KUDELSKI GROUP
INTERIM REPORT 2023

NAGRA
KUDELSKI GROUP

LETTER TO SHAREHOLDERS

First Half 2023
For the first half 2023, net revenues increased by 2.1%. Total revenues and other operating income reached USD 339.9 million, with an operating loss before depreciation and amortization of USD 3.5 million and a net loss of USD 28.5 million.

Three of our four business segments grew at double digit rates, as compared to the first half 2022. This reflects the continued momentum of our Cybersecurity and IoT businesses, together with a notable post-pandemic rebound of Public Access. On the other hand, in a challenging media and entertainment environment, revenues from our Digital TV business were 17.9% lower than the first half 2022.

While the Cybersecurity and IoT businesses are still in an investment mode and not yet profitable, they are expected to progressively improve their profitability and are on the path to becoming positive contributors to the Group's profitability. The aggregate revenues of these three segments should reach more than 60% of the Group's total revenues by year end and are expected to continue to grow going forward.

Although the Group's Digital Television business faces decreased revenues, mainly due to a shift from a hardware-based model heavily reliant on sales of smart cards to a software and service-oriented model, the segment remains profitable and continues to develop innovative solutions that address the emerging video streaming and digital security markets. With the continued acceleration in the adoption of streaming services and connected lifestyle solutions, as well as the growing threat of content piracy, Nagravision's solutions continue to generate interest from operators and content providers looking to accelerate their digital transformation.

Delivering yet another double-digit growth, Kudelski Security is strengthening its momentum, committed to drive scalability and profitable growth, with an updated strategy focused on total client experience and integrated solutions including Advisory and Managed Detection and Response (MDR) services. Throughout the first half of the year, Kudelski Security also sustained its growth trajectory within pivotal sectors such as critical infrastructure, manufacturing, and pharmaceutical.

Kudelski IoT continues to be a highly promising activity for the Group. The strong momentum of the RecovR asset tracking product continues, supported by its rapid deployment in North America and the vigorous growth of its sales. Our IoT division has also been selected by industry leading semiconductor providers to conduct hardware security integrations, with the business outlook for these partnerships improving rapidly due to regulatory and standards-based requirements for robust IoT security.

Following the pandemic-related challenges, Public Access is returning to solid growth. SKIDATA's dedicated emphasis on the digital sector is yielding positive outcomes. The success of SKIDATA Connect, the digital platform for visitor management, along with the Group's intelligent mobility solutions and the thriving digital subscription segment are propelling the Public Access segment's growth.

Outlook
The positive dynamic seen for Kudelski Security, Kudelski IoT and Public Access should continue during the second half, and a stronger performance of DigitalTV is expected compared to the first half of the year.

As Kudelski Security and Kudelski IoT continue to grow progressively towards critical mass, one of our key priorities is to increase margins by improving scalability and per unit costs.

We would like to take this opportunity to thank our clients, partners, employees and shareholders for their continued trust in this particularly challenging environment, where important efforts are required to deliver sustainable results for the future.

ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

FIRST HALF 2023 RESULTS

GROUP RESULTS

In the first half 2023, three of the Group's four business segments were able to grow their revenues at double-digit rates. Cybersecurity maintained the strong momentum of the previous year, growing at 15.0%, and continued to improve its revenue mix, with an increasing share of revenues generated by higher value-added products and services. Meanwhile, the IoT segment almost doubled its revenues, driven by the robust adoption of RecovR, its asset tracking product. Public Access posted a solid first half result, continuing its post-COVID-19 recovery, with a 14.5% growth of net revenues. On the other hand, the Digital TV business saw lower-than-expected sales, mainly in European markets. Revenues for Digital TV declined by 17.9% compared to the prior first half.

In the first half 2023, the Group's net revenues increased from USD 328.4 million to USD 335.3 million, representing a 2.1% growth. Other operating income decreased by USD 0.4 million to USD 4.6 million. Approximately half of the total other operating income is accounted for by research and development tax credits and other grants.

Margin after cost of material decreased from USD 245.0 million to USD 244.1 million. Relative to total revenues, margin after cost of material decreased from 73.5% to 71.8%, mainly reflecting a shift of the revenue mix from higher margin Digital TV to the other three segments.

Compared to the first half 2022, the Group's personnel expenses increased by USD 1.1 million. Over the first half of 2023, headcount decreased by 76 Full Time Equivalents (FTEs) to 3'157 at the end of June. The Group increased Cybersecurity and IoT headcount in this first half, in line with growing demand in these segments. On the other hand, it reduced Digital TV headcount by 50 FTEs and Public Access by 71 FTEs.

Other operating expenses increased by USD 2.0 million. This notably includes a provision of USD 1.8 million for bad debt in the Digital TV segment. During the first half, travel costs saw a reduction of USD 0.3 million, whereas expenses for sales and marketing increased by USD 0.4 million.

In this first half, the Group generated USD 3.5 million of operating loss before depreciation and amortization, compared to operating income of USD 0.5 million in the previous first half. At USD 15.1 million, depreciation, amortization and impairment was USD 1.8 million lower than in the first half 2022, as the Group has systematically reduced capital expenditures over recent reporting periods. Overall, the Group generated an operating loss of USD 18.6 million in the first half 2023.

At USD 5.0 million, interest expense was USD 0.4 million lower than in the prior first half. The Group posted USD 1.4 million of net finance expenses, primarily due to net foreign exchange losses. Income tax expenses for the period were at USD 2.8 million, resulting in a net loss of USD 28.5 million for the period, compared to a net loss of USD 18.6 million in the prior first half.

DIGITAL TV

Digital TV revenues decreased by 17.9% to USD 118.6 million. Over the past years, the Digital TV business has shifted from a hardware-based model, heavily reliant on sales of smart cards, to a more resilient software and service-oriented model. The shift to a software and service-oriented model is reflected in the sales figures for the Digital TV business, with smart card sales declining from USD 8.0 million in the first half 2022 to USD 4.4 million in this first half. Over the last few years, smart card sales declined materially; as a comparison, smart card sales generated USD 61.4 million in 2019. Hardware sales in the first half 2023 followed a similar pattern, generating USD 7.9 million revenues. This is less than half the amount generated from hardware sales in the prior first half, and in 2019, hardware sales generated USD 39.6 million. Revenue from professional services decreased by USD 7.7 million in the first half 2023 due to the completion of some major projects. Conversely, software, maintenance, and royalties showed greater resilience, experiencing a limited 7% decline compared to the previous first half. These changes demonstrate the transition of the Digital TV business from a hardware and smart-card focus to a software and maintenance-oriented model.

The Group's European Digital TV business posted 19.5% lower revenues compared to the first half 2022. Revenues from Vodafone have decreased, as the previous first half included substantial revenues from system integration services, which supported the integration of newly acquired networks. In addition, there was also a notable reduction in CAM (Conditional Access Module) sales both at Liberty Global and TiVu, mirroring the downward trajectory of hardware sales.

Digital TV revenues in the Americas decreased by 8.7%. The South American market had mixed results, with some clients such as Telefonica generating increased revenues in spite of the prevalent downward trend in the region. In North America, DISH continued to lose subscribers, leading to a decrease in revenues.

Sales in the Asia Pacific and Africa region experienced a decline of 28.4%. This decrease is attributed to the absence of significant hardware sales during this first half. Conversely, in the previous first half, Digital TV generated revenues from hardware sale deals with TBC, DMG, and Starhub.

Digital TV's margin after cost of material improved from 88.5% to 94.1%, reflecting a more favorable revenue mix, due to lower hardware sales, including of conditional access modules and set-top boxes. In this first half, this segment's operating expenses were USD 4.8 million lower than in the prior first half. This reduction primarily resulted from a decrease in headcount due to continuing operational efficiency improvements. Digital TV's operating income before depreciation and amortization declined by USD 11.5 million to USD 14.7 million. As depreciation and amortization was USD 1.8 million lower, the segment's operating income decreased by USD 9.7 million to USD 8.8 million.

CYBERSECURITY

In the first half 2023, the Group's cybersecurity business posted USD 96.4 million of gross revenues, a 21.2% increase from the first half 2022. Net revenues were at USD 58.6 million, representing a 15.0% growth. The business benefitted from growth across both of its main regions. In Europe, net revenues grew by 30.1% to reach USD 24.4 million, while the Americas grew by 7.8% to USD 33.9 million. In addition, the Group generated USD 0.2 million of cybersecurity revenue in the Asia Pacific and Africa region.

Margin after cost of material increased to USD 38.9 million, representing 18.7% growth from the prior first half. In relative terms, margin after cost of material increased from 64.3% to 66.4%, as the business mix continues to shift from lower margin technology reselling to higher margin advisory and managed detection and response services.

Throughout the first half of the year, Kudelski Security sustained its growth trajectory within pivotal sectors such as critical infrastructure, manufacturing, and pharmaceutical. Additionally, a significant milestone was achieved through the establishment of a strategic partnership with Hunters.ai. This collaboration aims to enhance the company's Managed Detection and Response (MDR) services by incorporating additional capabilities for client data analysis, improving scalability, and freeing up valuable resources for higher value-added analytical tasks.

Booking growth remains robust, maintaining double-digit rates. The upswing in bookings is primarily propelled by high-value business lines, particularly MDR services, which contributed a substantial increase of 32%. Furthermore, during this first half, advisory services experienced solid booking growth of over 20%. Conversely, the reduced demand in the blockchain market led to decreased demand for blockchain-related services. Consequently, the Group made structural adjustments to align with this change. As the Group's cybersecurity business enters the second half, backlog stands strong, which is expected to support the continued solid growth of this business.

In this first half, segment headcount increased to support the further expansion of the business. With the rising demand for the Group's MDR services, the Group continues to expand its new cyber fusion center in Spain, staffed with an experienced team of threat detection specialists and cyber response consultants, which complements our other centers in Switzerland and the US.

As a result of improved management of operating expenses in the first half 2023, the cybersecurity segment reduced its operating loss before depreciation and amortization by USD 3.0 million to USD 6.7 million.

INTERNET OF THINGS (IoT)

In the first half 2023, the IoT segment almost doubled its sales, generating USD 14.1 million of revenues, compared to USD 7.2 million in the first half 2022. The driver of this growth was RecovR, a comprehensive asset tracking solution that combines lot management for car dealers and theft recovery for their customers. In the current first half, RecovR sales are over three times the sales of the previous first half and represent roughly 80% of the total revenues for IoT. During this period, IoT successfully entered into contracts covering 110 new rooftops and secured deals with progressively larger automotive dealerships and industry leaders in the automotive financial services market. This has led to a robust backlog for the second half of the year. With a strong emphasis on the thriving asset tracking market, IoT focused less on the Lab and Design business and the keySTREAM platform, resulting in slightly decreased revenues from these businesses in comparison to the first half of 2022.

IoT's margin after cost of material went from 80.6% in the first half 2022 to 59.6% in this first half, which is attributed to the shift in revenue distribution towards RecovR. The segment's margin after cost of material saw an increase of 44.5%, reaching USD 8.4 million. The impressive traction gained by the asset tracking business prompted a decision to increase investments in this segment. This includes the development of RecovR for Keys, a new product tailored for car dealerships that is scheduled for launch in the third quarter of this year. This strategic move led to a corresponding increase of USD 2.2 million in the IoT operating expenditure base. In the aggregate, the segment's EBITDA loss decreased marginally by USD 0.5 million in the first half 2023, settling at USD 9.0 million.

PUBLIC ACCESS

Public Access achieved robust performance in the first half 2023, notably highlighted by a 14.5% increase in net revenue. SKIDATA's dedicated emphasis on the digital sector is yielding positive outcomes. Examples include the success of SKIDATA Connect, the digital platform for visitor management, along with the Group's intelligent mobility solutions and the thriving digital subscription segment, all of which are propelling growth.

The expansion of the service-oriented Facility Operations business continues to be a significant catalyst for Public Access' growth. Moreover, this first half witnessed a considerable recovery in the Project Business, with double-digit growth rates in comparison to the preceding first half.

European sales maintained a strong momentum in the first half 2023, increasing by 12.7% to USD 89.9 million. France and Italy were the best performing European markets, with solid first half growth rates. France exhibited a robust performance in the first half, expanding by USD 3.2 million, driven by contributions from both the project and service businesses. Likewise, Italy experienced a USD 3.0 million growth, also attributed to strong demand for projects and services.

The Americas rebounded with a notable growth of 21.3% to reach USD 33.6 million. In the US, revenue from new projects more than doubled during this first half, serving as a pivotal driver of the robust revenue momentum experienced in this period.

The Asia/Pacific and African operations experienced growth of 12.0%, reaching USD 20.5 million. Alongside the resilient Australian market, smaller markets like the United Arab Emirates and the West Asian subregion made substantial contributions to the growth witnessed in the first half. SKIDATA's decision to withdraw from the Chinese market earlier this year had a negligible impact on the segment's profit and loss, as the Chinese entity generated minimal revenues and incurred a minor loss.

Ongoing disruptions within supply chains led to escalated costs of goods. Despite these higher expenditures, SKIDATA was able to pass through only a portion of the increase to customers. Consequently, margin after cost of material in this first half temporarily declined from 62.4% to 59.1%. This effect is expected to diminish over time, and margins are projected to rebound to levels seen in previous periods, coinciding with the implementation of supply chain optimization measures.

In the first half 2023, Public Access marginally increased operating expenses by USD 3.1 million compared to the preceding first half. Notably, SKIDATA headcount decreased by 71 FTEs during this period. SKIDATA's exit from the Chinese market resulted in a reduction of 42 FTEs compared to the end of December. Additionally, European headcount decreased by 23 FTEs, primarily in Austria, from December 2022, thus establishing a favorable cost structure for the second half of the year.

Overall, Public Access generated an operating income before depreciation and amortization of USD 4.1 million, compared to USD 0.5 million in last year's period.

BALANCE SHEET AND CASH FLOWS

In June 2023, the Group established a trade receivables securitization program for up to USD 50 million, in which selected subsidiaries of the Group based in Switzerland and the US are participating. The Group receives cash consideration from the sale of receivables to a special purpose entity. At the end of June, the Group had drawn USD 8.8 million net cash from this program. The total value of receivables sold under this program during this first half reached USD 67.8 million, of which USD 18.9 million have already been settled. The remaining balance of unsettled sold receivables was USD 39.9 million as of the end of June. Net of USD 0.3 million of interest income, purchase discount and currency translation adjustments, this balance is accounted for as a financial asset at fair value. This results in the USD 40.2 million increase of the "Financial Asset at Fair Value Through Profit and Loss" figure in the balance sheet.

Total non-current assets increased by USD 40.4 million to USD 593.0 million from December 31, 2022, mainly driven by the aforementioned increase in financial assets. The Group also continued to reduce its overall level of investments in tangible and intangible assets compared to previous years. Tangible fixed assets decreased by USD 1.0 million and intangible assets decreased by USD 13.6 million.

Compared to December 31, 2022, total current assets decreased by USD 38.9 million to USD 373.5 million. An increase of USD 6.0 million in total inventory mainly reflects the buildup of safety stock at SKIDATA to mitigate supply risks due to the volatility of semiconductor supply chains, as SKIDATA added USD 4.5 million of inventory, reaching a total of USD 54.2 million at the end of the period.

Trade receivables exhibited a decrease of USD 51.1 million, primarily due to the aforementioned receivables securitization program. Furthermore, SKIDATA's receivables have decreased by USD 19.6 million compared to the end of the prior year due to continued improvements in SKIDATA's collection processes.

At the end of the period, cash and cash equivalents amounted to USD 59.4 million, representing a USD 2.8 million decrease from December 31, 2022.

Total equity decreased by USD 35.8 million, mainly reflecting the USD 28.5 million net loss for the period and a USD 13.3 million negative currency translation adjustment. Total non-current liabilities increased by USD 12.1 million to USD 285.4 million, with long-term financial debt increasing by USD 3.3 million to USD 185.5 million, driven by currency translation effects. Total current liabilities increased by USD 25.2 million to USD 355.3 million, with short-term financial debt decreasing by USD 2.5 million to USD 74.4 million. This reduction can be attributed to both debt repayments and currency translation effects.

During the first half 2023, the Group improved cash generation, moving from a negative free cash flow in the preceding first half to a positive cash flow. Cash generated from operating activities reached USD 14.5 million, primarily due to a reduction in working capital. Throughout this period, the Group continued its rigorous approach to managing capital expenditures. Cash flows for investing activities for the first half amounted to USD 3.3 million. Net cash-out for financing activities amounted to USD 14.1 million. This outflow includes a USD 5.6 million debt repayment and a USD 7.8 million in lease obligation payments.

OUTLOOK

Following the trend of preceding years, the Group anticipates that second half Digital TV revenues in 2023 will be higher compared to the first half, but slightly lower than revenues in the second half of 2022. Operating expenses for the second half are expected to align with those of the first half, thereby leading to a higher EBITDA for the second half when compared to the first half of the year. Overall, the Group expects a decrease in Digital TV EBITDA for the full year in comparison to 2022.

The Group expects double-digit percentage growth in revenues and profit after cost of material for the Cybersecurity segment. Conversely, operating expenses are forecasted to grow only slightly compared to the first half, resulting in a significant year-over-year reduction in the EBITDA loss.

Driven by the strong momentum of RecovR sales, the Group anticipates surpassing the previous objective of doubling IoT revenues for the full year 2023 in comparison to 2022. This is expected to result in a significant improvement in the segment's EBITDA in the second half of 2023. The reduction of the EBITDA loss is projected to be achieved despite a less favorable segment margin after cost of materials, owing to the higher revenue share of products including hardware components, and the increased operating expenses required to sustain the highly promising momentum of this segment.

Consistent with previous years, Public Access revenues are expected to exhibit strong seasonality, with second-half revenues notably surpassing those of the first half. With a year-over-year growth rate for the second half of 2023 in the 10% range, Public Access sales are expected to maintain solid momentum for the full year. Margin after cost of material for the second half 2023 is projected to exhibit a slight recovery in comparison to the first half, while operating expenses are expected to experience marginal growth. Consequently, the Group foresees a significant improvement in segment EBITDA for the full year 2023 as compared to 2022.

KEY FIGURES FIRST HALF 2023 (UNAUDITED)

In USD'000	January/ June 2023	January/ June 2022
Revenues and other operating income	**339 875**	**333 418**
Margin after cost of material	244 063	244 960
Margin after cost of material in % of revenues and other operating income	71.81%	73.47%
Operating income before depreciation, amortization and impairment (EBITDA)	**-3 493**	**470**
Operating income before depreciation, amortization and impairment (EBITDA) in % of revenues and other operating income	-1.03%	0.14%
Net income for the period	**-28 473**	**-18 559**
Earnings per bearer share for the period		
– basic	-0.5552	-0.3772
– diluted	-0.5552	-0.3772

In USD'000	30.06.2023	31.12.2022
Equity	325 808	361 573
Cash and cash equivalents	59 404	62 167
Market capitalization	96 594	131 130
Share price (in CHF)	1.70	2.37

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)

In USD'000	January/ June 2023	January/ June 2022
Revenues	335 281	328 383
Other operating income	4 595	5 035
Total revenues and other operating income	**339 875**	**333 418**
Cost of material, licenses and services	-95 812	-88 458
Employee benefits expense	-193 451	-192 420
Other operating expenses	-54 105	-52 071
Operating income before depreciation, amortization and impairment	**-3 493**	**470**
Depreciation, amortization and impairment	-15 125	-16 882
Operating income	**-18 618**	**-16 412**
Interest expense	-4 953	-5 355
Other finance income/(expense), net	-1 428	5 908
Share of results of associates	-716	178
Income before tax	**-25 715**	**-15 681**
Income tax expense	-2 758	-2 878
Net income for the period	**-28 473**	**-18 559**
Attributable to:		
- Equity holders of the company	-31 064	*-21 032*
- Non-controlling interests	2 590	*2 473*

Earnings per share (in USD)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.5552	-0.3772
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0555	-0.0377

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)

In USD'000	January/ June 2023	January/ June 2022
Net income	**-28 473**	**-18 559**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-13 053	-20 144
Cash flow hedges, net of income tax	84	-327
	-12 970	**-20 471**
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	7 085	13 239
Total other comprehensive income, net of income tax	**-5 885**	**-7 232**
Total comprehensive income for the period	**-34 358**	**-25 791**
Attributable to:		
- Equity holders of the company	-37 226	-28 093
- Non-controlling interests	2 868	2 303
	-34 358	**-25 791**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2023 AND DECEMBER 31, 2022 (UNAUDITED)

In USD'000	30.06.2023	31.12.2022
ASSETS		
Non-current assets		
Tangible fixed assets	66 968	68 026
Intangible assets	345 406	359 028
Right-of-use assets	49 094	50 437
Investments in associates	9 677	10 667
Deferred income tax assets	40 513	39 593
Financial assets at amortized cost	21 174	22 742
Financial assets at fair value through profit and loss	41 381	1 137
Employee benefit assets	17 807	–
Other non-current assets	1 010	976
Total non-current assets	**593 031**	**552 607**
Current assets		
Inventories	76 986	70 980
Trade accounts receivable	101 800	152 909
Contract assets	43 132	27 582
Other financial assets at amortized cost	36 278	43 380
Other current assets	55 610	55 196
Derivative financial instruments	250	143
Cash and cash equivalents	59 404	62 167
Total current assets	**373 462**	**412 357**
Total assets	**966 493**	**964 964**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	345 545	344 190
Reserves	-48 172	-9 871
Equity attributable to equity holders of the parent	**297 373**	**334 319**
Non-controlling interests	28 436	27 254
Total equity	**325 808**	**361 573**
Non-current liabilities		
Long-term financial debt	185 453	182 172
Long-term lease obligations	73 645	75 035
Deferred income tax liabilities	2 111	1 120
Employee benefit liabilities	14 073	4 662
Other long-term liabilities	10 141	10 364
Total non-current liabilities	**285 423**	**273 352**
Current liabilities		
Short-term financial debt	74 417	76 883
Short-term lease obligations	13 873	13 777
Trade accounts payable	72 071	67 972
Contract liabilities	96 421	71 520
Other current liabilities	94 183	94 685
Current income taxes	1 717	2 512
Derivative financial instruments	45	88
Provisions for other liabilities and charges	2 535	2 600
Total current liabilities	**355 261**	**330 039**
Total liabilities	**640 684**	**603 391**
Total equity and liabilities	**966 493**	**964 964**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)

In USD'000	January/ June 2023	January/ June 2022
Net income for the period	**-28 473**	**-18 559**
Adjustments for net income non-cash items:		
- Current and deferred income tax	1 004	2 878
- Interests, allocation of transaction costs (bonds) and foreign exchange differences	7 310	-3 114
- Depreciation, amortization and impairment	15 125	16 882
- Change in fair value of financial assets at fair value through profit or loss	-64	2 263
- Share of result of associates	716	-178
- Non-cash employee benefits expense	190	2 090
- Additional provisions net of unused amounts reversed	-73	-34
- Non-cash government grant income	-1 953	-3 033
- Other non-cash (income) / expense	-4 555	-139
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non-operating cash items	-51	-89
Adjustments for change in working capital:		
- Change in inventories	-2 825	-15 825
- Change in trade accounts receivable and contract assets	-1 536	5 660
- Change in trade accounts payable and contract liabilities	12 012	-16 627
- Change in current income taxes liabilities	220	-2 058
- Change in accrued expenses	-2 383	-5 809
- Change in other net current working capital headings	18 800	-4 999
Government grant from previous periods received	5 025	3 589
Dividends received from associated companies	483	138
Interest paid	-4 953	-1 933
Interest received	719	520
Income tax paid	-228	-351
Cash flow from/(used in) operating activities	**14 512**	**-38 727**
Purchases of intangible fixed assets	-997	-2 925
Purchases of tangible fixed assets	-2 080	-1 958
Proceeds from sales of tangible and intangible fixed assets	83	3 196
Investment in financial assets at fair value through profit and loss and other non-current assets	-397	–
Divestments of financial fixed assets and loans reimbursement	59	507
Disposal of subsidiaries and activities, cash inflow	7	–
Cash flow from/(used in) investing activities	**-3 325**	**-1 181**
Reimbursement of bank overdrafts, long-term loans and other non-current liabilities	-5 573	-28 039
Increase in bank overdrafts, long-term loans and other non-current liabilities	–	4 438
Payments of lease obligations	-7 780	-8 009
Proceeds from employee share purchase program	21	62
Dividends paid to non-controlling interests	-774	-10 739
Dividends and partial share capital repayment to shareholders	0	-5 999
Cash flow from/(used in) financing activities	**-14 106**	**-48 286**
Effect of foreign exchange rate changes on cash and cash equivalents	156	-12 326
Net increase/(decrease) in cash and cash equivalents	**-2 763**	**-100 520**
Cash and cash equivalents at the beginning of the period	62 167	284 489
Cash and cash equivalents at the end of the period	59 404	183 969
Net increase/(decrease) in cash and cash equivalents	**-2 763**	**-100 520**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)

In USD'000	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non controlling interests	Total equity
January 1, 2022	**340 484**	**64 565**	**-32 708**	**-2 532**	**-8 180**	**35 033**	**396 662**
Net result for the period	–	–	-21 032	–	–	2 473	-18 559
Other comprehensive income for the period	–	–	13 239	-327	-19 974	-170	-7 232
Total comprehensive income for the period	**–**	**–**	**-7 793**	**-327**	**-19 974**	**2 303**	**-25 791**
Employee share purchase program	256	-167	–	–	–	–	89
Shares issued for employees	3 188	-2 216	–	–	–	–	972
Dividend paid to shareholders	–	-2 999	-2 999	–	–	–	-5 999
Dividend paid to non-controlling interests	–	–	–	–	–	-10 739	-10 739
June 30, 2022	**343 927**	**59 183**	**-43 500**	**-2 859**	**-28 154**	**26 597**	**355 194**
January 1, 2023	**344 190**	**58 989**	**-38 273**	**-2 598**	**-27 990**	**27 254**	**361 573**
Net result for the period	–	–	-31 064	–	–	2 590	-28 473
Other comprehensive income for the period	–	–	7 085	84	-13 331	278	-5 885
Total comprehensive income for the period	**–**	**–**	**-23 979**	**84**	**-13 331**	**2 868**	**-34 358**
Employee share purchase program	135	-106	–	–	–	–	29
Shares issued for employees	1 219	-969	–	–	–	–	251
Dividend paid to non-controlling interests	–	–	–	–	–	-774	-774
Transactions with non-controlling interests	–	–	–	–	–	-912	-912
June 30, 2023	**345 545**	**57 915**	**-62 251**	**-2 514**	**-41 321**	**28 436**	**325 808**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

1. GENERAL INFORMATION

Kudelski SA is listed on the Swiss stock exchange and incorporated and domiciled in Switzerland. Kudelski SA and its subsidiaries (together the "Group") are active in the Digital TV, Cybersecurity, Internet of Things (IoT) and Public Access businesses. The principal activities of the Group are described in the 2022 annual report.

2. BASIS OF PREPARATION

These interim condensed financial statements for the six months ended June 30, 2023 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2022.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. SEASONALITY

In the Digital TV business, Christmas sales usually lead to higher volumes, and therefore higher revenues, in the last quarter of the year. This operating segment may also be subject to abnormal seasonality due to bulk orders of smart cards from large customers, products and services delivered to newly acquired customers and the completion of large patent licensing contracts.

The Public Access segment (SKIDATA) has strong seasonal revenue variations, in both the parking and ski access business since it earns a significant portion of its revenues in the fourth quarter.

Cybersecurity services, including managed security, advisory services, and research and development, are not seasonally sensitive, however, technology consulting and resale services could be impacted by fiscal year ends and budget constraints of public, private and governmental organizations leading to higher revenues in the second half of the year.

The Group's IoT segment is currently in an early development phase. Revenues can be volatile until a stable customer base is established. Revenue recognition effects from large projects can also lead to material revenue variations between the first and second half-year in both the Cybersecurity and the IoT segments.

5. SHARE-BASED PAYMENTS

As of June 30, 2023, 15 420 bearer shares have been underwritten by employees in accordance with the articles of the Employee Share Plan. The attributable expense in the income statement is kUSD 9. The Group issued 138 987 bearer shares as part of 2022 management bonus payment which expense was fully accrued for at December 31, 2022.

6. TRADE RECEIVABLES SECURITIZATION

In June 2023, the Group entered into an accounts receivable securitization program whereby trade receivables held by selected Group subsidiaries in Switzerland and the United States are sold to Kudelski Global Financing DAC, a special purpose entity domiciled and incorporated in Ireland (the "SPE"). Eligible receivables are sold to the SPE on an on-going basis at an agreed upon purchase price. Part of the consideration is received upfront in cash and part is deferred in the form of senior subordinated and junior subordinated notes issued by the SPE. Up to kUSD 50 000 of upfront cash consideration can be provided by the SPE under the program, financed by Norddeutsche Landesbank Gironzentrale ("NordLB"), as senior lender and Finacity Asset Management LLC., as intermediate subordinated lender and control party. The program has a three-year term until June 2026.

During the period ended June 30, 2023, the Group sold kUSD 67 788 of trade receivables to the SPE. The loss on transfer of receivables, or purchase discount, which equates to the difference between the carrying amount of the receivable and the pur-

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

chase consideration, was kUSD 834 and has been recognized within 'Other finance income/(expense), net' in the Consolidated Income Statements.

As a lender to the SPE, the Group earns interest on its senior subordinated and junior subordinated loan receivables. During the period ended June 30, 2023, the Group earned interest of kUSD 109 in respect of these loan receivables, recognized within 'Other finance income/(expense), net' in the Consolidated Income Statements.

The Group is engaged as master servicer to the SPE whereby the Group is responsible for the cash collection, reporting and cash application of the sold receivables. As master servicer, the Group earns a servicing fee equal to 0.5%of serviced receivables per annum. This results in the Group being exposed to variable returns. The servicing fee is paid out monthly by the SPE and is settled last in the priority of payments after the settlement of all other amounts due. During the period ended June 30, 2023, the Group earned servicing fees of kUSD 16 recognized within 'Other finance income/(expense), net' in the Consolidated Income Statements.

JUDGEMENTS RELATING TO CONSOLIDATION OF THE SPE

The Group does not own shares in the SPE or have the ability to appoint its directors. In determining whether to consolidate the SPE, the Group has evaluated whether it has control over the SPE, in particular, whether it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Receivables are sold to the SPE under the true sale opinion with legal interest transferred from the Group to the SPE. While the sale of receivables to the SPE is without recourse, the Group continues to be exposed to variability of risks and rewards associated with ownership as it is exposed to credit risk as senior subordinated and junior subordinated lender and has rights to variable returns in respect of its remuneration as master servicer.

The Group considers that the returns of the investees in the SPE are affected by the management of the receivables portfolio. In particular, it is the management of any impaired receivables that significantly impacts the variability of the returns of the SPE. The act of servicing receivables on a day-to-day basis does not constitute relevant activity, as this does not significantly impact the returns of the SPE. The intermediate subordinated lender has the unabated ability to remove the Group as servicer of impaired receivables and take the decision to sell such receivables, giving it the unilateral power to affect the relevant activities of these receivables and thereby influence the variable returns. Accordingly, the Group has concluded that it does not control the SPE and therefore does not include the SPE in the Group's consolidation.

DERECOGNITION OF TRANSFERRED FINANCIAL ASSETS

The Group considers that when receivables are sold to the SPE, it has neither substantially transferred or substantially retained all the variability of risks and rewards associated with ownership of the receivables. The assets are pledged as security under the Senior loans, therefore the SPE is restricted from selling them. According to that, the Group concludes that control of the assets has not been transferred and it should recognize the assets to the extent of its continuing involvement. This continuing involvement has been considered to equate to the investment in the junior and senior subordinated loans. At June 30, 2023, the sale of trade receivables has resulted in the recognition of loans to the SPE totalling kUSD 39 877, presented within 'Financial assets at fair value through profit and loss' in the Consolidated Balance Sheets. The carrying value of these financial assets represent the Group's maximum exposure to loss from the SPE. As senior subordinated and junior suborndinated lender to the SPE, the Group has a security interest in the sold receivables. This interest is junior to that of the senior lender, NordLB. The Group's expected credit loss in respect of these loans is not material.

The investment in the senior subordinated and junior subordinated loans is carried at fair value with changes in the fair value recognized in profit or loss. At June 30, 2023, the fair value did not differ significantly from the face value of the loans, and the valuation has been considered as level 3 in the IFRS fair value hierarchy since it is not primarily based on observable inputs (refer to note 7).

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

7. FINANCIAL INSTRUMENTS - FAIR VALUE DISCLOSURES

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of June 30, 2023 and December 31, 2022. For additional information on the levels and valuation methods, please refer to Note 43 to the consolidated financial statement in the 2022 annual report.

In USD'000		30.06.2023	31.12.2022
Financial assets at fair value through profit or loss:			
- securitized beneficial interests	Level 3	39 877	–
- equity instuments with no quoted market price	Level 3	1 504	1 137
Total financial assets		**41 381**	**1 137**
Financial liabilities:			
- contingent consideration (long-term portion)	Level 3	1 734	1 547
Total financial liabilities		**1 734**	**1 547**

The fair value of the Level 3 securitized beneficial interests and equity instrument with no quoted market price are 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 a discount rate of 10.0%.

Reconciliation of level 3 fair values:

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

In USD'000	Securitized beneficial interests	Equity instruments with no quoted market price	Contingent liabilities
Balance at January 1, 2022	–	1 152	-1 255
Remeasurement (recognised in other finance income/(expense), net)	–	–	-175
Discount effect (recognised in interest expense)	–	–	-110
Currency translation adjustment	–	-15	-8
Balance at December 31, 2022	**–**	**1 137**	**-1 547**
Sales of receivables	67 788	–	–
Funding drawn	-8 771	–	–
Settlement of trade receivables, net	-18 887	–	–
Acquisition	–	336	–
Interest income (recognized in other finance income/(expense), net)	109	–	–
Remeasurement (recognised in other finance income/(expense), net)	–	–	-46
Purchase discount (recognised in other finance income/(expense), net)	-834	–	–
Discount (recognised in interest expense)	–	–	-58
Currency translation adjustment	472	31	-84
Balance at June 30, 2023	**39 877**	**1 504**	**-1 734**

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

In USD'000	Carrying amount 30.06.2023	Fair value 30.06.2023
Financial liabilities		
- CHF 150 million bond	161 856	127 020

The fair value of the bonds are based on their market price as of June 30. Limited trading liquidity results in material volatility of such prices.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

8. 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 provides a secure platform to secure IoT deployments. In addition, it provides a wireless tracking solution to track the location of valuable assets. This includes RecovR, a car dealer solution for lot management and vehicle theft recovery.

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 the 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.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

In USD'000	Digital TV January/ June 2023	Public Access January/ June 2023	Cyber-security January/ June 2023	Internet of Things January/ June 2023	Total January/ June 2023
Revenues from external customers	118 584	143 955	58 613	14 129	335 281
Other operating income	3 314	945	–	335	4 595
Total segment revenues and other operating income	**121 898**	**144 900**	**58 613**	**14 464**	**339 875**
Cost of materials, licenses and services	-10 301	-59 760	-19 691	-6 061	-95 812
Operating expenses	-96 910	-81 014	-45 661	-17 367	-240 952
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**14 687**	**4 127**	**-6 739**	**-8 964**	**3 111**
Depreciation, amortization and impairment	-5 866	-7 879	-1 070	-310	-15 125
Operating income - excluding corporate common functions	**8 822**	**-3 752**	**-7 810**	**-9 274**	**-12 014**
Corporate common functions					-6 605
Interest expense and other Finance income/(expense), net					-6 380
Share of result of associates	-784	68	–	–	-716
Income before tax					**-25 715**
	30.06.2023	30.06.2023	30.06.2023	30.06.2023	30.06.2023
Total segment assets	**461 237**	**274 901**	**148 025**	**52 809**	**936 971**

In USD'000	Digital TV January/ June 2022	Public Access January/ June 2022	Cyber-security January/ June 2022	Internet of Things January/ June 2022	Total January/ June 2022
Revenues from external customers	144 474	125 733	50 981	7 196	328 383
Other operating income	2 550	2 432	20	32	5 035
Total segment revenue and other operating income	**147 023**	**128 165**	**51 001**	**7 229**	**333 418**
Cost of materials, licenses and services	-19 092	-49 769	-18 186	-1 411	-88 458
Operating expenses	-101 755	-77 856	-42 591	-15 288	-237 490
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**26 177**	**541**	**-9 777**	**-9 470**	**7 470**
Depreciation, amortization and impairment	-7 627	-7 685	-1 238	-332	-16 882
Operating income - excluding corporate common functions	**18 550**	**-7 145**	**-11 015**	**-9 803**	**-9 412**
Corporate common functions					-7 001
Interest expense and other Finance income/(expense), net					553
Share of result of associates	–	178	–	–	178
Income before tax					**-15 681**
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022
Total segment assets	**477 482**	**286 443**	**143 496**	**50 640**	**958 061**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023 (UNAUDITED)

In USD'000	30.06.2023	31.12.2022
Total segment assets	936 971	958 061
Cash & cash equivalents	6 779	1 464
Other current assets	547	380
Financial assets and other non-current assets	4 388	5 059
Employee benefit assets	17 807	–
Total Assets as per Balance Sheet	**966 493**	**964 964**

REVENUE CATEGORIES

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Digital TV		Public Access		Cybersecurity		Internet of Things	
In USD'000	January/ June 2023	January/ June 2022	January/ June 2023	January/ June 2022	January/ June 2023	January/ June 2022	January/ June 2023	January/ June 2022
Europe	56 968	70 759	89 862	79 741	24 442	18 792	1 591	2 781
Americas	41 076	45 008	33 576	27 679	33 928	31 486	12 411	3 994
Asia & Africa	20 540	28 707	20 517	18 312	243	703	126	422
	118 584	**144 474**	**143 955**	**125 733**	**58 613**	**50 981**	**14 129**	**7 196**
Sale of goods	11 404	24 139	89 265	76 505	9 758	5 863	11 325	294
Services rendered	70 022	81 457	44 358	38 409	37 651	34 626	2 651	6 754
Royalties and licenses	37 158	38 877	10 332	10 818	11 204	10 492	154	148
	118 584	**144 474**	**143 955**	**125 733**	**58 613**	**50 981**	**14 129**	**7 196**

9. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2023	31.12.2022	30.06.2023	30.06.2022
1 CHF	1.1099	1.0811	1.0967	1.0585
1 EUR	1.0844	1.0703	1.0809	1.0922

AGENDA 2023

Release of 2023 financial results: 22 February 2024

Kudelski SA
22-24, route de Genève
PO Box 134
1033 Cheseaux
Switzerland

Tel. +41 21 732 01 01
Fax +41 21 732 01 00
info@nagra.com
www.nagra.com

Investor relations:
Santino Rumasuglia
Tel. +41 79 373 66 71
ir@nagra.com

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KUDELSKI SA

ROUTE DE GENÈVE 22-24 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