KUDELSKI GROUP
2014 ANNUAL REPORT

NAGRA
KUDELSKI GROUP

HIGHLIGHTS

- Growth in revenues, operating income and net income from continuing operations
- Stronger digital TV market leadership through Conax acquisition
- Patent license agreements with Cisco and two additional licensees
- Product relationship agreement with Netflix
- OpenTV 5, anyCAST, MediaLive and QuickStart gaining momentum
- Further streamlining of Group portfolio through divestment of NagraID, NagraID Security and Traffic and Billing assets
- Strengthening international footprint in Public Access (US and Australia)

KEY FIGURES

2014 KEY FIGURES

2014 Group revenues in constant currency increased by 8.1% over the previous year, primarily driven by the one-time license revenue from the Cisco agreement and by the consolidation of Conax's revenues starting in April 2014. Reported revenues increased by 7.2% à CHF 879.8 million.

The Group reported operating income of CHF 68.1 million, representing growth of 24.9%. Net income from continuing operations improved from CHF 39.4 million to CHF 50.4 million.

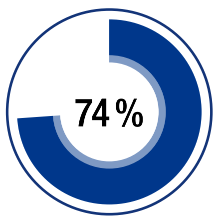
Currency effects were marginally negative, as the average USD/CHF rate declined to 0.92 as compared to 0.93 in 2013 and the EUR/CHF rate declined from 1.23 to 1.21.

In million CHF	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenues and other operating income	895.1*	836.2*	860.3	896.6	1 069.3
Operating income	**68.1***	**54.5***	**35.6**	**25.4**	**110.0**
Net income	**50.4***	**39.4***	**15.1**	**-17.7**	**66.7**

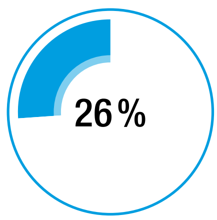
* from continuing operations

REVENUE BREAKDOWN BY SECTOR

In thousand CHF	**2014**
Integrated Digital TV	648 433
Public Access	231 381
Total	**879 814**



INTEGRATED DIGITAL TV

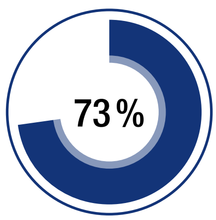


PUBLIC ACCESS

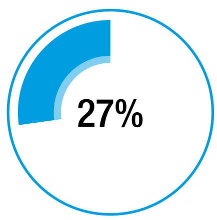
EMPLOYEE BREAKDOWN BY SECTOR

Integrated Digital TV	73%
Public Access	27%
Total	**100%**

Total employees at 31.12.2014: **3034**

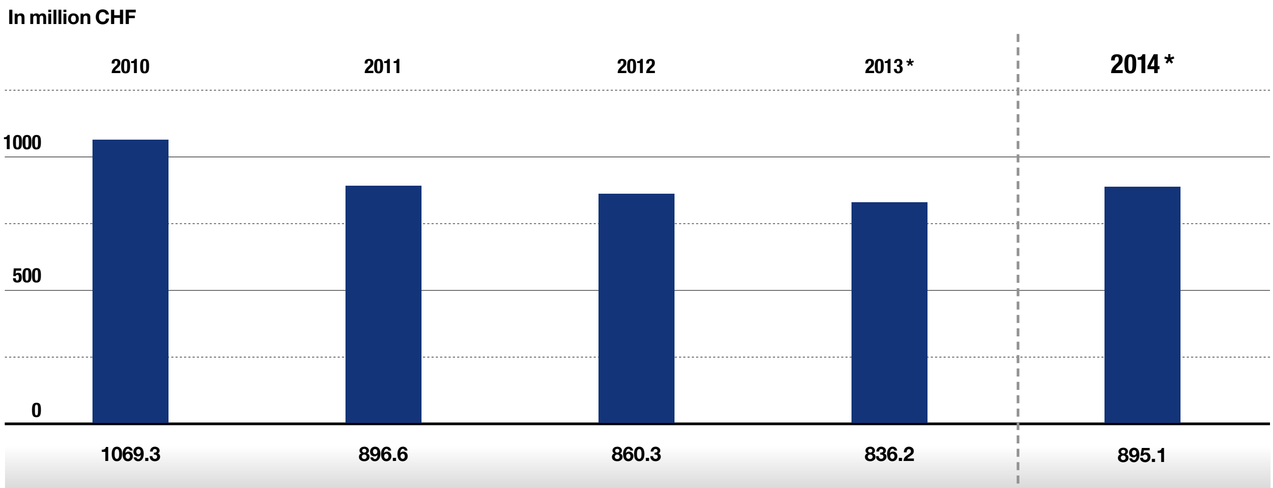


INTEGRATED DIGITAL TV

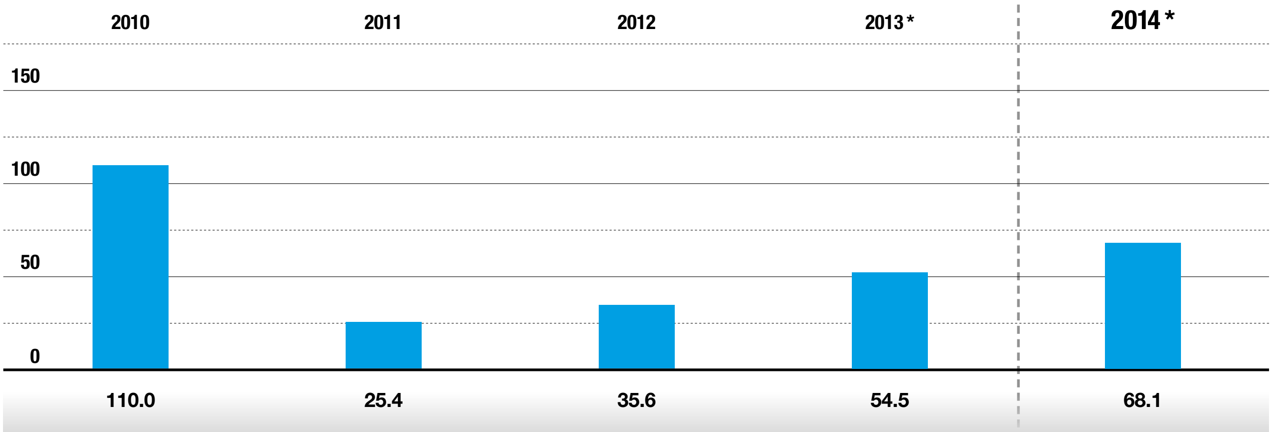


PUBLIC ACCESS

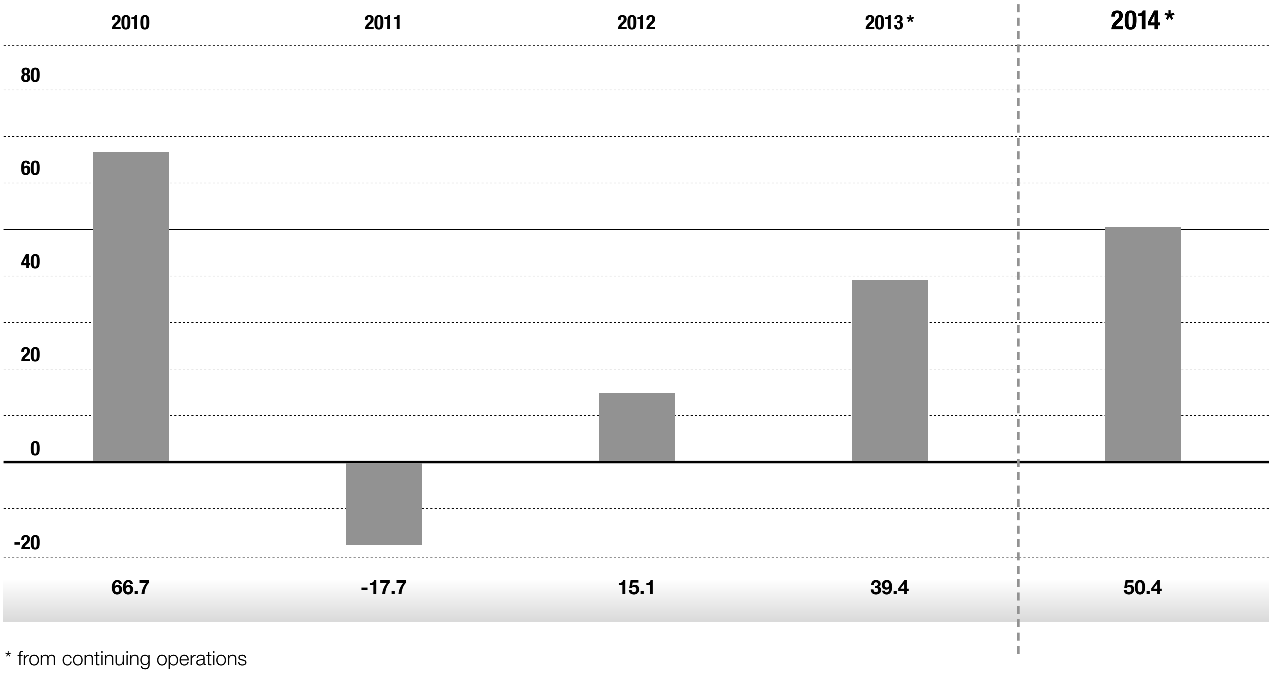
TOTAL REVENUES AND OTHER OPERATING INCOME



OPERATING INCOME



NET INCOME



* from continuing operations

CONTENTS

CHAIRMAN'S LETTER

In 2014, total revenues and other operating income from continuing operations of the Kudelski Group increased by 7.1% to CHF 895 million. Related operating income and net profit increased respectively by 24.9% to CHF 68.1 million and 27.9% to CHF 50.4 million.

During the year, the Group undertook a major transformation of its Digital TV activities. The goals were to expand the Group's global market share, improve its competitiveness in the Digital TV market, refine its product portfolio and improve overall profitability.

The Group achieved these goals through the following initiatives:

– **Acquisition of Conax**, a leading CAS supplier of standardized solutions with expertise operating in emerging markets;

– **Outsourcing of smart card manufacturing** – a form factor that is but one of many in the new Digital TV ecosystem where Internet TV and multiscreen are the growth drivers for content consumption; and

– **Divestment of NagraID** (smart card production), NagraID Security (display cards) and OpenTV's traffic and billing solution for cable networks.

By successfully executing on these key initiatives, the Group was able to strengthen its presence in emerging and entry level markets, optimize its supply chain management and reduce costs by streamlining its business portfolio.

In parallel with these more visible efforts, the Group also continued to make significant progress with its business excellence initiatives. Achievements in 2014 include the consolidation of the Group's two European sales and service regions into a single EMEA region and focused efforts to enhance the ability to deliver multiple complex projects while continuing to meet demanding client expectations.

A key driver of the Kudelski Group's transformation is the rapid evolution of the markets in which the Group operate. The Group is committed to being proactive in the face of such evolution by making material R&D investments for the long term, with annual investments estimated in the CHF 200 million range. The Group intends to dedicate a growing part of its R&D budget to address key market demands with a special focus on Internet TV and cybersecurity.

This high level of R&D investment in new growth initiatives has been enabled by the important cost saving initiatives undertaken in recent years to improve productivity per CHF spent, streamline the business portfolio, achieve a smarter location mix and reduce the cost of maintaining legacy solutions.

The dramatic increase of content distribution channels together with the fragmentation of end user devices have increased the need and desire in the market to rationalize and standardize the way of handling this level of diversity. Simply put, a service providers' ability to remain competitive in this market will, in many respects, depend upon its ability to maintain cost-effectively a family of solutions that meets customer expectations. Our efforts to transform our business, increase the level of R&D investment for the future and be proactive about market evolution means that the Kudelski Group will stay keenly focused on offering its customers the solutions they need to remain competitive in an increasingly challenging environment.

Traction of Next Generation iDTV Solutions
The Group's iDTV Internet solutions continued to gain market share in 2014 with a growing number of clients deploying the Group's OTT, PRM, Multiscreen and OpenTV5 connectware solutions. OpenTV5 significantly increased its footprint through major deployments in South America and Asia and has been extremely well-received by end users.

Conax
Conax's business was consolidated into Group for 9 months in 2014 and performed according to expectations. Conax continued its growth, expanding especially in emerging markets. Integration efforts within the Group have proceeded well and coordination between Conax and the Group's other iDTV entities should generate additional synergies in 2015.

New Initiatives
Kudelski Security expanded its cybersecurity footprint in 2014, offering important new solutions and services for customers in the Finance, Government and Media sectors. In January 2015, Kudelski Security officially launched the Kudelski Security Fusion Center, an advanced real-time end-to-end cyber threat monitoring solution.

Following the January 2014 patent cross-licensing agreement with Cisco, Kudelski Intellectual Property further developed its activities and signed two new patent licensing deals in 2014. In January 2015, the Group resolved its pending patent litigation with Netflix and signed a significant product relationship agreement with Netflix, with the goal of enabling the delivery of Netflix content using Kudelski Group technologies and expanding the footprint of iDTV's OTT security and middleware products.

Public Access
The Group's Public Access segment grew by 2.8% last year in constant currency. The segment's operating profit increased by 7.9% to reach CHF 14.8 million. SKIDATA undertook a number of steps in 2014 that positions the company well for 2015 and beyond, including the acquisition of its primary US distributor, Sentry Control Systems in California, which is expected to contribute positively to revenues in 2015. SKIDATA will continue to develop its international market presence through direct market entry into Brazil, Turkey, Malaysia and Uruguay.

Dividend
Taking into account the Group's performance in 2014 and the outlook for 2015, the Board of Directors has proposed a dividend of CHF 0.30 per bearer share for approval at the Annual Shareholders' Meeting. This means a distribution of CHF 0.30 per bearer share, with 0.20 treated as a return of capital and CHF 0.10 paid from retained earnings. The distribution on each registered share will amount to CHF 0.03, with CHF 0.02 treated as return of capital and 0.01 paid from retained earnings.

Outlook
Coming into 2015, the Group expected to reap the full benefit of the business transformation accomplished in 2014, while at the same time accelerating its investments in new growth initiatives. The decision of the Swiss National Bank on January 15, 2015 to discontinue the minimum exchange rate of CHF 1.20 per Euro materially impacted the Group's expected top line and profitability for 2015.

However, the Group's business transformation as well as new measures adopted quickly during the first weeks of 2015 have demonstrated the resilience of the Group's operations in spite of the disruption of the Swiss Franc exchange rate against most major currencies and the fact that 95% of the Group's revenues are generated in currencies other than the Swiss Franc.

In order to reduce the Group's sensitivity to the Swiss Franc, the Group undertook measures in early 2015 to reduce the sourcing of goods and services in Swiss Francs, limit hiring activity in Switzerland and favor hiring activity at the Group's facilities located in lower cost locations.

The Kudelski Group will continue to make significant efforts at all levels in order to continue the positive evolution of its business. Our teams are fully committed to act in a proactive way to make this happen. On behalf of the Board of Directors, I would like to thank our customers, employees, shareholders and other stakeholders for their continued support and trust during this past year.

ANDRÉ KUDELSKI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

FINANCIAL REVIEW

In 2014, the Group embarked upon a fundamental restructuring of its business portfolio, realigning and further strengthening its position in the digital TV markets. With the acquisition of Norway-based Conax in April, the Group added to its portfolio a highly efficient provider of flexible, cost-effective content security solutions for telco, cable, satellite, IP, mobile and terrestrial operators, enabling the Group to offer a full spectrum of solutions across a broad range of markets and customers.

In the first half 2014, the Group optimized its smart card sourcing and completed the sale of its NagraID subsidiary, achieving a key milestone in its effort to streamline supply chain management and further reducing its cost structure. In August, the Group sold its interest in NagraID Security, a provider of display cards securing the access to e-banking and e-commerce services through two-factor authentication, to Oberthur Technologies. This transaction includes an earn-out component, which will allow the Group to share the prospective upside in the display card market. These entities' results are presented as "net result from discontinued operations" in the consolidated income statements for 2014, and the 2013 income statements have been restated accordingly.

In October, the Group completed the sale of its traffic and billing product line to Imagine Communications, further streamlining and focusing its business portfolio.

Additionally, the Group signed a significant patent cross license agreement with Cisco in January 2014, which provided a positive contribution to the income statement in the first half and supported the increasing level of investment in the Group's intellectual property efforts. Two smaller patent license agreements were completed in the second half of the year.

2014 Group revenues in constant currency increased by 8.1% over the previous year, primarily driven by the one-time license revenue from the Cisco agreement and by the consolidation of Conax's revenues starting in April 2014. Reported revenues increased by 7.2% to CHF 879.8 million.

The Group reported operating income of CHF 68.1 million, representing growth of 24.9%. Net income from continuing operations improved from CHF 39.4 million to CHF 50.4 million.

Currency effects were marginally negative, as the average USD/CHF rate declined to 0.92 as compared to 0.93 in 2013 and the EUR/CHF rate declined from 1.23 to 1.21.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income in 2014 increased by CHF 58.9 million to CHF 895.1 million. Revenues grew by CHF 58.9 million, and other operating income marginally increased to CHF 15.3 million, reflecting a gain of CHF 3.2 million from the sale of an operating unit that was partially offset by reduced innovation subsidies received by the Group's operations in France ("Crédit d'Impôt Recherche") as the Group continued to reduce its French cost base.

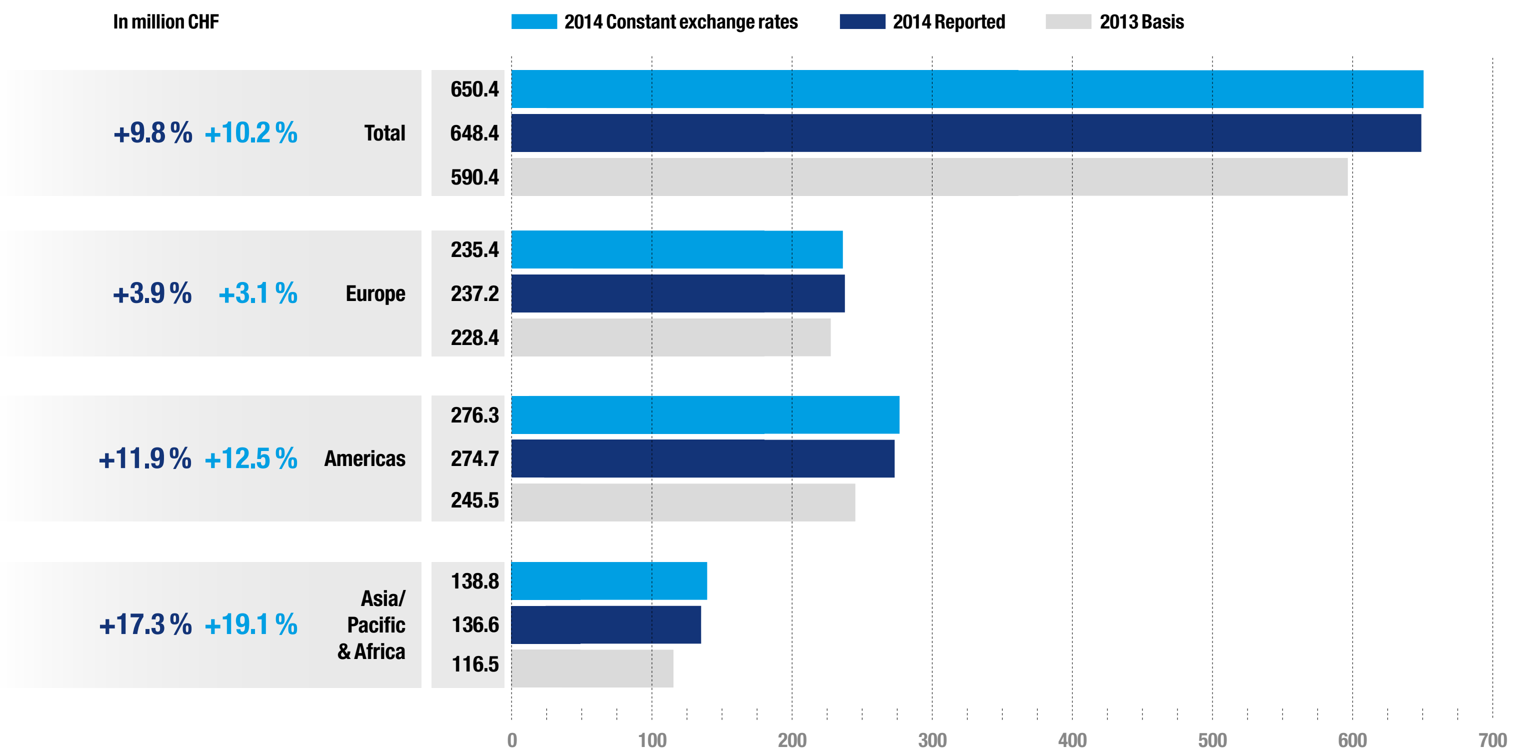
"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 67.2 million to CHF 655.6 million. Relative to total revenues, margin after cost of material increased from 70.4% to 73.2% due to the favorable impact of the Cisco patent license agreement and the significant margin improvement obtained by outsourcing the production of digital TV smart cards. The Group's Integrated Digital TV business started to benefit from these cost savings through lower arm's length transfer prices from the beginning of the year. The loss generated by NagraID in 2014 is reported in the line item "net result from discontinued operations."

Personnel expenses increased by CHF 32.2 million to CHF 380.6 million, reflecting the consolidation of Conax's operations. Total Group headcount at year end was 3 034 full time equivalents compared to 3 088 at the end of 2013. Headcount at the end of 2014 includes 150 Conax employees in Norway and an increase of 63 employees in India. The increased headcount in India was part of the Group's effort to rebalance its Asian R&D operations and also includes a reduction of headcount in China by 68 full time equivalents. In Switzerland, the Group reduced overall headcount by 140 primarily due to the divestment of NagraID and in spite of the continued build-up of the cybersecurity unit.

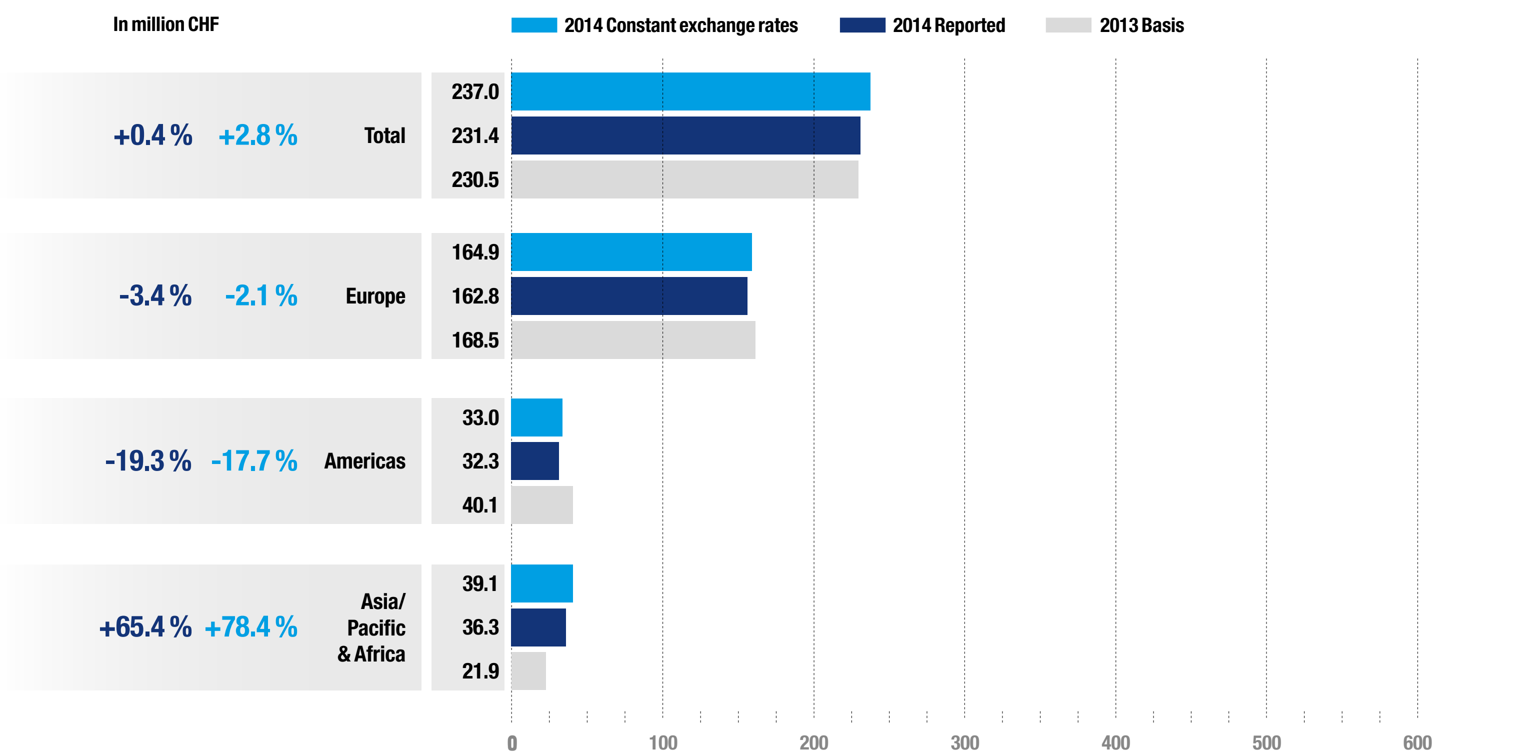
REVENUE BREAKDOWN

EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



Compared to 2013, other operating expenses in 2014 grew by CHF 23.5 million to CHF 163.8 million. Legal and consultancy expenses increased by CHF 11.7 million, primarily due to increased legal expenses related to patent enforcement and licensing efforts. Total provisions of CHF 9.3 million were recorded in 2014 compared to CHF 2.4 million in the previous year. On the other hand, the Group reduced development and engineering expenses by CHF 5.3 million through the internalization of previously outsourced activities.

The Group's operating income before depreciation and amortization was CHF 111.3 million in 2014, a CHF 11.6 million increase from the previous year. At CHF 43.2 million, depreciation, amortization and impairment were CHF 2.0 million lower, reflecting the divestment of the capital intensive card production business and reduced levels of capital expenditures over the past three years, which was partially offset by CHF 7.1 million of additional amortization of intangible assets acquired as part of the Conax transaction.

Overall, the Group generated operating income of CHF 68.1 million in 2014, representing a CHF 13.6 million improvement compared to 2013.

At CHF 11.9 million, interest expense increased by CHF 3.5 million over the previous year, as the Group entered into a new syndicated credit facility in connection with the acquisition of Conax and fully amortized transaction costs of the prior credit facility. The Group posted CHF 5.6 million of net finance income in 2014, primarily due to a CHF 6.2 million positive foreign exchange effect. Income tax expense increased by CHF 3.2 million to CHF 13.0 million. Overall, the Group improved net income from continuing operations by CHF 11.0 million in 2014 to CHF 50.4 million.

As the Group took the decision to divest NagraID and NagraID Security during this reporting period, their results are presented as "net loss from discontinued operations." The Group retained the key patents relating to the NagraID and NagraID Security businesses. Proceeds from both sales transactions primarily consisted of earn-out components. As only a CHF 7.0 million earn-out was capitalized, these transactions resulted in a book loss of CHF 8.5 million. The aggregate 2014 net loss for NagraID and NagraID Security amounts to CHF 8.8 million. Overall, net result from discontinued operations amounted to CHF 17.4 million, resulting in net income for the period of CHF 33.1 million.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 9.8% to CHF 648.4 million, representing a 10.2% constant currency growth.

The Group's European iDTV business posted constant currency growth of 3.1%. Southern European markets, including Italy, Spain and Portugal, started to recover following the decline of the previous years, increasing their revenue contribution from 2013. With the addition of Conax, the Group significantly strengthened its position in Scandinavia and in some key Eastern European markets. However, the Group's Northern European markets experienced lower growth compared to the previous year, with the UK, Germany, France and the Netherlands posting lower 2014 revenues.

The Americas region generated constant currency growth of 12.5%, with revenues reaching CHF 274.7 million in 2014. In addition to the solid performance of DISH Network in North America, the patent license agreement with Cisco drove this region's top line growth. In Brazil, following some years of exceptionally high volumes, business reverted to a lower revenue level in 2014, generating for the Group less than half of the level of revenues seen in 2012. Other South American markets, such as Ecuador, Peru and Paraguay, gained momentum delivering meaningful growth in 2014.

The Asia/Pacific and Africa region posted constant currency growth of 19.1%, reflecting strong momentum in the second half of the year. 2014 iDTV revenues in this region were CHF 136.6 million. The Indian market, in particular, recovered following a weak first half. iDTV also benefited from the extension of its footprint in the region, with Vietnam, Russia, Taiwan and several African markets delivering increased revenues.

Overall, operating income from the iDTV segment improved by 25.8%, reaching CHF 71.8 million in 2014. The patent license agreement with Cisco materially contributed to both the segment's top line and profitability. Two additional patent license agreements signed in the second half further supported this segment's results. Beginning in April 2014, the iDTV segment benefited from the consolidation of the Conax business. Furthermore, optimization of the supply chain and process improvements enabled a further increase in profitability. On the other hand, fundamentals in the core digital TV market continue to remain challenging, in spite of positive developments in the United States, selected Asian markets and Africa and in product areas such as embedded security and multiscreen solutions.

In 2014, we continued to invest in the development of the Group's cyber security business. The customer portfolio continued to grow at expected levels.

PUBLIC ACCESS

SKIDATA continued its growth momentum in 2014 with revenues reaching CHF 231.4 million, a 2.8% increase in constant currency. In the previous year, SKIDATA delivered an exceptional 12.6% constant currency growth.

In Europe, SKIDATA's revenues slowed down in the second half, resulting in a 2.1% constant currency decline, mainly due to lower revenues in large markets such as France and Germany.

In the Americas, 2014 constant currency revenues declined by 17.7%, in spite of a recovery during the second half. In 2013, SKIDATA recognized material revenues from the Dallas airport installation and benefited from new contracts for airport parking projects in several South American markets. Compared to 2012, SKIDATA's 2014 revenues from this region were 9% higher.

Constant currency revenues for Asia/Pacific and Africa grew by 78.4% in 2014, representing a CHF 14.4 million revenue increase in absolute terms. SKIDATA continues to expand its geographic footprint and gained a critical mass in markets such as Australia and South Africa, where the company established a material revenue base in 2014.

Overall, SKIDATA completed 650 installations in 50 countries during the year, including 20 new airport projects. SKIDATA continued to upgrade its product portfolio, with the next generation Power-Gate, Lite-Gate and Barrier-Gate solutions establishing a strong foundation for higher expected volumes in 2015. In addition, SKIDATA will benefit in 2015 from the consolidation of Sentry Control Systems, the newly acquired US distributor, and from the operations of new affiliates in Australia, Turkey, Malaysia and Uruguay.

At CHF 14.8 million, operating income from the Public Access division was CHF 1.1 million higher in 2014 than in the previous year, reflecting strong cost controls that also enabled continued investments in the development of new products and expansion into new markets.

BALANCE SHEET AND CASH FLOW

Total non-current assets increased by CHF 183.0 million to CHF 622.3 million at the end of 2014, with tangible fixed assets decreasing by CHF 14.3 million and intangible fixed assets growing by CHF 199.3 million. The Group's continued tight control of capital expenditures enabled this further reduction of tangible fixed assets. The increase of intangible fixed assets was primarily due to the consolidation of Conax, which resulted in additional goodwill of CHF 145.0 million and an additional CHF 74.9 million of intangible fixed assets mainly relating to customer lists and technology. The CHF 8.0 million reduction of financial assets and other non-current assets was primarily driven by a reduction of long-term deferred contract costs. Financial assets and other non-current assets include CHF 7.0 million of contingent consideration related to future expected earn-outs from the NagraID and NagraID Security transactions.

Total current assets increased by CHF 18.2 million to CHF 430.0 million at the end of 2014. The divestment of NagraID and NagraID Security and the related supply chain improvements were the primary drivers of the CHF 17.3 million reduction in inventory. Trade accounts receivable increased by CHF 22.8 million, as the Group generated significant revenues during the last quarter of 2014. The quality of receivables, however, remains strong, as amounts overdue for more than one month declined from the previous year. Other current assets increased by CHF 20.6 million, mainly reflecting a CHF 13.5 million increase in amounts due from government grant programs. The Group expects to reduce this item in 2015 to levels consistent with prior years, as it expects to collect the outstanding government grant amounts classified as other current assets. At the end of 2014, cash and cash equivalents amounted to CHF 92.4 million.

Total equity declined by CHF 9.1 million in 2014, as the Group generated positive net income but distributed a CHF 16.2 million dividend, deconsolidated NagraID Security, booked a CHF 12.5 million remeasurement on post-employment benefit obligation and incurred a negative CHF 9.9 million currency translation adjustment. Total non-current liabilities increased by CHF 163.5 million, primarily reflecting an increase in long-term financial debt of CHF 131.8 million. In connection with the Conax acquisition, the Group obtained a long-term credit facility of CHF 235 million with a five-year term and drew CHF 200 million of this facility to finance the acquisition. The Group repaid CHF 35 million of this facility during the second half of 2014.

The increase of intangible assets from the Conax transaction led to a CHF 12.9 million increase of deferred income tax liabilities. In addition, the Group's employee benefit-related liabilities increased by CHF 18.0 million mainly due to the reduction of the discount rate assumption underlying the calculation of defined benefit obligations.

The Group increased total current liabilities by CHF 46.8 million, primarily due to an increase of short-term financial debt from CHF 59.3 million to CHF 75.8 million.

In 2014, the Group generated CHF 109.3 million of cash from operating activities. The Group used CHF 240.7 million of cash for investing activities. This includes the CHF 211.5 million investment for the acquisition of Conax. Continued tight management of capital expenditures enabled the Group to support its strong cash generation, with cash used for purchasing tangible and intangible assets representing less than CHF 30 million in 2014. Cash from financing activities amounted to CHF 123.0 million. This includes in particular CHF 200 million from the syndicated credit facility entered into in connection with the Conax acquisition, a CHF 35.0 million partial repayment of this facility, the CHF 30.0 million final repayment of the Group's prior credit facility and the CHF 16.2 million dividend paid in 2014 by Kudelski SA. The overall effect of changes in foreign exchange rates on cash and cash equivalents in 2014 was marginally positive at CHF 0.6 million.

OUTLOOK

On January 15, 2015, the Swiss National Bank discontinued the EUR/CHF 1.20 exchange rate floor. As a result, the Swiss Franc significantly appreciated compared to most currencies. In addition to a translation effect, this appreciation will have a materially negative impact on the Group's 2015 revenue and operating income, as over 90% of the Group's revenues are denominated in USD or EUR, while 25% of its total costs (aggregate cost of material and operating expenses) are in Swiss Francs. Furthermore, the one-time contribution of the patent license agreement with Cisco in 2014 will affect the year-on-year comparison of revenues and profits in 2015.

The Group has initiated measures to mitigate the negative impact of the above developments, in particular through the ongoing optimization of its operations. Furthermore, the 2015 income statement will consolidate an additional quarter of Conax's results, and new Group business initiatives, including in particular cybersecurity, are expected to maintain their positive momentum and increase their contribution to the Group's top line.

Finally, in the Public Access segment, the Group expects accelerated sales momentum, as SKIDATA will increasingly benefit from its state-of-the-art product portfolio and from the integration of newly acquired distributors in the United States and Australia.

GROUP PROFILE


OUR SOLUTIONS ENABLE
SERVICE PROVIDERS TO MANAGE
ALL TYPES OF CONTENT AND
SERVICES OVER INCREASINGLY
COMPLEX NETWORKS

ACTIVITY SECTORS

A GLOBAL TECHNOLOGY LEADER

The Kudelski Group is a global leader in digital security and convergent media solutions for the delivery of digital and interactive content. Its technologies are used in a wide range of services and applications requiring access control and rights management to secure the revenue of content owners and service providers for digital television and interactive applications across broadcast, broadband and mobile delivery networks. The Group also offers cyber security solutions and services focused on protecting companies data and systems and helping them assess risks and vulnerabilities. Through its subsidiary SKIDATA, the Kudelski Group is a world leader in the area of public access systems to manage access of people and vehicles to sites and events. Kudelski is headquatered in Cheseaux, near Lausanne, Switzerland, and is listed on the SIX Swiss Exchange (KUD.S).

A long-standing NAGRA history
The Kudelski Group's history and heritage revolves around the flagship name of NAGRA, originally referring to the world-famous recorder developed by Stefan Kudelski. The company has ever since been a technology pioneer driven by André Kudelski's vision and sense of innovation. In the past decade, the Kudelski Group has become one of the most prominent providers of solutions addressing the entire digital media ecosystem.

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Present in 31 countries around the world

INTEGRATED DIGITAL TV SOLUTIONS

The integrated Digital Television (iDTV) division provides secure digital TV access and management systems. These security technologies offer content owners and digital TV operators worldwide secure, integrated platforms and applications over broadcast, broadband and mobile networks enabling compelling and personalized viewing experiences. This extensive security expertise is also leveraged by the Group's cyber security solutions, which are designed to protect companies' operations and reputation as well as individuals' privacy.

NAGRA KUDELSKI — Customized, integrated security and multiscreen user experience solutions for the monetization of digital media for large operators

conax KUDELSKI GROUP — Standardized innovative and cost-efficient solutions to deliver premium content securely over broadcast, broadband and connected devices

opentv — Next-generation middleware/connectware platform for the deployment of a consistent cross-device user experience and interactive applications

SMARDTV — Renewable Conditional Access Modules for digital TV access; range of Standard Definition and High Definition broadcast, hybrid and OTT set-top boxes

KUDELSKI SECURITY — Tailor-made cyber security solutions and services for enterprises, financial institutions, government agencies and media customers

PUBLIC ACCESS SOLUTIONS

The Public Access division designs integrated solutions to provide seamless, user-friendly access for people and vehicles to sites and installations.

SKIDATA® KUDELSKI GROUP — Integrated access and management solutions for car parks, ski lifts as well as sports, cultural, entertainment and exhibition facilities

A PIONEER AND A WORLD LEADER IN DIGITAL SECURITY

HISTORICAL OVERVIEW

1951
- Creation of the company by Stefan Kudelski and launch of the first portable recorder, the NAGRA.

1958
- Release of the NAGRA III,the legendary radio, TV and cinema recorder.

1965
- US agencies start using the miniature NAGRA SN secretly. Worldwide expansion from 1974.
- Oscar from the Academy of Motion Picture Arts and Sciences for the design and development of the NAGRA ¼ inch tape recording system for motion picture sound recording.

1970
- Oscar from the Academy of Motion Picture Arts and Sciences for the continuing research, design and development of the NAGRA production sound recorder for motion picture.

1972
- The Alan B. Gordon Award for technical excellence of the NAGRA SN recorder.

1977
- Oscar Class II Award from the Academy of Motion Picture Arts and Sciences for the engineering and the development of the NAGRA 4.2L sound recorder for motion picture sound recording.

1978
- FBI appreciation of technical assistance to the FBI's Audio Analysis Unit.

1983
- Joint project with Ampex (US) and launch of the AMPEX-NAGRA VPR-5, the world's smallest, lightest professional portable C-format video recorder.

1984
- Emmy Award from the Academy of Television Arts and Sciences for the development of an extremely light weight and compact portable 1 inch tape NAGRA/Ampex type C VTR.

1986
- Emmy Award from the Academy of Television Arts and Sciences for outstanding achievement in engineering development for the NAGRA portable recorders.

1989
- CANAL+ adopts Kudelski's access control system for pay television.

1991
- André Kudelski succeeds Stefan Kudelski as Chairman and Chief Executive Officer.
- Conditional access TV systems become Kudelski's core business.
- Gordon E. Sawyer Award, a special Oscar from the Academy of Motion Picture Arts and Sciences to "an individual in the motion picture industry whose technological contributions have brought credit to the industry."

1992
- Creation of NAGRA+, a joint-venture with CANAL+.

1996
- André Kudelski receives an Emmy Award from the National Academy of Arts and Sciences for achievements in the area of pay-TV conditional access and scrambling systems.

1997
- Digital pay television becomes the company's core business.
- NAGRA Audio launches a range of high-end Hi-Fi products.

1965 1970 1972 1977 1978

1998 • Creation of NagraStar, a joint-venture with EchoStar.

2001 • Acquisition of SKIDATA, inventor of the first hands-free ski access system.

2006 • Acquisition of the Digital TV activity of SCM Microsystems resulting in the creation of SmarDTV.

2007 • Acquisition of a controlling interest in OpenTV.

2009 • OpenTV becomes a 100% Kudelski entity.

2010 • Expansion strategy focusing on emerging markets.

2012
- Launch of Kudelski Security, the cyber security business of the Group.
- Continued extension of Public Access global footprint.

2013
- Production launch of OpenTV 5.
- Launch of PRM content security at DISH Network.

2014
- First major patent license agreement signed with Cisco.
- Kudelski Group is the N°1 CAS provider worldwide with the acquisition of Conax.
- Divestment of NagraID and NagraID Security.
- Divestment of OpenTV's traffic and billing product line.

2015
- SKIDATA expands in the US with the acquisition of Sentry Control Systems.
- Kudelski Security launches the first Swiss Cyber Fusion Center.
- Cooperation agreement with Netflix.
- To be continued…

CONGRATULATIONS TO CANAL+ ON ITS 30TH ANNIVERSARY

CANAL+ celebrated its 30th anniversary in 2014. Back in 1989, Nagravision introduced SYSTER for scrambling CANAL+ analog satellite television programs.

Twenty-five years ago, CANAL+ placed its confidence in a new technology created by André Kudelski and his team at the Kudelski Group that offered the first content protection technologies. This choice, which contributed to the success of CANAL+, was also the springboard that enabled the Kudelski Group to become today's world leader in conditional access and digital TV technologies.

1984

1986

1991

1996

INTEGRATED DIGITAL TELEVISION

THE DIVISION FURTHER EXPANDED ITS FOOTPRINT BY DEPLOYING FIRST-CLASS SOLUTIONS ADDRESSING THE NEEDS OF THE RAPIDLY CHANGING DIGITAL TV ECOSYSTEM WORLDWIDE


JOIN IN
FEATURED
VOD
WATCH
LIVE TV
010
VOD
Maleficent
1 h 23 min

NAGRA
SOLUTIONS AND SERVICES

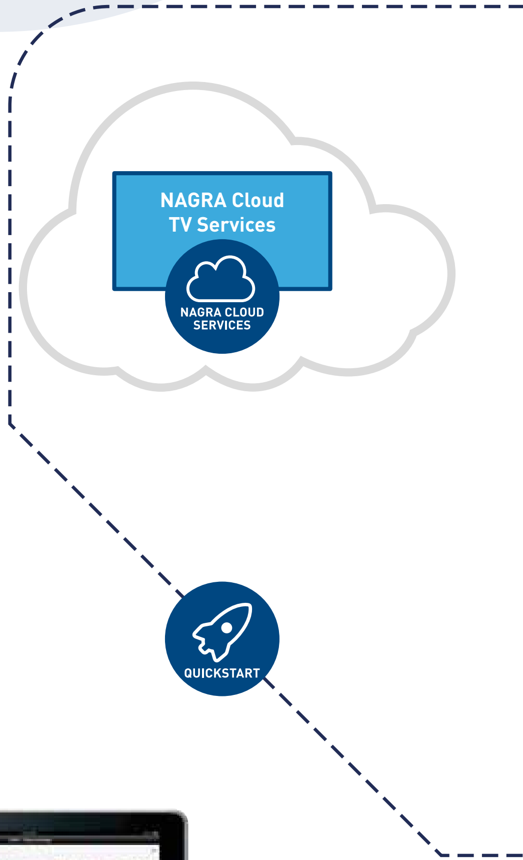
130+ Customers US$ 70B content revenues protected by NAGRA solutions

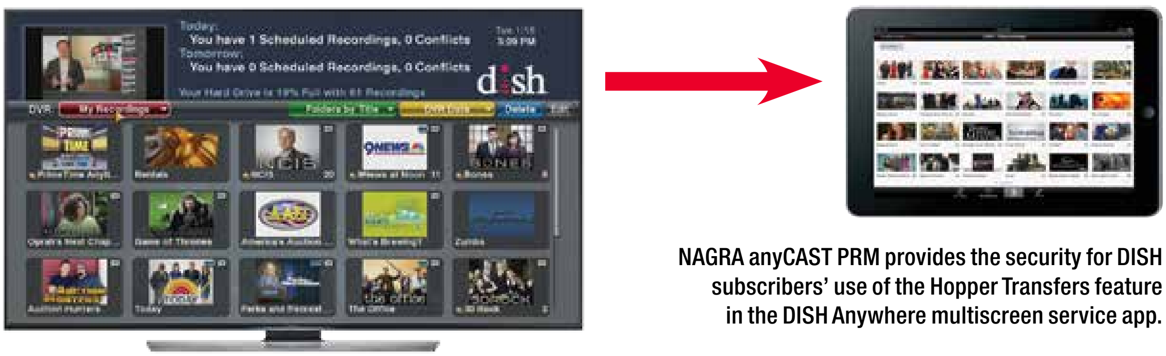
OVER TWO DECADES OF PAY-TV EXPERIENCE

With over two decades of pay-TV experience, NAGRA is the world's leading supplier of content protection products and solutions. 130 of the world's largest and most advanced pay-TV service providers have selected NAGRA as their trusted partner for protecting their revenues and deploying innovative business models on broadcast, telco and Internet networks.

Working with content owners, telco operators and pay-TV service providers, NAGRA offers a broad range of products that satisfy the digital television technology ecosystem needs across Internet (IPTV & OTT), satellite, cable, terrestrial and hybrid transmission systems.

NAGRA's visionary product and R&D teams are deeply immersed in the demands and dynamics associated with digital life. The solutions being offered are welcomed by viewers as well as easily embraced by service providers as they balance cutting-edge technology and engaging user experiences.

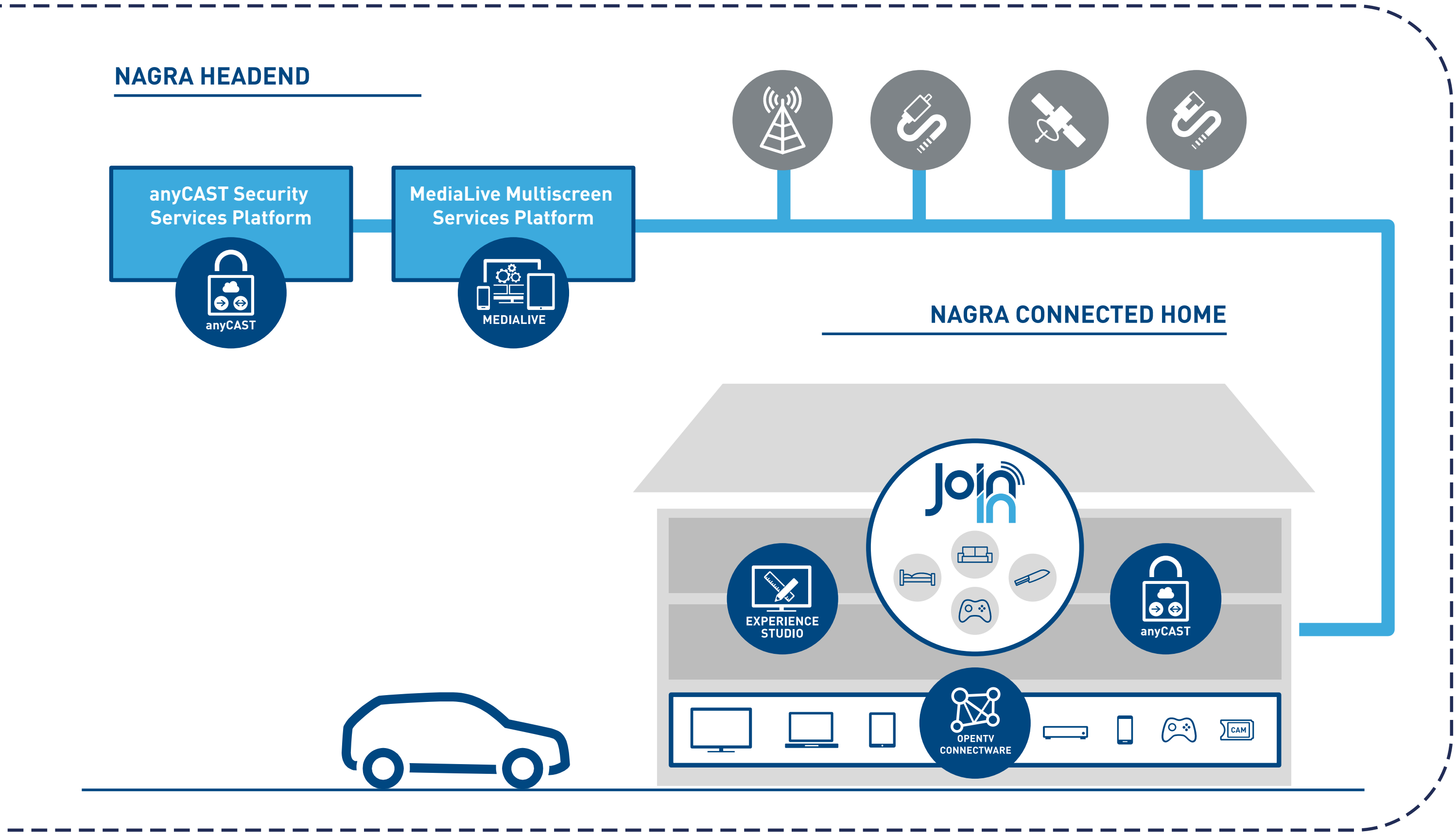




NAGRA anyCAST PRM provides the security for DISH subscribers' use of the Hopper Transfers feature in the DISH Anywhere multiscreen service app.

With 25 years of proven experience, NAGRA offers the full range of security technologies.

NAGRA's solutions address the full digital media ecosystem with a focus on bringing premium entertainment to any type of screen. With NAGRA, service providers have a one-stop-shop for their present and future security needs.



DISH Network deployed the NAGRA MediaLive Secure Player
NAGRA further extended its security partnership with DISH Network and EchoStar Technologies, a wholly-owned subsidiary of EchoStar Corporation. Working together, DISH and EchoStar deployed the NAGRA MediaLive Secure Player with NAGRA's DECE-approved Persistent Rights Management (PRM) technology, NAGRA's studio-approved DRM solution, to enable and secure the DISH Anywhere multiscreen video-on-demand service, which provides premium content to computers, smartphones and tablets.

NAGRA
CORE CONTENT PROTECTION

NAGRA anyCAST CONTENT SECURITY RANGE

Security is a fundamental area of expertise and differentiation for the Group. A broad range of content and asset security technologies has been developed and implemented, based on the operators' objectives, service offering and the applications they plan to deploy.

Today's service providers deliver content to a multitude of different devices, so anyCAST, NAGRA's content security solutions, empowers them to use a single Security Services Platform to secure their content across all devices, using the best of both CAS and DRM technologies. anyCAST clients are integrated by more than 100 set-top box manufacturers. NAGRA CAS and DRM solutions are widely deployed, stable and robust and operate in networks from several thousand to many millions of subscribers.

NAGRA anyCAST is also available as a cloud-based managed service, enabling a quick time to market with low upfront investment. With NAGRA anyCAST Cloud, service providers can make platform maintenance and operations a thing of the past and focus on revenue-generating activities.

Media Risk Management Services with Kudelski Security
With Kudelski Security, NAGRA customers also have access to advanced content, distribution and business protection services through cyber security technologies. These services range from traditional anti-piracy services to effectively combat control word redistribution piracy and content sharing to more advanced cyber security services that protect a service provider's OTT delivery infrastructure, CRM systems, payment systems and even their brand reputation.

With Kudelski Security, NAGRA customers also have access to advanced content, distribution and business protection services through cyber security technologies.

	Broadcast				Connected
Level of protection provided					
Client name	ENABLE	PROTECT	GUARD	COMMAND	CONNECT
Description	Embedded Client for Basic Access to low-risk services	Chip-Secured Embedded Client for Medium Value Content	Premium Smart Card for High-Value Content	Next-Gen Client for Exclusive Content	Advanced Virtual Client for 2-way Networks
DRM CLIENT (OTT/Home Networking)	PRM				with PRM inside

NAGRA anyCAST provides a wide variety of security client options, from one-way and two-way embedded software clients to the industry's most advanced smart devices technologies.

NAGRA anyCAST

The anyCAST Security Service Platform combines Conditional Access System (CAS) and Digital Rights Management (DRM) technologies to allow the secure delivery of any content over broadcast, IPTV or OTT networks to any device. anyCAST also works with third-party DRM systems when required in order to simplify operations and provide a single interface for subscriber and product management.

NAGRA anyCAST PRM

The award-winning NAGRA anyCAST Persistent Rights Management (PRM) solution meets all key service provider requirements for advanced DRM protection. In 2014, it received important endorsements from Hollywood body DECE as well as industry standards body DTLA, putting PRM in the highest class of digital rights management solutions. It secures everything from DVR and gateway-stored content to VOD, home networking and OTT services on nearly any device, whether operator-controlled or open. PRM's adaptive security model achieves maximum protection on any device on which it is deployed.

NAGRA anyCAST COMMAND

NAGRA anyCAST COMMAND is the world's first conditional access solution designed specifically to meet the enhanced security requirements for premium 4K content by redefining the scope of content protection in a broadcast and hybrid environment.

AnyCAST COMMAND, part of NAGRA's comprehensive new anyCAST Security Services Platform, changes the paradigm for content security by concentrating both decryption and descrambling into a single, secure NAGRA device. Since the launch of digital TV in the 1990s, these functions have occurred in two separate devices, the Conditional Access vendor's smart card and the set-top box chipset. The unification into a single piece of silicon further increases the security of the CAS system and simplifies integration.

NAGRA anyCAST CONNECT

In 2014, NAGRA disclosed the NAGRA anyCAST CONNECT solutions combining CAS and DRM into a single client for content security on connected networks. The solution is targeted at cable companies and telcos that are looking to simplify the secure delivery of premium broadcast, IPTV and OTT content to IP-enabled set-top boxes by using a single security client to meet all their needs. The solution is expected to become available in 2015.

NAGRA
INTEGRATED SOLUTIONS

NAGRA QUICKSTART

QuickStart is NAGRA's fast time-to-market solution; its architecture is optimized to accelerate the innovation cycle time of pay-TV services.

The NAGRA QuickStart family of solutions, ranging from a simple broadcast STB to full connected home multiscreen solutions, are designed for value creation through efficiency, reduced cost implementation and fast time-to-market deployment. They encompass all the major solution components that are required in order to deliver an exciting range of value-added services and TV features.

QuickStart features

- Flexible and elegant Gravity Edge HD user interface
- OpenTV 5 client connectware
- Range of SmarDTV integrated set-top boxes
- MediaLive Multiscreen headend
- Hosted Cloud TV services
- NAGRA anyCAST – Multi-Network Unified Security Services Platform

QuickStart

Enabling the delivery of an exciting range of value-added services and TV features.

NAGRA MediaLive MULTISCREEN

The NAGRA MediaLive Multiscreen product line offers service providers the tools to manage, secure and operate from an integrated platform a wide range of media services across multiple delivery networks, devices and content types, allowing users to enjoy a seamless digital entertainment experience.

NAGRA MediaLive Multiscreen is a complete, integrated solution that includes all the components required to take the TV experience to the next level.

NAGRA MediaLive Multiscreen offers an extensive catalog of advanced features:

- Standard features of live TV, VOD and catch-up TV, pay-per-view and personal video recording;
- In-home content sharing; and
- Seamless integration of companion devices.

The NAGRA MediaLive Multiscreen solution is also available as a managed cloud service, enabling the quick launch of new features with reduced investment and fixed costs.

The TV set is now ONE SCREEN rather than THE SCREEN to view and enjoy video. Multiscreen is the way we consume. The explosion of reachable screens brings technical challenges, business model challenges and user experience challenges.

NAGRA MediaLive Multiscreen

NAGRA MediaLive Secure Player

NAGRA MediaLive Service Platform

NAGRA Cloud Multiscreen

NAGRA USER EXPERIENCE

NAGRA GRAVITY AND NAGRA UEX STUDIO

Traditional media content delivery is changing, transformed by the high adoption of 4K big screen TVs, smartphones, tablets and other devices that give consumers multiple options of watching an even greater quantity of content when they want it, where they want it.

NAGRA offers a full line of User Interface (UI) and User Experience (UEX) products from Standard Definition and High Definition to 4K TV designed and developed by the NAGRA UEX Studio. These products help pay-TV service providers respond to the challenges created by the rapid evolution of television technology and the increasing importance of the user experience and the user interface.

NAGRA UEX Studio
The NAGRA UEX Studio is a team of experts in the user interface design space with an established experience in the TV industry. The team includes a range of skills including Graphic and Interface Designers and Application Engineers. The design expertise comes with intimate knowledge of how to integrate a user interface with underlying technology and framework solutions.

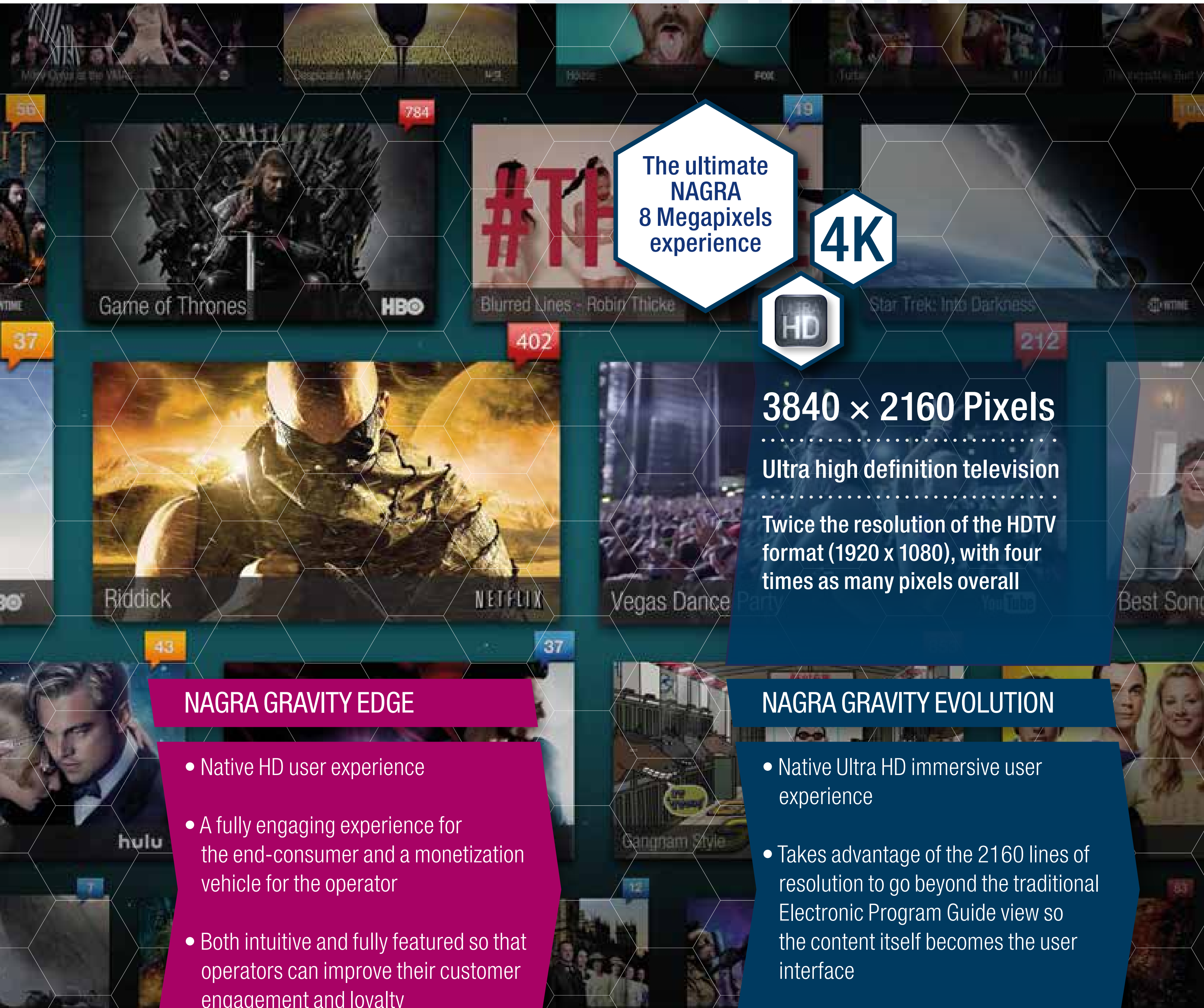
The UEX Studio team is constantly evolving its expertise. It leverages its award-winning technological achievements to tackle the latest trends in the market. Thought leadership on 4K TV and Social TV are two trends on which the team has recently focused. The UEX Studio's mission is to help pay TV operators increase customer loyalty monetization and expand their subscriber base.

GRAVITY

NAGRA GRAVITY

- Out-of-the-box proven user interface that integrates traditional broadcast television with locally stored media, Internet media and on-demand content
- Can be easily personalized by end-consumers and customized by service providers

ULTRA HD REVOLUTION
DELIVERING A STUNNING EXPERIENCE IN A HYBRID HD-4K ENVIRONMENT



The ultimate NAGRA 8 Megapixels experience

4K

HD

3840 × 2160 Pixels

Ultra high definition television

Twice the resolution of the HDTV format (1920 x 1080), with four times as many pixels overall

NAGRA GRAVITY EDGE

- Native HD user experience
- A fully engaging experience for the end-consumer and a monetization vehicle for the operator
- Both intuitive and fully featured so that operators can improve their customer engagement and loyalty
- Designed for media convergence in the world of pure broadcast, IP and hybrid networks

NAGRA GRAVITY EVOLUTION

- Native Ultra HD immersive user experience
- Takes advantage of the 2160 lines of resolution to go beyond the traditional Electronic Program Guide view so the content itself becomes the user interface
- Leverages the upscaling capability of the TV to deliver a stunning experience in a hybrid HD-4K environment

NAGRA
MIDDLEWARE/CONNECTWARE

OPENTV MIDDLEWARE AND CONNECTWARE SOLUTIONS

NAGRA' s OpenTV product line ranges from cost-effective broadcast middleware to more complex hybrid connectware solutions.

NAGRA's OpenTV 5 and OpenTV 2 solutions provide the core operating software for set-top boxes and media gateways, supporting any network type, including hybrid networks.

With multiscreen TV, a technological solution is required to enable service providers to offer an integrated TV experience to their customers across different networks and services. Middleware enables operators to offer a consistent user interface, service portfolio and set of applications across different devices.

In 2013, NAGRA launched a new generation, feature-rich television operating platform, OpenTV 5, which empowers service providers to take advantage of new opportunities in the rapidly evolving television landscape.

OpenTV 5 allows service providers to seamlessly drive innovation, personalization and monetization, while leveraging existing services and investments.

From middleware to connectware
While the term "middleware" is still widely used across the pay-TV sector, NAGRA uses the term "connectware" for its latest enabling technology, a term which puts emphasis clearly on connection and on the role that a centralized technology can play in this complex environment.

Connectware represents a completely new category of solutions, designed for convergence. It takes the stability of broadcast, adds the velocity of Internet development and deployment, and involves new models to support the Internet of Things.

OpenTV 5 connectware serves as the foundation for a multi-service home platform. It is fully integrated with the NAGRA MediaLive Multiscreen. With OpenTV 5 connectware, service providers are able to deliver and monetize new services and applications within a media-rich home environment that is increasingly complex, increasingly connected and increasingly social.

OpenTV 5 embodies a new category of set-top box software solutions that pushes TV to its limits and provides best-of-breed capabilities to deliver unique viewing experiences to consumers.

NAGRA's original middleware OpenTV 2 has now been packaged into the QuickStart lineup as QuickStart Broadcast. NAGRA has experienced major success with this innovative product which continues to see traction in the market-place.

OpenTV 2

NAGRA CONNECTED HOME

JoinIn CONNECTED HOME SOLUTIONS

With the home becoming connected to broadband Internet, IP networks are rapidly becoming a powerful option for delivering media content. As consumers are adopting new portable and connected devices such as tablets to access media content, NAGRA has developed a set of products to deliver a next generation TV platform to pay-TV service providers.

The NAGRA JoinIn connected home solution is designed to deliver premium entertainment to every screen and ensure the interoperability of media devices found in the home.

JoinIn defines a homogenous set of innovative technologies and protocols based on industry standards and best practices. It enables multi-room and multi-device scenarios leveraging NAGRA anyCAST content protection, OpenTV 5 connectware and NAGRA MediaLive Multiscreen products and solutions.

JoinIn addresses new smart home opportunities by enabling service providers to securely connect lifestyle devices to deliver a rich user experience on multiple screens, including the main TV set.

Powering StarHub's latest digital TV offering
StarHub, Singapore's leading cable television service provider, selected NAGRA's flagship HTML5 connectware technology, OpenTV 5 and NAGRA MediaLive Multiscreen to power its next generation multiscreen experience across a range of devices. The selection marks an important new milestone in the commercial deployment of OpenTV 5 which provides comprehensive support for advanced set-top boxes. With OpenTV 5, StarHub customers are able to access and enjoy a variety of advanced interactive services including video-on-demand, multi-room and multiscreen personal video recording, as well as HTML-based applications.

OpenTV 5

NAGRA MARKETS

EXPANDED FOOTPRINT IN OUR MARKETS

Americas

The Kudelski Group has established a strong presence in South America. Since it first entered the region in the 1990s, NAGRA has delivered and deployed a variety of advanced television services to service providers in the cable, satellite, terrestrial, MMDS and telco markets.

Latin America is a fast-growing region in terms of television subscribers. Brazil's market alone has now 20 million subscriber homes. NAGRA is well positioned in this market with more than 60% market share. Major operators that use NAGRA technologies include cable operator NET, the first Brazilian operator, which successfully deployed the latest generation OpenTV 5 connectware and NAGRA MediaLive Multiscreen solutions to hundreds of thousands of subscribers in 2014; ClaroTV, one of the leading satellite operators in Brazil which successfully launched its services in 2008; and Unotel, which launched a triple play offering via small and medium regional operators in 2014.

In 2014, TV Globo, Brazil's largest content owner and terrestrial broadcaster, also relied on NAGRA anyCAST for a new retail launch of a free-to-air service over C-Band satellite. The C-Band currently serves an estimated 25 million free-to-air dishes with analog content; SatHD Regional offers the content in digital High Definition format, and permits to regionalize the content.

NAGRA's customers in the Latin American region also include Telefonica. NAGRA supplies a multi-country satellite TV and cable platform for Telefonica's operations throughout Latin America. The solution includes NAGRA OpenTV 5 connectware allowing Telefonica to deliver OTT content to set-top boxes through the Telefonica broadband network.

In 2014, Latin American telephone companies continued to expand their voice, mobile and broadband offering by adding pay-TV subscribers using NAGRA technologies. Operators include American Movil in Central America, Entel Chile, CNT Ecuador and Oi Brazil.

In Panama, Cable & Wireless Panama selected NAGRA for its digital cable platform upgrade. NAGRA QuickStart, including NAGRA MediaLive, provides a turnkey platform for the rapid deployment of multiscreen DTV services featuring a rich user experience across TV and companion screens. The NAGRA MediaLive solution allows Cable & Wireless to launch advanced services such as VOD, SVOD, Catchup TV and nPVR. The NAGRA service team acted as the system integrator for the platform which also includes the entire suite of software and hardware products to encode and distribute the video over IP, content protection, OpenTV middleware and set-top boxes provided by SmarDTV.

In the US, CableOne continued to digitize their entire cable network with NAGRA technology. In 2014, NAGRA built out another 12 US cities for CableOne allowing them to move from analog to all digital video services. This allows CableOne to upgrade their clients pay-TV user experience. The other major benefit of the upgrade is that CableOne can free up cableTV bandwidth to provide their subscribers with higher speed broadband services.

In September 2014, NAGRA announced a new disruptive security technology, the NAGRA anyCAST COMMAND content security solution. NAGRA jointly with EchoStar will first deploy this state-of-the-art technology at DISH Network in 2015. NAGRA anyCAST COMMAND provides the highest end-to-end content security available on the market today.

Latin America is a fast-growing region in terms of television subscribers. Brazil's market alone has now 20 million subscriber homes. NAGRA is well positioned in this market with more than 60% market share.

Asia/Pacific and Africa

In 2014, the mass development of Digital TV in Asia continued impacting China, Taiwan and Indonesia, where digitization has progressed, and innovation-leading countries such as Singapore, South Korea and Australia have continued to introduce new advanced services. The recent change of government in India has led to a postponement of deadlines for the digitization of cable: phase 3 is expected to conclude in 2015 and phase 4 at the end of 2016.

NAGRA had the privilege of being selected by Guangdong Cable to deploy our anyCAST CAS and PRM throughout the province. Guangdong Cable belongs to the small club of the world's largest cable operators with over 20 million subscribers. Following the selection of NAGRA by Shandong Cable in 2013, this new win is another important milestone for our China operations.

In India, despite the slowdown of digital cable due to postponement of deadlines by the government, NAGRA has strongly expanded its customer base. We have been selected in 2014 by 9 new operators: the largest national MSO (Multi Service Operator), DEN Networks, one of the largest regional MSOs, KCCL, and 7 other regional MSOs and LCOs (Local Cable Operators). Our market share expansion in India is due in large part to our investment in strong local sales and services and software development teams and also due to our complete and price-efficient embedded CAS and middleware portfolio developed specifically to address the needs of India operators. NAGRA's DTH (Direct-To-Home) customers, DishTV and Reliance, have continued to grow in spite of the slowdown of digital cable deadlines.

In Taiwan, our five existing customers, KBRO, TBC, CNS, HYA and Nan Kuo, are following the digitization targets set by the government and have collectively reached over 3.4 million digital subscribers, which is a 70% increase over 2013. NAGRA's advanced HTML5 connectware, OpenTV 5, and NAGRA anyCAST PRM solutions have been selected by TBC for deployment in 2015.

StarHub in Singapore launched successfully in 2014 NAGRA OpenTV 5 HTML5 connectware for their next generation zapper and PVR and is expected to launch the OpenTV 5 Media Gateway and IPTV platforms in early 2015.

Linknet, the largest MSO in Indonesia and a NAGRA CAS customer since 2003, has successfully launched a NAGRA OTT platform on mobile devices and tablets in 2014.

In Vietnam, VTV Cab selected NAGRA for a large deployment of anyCAST CAS and PRM, MediaLive OTT and OpenTV 5 connectware for zapper and hybrid STBs, delivering linear TV and OTT VOD to their subscribers.

In Australia, NAGRA integrated its NAGRA MediaLive service platform for the support of Foxtel's connected set-top-boxes, which are due to launch in early 2015.

Overall, NAGRA's market share position in APAC significantly improved in 2014.

Africa is also seeing important growth for NAGRA despite the slowness of a number of digital migration projects. Pay TV operators are doing well such as Azam which managed to reach 200,000 subscribers after just over a year of operation. It will carry on its African expansion and launch in new countries this year following its 2014 expansion in Kenya and Uganda. NAGRA has signed up other operators in Southern Africa that will start operating in the first half of 2015.

NAGRA

Europe

The Spanish CANAL+ premium OTT service, Yomvi, experienced a significant growth reaching an activity level with few other references world wide: more than 1 million active devices per month. With this subscriber base, Nagra Medialive Multiscreen platform has to cope with 300 000 users connecting to CANAL+ in Yomvi the day of Spanish Football league top football matches.

The Basque cable operator, Euskaltel, launched a multiscreen OTT service, Edonon, in 2014 leveraging the NAGRA Cloud TV Services solution. Euskaltel's service offers up to 50 live streamed channels (over 20 of them in HD) plus a video-on-demand (VOD) catalogue with nearly 1 000 movies and series. The service is available on computers, tablets (iOS and Android) and smartphones. The platform also enables VOD for two models of cable HD set-top boxes.

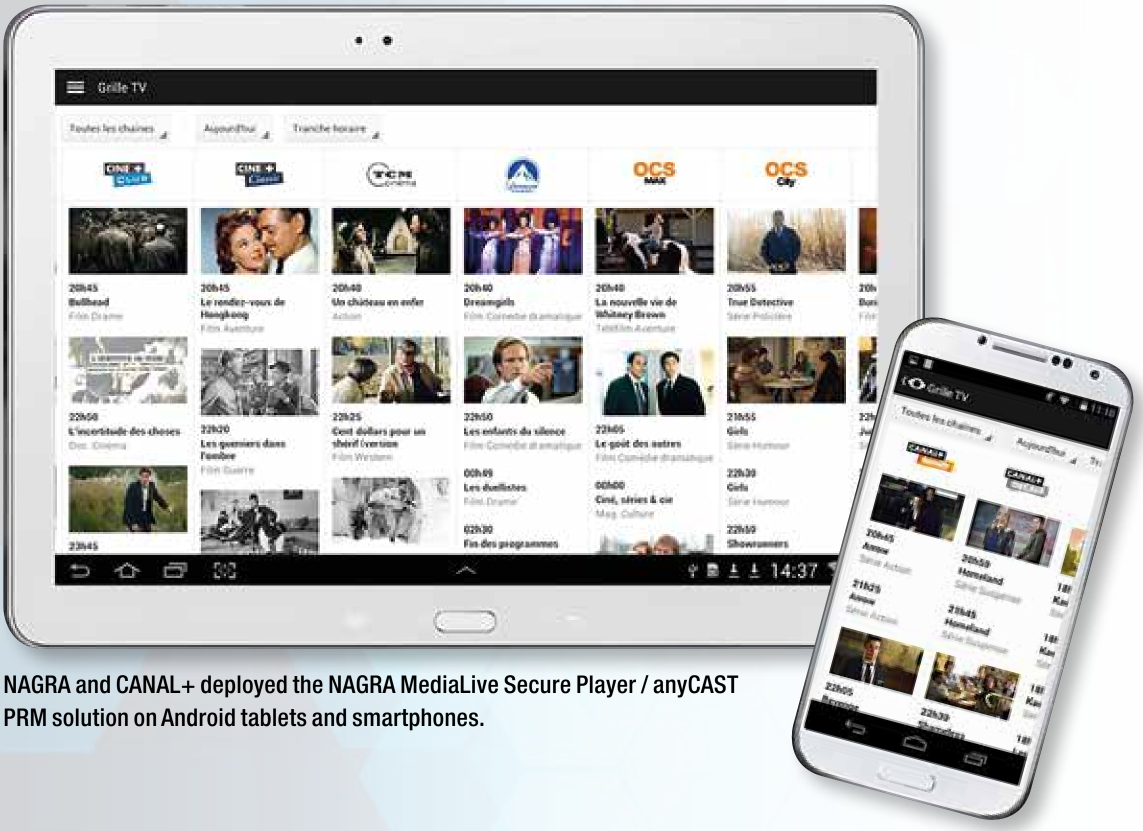
In Belgium, the Group signed an agreement with BeTV to deploy OTT Pay TV services in order to reach a brand new market segment beyond its cable subscriber base. The "Be tv Go" service was launched on September 1st, 2014. The solution powered by the NAGRA MediaLive Multiscreen solution enables the distribution of Premium pay-TV content to a variety of devices-PCs, iOS and Android tablets, as well as the Microsoft Xbox One. Deployed "in the cloud", and powered by NAGRA Cloud TV Services, including CDN and CRM services, "Be tv Go" was deployed in six months.

In Russia, NAGRA has been selected by Beeline, one of the largest telecom providers in the country with 57 million mobile, 2.2 million broadband and over 1 million Pay TV users, to provide our hosted Over-The-Top (OTT) solution for smartphones and tablets.

NAGRA continued to strengthen its cooperation with the rapidly expanding Altice Group by providing its latest content security solution to enable the introduction of a new-generation STB at Tricom and Orange Dominicana, two operators recently acquired by Altice in the Dominican Republic, as well as at HOT, the main cable operator in Israel.

NUMERICABLE-SFR Group, the product of the merger of French Cable Operator NUMERICABLE and Telecom Operator SFR, has recently enriched its multiscreen solution by opening a Permanent Video Download Service enabling customers to download a large selection of movies, including new releases and exclusive content. For such purpose, SFR-NUMERICABLE has signed deals with large French and international producers, 20th Century Fox, francetv distribution, Gaumont, DreamWorks and Disney. This service is enabled using NAGRA MediaLive Secure Player and secured with NAGRA anyCAST PRM, the Kudelski Group's advanced DRM protection, which meets content providers' requirements, including for advanced use cases such as permanent storage of premium content, even on open devices such as tablets or smartphones.

NAGRA and CANAL+ deployed the NAGRA MediaLive Secure Player / anyCAST PRM solution on Android tablets and smartphones. The application, which was downloaded over one million times, includes features that subscribers appreciate such as live TV, catchup services, and "watch as you go". The latter is a feature that allows subscribers to load content and watch it on the go. Since the launch of the service in February 2014, CANAL+ subscribers reached a higher satisfaction level increasing MyCanal Google Play Store's rank from 3.2 to 4.2 over 5. NAGRA MediaLive Secure Player secured with NAGRA anyCAST PRM enables CANAL+ to be well positioned in a very competitive and fast-changing market. CANAL+ is today the leading French SVOD service provider.



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CONAX
COST-EFFECTIVE SECURITY SOLUTIONS

COMPLEMENTING THE GROUP'S IDTV PORTFOLIO

The Group's acquisition of Conax on April 4, 2014 further strengthened its position in the digital TV conditional access market, enabling it to offer a full spectrum of solutions across a broad range of markets and customers. With this acquisition, the Group further expands its footprint especially in emerging markets and adds to its portfolio a highly efficient provider of flexible, cost-effective content security solutions for telcos, cable, satellite, IP, mobile and terrestrial operators.

The highly complementary nature of the Group's content security portfolios and the respective positioning of the NAGRA and Conax brands provide a solid foundation for accelerated and cross selling of products such as NAGRA OpenTV 5 connectware, NAGRA MediaLive Multiscreen solutions and SmarDTV devices.

Conax provides content security solutions and total service protection for digital TV services for telcos, cable, satellite, IP, mobile and terrestrial and broadband operations. It employs over 200 technology and service professionals from over 20 countries. Conax is headquartered in Oslo, Norway, with offices in EMEA, the Americas and Asia, and includes a Global 24/7 Support Center in Delhi, India.

Connect Partner Program
Conax has developed an extensive and proven network of strategic technology partners and client device partners, enabling delivery of complete broadcast solutions that includes its leading security with complementary technologies to any operator, on a variety of scales, anywhere in the world.

CONAX CONTEGO: UNIVERSAL CONTENT SECURITY HUB

The Conax Contego unified content security back-end provides consistent handling of conditional access and DRM across distribution technologies, business rules and devices: OTT, IPTV, terrestrial, cable and satellite. Conax Contego scales horizontally to easily increase capacity and performance. The open platform architecture offers seamless integration with surrounding systems to enable new business models or distribution technology, all based on one security hub.

Modular solutions
Thanks to Conax's modular approach, operators can select their service offerings, device platforms and security clients and then "Pay as They Grow". They can establish a small operation with limited initial investment and then incrementally add support for higher subscriber volumes and new services as their platform grows.

Conax highlights

- **Total service protection for entertainment services via broadcast, broadband and connected devices**
- **Highly efficient, off-the-shelf solutions**
- **200+ technology and service professionals from over 20 countries**
- **400 customers in 85 countries around the world**
- **Strong global partner network**
- **Strong footprint in emerging markets**

conax
KUDELSKI GROUP

Conax's global strategy includes focus on R&D and technical resources to support the development of out-of-the box advanced solutions for its customer portfolio in mature markets and continued growth and expansion in emerging markets.

SMART CARD AND CARDLESS SECURITY

Both card-based and cardless security solutions leverage the Conax Contego unified security back-end and can smoothly co-exist in the same operations.

SECURE CLIENTS

Conax Hardened PlayReady and Conax OTT Access – client access solutions offering different feature sets and security requirements, designed to ensure the secure delivery of content between the back-end and consumer devices.

MULTISCREEN

Conax Xtend Multiscreen – pre-integrated solution for operators that plan to launch advanced OTT features in addition to their existing broadcast operation, with minimal investment.

Conax GO Live – entry-level, turnkey solution for securely delivering live TV to iOS and Android tablets and smartphones.

CONDITIONAL ACCESS MODULES

Broad range of best-in-class Conax Contego security-compliant Conditional Access Modules developed with strategic CAM partners to include the features and services required to satisfy operators' needs and market demand.

24/7 OPERATIONAL SERVICES

Conax provides a complete offering to operate all parts of the operator's content protection system using highly experienced senior engineers.

CONAX MARKETS

CONTINUED STRONG MOMENTUM

In 2014, Conax signed 22 new customer contracts, with continued strong momentum in emerging markets such as Asia, Africa and Latin America. Despite a challenging business environment globally, Conax experienced stable volume as compared with previous years. The focus moving forward is on new customers in emerging growth markets and deployment of new and advanced services with existing customers.

Conax's strategy for developing and providing highly efficient, off-the-shelf solutions continued to prove successful in serving both developed and emerging markets. Conax is well positioned to continue to increase its market share in growth markets such as Latin America, Africa and Asia.

Americas
Conax's continued strong performance in the Americas was driven by 7 new customer contracts and robust growth of existing customers in Latin America, Mexico and Caribbean. Strategic partnerships in the Americas continued to create significant added value throughout the region. With over 50 active customers in Latin America, Conax has experienced positive continued development since its first deployment in this region in 2005.

The first deployment of Conax's multiscreen products globally will be in the Caribbean and Uruguay, demonstrating that emerging markets can drive digitization initiatives while also planning for a future beyond legacy technologies in order to serve content savvy consumers demanding more advanced services. In some cases, emerging markets may bypass a generation of legacy technology in favor of more modern technology and services.

First movers in the Americas featuring Conax multiscreen solutions include Columbus Communications with Conax Xtend multiscreen and Nuevo Siglo and Montecable in Uruguay sharing hosted multiscreen services based on Conax technology and provided by integration partner Bold. The hosting solution is creating a lot of interest from tier 2 operators by offering fast time to market with a proven solution. In Mexico, Conax customer Cablemas (now part of the Televisa group) has deployed over 1 million Hybrid STBs with OTT VOD.

Conax continues to grow with Latin America conglomerate America Movil with growth in DTH operations in Chile, Peru, Paraguay, Colombia and Ecuador.

Millicom's Tigo Star brand has seen significant development of its Satellite and Cable operations in the past 12 months. In Latin America, Millicom operations serve over 700 000 pay-TV subscribers and are growing rapidly. In 2014, Conax entered a Supply Agreement with Millicom for its Tigo DTH operations in Latin America. Conax was also chosen to supply the international telecommunications and media company with content protection for its expanding cable and satellite Pay TV operations under the Tigo Star brand for Costa Rica, El Salvador, Guatemala, Honduras, Bolivia and Paraguay which launched in recent months.

Asia/Pacific
Robust performance in Asia/Pacific was strengthened by 9 new customer contracts in the region and the solid growth of existing customers, particularly in Vietnam.

Conax's Vietnam customer base experienced exceptional performance in 2014 and is well-positioned to provide hybrid and additional new, advanced services to meet future market demand.

An early player in India, Conax established operations in Delhi in 2002 and has been a leader in guiding Indian operators through digitization. Conax has long-term partnerships serving 3 of the 5 largest MSOs in India and customers in India include market leaders, such as Essel Group's DISH TV and Siticable, Digicable, KCCL, IMCL and Fastway.

In 2014, Conax launched its first cardless deployment with Kerala Communicators Cable Ltd in Kerala, India. KCCL is a consortium of 3000 operators representing 70% of cable TV services in the southwestern Indian state of Kerala – a region with a population of 33 million people. The Conax Contego security hub is enabling KCCL network operators to easily operate both Smart Card and Cardless clients and differentiate between security requirements of diverse consumer groups and content. Using the Conax unified back-end, KCCL operators can offer a cost-efficient solution for targeting low ARPU segments and enabling rapid digitization as well as reducing churn. The Conax Cardless solution utilizes a unique combination of hardware and software security.

Indonesia is the world´s fourth most populous nation with 248 million people. With 50 million TV households and a pay-TV penetration of approximately 4%, DTH is the dominant platform in Indonesia with over 80% percent market share. Conax announced its contract with Kompas Gramedia Group, the largest media network in Indonesia, in 2014 to secure the Indonesian media giant‘s newly launched pay-TV brand, K-Vision, and build a profitable new brand in the promising Indonesian market.

K-Vision is gearing up to offer 65 international channels in SD and HD, local channels and a wide offering of sports, across Indonesia. Conax technology is enabling monetization of the operator’s variety of content packages by providing a secure, scalable platform developed for easy adoption of additional business models and introduction of advanced multiscreen content delivery as the platform grows.

Africa
With over 10 years of experience providing secure operations in Africa, Conax is the security partner for over 30 DTH and DTT operations in the region. Conax continues to be strongly committed to the African market, providing operators with the content protection, proven solutions and experience that help them build their business.

In 2014, Conax gained new operators and continued strong growth with existing customer.

Additional milestones in 2014 included celebrating 10 years of strategic partnership with Star Times, China, a leading high-tech media group that received in 2009 a certificate from the Chinese government recognizing it as “one of China’s Top 100 Innovation-Oriented Enterprises”. In addition to establishing key customer operations in China, Conax’s partnership with Star Times extends to securing Star’s growing Pan-Africa operations including 1 DTH and 12 DTT operations.

Europe
Conax has for many years held a strong presence in Europe, serving a wide variety of operators in its traditional markets of Northern, Western and Eastern Europe. A key focus in these markets in 2014 was in launching new entry-level solutions that provide tier 2 and tier 3 operators with off-the-shelf, low risk business models for secure entry to multiscreen services in order to prepare for the next wave of opportunity in content distribution.

In 2014, Conax announced that Primacom, one of Germany’s largest cable TV providers, deployed Conax Contego content security architecture for its growing DVB cable and pay-TV network. Primacom provides high-end telecommunications and cable TV services to more than 1.2 million connected households in Germany.

Telekom Austria Group’s “direct2home” DTH platform for Central and Eastern Europe continued its growth providing a cost-efficient, centralized solution for the numerous telcos in the TAG group. The platform secures and shares infrastructure and content delivery across the diverse regions; with content protection supplied by Conax, TAG has a flexible solution that provides a growth path for integrating additional advanced services in the future.

SMARDTV

INTERNATIONAL LEADER IN PAY TELEVISION TECHNOLOGY

SmarDTV designs and manufactures a large range of set-top box solutions and CI / CI+ Conditional Access Modules (CAMs) that enable access to premium digital pay-TV whether delivered through broadcast or broadcast IP.

By integrating SmarDTV's CAMs in their television ecosystem, operators can deliver premium content directly to integrated television sets. Conditional Access Modules enable consumers to access multiple encrypted services on their iDTVs using the TV's remote control.

Conditional Access Modules supporting 4K content
Together with SES and Samsung, SmarDTV showcased at IBC 2014 the world's first Ultra HD (4K) CAS-protected broadcast service accessed with a retail TV and CI+ module, without the need for a set-top box. The demonstration showed the first end-to-end encrypted Ultra HD content via an SES satellite to a Samsung Ultra HDTV by using a SmarDTV CI Plus CAM. The ability to use a standard CI+ CAM with the latest generation of Ultra HD TVs opens the door to rapid and cost-effective Ultra HD services.

Following the acquisition of Conax by the Kudelski Group, SmarDTV extended its CAM product portfolio to include a CI + 1.3 module that is compliant with the latest generation of Conax solutions, ensuring high quality protection for all Conax customers. SmarDTV's Conax modules address new operators like Optisis in Slovenia, Fintop in Finland, Volia in Ukraine and Orion in Russia.

SmarDTV also introduced a fully Conax-compliant WiFiCAM module enabling seamless reception of hybrid services without the need for a set-top box – an immediately deployable benefit to Conax customers offering a mix of broadcast and OTT services. Additionally, SmarDTV has extended its set-top box product offering – including its innovative OTT and hybrid devices – to support Conax customers.

SMARDTV IN THE MARKET

In Singapore, SmarDTV launched the first cardless CAM, which supports NAGRA's IPTV platform, for StarHub's professional and hospitality solutions.

In Africa, SmarDTV announced its cooperation with Azam Media to develop CI+ Conditional Access Modules for the Azam TV (DTV) service in Tanzania and eventually across East Africa. This deal opened the door to initial deployment of CI+ technologies in Africa.

In Panama, Cable & Wireless Panama selected NAGRA for its digital cable platform and SmarDTV's set-top box product. NAGRA QuickStart and NAGRA MediaLive solutions provide a turnkey platform for rapid deployment of multiscreen DTV services featuring a rich user experience across TV and companion screens.

In addition to the long-standing and successful partnership with HD+ in the area of CI+ CAMs, SmarDTV – together with HD+'s partner sky vision Satellitentechnik GmbH, Germany – has entered the German retail market with its first HD+ set-top box. This new set-top box, branded 'Vantage VT-50 HD', is available in all MediaMarkt and SaturnMarkt shops in Germany as well from all co-operated dealers (EP, Expert and Euronics), free dealers and selected online shops (Amazon and Conrad).

In Spain, SmarDTV launched a hybrid set-top box for Vodafone, called Vodafone Box, enabling combined over-the-top and digital terrestrial television (DTT). Vodafone Spain's new offering delivers advanced third party (CANAL+ Yomvi) services such as live TV, subscription VOD, transactional VOD, catch-up TV and a selection of DTT channels. SmarDTV's set-top box has a modern and innovative design with wireless connectivity (WiFi) and runs the latest NAGRA solutions (NAGRA anyCAST content protection and OpenTV5 HTML5 connectware).

SMARDTV

By integrating SmarDTV's CAMs in their television ecosystem, operators can deliver premium content directly to integrated television sets.

CONDITIONAL ACCESS MODULES

- **SmarCAM**
  SmarDTV's Conditional Access Modules relying on the DVB Common Interface and CI Plus Standards. Plugged directly into the TV set to decrypt premium pay-TV services. SmarCAMs support Standard Definition, High Definition and Ultra High Definition (4K) content, as well as delivery of OTT content through WiFi.

- **ProCAM**
  Conditional Access Modules dedicated to professional equipment: Professional IRDs (Integrated Receiver Decoders) and headends.

- **GuestCAM**
  Enables basic and premium pay-TV channels on integrated Digital Televisions in hospitality areas such as hotels, hospitals and clinics.

SET-TOP BOXES

- **Broadcast set-top box**
  SmarDTV offers a range of standard definition and high definition set-top boxes.
  The latest products support Ultra HD (4K).

- **Hybrid set-top box**
  Hybrid High Definition Satellite or Cable set-top box which supports broadcast live TV with USB PVR capability, OTT services and Home Network content.

- **OTT/Thin client set-top box**
  IP set-top box to receive OTT services and Home Network content, live channels and video-on-demand, in an elegant and modern design.

  This set-top box is part of the NAGRA QuickStart OTT solution and is certified with NAGRA MediaLive platform and NAGRA anyCAST PRM.

KUDELSKI SECURITY

KUDELSKI SECURITY

CYBER SECURITY SOLUTIONS AND SERVICES

Kudelski Security expanded its customer base through strategic contracts and achieved the goal set in 2013 for solid investment in R&D.

Financial Services
The Financial Services practice delivered excellent results over the course of 2014, increasing year-over-year revenues significantly and establishing Kudelski Security's status as a leading cyber security solution provider to the financial sector. The practice entered into seven major new client relationships in the course of 2014.

There was continued expansion of the consulting services footprint and a sustained focus on the core business of security advisory and training services:

- A significant number of clients contracted Kudelski Security to provide advice on adopting cyber security technologies, conduct risk exposure evaluations and improve enterprise security resilience.

- Fraud and open source investigation training was launched with confirmed industry participation for 2015.

- Several cyber security awareness training sessions were held with clients from the insurance sector.

The Financial Services practice secured the interest of several clients for two managed security services that were launched in 2014:

- **K-STAR**, the Kudelski Security Tool for Assessment and Remediation, a service designed to help customers comply with the Swiss Financial Market Supervisory Authority Circular on Operational Risks.

- **K-Sonar**, a network situational awareness service designed to protect a customer's perimeter infrastructure by delivering real-time monitoring and analysis of new, unauthorized services, ports or applications.

Managed security services will continue to be a strong focus throughout 2015, leveraging the expertise and best-of-breed technology from the Kudelski Security Cyber Fusion Center.

Defense and Public Sector
New digital infrastructures have become critical to society, forcing us to rethink the way we protect people, countries and businesses. Cyber space has created a sphere for a new genre of conflict and a new approach is needed in the war against cyber crime.

In 2014, Kudelski Security pursued a collaborative security response with military, civil, national and foreign security actors, working to restore consumer trust in the integrity of the services and products offered and to address the real and increasing threat that cyber war poses to national security.

- Kudelski Security designed and built the Cyber Fusion Center, a next-generation Security Operations Center for the public sector in Switzerland.

- Kudelski Security became a founding partner in the first Swiss public-private partnership, Swiss Cyber Experts, under Swiss Government CERT (Computer Emergency Response Team) leadership.

- As a Swiss trusted partner, Kudelski Security hosts and operates technology platforms of third party vendors and acts as the trusted partner for both the final customer and the technology vendor.

The outlook for 2015 is positive with a solid prospect pipeline in emerging economies, supporting governments and companies with their digital transformation by providing secure communication solutions, intelligence services and Cyber Defense Center services.

KUDELSKI SECURITY

Kudelski Security is strongly positioned in the market to provide clients with the most relevant and evolutive cyber security expertise.

KUDELSKI SECURITY CYBER FUSION CENTER

In early 2015, Kudelski Security launched its Cyber Fusion Center, a next-generation Security Operations Center offering tailor-made managed security services to enterprises that are looking for robust, 24x7 protection against cyber threats and attacks.

Operating out of Switzerland, the Cyber Fusion Center uses best-of-breed technologies, threat intelligence and talented security experts to increase the cyber resilience of its clients. It monitors the business' architecture, critical digital assets and the global landscape for emerging cyber threats. It leverages big data analytics to contextualize these threats, determining which ones are specific to the client and what measures need to be taken in order to mitigate risk and block the attack.

KUDELSKI SECURITY

Media Sector
The Media practice expanded its cyber security offering to the media and entertainment industry, safeguarding digital assets throughout the full value chain. The protection extends from content creation to consumption, covering digital distribution channels and transversal business activities.

It goes beyond securing audiovisual content to incorporate the entire content delivery infrastructure used by pay-TV, OTT operators and content owners as well as securing the specific business functions and processes of media customers. It strategically positions Kudelski Security as a leading provider of comprehensive security solutions to the industry in 2015 and beyond.

Much of the Media practice's core business in 2014 concentrated on multi-year contracts, providing long-term support to customers:

– Kudelski Security anti-piracy activities were integrated into the Group's digital TV contracts, offering existing customers an optional all-inclusive protection against cyber threats.

– Several contracts were signed or renewed to deliver Kudelski Security solutions both to individual pay-TV operators and to industry bodies, such as the Alianza (Latin American Alliance Against Pay-TV Piracy).

– Kudelski Security was selected to provide technical and security services to IBCAP (International Broadcaster's Coalition Against Piracy), whose mission is to fight illegal streaming over the Internet in the US.

In the scope of these activities, Kudelski Security cooperated with the wider media and entertainment industry and local authorities worldwide to investigate and shut down some of the most pernicious pirate networks in Europe, North America and Africa, thereby helping customers recover additional end users and protect revenue.

Telecommunications
Kudelski Security continued to secure new partnerships in the telecommunications industry throughout 2014:

– A strategic partnership agreement was signed with upc cablecom to deliver new services to their Swiss business clients. Services include:

  · **360° assessments**, for in-depth analysis of client security posture and associated risk management.

  · **K-CARS,** Kudelski Security Cyber Alert Response Squad, an emergency-response team comprised of technical, legal, management and communication experts to manage a cyber crisis and carry out rapid remediation.

– New contracts were signed to provide security services and risk assessments to traditional network operators that deploy 4G LTE wireless networks.

R&D, key to our long-term strategic competitiveness, was a core focus in 2014. Investment centered on developing solutions to support defense and public sector clients:

– Investment was made in developing advanced security technologies, big data analytics and behavioral analysis solutions for mobile and fixed network operators, to protect critical businesses and digital infrastructure.

– Investment was made in the strategic development of mobile secure communications for vertical markets that require the deployment of portable, self-contained and highly secure cellular mobile networks.

IN OUR HYPER-CONNECTED WORLD, THE THREAT LANDSCAPE IS INCREASINGLY COMPLEX AND GLOBALIZED.

ATTACKS ARE BECOMING MORE SOPHISTICATED AND TARGETED CAUSING SIGNIFICANT FINANCIAL LOSS TO THE VICTIMS.

FAILURE TO TAKE A STRATEGIC APPROACH TO CYBER SECURITY MAY PUT THE CORE BUSINESS AT RISK.

INTELLECTUAL PROPERTY AND INNOVATION

PROTECTION OF THE GROUP'S INTELLECTUAL PROPERTY

As a company rooted in over sixty years of innovation and award-winning products, dating back to the pioneering NAGRA line of portable recording devices, the Kudelski Group and its subsidiaries have placed a worldwide emphasis on intellectual property. We continue to believe that the intellectual property system supports innovation throughout the world, and that the establishment of well-defined intellectual property rights allows for collaborative development and economic growth that would not be possible in the absence of such rights. We therefore work to preserve our own intellectual property rights around the world. As a result, the Kudelski Group and its subsidiaries hold over 4500 patent assets worldwide in a variety of technology areas, including digital security, access control, digital television and rights management, among other areas.

Many of these patents relate to fundamental and valuable technologies with broad impact across many businesses. The innovation underpinning our portfolio is reflected in the wide range of products and services the Kudelski Group offers its customers. In addition to product partnerships, we are willing to consider whether the circumstances warrant some type of intellectual property license.

The Intellectual Property unit was created in 2012 to expand the technology leadership of the Group, develop and license intellectual property to the marketplace and foster innovation-related activities within the Group and with its business partners. The Intellectual Property organization is responsible for protecting, developing, managing and licensing the Group's technologies worldwide patent portfolio and leading the overall innovation program within the Group. In 2013, the Intellectual Property Group was merged with the Innovation Team to form the Kudelski Intellectual Property and Innovation organization. In 2014, the Group continued to make substantial strides in executing on its strategic intellectual property and innovation plan.

We recognize that there is no “one-size-fits-all” approach to product partnerships and intellectual property licensing. Different businesses have different needs and different technology requirements. Our history of providing products and services in a range of markets means that various partnership solutions may apply to particular situations. Where appropriate, we seek business relationships that extend beyond patent licensing. We seek to incorporate product relationships, technology transfers and cross-licenses into the engagement when possible.

IP and Product Collaboration with Netflix and other transactions

The Intellectual Property organization completed a number of IP-based transactions in 2014 and is on track with its licensing and innovation plan and strategy. For example, the Group recently announced a comprehensive IP and Product Partnership with Netflix, as yet another validation of the strength of the Group's patent portfolio and is engaged with a number of other companies related to licensing, technology collaboration and cross licensing. The Group is committed to investing heavily in innovation and protecting and licensing its intellectual property portfolio, has the team in place, and is executing to plan.

The Kudelski Group and its subsidiaries hold over 4 500 patent assets worldwide in a variety of technology areas, including digital security, access control, digital television and rights management.


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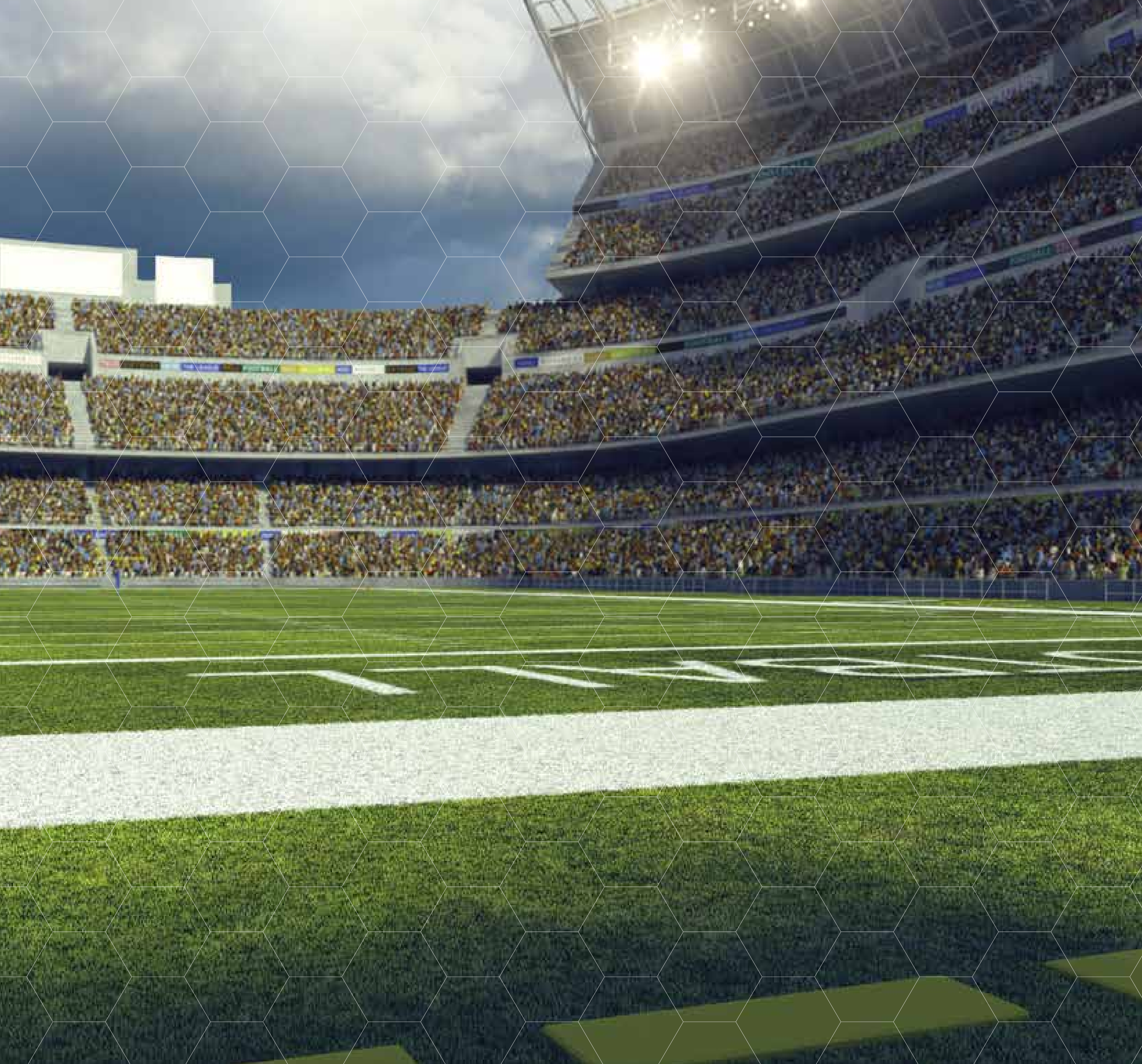
PUBLIC ACCESS

REPRESENTING THE PUBLIC ACCESS SECTOR WITHIN THE KUDELSKI GROUP, SKIDATA HAS ALWAYS BEEN AHEAD OF THE MARKET CURVE, PIONEERING INNOVATIVE HIGH-TECH SOLUTIONS LIKE ITS 1987 ROLL-OUT OF HANDS-FREE ACCESS SYSTEM, THE FIRST OF ITS KIND, AND THEN EXTENDING THIS TECHNOLOGY TO NUMEROUS OTHER APPLICATIONS.

TODAY, SKIDATA HAS DEPLOYED MORE THAN 10,000 INSTALLATIONS IN OVER 90 COUNTRIES.



SKIDATA

10 000 Installations worldwide

90 Represented in more than 90 countries

A WORLD LEADER IN THE PUBLIC ACCESS SECTOR

The activities of the Public Access segment are carried out by the Group's subsidiary SKIDATA, based in Salzburg, Austria.

SKIDATA designs and markets comprehensive solutions to manage access to ski lifts, stadiums, fairs, amusement parks and parking facilities. SKIDATA manages large-scale, complex projects that involve technological challenges as well as innovative marketing and new business models.

In 2014, SKIDATA continued to increase its international presence.

New subsidiaries were opened in Malaysia (Kuala Lumpur), Turkey (Istanbul), Brazil (São Paulo), India (Bengaluru) and Uruguay (Montevideo).

Development efforts in Malaysia and Turkey have quickly proven worthwhile. Setting-up its own subsidiaries allows SKIDATA to be close to its customers and provide them with in-depth know-how about products and solutions as well as the best service and on-site support. The company has been able to implement over 100 projects in these countries, including the Kerteh Airport in Malaysia, the Istanbul Sabiha Gokcen International Airport in Turkey, hotels such as the Four Seasons Hotel Istanbul, the Turkish shopping centers ArmoniPark Outlet Center and AVM Capitol as well as eleven stadiums of the Turkish Football Federation and numerous ski resorts.

In 2014, SKIDATA also acquired an interest in its Australian partner, WTS. The newly renamed entity, SKIDATA Australasia, serves over 100 SKIDATA customers in Australia and New Zealand and is present in each major Australian city with a local team. The subsidiaries are full-service, covering the entire supply chain, from marketing, consulting and sales, through planning and project management.

With the acquisition of a controlling interest in its California-based distributor Sentry Control Systems, SKIDATA significantly strengthened its position in the US market. Sentry serves over 100 SKIDATA customers in California, Washington DC, Maryland and Virginia in the parking sector.

SKIDATA is now represented through 22 subsidiaries, 3 joint ventures and numerous partners in over 90 countries. The company realized more than 700 new installations during the year.

PARKING SYSTEMS

SKIDATA e-ticketing service
SKIDATA launched a new, secure e-ticketing service, sweb.Wallet. Electronic tickets are the new, modern data carriers of the next generation of ticketing. The rapidly increasing number of users speaks for itself: around 1.76 billion citizens worldwide use a smartphone and thus have the infrastructure for the mobile transportation or entrance card. At airports, the e-ticket has long since arrived: 60% of all boarding passes are already in a mobile format.

With the product sweb.Wallet, SKIDATA offers an entry into modern e-ticketing and consequently entry into the "Public Transport" business segment. The solution generates and sends e-tickets and vouchers for a wide variety of Wallets (apps for collecting electronic tickets; iPhone: iPassbook, Android: sweb.Wallet), smartphone platforms and ticketing technologies. The e-tickets are interactive; additional information about the event or Internet links can be added and tickets already sent can be updated at any time.

SKIDATA takes care of the technical processes from the integration of the various wallets and ticket technologies to the secure delivery of e-tickets to the end customer. An authentication mechanism ensures that tickets can only be downloaded by the purchaser. Secure mobile access to sports stadiums, fairs, amusement parks or even to public transport is therefore guaranteed and is the next step in the growth of SKIDATA.

20 PARK & RIDE INSTALLATIONS WITHIN 3 WEEKS

Q-Park is one of the leading operators of parking facilities in Europe, providing over 800 000 parking spaces in ten countries. Q-Park's activities focus on investing in property and providing parking services with a great deal of comfort and convenience for customers at top locations. In the beginning of summer 2014, SKIDATA received from Q-Park Netherlands the order to upgrade 20 Dutch Park & Ride sites with 50 new Lite.Gates all over Holland within just 3 weeks. SKIDATA achieved this objective, demonstrating once again its ability to produce and install access solutions according to customers´ needs and wishes.

The Lite.Gate columns allow up to three additional built-in components. The ones for Q-Park were equipped with the Print@Home barcode scanner, readers for debit and credit card transactions, public transport readers and receipt printers at the exits. This solution enables end-customers to benefit from modern access solutions and a high customer convenience at these Park & Ride sites. They can, for example, get access with their public transport card or with a Print@Home ticket.

SKIDATA

Barrier.Gate, Power.Gate and Lite.Gate:
A perfect combination of innovative technology
In addition to the new e-ticketing service, a new generation of parking facility systems was developed by SKIDATA. Offering a perfect combination of innovative technology and new design, the new products are flexible in use. The Barrier.Gate combines column and barrier gate in a single product and marks the next step in vehicle access management. The Power.Gate, with its extensive ticketing, advertising and extension opportunities, is the universal multi-talent among parking columns. The smart alternative for long-term parking facilities is the Lite.Gate, the economical column for coderless parking. Both new columns are ready to read the new sweb.Wallet service.

MOUNTAIN DESTINATIONS

SKIDATA has long-standing experience in access management for alpine sport regions and is a pioneer in this area. It was the first company to offer electronically printed tickets and cash registers for mountain destinations. Today, SKIDATA is the world's number one provider for access solutions and ticketing for alpine sport regions.

SKIDATA has been managing access for mountain destinations for decades. The combination of flexible access readers, intelligent POS and ticket options simplifies the operator's job and makes their products exceptionally attractive for guests. Add-on services, such as online booking of ski passes, represent attractive advantages for visitors.

Success factors in Mountain Destinations systems

- **Attractive, tailored online solutions**
- **Innovative tickets/cards for more convenience and speedy access**
- **Optimized solutions for the point of sale area with easy to use interface**
- **Complete transparency for business processes with Freemotion.Logic**
- **Secure, central management of data by SKIDATA Hosting Services**
- **Flexible advance reservation of tickets and services via Internet and smart phone**
- **Customer-friendly ticket sales at advance ticket sites (e.g. hotel receptions) with Opos.Cash**
- **Combined SKIDATA solutions for person access and Parking Space Management**

THE GEORGIAN MULTIPASS

SKIDATA has played a major role in the development of the ski regions in Georgia over the last years. Thanks to smooth access control systems from SKIDATA, visitors of the Georgian ski resorts experience an even more convenient vacation.

In December 2014, the operators additionally introduced, with the help of SKIDATA, the Georgian Multipass – a ski pass combining various Georgian ski resorts into one Ski Pool. With this Multipass skiers profit from hands-free access to all resorts with just one single card while the region itself has also benefited from the added security as well as the increasing flow of ski enthusiasts.

SKIDATA

STADIUM ACCESS

SKIDATA Loyalty Program
As a solution provider, SKIDATA offers its customers fast and secure access control solutions as well as many ways to push their business forward. SKIDATA Loyalty is a program that helps operators create a strong link with their customers. It is already used by professional American sports teams like the Seattle Sounders FC (MLS- Major League Soccer) and the San Francisco 49ers (NFL- National Football League).

Fans collect points for all their interactions with their club, on premise or online. The loyalty points earned can be exchanged for products that money can't buy. Customer behavior is being motivated with rewards while increasing revenues and decreasing costs. Furthermore, the operator increases knowledge about its customers and fans. Thanks to a deep understanding of customer interests, a sports club can target its activities and promotions towards fan interests.

The fastest access control in the world
For operators of arenas and stadiums, one of the main success factors is the access solution. Secure and rapid access control is essential. With its world record holding Vario.Gate turnstile, SKIDATA provides the fastest access control on the market. In November 2014, SKIDATA demonstrated that in one hour 2 033 people were able to pass through a single SKIDATA Vario.Gate, having the typical access control system configuration used in stadiums and amusement parks worldwide.

More than 200 stadiums worldwide benefit from such fast access control systems, such as the Mercedes Benz Arena, located in Stuttgart, Germany. With its 100 access points all 60 000 fans can theoretically be granted access in just 30 minutes.

'The Fin Club' new loyalty program

In August 2014, the Miami Dolphins, an American football team of the National Football League (NFL) located in Miami, together with SKIDATA, kicked-off their new loyalty program 'The Fin Club'. Club members collect points for interactions, such as surfing the club website, interacting on Facebook, following on Twitter or consuming food and beverage in the stadium. The collected loyalty points can then be exchanged for various services, such as special merchandise products or interactions with the team.

The new Fin Club gives the Dolphins a 360° view of their fans. They see how the members are interacting with the team, what events they attend and what items they are interested in. And when time comes to interact with fans, they already know their habits.

The Fin Club platform works with social media and integrates in-stadium with all major merchandise and food and beverage outlets in real time. The platform is capable of serving all 76 100 fans simultaneously at the Dolphins Sun Life Stadium and even if all fans hit the redeem button at once, SKIDATA Loyalty handles it flawlessly.

While the loyalty platforms provide fans with a value-added experience, they are producing real dollars for the Dolphins. SKIDATA has tracked the following results:

– Nearly USD 3 per person spending increase on food and beverage by loyalty cardholders per game;

– 59% of cardholders arrive at least 30 minutes early to the game when encouraged with points;

– 39% of card holders swipe their cards at food and beverage stands; and

– 50% more spending in the first 60 minutes of gate opening than before the introduction of the Fin Club program.

CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange. Unless otherwise stated herein, the information provided in this report reflects the situation as of 31 December 2014.

In compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), Kudelski SA will submit to its shareholders for approval the required amendments to its articles of association at the 2015 General Meeting.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1. Group structure
Kudelski SA has its registered offices in Cheseaux-sur-Lausanne. The company has been structured as a holding company since 1999 and its shares have been listed on the SIX Swiss Exchange since 2 August 1999.

The structure of the Kudelski Group is shown below – sections 1.1.1. - 1.1.3.

1.1.1. Description of the issuer's operational group structure
From an operational point of view, the Group's activities are split into two divisions: iDTV (Integrated Digital Television) and Public Access. The Finance, Legal, Human Resources and Intellectual Property departments support the entire organization.

The iDTV division includes sales and operations, the Product Units (Content Access Management; Middleware; Multiscreen; and Cyber security, which have the responsibility for managing research and development, marketing and production of products) as well as companies dedicated to specific products (such as SmarDTV).

The Public Access division is comprised of three units (Car Access; People Access (ski); and People Access (events)).

Results by sector are presented in note 6 to the Kudelski Group's 2014 financial statements.

<u>Main operating companies held directly or indirectly by Kudelski SA</u>
The list of the Group's main operating companies is provided in note 56 to the 2014 financial statements. Additional information is also included in the 2014 Annual Report's key figures.

1.1.2. All listed companies belonging to the issuer's group
Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ ISIN: CH0012268360),with a market capitalisation of CHF 596 223 979 as of 31 December 2014. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange.

1.1.3. The non-listed companies belonging to the issuer's consolidated entities
Information about the company name, registered office, share capital and holdings owned by non-listed Group companies included in the scope of consolidation is shown on pages 134 and 139 of the Kudelski Group's 2014 financial statements.

INTERNATIONAL PRESENCE

		iDTV	PUBLIC ACCESS
EUROPE	Germany	■	■
	Austria	□	■
	Belgium	□	■
	Spain	■	■
	France	■	■
	Italy	■	■
	Norway	■	□
	The Netherlands	■	■
	United Kingdom	■	■
	Russia	□	■
	Sweden	□	■
	Switzerland	■	■
AMERICAS	Brazil	■	■
	Chili	□	■
	USA	■	■
	Uruguay	□	■
AFRICA	South Africa	□	■
	Tunisia	□	■
	Turkey	□	■
ASIA / PACIFIC	Australia	■	■
	China	■	□
	South Korea	■	□
	Hong Kong	■	■
	India	■	■
	Japan	■	■
	Malaysia	□	■
	Singapore	■	□
	Taïwan	■	□

1.2. Significant shareholders

As of 31 December 2014, the principal shareholders of Kudelski SA consist of a group of shareholders with a participation of 63.4%, comprising Mr André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants. The shares are directly owned or owned through an investment structure of which the above-mentioned persons are the beneficiaries. To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no existing shareholder agreements between the family pool and other shareholders. This shareholding structure has the effect of giving the Kudelski family pool voting control over the company, which the family pool believes is important for the Group's long-term stability.

This stability is essential to ensure long-term continuity and independence, which are key elements for the Group's main customers.

For further information, please refer to the announcements made to SIX Swiss Exchange, which are available at the following address:
http://www.nagra.com/cms/Investors-doc-center.html

All announcements made by Kudelski SA to SIX Swiss Exchange may also be found on the SIX Swiss Exchange website under the following link regarding management transactions which can be found at the following address: http://www.six-swiss-exchange.com/shares/security_info_fr.html?id=CH0012268360CHF4.

AS OF 31 DECEMBER 2014	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	14 294 423	35.11%	63.40%

1.3. Cross-shareholdings
The Group has no knowledge of the existence of any cross-shareholdings.

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital as at 31.12.2014 and
2.2. Specific information concerning authorized and conditional capital

Ordinary capital
The share capital amounts to CHF 539 047 090. It is divided into 49 274 709 bearer shares with a nominal value of CHF 10 per share and 46 300 000 registered shares with a nominal value of CHF 1 per share. Each share confers the right to one vote. All shares are fully paid up.

Authorized capital
The Board of Directors is authorized to increase the share capital in one or more stages until 8 April 2016 by a maximum amount of CHF 40 881 640 through the issuance of 3 768 164 bearer shares with a nominal value of CHF 10 per share and 3 200 000 registered shares with a nominal value of CHF 1 per share to be fully paid up. The issuance price, the nature of the contributions, the date from which new shares shall give entitlement to dividends and other modalities of any share issuance shall be determined by the Board of Directors. The preferential subscription rights of shareholders may be excluded and allotted to third parties by the Board of Directors with a view to acquiring companies or parts of companies or in order to finance the whole or partial acquisition of other companies in Switzerland or abroad. All statutory restrictions on the transfer of shares are applicable to new registered shares.

Conditional capital
The conditional capital amounts to CHF 110 390 470 and is structured as follows:

– a maximum amount of CHF 10 390 470 through the issuance of a maximum of 1 039 047 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to the employees of the company and of affiliated companies are exercised. There are no preferential subscription rights for shareholders. Share option or subscription conditions are determined by the Board of Directors. Issuance at a price below market conditions is authorized; and

– a maximum amount of CHF 100 000 000 through the issuance of a maximum of 10 000 000 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the conversion rights related to the convertible bonds of the company or its subsidiaries are exercised.

There are no preferential subscription rights for shareholders. The preferential subscription right of shareholders to the issuance of a convertible bond may be limited or excluded by decision of the Board of Directors on valid grounds, namely (a) if the convertible bonds are placed primarily in markets outside Switzerland, or (b) if the issuance proceeds contribute (i) to the financing or refinancing of acquisitions of companies or firms, (ii) to the financing of other strategic investments of the Group, or (iii) to financing the redemption of all or part of convertible bonds previously issued by the company or its subsidiaries. If the convertible bond is not offered preferentially to shareholders, (a) the convertible bonds must be sold to the public under market conditions,

(b) conversion rights must be exercised within a period of 7 years from the day of issuance of the respective bond, and (c) the conversion price must be at least equivalent to market conditions at the time of the issuance of the bond.

2.3. Changes in the capital of Kudelski SA

IN THOUSAND CHF	31.12.14	31.12.13	31.12.12
Registered share capital	46 300	46 300	46 300
Bearer share capital	492 747	491 582	489 822
Legal reserve	110 000	110 000	110 290
Capital contribution reserve	19 111	29 877	37 945
Net profit	-29 905	-33 872	-21 186
Retained earnings	191 224	226 519	262 790
TOTAL SHAREHOLDERS' EQUITY	**859 382**	**904 278**	**947 147**

For information relating to changes in capital which have taken place in 2014, 2013 and 2012, please refer to the Group's corresponding financial statements. Information regarding the capital contribution reserve can be found under note 3.4 to the Kudelski SA financial statements in the Kudelski Group's 2014 financial statements.

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2014 consisted of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 49 274 709 bearer shares with a nominal value of CHF 10 per share. Each share gives the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the relevant type of share. Kudelski SA does not have participation certificates.

2.5. Dividend-right certificates

Kudelski SA does not have dividend-right certificates.

2.6. Limitations on transferability and nominee registrations

As per the articles of association of Kudelski SA, registered shares may be transferred upon delivery of the endorsed share certificate, subject to the approval of the Board of Directors and registration in the share register. The provision of the Swiss Federal Act on Intermediated Securities are reserved.

The Board of Directors may refuse to approve the transfer of registered shares in one or more of the following cases:

a) If there exists good cause within the meaning of Article 685b, paragraph 2, of the Swiss Code of Obligations, i.e. if admission of the acquirer as a shareholder would be incompatible with the objective of the company or could jeopardize the economic independence of the company. This would in particular be the case if the acquirer could prejudice the company directly or indirectly, or if transfer of the shares could jeopardize the existing majorities.

b) If the company offers the seller of the shares to acquire the shares at their fair value at the time of the request for its own account, for the account of other shareholders or for the account of third parties.

c) If the acquirer does not expressly declare that he is acquiring the shares in his own name and for his own account.

If the shares are acquired by inheritance, division of an estate, marital property rights or as a result of debt enforcement proceedings, the company may only refuse its consent if it offers to acquire the shares at their fair value.

In the event of a dispute, the fair value is determined by the court having jurisdiction in the place where the company has its registered office. The company bears the costs of such valuation.

The purchase offer is deemed accepted if the acquirer does not reject it within one month of having been informed of the fair value.

Kudelski SA has no regulations concerning the registration of nominees.

Limitations on the transferability of registered shares are decided upon at the General Meeting if approved by shareholders holding at least two thirds of the shares represented at the Meeting and an absolute majority of the par value of the share represented.

2.7. Convertible bonds and options

Convertible bond
The company has no outstanding convertible bond.

Options
The company has no outstanding options.

Share purchase plan
In 2004, the Kudelski Group introduced a share purchase plan for the employees of certain companies of the Group, enabling those employees to buy Kudelski SA bearer shares on favourable terms. Each participant can subscribe annually to this plan up to a maximum amount of 7.7% of his/her gross annual salary.

The share purchase price is the closing price of the Kudelski SA share listed on the SIX Swiss Exchange on the day of subscription with a discount of up to 42%. However, the shares are subject to a three-year blocking period from the date of purchase.

A chart showing employee participation in this plan for the year 2014 can be found in note 44 to the consolidated financial statements.

3. BOARD OF DIRECTORS

The Board of Directors is the highest executive body of the company. It has the non-transferable and inalienable responsibilities set forth by the law and the articles of association. It currently consists of nine members elected at the General Meeting of Shareholders.

Three Committees, an Audit Committee, a Strategy Committee and a Compensation and Nomination Committee, have been created by the Board of Directors and are responsible for specific tasks (see sections 3.5.1 - 3.6).

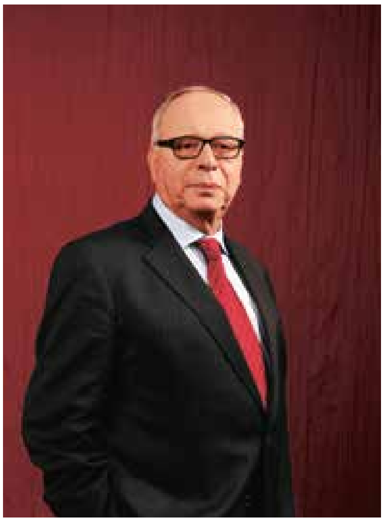
Mr Nicolas Gœtschmann, who is not a member of the Board of Directors, was appointed as Corporate Secretary by the Board of Directors.

3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
ANDRÉ KUDELSKI* Chairman of the Board and Chief Executive Officer	1960	Swiss	**DEGREE IN PHYSICAL ENGINEERING** Ecole Polytechnique Fédérale de Lausanne (EPFL)	1987	31.03.2015
CLAUDE SMADJA Vice-président du conseil et «lead director»	1945	Swiss	**DEGREE IN POLITICAL SCIENCE** University of Lausanne	1999	31.03.2015
PATRICK FŒTISCH	1933	Swiss	**DOCTORATE IN LAW** University of Lausanne **BAR EXAM**	1992	31.03.2015
LAURENT DASSAULT	1953	French	**DEGREE IN BUSINESS LAW** **DEGREE FROM ESLSCA** Ecole Supérieure Libre des Sciences Commerciales Appliquées, Paris	1995	31.03.2015
PIERRE LESCURE	1945	French	**DIPLÔME UNIVERSITAIRE EN LETTRES ET EN JOURNALISME** Centre de formation des journalistes, Paris	2004	31.03.2015
MARGUERITE KUDELSKI	1965	Swiss	**ENGINEERING DEGREE IN MICROTECHNOLOGY** **DOCTORATE IN MICROTECHNOLOGY** Ecole Polytechnique Fédérale de Lausanne **EXECUTIVE MBA** IMD Lausanne	2006	31.03.2015
ALEXANDRE ZELLER	1961	Swiss	**DEGREE IN ECONOMICS AND SOCIAL SCIENCES** University of Lausanne	2007	31.03.2015
JOSEPH DEISS	1946	Swiss	**DOCTORATE IN ECONOMICS AND SOCIAL SCIENCES** University of Fribourg	2012	31.03.2015
ALEC ROSS	1971	American	**DEGREE IN HISTORY** Northwestern University, USA	2014	31.03.2015

* *André Kudelski is the only member of the Board of Directors to combine his Board duties with an executive function within the Group (Chief Executive Officer). Apart from Mr Kudelski, no other member of the Board of Directors performed any executive function during the past three years.*

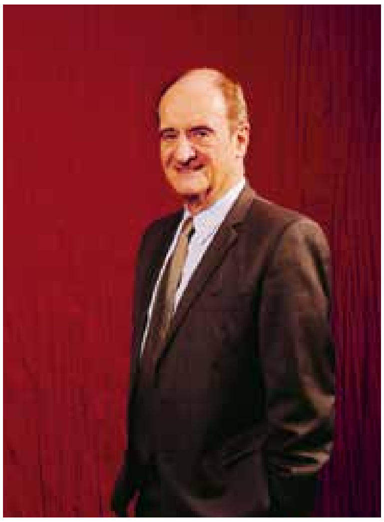
ANDRÉ KUDELSKI



CLAUDE SMADJA

PATRICK FŒTISCH

LAURENT DASSAULT



PIERRE LESCURE

MARGUERITE KUDELSKI

ALEXANDRE ZELLER

JOSEPH DEISS

ALEC ROSS

CURRENT MANDATES:

	KUDELSKI GROUP	OTHER:
ANDRÉ KUDELSKI André Kudelski began his career in 1984 as a Research & Development (R&D) engineer with Kudelski SA. In 1986, after an assignment for a few months in Silicon Valley, he returned to work in the family business firstly as Pay TV Product Manager, then as Director of Nagravision SA, a company in charge of the Pay TV sector. Mr Kudelski then took over from his father Stefan Kudelski and from 1991 became Chairman and Chief Executive Officer of the parent company Kudelski SA.	– Conax AS, in Norway, Chairman – Nagravision SA, in Switzerland, Chief Executive Officer – NAGRA PLUS SA, in Switzerland, Chairman and Chief Executive Officer – NagraStar LLC, in USA, Co-Chairman – SKIDATA AG, in Austria, Member of the Supervisory Board	– Aéroport International de Genève, in Switzerland, first Vice-Chairman – Comité d'economiesuisse, in Switzerland, member – École polytechnique fédérale de Lausanne (EPFL), (Switzerland), Strategic Advisory Board member – HSBC Private Banking Holdings (Suisse) SA, in Switzerland, Board member – Swiss-American Chamber of Commerce, in Switzerland, Vice-Chairman
CLAUDE SMADJA After 15 years with Télévision Suisse Romande (TSR) as Deputy Editor of the Information Department, Claude Smadja joined the management of the World Economic Forum in 1987, a position that he held until 1992. He then returned to TSR as Director of Information until 1996, in which year he was appointed Managing Director of the World Economic Forum. In June 2001, Claude Smadja set up his own strategy consultancy Smadja & Smadja, strategic advisory firm that collaborates on strategic issues with multinationals and government bodies and organizes international events.		– Smadja and Smadja SA, in Switzerland, Board member
PATRICK FŒTISCH Patrick Fœtisch is an independent lawyer specializing in contracts and finance at an international level. He acts as legal counsel to Group companies as and when required, bringing to bear his in-depth knowledge of their activities to provide assistance and legal advice.	– Nagravision SA, in Switzerland, Chairman – Nagra France SAS, Chairman – NAGRA PLUS SA, in Switzerland, Board member – SKIDATA AG, in Austria, Member of the Supervisory Board – NagraID SA, in Switzerland, Chairman (until 2 May 2014)* *This company is no longer part of the Kudelski Group since 2 May 2014	– AMRP Handels AG, in Switzerland, Chairman

CURRENT MANDATES:
OTHER:

LAURENT DASSAULT

After a career spanning thirteen years in the banking sector, Laurent Dassault joined the Dassault Group in 1992 where he holds important positions. Today he assumes around thirty mandates, including those of the Dassault Group, mainly in the financial, industrial and wine-producing sectors.

- 21 Centrale Partners SA, in France, member of the Supervisory Board
- Amis du FRAC (Fonds Régional d'Art Contemporain en Aquitaine), in France, Chairman
- Amis du Musée Centre Pompidou, Association, in France, Board member
- Arqana SAS, in France, advisor to the Directoire (Managing Board)
- Artcurial SA, in France, Board member
- Artcurial Développement Sàrl, in France, Co-manager (Co-gérant)
- Association des Amis du Musée d'Art Moderne, in France, Board member
- Association pour la Diffusion Internationale de l'Art Français (ADIAF), Board member
- Association pour la Mémoire des Enfants cachés et des Justes (AMECJ), Board member and Treasurer
- Banque Privée Edmond de Rothschild Europe SA, in Luxemburg, Board member
- Catalyst Investments II L.P., in Israel, Chairman of the Advisory Board
- DASSAULT BELGIQUE AVIATION S.A., in Belgique, Board member
- DASSAULT INVESTESSEMENTS Sàrl, in France, Managing Director
- Dassault Wine Estates SASU, in France, Chairman
- Financière Louis Potel & Chabot SAS, in France, Board member
- Groupe Industriel Marcel Dassault SAS, France, Directeur Général Délégué and Board member
- Immobilière Dassault SA, in France, Chairman of the Supervisory Board
- Laurent Dassault Rond Point (LDRP) SCI, in France, Associé gérant
- Lepercq, de Neuflize & Co. Inc., in United States, Board member
- L. REAL ESTATE SCA SICAR, in Luxemburg, Chairman of the Investors Committee
- MIDWAY AIRCRAFT CORPORATION, in United States, Chairman
- ONE DROP France (association), Chairman
- Organisation pour la prévention de la Cécité (OPC), Association, in France, Board member
- PECHEL INDUSTRIES SAS, in France, membre du comité de suivi (member of the Monitoring Committee)
- Power Corporation du Canada (company incorporated under Canadian law on joint stock companies), in Canada, Board member
- SAGARD PRIVATE EQUITY PARTNERS SAS, in France, membre du comité consultatif (member of the Advisory Committee)
- Sita SA, in Switzerland, Board member
- SOGITEC Industries SA, in France, Board member

PIERRE LESCURE

Save for a two year period (1972-1974) as a television news presenter for Antenne 2, Pierre Lescure spent the first fifteen years of his professional career with the RTL, RMC and Europe1 radio stations where he successively occupied a variety of positions, in particular Deputy Editor and Director of Programs. In 1981 he returned to television as Editor in Chief of Antenne 2. From 1984, he worked with André Rousselet on the launch project for the pay TV channel CANAL+ where he was appointed Director and then Chief Executive Officer. From 1993 to 2002, he was Chairman and Chief Executive Officer of the CANAL+ Group. From 2000 to 2002 Pierre Lescure was also co-Chief Executive Officer of Vivendi-Universal. Since 2002, he has been Chairman and Chief Executive Officer of Anna Rose Production SAS, a company active in audio-visual and cinematographic production as well as in communication consultancy services. From 2008 to 2014, he directed the Théâtre Marigny in Paris. Since 1st July 2014, Pierre Lescure has served as President of the Cannes Festival. Since September 2014, Pierre Lescure has been a regular TV columnist for the daily show "C à vous" which is broadcast on "France 5," the French TV channel.

- ANNAROSE PRODUCTIONS Sàrl, in France, Chairman and CEO
- Association française du festival international du film (known as "Le Festival de Cannes"), in France, Chairman
- DTS Distribuidora de Televisión Digital, S.A. (Digital+), in Spain, member of the Supervisory Board
- Fondation d'entreprise Technicolor pour le patrimoine du cinéma, (France), membre du Collège des Personnes Qualifiées (this fondation has been dissolved in January 2015)
- Havas SA, in France, Board member
- Lagardère SCA, in France, member of the Supervisory Board

CURRENT MANDATES:

MARGUERITE KUDELSKI

Marguerite Kudelski's professional career began at the EPFL's Laboratory of Electromechanics and Electrical Machines, where she worked from 1991 to 1999. During this period she also worked as a research and development engineer within the Nagra Audio division of the Kudelski Group. In 1999, she became the Head of R&D with Précel SA in Neuchâtel (then a Kudelski Group company) before being appointed as CEO and Board member of the same company in 2000, positions that she occupied until the end of 2002. After completing a number of marketing and financial analysis projects for NagraID in 2003, she took responsibility for certain key projects for the Group within the Finance Department from 2004 to 2006. From 2007 to 2011, Marguerite Kudelski worked as a consultant, offering services such as business development and management consulting. In December 2011, she took over the management of Nagra Audio, which was transferred by the Group to Audio Technology Switzerland SA for which she serves as Chairman of the Board of Directors.

OTHER:

- Audio Technology Switzerland SA , in Switzerland, Chairman

ALEXANDRE ZELLER

Alexandre Zeller began his professional career in 1984 with Nestlé as a Management Auditor. Three years later, he joined Credit Suisse, where he carried out various duties in the field of loans and asset management at a Swiss and international level, while at the same time managing various branches. In 1999 he was appointed to the Executive Board and then as CEO of Credit Suisse Private Banking. In November 2002, Alexandre Zeller joined the Banque Cantonale Vaudoise as Chairman of the Executive Board. From July 2008 to February 2012, he was CEO of HSBC Private Bank (Switzerland) and, as from October 2010, Regional CEO Europe and Middle East. Since March 2012, Alexandre Zeller has served as an independent director and in May 2014, he was appointed Chairman of the Board of SIX Group SA.

OTHER:

- Banque Lombard Odier & Cie SA (Suisse), Board member and member of the Audit Committee
- Maus Frères SA, in Switzerland, Board member
- SIX Group SA, in Switzerland, Chairman of the Board

JOSEPH DEISS

Joseph Deiss obtained a doctorate degree in economy and social sciences from the University of Fribourg (Switzerland) in 1971. After his doctorate, he was a research student at the University of Cambridge in the United Kingdom. He then returned to the University of Fribourg where he was lecturing economics as from 1973 and was "privat docent" as from 1977. He was appointed associate professor ("professeur extraordinaire") in 1983 and professor of political economy in 1984, a position he occupied until 1999. During this time, he was also a visiting professor at a number of Swiss Universities including ETH Zurich, University of Lausanne and University of Geneva. Between 1996 and 1998, he was the Dean of the Faculty of Economics and Social Sciences of the University of Fribourg.

Parallel to his academic career, Joseph Deiss has pursued a political career. He was a member of the Grand Council of the canton of Fribourg from 1981 to 1991, when he was elected President of the Grand Council of Fribourg for one year.

From 1991 to 1999, he was a member of the National Council. During this period, from 1993 to 1996, he was Switzerland's price regulator. In 1999 he was elected to the Federal Council, where he was responsible for the Federal Department of Foreign Affairs (1999-2002) and the Federal Department of Economic Affairs (2003-2006). He served as President of the Swiss Confederation in 2004. Since his retirement from the Federal Council in 2006, Joseph Deiss has been a business consultant and has served on the Boards of various companies. In June 2010, he was elected President of the United Nations General Assembly for its 65th session from September 2010 to September 2011.

OTHER:

- Adolphe Merkle Foundation, in Switzerland, Chairman
- ALSTOM (Suisse) SA, Chairman
- ALSTOM Renewable (Suisse) SA, Board member
- Clinique Générale-Ste-Anne SA, in Switzerland, Chairman
- Interprox SA, in Switzerland, Board member
- SA Fire House Ltd., in South Africa, Board member
- Liberty Global, European Advisory Board, member
- Zurich Insurance Company South Africa (ZICSA), in South Africa, Board member
- Zurich Insurance Company Ireland (ZIP), Board member – Zurich Insurance Group, in Switzerland, International Advisory Board, Vice-Chairman

CURRENT MANDATES:

ALEC ROSS

Alec Ross began his professional career in 1994 as a teacher within the Teach for America programme in the underprivileged neighbourhoods of Baltimore. He joined Enterprise Community Partners (formerly Enterprise Foundation) two years later, a non-profit organisation based in Columbia, Maryland, which develops affordable housing throughout the United States, where he held the position of Special Assistant to the Chairman. In 2000, Alec Ross co-founded the One Economy Corporation, a non-profit organisation which organizes programmes to help low-income people worldwide, for which he worked for eight years. In parallel, he joined the presidential campaign of President Barack Obama in 2007 as the Coordinator of the Technology, Media & Telecommunications Policy Committee and then as Project Manager and member of the Technology, Innovation and Government Reform Policy Group. From April 2009 to March 2013, Alec Ross was Senior Advisor for innovation to US Secretary of State Hillary Clinton. Since then, he has been Senior Fellow at the School of International and Public Affairs of the University of Columbia and is currently writing a book on the industries and companies of the future. He also advises investors, enterprises and government officials, helping them to understand the influence of factors located at the crossroads of geopolitics, markets and disruptive technologies.

OTHER:

- 2U Inc., in USA, Advisory Board member
- Amida, in USA, Advisory Board member
- AnchorFree Inc., in USA, Advisory Board member
- FiscalNote Inc., in USA, Advisory Board member
- Leeds Equity Partners LLC, in USA, Advisory Board member
- Telerivet Inc., in USA, Board member
- Mark43, in USA, Advisory Board member

3.2. Other activities and vested interests

Please refer to the individual profiles of Board members under section 3.1 above.

3.3. Articles of association provisions on the number of permitted activities

In compliance with the provisions of the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), Kudelski SA shall submit to its shareholders for approval, during the 2015 General Meeting the required amendments to its articles of association.

3.4. Election and terms of office

The Board of Directors is comprised of between one and ten members. Board members are appointed at the General Meeting for a period of one year. The term of office ends on the day of the next Ordinary General Meeting. All members may be re-elected. The year of the first election as well as the end of term of office for each member are mentioned under section 3.1 above.

The articles of association of Kudelski SA do not contain any special provisions regarding the appointment of the chairman.

3.5. Internal organization structure

The Board of Directors performs inalienable and non-transferable duties prescribed by the law (art. 716 of the Swiss Code of Obligations) with the support of its three committees: Audit, Strategy, and Compensation and Nomination. The internal organization of the Board of Directors is defined in the articles of association and in the Board Regulations. The regulations are available on request to the Corporate Secretary of the Kudelski Group by calling +41 21 732 01 27 or by post at the following address: 22-24 route de Genève, 1033 Cheseaux-sur-Lausanne. 65

3.5.1. Allocation of tasks within the Board of Directors

Except for the Chairman who is elected by the General Assembly, the Board of Directors constitutes itself nominating its Deputy Chairman. If the Board of Directors assigns the function of Chief Executive Officer to its Chairman, a “Lead Director” is also elected from among its members. Otherwise, the management of the company is delegated in full to the Chief Executive Officer or to the Executive Board. A Corporate Secretary may be appointed and is not a member of the Board of Directors.

The Chairman of the Board of Directors leads the discussions at the General Meeting, ensures that the minutes are taken, is in charge of the protocol and directs meetings of the Board, informs the Board members of the development of business and the half-yearly accounts, represents the company in dealings with administrative and/or judicial authorities subject to mandates entrusted by the Board of Directors to a third party, to an Officer or to one of its members.

President / Member	AUDIT COMMITTEE	STRATEGY COMMITTEE	COMPENSATION AND NOMINATION COMMITTEE
André Kudelski		Member	
Claude Smadja	President	Member	Member
Laurent Dassault			
Patrick Fœtisch			President
Marguerite Kudelski	Member		
Pierre Lescure		President	Member
Alexandre Zeller	Member	Member	Member
Joseph Deiss	Member		Member
Alex Ross		Member	

The Deputy Chairman may convene a meeting of the Board of Directors. He chairs the General Meeting in the absence of the Chairman.

The management of the company may be delegated to the Chief Executive Officer, unless otherwise stipulated by the law. In his management activities, the Chief Executive Officer acts upon the directives of the Board of Directors and safeguards the interests of the company. He also makes a report at each meeting of the Board of Directors covering the essential aspects of the current business situation.

In the Group's current structure, the positions of Chairman of the Board of Directors and Chief Executive Officer are held by the same person. This situation guarantees a rapid and fluid information and decision-making process, enabling the company to respond operationally and strategically at the pace required by developments in the sectors of activity pursued by the Group. There are mechanisms to counterbalance a potential risk resulting from the combination of these positions through the institution of the Lead Director.

The Lead Director ensures the independence of the Board of Directors vis-à-vis the Chairman and Chief Executive Officer as well as the management of the company; he also chairs the Board of Directors in cases of conflict of interest involving the Chairman and Chief Executive Officer. Thus the Lead Director may autonomously convene and direct a meeting of the independent members of the Board of Directors if the interests of the company require independent deliberation. He ensures a performance appraisal process for the Chairman of the Board of Directors and the Chief Executive Officer.

3.5.2. Members list, tasks and area of responsibility for each committee of the Board of Directors

With the exception of the Compensation and Nomination Committee, whose members are elected individually by the General Assembly, the Committees are constituted by the Board of Directors which appoints their members and chairpersons. The Board Committees meet as often as is necessary. The Board of Directors delegates to its committees supervisory and preparatory tasks within their sphere of competence, subject to the provisions of the articles of association. The Committees report on a regular basis to the Board of Directors. Committee reports are used as a decision-making tool by the Board of Directors.

Audit Committee

The Audit Committee consists of at least three non-executive members of the Board of Directors. At least one Committee member must have proven experience in the field of accounting. All members have knowledge or practical experience in the field of financial management. The Audit Committee meets at least three times a year. The Audit Committee may at any time request detailed risk analyses of the Group's various sectors of activity as well as of specific fields of its choice.

The Committee calls on experts outside the Board of Directors where this is deemed necessary for the successful completion of its tasks.

The Audit Committee supervises the company's internal financial reporting process and ensures its integrity, transparency and quality. It ensures that accounting methods comply with applicable regulations and constantly updates and provides financial information to the company.

It assesses the quality of work of external auditors. The Audit Committee reviews the auditing fees, ensures execution of the yearly audit plan and assesses the efficiency of the auditors in identifying and solving issues related to the Group or to the financial statements. The Audit Committee provides appropriate recommendations to the Board of Directors concerning renewal of the engagement of external auditors or, where necessary, their replacement. The Committee ensures that the recommendations of external auditors are addressed and safeguards their independence.

The Committee provides regular reports presenting its recommendations to the Board of Directors concerning the adequacy, efficiency and veracity of accounting processes.

Strategy Committee
The Strategy Committee is composed of at least four members of the Board of Directors, including the Chairman and Deputy Chairman. It meets at least twice a year.

The purpose of the Strategy Committee is to review and define Group strategy. It develops strategic options with a view to ensuring the long-term enhancement of the Group's competitive position and its shareholder value. To this end, the Strategy Committee monitors market trends and the Group's competitive position, drafts future development models and oversees the Group's development by means of investments, disinvestments and reorganization.

To define strategic choices, the Strategy Committee relies upon information supplied by the management, the members of the Board of Directors and, if deemed necessary, by external counsel.

The Strategy Committee periodically reviews the balance between the Group's objectives, its structure and the organization in place to achieve strategic objectives. The Strategy Committee makes proposals to the Board of Directors, which has ultimate decision-making power on strategy.

Compensation and Nomination Committee
The Compensation and Nomination Committee is composed of at least three non-executive members of the Board of Directors, who are elected individually by the General Assembly upon recommendation of the Board of Directors. It meets at least twice a year.

The Compensation and Nomination Committee assists the Board of Directors in setting up and periodically reviewing the remuneration policy of the company, as well as its guidelines and performance criteria; it also assists in making proposals to the General Assembly regarding the remuneration of the members of the Board of Directors and of the Executive Board (refer to section 5: Compensation, shareholdings and loans). The Committee presents proposals to the Board of Directors concerning the appointment of Board members to be submitted to the General Meeting. At the request of the Chief Executive Officer, it examines applications for management positions and may if it wishes meet with candidates.

3.5.3. Working methods of the Board of Directors and its Committees

The cooperation and allocation of competencies between the Board of Directors and its Committees are described in section 3.5.2.

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business. In 2014, the Board of Directors and its Committees met as follows:

Board of Directors	8 times
Strategy Committee	3 times
Audit Committee	3 times
Compensation and Nomination Committee	2 times

Average attendance at Board meetings exceeded 95%. Meetings of the Board of Directors lasted on average four hours. Most Committee meetings lasted on average three hours.

3.6. Definition of areas of responsibility

Please see also section 3.5.1 for details of the internal organization of the Board of Directors and the position of Chief Executive Officer.

Board of Directors

Board of Directors:
– is responsible for the overall management of the company and issues all necessary directives;
– determines the organization;
– determines the organisation of the accounting, financial control and financial planning systems as required for management of the company
– appoints and dismisses persons entrusted with managing and representing the company ;
– exercises overall supervision of the persons entrusted with managing the company, in particular with respect to compliance with the law, articles of association, regulations and directions given;

- prepares the Compensation report;
- compiles the annual report, prepares the General Meeting and implements its resolutions;
- takes decisions on further capital calls with respect to shares that are not fully paid up (article 634a of the Code of Obligations);
- takes decisions regarding the assessment of an increase in capital and relevant changes to the articles of association (articles 651 para. 4, 651a, 652a, 652g, 652h, 653g, 653h of the Code of Obligations);
- notifies the court in the event that the company is over-indebted.

Executive Board

The Board of Directors has delegated full management of the company to the Chief Executive Officer, subject to legal requirement and provisions of the articles of association. The Chief Executive Officer therefore coordinates the operations of the Group companies.

3.7. Information and control instruments vis-à-vis the Executive Board

Because of the nature of the industry, mechanisms for controlling Group management and information feedback systems are very important. The Kudelski Group has therefore put in place information and control instruments, at different levels, which it improve on a continuous basis. These instruments concern strategy, operations, finance, law, intellectual property, human resources and information management.

Supervision

- The Chief Executive Officer submits a report to the Board members prior to each meeting outlining key aspects of the current business situation (key contracts, sales trends, market trends, human capital) for each Group entity and activity.

- Board members receive weekly or quarterly press digests concerning the Group, depending on the amount of relevant newsflow; they may also receive other informative documents concerning the Group and its entities, as well as a message from the Chief Executive Officer whenever the CEO deems it necessary.

- At least twice a year, members of the Executive Board are invited to present their activities to the members of the Board of Directors. Members of the Board of Directors may also ask questions directly to company executives as and when they see fit.

- At each Board meeting, if justified by the business situation and depending on the agenda, members of the Executive Board, top managers of the companies of the Group or in charge of specific areas as well as outside experts are invited to present specific subjects to the Board of Directors.

Operations and strategy

- Executive Board members coordinate their action and take decision related to the management of the Group during the "Executive Board Committees", the frequency and duration of which are tailored to the needs of the Group. This committee generally met once every two weeks for an average of 3 hours in 2014.

- Management of the iDTV division is supported by an "Executive Board Group Operations" committee composed of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Operations Officer (COO), as well as senior members of the iDTV division. This committee meets twice a month for 2,5 hours and reviews in particular selected relevant topics for the iDTV division. In addition, the members of the Executive Board and the General Counsel, Head of Legal Affairs, the Senior Vice President, Head of Human Resources, the Senior Vice President, Advanced Advertising, the Senior Vice President, Intellectual Property and the Corporate Secretary meet twice a month for at least thirty minutes as part of the "Executive Board Group Functions" committee to discuss relevant topics relating to these functions and not directly related to operations. Finally, the synchronisation between the Executive Board and the "Executive Board Group Operations" and the "Executive Board Group Functions" committees is achieved within the "Executive Board Group Management" committee which meets every month for at least one hour.

- Management of the Public Access division is supported by the Supervisory Board which includes a Kudelski Group Board member, the Chairman and CEO of the Group, the CFO of the Group and a non-executive member (currently, Mr Charles Egli, a former Executive Board member) who is Chairman of this Supervisory Board. This Board supervises the whole division. The Supervisory Board meets at least four times a year for an average of 3h30 and reviews the specific and pertinent topics for the Public Access division. Senior Managers of the Public Access division establish regular reports for the Supervisory Board and, depending on the topics, are invited to take part in Board meetings.

- For certain specialized activities of the Group, ad hoc committees composed of a cross-disciplinary team of internal experts may be created to evaluate market, strategic, operational, legal and financial risks and opportunities. These ad hoc committees manage processes relating to the evaluation of such risks and opportunities, propose actions and monitor implementation of their decisions. There are several committees such as the security committee and innovation committee. Decisions, activities, information and comments arising from these committees are conveyed to the Executive Board members and other top managers of the Group as appropriate.

Finance
- The Controlling entity conducts regular financial and operational analyses intended to identify operational and financial risks throughout the value chain of the various activities of Group companies and proposes and coordinates necessary improvements and corrective actions. This entity makes available a platform of analytical services to the Executive Board and operational departments.

- Every month, the Controlling entity prepares a number of reports which are made available to the management. Those reports are then adapted and sent to each regional head and business unit with the corresponding analytical metrics. The reports include: a report providing an overview of the Group’s profit and loss broken down by activity and showing profit trends and budget overruns/shortfalls, with adaptations based on quarterly revisions of the annual forecast by entity, as well as their operational indicators; a sales report including region, client and sales type-specific analysis as well as their respective margins; a report on the operational cost trend broken down by cost center, a report on the financial development of key projects and a monthly and quarterly report on the cash-flow situation for the Group and for each segment for the current year and the coming year.

- In addition, the Group has an internal control system based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) reference system. This system aims at providing “reasonable assurance” as regards the performance and efficiency of operations, the reliability of financial information and reporting, and compliance with laws and regulations in force. A team is in charge of internal controls. The various processes are periodically reviewed and analysed by the external auditors (PricewaterhouseCoopers).

Legal
- The Legal Department provides advice and consultation as part of the Group’s decision making processes and as part of the activities of all Group departments in order to better mitigate and manage legal risks as well as to ensure appropriate levels of compliance with the Group’s policies.

- The Legal Department is involved with the negotiation and approval of contracts entered into by Group companies and maintains contract management and electronic archiving tools to ensure efficient tracking of contracts.

- The Legal Department is also responsible for overseeing litigations, government investigations and other regulating matters for Group companies.

Intellectual Property
- The Intellectual Property Department is responsible for protecting, developing, managing and licensing the Group's technologies and intellectual property portfolio. In connection with this responsibility the Intellectual Property Department briefs senior management on operational and strategic matters in the field of intellectual property that impact Group activities.

Human Resources
- The HR Department uses a performance development tool (“Performance Development System” – PDS) designed to align the teams’ management programs with the needs of the company. PDS features performance- and skills-evaluation functions and establishes a career development baseline for employees in line with the company’s needs.

- Since January 2013, a PDS tool embedded in the Group integrated HR information system is available online. It gives speedier access to progress against objectives and enhanced management reporting capability. In addition to the PDS, the HR information system now includes an employee database, time and absence management, training and development modules and compensation management.

Information Management
- The Corporate IT department has developed and implemented a series of policies and procedures concerning IT security (for the use of computer systems, data protection, monitoring, systems management, back-up, etc.) to set appropriate risk limits and to provide a reliable Information System environment.

4. EXECUTIVE BOARD

4.1. Executive Board members

PIERRE ROY, ANDRÉ KUDELSKI AND MAURO SALADINI
FROM LEFT TO RIGHT

	DATE OF BIRTH	NATIONALITY	POSITION	EDUCATION
ANDRÉ KUDELSKI	1960	Swiss	**Chairman and Chief Executive Officer (CEO) of the Group**	**Degree in Physical Engineering** Ecole Polytechnique Fédérale de Lausanne (EPFL)
MAURO SALADINI Executive Vice President of the Group	1966	Swiss	**Chief Financial Officer (CFO)**	**Degree in Electrical Engineering** Ecole Polytechnique de Zurich (ETHZ) **MBA** INSEAD, France
PIERRE ROY Executive Vice President of the Group	1952	Swiss	**Chief Operating Officer (COO), Digital TV**	**Degree in Business Management** Hautes Etudes Commerciales (HEC) de l'Université de Lausanne

CURRENT MANDATES

ANDRÉ KUDELSKI

Please refer to section 3.1 above

MAURO SALADINI

Mauro Saladini started his professional career in 1990 as a financial services consultant with Accenture. In 1995, he joined Thema Consulting, where he set up the Zurich subsidiary and took responsibility for cash-flow and risk management activities. In 1997, he joined McKinsey & Co, where he became a partner in 2001. He worked in particular on corporate finance and strategy projects relating to various industries, mainly media and telecommunications. In addition, Mauro Saladini was in charge of the Swiss Media Practice and joint-head of the European Media Practice. He has been the Chief Financial Officer and Executive Vice President of the Kudelski Group since 1 February 2003.

KUDELSKI GROUP:

- Conax AS, in Norway, Board member
- Nagravision SA, in Switzerland, Executive Board member
- Nagra Media Germany GmbH, Executive Board member
- SKIDATA AG, in Austria, Vice Chairman of the Supervisory Board
- Kudelski Norway AS, Board of Directors, Chairman
- NagraID SA, in Switzerland, Chief Executive Officer (until 2 May 2014)*
  *This company is no longer part of the Kudelski Group since the 2 May 2014
- NagraID Security SA, in Switzerland, Board member (until 31 August 2014)*
  *This company is no longer part of the Kudelski Group since the 31 August 2014

OTHER:

- Myriad Group AG, in Switzerland, Board member

PIERRE ROY

Pierre Roy began his professional career with Procter & Gamble as a Financial Analyst in 1975. Following this early experience, he joined IBM in 1977 as a Sales Engineer. In 1979, he began his international career with Digital Equipment Corporation, where he fulfilled various management positions at the European headquarters in Geneva and also abroad, in the Finance and Administration, Marketing and Business Management departments. He joined Kudelski SA in 1992 as Managing Director of Nagra Audio, Business Development Director of Nagravision and Managing Director of Précel (at the time a Kudelski Group company). In 1999 he started his own corporate consultancy firm working in the telecommunications sector while continuing to collaborate on strategic projects for Nagravision. In 2003, he was appointed Chief Operating Officer for the Digital Television sector of the Kudelski Group and Executive Vice President.

KUDLESKI GROUP

- Conax AS, in Norway, Board member
- Nagravision SA, in Switzerland, Board member and Executive Board member
- Nagra Media UK Ltd, Board member
- Nagravision Italia s.r.l., Board member
- Nagravision Iberica SL, Board member
- Nagra USA Inc., Board member
- Nagravision Asia Pte Ltd., in Singapore, Board member
- Nagra Media Korea LLC, in South Korea, Board member
- Nagra Media Pvt Ltd, in India, Board member
- OpenTV Europe SASU, in France, Board member
- OpenTV Australia Pty Ltd, Board member
- SmarDTV SA, in Switzerland, Board member
- Nagra-Kudelski Ltd, in UK, Chairman (until mid-April 2013)

4.2. Other activities and vested interests

Please refer to the individual profiles of members of the Executive Board under section 4.1 above.

4.3. Articles of association on the number of permitted activities

In accordance with the provisions of the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), Kudelski SA shall submit to its shareholders for approval, at the 2015 General Meeting, the required amendments to its articles of association OaEC.

4.4. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2014.

5. COMPENSATION, SHAREHOLDINGS AND LOANS

For details relating to the compensation, shareholdings and loans to members of the Board of Directors and Executive Board of Kudelski SA, please refer to the 2014 compensation report.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

The provisions of the articles of association governing the participation rights of shareholders are in compliance with the law as set out in the Swiss Code of Obligations.

The articles of association of Kudelski SA may be found on the Kudelski Group website via the following link: http://www.nagra.com/cms/Investors-doc-center.html

6.1. Voting rights restrictions and representation

6.1.1. In accordance with the articles of association of Kudelski SA, there are no restrictions on voting rights and no statutory Group clauses or rules on granting exceptions.

6.1.2. There are currently no statutory provisions on granting instructions to an independent representative or on any form of participation in the General Assembly by electronic means.

6.2. Quorum required by the articles of association

The articles of association of Kudelski SA do not impose any majority higher than contemplated bylaw for resolutions of the General Meeting of Shareholders.

The General Meeting is validly constituted regardless of the number of shareholders present and/or the number of shares represented.

6.3. Convocation of the General Meeting of Shareholders

The provision of the articles of association regarding the convocation of the General Meeting of Shareholders are in accordance with applicable legal provisions.

The General Meeting of Shareholders must be called at least 20 days before the date of the meeting. The notice of the General Meeting is published in the Swiss Official Gazette of Commerce.

6.4. Inclusion of items on the agenda

Items on the agenda are mentioned in the notice. Regarding rules for adding items to the agenda, the articles of association of Kudelski SA do not contain provisions that differ from the Swiss Code of Obligations, namely Art. 699 CO, which provides that "shareholders who represent shares totalling a nominal value of CHF 1 million* may request that an item be included in the agenda. The calling and the inclusion of an item on the agenda must be requested in writing listing the items and motions".

* This represents 0.19% of the capital of Kudelski SA or 0.10% of the voting rights.

6.5. Entries in the share register

Kudelski SA shares that can be traded on the SIX Swiss Exchange are bearer shares; consequently there is no register of shareholders for this category of shares.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1. Duty to make an offer

Kudelski SA has no provision on opting-out or opting-up in its articles of association. This means that if a shareholder reaches the limit laid down by the law on stock markets (art. 32 LBVM: $33^{1/3}$% of the voting rights), he must by virtue of this law submit a take-over bid.

7.2. Clauses on changes of control

To the knowledge of the Group, no such agreement exists.

8. AUDITORS

8.1. Duration of the mandate and term of office of the lead auditor

The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated to the Group are audited by other auditors. The auditors were reappointed by the Ordinary General Meeting of Shareholders of Kudelski SA of 8 April 2014 for a statutory period of one year. The Pricewater houseCoopers SA mandate began in 1985. It has been under the responsibility of Mrs Corinne Pointet Chambettaz since 1 January 2010.The auditor in charge is replaced at the latest seven years after the year in which he/ she first occupied this position, as specified in Article 730a paragraph 2 of the Swiss Code of Obligations.

8.2. Auditing fees

The Kudelski Group paid PricewaterhouseCoopers for auditing services for the year 2014 the sum of CHF 1 071 000. Auditing services are understood to mean the work required each year to examine the consolidated accounts of the Group and its subsidiaries and to prepare the reports required under the laws of each country.

8.3. Additional fees

The Kudelski Group paid PricewaterhouseCoopers for additional services for the year 2014 the sum of CHF 206'983 representing CHF 155'208 for tax advisory services and CHF 51'774 for other additional services. Additional services mean in particular services such as the occasional accounting review of transactions and other services such as review of new or modified accounting methods.

8.4. Information instruments pertaining to the external audit

The aim of the Audit Committee of the Board of Directors is to provide effective and regular supervision of the company's financial reporting processes in order to ensure their integrity, transparency and quality. To this end, it is responsible for monitoring the work, including additional services, of the external auditors.

PricewaterhouseCoopers provides the Audit Committee with a detailed report before each Committee meeting regarding the execution and results of its work for the Kudelski Group, proposals to correct or improve identified problems and the implementation status of decisions made by the Audit Committee.

The auditor's representatives, including the auditor in charge of the Group's audit, are regularly invited to take part in meetings of the Audit Committee as external participants. Representatives from PricewaterhouseCoopers were invited this year to all three meetings of the Audit Committee. They do not participate in any discussions and decisions of the Audit Committee regarding the auditors. The auditor in charge of the internal audit attended the parts of these three meetings that were relevant for him.

For more information on the Audit Committee, and particularly on the selection, evaluation and independence criteria, please refer to sections 3.5.2. and 3.5.3. above.

9. INFORMATION POLICY

The Kudelski Group keeps investors regularly informed of the following developments:

- progress of business and major new contracts;
- changes in the management of the Group;
- acquisitions or sales of companies; and
- half-year and annual financial results.

Press releases are issued in compliance with the rules in force of the SIX Swiss Exchange concerning factual publicity and are available on the Group's website simultaneously with their publication. A link on the home page of the Group's web site allows direct access to press releases. The Group communicates as often as necessary in this manner. Press releases are generally published in French and in English.

In certain specific cases, a German version is also provided. They are available in these languages on the website.

Persons wishing to receive Kudelski Group press releases may subscribe to a mailing list using a form available on the Kudelski Group website.

Financial results are presented to investors and financial analysts during a press conference held twice a year. Persons invited can also follow the conference by phone.

The Group's website is a regularly updated source of information. The Investor Relations section contains a list of the principal dates of the corporate calendar (publication of results, General Meeting and presence at major trade shows) as well as the Group's main publications (annual report and half-year report).

The Group's main website links and e-mail addresses are on page 146 of this report.

Important dates

- 31 March 2015: Ordinary General Meeting, Cheseaux-sur-Lausanne;
- 20 August 2015: Publication of the Interim Financial Report and Press Conference;
- 18 February 2016: Publication of the 2015 Financial Results and Press Conference.

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

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 withthe 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 setsthe 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 78 to 80) 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 OrdinanceThe 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.

pwc

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 18, 2015

FINANCIAL STATEMENTS

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KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	2014	2013
Revenues	6	879 814	820 918
Other operating income	7	15 304	15 233
Total revenues and other operating income		**895 118**	**836 151**
Cost of material, licenses and services		-239 492	-247 756
Employee benefits expense		-380 603	-348 387
Other operating expenses	8	-163 762	-140 307
Operating income before depreciation, amortization and impairment		**111 261**	**99 701**
Depreciation, amortization and impairment	9	-43 183	-45 207
Operating income		**68 078**	**54 494**
Interest expense	10	-11 867	-8 398
Other finance income/(expense), net	11	5 648	1 468
Share of result of associates	18	1 554	1 681
Income before tax		**63 413**	**49 245**
Income tax expense	12	-12 974	-9 820
Net income for the period from continuing operations		**50 439**	**39 425**
Net result from discontinued operations	39	-17 376	3 933
Net income for the period		**33 063**	**43 358**
Attributable to:			
- Equity holders of the company		*25 702*	*42 150*
- Non-controlling interests		*7 361*	*1 208*

Earnings per share (in CHF)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	14	0.4753	0.7795
- Continuing operations		*0.8160*	*0.6381*
- Discontinued operations		*-0.3407*	*0.1414*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	14	0.0475	0.0780
- Continuing operations		*0.0816*	*0.0638*
- Discontinued operations		*-0.0341*	*0.0140*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	**2014**	**2013**
Net income	**33 063**	**43 358**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-7 841	-3 855
Cash flow hedges, net of income tax	-234	358
Net (loss)/gain on available-for-sale financial assets, net of income tax	-793	-1 137
	-8 868	**-4 634**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:		
Remeasurements on post employment benefit obligations, net of income tax	-12 542	3 762
Total other comprehensive income, net of tax	**-12 542**	**3 762**
Total comprehensive income	**11 653**	**42 486**
Attributable to:		
Shareholders of Kudelski SA	2 088	41 558
- Continuing operations	*20 527*	*33 906*
- Discontinued operations	*-18 439*	*7 652*
Non-controlling interests	9 565	928

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	15	133 145	147 487
Intangible assets	16	368 549	169 250
Investment property	17	1 347	1 459
Investments in associates	18	6 217	4 768
Deferred income tax assets	19	60 797	56 118
Financial assets and other non-current assets	20	52 233	60 198
Total non-current assets		**622 288**	**439 280**
Current assets			
Inventories	21	47 083	64 383
Trade accounts receivable	22	219 998	197 233
Other current assets	23	70 553	49 959
Cash and cash equivalents	24	92 382	100 273
Total current assets		**430 016**	**411 848**
Total assets		**1 052 304**	**851 128**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	539 047	537 882
Reserves		-124 406	-96 999
Equity attributable to equity holders of the parent		**414 641**	**440 883**
Non-controlling interests	27	22 731	5 618
Total equity		**437 372**	**446 501**
Non-current liabilities			
Long-term financial debt	28	255 223	123 444
Deferred income tax liabilities	19	13 417	491
Employee benefits liabilities	31	79 251	61 281
Provisions for other liabilities and charges	32	65	288
Other long-term liabilities and derivative financial instruments	33	3 337	2 288
Total non-current liabilities		**351 293**	**187 792**
Current liabilities			
Short-term financial debt	34	75 796	59 257
Trade accounts payable	35	52 134	37 729
Other current liabilities	36	108 726	98 034
Current income taxes		7 846	2 137
Advances received from clients	37	13 055	13 620
Derivative financial instruments	38	1 086	–
Provisions for other liabilities and charges	32	4 996	6 058
Total current liabilities		**263 639**	**216 835**
Total liabilities		**614 932**	**404 627**
Total equity and liabilities		**1 052 304**	**851 128**

CONSOLIDATED CASH FLOW STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	2014	2013
Net income for the year		**33 063**	**43 358**
Adjustments for net income non-cash items:			
- Current and deferred income tax		12 974	10 242
- Interests, allocation of transaction costs and foreign exchange differences		6 452	8 456
- Depreciation, amortization and impairment	9	45 206	51 511
- Share of result of associates	18	-1 554	-1 681
- Non-cash employee benefits expense		5 057	5 401
- Deferred cost allocated to income statement		9 690	10 406
- Additional provisions net of unused amounts reversed		2 946	-979
- Non-cash government grant income		-6 742	-6 479
- Other non cash income/expenses		7 576	2 647
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		5 315	–
- Other non operating cash items		91	622
Adjustements for change in working capital:			
- Change in inventories		12 866	2 313
- Change in trade accounts receivable		-17 976	-3 271
- Change in trade accounts payable		10 981	-2 364
- Change in deferred costs and other net current working capital headings		1 235	6 724
Dividends received from associated companies	18	1 905	1 230
Interest paid		-8 412	-6 409
Interest received		1 417	1 247
Income tax paid		-12 827	-2 054
Cash flow from operating activities		**109 263**	**120 920**
Purchases of intangible fixed assets		-13 184	-9 854
Purchases of tangible fixed assets		-16 217	-20 342
Proceeds from sales of tangible and intangible fixed assets		339	510
Investment in financial assets and loans granted		-4 140	-730
Divestment of financial fixed assets and loan reimbursement		2 527	2 768
Acquisition of subsidiaries, cash outflow	4	-211 286	–
Disposal of subsidiaries and operations, cash inflow	5	3 461	–
Acquisition of associated companies	18	-2 193	–
Cash flow used in investing activities		**-240 693**	**-27 648**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-75 437	-86 659
Increase in bank overdrafts, long term loans and other non-current liabilities		219 235	1
Proceeds from employee share purchase program		63	57
Acquisition of non controlling-interests		–	-246
Sale of treasury shares		–	119
Dividends paid to non-controlling interests		-4 711	-4 655
Dividends paid to shareholders	41	-16 170	-10 757
Cash flow from/(used in) financing activities		**122 980**	**-102 140**
Effect of foreign exchange rate changes on cash and cash equivalents		559	-945
Net increase / (decrease) in cash and cash equivalents		**-7 891**	**-9 813**
Cash and cash equivalents at the beginning of the year	24	100 273	110 086
Cash and cash equivalents at the end of the year	24	92 382	100 273
Net increase / (decrease) in cash and cash equivalents		**-7 891**	**-9 813**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Treasury shares	Non-controlling interests	Total equity
January 1, 2013		**536 122**	**52 380**	**-104 277**	**-619**	**-74 325**	**-290**	**9 425**	**418 415**
Net income				42 150				1 208	43 358
Other comprehensive income				3 762	-958	-3 395		-281	-872
Total comprehensive income		**–**	**–**	**45 912**	**-958**	**-3 395**	**–**	**927**	**42 486**
Employee share purchase program	42	79	-17						62
Shares issued for employees		1 681	-537						1 144
Dividends	41		-8 068	-2 689					-10 757
Dividends to non-controlling interests								-4 655	-4 655
Sale of treasury shares				-134			253		119
Transactions with non-controlling interests				-240				-79	-319
Shares granted to employees	27			-37			37		–
Shares allocated over the vesting period	42			5					5
December 31, 2013		**537 882**	**43 758**	**-61 460**	**-1 577**	**-77 720**	**–**	**5 618**	**446 501**
Net income				25 702				7 361	33 063
Other comprehensive income				-12 542	-1 190	-9 882		2 204	-21 410
Total comprehensive income		**–**	**–**	**13 160**	**-1 190**	**-9 882**	**–**	**9 565**	**11 653**
Employee share purchase program	42	81	14						95
Exercise of stock options by employees		1							1
Shares issued for employees		1 083	-164						919
Dividends	41		-10 780	-5 390					-16 170
Dividends to non-controlling interests								-4 711	-4 711
Non-controlling interests arising on business combination								465	465
Transactions with non-controlling interests	4			-13 175				11 794	-1 381
December 31, 2014		**539 047**	**32 828**	**-66 865**	**-2 767**	**-87 602**	**–**	**22 731**	**437 372**

Fair value and other reserves as of December 31, 2014 include kCHF -2 002 (2013: kCHF -1 209) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF -765 (2013: kCHF -368) relating to cash flow hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

1. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation

The consolidated financial statements of the Kudelski Group ("Group" or "company") have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

These consolidated financial statements were prepared under the historical cost convention, except for items to be measured at fair value as explained in the accounting policies below. The policies set out below are consistently applied to all years presented. Prior year figures have been reclassified where necessary to ensure comparison.

(B) Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transaction that are recognised in assets are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities incurred by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible fixed assets. When determining the purchase price allocation, the Group considers mainly development technologies, customer lists, trademarks and brands as intangibles.
Any contingent consideration depending on the future financial performance of the acquired company ("earn out clause") is recognized at fair value at acquisition date using management's best estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve month after the balance sheet date is discounted to its present value and disclosed within other long term liabilities.

The Group recognizes non-controlling interest as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate value of the consideration transferred plus the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control of a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the income statement. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the control of those policies. Significant influence is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associ-

ates are accounted for using the equity method of accounting and are initially recognized at cost.
Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(C) Foreign currencies

The consolidated financial statements of the Group are expressed in Swiss francs ("CHF"), which is the presentation currency.

The local currency is generally used as the functional currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate prevailing at the balance sheet date. Transactions contracted in a currency other than the functional currency are recorded using the exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.

Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using average exchange rates. The balance sheets are translated using the year-end exchange rates. Translation differences arising from movements in the exchange rates used to translate equity, long-term internal financing deemed as net investment in a foreign operation and net income are recognised in other comprehensive income. The loss of control or total disposal of a subsidiary triggers the recycling of the translation difference to the income statement.

(D) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates, discounts, commissions directly attributed to the sale and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.
The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimate on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognized when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sales of goods may include delivery of complete systems comprising hardware, software, specific developments, an initial batch of smartcards, licenses and other services. When the revenue from a sale of goods is subject to a performance obligation other than a warranty, the revenue is only recognized for the estimated acquired portion.

(b) Services rendered

Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training, as well as revenues from complete security solutions which generate recurring service revenues.

Revenue from system integrations, specific developments and customization is recognized using the percentage of completion method. The stage of completion is measured by reference to the contract costs incurred and the effective hours worked up to the balance sheet date as a percentage of total estimated costs and total estimated hours worked for each contract. Revenue from maintenance agreements is allocated over the contractual period. Revenue from training is recognized when earned.

(c) Royalties and licenses

Royalty income is recognized when earned. If the relevant license agreement contains certain performance obligations, the revenue is considered earned when the obligation has been fulfilled.
For software license arrangements, the Group recognizes new software license revenue when: (1) The company has entered into a legally binding arrangement; (2) delivery has occurred; (3) customer payment is deemed fixed or determinable and free of significant contingencies or uncertainties; and (4) collection is probable.

(d) Multiple element arrangements – service mode

The revenue for complete security solution arrangements that may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements is recognized when contractually earned, and is usually dependent on

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

the client's number of subscribers or number of smartcards delivered or made available. The Group considers certain sales of smartcards with extended payment terms to be multiple element arrangements. When the fair value of a particular element cannot be determined, the revenue is fully allocated to any undelivered elements.
When the title of the delivered assets is not transferred, these assets made available to clients are initially recognized on the balance sheet at cost under tangible fixed assets. Cost in connection with the depreciation of the assets made available to clients is recognized over the shorter of the duration of the contract or the useful lives of those assets, and is shown under depreciation in the income statement. When the title is transferred, the cost is deferred and is allocated to the cost of material on a straight line basis over the shorter of the duration of the contract or the useful lives of those assets.

In both cases the capitalised amounts are subject to periodic impairment reviews. Other costs (such as maintenance, services and security efforts) relating to those contracts are recognized when incurred. When it is probable that total contract costs will exceed total contract revenue, the estimated loss is recognized immediately.

(e) Payment to customers
Payments made by the Group to customers to enter into or to renew existing customer relationships are initially recorded under deferred costs and are subsequently released to the income statement on a straight-line basis over the term of the contract, as reduction in revenue. They are subject to periodic impairment reviews.

(f) Government grants
Government grants are recognized when the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. They are recognized in the income statement as operating income unless they are linked to a capitalized fixed asset, in which case they are deducted from the amount of the fixed asset.

(g) Interest income
Interest income is recognized according to the effective interest rate method.

(E) Cost of material, licenses and services
The cost of material, licenses and services includes direct costs which are attributable to selected revenues. The cost of material includes only the cost of materials paid to external suppliers in connection with recognized sales transactions. It therefore does not include other direct and indirect costs associated with the manufacturing process, such as labor costs, utilities or depreciation of manufacturing assets.
Cost of licenses includes amounts charged for sublicenses on a per-unit basis by external suppliers for each unit of delivered product (e.g. CODEC licenses charged on each set-top-box sold). It therefore specifically excludes licenses paid independently of the number of units sold, deployed or used in a development process. Cost of services includes outsourced services that are directly connected to a recognized sales transaction, such as subcontracting a portion of a maintenance agreement or outsourcing the implementation of a revenue-generating customer solution.

(F) Derivative financial instruments
Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized on the balance sheet and subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

The Group designates certain derivatives which qualify as hedges for accounting purposes as either a hedge of the fair value of recognized assets or liabilities or an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets, liabilities or cash flows. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

(a) Derivatives that do not qualify for hedge accounting
Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement as part of other finance income/(expense), net.

(b) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair

value hedges and that are highly effective are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(c) Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognized in comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within ‘other finance income/(expense), net’. When the forecasted transaction results in the recognition of an asset or liability, the gains and losses previously included in comprehensive income are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in comprehensive income are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement.

The currency instruments that may be used include forward foreign exchange contracts, currency swaps as well as zero cost option strategies with terms generally not exceeding six months, while interest rate instruments that may be used include interest rate swaps and collars strategies with maturities not exceeding the underlying contract maturity. The derivative financial instruments are entered into with high credit quality financial institutions, consistently following specific approval, limit and monitoring procedures.

(G) Taxes

Taxes reported in the consolidated income statements include current and deferred taxes on profit, as well as non-reimbursable withholding taxes and tax adjustments relating to prior years. Income tax is recognized in the income statement, except to the extent that it relates to items directly taken either to equity or to other comprehensive income, in which case it is recognized either in equity or in other comprehensive income. Taxes on income are accrued in the same periods as the revenues and expenses to which they relate.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognize and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred taxes are determined using the comprehensive liability method and are calculated on the temporary differences at the substantially enacted rates of tax expected to prevail when the temporary differences reverse, except for those temporary differences related to investments in subsidiaries where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Temporary differences and tax losses carried forward that could be offset against future profits, generating deferred tax assets and liabilities, are combined within one legal entity to determine the net deferred tax asset or liability amount. Net deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against the temporary differences or that tax losses carried forward can be utilized.
Deferred income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are either permanently reinvested or do not generate any taxation due to the application of tax treaties or tax reliefs.

(H) Tangible fixed assets

(a) General

Property, plant and equipment are measured at cost, less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes any expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Building acquisitions or construction and building improvements are allocated to components. The costs less residual values are depreciated over their useful life on a straight-line basis. Such useful life may be between 4 to 50 years. Depreciation starts when the underlying assets are ready for use.

Depreciation is calculated on a straight-line basis over the useful life, according to the following schedule:

Technical equipment and machinery

	Useful life in years
Machinery and measurement instruments	4 - 7
Digital material and equipment	4 - 5
Computer and information networks	4
Fixed assets made available to clients	4 - 10

Other equipment

	Useful life in years
Office furniture and equipment	5 - 7
Vehicles	4 - 5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is impaired immediately if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts and are included in the consolidated income statements.

(b) Leased tangible fixed assets
Assets acquired under long-term finance leases are capitalized and depreciated in accordance with the Group's policy on property, plant and equipment. The financial commitments resulting therefrom are reported as other current and long-term liabilities. Rentals payable under operating leases are charged to the income statement as incurred.

(c) Fixed assets made available to clients
The Group makes equipment as well as smart cards available to clients within the scope of complete security solutions. The assets given to these clients remain the property of the Group and are initially recognized at cost and disclosed in the balance sheet under technical equipment and machinery. These assets are depreciated over the shorter of the duration of the contract and the economic life of the individual components, and the related expense is disclosed under depreciation.

(d) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(l) Intangible assets
(a) Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the date of acquisition. It is denominated in the functional currency of the related acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets, while goodwill on acquisition of associates is included in investments in associates. All goodwill is considered to have an indefinite life, is tested at least annually for impairment, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Internal research and development
Internal research and development expenses are fully charged to the income statement when incurred. The Group considers that economic uncertainties inherent in the development of new products preclude it from capitalizing such costs.

(c) External research and development
Expenditures with external parties for research and development, application software and technology contracts are charged to the income statement as incurred if they do not qualify for capitalization. When capitalized, they are amortized over 4 to 10 years once development is achieved and the resulting products ready for sale .

(d) Computer software
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as an expense as incurred.

(e) Customer lists, Trademarks and Brands
Customer lists, trademarks and brands not acquired through a business combination are initially measured at cost. Following initial recognition, they are carried at costs less any accumulated amortisation and impairment losses, and are amortised over their useful economic life. Internally generated customer lists, trademarks and brands are not capitalised.

(f) Other intangibles in connection with business combinations
Under IFRS 3, in process research and development, core development technologies, customer lists and trademarks are valued as part of the process of allocating the purchase price in a new business combination. The respective values are recorded separately from goodwill and are allocated to cash-generating units. Acquired intangibles are amortized on a straight-line basis over the following periods with the expense recorded in the income statement:

	Over the useful life, in years
Core development technologies	4 - 10
Customer lists	10
Trademarks and brands	5

(J) Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for internal use. If part of a building is leased, it is accounted separately under investment property only if the portion of building could be sold separately and if the portion held for internal use is insignificant. Transfers are made to or from investment property only when there is a change in use. If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use – cost being equal to carrying value.

Investment property is carried at historical cost less provisions for depreciation and impairment, and is subject to the same accounting treatment and subsequent measurement methodology applied to building acquisitions or construction and building improvements (note H).

(K) Financial assets

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired or granted. Management determines the classification of its financial instruments at initial recognition and re-assesses this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for sale in the short term, or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets held for trading are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Financial assets designated at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss also incorporates any dividend or interest earned on the financial asset.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as long-term assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified in another category.
Listed redeemable notes held by the Group that are traded in an active market are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period.
The Group also has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale financial assets and stated at fair value at the end of each reporting period because management considers fair value can be reliably measured. Fair value is determined in the manner described in note 47. Interest income, dividends and exchange differences arising on monetary available-for-sale financial assets is recognized in the income statement, while all other changes in the carrying amount of available-for-sale financial assets are recognized in comprehensive income and accumulated under the heading of 'Fair value and other reserves'. When the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in 'Fair value and other reserves' is reclassified to the income statement.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting date.

(L) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overhead and factory depreciation. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories which are no longer part of production and sales plans are directly written off from the value of inventories.

(M) Deferred costs

Deferred costs are measured at cost

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and are allocated to the income statement over the shorter of their useful life and the contract period. The portion of deferred cost to be expensed in the income statement in a period exceeding 12 months is disclosed under other non-current assets.

(N) Trade accounts receivable
Trade accounts receivable are initially measured at fair value and subsequently valued using the amortized cost method. A provision for impairment is made for doubtful receivables based on a review of all material outstanding amounts at each reporting date.

(O) Cash and cash equivalents
Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash. Bank overdrafts are shown within short-term financial debt in current liabilities on the balance sheet.

(P) Marketable securities
Marketable securities consist of equity and debt securities which are traded in liquid markets. All purchases and sales of marketable securities are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset.

(Q) Share capital
Ordinary and preferred shares of Kudelski SA are classified as equity and are presented at their nominal value. The difference between proceeds of share capital less directly attributable incremental costs and the nominal value of the share capital increase are considered as share premium and included in equity.

(R) Borrowings
Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid for the establishment of loan facilities are recognized as transaction costs of the loan to the extent that all of the facility will be drawn down. To the extent that there is no evidence that all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the loan facility.

(S) Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

(T) Employee benefits
(a) Pension obligations
The Group operates a number of defined benefits and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.
The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability.
Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.
The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

(b) Other long-term employee benefits
Other long-term employee benefits

represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. Benefits cost is recognized on an accrual basis in the employee benefits expense.

(c) Employee Share Purchase Program (ESPP)

The Group's employee share purchase program allows certain employees to buy a specific number of shares at preferred condition, subject to a restriction to sell for a period of 3 years. The difference between the fair value of these shares and the employees' payments for the shares is expensed in the income statement at subscription date. The fair value of the shares transferred is determined based on the market price of the shares including an adjustment to reflect the value of the restriction to sell.

(d) Profit sharing and bonus plan

The Group recognizes a liability and an expense for bonuses and profit sharing where contractually obliged or where there is a past practice that has created a constructive obligation. In addition, the Board of Directors may grant shares to certain employees. These shares may be subject to a blocking period of up to 7 years and are expensed in the income statement at their fair value at grant date taking into account the estimated value reduction due to the blocking period.

(e) Other employee benefits

Salaries, wages, social contributions and other benefits are recognized on an accrual basis in the employee benefits expense in the year in which the employees render the associated services.

(U) Trade accounts payable

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

(V) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

(W) New and amended accounting standards and IFRIC interpretations

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations as of January 1, 2014 described below.

The following amendments to IFRS standards had no impact, or only limited impact on the accounting policies, financial position or performance of the Group:

- IFRIC 21 - 'Levies' clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.
- IFRS 10, 12 and IAS 27 (amendments) – 'Investment entities' provides an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 and had no impact for the Group.
- IAS 32 (amendment) – 'Offsetting Financial Assets and Financial Liabilities' clarifies the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.
- IAS 36 – (amendment) – 'Recoverable Amount Disclosures for Non-Financial Assets' removes the unintended consequences of IFRS 13 on the disclosures required by IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.
- IAS 39 (amendment) – 'Novation of Derivatives and Continuation of Hedge Accounting' provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standard and Interpretations in issue not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2014 or later periods, but which the Group has not early adopted:

- IAS 19 – 'Defined Benefit Plans: Employee Contributions' (amendment) – (effective from 1 July 2014). This amendment to IAS 19R (2011) issued in November 2013 clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The implementation of such amendment will have a material impact by reducing employee benefit liabilities and increasing total equity net of income tax of approximately CHF 21 million and CHF 16 million respectively (CHF 20 million and CHF 16 million respectively as of 31.12.2013).
- IFRS 15 – 'Revenue from Contracts with Customers' – (effective from 1 January of 2017) – This new revenue standard establishes a new five-step

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model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:
- IFRS 9 - 'Financial instruments' (amendment) comprises two measurement categories for financial assets and liabilities: amortized cost and fair value.
- IFRS 11 – 'Joint Arrangements: Accounting for Acquisitions of Interests' (amendment)
- IFRS 14 – 'Regulatory Deferred Accounts'
- IAS 16 and IAS 38 – 'Joint Arrangements: Accounting for Acquisitions of Interests' (amendments)
- IAS 16 and IAS 41 –'Agriculture: Bearer Plants' (amendments)
- Annual IFRS improvement projects

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's principal accounting policies are set out in note 1 of the Group's consolidated financial statements and conform to International Financial Reporting Standards (IFRS).

Significant judgments and estimates are used in the preparation of the consolidated financial statements which, to the extent that actual outcomes and results may differ from these assumptions and estimates, could significantly affect the accounting in the areas described in this section.

Complete security solutions generating recurring service revenues
As defined in note 1 D, the Group provides complete security solutions generating recurring service revenues. Depending on the contract terms with each client, the Group may replace the assets made available or transferred to the client for security or economic reasons. Early replacement due to technical obsolescence would affect the profitability of the Group by resulting in an impairment of the assets made available to the client or of the deferred costs.

Furthermore, those contracts may also include payments made to customers which are subject to impairment reviews. In case of impairment of these assets, the profitability of the Group could be affected through a reduction of the deferred costs and revenues.

Litigation and product liability provisions
A number of Group subsidiaries can be subject to litigation and product liability claims arising out of the normal conduct of their businesses. As a result, claims could be made against them that might not be covered by existing provisions or by external insurance coverage. Management believes that the outcomes of such actions, if any, would not be material to the Group's financial condition but could be material to future results of operations in a given period.

Income tax, deferred tax assets and government grants
The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 19). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore modify significantly the deferred tax asset and the income taxes captions. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods, occurring after the accounts have been approved might affect the tax asset capitalized.
A tax audit may also lead to significant adjustments, due to a rejection of key components of a tax return or a government grant (e.g. related to transfer pricing).

Retirement benefit plans
The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.
Assumptions used (note 31) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.
The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.
The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including forward foreign exchange contracts or option strategies to hedge the exchange rate risks and interest rate swaps to mitigate the risk of rising interest rates.
The Group does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded; i.e. it does not sell assets short. The Group only sells existing assets or hedges transactions and future transactions that are likely to happen. Future transaction hedges are contracted according to treasury policy based on a foreign exchange cash flow forecast. In the case of liquid funds, it writes options on assets it has, or on positions it wants to acquire, and for which it has the required liquidity. The Group therefore expects that any loss in value for these instruments would be generally offset by increases in the value of the hedged transactions.

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in Swiss francs. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.
It is the policy of the Group to cover specific foreign currency receipts within a fix determined portion of the exposure generated, leaving to the Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion of the exposure generated, as defined in the treasury policy.
Net investments in Group affiliates with a functional currency other than the Swiss Franc are of a long-term nature: the Group does not hedge such foreign currency translation exposures.

(b) Interest rates

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, which ensure that optimal hedging strategies are applied by either neutralizing the balance sheet exposures or protecting interest expense through different interest rate cycles.

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these invest-

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ments.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial informations and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the department in charge annually.
The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.
The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management
The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.
The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS

On April 7, 2014, the Group purchased 100% of Conax AS, Norway, from Telenor Broadcast Holding AS, for total consideration of kCHF 211 904. Conax AS is a global provider of content protection for digital TV services over broadcast, broadband and connected devices. The goodwill arising from this acquisition amounts to kCHF 144 980 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors including expected synergies considered when purchasing the company, a highly skilled and experienced workforce, as well as a complementary geographic footprint and solution portfolio. With this acquisition, the Group further expands its customer portfolio in Asia, Latin America, Eastern Europe and Scandinavia. Conax's customer base will benefit of the Group's broad portfolio of best-in-class products.

Acquisition-related costs of kCHF 1 772 have been charged to Other operating expenses in the consolidated income statement for the period. The gross contractual amount of trade receivables due is kCHF 20 087, of which kCHF 528 is expected to be uncollectable, leading to a fair value of kCHF 19 559.

On July 1, 2014, the Group purchased an additional 21% of Hantory Co., Ltd, South Korea, for a total consideration of kCHF 410, bringing its total stake to 70%. Hantory Co., Ltd is a provider of multimedia and access control solutions. The fair value of the equity-interest in Hantory Co. Ltd held by the Group prior to this additional acquisition of 21% was kCHF 642. No gain or loss has been recognized as a result of remeasuring this fair value.
The fair value of the non-controlling interest in Hantory Co. Ltd, an unlisted company, was estimated by using the purchase price allocation for acquisition of the additional 21%.
No goodwill arose from this business combination.

Skidata performed non-significant asset deals for an aggregate amount of CHF 0.5 m qualifying for as business combinations according to IFRS 3.

The acquired businesses contributed revenues of kCHF 77 206 and net income of kCHF 14 697 for the period from the respectve acquisition dates to December 31, 2014.
If the acquisitions had occurred on January 1, the consolidated revenues and net income from contining operations would have been approximately kCHF 906 740 and kCHF 54 868, respectively.

The fair values of the identifiable assets and liabilities as at the dates of acquisition for Conax AS and other business combinations were as follows:

In CHF'000	Conax AS	Others	Total
Tangible fixed assets	2 719	5	2 724
Intangible fixed assets :			
- Customer lists, Trademarks & Brands	53 216	337	53 553
- Technology	21 499	–	21 499
- Software	218	279	497
- Other intangibles	–	229	229
Trade accounts receivable	19 559	248	19 807
Other current assets	6 182	532	6 714
Cash and cash equivalents	381	1 179	1 560
Trade accounts payable	-5 148	-728	-5 876
Other current liabilities	-14 421	-46	-14 467
Employee benefits liabilities	-2 018	–	-2 018
Deferred income tax liabilities	-15 263	–	-15 263
Fair value of net assets acquired	**66 924**	**2 035**	**68 959**
Purchase consideration paid in cash	211 904	942	212 846
Fair value of equity interest held before the business combination	–	642	642
Non-controlling interest	–	451	451
Fair value of net assets acquired	-66 924	-2 035	-68 959
Goodwill	**144 980**	**–**	**144 980**
Purchase consideration in cash:			
- cash paid	211 904	942	212 846
Cash and cash equivalents acquired	-381	-1 179	-1 560
Net cash outflow from acquisitions	**211 523**	**-237**	**211 286**

No business combination arose in 2013.

Transaction with non-controlling interests

Prior to the divestment of NagraID Security SA (NIDS), the Group acquired the 50% NIDS shares it did not own for contingent consideration (no cash consideration). The fair value of the contingent consideration has been determined as the discounted value of the expected earn-out payment to be paid. The expected earn-out payments are based on the NIDS business plan.

In CHF'000	
Carrying amount of non-controlling interests acquired	-11 794
Contingent consideration	-1 381
Excess of consideration recognized in equity	**-13 175**

On July 1, 2013, the Group purchased an additional 28% of Skidata South Afrika (pty) Ltd, for a total consideration of KCHF 246 bringing its total stake to 72%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF 240 and non controlling interests for kCHF 79.

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5. DIVESTMENTS

On May 2, 2014 the Group disposed of its 100%-owned smart card manufacturer NagraID SA, based in La Chaux-de-Fonds, to a group of investors including NagraID's management team. NagraID's intellectual property was transferred to the Group prior to disposal. No cash consideration was involved. Total consideration includes contingent assets (earn-out payments and profit sharing on disposal of some underlying assets of the company).

On August 31, 2014, the Group disposed of its 100% equity stake in NagraID Security SA (NIDS), based in La Chaux-de-Fonds. Total consideration includes a payment in kind and contingent assets (earn-out payments on future NIDS revenues). NIDS develops and markets powered display cards providing secure two-factor authentication for electronic transactions, including e-banking and e-commerce, based on one-time password (OTP) and dynamic card verification value (DCVV) technologies. Prior to the sale, the Group had completed the acquisition of the 50% equity stake held by management (see note 4. transactions with non-controlling interests). Prior to the sale of the Group's 100% equity stake, NIDS full intellectual property portfolio was transferred to the Group, while selected tangible fixed assets were transferred to NIDS and financial stabilization of the company was completed. Both NagraID SA and NagraID Security SA were treated as discontinued operations (see note 39).

On October 30, 2014 the Group disposed of its OpenTV advertising business.

No divestment took place in 2013.

The fair values of the identifiable assets and liabilities as at the dates of disposal for Nagra ID SA, Nagra ID Security SA and OpenTV's advertising operations were as follows:

In CHF'000	Fair value of net assets disposed
Tangible fixed assets	15 369
Intangible fixed assets (Goodwill excl.)	1 047
Trade accounts receivable	3 084
Other current assets	12 126
Other non current assets	349
Cash and cash equivalents	127
Trade accounts payable	-1 795
Other current liabilities	-4 203
Employee benefits liabilities	-5 310
Fair value of net assets disposed	**20 794**
Purchase consideration:	
- cash received	4 596
- transaction costs paid	-355
- post-closing working capital adjustment paid	-653
- non cash consideration	11 890
Fair value of net assets disposed	-20 794
Net result on disposal of subsidiaries and operations	**-5 316**
Purchase consideration in cash:	
- cash received	4 596
- transaction costs paid	-355
- post-closing working capital adjustment paid	-653
Cash and cash equivalents disposed	-127
Net cash inflow from disposals	**3 461**

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6. 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 different products and services for which internal reporting is provided to the chief operating decision maker, who reviews internal reports in order to allocate resources to the segment and to assess its performance.

The Group is organized operationally on a worldwide basis in 2 operating segments:

- Integrated Digital Television
- Public Access

These operating segments, which are reflected in internal management reporting, can be described as follows:

The Integrated Digital Television division provides end-to-end integrated solutions including open conditional access solutions allowing digital 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 user experience.

The Public Access division provides access control systems and ticketing services for ski lifts, car parks, stadiums, concert halls and major events.

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".

The measure of income statement presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that inter-segment sales are eliminated at the consolidation level.

Reportable segment assets include total assets allocated by segment excluding intersegment balances, which are eliminated. Unallocated assets include assets that are managed on a central basis. These are part of the reconciliation to Balance Sheet assets.

	Integrated Digital Television		Public Access		Total	
In CHF'000	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Total segment Revenues	**649 377**	**593 920**	**231 383**	**230 578**	**880 760**	**824 498**
Inter-segment revenues	-944	-3 545	-2	-35	-946	-3 580
Revenues from external customers	**648 433**	**590 375**	**231 381**	**230 543**	**879 814**	**820 918**
Depreciation and amortisation	-35 735	-32 513	-7 372	-7 414	-43 107	-39 927
Impairment	-76	-4 978	–	-302	-76	-5 280
Operating income - excluding corporate common functions	**71 785**	**57 041**	**14 750**	**13 674**	**86 535**	**70 715**
Corporate common functions					-18 457	-16 221
Interest expense and other Finance income/(expense), net					-6 219	-6 930
Share of result of associates					1 554	1 681
Income before tax					**63 413**	**49 245**
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Total segment Assets	**859 840**	**698 042**	**163 703**	**141 198**	**1 023 543**	**839 240**

In CHF'000	**31.12.2014**	**31.12.2013**
Total Segment Assets	1 023 543	839 240
Cash & Cash equivalents	14 981	7 590
Other current assets	3 198	1 034
Financial assets and other non-current assets	10 582	3 264
Total Assets as per Balance Sheet	**1 052 304**	**851 128**

GEOGRAPHICAL INFORMATION

The company's country of domicile is Switzerland. The Group's revenue from external customers and information about its non-current assets by country are presented below:

In CHF'000	Revenues from external customers 2014	Revenues from external customers 2013	Non-current assets 31.12.2014	Non-current assets 31.12.2013
Switzerland	34 161	29 139	121 875	155 168
United States of America	190 962	141 479	124 235	112 862
France	71 470	75 952	22 861	23 896
Germany	49 585	55 284	4 468	4 556
Netherlands	46 668	47 365	339	334
Brazil	45 959	68 005	748	280
Italy	37 320	36 338	389	459
Norway	12 401	4 784	192 492	0
Rest of the world	391 288	362 572	60 812	53 678
	879 814	**820 918**	**528 219**	**351 233**

Non-current assets exclude financial instruments, deferred tax assets and employment benefit assets.
Revenues are allocated to countries on the basis of the customer's location.

INFORMATION ABOUT MAJOR CUSTOMERS

No revenues resulting from transactions with a single external customer reach 10 per cent of the Group's revenue.

REVENUE CATEGORIES

In CHF'000	2014	2013
Sale of goods	413 061	412 190
Services rendered	300 259	284 080
Royalties and licenses	166 494	124 648
	879 814	**820 918**

7. OTHER OPERATING INCOME

In CHF'000	2014	2013
Government grants (research, development and training)	8 655	10 591
Indemnity received on surrender of lease and reversal of dilapidation costs	–	1 452
Income from rental of property	2 174	1 315
Gain/(Loss) on fixed assets sales proceeds	-91	-14
Gain on sale of subsidiares and operations	3 214	–
Others	1 352	1 889
	15 304	**15 233**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

8. OTHER OPERATING EXPENSES

In CHF'000	2014	2013
Development and engineering expenses	21 084	26 380
Travel, entertainment and lodging expenses	29 080	26 664
Legal, experts and consultancy expenses	33 115	21 348
Administration expenses	23 848	22 145
Building and infrastructure expenses	24 223	21 750
Marketing and sales expenses	10 178	7 493
Taxes other than income tax	4 678	4 532
Change in provisions	9 277	2 432
Insurance, vehicles and others	8 279	7 563
	163 762	**140 307**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2014	2013
Land and buildings	15	3 694	3 924
Equipment and machines	15	15 398	16 213
Investment property	17	113	137
Total depreciation and impairment of tangible fixed assets		**19 205**	**20 274**
Intangible assets	16	23 978	24 933
Total amortization and impairment on intangible fixed assets		**23 978**	**24 933**
Depreciation, amortization and impairment		**43 183**	**45 207**

10. INTEREST EXPENSE

In CHF'000	Note	2014	2013
Interest expense:			
- Bond 2011-2016	30	3 581	3 561
- Credit facility	29	5 440	2 188
- Net interest expense on pension plan	31	1 404	1 263
- Other and bank charges		1 442	1 386
		11 867	**8 398**

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2014	2013
Interest income		2 132	2 725
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-1 702	-7
Loss on sale of marketable securities (available for sale)		–	-405
Net foreign exchange transaction gains/(losses)	13	6 174	-338
Others		-956	-507
		5 648	**1 468**

Loss on available-for-sale financial assets amounting to kCHF 0 (2013: kCHF -405). Change in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kCHF -793 (2013: kCHF -1 209). The change in fair value of held for trading financial assets amounting to kCHF 1 702 (2013: kCHF -7) is disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2014	2013
Current income tax		-12 905	-7 270
Deferred income tax	19	1 719	-905
Non refundable witholding tax		-1 788	-1 645
		-12 974	**-9 820**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

In CHF'000	2014	2013
Income before taxes	**63 413**	**49 245**
Expected tax calculated at domestic tax rates in the respective countries	-11 895	-10 186
Effect of income not subject to income tax or taxed at reduced rates	2 359	9 781
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	6 573	2 180
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-8 966	-12 267
Efffect of associates' result reported net of tax	322	357
Effect of disallowed expenditures	-1 814	-243
Effect of prior year income taxes	-157	333
Effect of non-refundable withholding tax	-1 788	-1 644
Other	2 392	1 869
Tax expense	**-12 974**	**-9 820**

Income before tax includes the full income before tax of non-fully owned subsidiaries whose taxes are paid by its sharehold-ers since they are tax-transparent companies. As a result, 100% of the income before tax of these companies is included in income before tax while the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 2 289 (2013: kCHF 2 274) and is disclosed under Other in the above table.

The weighted average applicable tax rate decreased from 20.68% in 2013 to 18.76% in 2014. The decrease can be explained by a more advantageous revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

13. NET FOREIGN EXCHANGE RESULT

The exchange differences accounted for in the income statement are as follows:

In CHF'000	2014	2013
Sales	8 445	-1 633
Cost of material	-2 863	-160
Other finance income/(expense) net	6 174	-338
Total exchange differences	**11 756**	**-2 131**

14. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares in issue during the year. The weighted average number of shares outstanding for all period presented are adjusted for events that have changed the number of ordinary shares without a corresponding change in resource.

In CHF'000	2014	2013
Net income attributable to bearer shareholders	23 501	38 541
- Continuing operations	*40 352*	*31 548*
- Discontinued operations	*-16 851*	*6 993*
Net income attributable to registered shareholders	2 201	3 609
- Continuing operations	*3 778*	*2 954*
- Discontinued operations	*-1 577*	*655*
Total net income attributable to equity holders	**25 702**	**42 150**
Weighted average number of bearer shares outstanding	49 448 341	49 441 891
Weighted average number of registered shares outstanding	46 300 000	46 300 000

The diluted earnings per share calculation takes into account all potential dilutions to the earnings per share arising from the options on Kudelski SA shares. In 2014 and 2013, options were anti-dilutive, therefore diluted earnings per share equals basic earnings per share. Shares equivalent of 0 (2013: 145) for options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

15. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2014	31.12.2013
Land and buildings	102 740	103 830
Equipment and machines	30 405	43 657
	133 145	147 487

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2013	**22 589**	**119 776**	**13 236**	**155 601**
Additions	–	1 404	253	1 657
Disposals and retirements	-1	-1 817	-1 568	-3 386
Currency translation effects	-144	-473	-210	-827
Reclassification & others	–	–	411	411
As of January 1, 2014	**22 444**	**118 890**	**12 122**	**153 456**
Additions	–	985	840	1 825
Impact of business combinations	–	1	18	19
Impact of discontinued operations	–	-12 427	–	-12 427
Disposals and retirements	–	-243	-129	-372
Currency translation effects	653	2 671	357	3 681
Reclassification & others	–	–	-11	-11
As of December 31, 2014	**23 097**	**109 877**	**13 197**	**146 171**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2013	**–**	**-36 827**	**-10 942**	**-47 769**
Systematic depreciation	–	-2 954	-920	-3 874
Impairment	–	-50	–	-50
Disposals and retirements	–	1 812	1 568	3 380
Impact of discontinued operations	–	-1 208	–	-1 208
Currency translation effects	–	-101	122	21
Reclassification & others	–	–	-126	-126
As of January 1, 2014	**–**	**-39 328**	**-10 298**	**-49 626**
Systematic depreciation	–	-2 817	-877	-3 694
Impact of discontinued operations	–	9 821	–	9 821
Disposals and retirements	–	147	100	247
Currency translation effects	–	87	-266	-179
As of December 31, 2014	**–**	**-32 090**	**-11 341**	**-43 431**
Net book values as of December 31, 2013	**22 444**	**79 562**	**1 824**	**103 830**
Net book values as of December 31, 2014	**23 097**	**77 787**	**1 856**	**102 740**
Useful life in years	Indefinite	10 – 50	4 – 8	

The 2013 impairment for building equipment results from the destruction of certain building equipment due to a natural disaster; the related insurance claim was resolved in 2014.

In CHF'000	31.12.2014	31.12.2013
Fire insurance value of buildings	132 831	129 872
Corporate buildings on land whose owner has granted a permanent and specific right of use	6 912	7 360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2013	**191 800**	**12 915**	**204 714**
Additions	17 158	1 527	18 685
Disposals and retirements	-15 413	-575	-15 988
Currency translation effects	-266	-182	-448
Reclassification & others	149	-563	-414
As of January 1, 2014	**193 428**	**13 122**	**206 549**
Additions	12 377	1 322	13 699
Impact of business combinations	2 691	33	2 724
Impact of disposal of operations	-2 841	–	-2 841
Impact of discontinued operations	-49 844	-3 061	-52 905
Disposals and retirements	-4 420	-601	-5 021
Currency translation effects	-2 315	-69	-2 384
Reclassification & others	-57	68	11
As of December 31, 2014	**149 019**	**10 814**	**159 832**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2013	**-148 431**	**-9 357**	**-157 788**
Systematic depreciation	-15 013	-1 100	-16 113
Impairment	-100	–	-100
Disposals and retirements	15 193	575	15 768
Currency translation effects	125	91	216
Impact of discontinued operations	-4 742	-262	-5 004
Reclassification & others	-12	140	128
As of January 1, 2014	**-152 980**	**-9 913**	**-162 893**
Systematic depreciation	-14 278	-1 104	-15 382
Impairment	–	-16	-16
Impact of disposal of operations	2 517	–	2 517
Impact of discontinued operations	36 720	2 413	39 133
Disposals and retirements	4 231	601	4 832
Currency translation effects	2 324	79	2 403
Reclassification & others	-7	-15	-22
As of December 31, 2014	**-121 473**	**-7 955**	**-129 428**
Net book values as of December 31, 2013	**40 448**	**3 209**	**43 657**
Net book values as of December 31, 2014	**27 546**	**2 859**	**30 405**
Useful life in years	4 – 10	4 – 7	

Technical equipment and machinery comprises assets made available to clients which generates recurring service revenue. 2014 and 2013 impairment represents technical and other equipment that is no longer used.

In CHF'000	31.12.2014	31.12.2013
Fire insurance value of technical equipment and machinery	114 173	137 013

16. INTANGIBLE ASSETS

In CHF'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2013	**100 502**	**3 396**	**67 388**	**132 483**	**400**	**304 169**
Additions	6 106	–	3 748	–	–	9 854
Disposals and retirements	-3 864	–	-4 985	–	–	-8 849
Currency translation effects	-128	-15	-56	-3 064	-5	-3 268
Reclassification & others	–	–	3	–	–	3
As of January 1, 2014	**102 616**	**3 381**	**66 098**	**129 419**	**395**	**301 909**
Additions	7 936	240	4 941	–	67	13 184
Impact of business combinations	21 779	53 553	218	144 980	228	220 758
Impact of disposal of operations	-959	–	-218	–	–	-1 177
Impact of discontinued operations	-3 366	–	-2 381	–	–	-5 747
Disposals and retirements	-1 702	–	-1 100	–	–	-2 802
Currency translation effects	-1 076	-5 288	551	-2 300	41	-8 072
As of December 31, 2014	**125 228**	**51 886**	**68 109**	**272 099**	**731**	**518 053**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2013	**-57 523**	**-2 540**	**-55 539**	**–**	**-400**	**-116 002**
Systematic amortization	-13 516	-214	-6 074	–	–	-19 804
Impairment	-2 951	–	-2 178	–	–	-5 129
Recovery of amortization on disposal and retirements	3 261	–	4 681	–	–	7 942
Impact of discontinued operations	–	–	-92	–	–	-92
Currency translation effects	326	23	72	–	5	426
As of January 1, 2014	**-70 403**	**-2 731**	**-59 130**	**–**	**-395**	**-132 659**
Systematic amortization	-15 698	-4 243	-3 874	–	-102	-23 917
Impairment	-61	–	–	–	–	-61
Impact of disposal of operations	–	–	210	–	–	210
Impact of discontinued operations	3 366	–	2 272	–	–	5 638
Recovery of amortization on disposal and retirements	1 596	–	1 103	–	–	2 699
Reclassification & others	–	201	–	–	–	201
Currency translation effects	-1 041	–	-541	–	-33	-1 615
As of December 31, 2014	**-82 241**	**-6 773**	**-59 960**	**–**	**-530**	**-149 504**
Net book values as of December 31, 2013	**32 213**	**650**	**6 968**	**129 419**	**–**	**169 250**
Net book values as of December 31, 2014	**42 987**	**45 113**	**8 149**	**272 099**	**201**	**368 549**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2014 and 2013 technology impairments relate to developments which were either terminated or for which future cash flows became uncertain. 2013 software impairment relates to projects for which future cash flows became uncertain.

Intangibles with indefinite useful life are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units which are defined, within the frame of the Group, as its operating segments.
In 2014, kCHF 267 701 of goodwill has been allocated to Integrated Digital Television (2013: kCHF 124 941) and kCHF 4 398 (2013: kCHF 4 478) to Public Access Solutions.

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Integrated Digital Television

Integrated Digital Television goodwill has been tested for impairment with a value in use calculation based on cash flow projections approved by the Group management covering a five-year period and a discount rate of 8.5 % (2013: 9.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% (2013: 1.0%) for core digital TV activities and 1.5% for initiatives (2013: 2.5%) per annum. Revenue assumptions for the five-year plan were generated from existing products and existing customers, and newly launched activities. Key assumptions reflect management's best knowledge of the market, business evolution and past experience.

In 2014 and for 2013, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity and the loss of key customers representing approximately 10% of recurring revenue. Based on such analyses, and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

17. INVESTMENT PROPERTY

2014 rental income and direct operating expenses for the investment property were kCHF 251 (2013: kCHF 258) and kCHF 5 (2013 : kCHF 13) respectively. 2014 and 2013 fair value of the investement property is estimated at CHF 2.8 million and 2.9 million, respectively, corresponding to planned rental income capitalized at 9%.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2013	**2 702**
Currency translation effects	40
As of December 31, 2013	**2 742**
Additions	5
Currency translation effects	-50
As of December 31, 2014	**2 697**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2013	**-1 131**
Systematic depreciation	-137
Currency translation effects	-15
As of December 31, 2013	**-1 283**
Systematic depreciation	-113
Reclassification & others	22
Currency translation effects	24
As of December 31, 2014	**-1 350**
Net book values as of December 31, 2013	**1 459**
Net book values as of December 31, 2014	**1 347**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

18. INVESTMENTS IN ASSOCIATES

In CHF'000	2014	2013
At January 1	**4 768**	**4 398**
Share of profit	1 554	1 681
Dividends received	-1 905	-1 230
Acquisition of an associated company	2 193	–
Associated company fully consolidated	-642	–
Currency translation effects	249	-81
At December 31	**6 217**	**4 768**

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Name of associate	Principal activity	Interest held 2 014	Interest held 2 013
APT-SkiData Ltd, United Kingdom	Sales of Public Access products	26%	26%
SkiData Parking Systems, Hong-Kong	Sales of Public Access products	26%	26%
SKIDATA India Private Limited, India	Sales of Public Access products	49%	49%
SKIDATA Australasia Pty Ltd, Australia	Sales of Public Access products	50%	0%
Hantory Co., Ltd, South Korea (subsidiary as of 31.12.2014)	Digital Television sales and service	70%-sub-sidiary	49%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2014	31.12.2013
Total assets	37 071	28 296
Total liabilities	21 688	15 204
Net assets	15 383	13 092
Group's share of associates' net assets	5 667	4 768

	2014	2013
Revenue	67 125	51 479
Result of the period	5 619	6 083
Group's share of associates' result for the period	1 554	1 681

19. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

In CHF'000	31.12.2014	31.12.2013
Deferred tax assets	60 797	56 118
Deferred tax liabilities	-13 417	-491
	47 380	**55 627**

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The movement on the deferred income tax account is as follows:

In CHF'000	Note	2014	2013
At January 1		**55 627**	**57 511**
Exchange differences		1 513	-152
Recognized against other comprehensive income		3 633	-827
Impact of business combinations		-15 112	–
Income statement (expense)/income	12	1 719	-905
At December 31		**47 380**	**55 627**

The movement in deferred tax assets and liabilities during 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In CHF'000	At January 1, 2014	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2014
Deferred tax assets associated with						
- intangibles	31 838	-911	–	–	7	30 934
- employee benefits	13 138	537	–	3 633	-71	17 237
- tax losses	7 269	843	118	–	74	8 304
- provisions and other elements tax deductible when paid	2 175	656	29	–	-32	2 828
- inter-company profit elimination	1 627	220	–	–	56	1 903
- others	145	-144	–	–	-46	-45
Total deferred tax assets (gross)	**56 192**	**1 201**	**147**	**3 633**	**-12**	**61 161**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	-14	-25	–	–	–	-39
- intangibles	–	246	-15 259	–	1 531	-13 482
- provisions & accelerated tax depreciation	-500	384	–	–	-9	-125
- others	-51	-87	–	–	3	-135
Total deferred tax liabilities (gross)	**-565**	**518**	**-15 259**	**–**	**1 525**	**-13 781**
Net deferred tax asset/(liability)	**55 627**	**1 719**	**-15 112**	**3 633**	**1 513**	**47 380**

And for 2013:

In CHF'000	At January 1, 2013	Income statement effect	Other Comprehensive income	Currency translation effects	At December 31, 2013
Deferred tax assets associated with					
- intangibles	26 866	4 979	–	-7	31 838
- employee benefits	13 433	516	-827	16	13 138
- tax losses	15 586	-8 243	–	-74	7 269
- provisions and other elements tax deductible when paid	4 039	-1 852	–	-12	2 175
- inter-company profit elimination	2 304	-599	–	-78	1 627
- others	-83	223	–	5	145
Total deferred tax assets (gross)	**62 145**	**-4 976**	**-827**	**-150**	**56 192**
Deferred tax liabilities associated with					
- affiliates and allowances for Group companies	-4 137	4 123	–	–	-14
- provisions & accelerated tax depreciation	-490	-7	–	-3	-500
- others	-7	-45	–	1	-51
Total deferred tax liabilities (gross)	**-4 634**	**4 071**	**–**	**-2**	**-565**
Net deferred tax asset/(liability)	**57 511**	**-905**	**-827**	**-152**	**55 627**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 909.4 million (2013: CHF 860.1 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 282.5 million (2013: CHF 256.4 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 626.9 million (2013: CHF 603.7 million) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2014	2013
Expiration within:		
One year	8.7	2.9
Two years	3.6	33.0
Three years	1.3	9.2
Four years	112.3	5.5
Five years	33.8	92.1
More than five years	467.2	461.0
Total	**626.9**	**603.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

20. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2014	31.12.2013
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	834	834
- equity instruments with no quoted market price (level 3)	400	1 400
- marketable securities (level 1)	1 237	1 030
Loan – third party	5 481	4 992
Loan – related party	576	833
State and government institutions	13 442	19 765
Deferred contract cost (long term portion)	18 963	28 270
Contingent consideration	7 031	–
Others	4 269	3 074
	52 233	**60 198**

Available-for-sale financial assets comprise equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Such assets are measured at cost net of impairment for kCHF 834 (2013: kCHF 834). Also is included one equity instrument listed in an active market and classified as marketable securities for kCHF 1 237 (2013: kCHF 1 030). A temporary value adjustment of kCHF -1 000 (2013: kCHF -1 209) has been booked against other comprehensive income on equity instruments with no quoted market price (level 3).

Third party and related party loans are measured at amortized cost. The 2014 and 2013 loan to a related party corresponds to the long term portion of the sale proceeds of the Audio activity in 2011 that has been discounted using a 9.3% rate. The effective interest rate on third party loans is 2.30% (2013:2.83%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months.

A contingent asset consisting of an earn-out has been calculated using projections of revenue of a disposed company as estimated by management at the date of disposal. The fair value estimate is based on a discount rate of 5%.

Others mainly consist of guarantee deposits.

21. INVENTORIES

In CHF'000	31.12.2014	31.12.2013
Raw materials	7 232	24 843
Work in progress	2 634	5 553
Finished goods	37 217	33 987
	47 083	**64 383**

The cost of inventories recognised as an expense includes kCHF 906 (2013: kCHF 2 394) in respect of write-downs, and has been reduced by kCHF 1 191 (2013: kCHF 848) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kCHF 1 334 (2013: kCHF -2 597).

22. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2014	31.12.2013
Trade accounts receivable	229 511	203 025
Less: provision for impairment	-22 512	-19 312
Trade accounts receivable related parties	8 072	4 280
Trade receivables – net	**215 071**	**187 993**
Amounts due from customers for contract work	4 927	9 240
Total	**219 998**	**197 233**

Before accepting a new customer, the Group performs a credit scoring to assess the potential customer's credit quality and defines specific credit limits. Limits and scoring are regularly reviewed. Furthermore, for low value added business deliveries, the Group usually works on a back to back basis.

The following table summarizes the movement in the provision for impairment:

In CHF'000	2014	2013
January 1	**-19 312**	**-17 635**
Provision for impairment charged to income statement	-7 811	-4 685
Utilization	951	652
Reversal	3 120	2 369
Change in scope	456	–
Translation effects	84	-13
December 31	**-22 512**	**-19 312**

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -7 811 (2013: kCHF -4 685). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

The following table contains details of the trade accounts receivables that are not overdue under the contractual payment terms, and an ageing analysis of overdue amounts that are not impaired:

In CHF'000	31.12.2014	31.12.2013
Not overdue	143 383	125 382
Past due and not impaired:		
- not more than one month	34 072	24 178
- more than one month and not more than three months	21 210	19 587
- more than three months and not more than six months	3 247	8 248
- more than six months and not more than one year	9 164	8 493
- more than one year	3 995	2 105
Total trade accounts receivable, net	**215 071**	**187 993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

23. OTHER CURRENT ASSETS

In CHF'000	31.12.2014	31.12.2013
Loans third parties – short term portion	37	948
Prepaid expenses	16 951	7 432
Accrued income	796	5 567
State and government institutions	33 510	19 972
Advances to suppliers and employees	4 263	1 658
Deferred contract cost (short term portion)	10 433	10 370
Other receivables - third parties	1 748	2 715
Other receivables - related parties	2 815	1 297
	70 553	**49 959**

Loans are measured at amortized cost. The effective interest rate on short term loans was 4.94% (2013: 5.0%).

24. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2014	31.12.2013
Cash at bank and in hand	88 995	95 571
Short term deposits	3 387	4 702
	92 382	**100 273**

The effective interest rate on short term deposits was 0.51% (2013: 0.68%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

25. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2014	31.12.2013
49'274'709 / 49'158'230 bearer shares, at CHF 10 each	492 747	491 582
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	539 047	**537 882**

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since August 2, 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

AUTHORIZED SHARE CAPITAL

In CHF'000	2014	2013
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 8, 2016, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2014	2013
Conditional share capital as of January 1	103 555	105 316
Increase of conditional share capital	8 000	–
Employee share purchase plan	-82	-79
Shares allotted to employees	-1 083	-1 682
Conditional share capital as of December 31	**110 390**	**103 555**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
1'039'047 / 355'526 bearer shares, at CHF 10 each	10 390	3 555
	110 390	**103 555**

26. TREASURY SHARES

	Number of bearer shares	Book value in CHF'000
As of January 1, 2013	**9 918**	**290**
Treasury shares granted to employees	-1 250	-37
Sale of Treasury shares	-8 668	-253
As of December 31, 2013	**–**	**–**
As of December 31, 2014	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

27. NON-CONTROLLING INTERESTS

The following table summarizes the information relating to each of the Group's subsidiaries in which it has material non-controlling interests, before any intercompany elimination:

As at December 31, 2014 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non-controlling interests percentage	**50.0%**	**50.1%**	**0.0%**
Non-current assets	4 587	36 385	
Current Assets	38 663	1 467	
Non-current liabilities	–	14 247	
Current liabilities	23 851	1 445	
Total Equity	**19 399**	**22 160**	
Non-controlling interests percentage	50%	50.1%	
Theoritical amount of non-controlling interests	9 700	11 102	
Losses not attributed to non-controlling interests*	–	–	
Carrying amount of non-controlling interests	**9 700**	**11 102**	
Revenue	24 246	3 703	
Net result	10 984	1 460	
Other comprehensive income	1 909	2 514	
Total comprehensive income	12 893	3 974	
Total comprehensive income allocated to non-controlling interests	6 446	1 991	
Dividend paid to non controlling interests	-4 578	–	
Net increase /(decrease) in cash and cash equivalents	2 094	164	

As at December 31, 2013 (in CHF'000)	Nagrastar	275, Sacramento Street LLC	NagraID Security
Non-controlling interests percentage	**50.0%**	**50.1%**	**50.0%**
Non-current assets	4 800	32 863	2 415
Current Assets	30 617	1 243	7 456
Non-current liabilities	–	14 637	39 373
Current liabilities	19 755	1 283	1 789
Total Equity	**15 662**	**18 186**	**-31 140**
Non-controlling interests percentage	50%	50.1%	50%
Theoritical amount of non-controlling interests	7 831	9 111	-15 570
Losses not attributed to non-controlling interests*	–	–	2 846
Carrying amount of non-controlling interests	**7 831**	**9 111**	**-12 724**
Revenue	22 457	3 363	
Net result	8 495	1 214	
Other comprehensive income	-430	-173	
Total comprehensive income	8 065	1 041	
Total comprehensive income allocated to non-controlling interests	4 032	521	
Dividend paid to non controlling interests	-4 634	–	
Net increase /(decrease) in cash and cash equivalents	-7 761	208	-27

* Under the prior version of IAS 27, the Group had stopped attributing losses to non-controlling interest because the losses exceeded the carrying amount of the non-controlling interest. Upon adoption of the current version of IAS 27, we did not revise the prior consolidated net income and at that date the non-controlling interest carrying amount was considered as being zero.

2014 and 2013 NagraID Security's income statement and other comprehensive income information are not disclosed as the company is treated as discontinuing operation (see note 5).
These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility for the main risks.

28. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2014	31.12.2013
Bank loans - long term	29	145 761	14 262
CHF 110 million 3% bond 2011/2016	30	109 444	109 174
Other long term financial liabilities		18	8
		255 223	**123 444**

29. LONG TERM BANK LOANS

In CHF'000	31.12.2014	31.12.2013
Credit facility agreement	132 000	–
Mortgage - long term portion	13 761	13 884
Other long term bank loans	–	378
Total long term bank loans	**145 761**	**14 262**

The average effective interest rate on total long term bank loans was 2.29% (2013: 2.48%).

In 2012, the Group obtained a committed long term credit facility through March 2015 of CHF 145 million. As of December 31, 2013, the Group had drawn CHF 30 million, classified as short term in the balance sheet.
In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019 in relation to the acquisition of Conax AS. This new credit facility replaces the former facility of CHF 145 million. As of December 31, 2014, the Group has drawn CHF 165 million of which CHF 132 million are classified as long term and CHF 33 million as short term in the balance sheet and repaid CHF 30 million under the former facility.

30. BOND 2011/2016

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016, with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounted to kCHF 110 312 less issuance costs of kCHF 1 786 totaling an initial net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%. The bond is recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2014	2013
Initial balance	**109 174**	**108 912**
Amortization of transaction costs less premium	270	262
Liability component as of December 31	**109 444**	**109 174**

31. EMPLOYEE BENEFITS LIABILITIES

Apart from the social security plans fixed by law, the Group sponsors one independent pension plan in Switzerland. All employees are covered by this plan, which is a defined benefit plan according to IAS 19. Retirement benefits are based on contributions, computed as a percentage of salary, adjusted for the age of the employee and shared approximately 46%/54% by employee and employer. In addition to retirement benefits, the plan provides death and long-term disability benefits to its employees. Liabilities and plan assets are revised every year by an independent actuary.

All employees in Switzerland are covered by this plan and IAS 19 requires that the plan is treated as defined benefit, with the primary risks around liability measurement being:
a) Mortality: the Group makes allowance for future anticipated improvements in life expectancy, however if life expectancy improves at a faster rate than assumed, pensions would be paid for longer and consequently the plan's IFRS liability would increase.
b) Investments: liabilities measured under IFRS increase with the interest cost each year and would also increase if bond yields (used to determine IFRS discount rates) fell, to the extent that the returns achieved on plan assets are insufficient to offset these increases in liabilities.

Outside Switzerland, the Group sponsors ten pension plans treated as defined benefit plans according to IAS 19. Liabilities and plan assets are revised every year by an independant local actuary. Plan assets have been estimated at fair market values. Liabilities have been calculated according to the "Projected Unit Credit" method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

The following table sets forth the status of the pension plans and the amount that is recognized in the balance sheet:

In CHF'000	31.12.2014	31.12.2013
Fair value of plan assets	147 554	134 401
Defined benefit obligation	-226 805	-195 682
Funded status	**-79 251**	**-61 281**
Other comprehensive income	-35 262	-19 153
Prepaid/(accrued) pension cost	-43 989	-42 128
Funded status	**-79 251**	**-61 281**

The liability that is recognized in the balance sheet at December 31, 2014 amounts to kCHF 79 251 (kCHF 61 281 at December 31, 2013).

According to IAS 19, the following amount is recorded as net pension cost in the income statement of the financial years 2014 and 2013:

In CHF'000	2014	2013
Service cost	-17 373	-17 671
Interest cost	-4 316	-3 870
Interest income	2 912	2 607
Employees contributions	5 753	5 839
Amortization of gains/(losses)	-175	54
Curtailment gain / (loss)	68	295
Net pension (cost)/income	**-13 131**	**-12 746**
Exchange rate difference	**355**	**111**
Employer contribution	**7 578**	**7 236**

The net pension cost for the financial year 2014 amounts to kCHF 13 131 (kCHF 12 746 for the financial year 2013).
Some benefits are also provided by defined contribution plans. Contribution to such plans, amounting to KCHF 7 023 in 2014, are charged to the income statements as incurred.
The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2014 and 2013 are as follows:

	31.12.2014	31.12.2013
Switzerland		
Discount rate	1.50%	2.15%
Rate of future increase in compensations	2.00%	2.00%
Rate of future increase in current pensions	1.00%	1.00%
Interest rate credited on savings accounts	1.50%	2.15%
Turnover	10.0% on average	10.0% on average
Retirement age	64.84 on average	64.81 on average
Abroad		
Discount rate	2.25%	3.25%
Rate of future increase in compensations	2.83%	2.84%
Turnover	8.0% on average	8.3% on average
Retirement age	62.98 on average	62.97 on average

The changes in defined benefit obligation and fair value of plan assets during the years 2014 and 2013 are as follows:

A. Change in defined benefit obligation

In CHF'000	2014	2013
Defined benefit obligation as of 1.1.	**-195 682**	**-175 308**
Service cost	-17 373	-17 671
Interest cost	-4 316	-3 870
Change in demographic assumptions	30	-13 444
Change in financial assumptions	-21 773	11 958
Actuarial gains/(losses)	1 233	1 740
Curtailment	68	295
Benefits payments	-1 069	729
Exchange rate difference	927	-111
Acquisition of subsidiaries	-6 647	–
Disposal of subsidiaires	17 797	–
Defined benefit obligation as of December 31,	**-226 805**	**-195 682**

B. Change in fair value of plan assets

In CHF'000	2 014	2 013
Fair value of plan assets as of 1.1.	**134 401**	**115 075**
Interest income	2 912	2 607
Employees' contributions	5 753	5 839
Employer's contribution	7 578	7 236
Plan assets gains/(losses)	4 200	4 373
Benefits (paid)/received	1 069	-729
Exchange rate difference	-547	0
Acquisition of subsidiaries	4 675	0
Disposal of subsidiaires	-12 487	0
Fair value of plan assets as of December 31,	**147 554**	**134 401**

The change in demographic assumptions in 2013 relates to the current best practice of transitioning from a periodic demographic basis to a generational demographic basis taking into consideration an increase in the expected lifetime.
The change in financial assumptions in 2014 relates to the change in the discount rates and the interest rate credited on savings accounts. The actual return on plan assets amounts to kCHF 7 112 in 2014 (kCHF 6 980 for the year 2013). The estimated employer's contribution to the pension plans for the financial year 2015 amount kCHF 7 165.
The curtailment in 2014 is due to a reduction of the number of employees in one company.

The categories of plan assets and their corresponding expected return at December 31, 2014 and 2013 are as follows:

In CHF'000	31.12.2014	Proportion in % 31.12.2014	31.12.2013	Proportion in % 31.12.2013
Cash	2 293	1.6%	24 204	18.1%
Swiss bonds	41 083	27.9%	32 997	24.6%
Foreign bonds	15 828	10.7%	10 409	7.7%
Swiss shares	43 304	29.4%	23 313	17.3%
Foreign shares	28 973	19.6%	22 431	16.7%
Real estates	7 437	5.0%	17 377	12.9%
Structured products	3 431	2.3%	3 670	2.7%
Assets held by insurance company	5 205	3.5%	–	0.0%
Total	**147 554**	**100.0%**	**134 401**	**100.0%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

The expected benefit payments for the next ten years are as follows :

In CHF'000	Switzerland	Abroad
2015	6 886	133
2016	64 260	43
2017	6 124	10
2018	5 816	60
2019	5 578	30
2020-2024	23 622	1 912

The following table shows the sensitivity of the defined benefit pension obligations to the principal actuarial assumptions based on reasonably possible changes to the respective assumptions occurring at the end of the reporting period:

	Change in 2014 year-end defined obligation		Change in 2013 year-end defined obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	In CHF'000	In CHF'000
50 basis point increase in discount rate	22 097	1 494	18 986	687
50 basis point decrease in discount rate	-26 092	-1 677	-21 857	-753
50 basis point increase in rate of salary increase	-3 838	n/a	-3 253	n/a
50 basis point decrease in rate of salary increase	3 608	n/a	3 060	n/a
50 basis point increase of interest in saving accounts	-12 009	n/a	-10 011	n/a
50 basis point decrease of interest in saving accounts	10 960	n/a	9 156	n/a
50 basis point increase in rate of pension increase	-8 009	n/a	-7 008	n/a
50 basis point decrease in rate of pension increase	7 491	n/a	6 552	n/a

32. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2014	Total 2013
As of January 1	**4 154**	**500**	**1 692**	**6 346**	**12 381**
Additional provisions	2 435	8	493	2 936	1 063
Unused amounts reversed	–	–	-460	-460	-2 038
Used during the year	-3 268	-439	-13	-3 720	-5 209
Exchange differences	-14	6	-33	-41	149
As of December 31	**3 307**	**75**	**1 679**	**5 061**	**6 346**
Thereof:					
- Short term	3 242	75	1 679	4 996	6 058
- Long term	65	–	–	65	288
	3 307	**75**	**1 679**	**5 061**	**6 346**

Restructuring provisions

In 2013 and 2014, restructuring provisions were recognized following the reorganisation and the closure of several offices. Restructuring provisions also include the termination of leases considered as onerous contract.

Legal fees and litigation

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for legal fees and lawsuit are valued according to management's best estimate.
In 2013, a legal provision was reversed following the cancellation of the underlying risk.

Provision for warranty

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

33. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2014	31.12.2013
Other long-term liabilities		2 851	1 535
Derivative financial instruments	38	486	753
		3 337	**2 288**

34. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2014	31.12.2013
Short term bank borrowings		75 794	59 244
Other short term financial liabilities		2	13
		75 796	**59 257**

The average effective interest rate paid in 2014 for short term bank borrowings was 1.30% (2013: 1.33%). Short term bank borrowings include the short-term portion of a credit facility agreement (see note 29) for kCHF 33 000 (2013: kCHF 30 000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

35. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2014	31.12.2013
Trade accounts payable – third parties	52 014	37 727
Trade accounts payable – related parties	120	2
	52 134	**37 729**

36. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2014	31.12.2013
Accrued expenses	75 348	70 269
Deferred income	15 551	15 611
Payable to pension fund	542	551
Other payables	17 285	11 603
	108 726	**98 034**

37. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2014	31.12.2013
Amounts due to customers for contract work	2 265	4 272
Advances from clients	10 790	9 348
	13 055	**13 620**

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Currency related instruments (level 2)						
- Over the counter currency options	23 760	–	–	–	280	–
- Forward contracts	19 800	–	–	–	245	–
Interest related instrument (level 2)						
- Interest rate swap	88 860	12 460	–	–	1 047	753
Total of derivatives financial instruments	**132 420**	**12 460**	**–**	**–**	**1 572**	**753**
Of which:						
- Short-term	118 560	–	–	–	1 086	–
- Long-term	13 860	12 460	–	–	486	753

Interest-related instruments qualify as a cash flow hedge and have concomitant maturity with underlying loan agreement.

39. DISCONTINUED OPERATIONS

NagraID SA and NagraID Security SA were treated as discontinued operations. Details of the transactions are explained in note 5. Divestments.
Financial information relating to the manufacturing smartcard units' NagraID SA and NagraID Security SA from January 1, to the date of disposal is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued. Comparative figures have been restated.

In CHF'000	2014	2013
Revenue	14 015	109 679
Expenses	-21 573	-103 960
Operating result	**-7 558**	**5 719**
Finance costs	-1 267	-1 364
Result before tax from discontinued operations	**-8 825**	**4 355**
Income tax	-23	-422
Result after tax from discontinued operations	**-8 848**	**3 933**
Pre-tax loss recognised on disposal of discontinued operations	-8 528	–
Income tax	–	–
Post-tax loss recognised on disposal of discontinued operations	-8 528	–
Net result from discontinued operations	**-17 376**	**3 933**

In CHF'000	2014	2013
Cash flow used in operating activities	-3 850	4 800
Cash flow used in investing activities	-1 160	-3 713
Cash flow from financing activities	3 029	-2 280

40. RESEARCH AND DEVELOPMENT

The following amounts were recognized as expense and charged to the income statement:

In CHF'000	2014	2013
Research and development	195 363	188 442

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

41. DIVIDEND

The ordinary dividend paid in 2014 was kCHF 16 170 (2013: kCHF 10 757) which corresponds to a dividend of CHF 0.30 (2013: CHF 0.20) per bearer share and CHF 0.03 (2013: CHF 0.02) per registered share.
For the current year, the Board of Directors proposes a distribution of CHF 0.30 per bearer share and CHF 0.03 per registered share. The distribution to be paid is kCHF 16 171 and may fluctuate upon issuance of additional share capital for employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies. The proposal of the Board of Directors is to pay a CHF 0.20 distribution out of capital contribution reserve and CHF 0.10 distribution out of retained earnings per bearer share (CHF 0.02 and CHF 0.01 per registred share respectively) and is subject to the approval of shareholders at the Annual General Meeting. It has not been included as a liability in these financial statements.

42. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

In 2004, the Group set up a plan to allow employees of certain Group companies preferential conditions to buy Kudelski SA bearer shares. All such shares purchased, and the additional shares and options obtained through this plan, are subject to a three-year blocking period. In 2011, the Board of Directors decided to modify the rules and regulations of the share purchase plan by replacing the distribution of options with the distribution of shares.

	Shares 2014	Shares 2013
Shares underwritten by employees	6 815	6 600
Bonus shares and options from ESPP	1 363	1 320
Total employee share program	**8 178**	**7 920**
Amount paid by employee (In CHF'000)	62	57
Booked corporate charges (excluding social charges) (In CHF'000)	33	5
	95	**62**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2014	Options 2013
In circulation on January 1	15	584	1 923
Total in circulation on January 1		**584**	**1 923**
Rights exercised	15	-50	–
Rights forfeited	15	-534	-1 339
In circulation on December 31		**–**	**584**
- of which exercisable as of January 1	15	584	1 339
- of which exercisable as of December 31	15	–	584

SHARES ISSUED TO EMPLOYEES

In 2014, 108 251 (2013: 168 155) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 65 980 (2013: 123 023) include a seven-year blocking period and 42 271 (2013: 45 132) include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 919 (2013: kCHF 1 144).

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43. RELATED PARTIES

Trading transactions

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in consolidation and are not disclosed in this note.
During the year, Group entities entered into the following significant trading transactions with related parties, associates or joint ventures that are not member of the Group:

In CHF'000	Sale of goods and services 2014	Sale of goods and services 2013	Purchase of goods and services 2014	Purchase of goods and services 2013	Amounts owed to related parties 31.12.2014	Amounts owed to related parties 31.12.2013	Amounts owed by related parties 31.12.2014	Amounts owed by related parties 31.12.2013
Hantory Co., Ltd	2 032	6 586	–	–	–	–	–	451
APT-Skidata Ltd	7 449	8 082	–	–	–	2	1 499	2 559
Skidata Parking System	2 854	8 931	–	–	–	–	1 559	1 055
SKIDATA India Private Limited	674	659	–	–	87	–	297	78
SKIDATA Australasia Private Limited	8 205	–	–	–	–		6 496	–
iWedia SA	138	144	618	195	421	–	42	46
Total associated companies	**21 352**	**24 402**	**618**	**195**	**508**	**2**	**9 893**	**4 189**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 998
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 998**

APT SkiData, SkiData Parking Ltd and SkiData Australasia Private Ltd are sales representative companies for SkiData Group. Audio Technology Switzerland is considered as a related party as some Kudelski Board members invested in the company.

Key management compensation

Key management includes directors (executives and non-executives) and members of the Executive Committee. The compensation paid or payable to key management for employee is shown below:

In CHF'000	2014	2013
Salaries and other short-term employees benefits	8 182	7 765
Post-employments benefits	101	101
Share-based payments	981	830
	9 264	**8 696**

44. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Kudelski family pool	**63%**	**63%**	**35%**	**35%**

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Hardy, Mrs. Irene Kudelski Mauroux and their respective descendants.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2014 and 2013, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2014 and 2013 variable compensation - issued in 2015 and 2014 respectively):

	31.12.2014	31.12.2013
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 294 423	14 234 423
Smadja Claude, vice chairman	1 300	1 300
Bucher Norbert, member	n/a	1 700
Dassault Laurent, member	2 340	2 340
Deiss Joseph, member	1 000	1 000
Foetisch Patrick, member	1 000	1 000
Kudelski Marguerite, (as member of the family pool)	see above	see above
Lescure Pierre, member	2 000	2 000
Zeller Alexandre, member	–	–
Ross Alec, member	–	n/a
Total board members	**14 302 063**	**14 243 763**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	200 820	187 092
Roy Pierre, COO	62 900	51 413
Total Management (excluding CEO)	**263 720**	**238 505**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2014 and 2013.

No loans were granted in 2014 and 2013 to the members of the Board of Directors and Group management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

45. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under operating leases are as follows:

In CHF'000	2 014	2 013
Within one year	11 870	7 376
In the second to fifth year inclusive	23 744	22 891
	35 614	**30 267**

46. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2014:

Assets as per balance sheet date December 31, 2014 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2014
Financial assets and non current assets:					
- equity instruments with no quoted market price	20	–	1 234	–	1 234
- marketable securities	20	–	1 237	–	1 237
- long term loans	20	–	–	5 481	5 481
- receivables long term	20	–	–	576	576
- guarantee deposits	20	–	–	4 270	4 270
- contingent consideration	20	7 031	–	–	7 031
Trade accounts receivable	22	–	–	215 071	215 071
Other current assets:					
- Loans	23	–	–	37	37
Cash and cash equivalents	24	–	–	92 382	92 382
		7 031	**2 471**	**317 817**	**327 319**

Liabilities as per balance sheet date December 31, 2014 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2014
Long term financial debt	28	–	–	255 223	255 223
Other long term liabilities	33	–	–	1 381	1 381
Short term financial debt	34	–	–	75 796	75 796
Trade accounts payable	35	–	–	52 134	52 134
Other payables	36	–	–	17 285	17 285
Derivative financial instruments (short and long term)	38	486	1 086	–	1 572
		486	**1 086**	**401 819**	**403 391**

And for 2013:

Assets as per balance sheet date December 31, 2013 (in CHF'000)	Note	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2013
Financial assets and non current assets:					
- equity instruments with no quoted market price	20	–	2 234	–	2 234
- marketable securities	20	–	1 030	–	1 030
- long term loans	20	–	–	4 992	4 992
- receivables long term	20	–	–	833	833
- guarantee deposits	20	–	–	3 074	3 074
Trade accounts receivable	22	–	–	187 993	187 993
Other current assets:		–	–	–	–
- Loans	23	–	–	948	948
Cash and cash equivalents	24	–	–	100 273	100 273
		–	3 264	298 113	301 377

Liabilities as per balance sheet date December 31, 2013 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2013
Long term financial debt	28	–	–	123 444	123 444
Short term financial debt	34	–	–	59 257	59 257
Trade accounts payable	35	–	–	37 729	37 729
Other payables	36	–	–	11 603	11 603
Derivative financial instruments (short and long term)	38	753	–	–	753
		753	–	232 033	232 786

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS requires disclosure of fair value measurement by level according to the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (that is unobservable inputs)

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2014:

In CHF'000		Note	31.12.2014	31.12.2013
Financial assets:				
- marketable securities	Level 1	20	1 237	1 030
- equity instuments with no quoted market price	Level 3	20	400	1 400
Total financial assets			**1 637**	**2 430**
Financial liabilities:				
- derivative financial instruments	Level 2	38	1 572	753
Total financial liabilities			**1 572**	**753**

Level 3 equity instruments with no quoted market price are based on discounted cash flow calculation provided by the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values:

In CHF'000	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Financial liabilities				
- CHF 110 million bond (fair value determined using market value)	109 444	114 730	109 174	115 353

48. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

The following table analyses the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below includes both interest and principal cash flows. The adjustment columns represent the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet. Balances due within one year equal their carrying amounts as the impact of discounting is not significant.

In CHF'000	Due within 1 year	Due within 1 year	Due > 1 year < 5 years	Due > 1 year < 5 years	Due > 5 years	Due > 5 years	Adjust-ment	Adjust-ment	Total book value	Total book value
	2 014	2 013	2 014	2 013	2 014	2 013	2 014	2 013	2 014	2 013
Bond	3 300	3 300	113 300	116 600	–	–	-7 156	-10 726	109 444	109 174
Long term bank loans	3 006	705	151 723	15 157	–	–	-8 968	-1 600	145 761	14 262
Short term financial debt	75 796	59 257	–	–	–	–	–	–	75 796	59 257
Trade accounts payable	52 134	37 729	–	–	–	–	–	–	52 134	37 729
Other payables	17 285	11 603	–	–	–	–	–	–	17 285	11 603
Total	**151 521**	**112 594**	**265 023**	**131 757**	**–**	**–**	**-16 124**	**-12 326**	**400 420**	**232 025**

49. SENSITIVITY ANALYSIS

Foreign currency
The Group undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises. Exchange rate exposures are managed within approved policy parameters utilizing derivative instruments.

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% (2013: 10%) increase and decrease in the USD and a 20% (2013: 5%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

	USD		EUR	
In CHF'000	**2 014**	**2 013**	**2 014**	**2 013**
Post-tax net income				
- Increase	13 615	6 901	6 555	3 767
- Decrease	-13 615	-6 901	-6 555	-3 767
Comprehensive income (post-tax effect)				
- Increase	5 407	9 390	4 176	1 063
- Decrease	-4 807	-9 390	-4 176	-1 063

Interest rates
The sensitivity analysis below is based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of financial instruments that have floating rates. The following rates have been selected in order to report the sensitivity analysis corresponding to the treasury which represent management's assessment of the reasonably possible change in interest rates:
- USD: increase of 150 basis points and decrease of 50 basis points (2013: 150 basis points increase or 50 decrease)
- EUR: increase of 150 basis points and decrease of 50 basis points (2013: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2013: 100 basis points increase or 20 decrease)

If interest rates had been higher/lower on the above mentioned possible change in interest rates and all other variables were held constant, the Group's:
- post-tax profit for the year ended December 31, 2014 would decrease by kCHF 377 and decrease by kCHF 690 (2013: decrease by kCHF 366 /increase by kCHF 121). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would increase by kCHF 259 and decrease by kCHF 86 (2013: increase by kCHF 426 / decrease by 140) . The other comprehensive income impact is mainly due to the signature of an interest rate swap qualifying for cash-flow hedge accounting.

Equity prices
The Group is not materially exposed to any equity price fluctuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

50. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2014	31.12.2013
Guarantees in favor of third parties	29 936	23 355

51. RISK CONCENTRATION

At December 31, 2014 and 2013, no financial asset exposure was more than 10% of the financial assets, with the exception of cash balances deposited with a highly rated bank.

52. FINANCIAL INSTRUMENTS - UNREPRESENTATIVE RISK EXPOSURE AT REPORTING DATE

The quantative data required for IFRS 7 disclosures encompassing market, credit and liquidity risk for the year ended 31 December 2014 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

53. CAPITAL RISK MANAGEMENT

The Group's capital management focus is to maintain a sound capital base to support the continued development of its business. The Group is not subject to externally imposed capital requirements. The Group's CHF 235 million committed credit facility includes a minimum equity covenant (ratio of total equity over total assets). The Group fulfills such covenant.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. Group management monitors capital on the basis of operating cash flow as a percentage of net financial debt. Net financial debt is defined as current and non-current financial liabilities less liquid assets.

The operating cash flow to net financial debt ratio as at 31 December 2014 was 45.8% (2013: 146.7%).

54. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 014	2 013	2 014	2 013
1 USD	0.9900	0.8900	0.9155	0.9268
1 EUR	1.2025	1.2250	1.2145	1.2308
100 CNY	15.9700	14.7100	14.8610	15.0751
100 NOK	13.3250	14.6300	14.5380	15.7857
1 GBP	1.5400	1.4730	1.5070	1.4495
100 BRL	37.3000	37.7000	38,93	43.1100
100 INR	1.5700	1.4400	1.5004	1.5892
1 SGD	0.7480	0.7040	0.7222	0.7408
100 ZAR	8.5400	8.5000	8.4400	9.6400
100 RUB	1.7910	2.7035	2.4140	2.9113
1 AUD	0.8100	0.7940	0.8250	0.8970

55. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 18, 2015.

56. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2014	2013
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	100
NagraID SA	CH – Chaux-de-Fonds	Smartcard production	Sold	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	100	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	50	50
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	50	50
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	100	100
Conax Group	NO - Oslo	Conditional access modules and set-top-boxes	100	0
Public Access				
SkiData Group	AT – Gartenau	People and car access systems	100	100
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100

These principal companies are all subsidiaries.

57. EVENT SUBSEQUENT TO BALANCE SHEET DATE

On September 6, 2011 the Swiss National Bank set a minimum EUR/CHF exchange rate of CHF 1.20 to mitigate the effects of the financial crisis on the Swiss economy and the subsequent appreciation of the Swiss Franc. On January 15, 2015 the Swiss National Bank discontinued this EUR/CHF exchange rate floor and, as a result, the Swiss Franc significantly appreciated compared to other currencies. As the Group presentation currency is the Swiss Franc and several Group companies with a Swiss Franc functional currency have asset and liability exposure to foreign currencies, the sudden appreciation of the Swiss Franc will have negative impact on assets and liabilities existing as of December 31, 2014. The sensitivity analysis in note 49 provides an estimate of the financial effect of this subsequent event. Goodwill impairment testing was completed in December 2014 and as such the underlying assumptions did not include the January 2015 exchange rate fluctuations. However, the Group has initiated measures aimed at mitigating the negative impact of the Swiss Franc appreciation.

58. RISK ASSESSMENT DISCLOSURES REQUIRED BY SWISS LAW

REQUIRED BY SWISS LAW

Risk assessment and management is an integral part of the Group-wide enterprise risk management. The risk management approach is structured around a global risk assessment and management and the financial risk management. Both are governed by policies initiated by the Board of Directors. The internal control system is based on the COSO framework with a dedicated internal control team in place.

Global risk management

The global risk management process led to the identification and management of security, operational, strategic, asset and market risks. Daily management of the global risks is performed and monitored by the executive management. Risks related to market dynamics include foreign exchange movements, interest rate changes and financing risks. They are described in more detail in section 3 of this report.

Financial Risk Management

The major financial risks consist of accounting complexity and the control environment. Risks related to the control environment include information systems complexity, timely review of results and the robustness of the documentation of processes. Executive management continues to address these risks with process documentation initiatives as well as establishment of process and entity level controls. Financial risk management is described in more details in note 3.

The most critical accounting policies to address accounting complexity include revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and impairments, tax provisions, equity based compensation and contingencies.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Kudelski SA, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 84 to 134), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 18, 2015

BALANCE SHEETS AT DECEMBER 31, 2014 AND 2013

ASSETS

In CHF'000	Notes	31.12.2014	31.12.2013
Fixed assets			
Financial fixed assets:			
Investments	3.1	337 514	287 224
Loans to Group companies		765 064	757 700
Other long term assets		1 081	–
Total fixed assets		**1 103 659**	**1 044 924**
Current assets			
Accounts receivable from Group companies		39 729	25 881
Other accounts receivable and accruals	3.2	3 754	1 859
Cash and cash equivalents	3.3	14 981	9 987
Total current assets		**58 464**	**37 727**
Total assets		**1 162 123**	**1 082 651**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2014	31.12.2013
Shareholders' equity			
Share capital		539 047	537 882
Legal reserves:			
- General reserve		110 000	110 000
- Capital contribution reserve		19 111	29 877
Retained earnings		221 129	260 391
Net income		-29 905	-33 872
Total shareholders' equity	**3.4**	**859 382**	**904 278**
Long-term liabilities			
Bonds	3.5	110 000	110 000
Bank, long term borrowings	3.6	132 000	–
Total long-term liabilities		**242 000**	**110 000**
Current liabilities			
Short-term loans from Group companies		25 528	34 325
Bank, short term borrowings	3.6	33 000	30 000
Other liabilities and accruals		2 213	1 651
Bank overdraft		–	2 397
Total current liabilities		**60 741**	**68 373**
Total liabilities		**302 741**	**178 373**
Total shareholders' equity and liabilities		**1 162 123**	**1 082 651**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2014

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

In CHF'000	Notes	2014	2013
Financial income	4.1	55 587	96 892
Loss on sale of investments	4.2	-35 499	–
Administrative and other expenses	4.3	-7 859	-4 588
Financial expenses and exchange result	4.4	-13 782	-7 809
Impairment of financial fixed assets	4.5	-28 352	-118 367
(loss)/Income before tax		**-29 905**	**-33 872**
Income tax		–	–
Net (loss)/income		**-29 905**	**-33 872**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2014

In CHF'000	Capital contribu-tion reserve	Retained earnings
Balance brought forward from previous year	19 111	221 129
Net result	–	-29 905
Total available earnings	**19 111**	**191 224**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.30 on 49'274'709* bearer shares (of which CHF 0.20 out of capital contribution reserve and CHF 0.10 out of retained earnings)	-9 855	-4 927
- CHF 0.03 on 46'300'000 registered shares (of which CHF 0.02 out of capital contribution reserve and CHF 0.01 out of retained earnings)	-926	-463
Balance to be carried forward	**8 330**	**185 834**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2014 and may fluctuate upon issuance of additional share capital for the employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies.

NOTES TO THE FINANCIAL STATEMENTS 2014

1. GENERAL COMMENTS

Kudelski SA is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The statutory financial statements of Kudelski SA are prepared in accordance with the requirements of the Swiss Code of Obligations applicable prior to the changes introduced on January 1, 2013, in accordance with the transitional provisions of the new accounting law. These financial statements were prepared under the historical cost convention and on an accrual basis.

FINANCIAL FIXED ASSETS

Investments and loans to Group companies are accounted for at acquisition cost less adjustment for impairment of value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and short-term deposits. Cash at bank consists of all funds in current accounts available within 48 hours. Short-term deposits generally include bank deposits and fixed term investments whose maturities are of three months or less from the transaction date.

EXCHANGE RATE DIFFERENCES

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.

Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement, while net gains are deferred.

NOTES TO THE FINANCIAL STATEMENTS 2014

3. NOTES TO THE BALANCE SHEETS

3.1 INVESTMENTS

Company	Location	Activity	Share capital		Percentage held 2014	2013
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	kCHF	20 000	100	100
Nagravision Iberica SL	ES – Madrid	Sales and support Digital TV	kEUR	3	100	100
Nagra France SAS	FR – Paris	Solutions for Digital TV	kEUR	32 833	100	100
Nagra Media Germany GmbH	DE – Ismaning	Services	kEUR	25	100	100
Nagra USA, Inc.	US – Nashville	Sales and support	kUSD	10	100	100
SkiData AG	AU - Salzburg	Physical access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
NagraID SA	CH – La Chaux-de-Fonds	Smart card production	kCHF	4 000	S	100
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	100	100
Kud SA	LU – Luxembourg	Finance	kCHF	63 531	100	100
Leman Consulting SA	CH – Nyon	Intellectual property consulting	kCHF	100	100	100
Nagravision Asia Pte Ltd	SG – Singapore	Services	kSGD	100	100	100
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	100	100
Nagra Media UK Ltd	UK – London	Research & development	KGBP	1 000	100	100
Nagravision Italy Srl	IT – Bolzano	Sales and support	kEUR	10	100	100
Nagra Travel Sàrl	CH – Cheseaux	Travel agency	kCHF	50	100	100
NagraID Security SA	CH – La Chaux-de-Fonds	Display cards	kCHF	100	S	50
Nagravision India Pvt Ltd	IN – Bangalore	Research & development	kINR	100	100	100
Acetel Co Ltd	SK – Séoul	Digital broadcasting solution provider	kKRW	1 460	17	17
Nagra Media Private Limited	IN - Mumbai	Sales and support	kINR	100	100	100
Nagra Media Korea LLC	KR - Anyang	Sales and support	kKRW	200 000	100	100
Nagra Media Brasil LTDA	BR - São Paulo	Sales and support	kBRL	553	100	100
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	100	100
OpenTV Holdings BV (Netherlands)	NL - Amsterdam	Holding	kUSD	5 270	L	100
OpenTV Netherlands B.V.	NL - Amsterdam	Sales and support	kEUR	18	L	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	0

S = sold company

L= liquidated company

3.2 OTHER ACCOUNTS RECEIVABLES AND ACCRUALS

In CHF'000	31.12.2014	31.12.2013
Prepaid expenses	3 440	1 852
Withholding tax	310	6
Other accounts receivable	4	1
	3 754	1 859

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bond (note 3.5) and transaction costs relating to the new CHF 235 million credit facility agreement (note 3.6) for kCHF 2 874 (2013: kCHF 0), while the former CHF 145 million transaction costs measured at amortized cost (2014: kCHF 0 and 2013: kCHF 945) has been impaired and expensed in full in the income statement. These amounts are allocated against income statement over the contractual periods of their underlying borrowings.

3.3 CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2014	31.12.2013
Cash at bank and in hand	14 981	9 987
	14 981	9 987

3.4 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	General reserve	Capital contribution reserve	Reserve for treasury shares	Available earnings	Total Shareholders' equity
As of December 31, 2012	**536 122**	**110 000**	**37 945**	**290**	**262 790**	**947 147**
General reserve allocation						–
Dividend			-8 068		-2 689	-10 757
Share capital increase	1 760					1 760
Release of reserve for treasury shares				-290	290	–
Net Income					-33 872	-33 872
As of December 31, 2013	**537 882**	**110 000**	**29 877**	**–**	**226 519**	**904 278**
Dividend			-10 780		-5 390	-16 170
Share capital increase	1 165		14			1 179
Net Income					-29 905	-29 905
As of December 31, 2014	**539 047**	**110 000**	**19 111**	**–**	**191 224**	**859 382**

NOTES TO THE FINANCIAL STATEMENTS 2014

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2014	31.12.2013
49'274'709 / 49'158'230 bearer shares, at CHF 10 each	492 747	491 582
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	539 047	537 882

The registered shares are neither listed nor traded on any stock exchange. The bearer shares have been listed on the main market of the SIX since 2 August 1999 (ticker: KUD, security number: 1 226 836; ISIN CH0012268360).

CONDITIONAL SHARE CAPITAL (ARTICLE 6 OF ARTICLES OF INCORPORATION)

In CHF'000	2014	2013
Conditional share capital as of January 1	103 555	105 316
Increase of conditional share capital	8 000	–
Employee share purchase plan	-82	-79
Shares allotted to employees	-1 083	-1 682
Conditional share capital at December 31	**110 390**	**103 555**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 10 each	100 000	100 000
- Options or share subscriptions to employees:		
1'039'047 / 355'526 bearer shares, at CHF 10 each	10 390	3 555
	110 390	103 555

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2014	31.12.2013
3'768'164 bearer shares, at CHF 10 each	37 682	37 682
3'200'000 registered shares, at CHF 1 each	3 200	3 200
Authorized share capital as of December 31	**40 882**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until April 8, 2016, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Kudelski family pool	63%	63%	35%	35%

3.5 BOND

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016 with denominations of CHF 5 000 and multiples thereof.

The bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs amounting to kCHF 1 474 is considered as a prepaid expense and allocated against the income statement over the period of the bond.

3.6 BANK , LONG TERM BORROWINGS

In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019. This new credit facility replaces the former facility of CHF 145M obtained in 2012. As of December 31, 2014 the Group has drawn CHF 165 million of which CHF 132 million are classified as long term and CHF 33 million as short term in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS 2014

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2014	2013
Dividends received from Group subsidiaries	39 043	91 054
Interest income third parties	119	120
Interest on loans to Group subsidiaries	16 425	5 663
Other financial income	–	55
	55 587	**96 892**

In 2013, other financial income relates to the gain on sales of treasury shares.

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2014 loss relates to the sale of NagraID SA and NagraID Security SA, both located at la Chaux-de-Fonds.

4.3 ADMINISTRATIVE AND OTHER EXPENSES

In CHF'000	2014	2013
Administrative expenses	-6 370	-3 076
Taxes other than income tax	-1 489	-1 512
	-7 859	**-4 588**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2014	2013
Net currency exchange result	-4 494	-1 771
Interest on loans from Group subsidiaries	-39	-51
Interest expenses and bank charges	-9 249	-5 987
	-13 782	**-7 809**

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2014	2013
Change in provision on Group investments and loans	-26 143	-118 367
Value adjustment on investments	-2 209	–
	-28 352	**-118 367**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2014	31.12.2013
Guarantee commitments		
Commitment in favor of third parties	1 328	1 171
	1 328	**1 171**
Other commitments		
Penalty risk for non-completion of contracts	p.m.	p.m.
Subordinated loans in favor of Group companies	p.m.	p.m.
Support letters and guarantees signed in favor of Group companies	p.m.	p.m.
Jointly responsible for VAT liabilities of Swiss subsidiaries (VAT Group)	p.m.	p.m.

6. BOARD AND EXECUTIVE INTEREST DISCLOSURES

The disclosures required by article 663c of Swiss Code of Obligations on Board and Executive interest are shown in the Kudelski Group consolidated financial statements.

7. RISK ASSESSMENT DISCLOSURES

Kudelski SA, as the ultimate parent company of the Kudelski Group, is fully integrated into the Group-wide internal risk assessment process. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of Kudelski SA. Disclosure of the Group-wide risk assessment procedures are described in note 58 to the Group's consolidated financial statements.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

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

As statutory auditor, we have audited the accompanying financial statements of Kudelski SA, which comprise the balance sheet, income statement and notes (pages 136 to 144), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

pwc

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz Audit expert Auditor in charge	Marc Ausoni Audit expert

Lausanne, February 18, 2015

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IMPRESSUM

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Corporate Communications, Kudelski Group

SUPPORT
Desrochers Communication

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This report is published in English and French, except for the Financial statements which are only published in English. In case of inconsistency between the French and the English version of the Corporate Governance report and the Compensation report, the French version prevails.

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