

(c) Employee Share Purchase Program (ESPP)

The Group's employee share purchase program allows certain employees to buy a specific number of shares on a preferential basis, subject to certain restrictions on the sales of the shares for a period of 3 years. The difference between the fair value of these shares and the employee's payments for the shares is expensed in the income statement on the subscription date. The fair value of the shares transferred is determined based on the market price of the shares adjusted for the estimated value of the restrictions on sales.

(d) Profit sharing and bonus plan

The Group recognizes a liability and an expense for bonuses and profit sharing where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Board of Directors may grant shares to certain employees. These shares may be subject to a blocking period of up to 7 years and are expensed in the income statement at their fair value at grant date taking into account the estimated value reduction due to the blocking period.

(e) Other employee benefits

Salaries, wages, social contributions and other benefits are recognized on an accrual basis in employee benefits expense in the year in which the employees render the associated services.

(U) Trade accounts payable

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

(V) Contract liabilities

Contract liabilities represent the Group's current obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Contract liabilities primarily relate to billed work in progress and service contracts, whereby the customer has been invoiced in advance of the services being performed and are generally recognized within twelve months.

(W) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

(X) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. The Group considers this condition to be met when management is committed to a sale and a sale is highly probable of being completed within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell.

(Y) New and amended accounting standards and IFRIC interpretations Standards and Interpretations effective in the current period and change in 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, 2021.

The Group has applied the following amendments and interpretations effective from January 1, 2022:

- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16
- Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018-2020, and
- Reference to the Conceptual Framework - Amendments to IFRS 3.

The adoption of the amendments listed above had no significant impact on the Group's accounting policies, financial position and performance. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standard and Interpretations in issue not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after January 1, 2023 or later periods, and which the Group has not early adopted. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's principal accounting policies are set out in note 1 of the Group's consolidated financial statements and conform to International Financial Reporting Standards.

Significant judgments and estimates are used in the preparation of the consolidated financial statements which, to the extent that actual outcomes and results may differ from these assumptions and estimates, could significantly affect the accounting in the areas described in this section.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management's estimate of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value (note 14). Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

Income tax and deferred tax assets

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 17). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore significantly modify the deferred tax asset and the income taxes. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates,

the proportion of tax losses that could be offset with future profits or changes in forfeiting periods which occur after the accounts have been approved might affect the tax asset capitalized.

Retirement benefit plans

The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. The factors include both financial and demographical assumptions. Financial assumptions comprise discount rate, salary and expected pension increases, interest rate credited in savings accounts, and returns on plan assets. Demographic assumptions include employee turnover, retirement payment forms (capital vs. annuity), mortality tables and disability assumptions. Demographic assumptions are based on past experience. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.

Assumptions used (note 28) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow

interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies a natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including forward foreign exchange contracts or option strategies to hedge the exchange rate risks and interest rate swaps to mitigate the risk of rising interest rates.

The Group does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded (it does not sell assets short). The Group only sells existing assets or hedges transactions and future transactions that are likely to happen. Future transaction hedges are contracted according to treasury policy

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

based on a foreign exchange cash flow forecast. In the case of liquid funds, it writes options on assets it has, or on positions it wants to acquire, and for which it has the required liquidity. The Group therefore expects that any loss in value for these instruments would be generally offset by increases in the value of the hedged transactions.

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statements in U.S. Dollars. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swiss franc and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts.

The Group enters into zero cost foreign currency option contracts to manage the risk associated with highly probable sales transactions for the next 12 months within a determined portion of the exposure generated, as defined in the treasury policy. These derivatives are generally qualified as cash flow hedges.

The Group also enters into foreign exchange forward and swap contracts in order to hedge the risk attributed to changes in value of recognized assets and liabilities. The Group qualifies these derivatives as held-for-trading with gains and losses recognized through profit and loss.

Net investments in Group affiliates with a functional currency other than the U.S. Dollar are of a long-term nature: the Group does not hedge such foreign currency translation exposures.

(b) Interest rates

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk exposure is evaluated regularly to align with interest rate views and the Group's defined risk appetite, which ensure that optimal hedging strategies are applied by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the department in charge.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

4. 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 reports four operating segments which are reflected in internal management reporting as follows:

- Digital TV
- Cybersecurity
- Internet of Things (IoT)
- Public Access

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

The Cybersecurity division provides end-to-end cybersecurity solutions to a wide range of customers across multiple sectors, including advisory services, technology and resale services, managed security and custom developed proprietary solutions in domains not covered by existing commercial products.

The IoT division extends the existing Digital Television secure platform into new domains, enabling device security through identity authentication and firmware protection, data security to ensure the confidentiality, integrity and authenticity of sensitive data, and access management and active security protections to enable secure processing, local decision making and threat detection and response.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and other major events and is active under the SKIDATA brand.

The measure of income presented to manage segment performance is the segment operating income before depreciation, amortization and impairment. This measure is based on the same accounting policies as consolidated total 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.

In USD'000	Digital TV	Public Access	Cyber-security	Internet of Things	Total
	2022	2022	2022	2022	2022
Revenues from external customers	300 638	280 225	109 286	15 734	705 883
Other operating income - operating segments	5 114	4 198	12	671	9 995
Total segment revenue and other operating income	305 752	284 424	109 297	16 405	715 878
Cost of materials, licenses and services	-42 908	-113 366	-38 680	-5 511	-200 464
Operating expenses	-197 743	-155 652	-84 224	-29 891	-467 509
Operating income before depreciation, amortization and impairment	65 102	15 406	-13 607	-18 996	47 905
Depreciation, amortization and impairment	-13 512	-15 872	-2 313	-613	-32 310
Operating income - excluding corporate common functions	51 589	-465	-15 919	-19 609	15 595
Corporate common function expenses					-14 729
Interest expense and other finance income/(expense), net					-12 930
Share of result of associates	843	831	-	-	1 674
Income before tax					-10 390
Total segment assets	477 482	286 443	143 496	50 640	958 061
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022

In USD'000	Digital TV	Public Access	Cyber-security	Internet of Things	Total
	2021	2021	2021	2021	2021
Revenues from external customers	355 075	284 142	107 295	7 419	753 932
Other operating income - operating segments	8 362	2 099	39	737	11 236
Other operating income - corporate functions	-	-	-	-	13 664
Total segment revenue and other operating income	363 437	286 241	107 334	8 156	778 832
Cost of materials, licenses and services	-57 664	-115 020	-50 753	-1 339	-224 776
Operating expenses	-208 504	-153 873	-74 006	-28 044	-464 427
Operating income before depreciation, amortization and impairment	97 270	17 347	-17 424	-21 227	89 629
Depreciation, amortization and impairment	-21 255	-17 319	-2 952	-601	-42 128
Operating income - excluding corporate common functions	76 014	28	-20 377	-21 828	47 501
Corporate common function expenses					-17 273
Interest expense and other finance income/(expense), net					-7 667
Share of result of associates	1 455	656	-	-	2 111
Income before tax from continuing operations					24 672
Total segment assets	718 342	312 531	143 478	43 341	1 217 691
	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

In USD'000	31.12.2022	31.12.2021
Total segment assets	958 061	1 217 691
Cash and cash equivalents	1 464	2 284
Other current assets	380	403
Financial assets and other non-current assets	5 059	5 062
Total Assets as per Balance Sheet	964 964	1 225 441

GEOGRAPHICAL INFORMATION

The Group's country of domicile is Switzerland. The Group's revenue from external customers and information about its non-current assets by country are presented below:

In USD'000	Revenues from external customers		Non-current assets	
	2022	2021	31.12.2022	31.12.2021
Switzerland	54 753	50 562	35 956	36 311
United States of America	194 295	203 542	267 778	271 510
France	54 456	55 528	31 541	8 557
Germany	41 578	36 953	4 559	1 160
Netherlands	32 903	42 415	888	6 791
Austria	29 279	24 326	41 183	45 893
Italy	29 973	41 729	6 543	4 818
Rest of the world	268 647	298 878	100 686	140 485
	705 883	753 932	489 135	515 525

Non-current assets exclude financial instruments, deferred tax assets and employment benefit assets. Revenues are allocated to countries on the basis of the end-customer's location.

INFORMATION ABOUT MAJOR CUSTOMERS

No aggregate revenues resulting from transactions with a single external customer amount to 10% of the Group's total revenues.

REVENUE CATEGORIES

In USD'000	Digital TV		Public Access		Cybersecurity		Internet of Things	
	2022	2021	2022	2021	2022	2021	2022	2021
Europe	131 486	177 645	173 801	169 902	43 274	32 118	5 034	5 027
Americas	104 002	104 867	62 859	71 820	64 740	74 874	10 252	2 349
Asia and Africa	65 149	72 563	43 565	42 420	1 272	303	448	44
	300 638	355 075	280 225	284 142	109 286	107 295	15 734	7 419
Sale of goods	39 470	80 792	167 441	164 002	11 101	18 267	9 899	510
Services rendered	171 350	183 805	87 700	93 314	69 762	55 761	5 438	6 603
Royalties and licenses	89 818	90 479	25 084	26 826	28 423	33 267	398	306
	300 638	355 075	280 225	284 142	109 286	107 295	15 734	7 419

5. OTHER OPERATING INCOME

In USD'000	2022	2021
Government grants (research, development and training)	5 770	3 951
COVID-19 subsidies	575	530
Income from rental of property	2 600	4 137
Gain on disposal of assets	24	268
Gain on sale-and-leaseback	–	13 664
Contingent consideration received	–	547
Others	1 027	1 804
	9 995	24 900

6. EMPLOYEE BENEFITS EXPENSE

In USD'000	Note	2022	2021
Wages and salaries		300 444	314 653
Social security costs		46 097	43 748
Defined benefit plans expenses	28	10 636	10 483
Defined contribution plans expenses		6 716	7 799
Other personnel expenses		10 479	9 468
		374 372	386 152

7. OTHER OPERATING EXPENSES

In USD'000	2022	2021
Development and engineering expenses	12 060	10 925
Travel, entertainment and lodging expenses	19 542	16 502
Legal, experts and consultancy expenses	16 577	18 206
Administration expenses	28 101	27 369
Building and infrastructure expenses	11 633	11 632
Marketing and sales expenses	9 289	3 552
Taxes other than income tax	2 516	2 972
Change in provisions	-160	-2 410
Insurance, vehicles and others	8 307	6 800
	107 866	95 547

8. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In USD'000	Note	2022	2021
Land and buildings	13	2 060	2 555
Equipment and machines	13	5 924	7 808
Total depreciation and impairment of tangible fixed assets		7 984	10 363
Land and buildings	15	11 791	11 834
Vehicles, equipment and other	15	2 455	2 603
Total depreciation and impairment of right-of-use assets		14 245	14 437
Intangible assets	14	10 081	17 328
Total amortization and impairment on intangible fixed assets		10 081	17 328
Depreciation, amortization and impairment		32 310	42 128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

9. INTEREST EXPENSE

In USD'000	Note	2022	2021
Interest expense:			
- Bond 2015-2022	27	2 259	4 103
- Bond 2016-2024	27	2 398	2 542
- Net interest expense recognized on defined benefit plans	28	249	217
- Interest on lease obligations	15	2 639	1 255
- Other and bank charges		2 455	1 656
		10 000	9 774

10. OTHER FINANCE INCOME/(EXPENSE), NET

In USD'000	Note	2022	2021
Interest income		1 532	1 664
Net gains/(losses) on foreign exchange related derivative financial instruments		-2 173	89
Net foreign exchange transaction gains/(losses)		44	1 572
Others		-2 332	-1 217
		-2 929	2 107

11. INCOME TAX EXPENSE

In USD'000	Note	2022	2021
Current income tax		-5 451	-75
Deferred income tax	17	358	-668
Non-refundable withholding tax		-772	-2 479
		-5 865	-3 222

The tax on the Group's income before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

In USD'000	2022	2021
Income before tax	-10 390	24 672
Expected tax calculated at domestic tax rates in the respective countries	1 707	-5 640
Effect of income not subject to income tax or taxed at reduced rates	2 004	2 603
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	3 559	2 691
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-11 604	-2 852
Effect of changes in tax rates	320	-410
Effect of associates' result reported net of tax	174	-
Effect of disallowed expenditures	-747	-2 278
Effect of prior year income taxes	-1 454	2 537
Effect of non-refundable withholding tax	-772	-2 479
Other	948	2 606
Tax expense	-5 865	-3 222

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose income taxes are paid by the subsidiaries' shareholders. However, the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kUSD 1 028 (2021: kUSD 1 452) and is included in 'Other' in the above table.

The weighted average applicable tax rate decreased from 22.9% in 2021 to 16.4% in 2022. The decrease can be explained by a different profit split between countries.

12. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares outstanding during the year.

In USD'000	2022	2021
Net income attributable to bearer shareholders	-18 945	13 371
- Continuing operations	-18 945	14 369
- Discontinued operations	-	-997
Net income attributable to registered shareholders	-1 715	1 221
- Continuing operations	-1 715	1 312
- Discontinued operations	-	-91
Total net income attributable to equity holders	-20 661	14 592
Weighted average number of bearer shares outstanding	51 145 414	50 707 298
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in USD)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.3704	0.2637
- Continuing operations	-0.3704	0.2834
- Discontinued operations	-	-0.0197
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0370	0.0264
- Continuing operations	-0.0370	0.0284
- Discontinued operations	-	-0.0020

The company has no share options nor share subscription rights outstanding which could lead to a dilution of earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

13. TANGIBLE FIXED ASSETS

In USD'000	Land	Buildings	Building improve- ments	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST						
As of January 1, 2021	25 961	120 185	16 879	104 859	20 440	288 324
Additions	–	614	1 893	3 931	979	7 417
Disposals and retirements	-18 471	-64 308	-5 658	-2 131	-782	-91 350
Currency translation effects	-610	-3 709	-461	-5 345	-571	-10 696
Reclassification & others	–	–	329	194	-523	–
As of January 1, 2022	6 880	52 781	12 982	101 509	19 543	193 694
Additions	–	217	2 545	788	1 142	4 692
Disposals and retirements	–	-13	-2 778	-23 077	-4 944	-30 813
Currency translation effects	–	-1 136	-161	-2 471	-468	-4 237
Reclassification & others	–	–	99	43	-142	–
As of December 31, 2022	6 880	51 849	12 687	76 790	15 131	163 337
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2021	–	-50 550	-12 767	-81 651	-15 654	-160 621
Systematic depreciation	–	-848	-1 707	-6 015	-1 794	-10 363
Disposals and retirements	–	37 035	4 678	2 112	759	44 585
Currency translation effects	–	2 006	314	3 897	429	6 645
Reclassification & others	–	–	-253	95	158	–
As of January 1, 2022	–	-12 357	-9 735	-81 561	-16 102	-119 754
Systematic depreciation	–	-864	-1 195	-4 384	-1 218	-7 662
Impairment	–	–	–	–	-322	-322
Disposals and retirements	–	13	2 758	22 530	4 688	29 989
Currency translation effects	–	562	107	1 397	372	2 438
Reclassification & others	–	–	–	-142	142	–
As of December 31, 2022	–	-12 646	-8 065	-62 160	-12 440	-95 311
Net book values as of December 31, 2021	6 880	40 424	3 247	19 948	3 441	73 940
Net book values as of December 31, 2022	6 880	39 203	4 622	14 630	2 691	68 026
Useful life in years	Indefinite	10 – 50	4 – 8	4 – 10	4 – 7	

In USD'000

31.12.2022 31.12.2021

Corporate buildings on land whose owner has granted a permanent and specific right of use

7 733 8 618

Technical equipment and machinery includes assets made available to clients which generate recurring service revenue.

The Group reviews the estimated useful lives and residual values of its fixed assets on an ongoing basis, based upon, among other things, its experience with similar assets, conditions in the relevant market, and prevailing industry practice. Disposals of Land and Building assets during 2021 are related to the sale-and-leaseback of Corporate buildings in Switzerland (note 15).

14. INTANGIBLE ASSETS

In USD'000	Technol- ogy	Customer lists, Trade- marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2021	124 601	72 210	72 705	357 332	471	627 317
Additions	4 351	1 449	674	–	–	6 474
Disposals and retirements	–	–	-550	–	–	-550
Currency translation effects	-4 988	-1 658	-2 595	-6 354	-27	-15 623
As of January 1, 2022	123 964	72 000	70 234	350 977	443	617 618
Additions	528	–	3 483	–	–	4 011
Disposals and retirements	-28 673	–	-1 562	–	–	-30 234
Currency translation effects	-3 819	-5 015	-1 311	-13 747	-19	-23 912
As of December 31, 2022	92 000	66 985	70 844	337 230	425	567 483
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2021	-114 714	-52 034	-60 749	–	-463	-227 959
Systematic amortization	-2 247	-6 475	-8 602	–	-3	-17 328
Recovery of amortization on disposal and retirements	–	–	550	–	–	550
Currency translation effects	4 236	1 305	2 157	–	27	7 725
As of January 1, 2022	-112 725	-57 204	-66 643	–	-439	-237 011
Systematic amortization	-2 486	-5 119	-2 469	–	-3	-10 076
Impairment	–	–	-5	–	–	-5
Recovery of amortization on disposal and retirements	28 673	–	1 561	–	–	30 234
Currency translation effects	3 200	3 985	1 201	–	18	8 404
As of December 31, 2022	-83 339	-58 338	-66 354	–	-424	-208 454
Net book values as of December 31, 2021	11 238	14 796	3 591	350 977	4	380 607
Net book values as of December 31, 2022	8 661	8 647	4 489	337 230	1	359 028
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

Intangible assets with indefinite useful lives are subject to a yearly impairment review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

Goodwill is tested for impairment at least annually and when there is an indication of impairment. The impairment tests of goodwill are performed at the same time each year and at the cash-generating unit (CGU) level, defined within the framework of the Group as its operating segments. In accordance with IFRS 8, the Group reports four operating segments: Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access (Note 4).

Goodwill allocated to each operating segment is tested for impairment using a value-in-use calculation, which corresponds to the segment's future projected cash flows discounted at an appropriate pre-tax rate of return. Cash flow projections are based on the financial plans and business strategies of Group management covering a period of five years and projected to perpetuity using a multiple which corresponds to a steady or declining growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rates used reflect the current assessment of the time value of money and the risks specific to each operating segment. Any impairment loss in respect of goodwill is never subsequently reversed.

The following sets out the allocated goodwill and key assumptions used in the impairment test for each segment:

2022	Carrying amount	Period of cash flow projections	Annual sales growth	Cumulative annual growth rate	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Goodwill CGU							
Digital TV	205 471	5 years	-7% to 3%	-0.3%	Declining	2.0%	11.5%
Public Access	35 201	5 years	2% to 7%	4.5%	Stable	3.0%	12.5%
Cybersecurity	62 217	5 years	10% to 15%	13.8%	Improvement	2.7%	12.0%
IoT	34 341	5 years	35% to 83%	54.7%	Improvement	2.7%	12.0%

337 230

2021	Carrying amount	Period of cash flow projections	Annual sales growth	Cumulative annual growth rate	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Goodwill CGU							
Digital TV	214 492	5 years	-4% to 3%	-0.7%	Declining	1.5%	8.5%
Public Access	35 689	5 years	1% to 9%	4.6%	Stable	2.0%	9.5%
Cybersecurity	64 948	5 years	15% to 25%	14.0%	Improvement	2.2%	8.8%
IoT	35 848	5 years	50% to 123%	81.0%	Improvement	2.2%	8.5%

350 977

The following has been taken into consideration in the impairment tests:

- Assumed cost of capital for each segment is based on the cost of equity of comparable businesses adjusted for the segment capital structure. The resulting weighted average cost of capital is then adjusted to include tax effects specific to the jurisdiction in which the segment operates. Net operating loss carryforwards are not considered when determining the tax effects.
- Cash flows for the first five years were based upon financial plans approved by Group management which are consistent with the Group's approved strategy for this period. They are based upon past performance and current initiatives.
- Terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.

Digital TV

Digital TV revenue assumptions are based on bottom-up projections by product groups, key accounts and regions. Such projections are completed by segment management in collaboration with product managers and account managers. Projections are subsequently adjusted at the Group management level to include contingencies related to uncertainties of the business development. Margin assumptions are derived from historical performance, pricing trends, and expected product mix. Operating cost assumptions are based on historical expenditures and projected based on anticipated business actions and outlook over the forecast period.

Segment management assumes declining revenues over the first years of the planning period, as the subscriber base of established pay-TV operators is expected to continue shrinking. Revenue decline is expected to taper off and in the later years of the planning period, revenues are expected to stabilize and revert to growth, as emerging product lines (e.g., from AI/analytics platform, anti-piracy activities) gain traction.

Cybersecurity

The Kudelski Security leadership team provided a 5-Year P&L forecast. To develop this plan, the leadership team reviewed and developed a forecast for each of its lines of business (technology, services, managed services CFC, managed services L1/L2, innovation, marketing/PMO) in each of the geographical areas of operation (US and EMEA). Management assumed growth rates by line of business and geography taking into account factors such as market outlook, positioning, growth investments and past track record. Management assumed constant gross margins for each line of business. OPEX growth was determined taking into account the capacity required to deliver the planned revenue base and to sustain further growth. Group management evaluated and adjusted the forecast submission to take into account business development risks and to ensure that the strategic focus areas are in line with reasonable growth and spending assumptions.

Following a strong 2021, Cybersecurity maintained strong gross profit momentum in 2022. In line with prior years, Cybersecurity was able to continue growing its high value-added business lines, including managed security services, advisory, and innovation services posting a significant year-on-year growth. In 2023, Cybersecurity is expected to continue to benefit from favorable technology adoption trends and maintain a growth momentum. For planning purposes, gross profit growth is anticipated to be lower than in previous years. Gross profit is then expected to continue to grow at double-digit rates over the planning period, as the segment continues to gain traction in the higher margin managed security services space and innovation space.

Internet of Things (IoT)

The strategic shift of the IoT activities in prior years, including in particular the introduction of a new IoT Solutions product line and mainly driven by the segment's asset tracking solutions, resulted in a near term shift to end-to-end IoT solutions with the assumption that IoT platform revenues will gain momentum in the later years of the planning period.

IoT revenue projections by business line are based on volume and pricing projections for the early years in the plan and take into account the existing customer pipeline and backlog. Projections are subsequently adjusted at the Group management level to include contingencies related to the uncertainty of the business development. Operating cost assumptions are mainly based on the cost base required for the implementation of the current product roadmap as well as the further development of the product portfolio.

In 2022, IoT segment revenues more than doubled compared to the prior year, thus validating prior business plan assumptions. The Group expects strong growth momentum with solid double-digit growth rates to continue for the following years, driven by continued growth of its asset tracking product portfolio and volume deployments of the KeySTREAM platform.

Public Access

Public Access revenue assumptions are based on the observed structural development trends of existing products and customers. The SKIDATA management team developed sales and gross profit assumptions by region (APAC, Europe, Latin America, MEA, North America and Central) and validated these assumptions against projections by product groups (i.e., new facilities, modernizations and extensions, operational services, consumable products, SaaS). Projections are subsequently adjusted at the Group management level to include contingencies related to the uncertainty of the business development. Margin assumptions are derived from historical performance, pricing trends, and expected product mix. Operating cost assumptions are based on historical expenditures and projected based on anticipated business actions and outlook over the forecast period.

Public Access revenues in local currencies recovered in 2022, after two years of COVID-related revenue decline. Management expects this recovery to extend into 2023 and anticipates a return to historical revenue growth rates in the following years of the planning period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

Management believes that reasonably possible changes to any of the above key assumptions would not cause the operating segment's recoverable amount to fall below the carrying value of the segment, except for goodwill of Cybersecurity and IoT, for which reasonably possible changes in recurring revenues and revenue growth assumptions could result in a potential goodwill impairment. Considering the high level of annual planned sales growth, a 9.61% reduction of the assumed annual growth rate in the Cybersecurity segment and a 10.36% reduction of the assumed annual growth rate in the IoT segment, without any adjustment of operating expenses, would lead to a value-in-use equal to the carrying amount of goodwill at the end of the planning period. The headroom for Cybersecurity and IoT are mUSD 66.8 and mUSD 95.3 respectively.

15. LEASING

In USD'000

31.12.2022 31.12.2021

Land and buildings	46 311	47 298
Vehicles, equipment and other	4 126	3 448
	50 437	50 746

In USD'000

GROSS RIGHT-OF-USE ASSETS

As of January 1, 2021

	Land	Building & leasehold facilities	Vehicles	Equipment	Total
Additions	–	23 607	1 673	117	25 398
Disposals and retirements	-135	-4 699	-2 189	-2	-7 025
Currency translation effects	-69	-1 701	-513	-15	-2 298

As of January 1, 2022

Additions	–	11 845	3 350	22	15 217
Disposals and retirements	–	-10 472	-2 591	-108	-13 171
Currency translation effects	-46	-2 083	-359	-25	-2 513

As of December 31, 2022

	774	72 854	8 377	195	82 200
--	------------	---------------	--------------	------------	---------------

ACCUMULATED DEPRECIATION AND IMPAIRMENT

As of January 1, 2021

Systematic depreciation	-45	-11 789	-2 513	-91	-14 437
Recovery of depreciation on disposal and retirements	–	4 234	2 097	2	6 332
Currency translation effects	8	858	263	8	1 138

As of January 1, 2022

Systematic depreciation	-38	-11 753	-2 381	-73	-14 245
Recovery of depreciation on disposal and retirements	–	10 472	2 506	108	13 087
Currency translation effects	6	1 081	213	16	1 316

As of December 31, 2022

	-158	-27 159	-4 306	-140	-31 763
--	-------------	----------------	---------------	-------------	----------------

Net book values as of December 31, 2021

	693	46 605	3 333	116	50 746
--	------------	---------------	--------------	------------	---------------

Net book values as of December 31, 2022

	616	45 695	4 071	55	50 437
--	------------	---------------	--------------	-----------	---------------

Useful life in years

	4 – 10	2 – 15	2 – 5	2 – 5
--	--------	--------	-------	-------

Lease costs are recorded in the income statement as depreciation expense in the amount of kUSD 14 245 (2021: kUSD 14 437) and interest expense of kUSD 2 639 (2021: kUSD 1 255), and are recognized in the cash flow statement as adjustments to net income non-cash items in operating activities. Lease payments of kUSD 16 249 (2021: kUSD 14 756) which represent the reduction of the lease liability are recognized in the cash flow statement as an outflow from financing activities. Operating lease costs relating to short-term leases of kUSD 6 062 (2021: kUSD 5 822) and low-value leases of kUSD 293 (2021: kUSD 319) remain fully recognized as an operational expense. The total cash outflow for leases in 2022 was kUSD 25 243 (2021: kUSD 22 153).

The Group's remaining contractual maturities of lease obligations at December 31, 2022 and 2021 are as follows:

In USD'000	2022	2021
Within one year	13 777	15 114
In the second to fifth year inclusive	34 676	38 950
More than five years	40 359	37 554
	88 812	91 618

SALE-AND-LEASEBACK TRANSACTIONS

In September 2021, the Group completed a sale-and-leaseback transaction involving a satellite office building located in Lausanne, Switzerland. The building was sold for kUSD 20 783 and leased back for an initial term of fifteen years, with specified renewal options for up to an additional ten years. The Group recorded a gain on the sale-and-leaseback of kUSD 5 867 which was recognized in 'Other operating income' in the consolidated income statement for the year ended December 31, 2021.

In addition, during December 2021, the Group completed the sale-and-leaseback of properties hosting the Group's headquarters in Cheseaux, Switzerland for an amount of kUSD 82 037. The investor group that acquired the properties includes members of the Kudelski family, a long-time shareholder of the Group, the Group's Swiss pension fund and Nagravisio. Based on the Group's assessment, control of the properties had been transferred to the investor group and Nagravisio's remaining interest in the property was accounted for as an 'Investment in associate' (note 16). The building was leased for an initial term of fifteen years, with specified renewal options for up to an additional ten years. For the year ended December 31, 2021, the Group recorded a gain on the sale-and-leaseback of kUSD 7 797 which was included in 'Other operating income' in the consolidated income statement.

16. INVESTMENTS IN ASSOCIATES

In USD'000	2022	2021
At January 1	9 335	7 007
Acquisition of an associate	-	2 290
Share of profit	1 674	2 111
Dividends received	-133	-1 911
Currency translation effects	-209	-162
At December 31	10 667	9 335

During 2021, the Group invested kUSD 4 922 in Kudelski Buildings Sarl. This amount was offset by its proportion of the gain on sale-and-leaseback transaction of kUSD 2 632.

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Name of associate	Principal activity	Interest held	
		2022	2021
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26.0%	26.0%
SKIDATA Parking Systems, Hong-Kong	Sales of Public Access products	26.0%	26.0%
SKIDATA India Private Limited, India	Sales of Public Access products	49.0%	49.0%
SJack GmbH, Austria	Sales of Public Access products	26.0%	26.0%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45.0%	45.0%
iWedia SA, Switzerland	Middleware for set-top-boxes	40.0%	40.0%
Kudelski Buildings Sarl	Real estate company	22.5%	22.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In USD'000	31.12.2022	31.12.2021
Total assets	107 270	101 425
Total liabilities	61 887	60 647
Net assets	45 383	40 778
Group's share of associates' net assets	12 758	11 430
	2022	2021
Revenue	47 115	49 518
Result of the period	5 819	6 154
Group's share of associates' result for the period	1 674	2 111

17. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

In USD'000	31.12.2022	31.12.2021
Deferred tax assets	39 593	44 054
Deferred tax liabilities	-1 120	-2 050
	38 473	42 004

Movement on the deferred income tax account is as follows:

In USD'000	Note	2022	2021
At January 1		42 004	47 663
Exchange differences		-969	-1 566
Recognized against other comprehensive income		-2 920	-3 426
Income statement (expense)/income	11	358	-668
At December 31		38 473	42 004

The movement in deferred tax assets and liabilities during 2022, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In USD'000	At January 1, 2022	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2022
Deferred tax assets associated with					
- intangibles	1 905	-235	-	-32	1 637
- employee benefits	3 080	351	-2 920	-278	233
- tax losses	26 652	1 289	-	-381	27 560
- provisions and other elements tax deductible when paid	6 100	-2 783	-	-228	3 090
- intercompany profit elimination	3 736	-834	-	-220	2 682
- leases	5 205	670	-	-73	5 802
- others	341	39	-	-6	374
Total deferred tax assets (gross)	47 020	-1 503	-2 920	-1 218	41 378
Deferred tax liabilities associated with					
- intangibles	-2 475	847	-	216	-1 412
- provisions and accelerated tax depreciation	-446	-5	-	-22	-473
- others	-2 094	1 019	-	54	-1 020
Total deferred tax liabilities (gross)	-5 016	1 862	-	249	-2 905
Net deferred tax asset/(liability)	42 004	358	-2 920	-969	38 473

And for 2021:

In USD'000	At January 1, 2021	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2021
Deferred tax assets associated with					
- intangibles	2 439	-459	-	-75	1 905
- employee benefits	6 642	135	-3 413	-284	3 080
- tax losses	33 787	-6 374	-	-760	26 652
- provisions and other elements tax deductible when paid	5 756	738	12	-405	6 100
- intercompany profit elimination	4 419	-380	-	-303	3 736
- leases	190	5 010	-	5	5 205
- others	536	-155	-25	-15	341
Total deferred tax assets (gross)	53 768	-1 486	-3 426	-1 837	47 020
Deferred tax liabilities associated with					
- intangibles	-3 577	1 021	-	81	-2 475
- provisions and accelerated tax depreciation	-1 928	1 375	-	107	-446
- others	-600	-1 578	-	83	-2 094
Total deferred tax liabilities (gross)	-6 105	818	-	271	-5 016
Net deferred tax asset/(liability)	47 663	-668	-3 426	-1 566	42 004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of mUSD 1 279.5 (2021: mUSD 1 311.9) available for offset against future profits. A deferred tax asset has been recognized in respect of mUSD 268.5 (2021: mUSD 344.9) of such losses and temporary differences. The utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. No deferred tax asset has been recognized for the remaining mUSD 1 011.0 (2021: mUSD 967.0) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In USD million	2022	2021
Expiration within:		
One year	23.3	10.7
Two years	114.7	23.4
Three years	139.9	122.0
Four years	142.4	148.0
Five years	31.3	152.4
More than five years	559.4	510.5
Total	1 011.0	967.0

18. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In USD'000	31.12.2022	31.12.2021
Financial assets at amortized cost:		
Loan – third party	11 928	12 366
State and government institutions	4 317	4 877
Trade accounts receivable (long-term portion)	4 597	12 539
Guarantee deposits	1 809	1 878
Prepaid expenses and accrued income (long-term portion)	90	133
Total financial assets at amortized cost	22 742	31 792
Financial assets at fair value through profit or loss:		
Equity instruments (level 3)	1 137	1 152
Total financial assets at fair value through profit or loss	1 137	1 152
Other non-current assets:		
Deferred rent	976	896
Total other non-current assets	976	896
Total	24 856	33 840

The equity instruments are measured using a discounted cash flow method provided by the company on a yearly basis.

The effective interest rate on third party loans is 1.90% (2021: 1.83%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months. The long-term portion of trade accounts receivable includes, among others, discounted revenues related to the licensing of the Group intellectual property portfolio.

19. INVENTORIES

In USD'000	31.12.2022	31.12.2021
Raw materials	3 980	2 898
Work in progress	7 450	6 881
Finished goods	59 550	44 600
	70 980	54 378

The cost of inventories recognised as an expense includes kUSD 1 734 (2021: kUSD 2 273) in respect of write-downs, and has been reduced by kUSD 440 (2021: kUSD 605) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kUSD 15 712 (2021: kUSD -5 590).

20. TRADE ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

In USD'000	31.12.2022	31.12.2021
Trade accounts receivable	165 701	178 101
Less: provision for impairment	-15 194	-16 166
Trade accounts receivable related parties	2 402	1 579
Trade accounts receivable - net	152 909	163 514
Contract assets	29 916	37 842
Less: provision for impairment	-2 334	-1 108
Contract assets - net	27 582	36 733

Before accepting a new customer, the Group performs a credit scoring to assess the potential customer's credit quality and defines specific credit limits. Limits and scoring are regularly reviewed. Furthermore, for low value added business deliveries, the Group usually works on a back to back basis.

The following table summarizes the movement in the provisions for impairment of trade accounts receivable and contract assets:

In USD'000	Contract assets		Trade accounts receivable	
	2022	2021	2022	2021
January 1,	-1 108	-197	-16 166	-26 202
Provision for impairment charged to income statement	-1 250	-998	-4 486	-1 283
Utilization	-	-	638	2 279
Reversal	44	77	4 562	8 262
Translation effects	-20	10	258	779
December 31,	-2 334	-1 108	-15 194	-16 166

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kUSD -4 486 (2021: kUSD -1 283). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade accounts receivables and contract assets. On that basis, the provisions for impairment of trade accounts receivable and contract assets as of December 31, 2022 and 2021 were determined as follows:

In USD'000	Gross carrying amount	Expected loss rate	Provision	Gross carrying amount	Expected loss rate	Provision
			for 31.12.2022			for 31.12.2021
Trade accounts receivable not overdue	97 667	0.4%	396	104 818	0.4%	406
Past due:						
- not more than one month	27 848	1.4%	377	25 729	0.9%	222
- more than one month and not more than three months	14 355	1.9%	275	18 161	2.2%	391
- more than three months and not more than six months	6 506	15.3%	993	7 597	11.0%	839
- more than six months and not more than one year	7 791	33.5%	2 607	6 068	41.6%	2 524
- more than one year	11 534	91.4%	10 545	15 728	74.9%	11 784
Total	165 701		15 194	178 101		16 166
Contract assets	29 916	7.8%	2 334	37 842	2.9%	1 108
Total	29 916		2 334	37 842		1 108

The expected loss rates are based on payment profiles of sales from the individual Group companies and corresponding historical credit losses. The average loss rates displayed above may vary due to the mix of outstanding receivables within the Group companies.

21. OTHER FINANCIAL ASSETS AT AMORTIZED COST

In USD'000	31.12.2022	31.12.2021
Other receivables - third parties	10 368	11 067
Other receivables - related parties	1 348	1 412
Advances to suppliers and employees	5 864	5 480
State and government institutions	25 800	31 696
	43 380	49 655

22. OTHER CURRENT ASSETS

In USD'000	31.12.2022	31.12.2021
Prepaid expenses	12 321	10 333
Accrued income	42 027	32 478
Other receivables - third parties	848	638
	55 196	43 450

23. CASH AND CASH EQUIVALENTS

In USD'000	31.12.2022	31.12.2021
Cash at bank and in hand	58 383	280 832
Short-term deposits	3 784	3 657
	62 167	284 489

The effective interest rate on short term deposits was 0.59% (2021: 0.58%). The Group only enters into transactions with highly rated banks.

24. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

The share capital consists of 51 179 295 (2021: 50 736 972) bearer shares at CHF 8.00 par value each and 46 300 000 (2021: 46 300 000) registered shares at CHF 0.80 par value each. Each share confers the right to vote and is fully paid up. The counter-value for the share capital is kUSD 344 190 (2021 kUSD 340 484).

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since August 2, 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

AUTHORIZED SHARE CAPITAL

The Board of Directors is authorized to increase the share capital in one or more stages until 15 April 2022 by a maximum amount of CHF 32 705 312 through the issuance of 3 768 164 bearer shares with a nominal value of CHF 8.00 per share and 3 200 000 registered shares with a nominal value of CHF 0.80 per share to be fully paid up. The issuance price, the nature of the contributions, the date from which new shares shall give entitlement to dividends and other modalities of any share issuance shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance the whole or partial acquisition of other companies in Switzerland or abroad. All statutory restrictions on the transfer of shares are applicable to new registered shares.

CONDITIONAL SHARE CAPITAL

Conditional share capital consists of 10 000 000 (2021: 10 000 000) bearer shares at CHF 8.00 each to satisfy convertible bond exercise right and 634 461 (2021: 576 784) bearer shares at CHF 8.00 each to satisfy option exercise or share subscriptions to employees.

25. NON-CONTROLLING INTERESTS

The following table summarizes the information relating to each of the Group's subsidiaries in which it has material non-controlling interests, before any intercompany elimination:

In USD'000	31.12.2022		31.12.2021	
	Nagrastar	275 Sacramento Street LLC	Nagrastar	275 Sacramento Street LLC
Non-controlling interests percentage	50.0%	50.1%	50.0%	50.1%
Non-current assets	1 511	37 898	1 509	38 088
Current Assets	22 755	211	38 766	182
Non-current liabilities	24	50	40	50
Current liabilities	9 040	176	10 954	179
Total Equity	15 201	37 883	29 341	38 085
Non-controlling interests percentage	50%	50.1%	50%	50.1%
Theoretical amount of non-controlling interests	7 601	18 980	14 670	19 081
Carrying amount of non-controlling interests	7 601	18 980	14 670	19 081
Revenue	19 544	4 113	21 536	4 239
Net result	5 860	2 598	8 488	2 655
Total comprehensive income	5 860	2 598	8 488	2 655
Total comprehensive income allocated to non-controlling interests	2 930	1 302	4 244	1 328
Dividend paid to non controlling interests	-10 000	-	-	-
Net increase /(decrease) in cash and cash equivalents	-14 824	13	9 506	-454

These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility for the main risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

26. LONG TERM FINANCIAL DEBT

In USD'000	Note	31.12.2022	31.12.2021
CHF 150 million 1.5% bond 2016/2024	27	157 610	161 518
Long-term bank loans		24 562	35 352
		182 172	196 870

Long term bank loans effective interest rate is 2.75% (2021: 0.80%).

27. BONDS

On May 12, 2015 Kudelski SA issued a CHF 200 million bond with a subscription price of 100%, bearing an annual interest rate of 1.875% and maturing on August 12, 2022 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 200 000 (kUSD 214 891) less issuance costs of kCHF 870 (kUSD 939) totaling an initial net proceed of kCHF 199 130 (kUSD 213 952) and resulting in an effective interest rate of 1.97%.

During 2022, the Group repurchased nominal value kUSD 12 700 (2021: kUSD 16 845) relating to the 2015-2022 bond. On August 12, 2022, the Group reimbursed nominal value kUSD 183 308 relating to the 2015-2022 bond. Total cash paid relating to the repurchase and reimbursement, excluding accrued interest, was kUSD 196 043.

On September 27, 2016 Kudelski SA issued an additional CHF 150 million bond with a subscription price of 100%, bearing an annual interest rate of 1.5% and maturing on September 27, 2024 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 150'000 (kUSD 154 384) less issuance costs of kCHF 665 (kUSD 684) totaling an initial net proceed of kCHF 149'335 (kUSD 153 700) and resulting in an effective interest rate of 1.58%.

During 2022, the Group repurchased nominal value of kUSD 1 849 (2021: kUSD 2 527) relating to the 2016-2024 bond. Total cash paid excluding accrued interest was kUSD 1 694.

The gain on bond repurchases of kUSD 121 (2021: kUSD 708) is included in 'Other finance income/(expense), net' in the consolidated income statement.

Bonds are recognized in the consolidated balance sheets as of December 31, as follows:

In USD'000	2022	2021
Initial balance	363 635	394 907
Amortization of transaction costs less premium	162	236
Reimbursement and repurchase	-197 857	-19 372
Currency translation effects	-8 331	-12 137
Liability component as of December 31	157 610	363 635
of which:		
- short-term portion (bond 2015/2022)	-	202 117
of which:		
- long-term portion (bond 2016/2024)	157 610	161 518
	157 610	363 635

28. EMPLOYEE BENEFITS LIABILITIES

Defined benefit plan income, expense, plan assets and defined benefit obligations are determined by independent actuaries. Defined benefit obligations are calculated using the “Projected Unit Credit” method, and plan assets have been measured at fair market values. Most of the employee benefit obligation results from the Swiss pension plan.

SWITZERLAND

In addition to the legally required social security schemes, the Group has an independent pension plan. Swiss legislation prescribes that both the employer and the employee contribute a fixed percentage of the employee’s insured salary to an external pension fund. Additional employers or employees’ contribution may be required whenever the plan’s statutory funding ratio falls below a certain level. The pension plan is run by a separate legal entity, governed by a Board of Trustees which consists of representatives nominated by the Group and by the active insured employees. The Board of Trustees is responsible for the plan design and the asset investment strategy. This plan covers all employees in Switzerland and is treated as a defined benefit plan with associated risks exposure being:

- Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plan’s liabilities. In order to minimize the risk, mortality assumptions are reviewed on a regular basis.
- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular-basis.

ABROAD

Outside Switzerland, the Group sponsors twelve (2021: twelve) other post-employment benefit plans treated as defined benefit plan according to IAS 19. Post-employment benefit plan may include jubilee and termination benefits. Other post-employment benefit plans are not funded.

The following table sets forth the status of the pension plans and the amount that is recognized in the balance sheet:

In USD'000	31.12.2022	31.12.2021	
Fair value of plan assets	222 221	244 445	
Defined benefit obligation	-226 883	-269 160	
Funded status	-4 662	-24 715	
Other comprehensive income	42 547	21 002	
Prepaid/(accrued) pension cost	-47 209	-45 717	
Funded status	-4 662	-24 715	
In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2022 and 2021:			
In USD'000	Note	2022	2021
Service cost		-16 729	-17 562
Employees contributions		5 861	5 746
Amortization of gains/(losses)		387	420
Curtailment gain / (loss)		212	-
Impact of plan amendment		-367	912
Total recognized in employee benefits expense	6	-10 636	-10 483
Interest cost		-1 084	-433
Interest income		835	216
Total recognized in interest expense	9	-249	-217
Net pension (cost)/income		-10 885	-10 701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

The impact of plan amendment relates to a 2022 change in benefits for one of the French pension plans and a modification of the retirement age for females in the Swiss plan.

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2022 and 2021 are as follows:

	31.12.2022	31.12.2021
Switzerland		
Financial assumptions:		
- Discount rate	2.30%	0.35%
- Rate of future increase in compensations	1.50%	1.50%
- Rate of future increase in current pensions	0.75%	0% for 5 years, then 0.75%
Demographic assumptions:		
- Interest rate credited on savings accounts	2.00%	1.00%
- Turnover (on average)	12.0%	12.0%
- Demographic basis	LPP 2020 generational probability risk for disability reduced 25%	LPP 2020 generational probability risk for disability reduced 25%
	75% pension	75% pension
	25% lump sum	25% lump sum
- Retirement payment form		
Abroad		
- Discount rate	4.12%	1.76%
- Rate of future increase in compensations	4.90%	3.18%
- Turnover (on average)	8.1%	7.6%

The weighted average duration of the defined benefit obligation is as follows :

	31.12.2022	31.12.2021
Weighted average duration of the defined benefit obligation in years		
Switzerland	16.5	19.3
Abroad	11.4	6.2

The changes in defined benefit obligation and fair value of plan assets during the years 2022 and 2021 are as follows:

A. Change in defined benefit obligation

In USD'000	2022	2021
Defined benefit obligation as of 1.1.	-269 160	-272 185
Service cost	-16 729	-17 562
Interest cost	-1 084	-433
Change in demographic assumptions	51	252
Change in financial assumptions	60 391	13 016
Other actuarial gains / (losses)	-9 995	-7 848
Benefits payments	4 424	5 768
Exchange rate difference	5 374	8 921
Curtailment	212	-
Plan amendment	-367	912
Defined benefit obligation as of December 31,	-226 883	-269 160

Changes in demographic assumptions result from analysis of trends over the last six years and the impacts are disclosed in the above table under 'Changes in demographic assumptions'. Other actuarial gains/(losses) are experience gains/(losses) arising due to differences between assumed and actual results.

B. Change in fair value of plan assets

In USD'000	2022	2021
Fair value of plan assets as of 1.1.	244 445	223 368
Interest income	835	216
Return on plan assets excluding interest income	-29 063	19 509
Employees' contributions	5 861	5 746
Employer's contribution	8 332	8 187
Benefit payments	-4 424	-5 768
Exchange rate difference	-3 764	-6 813
Fair value of plan assets as of December 31,	222 221	244 445

The actual return on plan assets amounts to kUSD -28 228 in 2022 (kUSD 19 725 for the year 2021) and includes an assumed interest income. The estimated employer's contribution to the pension plans for the year 2023 is kUSD 7 816.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2022 and 2021 as follows:

In USD'000	Proportion in %		Proportion in %	
	31.12.2022	31.12.2022	31.12.2021	31.12.2021
Cash	15 253	6.9%	8 826	3.6%
Swiss bonds	15 597	7.0%	18 154	7.4%
Non-Swiss bonds	55 423	24.9%	58 657	24.0%
Swiss shares	37 290	16.8%	47 417	19.4%
Non-Swiss shares	33 571	15.1%	40 779	16.7%
Real estate	39 386	17.7%	44 260	18.1%
Alternative investments	25 701	11.6%	26 352	10.8%
Total	222 221	100.0%	244 445	100.0%

Plan assets are quoted on liquid markets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments.

The expected benefit payments for the next ten years are as follows :

In USD'000	Switzerland	Abroad
2023	10 505	560
2024	10 420	106
2025	10 202	115
2026	9 150	153
2027	10 523	960
2028-2032	46 776	4 388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

The following table shows the sensitivity of the defined benefit pension obligations to the principal actuarial assumptions based on reasonably possible changes to the respective assumptions occurring at the end of the reporting period:

	Change in 2022 year-end defined benefit obligation		Change in 2021 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In USD'000	In USD'000	In USD'000	In USD'000
50 basis point increase in discount rate	-16 129	-853	-22 722	-411
50 basis point decrease in discount rate	18 460	570	26 437	474
50 basis point increase in rate of salary increase	291	n/a	130	n/a
50 basis point decrease in rate of salary increase	-319	n/a	-150	n/a
50 basis point increase in rate of pension increase	10 096	n/a	9 387	n/a
50 basis point decrease in rate of pension increase	-9 205	n/a	-8 634	n/a
50 basis point increase of interest in saving accounts	6 301	n/a	8 153	n/a
50 basis point decrease of interest in saving accounts	-5 984	n/a	-7 723	n/a
50 basis point increase of turnover	-78	n/a	-1 515	n/a
50 basis point decrease of turnover	52	n/a	1 403	n/a

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

29. OTHER LONG TERM LIABILITIES

In USD'000	31.12.2022	31.12.2021
Long-term loans - third parties	5 047	5 143
Deferred consideration	1 547	1 255
Contingent consideration	1 547	1 255
Other long-term liabilities	1 232	903
Deferred income	992	1 514
	10 364	10 070

The effective interest rate on long-term loans is 2.00% (2021: 2.00%).

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with business acquisitions. Assumptions for contingent consideration include a discount rate of 10.0% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

30. SHORT TERM FINANCIAL DEBT

In USD'000	31.12.2022	31.12.2021
CHF 200 million 1.875% bond 2015/2022	-	202 117
Short-term bank borrowings	76 227	37 241
Other short-term financial liabilities	656	665
	76 883	240 023

The average effective interest rate paid in 2022 for short term bank borrowings was 2.39% (2021: 1.41%).

31. TRADE ACCOUNTS PAYABLE

In USD'000	31.12.2022	31.12.2021
Trade accounts payable – third parties	67 972	68 573
Trade accounts payable – related parties	–	14
	67 972	68 586

32. CONTRACT LIABILITIES

In USD'000	31.12.2022	31.12.2021
Amounts due to customers for contract work	4 020	6 219
Advances from clients	21 500	16 189
Deferred income	46 001	60 890
	71 520	83 298

33. OTHER CURRENT LIABILITIES

In USD'000	31.12.2022	31.12.2021
Accrued expenses	77 781	80 888
Payable to pension fund	1 583	1 512
Other payables	15 322	23 317
	94 685	105 718

34. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as speculative instruments. Where derivatives do not meet the hedge accounting criteria or where the Group chooses not to designate derivatives as hedging instruments, they are classified as “held-for-trading” for accounting purposes and are accounted for at fair value through profit or loss.

In USD'000	Assets		Liabilities	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Cash flow hedge:				
- Foreign currency options	143	180	–	–
Held-for-trading:				
- Foreign currency options	–	–	-88	-82
- Forward contracts	–	519	–	–
Total of derivatives financial instruments	143	699	-88	-82

There were no long-term derivative instruments at December 31, 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

In USD'000	Cost of hedging reserve	Intrinsic value of options	Total hedge reserves
Balance at January 1, 2021	–	–	–
Change in fair value of hedging instruments recognized in OCI	–	158	158
Cost of hedging deferred and recognized in OCI	-7	–	-7
Balance at December 31, 2021	-7	158	151
Change in fair value of hedging instruments recognized in OCI	–	816	816
Cost of hedging deferred and recognized in OCI	-735	–	-735
Reclassified from OCI to profit or loss	7	-158	-151
Balance at December 31, 2022	-735	816	81

The amounts included in cost of hedging reserve relate to the time value of options. All the amounts in the hedging reserve are in respect of transaction-related items, namely forecast sales transactions. The notional amount of options qualifying for hedge accounting amounted to mUSD 45 and mEUR 8 in 2022 (2021: mUSD 27) with maturities between January and December and average strike rate of USD/CHF 0.9324 and USD/EUR 0.9750 in 2022 (2021: USD/CHF 0.9197). The foreign currency options are denominated in the same currency as the highly probable future sales transactions, therefore the hedge ratio is 1:1. There was no hedge ineffectiveness during 2022 and 2021 relating to foreign currency options.

35. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In USD'000	Restructuring provisions	Provision for warranty	Litigations and others	Total 2022	Total 2021
As of January 1	80	2 918	67	3 065	3 842
Additional provisions	–	156	12	168	1 242
Unused amounts reversed	–	-427	-26	-453	-272
Used during the year	-10	-26	3	-33	-1 539
Exchange differences	-5	-138	-4	-146	-208
As of December 31	65	2 484	51	2 600	3 065
Thereof:					
- Short-term	65	2 484	51	2 600	3 065
- Long-term	–	–	–	–	–
	65	2 484	51	2 600	3 065

Restructuring provisions

Restructuring provisions in 2022 and 2021 primarily relate to headcount reduction measures impacting the Group's Digital TV operations.

Litigations and others

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. This provision disclosed in short-term covers legal fees and lawsuits and is valued according to management's best estimate.

Provision for warranty

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

36. DISCONTINUED OPERATIONS

In December 2021, the Group completed the sale of a building located in La Ciotat, France for an amount of kUSD 11 352. The building was retained upon the disposal of the SmarDTV operations in August 2018 and was previously classified as 'held for sale'. The loss on the sale of kUSD -1 089 has been presented as discontinued operations in the consolidated income statements. There were no discontinued operations for the year ended December 31, 2022.

37. RESEARCH AND DEVELOPMENT

The following amounts were recognized as expense and charged to the income statement:

In USD'000	2022	2021
Research and development	132 376	130 285

38. DIVIDEND

On April 22, 2022, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 5 999. Since year end, no distribution has been proposed by the Board of Directors.

39. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

The Group has set up a plan to allow employees of certain Group companies preferential conditions to buy Kudelski SA bearer shares. All such shares purchased, and the additional shares obtained through this plan, are subject to a three-year blocking period.

	Shares 2022	Shares 2021
Shares underwritten by employees	54 875	39 815
Bonus shares from ESPP	10 975	7 963
Total employee share program	65 850	47 778
Amount paid by employee (In USD'000)	117	122
Booked corporate charges (excluding social charges) (In USD'000)	51	54
	168	176

SHARES ISSUED TO EMPLOYEES

In 2022, 376 473 (2021: 316 594) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 339 281 (2021: 296 527) include a seven-year blocking period, 24 692 (2021: 7 567) include a three-year blocking period and 12 500 (2021: 12 500) with no restriction to sale. The fair value recognized for this equity based compensation is kUSD 962 (2021: kUSD 859).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

40. RELATED PARTIES

Trading transactions

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in consolidation and are not disclosed in this note.

During the year, Group entities entered into the following significant trading transactions with related parties, associates or joint ventures that are not members of the Group:

In USD'000	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
	2022	2021	2022	2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
APT-Skidata Ltd	5 084	4 138	–	–	–	14	1 418	1 025
SKIDATA Parking System Ltd	1 197	1 226	–	–	–	–	117	104
SKIDATA India Private Limited	1 179	244	–	–	–	–	441	42
Kudelski Buildings Sàrl	–	–	4 603	–	–	–	–	–
HVK Logistics	–	–	–	–	–	–	24	–
iWedia SA	–	–	–	–	–	–	–	–
Total associated companies	7 459	5 608	4 603	–	–	14	2 000	1 172
Audio Technology Switzerland SA	–	–	–	–	–	–	1 751	1 774
Total other related	–	–	–	–	–	–	1 751	1 774

APT SKIDATA, SKIDATA Parking System Ltd and SKIDATA India Private Limited are sales representative companies for SKIDATA Group. iWedia SA is a partner in providing middleware and other software components for digital TV solutions. Audio Technology Switzerland SA is considered as a related party as some Kudelski Board members invested in the company.

Services provided to/by associates and other related parties are performed at arm's length. The associates are listed in note 16. Outstanding balances are unsecured and are repayable in cash.

Key management compensation

Key management includes directors (executives and non-executives) and members of the Executive Committee. The compensation paid or payable to key management is shown below:

In USD'000	2022	2021
Salaries and other short-term employees benefits	6 565	9 711
Post-employments benefits	61	63
Share-based payments	164	601
	6 791	10 375

41. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Kudelski family pool	59%	59%	28%	28%
Kudelski family interests outside Kudelski family pool	4%	4%	7%	7%

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of Mr. André Kudelski.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2022 and 2021, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2022 and 2021 variable compensation - issued in 2022 and 2023 respectively):

	31.12.2022		31.12.2021	
	Bearer shares	Bearer shares	Bearer shares	Bearer shares
Board of Directors				
Kudelski André, chairman (as member of the family pool)	10 922 923	10 782 923		
Smadja Claude, vice chairman	1 300	1 300		
Dassault Laurent, member	1 032 653	1 032 653		
Foetisch Patrick, member	1 000	1 000		
Kudelski Marguerite, (as member of the family pool)	see above	see above		
Lescure Pierre, member	2 000	2 000		
Ross Alec, member	1 250	1 250		
Total board members	11 961 126	11 821 126		
Management				
Kudelski André, CEO	see above	see above		
Saladini Mauro, CFO	220 854	184 323		
Solbakken Morten, COO	100 935	72 248		
Goldberg Nancy, CMO	66 708	39 265		
Total Management (excluding CEO)	388 497	295 836		

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2022 and 2021.

No loans were granted in 2022 and 2021 to the members of the Board of Directors and Group management.

At December 31, 2022, Mauro Saladini owned kCHF 60 (2021: kCHF 60) nominal value of the bond maturing in 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

42. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2022:

Assets as per balance sheet date December 31, 2022 (in USD'000)	Note	Financial assets at fair value through profit or loss	Financial Assets at amortized costs	Total 31.12.2022
Financial assets and non-current assets:				
- equity instruments with no quoted market price (level 3)	18	1 137	-	1 137
- long-term loans	18	-	11 928	11 928
- state and government institutions	18	-	4 317	4 317
- trade accounts receivable - long-term portion	18	-	4 597	4 597
- guarantee deposits	18	-	1 809	1 809
- prepaid expenses and accrued income (long-term)	18	-	90	90
Trade accounts receivable	20	-	152 909	152 909
Other current assets:				
- state and government institutions	21	-	25 800	25 800
- other receivable (third and related parties)	21	-	11 717	11 717
Cash and cash equivalents	23	-	62 167	62 167
Derivative financial instruments (level 2)	34	143	-	143
		1 280	275 334	276 615

Liabilities as per balance sheet date December 31, 2022 (in USD'000)	Note	Financial liabilities at fair value through profit or loss	Financial Liabilities at amortized costs	Total 31.12.2022
Long-term financial debt	26	-	182 262	182 262
Long-term lease obligations	15	-	75 035	75 035
Other long-term liabilities:				
- deferred consideration	29	-	1 547	1 547
- contingent consideration (level 3)	29	1 547	-	1 547
- loans and others	29	-	6 279	6 279
Short-term financial debt	30	-	76 793	76 793
Short-term lease obligations	15	-	13 777	13 777
Trade accounts payable	31	-	67 972	67 972
Other current liabilities:				
- payable to pension fund	33	-	1 583	1 583
- other payables	33	-	14 128	14 128
- current income tax	33	-	2 512	2 512
Derivative financial instruments (level 2)	34	88	-	88
		1 635	441 888	443 522

And for 2021:

Assets as per balance sheet date December 31, 2021 (in USD'000)	Note	Financial assets at fair value through profit or loss	Financial Assets at amortized costs	Total 31.12.2021
Financial assets and non current assets:				
- equity instruments with no quoted market price (level 3)	18	1 152	-	1 152
- marketable securities (level 1)		-	-	-
- long-term loans	18	-	12 366	12 366
- state and government institutions	18	-	4 877	4 877
- trade accounts receivable - long-term portion	18	-	12 539	12 539
- guarantee deposits	18	-	1 878	1 878
- prepaid expenses and accrued income (long-term)	18	-	133	133
Trade accounts receivable	20	-	163 514	163 514
Other current assets:				
- state and government institutions	21	-	31 696	31 696
- other receivable (third and related parties)	21	-	12 479	12 479
Cash and cash equivalents	23	-	284 489	284 489
		1 851	523 971	525 822

Liabilities as per balance sheet date December 31, 2021 (in USD'000)	Note	Financial liabilities at fair value through profit or loss	Financial Liabilities at amortized costs	Total 31.12.2021
Long-term financial debt	26	-	196 870	196 870
Long-term lease obligations	15	-	76 504	76 504
Other long-term liabilities:				
- deferred consideration	29	-	1 255	1 255
- contingent consideration (level 3)	29	1 255	-	1 255
- loans and others	29	-	6 046	6 046
Short-term financial debt	30	-	240 023	240 023
Short-term lease obligations	15	-	15 114	15 114
Trade accounts payable	31	-	68 586	68 586
Other current liabilities:				
- payable to pension fund	33	-	1 512	1 512
- other payables	33	-	23 317	23 317
- current income tax		-	2 684	2 684
		1 337	631 911	633 248

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS requires disclosure of fair value measurement by level according to the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2022 and 2021:

In USD'000	Note	31.12.2022	31.12.2021
Financial assets at fair value through profit or loss:			
- equity instruments with no quoted market price	Level 3	1 137	1 152
Total financial assets		1 137	1 152
Financial liabilities:			
- contingent consideration (long-term portion)	Level 3	1 547	1 255
Total financial liabilities		1 547	1 255

The fair value of Level 3 equity instruments with no quoted market price is determined using a discounted cash flow method provided by the company. Level 3 contingent consideration consists of earn-out payments on companies that have been acquired. The fair value is measured using projections reviewed by management and discount rate of 10.0% (2021: 10.0%).

RECONCILIATION OF LEVEL 3 FAIR VALUES:

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

In USD'000	Equity instruments with no quoted market price	Contingent liabilities
Balance at January 1, 2021	1 188	-1 484
Exchange difference	-	-18
Currency translation adjustment	-36	247
Balance at December 31, 2021	1 152	-1 255
Remeasurement (recognized in other finance income/(expense), net)	-	-175
Discount effect (recognized in interest expense)	-	-110
Currency translation adjustment	-15	-8
Balance at December 31, 2022	1 137	-1 547

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values:

In USD'000	Carrying amount 2022	Fair value 2022	Carrying amount 2021	Fair value 2021
Financial liabilities				
- CHF 200 million bond	-	-	202 117	200 795
- CHF 150 million bond	157 610	137 791	161 518	148 822

44. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

The following table analyses the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment columns represent the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within one year equal their carrying amounts as the impact of discounting is not significant.

	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjustment	Adjustment	Total book value	Total book value
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Bonds	2 382	208 465	160 155	166 665	–	–	-4 927	-11 494	157 610	363 635
Long-term bank loans	–	–	26 193	34 063	–	3 765	-1 631	-2 477	24 562	35 352
Short-term financial debt	76 486	37 603	–	–	–	–	-259	-362	76 227	37 241
Trade accounts payable	67 972	68 586	–	–	–	–	–	–	67 972	68 586
Other payables	15 322	23 317	–	–	–	–	–	–	15 322	23 317
Total	162 163	337 971	186 348	200 728	–	3 765	-6 817	-14 333	341 693	528 131

45. SENSITIVITY ANALYSIS

Foreign currency

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters utilizing derivative instruments.

The Group is mainly exposed to the CHF and the EUR. The following table details the Group's sensitivity to a 10% (2021: 10%) increase and decrease in the CHF and a 10% (2021: 10%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

In USD'000	CHF		EUR	
	2022	2021	2022	2021
Post-tax net income				
- Increase	-8 427	214	-7 178	-1 850
- Decrease	8 394	-1 266	7 086	1 850
Comprehensive income (post-tax effect)				
- Increase	-1 426	-17 094	1 670	3 639
- Decrease	1 447	15 616	-2 297	-3 639

Interest rates

The sensitivity analysis aims to disclose the impact of a market change in interest rates. The sensitivity analysis below is based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates.

The following rates, corresponding to each currency, represent management's assessment of the reasonable possible change in interest rates for purposes of reporting interest rate sensitivity. Prior year sensitivity has been re-presented for comparison purposes:

- USD: increase of 100 basis points and decrease of 100 basis points (2021: 100 basis points increase or 100 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2021: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2021: 100 basis points increase or 100 decrease)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:

- post-tax profit for the year ended December 31, 2022 would decrease by kUSD 165 and increase by kUSD 55, respectively. (2021: increase by kUSD 919 and decrease by kUSD 78). This is mainly due to the interest rate exposure on floating rate debt.
- other comprehensive income would not be impacted in 2022 and 2021.

Equity prices

The Group is not materially exposed to any equity price fluctuation.

46. COLLATERAL RECEIVED AND GIVEN

In USD'000	31.12.2022	31.12.2021
Guarantees in favor of third parties	9 787	11 775

47. RISK CONCENTRATION

At December 31, 2022 and 2021, no financial asset exposure was more than 10% of the financial assets.

48. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantitative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended December 31, 2022 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

49. CAPITAL RISK MANAGEMENT

The Group's capital management focus is to maintain a sound capital base to support the continued development of its business. The Group is not subject to externally imposed capital requirements.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. Group management monitors capital on the basis of operating cash flow as a percentage of net financial debt. Net financial debt is defined as current and non-current financial liabilities less liquid assets.

The operating cash flow to net financial debt ratio as at December 31, 2022 was 0.8% (2021: 67.7%).

2022 operating cash flow was positive USD 1.5 million (2021: USD 103.1 million) mainly reflecting USD 33.2 million Operating income before depreciation, amortization and impairment and cash outflows for working capital.

50. NET DEBT RECONCILIATION

In USD'000	31.12.2022	31.12.2021
Cash and cash equivalents	62 167	284 489
Long-term financial debt	-182 172	-196 870
Long-term lease obligations	-75 035	-76 504
Short-term financial debt	-76 883	-240 023
Short-term lease obligations	-13 777	-15 114
Net debt	-285 700	-244 022

In USD'000	Note:	Cash and cash equivalents	Long-term debt	Short-term debt	Lease obligations	Total
Net debt at January 1, 2021		152 584	-439 192	-48 212	-43 318	-378 138
Cash flows		139 874	–	–	–	139 874
Reclassification		–	200 252	-200 252	–	–
Lease addition		–	–	–	-64 847	-64 847
Reimbursement of bank overdrafts, long-term loans and lease obligations		–	26 641	8 507	16 011	51 159
Increase in bank overdrafts, long-term loans		–	–	-2 338	–	-2 338
Covid 19 subsidies		–	339	–	–	339
Termination of leasing contracts		–	–	–	725	725
Accrued interests		–	–	-74	-1 259	-1 333
Foreign exchange adjustments		-7 969	14 618	2 346	1 070	10 065
Amortization of transaction cost less premium and gain on bond repurchase	27	–	472	–	–	472
Net debt at December 31, 2021		284 489	-196 870	-240 023	-91 618	-244 022
Cash flows		-205 437	–	–	–	-205 437
Reclassification		–	1 148	-1 148	–	–
Lease addition		–	–	–	-15 173	-15 173
Reimbursement of bank overdrafts, long-term loans and lease obligations		–	10 412	205 646	18 888	234 946
Increase in bank overdrafts, long-term loans		–	–	-47 808	–	-47 808
Covid 19 subsidies		–	-534	–	–	-534
Termination of leasing contracts		–	–	–	137	137
Accrued interests		–	–	–	-2 256	-2 256
Foreign exchange adjustments		-16 885	3 610	6 554	1 209	-5 512
Amortization of transaction cost less premium and gain on bond repurchase	27	–	63	-104	–	-42
Net debt at December 31, 2022		62 167	-182 172	-76 883	-88 812	-285 700

51. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On February 20, 2023, the Group announced the sale of its DVNor assets and related media ingestion and asset management services business. In addition, as certain conditions to the closing of the sale of the Group's 40% equity stake in iWedia were not satisfied within the period specified in the share purchase agreement with the buyer, the sellers decided to terminate the share purchase agreement.

52. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2022	2021	2022	2021
1 CHF	1.0811	1.0953	1.0474	1.0938
1 EUR	1.0703	1.1336	1.0526	1.1825
100 CNY	14.4865	15.7393	14.8748	15.5025
100 NOK	10.1946	11.3428	10.4282	11.6378
1 GBP	1.2097	1.3505	1.2354	1.3756
100 BRL	18.9189	17.9628	19.4181	18.5546
100 INR	1.2059	1.3439	1.2728	1.3522
1 SGD	0.7459	0.7415	0.7254	0.7442
100 ZAR	5.8919	6.2432	6.1305	6.7697
100 RUB	1.3481	1.3297	1.4884	1.3572
1 AUD	0.6822	0.7262	0.6944	0.7511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2022

53. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 22, 2023.

54. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Digital TV	Cyber-security	Internet of Things	Public Access	Corporate	Percentage held	
								2022	2021
Nagravision Sàrl	CH – Cheseaux	Solutions for Digital TV and Cybersecurity	•	•	•			100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	•					100	100
Nagra USA, LLC	US – New York	Sales and support	•		•			100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	•					100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	•					50	50
OpenTV Inc	US – Delaware	Middleware for set-top-boxes and IoT solutions	•		•			100	100
Nagravision AS	NO – Oslo	Solutions for Digital TV	•					100	100
Kudelski Security, Inc.	US – Minneapolis	Cybersecurity Solutions		•				100	100
SKIDATA Group	AT – Gartenau	People and car access systems				•		100	100
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group					•	100	100
Kudelski Corporate, Inc.	US – Delaware	Support					•	100	100

These principal companies are all subsidiaries.

55. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

Risk assessment and management is an integral part of the Group-wide enterprise risk management. The risk management approach is structured around a global risk assessment and management, and financial risk management. Both are governed by policies initiated by the Board of Directors. The internal control system is based on the COSO framework with a dedicated internal control team in place.

Global risk management

The global risk management process led to the identification and management of security, operational, strategic, asset and market risks. Daily management of the global risks is performed and monitored by the executive management. Risks related to market dynamics include foreign exchange movements, interest rate changes and financing risks. They are described in more detail in section 3 of this report.

Financial Risk Management

The major financial risks consist of accounting complexity and the control environment. Risks related to the control environment include information systems complexity, timely review of results and the robustness of the documentation of processes. Executive management continues to address these risks with process documentation initiatives as well as establishment of process and entity level controls. Financial risk management is described in more details in note 3.

The most critical accounting policies to address accounting complexity include revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and impairments, tax provisions, equity based compensation and contingencies.

Kudelski SA
Cheseaux-sur-Lausanne

Report of the statutory auditor
to the General Meeting

on the consolidated financial statements 2022



Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kudelski SA and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended, 31 December 2022, the consolidated balance sheet as at 31 December 2022, the consolidated cash flow statement, consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 4 to 54) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 3'600'000



We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As key audit matter the following area of focus has been identified:

Goodwill impairment Cybersecurity and Internet of Things

PricewaterhouseCoopers SA, avenue C.-F. Ramuz 45, case postale, 1001 Lausanne, Switzerland
Téléphone: +41 58 792 81 00, www.pwc.ch

PricewaterhouseCoopers SA is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 3'600'000
Benchmark applied	Total revenues
Rationale for the materiality benchmark applied	We have chosen revenue as a benchmark for determining materiality, as it represents an important characteristic and Kudelski Group had volatile results in the past.

We agreed with the Audit Committee that we would report to them misstatements above USD 360'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment Cybersecurity and Internet of Things

Key audit matter	How our audit addressed the key audit matter
As described in Note 14 to the consolidated financial statements, the Group has Goodwill totalling USD 337.2 million at 31 December 2022, comprising USD 62.2 million related to the Cybersecurity segment and USD 34.3 million related to the Internet of Things segment. We focused on the Goodwill related to Cybersecurity and IoT in view of the significance of the amounts involved, the business segments' operating performance during 2022 and the judgement used by management about future results. The assessment of the carrying value of the goodwill balances is highly dependent on management's estimate of	We assessed the Group's allocation of goodwill to the CGUs Cybersecurity and Internet of Things by assessing the reasonableness of the CGUs taking into consideration management reporting and that CGU's for goodwill impairment testing purposes are not larger than any of the Group's operating segments. We obtained the Group's impairment analysis for CGUs Cybersecurity and Internet of Things and performed the following procedures: - Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable.



the future cash flows expected to arise from the cash-generating unit and a suitable discount rate. Refer to note 2 – Critical accounting estimates and judgements and note 14 – Intangible assets for details of management's impairment test and assumptions.

- Assessed the quality of the cash flow projections by comparing the actual results to prior year budget to identify in retrospect whether any of the assumptions might have been too optimistic.
- Reconciled the 5 year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections.
- We reviewed with management to substantiate its key assumptions in the cash flow projections during the forecast period and its intention and ability to execute their strategic initiatives.
- We tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period assumption of 2.7% for both the Cybersecurity and Internet of Things divisions.
- Together with our specialists, we evaluated the reasonableness of the discount rate of 12% applied for both the Cybersecurity and Internet of Things divisions.

We obtained the Group's sensitivity analyses around key assumptions to ascertain the effect of reasonably possible changes to those assumptions on the value in use estimates and re-calculated the sensitivity.

We reviewed and validated disclosures regarding Goodwill and intangible assets in the Group's financial statements.

On the basis of the audit evidence obtained, we consider the valuation method and the assumptions used by the Group to be reasonable and appropriate for the impairment testing of goodwill.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements, which give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.



We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Luc Schulthess
Licensed audit expert
Auditor in charge



Nicolas Daehler
Licensed audit expert

Lausanne, 22 February 2023

BALANCE SHEETS AT DECEMBER 31, 2022 AND 2021

ASSETS

In CHF'000	Notes	31.12.2022	31.12.2021
Current assets			
Cash and cash equivalents		1 352	2 085
Accounts receivable from Group companies		14 461	65 193
Other current receivables and prepaid expenses	3.1	488	659
Total current assets		16 301	67 937
Fixed assets			
Loans to Group companies		168 093	308 617
Loan to third party		397	791
Investments	3.2	723 738	624 648
Total fixed assets		892 228	934 056
Total assets		908 529	1 001 993

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2022	31.12.2021
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank, short-term borrowings		39 820	8 000
- Bonds	3.3	-	184 600
Other short-term liabilities :			
- due to third parties		27	529
- due to Group companies		131 541	27 989
Accrued expenses		1 114	1 939
Short term provisions	3.4	11 249	8 179
Total short-term liabilities		183 751	231 236
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	145 925	147 690
Total long-term liabilities		145 925	147 690
Total liabilities		329 676	378 926
Shareholders' equity			
Share capital		446 474	442 936
Legal reserves:			
- from retained earnings		90 000	90 000
- from capital contribution		65 914	68 702
Retained earnings		18 642	10 425
Net (loss) / income		-42 179	11 004
Total shareholders' equity	3.5	578 852	623 067
Total liabilities and shareholders' equity		908 529	1 001 993

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2022

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

In CHF'000	Notes	2022	2021
Other non operating income		2	507
Financial income	4.1	5 381	20 084
Gain (loss) on sale of investments	4.2	-16 741	752
Administrative and other expenses		-3 008	-2 917
Financial expenses and exchange result	4.3	6 567	-6 485
Impairment of financial fixed assets	4.4	-33 724	-
Income/(loss) before tax		-41 523	11 941
Direct taxes (other than income tax)		-656	-937
Net income/(loss)		-42 179	11 004

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2022

In CHF'000	Legal reserves from capital contribution	Retained earnings
Balance brought forward from previous year	68 702	21 429
Dividend	-2 787	-2 787
Net result	-	-42 179
Total available earnings	65 914	-23 537

Proposal of the Board of Directors:

The Board of Directors propose to carry forward the legal reserves from capital contribution and the accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS 2022

1. INTRODUCTION

Kudelski SA, with registered office in Cheseaux, is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the Swiss accounting legislation of the Swiss Code of Obligations (SCO).

These financial statements were prepared under the historical cost convention and on an accrual basis.

Kudelski SA is presenting consolidated financial statements according to IFRS. As a result, these financial statements and notes do not include additional disclosures, cash flow statement and management report.

FINANCIAL ASSETS

Investments and loans are initially recognized at cost. They are assessed annually and in case of an impairment adjusted to their recoverable amount within their category.

Investments and loans are allocated to four buckets for impairment testing. The four buckets are the cash generating units, which are defined within the framework of the Group as the operating segments; Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access.

The recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations. The calculations use cash flow projections approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates in perpetuity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and short-term deposits. Cash at bank consists of all funds in current accounts available within 48 hours. Short-term deposits generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

EXCHANGE RATE DIFFERENCES

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement, while net gains are deferred.

NOTES TO THE FINANCIAL STATEMENTS 2022

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2022	31.12.2021
Prepaid expenses	476	334
Other accounts receivable	12	325
	488	659

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bonds (note 3.3). These amounts are allocated against income statement over the contractual periods of their underlying borrowings.

3.2 INVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital	Percentage held and voting rights	
				2022	2021
Nagravision Sàrl	CH – Cheseaux	Solutions for Digital TV	kCHF 20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR 3	100	100
Nagra France SAS	FR - Issy-Les-Moulin-eaux	Solutions for Digital TV	kEUR 10 472	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR 25	100	100
Kudelski Corporate Inc.	US – Phoenix	Holding	kUSD 0	100	100
SKIDATA GmbH	AT - Salzburg	Public access	kEUR 3 634	100	100
Nagra Plus SA in liquidation	CH – Cheseaux	Analog Pay-TV solutions	kCHF 0	L	100
		Conditional access modules and set-top-boxes			
SmarDTV SA	CH – Cheseaux	Finance	kCHF 1 000	M	100
Kud SA	LU – Luxembourg	Services	kCHF 100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD 100	100	100
Nagra Media UK Ltd	UK – London	Research & development	kGBP 1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR 10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF 50	100	100
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR 100	100	100
		Digital broadcasting solution provider			
Acetel Co Ltd	SK – Séoul	R & D, Sales and services	kKRW 1 460	17	17
Nagra Media Beijing Co. Ltd	CN - Beijing	Sales and support	kCNY 9 032	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW 200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL 1 000	100	100
Nagra Media (Taiwan) Co., Ltd	TW - Taipei	Sales and support	kNTD 500	100	100
Nagravision AS	NO - Oslo	Solutions for Digital TV	kNOK 1 111	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF 750	40	40
Kryptus Segurança da Informação Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL 475	10	10
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR 163	100	100
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD 50	100	100
NexGuard Labs B.V.	NL - Eindhoven	Watermarking Solutions	KEUR 25	S	100
NexGuard Labs France SAS	FR - Cesson Sevigne	Watermarking Solutions	KEUR 420	100	100
	FR - Issy-Les-Moulin-eaux	Cyber Security Solutions			
Kudelski Security France			kEUR 1	100	0

M: Merged companies

L: Liquidated companies

S: Sold to another Group company

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital	Percentage held and voting rights	
				2022	2021
Nagra USA, LLC	US – Phoenix	Services, sales and support	kUSD 10	100	100
OpenTV Inc.	US - Delaware	Middleware for set-top-boxes	kUSD 112 887	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	kUSD 2 043	50	50
Kudelski Security Inc.	US - Minneapolis	Cyber Security Solutions	kUSD 0	100	100
SKIDATA Benelux BV	NL – Barenbrecht	Public access	kEUR 91	100	100
SKIDATA (Schweiz) AG	CH - Adliswil	Public access	kCHF 150	100	100
SKIDATA Inc.	US – Van Nuys	Public access	kUSD 5 510	100	100
SKIDATA Australasia Pty Ltd	AU – Melbourne	Public access	kAUD 5 472	100	100

3.3 BONDS

In CHF'000	2022	2021
Initial balance	332 290	350 000
Repurchase	-13 890	-17 710
Repayment	-172 475	–
Liability component as of December 31	145 925	332 290
of which:		
- short-term portion (bond 2015/2022)	–	184 600
- long-term portion (bond 2016/2024)	145 925	147 690
	145 925	332 290

On May 12, 2015 the company issued a CHF 200 million bond with a subscription price of 100%, bearing an interest rate of 1.875% and maturing on August 12, 2022 with denominations of CHF 5 000 and multiples thereof. The Company repurchased kCHF 12 125 in nominal value of this bond in 2022 (2021: kCHF 15 400). On August 12, 2022, the Company reimbursed the outstanding balance nominal value of kCHF 172 475.

On September 27, 2016 the company also issued a CHF 150 million bond with a subscription price of 100%, bearing an interest rate of 1.5% and maturing on September 27, 2024 with denominations of CHF 5 000 and multiples thereof. The Company repurchased kCHF 1 765 in nominal value of this bond in 2022 (2021: kCHF 2 310).

Each bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs is considered as a prepaid expense and allocated against the income statement over the period of the bond.

3.4 SHORT TERM PROVISIONS

The short-term provisions consists in an unrealized exchange gains in foreign currencies for kCHF 11 249 (2021: kCHF 8 179).

NOTES TO THE FINANCIAL STATEMENTS 2022

3.5 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	Legal reserves from retained earnings	Legal reserves from capital contribution	Retained earnings	Total Shareholders' equity
As of December 31, 2020	440 021	110 000	71 467	-6 809	614 679
Partial dissolution of the legal reserves from retained earnings		-20 000		20 000	-
Dividend	-	-	-2 765	-2 766	-5 531
Share capital increase	2 915	-	-	-	2 915
Net Income	-	-	-	11 004	11 004
As of December 31, 2021	442 936	90 000	68 702	21 429	623 067
Dividend	-	-	-2 787	-2 787	-5 574
Share capital increase	3 538	-	-	-	3 538
Net Income	-	-	-	-42 179	-42 179
As of December 31, 2022	446 474	90 000	65 914	-23 537	578 852

SHARE CAPITAL

In CHF'000	31.12.2022	31.12.2021
51'179'295 / 50'736'972 bearer shares, at CHF 8 each	409 434	405 896
46'300'000 registered shares, at CHF 0.80 each	37 040	37 040
	446 474	442 936

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2022	2021
Conditional share capital as of January 1	84 614	83 529
Increase of conditional share capital	4 000	4 000
Employee share purchase plan	-527	-382
Shares allotted to employees	-3 012	-2 533
Conditional share capital at December 31	85 076	84 614
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each	80 000	80 000
- Options or share subscriptions to employees:		
634'461 / 576'784 bearer shares, at CHF 8 each	5 076	4 614
	85 076	84 614

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2022	31.12.2021
3'768'164 bearer shares, at CHF 8 each	30 145	30 145
3'200'000 registered shares, at CHF 0.80 each	2 560	2 560
Authorized share capital as of December 31	32 705	32 705

The Board of Directors is authorized to increase the share capital in one or more stages until April 21, 2024, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Kudelski family pool	59%	59%	28%	28%
Kudelski family interests outside Kudelski family pool	4%	4%	7%	7%

The Kudelski family pool includes André Kudelski, Marguerite Kudelski, Isabelle Kudelski Haldy, Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of André Kudelski.

4. NOTES TO THE INCOME STATEMENTS**4.1 FINANCIAL INCOME**

In CHF'000	2022	2021
Dividends received from Group subsidiaries	4 101	15 421
Interest on loans to Group subsidiaries	1 169	4 029
Gain on bonds repurchase	111	634
	5 381	20 084

4.2 GAIN (LOSS) ON SALE OF INVESTMENTS

2022 loss on sale of investments relates to the sale of NexGuard Labs BV, Netherland to another Group company.

4.3 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2022	2021
Net currency exchange result	12 157	52
Interest on loans from Group subsidiaries	-612	-362
Interest expenses and bank charges	-4 979	-6 175
	6 567	-6 485

4.4 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2022	2021
Value adjustment on investments	33 724	-
	33 724	-

In 2022, an impairment on investments of kCHF 32 500 has been recognized in our Digital TV bucket based on value-in-use calculation and kCHF 1 224 relates to the final liquidation of a direct investment.

NOTES TO THE FINANCIAL STATEMENTS 2022

5. COMMITMENTS AND CONTINGENCIES

In CHF'000

31.12.2022 31.12.2021

Guarantee commitments

Commitment in favor of third parties and Group companies

	31.12.2022	31.12.2021
Commitment in favor of third parties and Group companies	3 450	3 419
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

Other commitments

Penalty risk for non-completion of contracts

p.m. p.m.

Subordinated loans in favor of Group companies

p.m. p.m.

Support letters and guarantees signed in favor of Group companies

p.m. p.m.

Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)

p.m. p.m.

6. FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for 2022 and 2021 did not exceed ten people.

7. BOARD AND EXECUTIVE INTEREST DISCLOSURES

The disclosures required by article 663c of Swiss Code of Obligations on Board and Executive interest are shown in the Kudelski Group consolidated financial statements.

Kudelski SA
Cheseaux-sur-Lausanne

Report of the statutory auditor
to the General Meeting
on the financial statements 2022



Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kudelski SA (the Company), which comprise the balance sheet as at 31 December 2022, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 61 to 68) comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 9'000'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

As key audit matter the following area of focus has been identified:

Valuation of investments in subsidiaries and loans to Group companies

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or

PricewaterhouseCoopers SA, avenue C.-F. Ramuz 45, case postale, 1001 Lausanne, Switzerland
Téléphone: +41 58 792 81 00, www.pwc.ch

PricewaterhouseCoopers SA is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 9'000'000
Benchmark applied	Total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. Total assets is a generally accepted benchmark for determining the materiality according to auditing standards.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries and loans to Group companies

Key audit matter	How our audit addressed the key audit matter
Kudelski SA's investments and loans to Group companies are valued at CHF 724 million and CHF 168 million respectively. The company has allocated the investments in subsidiaries and loans to Group companies to 4 Cash Generating Units (CGU's):	We obtained an understanding of management's process and controls over the valuation of investments and loans to Group companies.
Digital TV (DTV): CHF 534 million	We obtained the Group's impairment analysis for all 4 CGUs and performed the following procedures:
Public Access (PA): CHF 192 million	- Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable.
Cybersecurity (CS): CHF 70 million	
Internet of Things (IoT): CHF 96 million	- Assessed the quality of the cash flow projections by comparing the actual results to prior year budget to identify in retrospect whether any of the assumptions might have been too optimistic.
We focused on these areas in view of the significance of the amounts involved, the business segments' operating performance during 2022 and the judgement used by management about future results.	- Reconciled the 5 year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections.
The recoverable amount of the investments and loans is determined by management based on value-in-use	



calculations, which depend on cash flow projects and judgement of growth rates.

Refer to note 2 – Accounting policies: Financial Assets and note 4.4 – Impairment of financial fixed assets

- We reviewed with management to substantiate its key assumptions in the cash flow projections during the forecast period and its intention and ability to execute their strategic initiatives.

- We tested, with the support of our valuation specialists, the reasonableness of the cash flows growth rate after the forecast period.

- Together with our specialists, we evaluated the reasonableness of the discount rate applied to those future cash flows.

On the basis of the evidence obtained from our audit, we consider the valuation method and the assumptions used by the Group to be reasonable and appropriate for the valuation of Kudelski SA's investments and loans to Group companies.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed carry forward of accumulated losses complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Luc Schulthess
Licensed audit expert
Auditor in charge



Nicolas Daehler
Licensed audit expert

Lausanne, 22 February 2023



KUDELSKI SA

22-24, Route de Genève · P.O. Box 134 · 1033 Cheseaux · Switzerland

T +41 21 732 01 01 · F +41 21 732 01 00 · info@nagra.com · www.nagra.com