

# **KUDELSKI GROUP COMPENSATION REPORT 2015**

---

## 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 7 and 8 of this Compensation Report are audited. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2015.

In compliance with OaEC, modifications of the articles of association required by OaEC have been voted by the shareholders at the 2015 General Meeting. Such modifications include provisions related to the compensation of the Board of Directors and Executive Board.

---

## 2. COMPENSATION APPROVAL BY GENERAL MEETING

In compliance with section 28 of the articles of association, upon the motion of the Board of Directors, each year the General Meeting shall separately approve the maximum aggregate amount of compensation awarded to the Board of Directors and the Executive Board.

The Board of Directors shall submit a separate proposal to the vote of the General Meeting regarding:

- the maximum aggregate amount granted to the Board of Directors for the compensation of its members for the period up to the following Ordinary General Meeting; and
- the maximum aggregate amount granted to the Executive Board for the fixed and variable compensation of its members for the following periods, respectively: as regards fixed compensation, the period from the beginning of July of the current fiscal year through the end of June of the following fiscal year; as regards variable compensation, the current fiscal year.

The Board of Directors may submit motions to the General Meeting regarding compensation for different periods affecting all members of the Board of Directors or the Executive Board or only certain members.

Votes by the General Meeting on compensation-related motions are binding. If the General Meeting rejects one or more of the aforementioned amounts, the Board of Directors shall make an alternative motion for approval by the same General Meeting or a subsequent General Meeting.

Compensation payments for activities by members of the Board of Directors and the Executive Board in other legal entities directly or indirectly controlled by the Company are authorized. Compensation paid by these legal entities is included as part of the compensation submitted for approval by the General Meeting.

The Company, or any other legal entity directly or indirectly controlled by it, may pay compensation prior to its approval by the General Meeting, subject to subsequent approval and an obligation to repay such compensation in the event it is not approved by the General Meeting.

In compliance with section 29 of the articles of association, if the maximum global compensation of the Executive Board already approved by the General Meeting is insufficient to cover compensation of members appointed after this approval, the Company, or legal entities controlled by it, may grant an additional amount for the compensation period already approved to remunerate and/or compensate for benefits the new member gave up or lost due to his/her change in employment. The additional amount shall not exceed 150% of the position replaced or the highest fixed compensation of the other members of the Executive Board on a pro rata temporis basis up until the end of the period for which the compensation was already approved.

---

## 3. PRINCIPLES OF COMPENSATION

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), Technology sector; 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 4.1.

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 4.2).

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 an unlimited term and with eleven month's termination notice expiring on the last day of a calendar month, both of which help promote stability within the management of the Group.

---

## 4. ELEMENTS OF COMPENSATION

Section 7 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 executive members of the Board of Directors and the Executive Board members.

### 4.1. Members of the Board of Directors

In compliance with section 30 of the articles of association, the compensation of non-executive members of the Board of Directors is composed of a fixed annual fee, paid in cash, and an expense allowance.

- 4 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 in cash and based on arm's length terms and conditions.

### 4.2. Members of the Executive Board

In compliance with sections 30 paragraphs 4, 31 and 32 of the articles of associations, the total annual compensation of the executive members of the Board of Directors and 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 three or seven 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).

The total compensation of each Executive Board member is linked to his/her 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.

---

## 5. 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.

---

## 6. SPECIAL INFORMATION REGARDING 2015

### 6.1. Changes to the compensation policy during the year under review

No major change was made to the Group's compensation policy for the 2015 financial year. Shares granted to Executive Board members as part of their variable compensation were blocked for periods of three or seven years (see section 7).

### 6.2. Special information regarding 2015

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 3. The variable compensation of each Executive Board member represented between 50% and 60% of his total compensation, except for the Chief Executive Officer (see section 7). There is no pre-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.

---

## 7. 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 2015 and 2014 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 and adjusted by a discount factor of 6% for each year that such shares are blocked from sale or transfer. Such discount factor is determined in accordance with the principles applied by Swiss fiscal authorities. 105 149 (2014: 127 190) bearer shares were allocated to members of the Executive Board with a seven-year blocking period and 14 913 (2014: 15 505) with a three-year blocking period. Shares granted as part of variable compensation for fiscal years 2015 and 2014 were granted at the beginning of the respective following year.

<b>YEAR 2015</b>	<b>BASE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES CHF</b>	<b>OTHER * CHF</b>	<b>TOTAL 2015 CHF</b>
<b>BOARD OF DIRECTORS</b>						
<b>KUDELSKI ANDRÉ</b> Chairman	551 000	–	–	–	3 368	<b>554 368</b>
<b>SMADJA CLAUDE</b> Vice-chairman	130 000	–	–	–	6 222	<b>136 222</b>
<b>DASSAULT LAURENT</b> Member	40 000	–	–	–	2 694	<b>42 694</b>
<b>DEISS JOSEPH</b> Member	60 000	–	–	–	2 374	<b>62 374</b>
<b>FOETISCH PATRICK</b> Member	60 000	–	–	–	115 579 **	<b>175 579</b>
<b>KUDELSKI MARGUERITE</b> Member	50 000	–	–	–	3 368	<b>53 368</b>
<b>LESCURE PIERRE</b> Member	120 000	–	–	–	5 672	<b>125 672</b>
<b>ZELLER ALEXANDRE</b> Member	110 000	–	–	–	7 409	<b>117 409</b>
<b>ROSS ALEC</b> Member	50 000	–	–	–	3 368	<b>53 368</b>
<b>TOTAL BOARD MEMBERS</b>	<b>1 171 000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>150 055</b>	<b>1 321 055</b>

<b>YEAR 2015</b>	<b>BASE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES CHF</b>	<b>OTHER *** CHF</b>	<b>TOTAL 2015 CHF</b>
<b>MANAGEMENT</b>						
<b>KUDELSKI ANDRÉ</b> CEO	582 750	4 456 210	80 000	686 342	333 507	<b>6 058 809</b>
<b>OTHER MEMBERS</b>	1 275 000	1 131 860	40 062	377 284	60 499	<b>2 844 644</b>
<b>TOTAL MANAGEMENT</b>	<b>1 857 750</b>	<b>5 588 070</b>	<b>120 062</b>	<b>1 063 626</b>	<b>394 007</b>	<b>8 903 453</b>

\* This section includes social security charges.

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

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

<b>YEAR 2014</b>	<b>BASE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES CHF</b>	<b>OTHER * CHF</b>	<b>TOTAL 2014 CHF</b>
<b>BOARD OF DIRECTORS</b>						
<b>KUDELSKI ANDRÉ</b> Chairman	551 000	–	–	–	3 368	<b>554 368</b>
<b>SMADJA CLAUDE</b> Vice-chairman	130 000	–	–	–	6 222	<b>136 222</b>
<b>BUCHER NORBERT**</b>	15 000	–	–	–	–	<b>15 000</b>
<b>DASSAULT LAURENT</b> Member	40 000	–	–	–	2 694	<b>42 694</b>
<b>DEISS JOSEPH</b> Member	60 000	–	–	–	2 374	<b>62 374</b>
<b>FOETISCH PATRICK</b> Member	62 000	–	–	–	146 773 ***	<b>208 773</b>
<b>KUDELSKI MARGUERITE</b> Member	50 000	–	–	–	3 368	<b>53 368</b>
<b>LESCURE PIERRE</b> Member	120 000	–	–	–	5 672	<b>125 672</b>
<b>ZELLER ALEXANDRE</b> Member	110 000	–	–	–	7 409	<b>117 409</b>
<b>ROSS ALEC****</b> Member	50 000	–	–	–	3 368	<b>53 368</b>
<b>TOTAL BOARD MEMBERS</b>	<b>1 188 000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>181 248</b>	<b>1 369 248</b>

<b>YEAR 2014</b>	<b>BASE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN CASH CHF</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)</b>	<b>VARIABLE COMPENSATION IN KUDELSKI SHARES CHF</b>	<b>OTHER ***** CHF</b>	<b>TOTAL 2014 CHF</b>
<b>MANAGEMENT</b>						
<b>KUDELSKI ANDRÉ</b> CEO	582 750	3 656 210	100 000	668 385	294 914	<b>5 202 259</b>
<b>OTHER MEMBERS</b>	1 275 000	937 475	42 695	312 568	66 483	<b>2 591 526</b>
<b>TOTAL MANAGEMENT</b>	<b>1 857 750</b>	<b>4 593 685</b>	<b>142 695</b>	<b>980 953</b>	<b>361 397</b>	<b>7 793 785</b>

\* This section includes social security charges.

\*\* 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.

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

---

## **8. SHAREHOLDINGS AND LOANS GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE EXECUTIVE BOARD**

In compliance with section 33 of the articles of association, loans may be granted to a member of the Board of Directors or the Executive Board only under market conditions and, at the time they are granted, may not exceed the most recent total annual compensation of the member in question. Moreover, in compliance with section 28, paragraph 6, the Company, or any other legal entity directly or indirectly controlled by it, may pay compensation prior to its approval by the General Meeting, subject to subsequent approval and an obligation to repay such compensation in the event it is not approved by the General Meeting.

8 As of December 31, 2015 and 2014, no guarantees, loans, advances or borrowings in favor of members of the Board of Directors, members of the Executive Board or individuals closely related to such persons were outstanding.

---

## **9. OCCUPATIONAL ENTITLEMENT BENEFITS IN ADDITION TO BENEFITS SCHEMES GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE EXECUTIVE BOARD**

In compliance with section 34 of the articles of association, the Company, or legal entities controlled by the Company, may grant occupational entitlement benefits in addition to benefits schemes offered by the Company, or legal entities controlled by it, to members of the Board of Directors or the Executive Board. For a given annual compensation period, the value of such entitlement benefits may not exceed the most recent total annual compensation of the member in question. In addition, the Company or entities controlled by the Company may grant an annuity payment to former members of the Board of Directors or the Executive Board as occupational entitlement benefits in addition to benefits schemes offered by the Company or legal entities controlled by the Company. For each individual affected, such annuity payment may not, for a one year period, exceed 30% of the last annual base salary of the person prior to retirement. In lieu of an annuity, the Company may pay the occupational entitlement benefit as a lump sum payment, in which case, the amount is calculated according to actuarial calculation methods.

As of December 31, 2015 and 2014, no occupational entitlement benefits in addition to benefits schemes were in favor of members of the Board of Directors, Executive Board members or in favor of individuals closely related to such persons.

# REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT 2015

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

We have audited the accompanying remuneration report (chapters 7 and 8; pages 5 to 8) dated February 17 2016 of Kudelski S.A. for the year ended 31 December 2015.

### 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 2015 complies with Swiss law and articles 14–16 of the Ordinance.



PricewaterhouseCoopers SA

A handwritten signature in black ink, appearing to read 'C Pointet'.

Corinne Pointet  
Chambettaz  
Audit expert  
Auditor in charge

A handwritten signature in black ink, appearing to read 'Ausoni M.'.

Marc Ausoni  
Audit expert

Lausanne, February 17, 2016

# 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](mailto:INFO@NAGRA.COM) [WWW.NAGRA.COM](http://WWW.NAGRA.COM)