

5/Compensations, shareholdings and loans

Kudelski Group
Annual report 2004

5.1 Content and method of determining the compensation and shareholding programmes

The Remuneration Committee controls and approves the remuneration policy established by the company. It also has responsibility for determining the remunerations of members of the Board of Directors as well as the members of Group management.

In general, the remuneration policy of the Kudelski Group is based on the performance of the business units and of the persons individually.

Members of the Board of Directors

Overall remuneration of non-executive members of the Board of Directors includes fixed annual fees as well as an allowance for the costs and other expenses incurred in connection with the performance of their duties. This remuneration is given in cash. A variable element can also be allocated in options.

For the specific portfolios allocated to members of the Board of Directors of Kudelski SA or of one of the companies in the Group, the services rendered are remunerated on the basis of fees, with the amount of the benefits corresponding to the going market rate for this type of portfolio.

Members of Group management

The global annual remuneration of members of the Group management includes a salary and a variable element based on the individual's performance and achievement of financial, operational and qualitative objectives. The variable element may be payable in cash or in the form of Kudelski SA bearer shares.

Shares and/or stock options may be attributed by the remuneration committee to members of group management and/or to staff members in order to give them an interest in the long term objectives of the company.

Group management members can also participate in the share purchase plan implemented by the company in 2004.

5.2 Compensation for acting members of governing bodies

Total compensation granted directly or indirectly by Kudelski SA or by one of its affiliated companies during 2004 to members of the Board of Directors and/or members of the Group management amounted to CHF 7 439 485.

This sum breaks down as CHF 6 972 485 for executive members of the Board of Directors and for members of the Group management and CHF 467 000 for non-executive members of the Board of Directors.

These figures include the cash bonuses paid in relation to the financial year in question, even if they were paid at a later date.

No severance payments were made to persons leaving positions on the governing bodies during the financial year 2004.

5.3 Compensation for former members of governing bodies

A total of CHF 357 380 was paid to two former members of Group management in 2004. One of these persons became scientific consultant to Group management.

5.4 Share allotment in the year under review

During the financial year 2004, a total of 85 837 bearer shares of a nominal value of CHF 10 each was allotted to executive members of the Board of Directors and members of Group management. No shares were allotted to non-executive members of the Board of Directors.

5.5 Share ownership

The number of Kudelski SA shares held on December 31, 2004 by the entirety of the executive members of the Board of Directors and by members of the Group management of Kudelski SA as well as the entirety of the parties closely linked to such persons was 12 953 236 bearer shares and 46 300 000 registered shares.

Excluding the Kudelski family, the number of Kudelski SA shares held on December 31, 2004 by the entirety of the other members of the Board of Directors as well as the entirety of the parties closely linked to such persons was 1 432 620 bearer shares.

5.6 Options

The Kudelski Group implemented an option plan in 2003. The situation on December 31, 2004 is as follows:

Executive members of the Board of Directors and members of Group management and parties closely linked to such persons:

Number of options	Vesting	Expiration	Ratio	Exercise price
43 960	01.04.06	01.04.07	1-for-1	CHF 20
43 960	01.04.07	01.04.08	1-for-1	CHF 20
43 960	01.04.08	01.04.09	1-for-1	CHF 20
Year of grant: 2003				

Non-executive members of the Board of Directors and parties closely linked to such persons:

Number of options	Vesting	Expiration	Ratio	Exercise price
6 000	01.04.06	01.04.07	1-for-1	CHF 20
6 000	01.04.07	01.04.08	1-for-1	CHF 20
6 000	01.04.08	01.04.09	1-for-1	CHF 20
Year of grant: 2003				

No option was distributed during financial year 2004.

5.7 Additional fees and remunerations

The additional fees (including consulting fees and fees relating to other contracts/agreements) and other remunerations paid by the Kudelski Group for services rendered during the financial year 2004 to members of the Board of Directors and to parties closely linked to them were as follows: CHF 595 162 to Mr. Patrick F etisch – for himself and the lawyers appointed by him – as legal advisor for the various requests of the Kudelski Group.

5.8 Loans granted to governing bodies

At December 31, 2004, Kudelski SA had no guarantees, loans, advances or borrowings in favor of members of the Board of Directors and members of the Group management or parties closely linked to such persons.

5.9 Highest total compensation

For the member of the Board of Directors upon whom the highest total compensation was conferred during 2004, the elements are as follows:

- compensation: CHF 4 132 914 (in cash)
- share allotment: 77 000 (subject to restrictions)