KUDELSKI GROUP INTERIM REPORT 2021

NAGRA
KUDELSKI GROUP

FIRST HALF 2021 HIGHLIGHTS

- STRONG FIRST HALF, WITH TOTAL REVENUES AND OTHER OPERATING INCOME INCREASING BY 6.4% TO USD 340.5 MILLION, EBITDA OF USD 15 MILLION, AND THREE OUT OF FOUR SEGMENTS BACK TO GROWTH

- RENEWED GROWTH IN DIGITAL TV WITH STRONG PROFITABILITY AND SUCCESSFUL LAUNCH OF INNOVATIVE SOLUTIONS ADDRESSING NEW MARKET SEGMENTS

- CYBERSECURITY'S NET REVENUES INCREASED BY 17.3% TO USD 45.4 MILLION AND BOOKINGS INCREASED BY 25.8% TO USD 94.2 MILLION

- KUDELSKI IOT REVENUES MORE THAN DOUBLED TO USD 2.6 MILLION WITH SUCCESSFUL LAUNCH OF RECOVR AT LARGE AUTOMOTIVE DEALERSHIPS IN THE US

- PUBLIC ACCESS PROFITABILITY RECOVERED DUE TO PROACTIVE COST MEASURES; SALES RECOVERIES IN EUROPE AND AUSTRALIA

- ALTHOUGH THE COVID-19 PANDEMIC CONTINUED TO AFFECT DEMAND FOR THE GROUP'S OFFERINGS AND DISRUPTED INDUSTRY SUPPLY CHAINS, THE GROUP SUCCESSFULLY ADAPTED ITS STRUCTURE AND OPERATIONS TO MITIGATE IMPACT

- CONFIRMING OUTLOOK FOR FULL YEAR 2021 WITH REVENUE GROWTH AND EBITDA BETWEEN USD 65 AND 80 MILLION

LETTER TO SHAREHOLDERS

First Half 2021

The positive trends that emerged for the Group during the second half 2020 continued into 2021. Of the Group's four business segments, three grew during the first six months of the year, while Public Access continued to feel the impacts of COVID-19-related restrictions and lockdowns.

Overall market conditions for most of our business activities have not fully normalized to pre-pandemic levels, especially for complex customer projects where extensive interaction and integration with clients, face-to-face meetings and travel is essential. However, in spite of these limitations, we have seen positive trends develop in our Digital-TV, cybersecurity and IoT activities that we will look to accelerate into the post-pandemic world.

Over the past 18 months, our teams have worked to increase productivity and efficiency and to reduce our cost base. As a result, we not only improved our resilience, but we are also better prepared to take advantage of new opportunities that will thrive after the pandemic.

One very positive trend seen during the first half is the evolution of our Digital-TV business, which grew by 7.6% versus H1 2020, fueled by growth in EMEA and Asia. This development also contributed to an improvement in profitability of our Digital-TV segment. Rather than just a recovery from a very challenging first half 2020, our first half 2021 results reflect positive momentum in the growth of our Digital-TV activity, which results from our Digital-TV growth initiatives. While this is a positive trend that will benefit the long term, we expect the short-term to continue to be impacted by pandemic-induced market volatility.

In our business portfolio, Kudelski Security and IoT are best positioned to seize upon the new opportunities emerging during the pandemic.

Kudelski Security, our cybersecurity business, performed well not only by growing revenues by 17.3% but also by achieving double digit revenue growth in both Europe and the US. These results reflect the growing market demand for cybersecurity. As a consequence of COVID-19, the IT ecosystem has fast become a highly critical infrastructure for business. With the adoption by companies of new forms of communications and the expansion of the work environment beyond the traditional office, the threats to that infrastructure have increased dramatically. Kudelski Security's results over the last six months demonstrate that the Group is well positioned to help protect the IT infrastructure as it undergoes rapid evolution.

Since launching its RecovR asset tracking solution, Kudelski IoT is on a path towards more solid growth. Revenues more than doubled in the first half, and more importantly, we expect the positive dynamic to continue during the second half of the year.

The only business segment that is recovering more slowly than originally expected is SKIDATA. This is a direct result of the continuation of COVID-19 -related restrictions around the world, with some regions being impacted more than others. As these restrictions and the uncertainty they create continue, SKIDATA has experienced delays by customers and prospective customers in commencing new projects and making new investments. Such delays impact the timing of recovery for SKIDATA's business, and given the current global environment, we don't expect full recovery to happen this year.

Outlook

The Group's Board of Directors, executive management and employees are keenly focused on managing the many challenges and opportunities of the continuing COVID-19 crisis. Notwithstanding the challenges, we will always seek to preserve our ability to innovate by continuing to make key investments in R&D and innovation.

During the first half 2021, we have demonstrated our capacity to improve our performance and grow our overall business in a difficult environment, and we expect this momentum to continue during the second half 2021. We expect that our Digital-TV, Kudelski Security and IoT segments will continue to perform well during the second half, while we anticipate a slower than originally anticipated recovery for SKIDATA. Overall, our outlook for the full year remains unchanged for the Group. However, we expect for the full year relatively stronger performance from our Digital-TV and Kudelski Security segments and have less ambitious expectations for SKIDATA.

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 2021 RESULTS

IMPACT OF COVID-19

Overall, the COVID-19 pandemic continues to affect demand for the Group's offerings and to disrupt industry supply chains, though the severity of its impacts differs by business segment.

Digital TV began to show signs of recovery in the second half of 2020 and continued its positive development in the first half 2021, benefitting from a robust recurring business and from growing revenue contribution of new business lines. On the other hand, COVID is still affecting demand in emerging markets, and the Group is also experiencing delays on some projects due to suppliers' inability to deliver required equipment. Overall, the Group continues to adjust its capacity in line with demand. Temporary partial unemployment measures in several countries enabled a further reduction of personnel costs, and as a result, demand and supply chain disruptions had a limited impact on the first half segment's results.

The onset of COVID-19 also brought disruption to the Group's Cybersecurity business, affecting the Group's ability to engage with new clients, slowing sales activities and delaying delivery of services traditionally delivered in person. Initial signs of improvement in demand were seen in the second half 2020. This normalization accelerated in the first half 2021, resulting in solid growth rates both in Europe and in the US.

In the IoT business, semiconductor shortages are delaying the delivery of key electronic components of RecovR, the new segment's asset tracking solution. The Group issued early orders to obtain the necessary components and engaged alternative suppliers to avoid critical bottlenecks. However, as the global semiconductor industry still suffers from supply constraints, the Group may not be able to fully deliver the volume of RecovR devices forecasted in this second half.

Of the Group's business units, Public Access was the most significantly affected by COVID-19, as large customers, including in particular airports, shopping centers and stadiums, postponed new deployments and asset refreshment projects. After a partial recovery in the second half of last year, demand in Europe and other developed markets, including Australia, continued to recover in the first half 2021. Demand in the North American market, on the other hand, is still subdued, as traffic and usage of parking infrastructure in major metropolitan areas lag pre-COVID levels. As employees go back to the office, demand for paying parking solutions is expected to recover. However, due to the increasing rates of COVID infections, the Group does not expect demand to fully normalize in this calendar year.

GROUP RESULTS

In the first half 2021, total revenues and other operating income increased from USD 320.1 million to USD 340.5 million. Net revenues for the Group increased by 6.2% to USD 335.7 million, reflecting positive developments in Digital TV, Cybersecurity and IoT.

Other operating income increased by USD 0.7 million to USD 4.8 million, due to, among other factors, a USD 0.4 million earn-out from a business sale transaction completed in a prior year.

Margin after cost of material increased from USD 240.0 million to USD 248.6 million. Relative to total revenues, margin after cost of material decreased from 75.0% to 73.0%, mainly reflecting a change in product mix in the Digital TV and Cybersecurity segments.

Compared to the first half 2020, the Group's personnel expenses increased by USD 5.5 million. While streamlining measures resulted in a further reduction of Group headcount, lower savings from partial unemployment measures drove personnel costs higher. Compared to the end of 2020, total Group Full Time Equivalents (FTEs) decreased by 57 to 3'201 at the end of June. The Group further reduced Public Access headcount in this first half, while expanding headcount in the Cybersecurity and IoT segments. Total FTEs in Europe as of June 30, 2021 were 28 lower than at the end of the previous year. In the Americas, the Group reduced the number of FTEs by 38, while FTEs in Asia increased by 10 compared to the previous year.

In the first half 2021, the Group cut USD 7.0 million of other operating expenses. Tight management of travel expenses resulted in a further reduction of USD 1.1 million compared to the prior first half. The Group released USD 4.3 million of bad debt provisions in the Digital TV segment, benefitting from continued strong receivables collection.

In this first half, the Group generated USD 15.0 million of operating income before depreciation and amortization, a USD 10.1 million improvement over the previous first half. At USD 21.2 million, depreciation, amortization and impairment were USD 2.5 million lower than in the first half 2020, as the Group continuously reduced capital expenditures over the last reporting periods. Overall, the Group generated an operating loss of USD 6.2 million for the half year, representing USD 12.6 million improvement compared to the prior period.

At USD 5.0 million, interest expense was USD 0.2 million higher than in the prior first half. The Group posted USD 7.6 million of net finance income, primarily due to net foreign exchange gains. The revaluation of intercompany positions and foreign exchange effects from USD-denominated working capital items booked in entities with a Swiss Franc functional currency resulted in these foreign exchange differences, which have no impact on the Group's cash flow. The capitalization of certain SKIDATA losses resulted in a positive USD 0.3 million income tax credit. The net loss for the period amounted to USD 3.1 million, compared to USD 27.1 million in the prior first half.

DIGITAL TV

Digital TV delivered a strong first half, increasing net revenues by 7.6% and EBITDA by 15.5% from the previous first half. In relative terms, the segment's EBITDA margin increased from 23.9% to 25.6%.

The Group's European Digital TV business posted a strong 27.7% growth from the first half 2020. Most large European customers continue to be resilient in spite of COVID-19-related market turbulence, and the Group continues to grow its partnerships with large operators. For example, Vodafone continues to expand its footprint, relying on the Group's SSP (Security Services Platform) technology and generated higher volumes in markets such as Germany. The Italian market recovered strongly, posting solid growth in the first half 2021, including in particular higher volumes of smart cards and conditional access modules.

At USD 51.6 million, the Americas business posted 18.9% lower revenues in this first half. South American markets remain weak, still suffering from the negative impact of the pandemic. In the US, Altice generated higher revenues in 2020. In this first half, Altice continues to expand its partnership with the Group, but compared to last year, overall revenues from this customer declined due to the base effect of a strong 2020.

The Asia Pacific and Africa region posted a 22.4% revenue growth in the first half 2021. After a weak first half 2020, revenues recovered in this first half, driven in particular by higher sales of hybrid IPTV/OTT devices at Starhub.

Digital TV margin after cost of material further decreased from 92.0% to 87.0%, due to higher hardware sales, including conditional access modules and set-top boxes. Digital TV continued to streamline operations, further reducing operating expenses by USD 3.3 million compared to the prior first half. Overall, Digital TV improved operating income before depreciation and amortization by USD 5.7 million to USD 42.6 million. As depreciation and amortization was USD 1.2 million lower, the segment's operating income increased by USD 6.9 million to USD 31.7 million in the first half 2021.

CYBERSECURITY

In the first half 2021, the Group's cybersecurity business posted USD 71.0 million of gross revenues, a 12.3% increase from the first half 2020. Net revenues were at USD 45.4 million, representing a growth of 17.3%. The business benefitted from growth across both of its regions. In Europe, net revenues grew by 29.1% to USD 14.6 million, while the Americas grew by 11.8% to USD 30.7 million. Margin after cost of material increased to USD 24.5 million, representing 11.8% growth from the prior first half. In relative terms, margin after cost of material decreased from 56.6% to 54.0%, as the relatively lower gross margin technology reselling business grew in the first half 2021. The development of Cybersecurity bookings underscores the positive momentum of this business. In the first half 2021, the Cybersecurity segment generated USD 94.2 million total bookings, growing by 25.8% compared to the first half 2020. Bookings in high value-added business lines, including managed security services, advisory and proprietary technology sales, increased by 42.7% over this same time period. Managed Detection and Response (MDR) services, including the newly launched FusionDetect cloud-native analytics platform, were among the key drivers of the first half's growth. This offering reduces the complexity of security monitoring to deliver effective threat detection and response services across environments, including endpoint, on-premises, cloud, and OT/ICS (operational technology/industrial control systems).

In the first half 2021, Cybersecurity posted a USD 9.5 million operating loss before depreciation and amortization, improving by USD 2.0 million compared to the prior year.

INTERNET OF THINGS (IoT)

In the first half 2021, the Group's IoT business launched RecovR, a two-in-one lot management and theft recovery solution. RecovR enables car dealers to manage their lots efficiently, improve the sales process and create a new revenue stream, while offering consumers an advanced and reliable wireless theft recovery solution.

IoT has already successfully deployed large multi-location dealerships in Arizona, Texas, California, Hawaii, Colorado and Illinois.

The Group also opened new distribution channels for keySTREAM, entering into new agreements with some of the world's most prominent contract manufacturers who will offer keySTREAM's security capabilities to their customers. The KeySTREAM security and device management system empowers IoT product developers to securely connect, manage and update their IoT devices and supports a wide variety of critical functionalities, including zero-touch provisioning, late provisioning, end-to-end data protection, remote feature enablement/ monetization, and secure firmware updates over the air.

IoT Security Labs continued to acquire new customers and to grow their service portfolio in this first half. Overall, this resulted in revenues of USD 2.6 million for the first half 2021, representing growth by a factor of 2.5 compared to the prior first half. Operational expenses increased in this first half, as the business invested in the organizational structure required to successfully launch and scale its RecovR asset tracking deployments. As a result, operating loss before depreciation and amortization increased by USD 2.6 million to USD 11.5 million.

PUBLIC ACCESS

COVID-19 continues to affect Public Access results, as investments in parking installations are only slowly recovering. At USD 121.2 million, first half 2021 revenues are USD 0.3 million lower compared to the prior first half. European sales recovered, increasing by 8.3% to USD 76.4 million. Switzerland, Spain and Italy were the best performing markets, with solid first half growth rates. France, on the other hand, continues to suffer from a low level of activity, resulting in a further decline of revenues from the previous year.

Demand in the US market remains subdued, as work-from-home in large metropolitan areas, such as New York and San Francisco, continues to affect the utilization of parking facilities. As a result, parking operators continue to postpone investments in access control infrastructure. Investment activities in the South American markets also remained soft in this first half. Overall, Public Access revenues in the Americas declined by 26.1% to USD 27.5 million in this first half. On the other hand, the Asia/Pacific and Africa markets strongly recovered, with revenues growing by 25.8% to USD 17.3 million. The Australian market increased its revenue contribution by USD 2.7 million compared to the prior first half.

Margin after cost of material relative to revenues increased from 61.5% to 63.4%, reflecting a higher share of software and service in the SKIDATA business mix. The digitalization of parking infrastructure, with the gradual replacement of traditional ticket-based systems with fully automated free-flow solutions, contributes to the increasing weight of software and service revenues in the SKIDATA revenue mix.

In the first half 2021, Public Access reduced operating expenses by USD 3.1 million compared to the previous year. From the end of 2019 to the end of the current year, SKIDATA is expected to reduce its total headcount by 250 full time equivalents. The ongoing restructuring program has enabled a consolidation of local organizations, resulting in a headcount reduction of 170 in the market units. In addition, efficiency measures, streamlining support functions and improvements in the management of the product portfolio allowed a further reduction of 80 full time equivalents.

Overall, Public Access generated a positive operating income before depreciation and amortization of USD 0.7 million, representing USD 5.1 million improvement compared to last year's period. For this first half, Public Access posted an operating loss of USD 7.8 million.

BALANCE SHEET AND CASH FLOWS

Total non-current assets decreased by USD 31.6 million to USD 638.8 million from December 31, 2020. Foreign exchange effects increased the USD value of assets denominated in foreign currencies. However, the Group continued to reduce the overall level of investments in tangible and intangible assets compared to previous years. Tangible fixed assets decreased by USD 5.9 million and intangible assets decreased by USD 8.4 million. Financial assets at amortized costs decreased by USD 7.6 million, reflecting lower long-term trade accounts receivables due to collection and reclassification to short-term receivables.

Compared to December 31, 2020, total current assets decreased by USD 57.2 million to USD 476.7 million. The USD 1.3 million decrease of inventory is mainly due to a reduction of stock levels at SKIDATA, resulting from the streamlining of this business' supply chain. The Group decreased trade receivables by USD 48.8 million, as SKIDATA reduced outstanding receivables by USD 34.0 million.

At the end of the period, cash and cash equivalents amounted to USD 138.6 million, representing USD 14.0 million decrease from December 31, 2020.

Total equity increased by USD 13.0 million, mainly reflecting positive other comprehensive income, due to a reduction of pension fund liabilities. Total non-current liabilities decreased by USD 55.2 million to USD 475.5 million, with long-term financial debt declining by USD 29.7 million to USD 409.5 million, driven by currency translation effects and debt repayment. In this first half, the Group repurchased a nominal amount of USD 9.1 million of its 2022 bond and USD 2.0 million of its 2024 bond.
The Group reduced employee benefit liabilities by USD 20.8 million to USD 28.0 million. Lower pension liabilities are mainly driven by USD 14.8 million of plan asset gains, reflecting a favorable performance of pension fund investments and a USD 12.3 million favorable impact from a change of the discount rate for future liabilities from 0.1% to 0.35%. This reduction of liabilities is booked as other comprehensive income and has no impact on the Group profit and loss statements.

Total current liabilities decreased by USD 46.8 million to USD 270.4 million, with short-term financial debt decreasing by USD 14.5 million to USD 33.7 million, as the Group fully repaid its Kudelski SA credit lines. The Group's primary interest-bearing liabilities include the CHF 200 million bond with a 1.875% interest rate maturing in August 2022 and the CHF 150 million bond with a 1.5% interest rate maturing in September 2024. Overall, net debt (measured as aggregate short and long-term financial debt net of cash) declined by USD 30.2 million to USD 304.6 million. The Group reduced trade accounts payable by USD 18.4 million, reflecting in particular a USD 11.2 million reduction at SKIDATA.

During the first half 2021, the Group generated USD 30.5 million of cash flow from operating activities, compared to USD 41.9 million in the first half 2020. Working capital improvements contributed to the Group's cash generation, including USD 49.3 million of cash flow from the reduction of accounts receivable and contract assets. In the first half, the Group maintained a strong discipline in managing capital expenditures, using USD 3.4 million cash for investing activities.

Net cash-out for financing activities amounted to USD 38.7 million. The cash outflow includes USD 7.7 million payments of lease obligations and the USD 6.1 million cash distribution paid to Kudelski SA shareholders. In the first half 2021, the Group repaid USD 27.1 million of debt.

OUTLOOK

In the Digital TV segment, the Group expects revenues in the second half to be higher compared to the first half, maintaining the positive momentum of the last months. As the 2020 Digital TV segment cost base benefitted from a one-off positive effect from the IAS 19 plan amendment, the Group anticipates higher 2021 Digital TV operating expenses compared to 2020, resulting in a lower full year EBITDA compared to 2020.

In the Cybersecurity segment, the Group expects full year revenues to grow at a double-digit rate. Such positive momentum is expected to result in a year-on-year improvement of segment operating income before depreciation and amortization.

RecovR, the new IoT asset tracking solation for car dealerships, is expected to drive IoT revenue growth. The Group expects 2021 IoT revenues to at least double compared to 2020. Uncertainties related to supply constraint affecting the global semiconductor industry may slow down the delivery of RecovR devices in the second half. As the Group is investing to accelerate the deployment of its asset tracking solution, spending will increase compared to 2020, resulting in higher segment operating losses compared to the prior year.

The Public Access business continues to face uncertainties related to the COVID-19 impact on airports, shopping centers, stadiums and ski resorts, with demand remaining unpredictable. In 2021, the Group continues to streamline SKIDATA's operations, seeking a tighter integration with other Group segments and corporate functions and among the SKIDATA local and central entities. Despite these market uncertainties, the Group targets a higher 2021 segment EBITDA compared to the prior year.

CONSOLIDATED INCOME STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)

In USD'000	January/ June 2021	January/ June 2020
Revenues	335 711	316 012
Other operating income	4 784	4 079
Total revenues and other operating income	**340 495**	**320 090**
Cost of material, licenses and services	-91 861	-80 125
Employee benefits expense	-192 864	-187 369
Other operating expenses	-40 722	-47 652
Operating income before depreciation, amortization and impairment	**15 048**	**4 944**
Depreciation, amortization and impairment	-21 241	-23 723
Operating income	**-6 193**	**-18 779**
Interest expense	-5 043	-4 824
Other finance income/(expense), net	7 561	-6 549
Share of results of associates	235	1 482
Income before tax	**-3 440**	**-28 670**
Income tax expense	332	1 574
Net income for the period	**-3 108**	**-27 095**
Attributable to:		
- Equity holders of the company	-6 082	*-29 341*
- Non-controlling interests	2 974	*2 246*

Earnings per share (in USD)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.1099	-0.5337
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0110	-0.0534

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)

In USD'000	January/ June 2021	January/ June 2020
Net income	**-3 108**	**-27 095**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	2 911	-16 851
Cash flow hedges, net of income tax	39	677
	2 951	**-16 174**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Change in fair value of equity investment at fair value through other comprehensive income	–	306
Remeasurements on post employment benefit obligations, net of income tax	18 583	-8 557
Total other comprehensive income, net of income tax	**21 533**	**-24 425**
Total comprehensive income for the period	**18 425**	**-51 520**
Attributable to:		
- Equity holders of the company	15 572	-53 753
- Non-controlling interests	2 853	2 232
	18 425	**-51 520**

CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2021 AND DECEMBER 31, 2020 (UNAUDITED)

In USD'000	30.06.2021	31.12.2020
ASSETS		
Non-current assets		
Tangible fixed assets	121 764	127 704
Intangible assets	391 009	399 358
Right-of-use assets	35 288	41 639
Investments in associates	6 826	7 007
Deferred income tax assets	48 148	50 858
Financial assets at amortized cost	33 198	40 817
Financial assets at fair value through profit and loss	1 744	2 182
Other non-current assets	856	863
Total non-current assets	**638 833**	**670 427**
Current assets		
Inventories	57 928	59 197
Trade accounts receivable	135 682	184 476
Contract assets	50 013	44 582
Other financial assets at amortized cost	57 107	54 503
Other current assets	37 284	38 549
Derivative financial instruments	58	–
Cash and cash equivalents	138 618	152 584
Total current assets	**476 689**	**533 892**
Assets classified as held for sale	12 516	12 777
Total assets	**1 128 038**	**1 217 096**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	340 195	337 295
Reserves	8 666	1 156
Equity attributable to equity holders of the parent	**348 861**	**338 451**
Non-controlling interests	33 198	30 580
Total equity	**382 060**	**369 031**
Non-current liabilities		
Long-term financial debt	409 539	439 192
Long-term lease obligations	24 458	29 599
Deferred income tax liabilities	3 360	3 195
Employee benefits liabilities	27 978	48 817
Other long-term liabilities	10 200	9 979
Total non-current liabilities	**475 535**	**530 781**
Current liabilities		
Short-term financial debt	33 742	48 212
Short-term lease obligations	12 213	13 720
Trade accounts payable	49 418	67 732
Contract liabilities	74 536	69 873
Other current liabilities	95 279	109 521
Current income taxes	2 631	4 383
Derivative financial instruments	171	–
Provisions for other liabilities and charges	2 452	3 842
Total current liabilities	**270 443**	**317 283**
Total liabilities	**745 978**	**848 064**
Total equity and liabilities	**1 128 038**	**1 217 096**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)

In USD'000	January/ June 2021	January/ June 2020
Net income for the period	**-3 108**	**-27 095**
Adjustments for net income non-cash items:		
- Current and deferred income tax	-332	-1 574
- Interests, allocation of transaction costs (bonds) and foreign exchange differences	-3 090	9 385
- Depreciation, amortization and impairment	21 241	23 723
- Change in fair value of financial assets at fair value through profit or loss	301	73
- Share of result of associates	-235	-1 482
- Non-cash employee benefits expense	3 036	3 616
- Deferred cost allocated to income statement	102	117
- Additional provisions net of unused amounts reversed	-619	-72
- Non-cash government grant income	-1 036	-778
- Other non-cash (income) / expense	-6 872	-4 013
Adjustments for items for which cash effects are investing or financing cash flows:		
- Other non-operating cash items	-113	-129
Adjustments for change in working capital:		
- Change in inventories	2 339	-5 535
- Change in trade accounts receivable and contract assets	49 292	49 729
- Change in trade accounts payable and contract liabilities	-16 347	-6 447
- Change in current income taxes liabilities	-1 044	-1 573
- Change in accrued expenses	-6 821	-919
- Change in other net current working capital headings	-5 659	1 264
Government grant from previous periods received	1 742	7 706
Dividends received from associated companies	218	-0
Interest paid	-1 526	-1 538
Interest received	406	188
Income tax paid	-1 376	-2 697
Cash flow from/(used in) operating activities	**30 500**	**41 945**
Purchases of intangible fixed assets	-1 438	-1 290
Purchases of tangible fixed assets	-2 487	-3 144
Proceeds from sales of tangible and intangible fixed assets	133	224
Divestments of financial fixed assets and loans reimbursement	431	1 340
Cash flow from/(used in) investing activities	**-3 361**	**-2 870**
Reimbursement of bank overdrafts, long-term loans and other non-current liabilities	-27 102	-26 501
Increase in bank overdrafts, long-term loans and other non-current liabilities	2 383	22 324
Payments of lease obligations	-7 725	-8 415
Proceeds from employee share purchase program	37	76
Dividends paid to non-controlling interests	-235	-10 216
Dividends and partial share capital repayment to shareholders	-6 080	-5 692
Cash flow from/(used in) financing activities	**-38 722**	**-28 424**
Effect of foreign exchange rate changes on cash and cash equivalents	-2 384	-222
Net increase/(decrease) in cash and cash equivalents	**-13 966**	**10 429**
Cash and cash equivalents at the beginning of the period	152 584	74 596
Cash and cash equivalents at the end of the period	138 618	85 025
Net increase/(decrease) in cash and cash equivalents	**-13 966**	**10 429**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2021 AND 2020 (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, 2020	**335 101**	**73 737**	**-41 839**	**-2 998**	**2 380**	**37 037**	**403 418**
Net result for the period	–	–	-29 342	–	–	2 246	-27 095
Other comprehensive income for the period	–	–	-8 557	983	-16 838	-14	-24 425
Total comprehensive income for the period	**–**	**–**	**-37 898**	**983**	**-16 838**	**2 232**	**-51 520**
Employee share purchase program	334	-225	–	–	–	–	109
Shares issued for employees	1 706	-817	–	–	–	–	889
Dividend paid to shareholders	–	-2 846	-2 846	–	–	–	-5 692
Dividend paid to non-controlling interests	–	–	–	–	–	-10 216	-10 216
June 30, 2020	**337 141**	**69 849**	**-82 583**	**-2 015**	**-14 458**	**29 053**	**336 988**
January 1, 2021	**337 295**	**69 758**	**-65 470**	**-2 683**	**-449**	**30 580**	**369 031**
Net result for the period	–	–	-6 082	–	–	2 974	-3 108
Other comprehensive income for the period	–	–	18 583	39	3 032	-121	21 533
Total comprehensive income for the period	**–**	**–**	**12 501**	**39**	**3 032**	**2 853**	**18 425**
Employee share purchase program	111	-59	–	–	–	–	53
Shares issued for employees	2 788	-1 924	–	–	–	–	865
Dividend paid to shareholders	–	-3 040	-3 040	–	–	–	-6 080
Dividend paid to non-controlling interests	–	–	–	–	–	-235	-235
June 30, 2021	**340 195**	**64 736**	**-56 009**	**-2 643**	**2 583**	**33 198**	**382 060**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2021 (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 2020 annual report.

2. BASIS OF PREPARATION

These interim condensed financial statements for the six months ended June 30, 2021 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, 2020.

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, 2020. 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, 2021, 12 642 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 16. The Group issued 316 594 bearer shares as part of 2020 management bonus payment which expense was fully accrued for at December 31, 2020.

6. DIVIDEND

On April 22, 2021, the Group paid a distribution of CHF 0.10 per bearer share and CHF 0.01 per registered share. The distribution amounted to kUSD 6 080.

7. REPURCHASE AND REPAYMENT OF DEBT

During the first half 2021, the Group repurchased nominal value of kUSD 9 187 relating to the 2015-2022 bond and nominal value of kUSD 2 004 relating to the 2016-2024 bond. The total cash paid excluding accrued interest was kUSD 10 581.

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2021 (UNAUDITED)

8. 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, 2021 and December 31, 2020. For additional information on the levels and valuation methods, please refer to Note 43 to the consolidated financial statement in the 2020 annual report.

In USD'000		30.06.2021	31.12.2020
Financial assets at fair value through profit or loss:			
- marketable securities	Level 1	603	994
- equity instuments with no quoted market price	Level 3	1 141	1 188
Total financial assets		**1 744**	**2 182**
Financial liabilities:			
- contingent consideration (long-term portion)	Level 3	1 449	1 484
Total financial liabilities		**1 449**	**1 484**

The fair value of the Level 3 equity instrument 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 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	Equity instruments with no quoted market price	Contingent liabilities
Balance at January 1, 2020	517	-2 240
Settlements	-533	344
Remeasurement (recognised in other operating income)	–	443
Remeasurement (recognised in other finance income/(expense), net)	48	–
Reclassification	1 073	–
Currency translation adjustment	84	-32
Balance at December 31, 2020	**1 188**	**-1 484**
Currency translation adjustment	-48	36
Balance at June 30, 2021	**1 141**	**-1 449**

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 30.06.2021	Fair value 30.06.2021
Financial liabilities		
- CHF 200 million bond	207 734	204 210
- CHF 150 million bond	160 426	142 234

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, 2021 (UNAUDITED)

9. 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 Integrated Digital Television operating segment also includes the Group's Intellectual Property activities.

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.

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, 2021 (UNAUDITED)

In USD'000	Digital TV January/ June 2021	Public Access January/ June 2021	Cyber-security January/ June 2021	Internet of Things January/ June 2021	Total January/ June 2021
Revenues from external customers	166 436	121 230	45 427	2 619	335 711
Other operating income	4 505	242	2	36	4 785
Total segment revenues and other operating income	**170 940**	**121 472**	**45 428**	**2 654**	**340 495**
Cost of materials, licenses and services	-26 221	-44 555	-20 970	-115	-91 861
Operating expenses	-102 151	-76 231	-33 989	-14 063	-226 433
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**42 568**	**687**	**-9 531**	**-11 523**	**22 201**
Depreciation, amortization and impairment	-10 893	-8 522	-1 515	-312	-21 241
Operating income - excluding corporate common functions	**31 675**	**-7 835**	**-11 045**	**-11 835**	**960**
Corporate common functions					-7 153
Interest expense and other Finance income/(expense), net					2 518
Share of result of associates	–	235	–	–	235
Income before tax					**-3 440**
	30.06.2021	30.06.2021	30.06.2021	30.06.2021	30.06.2021
Total segment assets	**619 797**	**309 646**	**137 286**	**39 168**	**1 105 897**

In USD'000	Digital TV January/ June 2020	Public Access January/ June 2020	Cyber-security January/ June 2020	Internet of Things January/ June 2020	Total January/ June 2020
Revenues from external customers	154 683	121 567	38 738	1 025	316 012
Other operating income	3 558	492	1	28	4 079
Total segment revenue and other operating income	**158 241**	**122 058**	**38 739**	**1 053**	**320 090**
Cost of materials, licenses and services	-15 980	-47 221	-16 854	-71	-80 125
Operating expenses	-105 399	-79 291	-33 390	-9 881	-227 962
Operating income before depreciation, amortization and impairment - excluding corporate common functions	**36 861**	**-4 453**	**-11 505**	**-8 900**	**12 003**
Depreciation, amortization and impairment	-12 109	-8 570	-2 708	-336	-23 723
Operating income - excluding corporate common functions	**24 753**	**-13 024**	**-14 213**	**-9 236**	**-11 720**
Corporate common functions					-7 059
Interest expense and other Finance income/(expense), net					-11 373
Share of result of associates	1 168	314	–	–	1 482
Income before tax					**-28 670**
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Total segment assets	**665 830**	**340 909**	**139 261**	**37 832**	**1 183 832**

SELECTED NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2021 (UNAUDITED)

In USD'000	30.06.2021	31.12.2020
Total segment assets	1 105 897	1 183 832
Cash & cash equivalents	3 735	14 257
Other current assets	566	161
Financial assets and other non-current assets	5 324	6 069
Asset of disposal group classified as held for sale	12 516	12 777
Total Assets as per Balance Sheet	**1 128 038**	**1 217 096**

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 2021	January/ June 2020	January/ June 2021	January/ June 2020	January/ June 2021	January/ June 2020	January/ June 2021	January/ June 2020
Europe	82 438	64 543	76 416	70 591	14 575	11 288	2 035	916
Americas	51 611	63 674	27 549	37 252	30 654	27 408	562	39
Asia & Africa	32 387	26 465	17 265	13 724	198	42	22	70
	166 436	**154 683**	**121 230**	**121 567**	**45 427**	**38 738**	**2 619**	**1 025**
Sale of goods	36 371	19 022	68 397	71 386	10 181	16 963	60	–
Services rendered	86 862	92 336	42 439	37 910	25 232	18 782	2 404	745
Royalties and licenses	43 203	43 324	10 393	12 272	10 014	2 994	154	279
	166 436	**154 683**	**121 230**	**121 567**	**45 427**	**38 738**	**2 619**	**1 025**

10. PRINCIPAL CURRENCY TRANSLATION RATE

	Period end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	30.06.2021	31.12.2020	30.06.2021	30.06.2020
1 CHF	1.085	1.130	1.100	1.035
1 EUR	1.190	1.223	1.205	1.102

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Disclaimer

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