

2013 RESULTS

Management Discussion & Analysis

In spite of the divestiture of Abilis, an entity sold on December 13, 2012, the Group's total revenues for 2013 were at substantially the same level as in the previous year. Operating income increased from CHF 35.7 million in 2012 to CHF 60.2 million in 2013, reflecting the benefits achieved by the 2011-2012 restructuring program. Operating income net of restructuring charges decreased by CHF 7.5 million from the previous year. Net income in 2013 was CHF 43.4 million compared to CHF 15.1 million in 2012.

Currency effects were minimal in 2013, as the positive impact of the higher EUR/CHF rate was offset by the negative impact of the decreasing USD/CHF rate.

In the current year, the Group adopted retrospectively IAS 19 (revised 2011). IAS 19R eliminates the corridor method previously applied by the Group. Accordingly, as a result of this adoption, the Group's 2012 financial statements have been restated. A detailed description of IAS 19R and the impact of its adoption is provided in note 40 to our financial statements.

GROUP REVENUES AND PROFITABILITY

Total annual revenues and other operating income in 2013 declined by CHF 2.5 million to CHF 857.8 million. The "Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 14.6 million to CHF 630.3 million. Relative to total revenues, margin after cost of material increased from 71.6% to 73.5%, in spite of the CHF 0.7 million decrease in other operating income and a higher share of revenues from the Public Access segment, a business with a lower gross margin.

Personnel expenses increased by CHF 0.7 million to CHF 369.4 million. Group headcount at the end of 2013 was 3'078 full time equivalents compared to 2'931 at the end of 2012.

The Group's Kudelski Security (Cybersecurity) and Kudelski IP (Intellectual Property) initiatives were the primary drivers of this headcount increase, and associated operating expenses increased by over CHF 10 million in 2013. In addition, SKIDATA internalized previously outsourced software development activities that were booked as capital expenditures and strengthened its operations in order to support increased business volumes. The Group also established a new set-top box integration center in Spain, hiring 24 full time equivalents and continues to grow its Indian operations, increasing headcount in that country by 22 in 2013.

Compared to the previous year, other operating expenses increased by CHF 1.5 million in 2013. Legal costs related to the Kudelski IP initiative, as well as additional provisions, were higher than in the previous year. On the other hand, the Group reduced administration expenses, marketing and sales expenses and building and infrastructure costs.

The Group posted an operating income before depreciation and amortization of CHF 111.7 million in 2013, an improvement of CHF 12.2 million from 2012. Depreciation, amortization and impairment were CHF 12.3 million lower than in the previous year, reflecting the full depreciation of tangible and intangible assets made available to customers and generating recurring service revenues, as well as the reduced levels of capital expenditures over the last 24 months. Capital

expenditures for tangible and intangible assets were CHF 38.2 million in 2012 and CHF 30.2 million in 2013.

Overall, the Group generated operating income of CHF 60.2 million in 2013, representing a CHF 24.5 million improvement from 2012. Compared to the pro-forma 2012 operating income ex restructuring costs, the Group's operating profitability declined by CHF 7.5 million in 2013.

Interest expense was CHF 8.4 million in 2013, which represents less than half of the previous year, as the Group substantially reduced its indebtedness as a result of the repayment of the CHF 350 million convertible bond in October 2012. The Group posted a positive net other finance income, in spite of the marginally negative impact of foreign exchange-related items. Income tax expense in 2013 was CHF 10.2 million, which reflects the effect on deferred tax assets of a one-time accounting charge resulting from the expected decrease of the cantonal and communal income tax rate for our main operating entity from 21.8% in 2013 to 19.5% in 2016. Overall, the Group improved net profits in 2013 by CHF 28.3 million over the previous year, posting a net income of CHF 43.4 million.

INTEGRATED DIGITAL TV

iDTV revenues on a constant currency basis declined by 4.1% in 2013, as compared to the previous year. For the full year 2013, the segment reported revenues of CHF 611.8 million, down by CHF 29.5 million from 2012. Revenues in 2012 included CHF 11.7 million generated by Abilis, which was divested in December 2012.

The market downturn and high unemployment rates continued to affect the European Digital TV business, which was CHF 247.5 million in 2013, down CHF 20.7 million from the previous year. In constant currency, this represents a 9.1% decrease. The Italian market further declined in 2013, reflecting a weak first half and an improved second half. Segment revenues from Germany materially decreased compared to the previous year, as 2012 benefitted from the one-time effect of Astra switching off its analog satellite signal and the resulting increase in digital TV receivers and from higher deployments by Sky Deutschland.

The Americas region posted a revenue increase of 2.4% in constant currency, reaching CHF 248.5 million in 2013. For the first time since 2003, the Americas provided the largest revenue contribution of all regions to the iDTV segment, driven by the extension of the Group's footprint in South America. Telefonica's growth in markets such as Chile, Venezuela and Columbia, as well as the roll-out of the Group's latest middleware products in South America, are among the key drivers of the Group's growth in this region. On the other hand, following several years of increased growth, revenues from Brazil were CHF 28 million lower in 2013 than in the previous year, reflecting a consolidation of the Group's business in the second half of 2013. In the US, Dish Network continues to expand the scope of products and services sourced from the Group, resulting in a growing revenue contribution.

The Asia/Pacific and Africa region posted a revenue decline of 6.0% in constant currency, primarily due to the effect of the divestment of Abilis. Excluding the impact of this divestiture, the region increased its revenues in 2013. The region's highlights included the addition of new cable customers in India and the extension of the Group's footprint into Indonesia. Demand for digital TV services in this region, however, remains highly volatile with, for example, the first half 2013 seeing a strong demand from African customers followed by a restrained second half. Similarly, revenues from established Indian customers consolidated in 2013 following the large volumes of smart cards and set-top boxes delivered in the first half 2012.

Beyond the core digital TV business, SmarDTV posted a strong 2013, with a double digit revenue growth and an improved profitability. The Group's multiscreen activities represent a further positive highlight, gathering momentum in 2013. On the other hand, mobile TV did not generate any material volume in 2013. The Group's advertising traffic and billing business also faced significant

headwinds, resulting in weak results for the year. Finally, as in previous periods, the Group's display card business negatively impacted segment profitability, as it generated a net loss of CHF 7.5 million in 2013.

Overall, the segment's operating income strongly recovered in 2013, increasing from CHF 43.3 million to CHF 62.8 million. The reduction of operating expenses resulting from the 2011/2012 restructuring program substantially improved the cost base of the Group's core digital TV business, enabling the increase in operating profit and freeing up investment capabilities for the new Kudelski Security and Kudelski IP initiatives.

Cybersecurity secured several new customers in the financial services, government and media segments in 2013. The Group made significant investments in its Kudelski IP initiative, including headcount and legal costs. Although the Group did not generate material revenues from this initiative in 2013, a significant licensing deal with Cisco was announced in February 2014.

PUBLIC ACCESS

SKIDATA posted a 12.6% revenue increase in constant currency, reaching CHF 230.5 million in 2013. This represents the highest ever constant currency growth rate for the Public Access segment.

In Europe, SKIDATA's revenues recovered strongly in the second half of 2013, resulting in a year-on-year constant currency growth of 6.6%. Southern European markets also suffered in the Public Access sector, translating in declining revenues from markets such as France and Italy. Among the positive highlights, Germany benefitted from a strong year, and against the backdrop of the high profile win of eight prime soccer stadia, the Turkish market was a further growth contributor for SKIDATA in 2013.

In the Americas, SKIDATA performed well, with constant currency revenues increasing by 35.6% in 2013. The increase was driven by growth in both North American and South American markets, including in particular SKIDATA's first installations in Ecuador, Peru, Columbia and Uruguay, as well as new contracts for airport parking projects in the US, Chile and Uruguay.

Finally, constant currency revenues for Asia/Pacific and Africa increased by 37.2%, reaching CHF 15.4 million in 2013. This reflects improvements in the Japanese ski market and SKIDATA's first installations in several African markets, including Nigeria, Kenya and Angola.

At CHF 13.7 million, the segment's operating income was CHF 4.1 million higher in 2013 than in the previous year, reflecting a revenue acceleration in the second half of the year, which improved by CHF 6.2 million compared to the second half of 2012.

BALANCE SHEET AND CASH FLOW

Total non-current assets decreased by CHF 45.6 million to CHF 439.3 million at the end of 2013, with tangible fixed assets decreasing by CHF 7.3 million and intangible assets by CHF 18.9 million. The Group's tight control of capital expenditures enabled the reduction of both balance sheet positions. The full depreciation of assets made available to clients and generating recurring service revenues, including smart cards and equipment, also contributed to this decrease. The CHF 13.9 million reduction of financial assets and other non-current assets was primarily driven by a CHF 9.1 million reduction of long-term deferred contract costs, including the ongoing release of deferred costs related to a capitalized asset linked to the Echostar contract.

Total current assets decreased by CHF 20.3 million to CHF 411.8 million at the end of 2013. The reduction of Digital TV chips in inventory led to a CHF 4.2 million decrease of inventory to CHF 64.4 million. Trade accounts receivables increased by CHF 0.8 million in 2013, whereby the Group

reduced past due amounts by CHF 5.7 million. Other current assets declined by CHF 7.0 million in 2013, reflecting a CHF 7.9 million reduction of advances to suppliers and employees. At the end of 2013, cash and cash equivalents amounted to CHF 100.3 million.

Total equity increased by CHF 28.1 million to CHF 446.5 million. The adoption of IAS 19R had a negative equity impact of CHF 17.2 million at the end of 2013.

Total non-current liabilities declined by CHF 73.8 million due to a further reduction of long-term financial debt, which decreased by CHF 71.3 million to CHF 123.4 million at the end of 2013. The Group reduced total current liabilities by CHF 20.2 million, mainly through the CHF 14.8 million reduction of short-term financial debt to CHF 59.3 million, which was enabled by another strong year of cash generation.

In 2013, the Group generated CHF 120.9 million of cash from operating activities, compared to CHF 110.5 million in 2012. The Group used CHF 27.6 million of cash for investing activities in 2013, roughly the same amount as in the previous year, which reflects continued tight management of capital expenditures. Cash used for financing activities amounted to CHF 102.1 million. This included a CHF 86.7 million reimbursement of bank overdrafts, long-term loans and other non-current liabilities, as well as the CHF 10.8 million dividend paid by Kudelski SA in 2013. The effect of changes in foreign exchange rates on cash and cash equivalents was less than CHF 1 million in 2013.

OUTLOOK

For 2014, the Group expects a growing top line and forecasts a stable profitability. While the revenue contribution from the Kudelski IP initiative is difficult to predict, a significant patent cross license agreement was signed with CISCO in January 2014 and will provide a positive contribution to the Group's 2014 P&L, supporting the increasing levels of investments in 2014. The Group expects its cybersecurity business line to maintain its positive momentum coming into 2014, further contributing to Group's top line growth. On the other hand, other operating income is expected to be lower in 2014. In the core Digital TV market, weak fundamentals in Europe will continue to affect volumes. Finally, in the Public Access segment, the Group expects a solid single digit revenue growth as well as further positive development of operating income.