

KUDELSKI GROUP 2014 COMPENSATION REPORT

1. INTRODUCTION

This report discloses certain information required by the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC). Sections 6 and 7 of this Compensation Report are audited. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2014.

In compliance with OaEC, Kudelski SA will submit the required modifications of the articles of association for approval by the shareholders at the 2015 General Meeting, including provisions related to the compensation of the Board of Directors and Executive Board.

2. PRINCIPLES OF COMPENSATION

2 The Compensation and Nomination Committee has adopted a compensation policy aligning the interests of Executive Board members with the Group's mid- and long-term strategy and shareholders' interests. Pursuant to this policy, compensation is based on the following principles:

- coherence of compensation levels with the tasks, workload and responsibilities assumed;
- appropriate match between compensation levels and current business, trends and evolution of the market and competitive environment of the Group as well as the mid- and long-term strategy of the Group;
- global assessment (not individually-based) of compensation to enhance a long-term vision of the Group's interests; and
- for Executive Board members, pay for performance to support both short-term and long-term Group objectives.

The Compensation and Nomination Committee (see section 3.5.2 of the Corporate Governance report) strives to maintain a competitive remuneration policy that ensures global compensation of the Executive Board members is comparable with those of their peers at multinational companies operating in the fields of digital television and the Internet in Switzerland, in high technology centers, such as the West Coast of the United States, and in Western Europe. In addition, the Compensation and Nomination Committee aims to limit dilution of the capital of the company.

The Compensation and Nomination Committee does not use benchmarks or compensation consultancy services. It makes its own assessment of the market practices of the following types of companies:

- high technology companies listed on the Nasdaq or NYSE;
- high technology companies listed on the Euronext;
- high technology companies listed on the SIX Swiss Exchange and belonging to the Swiss Performance Index (SPI), sector Technology; and
- privately held high technology companies.

Specifically, the Committee assesses those companies with which the Group competes for highly qualified people and which are of a similar size and face comparable operational complexity. Such assessments also take into account the business environment in which the Group operates and the rapid pace of evolution required for success.

Due to the unique characteristics of the Group, including the breadth and variety of its products and services, the rapid evolution of its technologies and markets and the fast-moving competitive environment in which the Group operates, the Compensation and Nomination Committee considers that it is difficult to make direct comparisons with other companies and believes that the aforementioned elements are sufficient for purposes of its compensation policy.

The level of remuneration of the non-executive members of the Board of Directors is determined by their role with the Board of Directors and its committees. The elements of their compensation are set out in section 3.1.

The total annual compensation of members of the Executive Board includes a fixed and a variable component. The variable component depends on the Group's results (both economic and strategic), the level of responsibility assumed and individual performance, which factors can in the aggregate have a positive or negative impact on the variable compensation of each Executive Board member. Variable compensation helps align the interests of Executive Board members with company strategy and shareholders' interests and ultimately seeks to reward value creation. The variable component is not expressed as a percentage of fixed compensation (see also section 3.2).

Currently, there are no provisions providing for a particular allowance or benefit – including with regard to blocking or vesting periods applicable to shares – in the event of a termination of the employment contract of an Executive Board member, in the event of a departure of a member of the Board of Directors or in the case of a change of control of the company. Executive Board members have employment contracts with one year terms, automatically renewable from year to year, and six month termination notice provisions, both of which help promote stability within the management of the Group.

3. ELEMENTS OF COMPENSATION

Section 6 sets forth the compensation paid to the members of the Board of Directors and Executive Board in accordance with OaEC requirements.

The elements of compensation for non-executive members of the Board of Directors are different than for the Executive Board members.

3.1 Members of the Board of Directors

The compensation of non-executive members of the Board of Directors is composed of a fixed annual fee and an expense allowance. All compensation is paid in cash. The company's founder and Honorary Chairman received a cash compensation for the year 2013 as mentioned in note 46 of the financial statements.

Specific tasks or services performed for the Group by a non-executive member of the Board of Directors that fall outside of such member's Board responsibilities are generally compensated based on arm's length terms and conditions.

3.2 Members of the Executive Board

The total annual compensation of the Executive Board members includes a fixed salary and a variable component.

Compensation is generally paid in a combination of cash, shares and payment in kind (including provision of a company car and reimbursement of all or part of health insurance premiums). The fixed salary is in principle paid in cash. The Compensation and Nomination Committee has discretionary authority to determine how the variable component is paid, taking into account such criteria as the dilutive effect of any share issuances.

A maximum of 50% of the variable compensation may be paid in Kudelski SA bearer shares that are blocked for a period of 3 or 7 years at the election of the Executive Board member. Each Executive Board member may also elect to participate in the Group's share purchase plan adopted in 2004 (see section 2.7 of the Corporate Governance Report: Share purchase plan section).

The total compensation of each Executive Board member is linked to his individual performance as well as the strategic, economic and operational performance of the Group. Key factors impacting variable compensation levels include the overall performance of the Group and its divisions, performance against the applicable member's department budget, contribution to strategic initiatives, achievement of individual objectives and the quality of management by such Executive Board member. Objectives of the Group are discussed and approved on a yearly basis by the Board of Directors, Strategy Committee, Compensation and Nomination Committee and Chief Executive Officer. Once approved, Group objectives are shared with the Executive Board members who, in addition to their individual performance objectives, shall have responsibility for achieving such objectives as determined by the Chief Executive Officer in agreement with the Compensation and Nomination Committee.

The Compensation and Nomination Committee assesses the achievement of Group objectives and of each Executive Board member's individual performance objectives. The Committee has discretionary authority to determine the relative weighting of the Group objectives and individual performance objectives as part of its assessment for determining the total compensation of each Executive Board member. In addition, the Compensation and Nomination Committee has the discretion to apply a positive or negative performance factor to each individual performance objective, which recognizes achievement or failure of individual performance objectives. This practice is designed to encourage each member of the Executive Board to optimize his/her performance against objectives.

4. PROCEDURE FOR DETERMINING COMPENSATION

The Compensation and Nomination Committee determines the compensation policy and sets the compensation of each member of the Executive Board and the Board of Directors, other than the compensation of the Committee members which is decided by the full Board of Directors (see section 3.5.2 of the Corporate Governance Report, Compensation and Nomination Committee section). The Compensation and Nomination Committee reports every year on its activities to the Board of Directors.

The Chairman of the Board of Directors is invited to take part in the Committee's discussions related to compensation, other than discussions relating to the Chairman's own compensation.

Each year, the Compensation and Nomination Committee reassesses its compensation policy and determines the annual compensation of the Board of Directors and Executive Board members. Generally, this occurs during the first quarter of the year. During the same period, the Chief Executive Officer reviews the performance objectives of the Executive Board and presents his recommendations to the Board of Directors. The full Board of Directors will also determine the compensation of the members of the Compensation and Nomination Committee.

5. SPECIAL INFORMATION REGARDING 2014

5.1. Changes to the compensation policy during the year under review

No major change was made to the Group's compensation policy for the 2014 financial year. Shares granted to Executive Board members as part of their variable compensation were blocked for periods of 3 or 7 years (see section 6).

5.2. Special information regarding 2014

The compensation of each Executive Board member is determined globally, and the variable compensation of the Executive Board members is not based on the fixed salary as specified in section 2. The variable compensation of each Executive Board member represented between 45% and 55% of his total compensation, except for the Chief Executive Officer (see section 6.). There is no determined ratio between the variable component and the fixed salary; such ratio may be different from year to year. The different ratios of fixed to variable compensation among Executive Board members are based on their function and responsibilities within the Group and market practices.

6. COMPENSATION GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE EXECUTIVE BOARD

Total compensation paid directly or indirectly by Kudelski SA or one of its affiliated companies in 2014 and 2013 to former and current members of the Board of Directors and Executive Board is described below. Compensation does not include reimbursement for business expenses incurred by members in the course of performing their responsibilities or representation allowances, which are not considered as compensation by the Swiss fiscal authorities.

The value of shares granted is determined according to the market value at the time of grant, as quoted on the SIX Swiss Exchange, as adjusted by a discount factor of 6% for each year that such shares are block from sale or transfer. Such discount factor is determined in accordance with the principles applied by Swiss fiscal authorities. 127 190 (2013: 60 000) bearer shares were allocated to members of the Executive Board with a 7 year blocking period and 15 505 (2013: 25 215) with a 3 year blocking period. Shares granted as part of variable compensation for fiscal years 2014 and 2013 were granted at the beginning of the respective following year.

YEAR 2014	BASE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)	VARIABLE COMPENSATION IN KUDELSKI SHARES CHF	OTHER * CHF	TOTAL 2014 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 368	554 368
SMADJA CLAUDE Vice-chairman	130 000	–	–	–	6 222	136 222
BUCHER NORBERT**	15 000	–	–	–	–	15 000
DASSAULT LAURENT Member	40 000	–	–	–	2 694	42 694
DEISS JOSEPH Member	60 000	–	–	–	2 374	62 374
FOETISCH PATRICK Member	62 000	–	–	–	146 773 ***	208 773
KUDELSKI MARGUERITE Member	50 000	–	–	–	3 368	53 368
LESCURE PIERRE Member	120 000	–	–	–	5 672	125 672
ZELLER ALEXANDRE Member	110 000	–	–	–	7 409	117 409
ROSS ALEC**** Member	50 000	–	–	–	3 368	53 368
TOTAL BOARD MEMBERS	1 188 000	–	–	–	181 248	1 369 248
MANAGEMENT						
KUDELSKI ANDRÉ CEO	582 750	3 656 210	100 000	668 385	294 914	5 202 259
OTHER MEMBERS	1 275 000	937 475	42 695	312 568	66 483	2 591 526
TOTAL MANAGEMENT	1 857 750	4 593 685	142 695	980 953	361 397	7 793 785

* This section includes long service benefits and benefits in kind as well as expenditures constituting or increasing pension benefits.

** Mr Bucher was a Board member until 8 April 2014

*** Compensation paid for his legal services rendered to several Group companies.

**** Mr Ross has been a Board member since 8 April 2014

YEAR 2013	BASE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)	VARIABLE COMPENSATION IN KUDELSKI SHARES * CHF	OTHER ** CHF	TOTAL 2013 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 368	554 368
SMADJA CLAUDE Vice Chairman	130 000	–	–	–	6 222	136 222
BUCHER NORBERT Membre	50 000	–	–	–	1 825	51 825
DASSAULT LAURENT Member	40 000	–	–	–	2 694	42 694
DEISS JOSEPH Member	50 000	–	–	–	1 825	51 825
FOETISCH PATRICK Member	62 000	–	–	–	78 952 ***	140 952
KUDELSKI MARGUERITE Member	50 000	–	–	–	3 368	53 368
LESCURE PIERRE Member	120 000	–	–	–	5 672	125 672
ZELLER ALEXANDRE Member	60 000	–	–	–	4 041	64 041
TOTAL BOARD MEMBERS	1 113 000	–	–	–	107 967	1 220 967
MANAGEMENT						
KUDELSKI ANDRÉ CEO	572 750	3 466 210	60 000	542 689	269 922	4 851 571
OTHER MEMBERS	1 264 500	863 789	25 215	287 926	106 973	2 523 188
TOTAL MANAGEMENT	1 837 250	4 329 999	85 215	830 615	376 895	7 374 759
FORMER BOARD MEMBERS						
KUDELSKI STEFAN Founder and Honorary Chairman	17 085	–	–	–	–	17 085

* This column does not appear in the table of note 46 of the 2013 financial statement and has been added in 2014.

** This section includes long service benefits and benefits in kind as well as expenditures constituting or increasing pension benefits.

*** Remuneration received in the framework of his legal mandates effected for various Group companies.

7. SHAREHOLDINGS AND LOANS GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE EXECUTIVE BOARD

At December 31, 2014 and 2013, no guarantees, loans, advances or borrowings in favor of members of the Board of

Directors and members of the Executive Board or parties closely related to such persons were granted.

REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT 2014

TO THE GENERAL MEETING OF KUDELSKI SA, CHESEAUX-SUR-LAUSANNE

We have audited the accompanying remuneration report (chapters 6 and 7; pages 4 to 6) dated 18 February 2015 of Kudelski S.A. for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14-16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14-16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

OPINION

In our opinion, the remuneration report of Kudelski S.A. for the year ended 31 December 2014 complies with Swiss law and articles 14-16 of the Ordinance.



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Lausanne, February 18, 2015

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expressed or implied in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, performance of the financial markets, competitive factors and changes in laws and regulations.



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