KUDELSKI GROUP
2015 ANNUAL REPORT

65 YEARS OF INNOVATION 1951-2016

NAGRA KUDELSKI GROUP

CONTENTS

READY FOR NEW CHALLENGES

Interview with André Kudelski,
Chairman and Chief Executive Officer of the Kudelski Group

How would you describe the Group's activity in 2015 ?

During the second half of 2014, we were looking for solutions that would significantly enhance profitability; we also initiated several projects aimed at growing our top line. Unfortunately, much of this work was undercut when the Swiss National Bank (SNB) dropped the CHF/EUR floor in January 2015. However, we didn't let up our efforts, pushing hard throughout the year to make up for the negative impact of the SNB decision. And our work paid off, with some help from the progressive strengthening of the American dollar: our year end financials outperformed the rest of the Swiss economy.

More concretely, we launched several growth initiatives in 2015 and we improved our positioning in our core markets. Deteriorating macro-economic conditions in some countries, especially in Brazil, had a negative impact on the Group's performance in emerging countries.

Today, we are continuing our transformation, further leveraging our innovation capacity. The solutions we develop are optimized to address the needs of end users while offering an ever-higher degree of security.

Our corporate strategy is to build the future on the basis of our three pillars: the distribution of digital media content, public access and cyber security.

How is the Group positioned in the digital media industry ?

In the digital content distribution sector, various ecosystems are colliding. On the one hand, traditional operators have a strong legacy presence in people's homes; they are also highly regulated. On the other hand, there are new entrants with appealing and relevant content who, thanks to the use of new technologies, are often able to avoid the regulatory framework. In the end, what is disruptive is not technology as such, but the combination of technology and regulation.

When these worlds collide, there are opportunities for cooperation in terms of market penetration, access to content catalogues and user experience streamlining. The Group is well positioned to play a driving role in the interaction and to benefit from this evolution by improving the quality of the offering for end users while preserving the interests of operators and content providers.

Our solutions must evolve always more rapidly to ensure an increasingly simple and intuitive experience for digital content consumers.

What are the products that the Group developed to make this happen ?

We worked hard this past year on intuiTV, which we unveiled at CES 2016 in Las Vegas. This product, an integrated Cloud-based content distribution platform, demonstrates how we're innovating to tailor the experience to our consumers' preferences. The challenge here is to combine the anytime-anywhere accessibility of the Cloud with the speed and simplicity of a high-performance device and a particularly innovative remote control resulting from several years of research.

And what about your Public Access business line? Can you tell us about the latest developments there ?

We've continued to expand our Public Access business globally, capitalizing on our leading position in this sector. We moved ahead in 2015 with the integration of our recent acquisitions in the U.S. and Australia, and continued to develop our three core segments in Public Access: parking management, ski resorts and stadiums. The "digital technology" approach is one of SKIDATA's strengths and represents a clear differentiator of our offer, in particular for the remote management of infrastructure and the optimization of profitability for managed infrastructure.

What are this year's highlights regarding your growth initiatives ? Are they still on track ?

The IP initiative we launched in 2012 is running smoothly. We've continued with our cross licensing approach, which protects our clients from risk of patent infringement claims while at the same time helping us monetize our portfolio of 4 500 patents.

The quality of the companies we have partnered with in 2015 (Bloomberg, Disney, Google, Netflix) confirms the quality of our patent portfolio and our fundamental research, especially for the most innovative players in the industry.

In cyber security, a market which is expected to grow from USD 77 billion in 2015 to USD 170 billion in 2020 with 60% of cyber security capex in the U.S. alone, we have decided to further develop our capacity and to fundamentally reinforce our presence in the U.S. In this perspective, we have appointed Rich Fennessy as CEO of Kudelski Security.

"Today, we are continuing our transformation, further leveraging our innovation capacity."

And regarding operational excellence ?

It's less visible than what we've just discussed, but the Group has indeed made significant progress on an operational level in the past year. Beyond optimizing the existing operational structure, we have combined our Multiscreen and Middleware divisions into one dedicated unit that focuses on the entire user experience value chain, with the goal of improving our solution offering and speeding up evolution.

And what about the 2015 distribution to shareholders ?

We are extremely focused on striking the right long-term balance as we distribute the value the Kudelski Group creates among our various stakeholders. We manage our investments and our employees with a long term vision. Regarding the distribution to shareholders, considering the solid performance of the Group in 2015 and the prospects for 2016, the Board of Directors is proposing to the Annual General Meeting a capital distribution of CHF 0.35 per bearer share and CHF 0.035 per registered share rather than a classic dividend.

What are the Kudelski Group's objectives for 2016 ?

We're aiming to continue growing the business across all our sectors in 2016. We also want to sharpen our R&D focus on solutions that can become future growth drivers for the Group.

In the content protection space, we're building an integrated end-to-end platform that will provide a market-leading degree of security. It will function as a distribution hub and offer the most advanced traceability techniques currently available, while at the same time providing an unparalleled user experience that will set us apart from the competition.

In Public Access, our clients are faced with increasing operational constraints. Combined with a fast-moving shift towards a digital paradigm, this opens up particularly interesting opportunities for us.

In cyber security, our planned development in the U.S. based on our avant-garde solutions should enable us to progressively take advantage of the strong growth potential of this market.

Our R&D, combined with our cross-licensing approach, should enable us to further expand our IP portfolio.

Globally, we will continue to pay close attention to our cost structure, while keeping in mind the Group's long-term development.

Overall in 2016, the Group expects to maintain the positive momentum from the previous year with expected revenues of around CHF 1 billion and operating income of CHF 75 to 90 million (assuming 1USD equals 0.99 CHF and 1 EUR equals 1.10 CHF).

"The digital technology approach is one of SKIDATA's strengths and represents a clear differentiator of our offer."

What will be the impact of exchange rate evolution ?

Since the Swiss National Bank dropped the CHF/EUR floor in January 2015, the Swiss franc has become more volatile compared to other leading currencies. This volatility has become a new reality, which requires the Kudelski Group to reduce its structural exchange rate exposure to the euro and the American dollar. While the Group has already substantially reduced its structural dependency on the CHF/EUR exchange rate, it still must act to further reduce its exposure to the American dollar.

These efforts are all the more justified given that the international macro-economic environment is particularly volatile at the beginning of 2016 with a real risk of further substantial currency fluctuations. While the Group protects itself with the use of short-term financial instruments, only an approach aimed at aligning revenues and costs by monetary zone will enable us to reduce medium and long term currency risks.

What is the Group's outlook for 2016 ?

The growth initiatives launched during 2015 and the prospects observed in our core markets are rather encouraging for 2016. However, recent history has shown that the world is volatile. The environment might be better than anticipated, but we must be prepared to be very proactive should the situation deteriorate in some part of the world. In order to be prepared, we place a special focus on simplifying our decision processes, shortening our time-to-market and staying one step ahead of our clients' needs.

On behalf of the Board of Directors and of our teams, I would like to thank our clients and shareholders for their continued trust throughout the year.

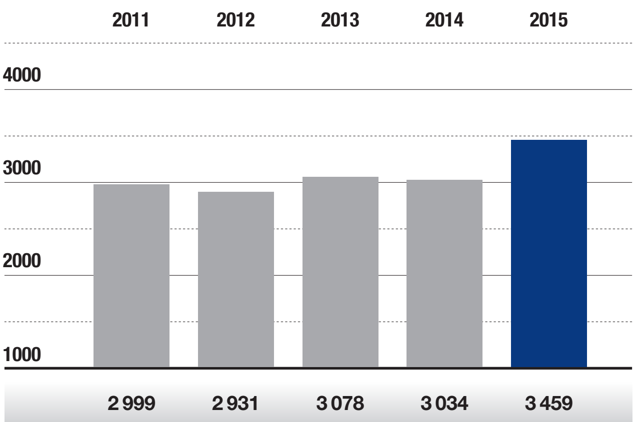
"The cyber security market is expected to grow from USD 77 billion in 2015 to USD 170 billion in 2020."

KEY FINANCIAL DATA 2015

		31.12.2015	31.12.2014	Change
Total revenues and other operating income	CHF million	**950.83**	**886.67**	**7.24 %**
Operating income before depreciation, amortization and impairment (EBITDA)	CHF million	**122.55**	**104.37**	**17.42 %**
in % of total revenues	%	12.89	11.77	
Operating income (EBIT)	CHF million	**81.22**	**61.19**	**32.74 %**
in % of total revenues	%	8.54	6.19	
Net income attributable to equity holders of the company	CHF million	**44.42**	**26.03**	**70.65 %**
Earnings per share	CHF	**0.8191**	**0.4800**	**70.65 %**
Money returned to shareholders (proposed per bearer share)	CHF	**0.35**	**0.30**	**16.67 %**
Share price at December 31 (bearer shares)	CHF	**14.45**	**12.10**	**19.42 %**
Market capitalization at December 31 (bearer shares)	CHF million	**714.71**	**596.22**	**19.87 %**
Equity attributable to equity holders	CHF million	**423.14**	**430.71**	**-1.76 %**
Cash flow from operating activities	CHF million	**106.39**	**109.26**	**-2.63 %**
Cash and cash equivalents	CHF million	**136.84**	**92.38**	**48.12 %**
Financial debt	CHF million	**323.12**	**331.02**	**-2.39 %**
Number of employees at December 31 (headcount)		**3 459**	**3 034**	**13.94 %**

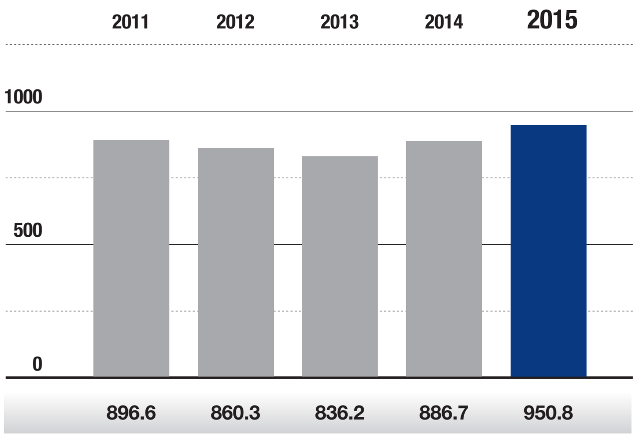
Except for headcount information, 2015 and 2014 figures include retrospective application of new accounting standards and change in accounting policy. 2011-2013 information has not been retreated for comparison purposes to include such changes.

EMPLOYEES (HEADCOUNT)

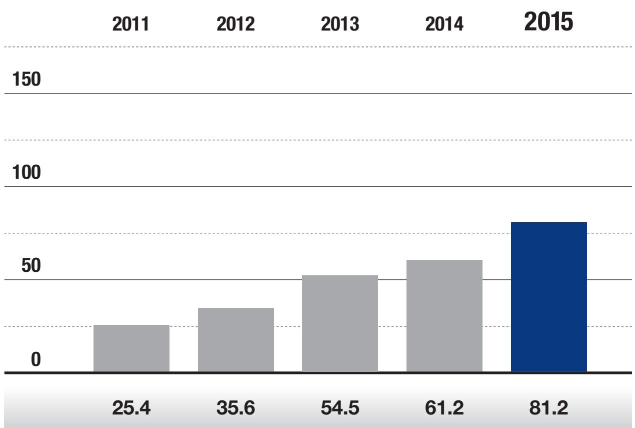


TOTAL REVENUES AND OTHER OPERATING INCOME

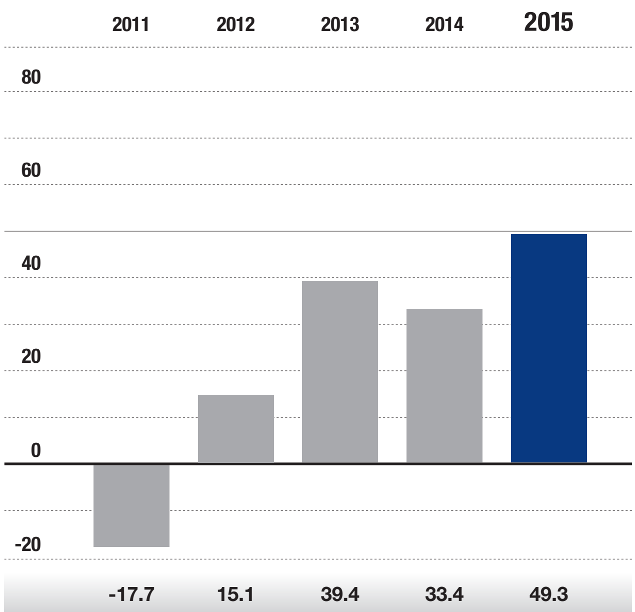
In million CHF



OPERATING INCOME



NET INCOME



REVENUES PER SEGMENT

INTEGRATED DIGITAL TV

70.4 %

PUBLIC ACCESS

29.6 %

EBITDA

2015

122.6

2014

104.4

EARNINGS PER SHARE

2015

0.82

2014

0.48

A GROUP WITH A PIONEERING SPIRIT

A GLOBAL TECHNOLOGY LEADER

The Kudelski Group is the world leader in the development and delivery of state-of-the-art technologies to secure the revenues of content owners and service providers for digital television and interactive applications across broadcast, Internet and mobile delivery networks.

The Group is also engaged in a number of initiatives designed to drive its long term growth.

These include cyber security solutions and services focused on protecting companies' data and systems.

Furthermore, the Group has laid a solid foundation in the area of intellectual property both in cross access to state-of-the-art technology patent portfolio and licence agreements which demonstrate the relevance of innovation within the Group.

Similar to the digitization of media, Public Access is evolving towards integrated people and vehicle management solutions enabling the optimization of infrastructures. The Group is the world leader in this area.

61
SITES IN 32 COUNTRIES

3 459
EMPLOYEES

WE ASSEMBLE TEAMS OF HIGHLY SKILLED, CREATIVE AND COMMITTED PROFESSIONALS IN OUR MAIN RESEARCH AND DEVELOPMENT CENTERS AND AS CLOSE AS POSSIBLE TO OUR MARKETS, WHERE THE TALENTS ARE

A SOLID COMPANY PORTFOLIO

INTEGRATED DIGITAL TV

CORE ACTIVITIES

Integrated content protection and multi-device user experience solutions to reach users wherever they are	**NAGRA**
Innovative, flexible and cost-efficient solutions to deliver pay-TV content securely over broadcast, Internet and connected devices	**Conax**
Renewable Conditional Access Modules for digital TV access; range of broadcast, Internet and hybrid set-top boxes	**SmarDTV**

GROWTH INITIATIVES

Tailor-made cyber security solutions and services for enterprises, financial institutions, government administrations and media customers	**Kudelski Security**
Development, protection and licensing of the Group's innovations	**Intellectual Property**

PUBLIC ACCESS

Integrated access and management solutions for car parks, ski resorts as well as sports, cultural, entertainment and exhibition facilities	**SKIDATA**

NAGRA
KUDELSKI

conax
KUDELSKI GROUP

SMARDTV

KUDELSKI
SECURITY

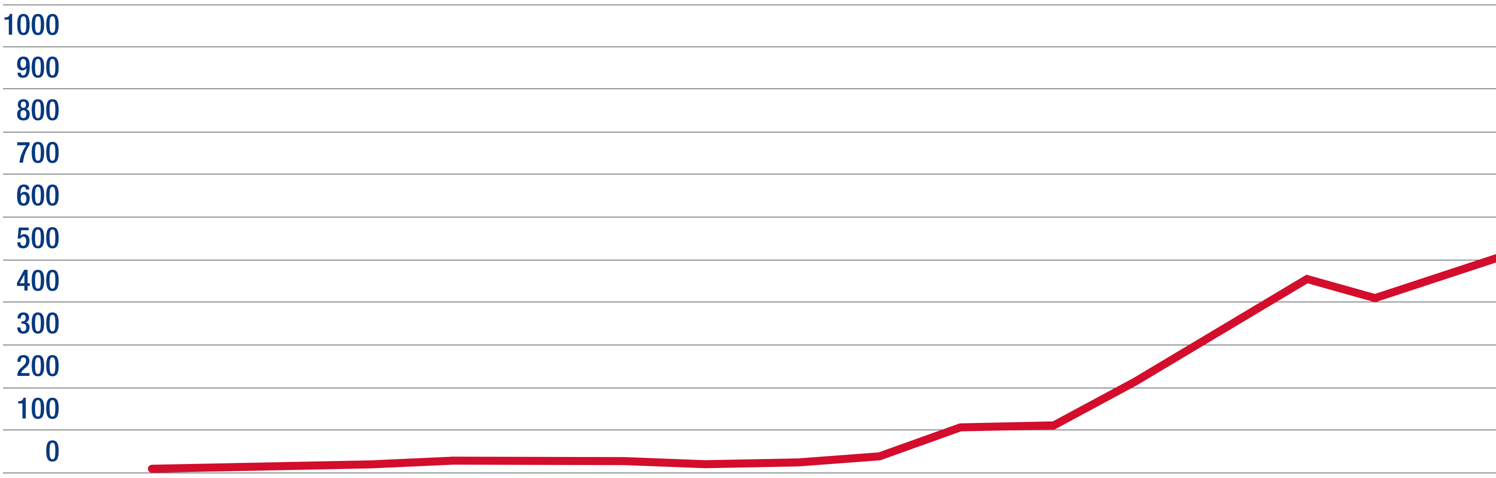
SKIDATA®
KUDELSKI GROUP

INNOVATION AS A KEY GROWTH DRIVER

› A GROUP WITH A PIONEERING SPIRIT

Innovation is a key growth driver for the Kudelski Group. The company creates value day after day for its customers, shareholders and employees. In nearly 20 years, revenues have been multiplied by 50, demonstrating the Group's ability to sustain strong long-term growth and to seize opportunities outside its core integrated digital television market.

GROUP REVENUES IN CHF'000



YEAR	
THE AUDIO AGE	
1951-1980	Creation of the company by Stefan Kudelski (1951). Launch of the first professional portable recorder, NAGRA I (1951). This invention was the start of a series of world-famous recorders that revolutionized sound recording in the audio and movie industries, such as the NAGRA III and the NAGRA SN, a miniature recorder.
FROM AUDIO TO VIDEO	
1983	Launch of the AMPEX-NAGRA VPR-5, the world's smallest, lightest professional portable C-format video recorder. Entry into the video technology industry.
1986	The company is listed on the stock market.
PAY-TV: FROM NICHE TO MASS MARKET	
1989	First encryption systems for television and entry into the pay-TV sector.
1991	André Kudelski succeeds Stefan Kudelski as Chairman and Chief Executive Officer. Conditional access TV systems become Kudelski's core business.
1992	Creation of NAGRA+, a joint-venture with CANAL+. Launch of the Nagra D, first portable digital recorder.
1995	First digital TV access solutions.
1997	Digital pay television becomes the company's core business. Nagra Audio launches a range of high-end Hi-Fi products.
1998	Creation of NagraStar, a joint-venture with EchoStar. First systems offering mixed pay-TV / Internet solutions.
1999	The Group creates the first encryption systems designed for broadband networks.
ENTRY INTO PUBLIC ACCESS	
2001	The company diversifies into the Public Access sector with the acquisition of SKIDATA.
2003	The Group becomes the world leader in the field of conditional access solutions.

The Group's history and heritage revolve 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 an acute vision and a sharp sense of innovation.

2004
Launch of security technologies for mobile phones.
Launch of pre-paid cards giving access to premium content on a temporary basis.

2005
New content security solutions for IPTV networks.
Launch of Push VOD and Digital Video Recorder solutions.
SKIDATA launches the first touch-free turnstiles for ski access.

2006
Acquisition of the Digital TV activity of SCM Microsystems resulting in the creation of SmarDTV: the Group adds removable security modules to its offering.

2007
Acquisition of a controlling interest in OpenTV.
First solutions designed for hybrid networks.

2008
First end-to-end digital television solutions.
Third generation security solutions based on a diversified and segmented approach to security.

EXPANDING IN THE DIGITAL TV ECOSYSTEM

2009
Acquisition of 100% of OpenTV: the Group's solutions manage the entire pay TV ecosystem.
Launch of multiscreen solutions.

ENTRY INTO CYBER SECURITY

2012
Creation of Kudelski Security: the Group diversifies into the cyber security sector.
Creation of the Intellectual Property activity to manage the Group's strong IP portfolio.
Creation of digital TV multiscreen and high definition (4K) security solutions.

2013
Production launch of OpenTV 5, the Group's new generation middleware solution.

#1 IN DIGITAL MEDIA CONTENT PROTECTION

2014
First major patent license agreement signed with Cisco.
The Group is the N°1 CAS provider worldwide with the acquisition of Conax.

2015
Deployment of next generation technologies.
Success of integrated security, next-generation middleware and multiscreen solutions.
Kudelski Security launches the first Swiss Cyber Fusion Center.
SKIDATA launches the first illuminated parking access barriers.

HIGHLY RECOGNIZED TRACK RECORD OF INNOVATIONS

› A GROUP WITH A PIONEERING SPIRIT

1951

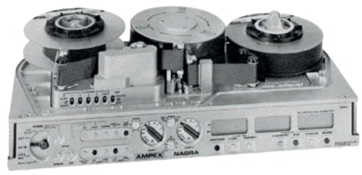
First professional portable recorder, NAGRA I, allowing high quality recording in the most extreme conditions.

1965

US agencies start using the miniature NAGRA SN secretly.

1968

Launch of NAGRA IV, the most successful NAGRA in the world.



1983

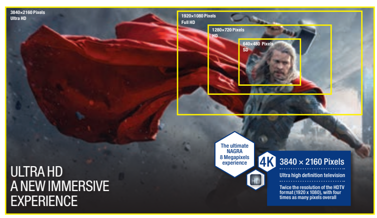
World's smallest, lightest professional portable C-format video recorder, NAGRA VPR-5.

1995

First digital TV access solutions.

2006

Extension of Group's offering to include best-in-class removable conditional access modules based on the CI+ standard. SmarDTV is a founding member of the CI+ forum.



2012

Creation of new digital TV multiscreen security solutions. Launch of 4K solutions.

1965

1970

1972

1977

1978

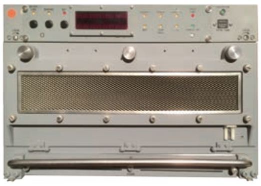
1984

1986

SOME OF THE GROUP'S MOST REVOLUTIONARY PRODUCTS ACKNOWLEDGED BY SOME OF THE MOST SOUGHT-AFTER AWARDS

1987

SKIDATA,
who joined the Group
in 2001, invents
the first handsfree
ski access system.



1988

Launch of NAGRA RTU,
a 1.2 GB per second embarked
digital recorder for military
applications able to support
a 5G acceleration.

1989

Adoption by CANAL+
of Kudelski's access
control system for pay TV.

2013

Launch of
OpenTV 5 Connectware,
a new-generation,
feature-rich television
operating platform.

2015

Launch by
Kudelski Security of K-Sonar,
the first proprietary solution
to monitor in real time
the activity and the level
of security of the Internet.

2016

Launch of NAGRA's
intuiTV, a cutting-edge,
end-to-end user experience
turnkey platform.


1991


1996


2008


2010


2011


2012


2015

IMPROVING CONSUMERS EXPERIENCE

› A GROUP WITH A PIONEERING SPIRIT

Every day in the world, more than 300 million households receive content on various screens via NAGRA security technologies.

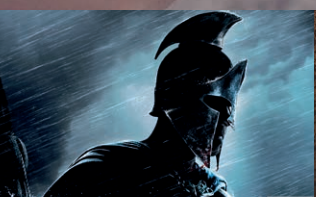
More than 500 million users enjoy Kudelski Group solutions every day

During the Miami Dolphins' soccer matches, 76 000 fans can use their access and loyalty card simultaneously within the stadium to buy food and drink and collect points, on SKIDATA's digital ecosystem.

Every time Real Madrid and FC Barcelona play their "El Clasico" game, more than 500 000 Internet TV viewers access NAGRA's infrastructure in real time, from all types of devices.

Every month, consumers place some 25 million orders on a video-on-demand service in Israel using NAGRA's security system.

Thanks to SKIDATA technologies, 50 000 fans enjoy secure and smooth access and exit of the Cape Town Stadium in South Africa in the record time of 1 hour.





WORLD LEADER
IN INTEGRATED DIGITAL TELEVISION

CAPITALIZING ON A STRONG FOOTPRINT

Leveraging on 25 years of experience in the digital television industry, the Kudelski Group develops and delivers highly secure content protection solutions to operators and content producers. Its wide range of products addresses the needs of the digital television ecosystem across Internet, satellite, cable, terrestrial and hybrid end-to-end transmission systems.

Over the past 20 years, the digital television industry has undergone substantial changes. The Group is operating in an expanding market, with new ways of content dissemination and content consumption.

Kudelski's multi-network and multi-device technology solutions enable the deployment of advanced services with the appropriate level of protection, providing consumers with a thrilling viewing experience.

Pushing further the innovation, the Group launched two growth initiatives. The first, Kudelski Security, is aimed at leveraging the more than 25-year security expertise in pay-TV to other industries. The second, Intellectual Property, is aimed at optimizing the Group's 4 500-patent portfolio.

CONTENT PROVIDERS

CONTENT AGGREGATION

SERVICE CREATION

CONTENT PRODUCTION

CONTENT CONSUMPTION

VIEWERS

CONTENT PROTECTION

End-to-end multi-device security platform

Compelling interfaces for a seamless viewing experience

USER EXPERIENCE

INDUSTRY CHALLENGES WE ARE ADDRESSING:

Securing content in a connected environment to enable financial viability of the ecosystem

Great TV experience – seamless, anywhere, on any device

Support operators and content providers in developing their business

Optimize integration and deployment speed & costs for operators

$ 90B
protected revenues

+300M
devices deployed

$ 200M
R&D investment (2015)

530
clients operators worldwide

NAGRA
PREMIUM CUSTOMIZED SOLUTIONS

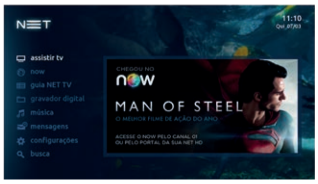
› WORLD LEADER IN INTEGRATED DIGITAL TELEVISION

NAGRA, together with its Kudelski Group sister companies, has unparalleled know-how and experience in the design of complete end-to-end secure digital pay-TV solutions. It is the leading provider of content security solutions worldwide and the strategic content security partner to more than 130 of the world's largest and most innovative digital television service providers.

NAGRA can take responsibility for overall system integration, from set-top box selection and production to the deployment of a complete multi-device TV system and the integration of an end-to-end platform.

AMERICAS

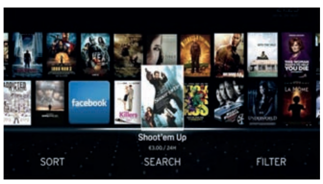
O MUNDO É DOS NETS



ASIA / PACIFIC

EUROPE

LIBERTY GLOBAL



NAGRA IS PROUD TO SERVE ITS CUSTOMERS WORLDWIDE

NAGRA END-TO-END CONTENT PROTECTION

In order to protect the interests of both pay-TV operators and content owners, NAGRA takes a comprehensive system approach to security. The NAGRA anyCAST range of solutions is designed to be capable of continuous evolution and dynamic upgrades to counter any security risks, based on the use of state-of-the-art security tools and the extensive experience gained in worldwide deployments for broadcast and IPTV environments.

SOLID SOLUTION PORTFOLIO LEVERAGING A LONG-STANDING EXPERIENCE

NAGRA provides operators with the right combination of technology and services enabling them to achieve their business objectives and address consumer expectations. NAGRA's full range of broadcast and connected security solutions is designed to deliver any content over any network to any device. The solution portfolio also includes media risk management services ranging from anti-piracy to more advanced cyber security services to protect a service provider's delivery infrastructure, CRM systems, payment systems and brand reputation.

EVOLVING MARKET WITH STRONG OPPORTUNITIES

The continuous evolution of the content distribution industry is bringing new players such as telecommunications and Internet companies, while also enabling traditional operators to seize new opportunities, expand their offering and create new business models. An increasing number of pay-TV operators are becoming multi-network, driven by strong broadband penetration, mass consumer adoption of open consumer electronics devices, and the business need to create attractive services. Multi-network service providers need a unified security solution that allows them to implement the appropriate levels of protection on any device for any type of content.

END-TO-END CONTENT PROTECTION

	BROADCAST ON SITE – HOSTED			CONNECTED ON SITE – HOSTED – PUBLIC / PRIVATE CLOUD		
LEVEL OF PROTECTION VALUE OF CONTENT						
NAGRA SOLUTION NAME	PROTECT	GUARD	COMMAND	CONNECT		
				SECURE PLAYER	TRUSTED EXECUTION ENVIRONMENT	NAGRA ON-CHIP SECURITY
DESCRIPTION	Chip-secured embedded solution for medium value content	Premium smartcard-based solution for high-value content	Next-generation solution for exclusive and 4K content	Pay-TV-centric software player for open consumer electronics devices	Solution supporting broadcast, multicast, OTT and in-home distribution of premium content to devices	Provides the highest possible level of security using NAGRA On-Chip Security giving service providers an IP-native, 4K-compliant security solution
ADDITIONAL CONTENT PROTECTION SOLUTIONS	PERSISTENT RIGHTS MANAGEMENT (DRM) - anyCAST					
	WATERMARKING AND FINGERPRINTING - anyMARK					
	ANTI-PIRACY INTELLIGENCE					

anyCAST

State-of-the-art content protection solution combining CAS and DRM technologies

This solution is designed to allow the secure delivery of any content over satellite, cable and IPTV networks to any device.

anyCAST COMMAND

Content security solution for premium 4K content

This solution redefines the limits of digital TV content security on broadcast and hybrid networks.

anyCAST CONNECT

Next-generation content protection solution for connected devices

Designed for connected devices including set-top boxes and TVs, NAGRA anyCAST CONNECT allows service providers to integrate a single client for the secure delivery of broadcast, IPTV and OTT content to the home and extends the security to the redistribution of content within the home. It enables them to optimize costs and make operations more efficient.

This solution won the 2015 "Best Content Protection" CSI Award

CSI AWARDS 2015 WINNER

anyMARK

Secure framework for implementing, controlling and updating anti-piracy

NAGRA anyMARK embeds a secure watermarking client in the set-top box, while also implementing a server-side watermarking solution for content delivered to any device. Watermarking is poised to become one of several key technologies that will enable pay-TV service providers to acquire rights to exclusive, high-value content like Ultra HD, and better track and shut down illegal redistribution of exclusive linear content like live sports.

NASC

Security certification

NAGRA Advanced Security Certification (NASC) is a specification and certification process for the entire pay-TV ecosystem, ensuring the basis for the highest level of protection over time.

NAGRA
INTUITIVE USER EXPERIENCE

Media content delivery continues to be transformed by the adoption of ultra-high definition screens, smartphones, tablets and other devices with multimedia capabilities.

New technologies, in particular 4K definition, represent another major TV upgrade cycle and bring new opportunities in terms of user experience. The user experience is going to play a major role in users' choices and subscriber retention in the pay-TV landscape of the future.

A DEDICATED USER EXPERIENCE STUDIO

NAGRA's user experience studio team based in California develops groundbreaking user interfaces, from standard definition to 4K ultra-high definition, whose simple and efficient design captivates viewers, engenders loyalty and offers operators the opportunity to reduce churn and monetize their services.

A CONSISTENT EXPERIENCE ACROSS ALL DEVICES

NAGRA's lineup of user interface and user experience products helps pay-TV service providers respond to the challenges created by the rapid evolution of television technology and television consumption habits.

These products are designed to deliver an engaging, entertaining and fully immersive, connected entertainment experience to consumers, seamlessly blending the broadcast and Internet worlds.

ALL-IN-ONE PLATFORM TO SERVE THE WHOLE ECOSYSTEM

NAGRA's operating platform enables service providers to deliver an integrated TV experience to consumers across different networks and services. It serves as the foundation for a multi-service home platform.

The platform includes a suite of user experience solutions enabling operators to deliver feature-rich pay-TV services with a seamless user experience.

The content protection solution ensures the secure delivery of content to the set-top box and to all other connected devices.

SEAMLESS USER EXPERIENCE

	NAGRA PRODUCTS	CORE FEATURES FOR USERS	CORE FEATURES FOR OPERATORS
PRODUCTION SERVERS OPTIMIZATION	MediaLive	Live TV Streaming Catch-Up and Start-Over TV Network PVR Advanced Video-On-Demand Functionalities Download-To-Go Electronic Sell-Through	Dynamic Ad Insertion Usage Analytics & Recommendations Multi-source content aggregation
DEVICES MANAGEMENT	OpenTV 5 intuiTV		
UNIQUE AND ENGAGING USER INTERFACE	Gravity		

ON SITE – HOSTED – PUBLIC / PRIVATE CLOUD

From TV to mobile phone, from PC to tablet

MediaLive

NAGRA MediaLive Multiscreen is a complete suite of modular components offering service providers the tools to manage, secure and operate a wide range of media services across multiple delivery networks, devices and content types in a totally seamless manner.

Latest-generation television operating platform

OpenTV 5

NAGRA's OpenTV 5 HTML 5 Connectware is a new breed of operating system for set-top boxes. It combines the reliability of broadcast with the flexibility of Internet to deliver a wide range of services, features and functionalities (Live TV, VOD, nVOD, catch-up, start-over, follow-me, games, social TV) and a whole range of connected home services.

Cutting-edge end-to-end user experience turnkey platform

intuiTV

A managed, configurable cloud-based platform delivering the best of live television and streaming services for the pay-TV industry, through an intuitive and immersive "all-in-one-place" viewing experience in 4K Ultra HD and HD.

intuiTV leverages NAGRA's expertise and harnesses state-of-the-art user experience, device, content security, streaming and cloud technologies that seamlessly work together in the background.

State-of-the art user interfaces

Gravity 4K

NAGRA's range of user interface / user experience solutions provides a pulsating and exciting experience incorporating social media and the Internet of Things. It offers consumers a consistent experience when navigating through content across any device, at home or on the go.

NAGRA
SUPPORTING OUR CUSTOMERS IN THEIR NEW CHALLENGES

NAGRA's focus is clearly to help its customers grow their business. Its bundled offerings, integrated solutions and additional services are designed to deliver the most efficient response to the market challenges that operators are facing. NAGRA provides the tools that enable customers to keep costs under control, save time while being efficient and rolling out the most attractive services to retain consumers and attract new ones.

REDUCING SETUP AND OPERATIONAL COSTS

NAGRA provides integrated solutions enabling operators to launch new operations and services with quick time-to-market in the most cost-efficient manner. Its open architecture solutions integrate easily into an existing infrastructure, thanks to NAGRA's partnerships with multiple set-top box providers and other technology providers.

NAGRA's scalable solutions address the current needs of operators, with the ability to increase capacity as business requires.

MAKING THE MOST OF THE RELATIONSHIP WITH USERS

NAGRA's user interface experts develop stunning user experience tools and interfaces, taking into account the ever increasing importance of the consumer within the digital TV ecosystem. NAGRA also provides operators with the tools and the analytics enabling them to know their customers better, understand the trends and offer consumers the best experience.

INCREASING THE RELEVANCE OF OPERATORS THROUGH NEW BUSINESS MODELS

NAGRA provides solutions as well as innovative and flexible business models that are designed to accelerate the pace of innovation in the digital television industry and deliver next-generation technology. Its solutions and services enable operators to be more pro-active, anticipate market trends and needs and launch new services and functionalities cost-effectively while managing the related risks.

Design of end-to-end systems and infrastructure

Integration services

NAGRA manages full system integration for its customers. Integration projects focus on on-time and on-budget delivery, ensuring no service interruption for the whole duration of projects. These services rely on NAGRA's extensive knowledge of solutions and ecosystems gained over the past 25 years.

Connected home solution

JoinIn

JoinIn is the perfect home solution. It enables multi-room and multi-device scenarios leveraging NAGRA solutions. It is designed to deliver premium entertainment to every screen and ensure the interoperability of media devices found in the home.

Cloud TV services

NAGRA Cloud

NAGRA offers a cloud-based platform for service creation and management. It is a modular and scalable solution for both public and private cloud services.

Development of applications for digital TV

Apps

NAGRA's Apps Team develops applications especially designed for television. NAGRA's app store includes more than 50 applications developed to date. These apps are an ideal add-on to TV programs, allowing users to enhance their experience.

AMERICAS

In 2015, NAGRA continued to roll-out advanced digital pay TV products for the Latin American market.

In Brazil, the Sat HD Regional project has become widely available across the country using NAGRA's geo-control system. This system allows broadcasters to localize advertising on the direct-to-home (DTH) platform and provides channels such as Globo in HD digital format.

In 2015, NET mass deployed the OpenTV 5 Connectware solution and extended the reach of its TV services to open devices and PCs. To support the OpenTV 5 deployment, several new set-top box platforms were developed and launched. All existing HD models were retrofitted with an enhanced OpenTV 2 middleware version to allow to level features with OpenTV 5. A new user interface was developed on both OpenTV 2 and OpenTV 5 to match the user experience. OpenTV 5 Connectware will continue to bring innovation to NET in the coming months and years.

Telefonica Colombia, Peru, Chile and Brazil continued to sell and deploy a DTH platform to bundle with their other telecommunications services to consumers in these countries. NAGRA also deployed new set-top box platforms for Telefonica based on NAGRA's advanced OpenTV 5 Connectware. One of the benefits of this platform is that it enables operators to author and develop the user experience by themselves, allowing them to have more control over it and to be more innovative, while improving the time to market for upgrades.

America Moviles, another large wireless and broadband provider in the region, started to roll out a NAGRA advanced services platform in Colombia to upgrade its cable network. NAGRA provides an end-to-end MediaLive platform for new advanced set-top boxes including user experience and OpenTV 5, enabling America Moviles to migrate its services (such as video on demand) to IP. NAGRA's DRM solution is providing security for these video services over IP.

In Peru, Telefonica's cable network, Cable Magico, continued to deploy NAGRA's digital products as they digitize their cable system. The major benefit of the upgrade is that Cable Magico can free up cable TV bandwidth to provide subscribers with higher speed broadband services.

In Panama, NAGRA deployed its MediaLive technology, enabling Cable & Wireless to offer a pay-TV service platform to both iOS and Android retail devices. Cable & Wireless' platform provided by NAGRA now offers both live channels and video-on demand content to subscribers who want to access their cable TV services on these alternative devices. NAGRA supplied its DRM solution to secure video content on iOS and Android devices.

In the US, Cable ONE continued to digitize its entire cable network with NAGRA technology. In 2015, NAGRA built out another group of US cities for Cable ONE allowing them to move from analog to all digital video services. This allowed Cable ONE to upgrade its customers' user experience. NAGRA provided the entire package for digitizing the network, including the digital terminal adapter set-top box.

In 2015, NAGRA announced the launch of new features of its MediaLive Secure Player solution with DISH Network L.L.C and EchoStar Technologies L.L.C supporting a new dynamic video-on-demand advertising platform for DISH and EchoStar. NAGRA now supports Dynamic Ad Insertion (DAI) and audience measurement capabilities for the DISH Anywhere video-on-demand multiscreen service – capabilities that are increasingly becoming key requirements for the major studios for content licensing.

ASIA - PACIFIC

India cable digitization has seen renewed momentum in the second part of 2015. In addition to the 3 major national multi-system operators (MSO) already supplied by NAGRA, NAGRA has been selected by 5 new regional MSOs in 2015. NAGRA was also selected for the largest Headend-in-the-sky (HITS) platform launched by the Hinduja group. NAGRA also commercially deployed its OpenTV middleware in the cable segment.

In Vietnam, NAGRA has been selected by VTVCab to deploy a complete end-to-end solution for zapper and hybrid set-top boxes supporting linear channels, video on demand, catch-up services, for both set-top boxes and open devices (smartphones, tablets, PCs) with NAGRA's conditional access, OpenTV 5 Connectware and MediaLive solutions.

In Singapore, StarHub has awarded NAGRA as their System Integrator for the entire TV headend relocation, a large project ranging across 2016 and 2017.

NAGRA sees the continuous growth of its major customers in China: Beijing Cable, Shandong Cable and Guangdong Cable, the largest cable operators in the country.

Taiwan is showing that after hitting a critical penetration of digitization, cable operators are moving on to deploy advanced services. As proof points, TBC has undertaken a mass deployment of NAGRA's OpenTV 5 Connectware with broadcast and hybrid capabilities and Kbro has awarded NAGRA with their OTT project to deliver video and video on demand to smartphones and tablets over the Internet.

In South Korea, KT-SkyLife has successfully launched in June 2015 the world's most advanced 4K live 24/7 service on direct-to-home (DTH), with such high value content protected by NAGRA's conditional access solution.

NAGRA deployed an end-to-end solution for JSAT's satellite music service in Japan.

In Australia, Foxtel launched their new iQ3 set-top box with a very modern, intuitive and feature-rich user experience. Such advanced services as start-over, reverse electronic program guide, subscription video on demand, transaction video on demand and pay-per-view, are delivered by the NAGRA MediaLive IP Service Platform.

ER-Telecom in Russia has continued a mass deployment of the NAGRA conditional access system and has selected NAGRA anyCAST CONNECT for two-way security to support catch-up functions on existing hybrid set-top boxes.

AFRICA

Following its launch in Uganda, Kenya and Rwanda, Azam is following strong growth and is well on its way to reaching half a million set-top boxes deployed. For its part, South Africa has announced the launch of its digital migration appointing Sentech as signal distributor. Sentech will launch the satellite Gap filler (areas not covered by the DTT network) with NAGRA in 2016.

NAGRA, which is successfully protecting CANAL+ Afrique growth in Africa over satellite, has been selected to protect the content of the DTT operations that will be launched in 2016.

NAGRA 2015 MARKET HIGHLIGHTS

EUROPE

SFR, an Altice Group company and one of France's largest pay-TV operators, launched in December 2015 France's first 4K Ultra HD subscription video-on-demand service, "ZIVE". The service is available on a variety of multiscreen devices as well as on the ZIVE set-top-box, the next generation Ultra HD device launched by SFR. The ZIVE service is enabling a brand new and feature-rich experience for viewers, marking one of the country's most advanced 4K Ultra HD offerings from the world major studios and production companies (Disney, Disney•Pixar, ABC Studios, Warner Bros, Europa, Miramax, Sony Pictures Televisions and France Télévisions). NAGRA anyCAST content security and MediaLive multiscreen technologies enable the secure delivery of 4K Ultra HD content, as well as advanced catalogue-based features for SFR's "VideoStore" video-on-demand service and "ShareCast" streaming functionality.

In addition to its success with SFR, NAGRA has also signed an agreement with Altice to extend the deployment of its video-on-demand and multiscreen solution MediaLive to other Altice properties such as Tricom / Orange Dominicana in Dominican Republic, and HOT Telecom, the largest provider of pay television services in Israel and one of the world's most successful and innovative video-on-demand service with more than 40 000 hours of content, 25 million orders every month and a variety of innovative features such as Start Next enabling the viewer to start viewing the next program before it is scheduled to begin.

After its CANAL+ Spain acquisition, Telefónica embraced the NAGRA MediaLive-based OTT service Yomvi and made it available to all its Spanish customers in July 2015. From that date, Yomvi's growth has been dramatic, surpassing 1 million of monthly users, on the right track to doubling the number of monthly users for the end of 2015.

In Italy, Mediaset Premium and SmarDTV have deployed a new innovative Conditional Access Module called Premium SmartCAM that allows users to watch live and VOD Pay TV content on any digital TV in the market. The innovation is due to the Wi-Fi capabilities of the Premium SmartCAM that enables DGTVi Silver Bollino-certified television sets to become "Smart TVs" by connecting them to the Mediaset Premium Play portal. In addition, thanks to its revolutionary Premium SmartCAM Control application suite available on Apple App Store and Android Google Play, users can access almost 10 000 titles on demand on Premium Play using a smartphone or a tablet as an enhanced remote control to play the movies on their TVs.

Liberty Global has renewed its confidence in NAGRA by signing a new contract; this will give access to the proven NAGRA anyCAST conditional access solution to secure Liberty's present and future digital content delivered to any device including the HORIZON platform. This technology will allow Liberty Global to comply with the most advanced security requirement proposed by the Hollywood studios to broadcast Ultra HD content.

In September 2015, VOO, a leading Belgian cable operator launched CI+ Conditional Access Modules in its network. SmarDTV's SmarCAM-3.5 modules embed the latest generation of the NAGRA conditional access system anyCAST GUARD, ensuring the highest security for all VOO channels. Thanks to the SmarCAM-3.5 module, these channels are directly accessible on integrated digital televisions with the original TV remote control, SCART or HDMI cables or power leads being no longer necessary.

In October 2015, DIGI Slovakia, a subsidiary of Slovak Telekom and the country's largest multimedia operator offering services based on cable, satellite, OTT and IPTV in Slovakia, launched CI+ Conditional Access Modules in its network. SmarDTV's SmarCAM-3.5 modules embed the latest generation of the NAGRA anyCAST conditional access system which secures DIGI Slovakia pay-TV services since 2014, ensuring the highest security for its digital DIGI Pay-TV offering. The CI+ module complements the digital product offer of DIGI Slovakia and meets cable and satellite subscribers' needs for accessing services without any extras. This product can be used with integrated TVs compliant with the CI+ standard that is widely deployed in Slovakia.

"We chose to grow our business with NAGRA for its comprehensive suite of digital TV solutions and their expertise in bringing new and advanced services to market quickly and efficiently."

Nam Bui, Chief Technical Officer

"Thanks to NAGRA, we are able to meet a tight deadline to deliver the world's largest lineup of 4K Ultra HD channels to our subscribers and gain the trust of Hollywood studios for licensing premium 4K content."

Han Lee, Chief Technical Officer

"We have a highly successful history of deploying our Premium Broadcast services using conditional access modules, the logical next step for users to now access our Premium Play services via OTT."

Franco Ricci, Mediaset Premium CEO

CONAX
MODULAR COST-EFFECTIVE SOLUTIONS

Conax provides content security solutions and total service protection for digital TV services for telecommunications, cable, satellite, IP, mobile, terrestrial and broadband operations.

Acquired by the Kudelski Group in April 2014, Conax is very favorably positioned to capture further growth in the global market. In 2015, the company began tapping the unique opportunities and synergies available through the Group.

Through a highly agile organization, coupled with Kudelski development collaborations, the company significantly extended its portfolio of highly efficient, standardized and cost-effective content security solutions.

HIGHLY EFFICIENT, MODULAR, COST-EFFECTIVE OFF-THE-SHELF SOLUTIONS

Conax's modular solutions approach enables operators to select their service offerings, device platforms and security clients and then scale as they grow. Operators of all sizes can establish a small operation with limited initial investment and then incrementally add support for higher subscriber volumes and new services.

In 2015, synergies with the Kudelski Group enabled Conax to extend its solution portfolio with SmarDTV INSTANT ACCESS Conditional Access Modules, secure end-to-end watermarking architecture, Android TV, next generation IPTV security and Media Gateway.

MORE THAN 200 TECHNOLOGY AND SERVICE PROFESSIONALS FROM OVER 26 COUNTRIES

With main activities and core development teams in Oslo, Norway, Conax employs over 200 technology and service professionals from over 26 countries, with regional offices in EMEA, the Americas and Asia, including a Global 24 / 7 Support Center in Delhi, India. From 2015, the company has captured Kudelski Group synergies through shared infrastructure in Delhi, Singapore and Beijing.

GLOBAL PARTNER NETWORK

In 2015, Conax further developed its network of strategic technology partners and client device partners for enabling delivery of complete broadcast solutions. This partnering strategy allows Conax to offer its leading security technology with complementary technologies to any operator, on a variety of scales, anywhere in the world.

INCREASING FOOTPRINT IN EMERGING MARKETS

Conax's focus moving forward is on new customers in emerging growth markets such as Africa, Asia / Pacific and Latin America and deployment of new and advanced services with existing customers. Conax has a strong project pipeline within advanced solutions projects.

ISO CERTIFIED FOR ORGANIZATIONAL EXCELLENCE AND DEVELOPMENT STANDARDS

Commited to quality and security, the Conax management system is built on a structure of robust processes for quality and continuous improvement based on the strict regimes required for ISO 9001 and 27001 certificates. It uses best practices in development methodologies (KanBan, Scrum and DevOps) and project management (Prince2).

In 2015, Conax introduced new testing services for partners, leveraging NAGRA's Beijing test & certification center, complementing the existing test centers in Europe and India.

Unified content security back-end

Contego

The Conax Contego content security back-end provides consistent handling of conditional access and DRM across OTT, terrestrial, IPTV, cable and satellite delivery networks and devices.

Conax's benchmark Conax GO Live solution, designed for the secure delivery of live TV to iOS and Android tablets and smartphones, received two prestigious industry awards.

In 2015 Conax launched four new advanced solutions:

– end-to-end secured forensic watermarking;

– next-generation premium hybrid cardless security;

– Trusted Link, a purpose-built security client for the in-home distribution of content;

– complete multi-DRM feature for the Conax Contego back-end.

Best-in-class security-compliant Conditional Access Modules

Conditional Access Modules

Conditional Access Modules (CAMs) provide operators with a user-friendly consumer device for accessing digital broadcast content. Removing the need for a set-top-box, CAMs are highly suitable for both the main TV and additional TVs in the home. It is a highly cost-effective option for converting analogue subscribers to digital services. The latest product is the CI+ 1.3 SmarDTV INSTANT ACCESS CAM.

CONAX
2015 MARKETS HIGHLIGHTS

AMERICAS
STRENGTHENING COMPANY POSITIONING

Conax experienced stable volumes in South America, Mexico and the Caribbean. Strategic partnerships in the Americas continued to create significant added value throughout the region. Conax secures over 10 million active devices and 40 DTH, cable, terrestrial and IPTV operators across the Americas and has experienced positive continued development since its first deployment in this region in 2005.

First movers in the Americas featuring Conax multiscreen solutions and multi-DRM include Cable & Wireless, Supercanal in Argentina as well as Nuevo Siglo and Montecable in Uruguay – the latter two sharing hosted multiscreen services based on Conax's technology and provided by strategic integration partner BOLD MSS. The hosting solution is creating strong interest from tier 2 operators as best practice model for offering fast time to market with a proven solution for providing advanced consumer services.

In 2015, Conax's benchmark multi-DRM solution was launched in advanced Caribbean consumer market at Cable & Wireless, further extending the customer's highly successful operations.

Argentina's Supercanal chose Conax-secured end-to-end solution to launch a future-ready new digital TV Everywhere service platform.

ASIA / PACIFIC
SIGNING MAJOR NEW CONTRACTS

With continued traction in the Asia / Pacific region, Conax entered 4 new contracts and deployed upgrades with its existing client base. A key customer, the Essel Group, continued to display robust growth. In the Asia / Pacific region, the first INSTANT ACCESS Conditional Access Module was deployed by Conax and SmarDTV at VTV in Vietnam.

An early player in India, Conax established operations in Delhi in 2002 and has since then played a leading role in guiding Indian operators through digitization. Conax has long-term partnerships serving the largest multi-system operators and customers including Essel Group's DISH TV and Siticable, Digicable, KCCL, IMCL and Fastway.

"Conax has a proven track record as a strong security partner and provides a highly attractive service offering including local support. Conax and BOLD MSS are providing Supercanal with a pre-integrated, fast-time-to-market and cost-effective platform that will enable our business to flourish and grow with flexible support for advanced, secure, consumer offerings."

Daniel Vega, Chief Technical Officer

AFRICA
INCREASING SALES FORCE

With over ten years of presence in Africa, Conax continued to strengthen its position in the region with new contracts, such as regional Ghana DTT operator First Digital. Conax also experienced significant growth with partner Strong Technologies in Africa and the Middle East who brought several new operators to the Conax-secured platform.

Already securing content revenue, operations and STB infrastructure for 34 DTH and DTT operators across the continent, Conax is a leading driver for Africa's pay-TV. With a strong track record in securing digital migration, Conax continued to be committed to the African market by providing pay-TV operators with future-ready solutions, expertise and the guidance to build and grow their business for next generation consumers. In 2015, Conax strengthened its regional sales team to drive business in the region.

Conax's partnership with Chinese operator StarTimes continued to grow and evolve around new DTT deployments as well as next-generation consumer propositions pan-Africa. With operations in 16 countries and growing, Star Times is showing exceptional volume growth in Africa and is executing on its very forward-thinking strategy for planning for next-generation consumer services. In 2015, Conax entered a contract with StarTimes to deliver a media gateway solution employing Conax Trusted Link to further boost the operator's pan-Africa DTH and DTT expansion. The cooperation includes partnering to design advanced multi-room service & unique consumer offering for households without Internet – easy and secure sharing of Live TV to multiple devices, where Conax is guiding StarTimes' first initiative in developing advanced platform for multiscreen and evolving new services in Africa.

EUROPE
BUILDING ON A STRONG EXISTING CUSTOMER BASE

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. The European market showed robust Conditional Access Module performance, in addition to strong volumes at market leading customers including Russia's ER-Telecom and Scandinavia's Canal Digital.

In addition, Conax signed ten contracts during 2015 encompassing a broad spectrum of developments including new customers, upgrades and deployment of advanced services.

A key focus in 2015 was on further developing Conax's existing customer base through the introduction of the newest generation of Conax solutions, such as Android-based platforms and services at current customer operations, positioning them for integrating and tapping next-generation consumer services. An additional core focus was on delivering a strong roadmap of additional new solutions that provide tier 2 and tier 3 operators with off-the-shelf, low risk business models for secure entry into multiscreen services – preparing operators for the next wave of opportunity in content distribution and platforms. In general, Eastern and Western Europe showed positive volume growth, while Russia experienced challenges due to the current political and economic climate.

StarTimes

"As we plan our advanced platform, the new solution with Conax provides an extremely attractive service offering."

Mr.Pang Xinxing, Chairman and President

SMARDTV
DEVICES DESIGNED TO PERFECTLY HOST NAGRA AND CONAX SOLUTIONS

SmarDTV is active in consumer electronic devices. It provides CI+-based Conditional Access Modules and a full range of operator and retail set-top boxes ranging from entry level (broadcast, HbbTV) to media servers and gateways designed to operate on satellite, cable, terrestrial and IPTV networks.

SmarDTV includes the latest security solutions from the Kudelski Group including NAGRA anyCAST PROTECT, NAGRA anyCAST COMMAND and Conax card-based and cardless conditional access solutions.

PREMIUM CONTENT DELIVERED DIRECTLY TO TV SETS

SmarDTV's Conditional Access Modules, the SmarCAMs, enable access to premium digital pay-TV whether delivered through broadcast or broadband IP. By integrating SmarDTV's Conditional Access Modules in their television ecosystem, operators can deliver premium content directly to integrated TV sets. Conditional Access Modules enable consumers to access multiple encrypted services directly on their integrated digital TV set using the TV's remote control.

EASY-TO-DEPLOY AND MAINTAIN SET-TOP BOXES

SmarDTV offers a range of standard definition and high definition set-top boxes for all networks. The latest version supports Ultra HD (4K) content.

JOINING FORCES WITH ECHOSTAR

In March 2015, the Kudelski Group and EchoStar Corporation announced the signing of an agreement whereby EchoStar will become a shareholder in SmarDTV SA. The partnership with EchoStar is designed to reinforce its presence and positioning in the set-top box sector by enabling the transfer and integration of the assets and the international activities and teams of EchoStar (based in Steeton and Madrid) to SmarDTV. This agreement represents an opportunity for SmarDTV to reinforce and accelerate its development and competencies. SmarDTV completed the acquisition of EchoStar's European set-top box operations in May 2015, thereby extending the Group's set-top box portfolio.

SMARDTV PRODUCT RANGE

MAIN PRODUCTS	FEATURES	KEY BENEFITS
4K CABLE / SATELLITE SET-TOP BOX	Ultra High Definition	High security
HYBRID OPENTV 5 SET-TOP BOX	Hybrid Over-The-Top / Broadcast	Low total cost of ownership
ZAPPER HIGH DEFINITION SET-TOP BOX	Broadcast only	Evolutive definition
CONDITIONAL ACCESS MODULES	Directly on TV sets	Long length of life
		Design and User Friendly

Conditional Access Modules

WiFiCAM

SmarDTV is the worldwide leader in Conditional Access Modules (CAMs) relying on the DVB CI (Common Interface) and CI+ standards. The modules are plugged directly into the TV set to decrypt pay-TV services. SmarDTV is promoting innovation in CAMs as a driver in CI standards, including CI+.

In 2015, SmarDTV launched a new range, the INSTANT ACCESS Conditional Access Modules, with Conax security. They are designed to ease subscriber acquisition by allowing consumers to instantly access pay-TV services, and to reduce subscriber acquisition costs.

The SmarCAM range also includes WiFiCAM modules launched in 2015, which enable the seamless reception of hybrid services without the need for a set-top box.

Ultra-High Definition set-top boxes

SmarBOX HYBRID 4K

SmarDTV has a family of set-top boxes supporting broadcast, hybrid and OTT distribution networks up to 4K.

SmarBOX is the latest product in the range. It is an ultra-high definition (4K) set-top box enabling content storage and distribution to multiple screens and devices in the home. It is pre-integrated with OpenTV's Connectware as well as NAGRA and Conax's conditional access solutions and includes a WiFi connexion. The hybrid version, SmarBOX HYBRID, ranges from entry-level to ultra HD models.

KUDELSKI SECURITY
TAILOR-MADE CYBER SECURITY SOLUTIONS

KUDELSKI SECURITY

With more than 150 security experts, Kudelski Security is a trusted security service provider delivering end-to-end consulting, technology, managed services and threat intelligence to help organizations build and run successful security programs. The global reach and cyber solution focus of Kudelski Security are reinforced by key international partnerships.

25 YEARS OF EXPERIENCE SECURING DIGITAL CONTENT

Kudelski Security leverages the Group's long-standing expertise in securing digital content and fighting piracy for some of the world's largest television operators and content providers.

It benefits from the Group's significant investments in innovation, cryptography research and knowledge development.

Its solutions offer a revolutionary approach to monitoring private / public networks, analyzing threats and fighting cyber attacks.

Kudelski Security is also a trusted partner to provide digital forensic on hardware or software, for legal or engineering purposes.

Kudelski Security provides fully secured mobile communication solutions, with high speed and high reliability.

BEST-OF-BREED TECHNOLOGIES

Kudelski Security offers best-of-breed technologies and an unparalleled sum of software, hardware and intelligence competencies in fighting threats. It provides state-of-the-art data analytics expertise in monitoring corporate and Internet networks to detect piracy activity and potential attacks.

SERVING MULTIPLE SENSITIVE INDUSTRIES

The Group's know-how is made available to multiple industries where the loss of data is a strategic risk.

Kudelski Security has a network of security experts and partners specialized in the finance, defense, media and telecom sectors. Its next-generation Security Operations Center provides tailor-made managed security services.

PROVIDING MISSION-CRITICAL INTELLIGENCE

Kudelski Security is aggregating intelligence from a wide spectrum of sources to allow real-time analysis and response to threats, and help customers prevent and fight attacks in the most effective and relevant way.

Advanced labs and solutions

SECURITY, EVALUATION & ATTACKS LAB
Advanced digital forensics for any digital devices, system security & intellectual property infringement.

SECURE 4G SOLUTION
Secured broadband wireless solutions, offering increased speeds, improved latency and greater bandwidth.

Managed security services / real-time threat monitoring

K-SONAR
Fast automatic or on-demand private / public network situational awareness.

ADVANCED THREAT INTELLIGENCE SERVICES
Aggregated actionable intelligence based on specific threat landscapes.

Business / operation impacts of new vulnerabilities and security breaches.

CYBER FUSION CENTER
Monitoring and analysis of private / public networks to detect and predict attacks on mission-critical infrastructures.

Actionable risk mitigation recommendations and management reporting.

Cutting-edge risk management services

CONSULTING AND TRAINING
Security strategies, risks and compliance management plans.

Standard and tailored cyber security training programs.

PENETRATION TESTING
Discovery and exploitation of vulnerabilities in business networks, systems and infrastructure within defined testing parameters to assess the risks.

INCIDENT RESPONSE
Multi-disciplinary team of crisis management professionals.

360° SECURITY ASSESSMENT
Evaluation of security risk posture.

KUDELSKI SECURITY 2015 MARKET HIGHLIGHTS

NEW CEO APPOINTMENT TO ACCELERATE GROWTH

Kudelski Security continued to develop throughout 2015, building on the successful launch of the Cyber Fusion Center in January 2015.

The outlook for 2016 looks promising. Reflecting Kudelski Security's vision to increase the company's global footprint, Rich Fennessy has been appointed as Chief Executive Officer of Kudelski Security. Mr Fennessy will extend the reach of Kudelski Security's activities beyond Europe and accelerate the entity's growth.

PURSUING R&D INVESTMENTS

Innovation, fueled by solid investment in R&D, has continued to drive Kudelski Security's strategic competitiveness, enabling the company to offer highly specialized, tailored solutions to meet the cyber security needs of its broad customer base.

Research papers have increased the visibility of Kudelski Security in cyber security debates and have helped position the company as an authority on emerging issues in cybercrime and threat prevention. In 2015, focus topics included quantum computing, Advanced Persistent Threats (APTs) and machine learning in cyber security.

DEFENSE AND PUBLIC SECTOR MAJOR PARTNERSHIP DEVELOPMENTS

In 2015, the "Defense and Public Sector" practice delivered solid overall performance with consolidation of activities in emerging economies and within Switzerland.

- Kudelski Security established a strategic partnership with Athonet, provider of an innovative mobile core network solution, delivering a groundbreaking solution for secure 4G-LTE communications to the defense and public sectors and critical businesses.

- The Latin American region continued to be a key focus for Kudelski Security. The Cyber Defense Center, Secure Data Sharing and Secure 4G-LTE were among the flagship defense and public sector cyber security solutions promoted in the region.

- Kudelski Security signed an exclusive partnership agreement with Brazilian company Kryptus Information Security Solutions, for the distribution of Secure 4G-LTE, Cyber Defense Centers and the delivery of a range of managed security solutions including advanced threat monitoring and security audits and assessments.

- Two major, multi-year contracts were awarded for managed security services in support of government services within Switzerland.

The outlook for 2016 is positive with a strong customer pipeline in Latin America and Europe.

FINANCIAL SERVICES ONE OF THE FASTEST-GROWING MARKETS IN CYBER SECURITY

2015 represented a year of steady progress for the "Financial Services" practice. Globally, the banking and financial services sector continues to be the fastest growing cyber security market outside of the government sector, with sustained strong demand for cyber security expertise. For the "Financial Services" practice, this has led to the doubling of its client base year on year and an increase in mandates for managed security services, professional services and enterprise security assessments, including:

- Several contracts with global firms, including a global top-5 bank.

- A multi-year contract with Allianz Global Corporate & Specialty SE (AGCS), provider of business insurance for over half of the Fortune Global 500, to provide incident response services to its customers in case of cyber breach. The partnership covers Germany, Austria and Switzerland and includes both cyber incident preparation planning and cyber incident response and support.

- More than 30 Open Source Intelligence (OSINT) training sessions within the financial services sector, developing the specialist cyber security knowledge of over 300 professionals.

In 2016 and beyond, the financial services practice will build on the strengths of its core cyber security offering, with a firm focus on managed security services delivery. Kudelski Security will seek to capitalize on the growth prospects in the regions where it currently operates as well as in new markets, including the Middle East / Africa region and the USA.

MEDIA & TELECOM
LEVERAGING THE GROUP'S UNPARALLELED NETWORK OF OPERATORS

The "Media & Telecom" practice continued to deliver comprehensive security solutions to the media and entertainment industry, safeguarding digital assets throughout the full value chain.

Core business focused on multi-year contracts and the renewal of strategic partnerships with key anti-piracy alliances.

- Alianza, the Latin American anti-piracy body, delivered a year-on-year increase in sales revenue, expanding its program of systematic harassment against content pirates.

- International Broadcasters Coalition Against Piracy (IBCAP) won major victories in its efforts to monitor and investigate illegal online streaming, taking down infringing streams, sites and platforms, and pursuing legal action against key global players.

- Under the contract with a major broadcaster, the Media & Telecom practice continued to meet its objective to contain and reduce the commercial viability of control word sharing.

In addition, Kudelski Security worked closely with NAGRA, a digital TV division of the Kudelski Group, to provide cyber security components to NAGRA's anti-piracy solutions. Collaborations included the following:

- Support to anyMARK, the NAGRA watermarking framework introduced in 2015. Anti-piracy specialists deliver the forensic monitoring, investigation and response services to track down illegally distributed premium content and ensure its removal from the Internet.

- Investment in the development of tools and services to curb illegal content streaming through the Internet.

- Development of a range of anti-piracy tools for customers in the Latin American region who use the NAGRA conditional access system.

The outlook for 2016 is positive. A number of high-profile cyber attacks in the media sector in 2015, coupled with the ongoing challenge of piracy, have prompted stronger interest for cyber security solutions. These cover everything from the creation, consumption and delivery infrastructure of content, to the transversal business activities and business processes relating to media customers.

INTELLECTUAL PROPERTY
MANAGING THE PATENT PORTFOLIO

As a company rooted in over 60 years of innovation with 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 believe that the establishment of well-defined intellectual property rights allows for collaborative development and economic growth that would not be possible otherwise. We therefore work to preserve our own intellectual property rights around the world.

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, among other areas.

Many of these patents relate to fundamental and valuable technologies with broad impact across many businesses. We work on establishing relevant licences of certain patents of our porfolio.

FOSTER INNOVATION AND DEVELOP LICENSE IP

The Group's Intellectual Property organization is responsible for protecting, developing, managing and licensing the Group's worldwide patent portfolio and leading the overall innovation program within the Group.

In 2015, the Group continued to make substantial strides in executing on its strategic intellectual property and innovation plan by entering into IP-based technology relationships with industry leaders like Netflix.

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.

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.

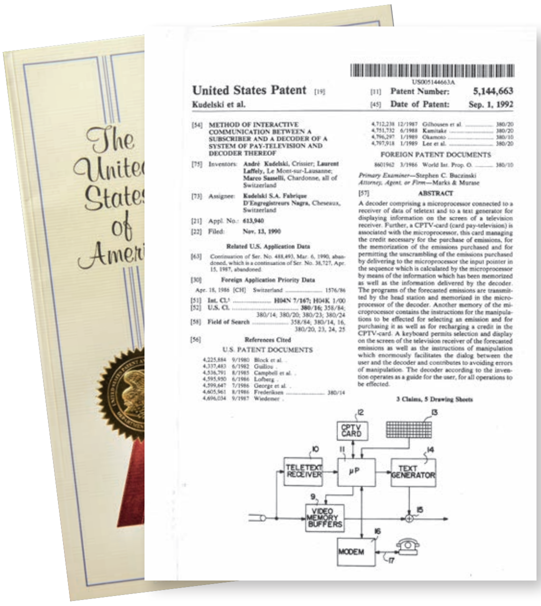
BUILD RECIPROCAL IP PRODUCT PARTNERSHIPS WITH KEY PLAYERS

The strength of the Group's patent portfolio and its intellectual property strategies were further validated in 2015 through additional patent licenses with well-known companies including Google, Disney, Netflix and Bloomberg.

The Intellectual Property organization completed a number of IP-based transactions in 2015 and is on track with its licensing and innovation plan and strategy. For example, the Group recently announced a broad patent cross-license with Google. This relationship, along with the earlier Cisco cross-license and the growing list of other completed IP relationships, provides substantial IP clearance for the Group's Integrated Digital Television products and services.

The Group continues to engage with a number of other companies around licensing, technology collaboration and cross-licensing. The Group will keep executing its plans to invest in innovation and protect and license its intellectual property portfolio.

THE KUDELSKI GROUP HOLDS OVER 4 500 PATENT ASSETS WORLDWIDE IN A VARIETY OF TECHNOLOGY AREAS

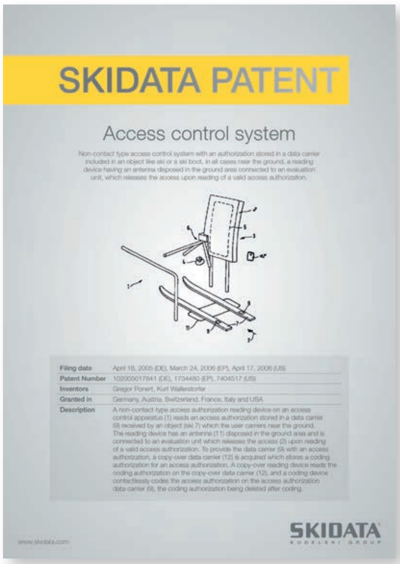


KUDELSKI / 1992

Method of interactive communication between a subscriber and a decoder of a system of pay-television and decoder thereof.

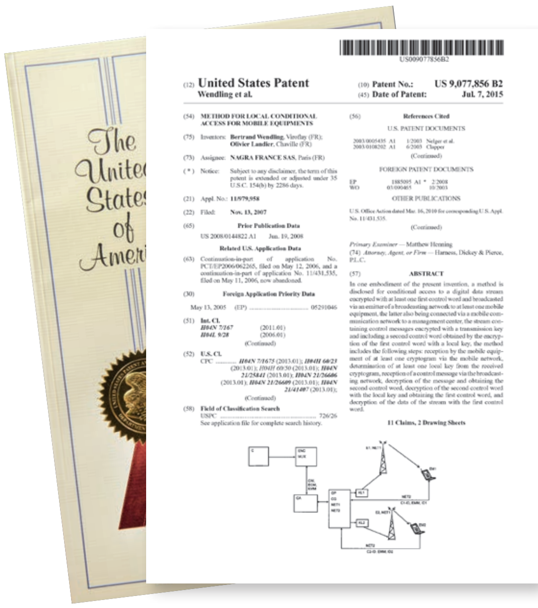
OPENTV / 2002

Module manager for interactive television system.



SKIDATA / 2005 / 2006

Non-contact type access control system.



NAGRA FRANCE / 2015

Method for local conditional access for mobile equipments.

DESIGNING AND MARKETING COMPREHENSIVE SOLUTIONS TO MANAGE PUBLIC ACCESS

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

SKIDATA designs and markets comprehensive solutions to manage access to ski resorts, stadiums, fairs, amusement parks and parking facilities such as car parks at international airports and shopping malls.

SKIDATA manages large-scale, complex projects that involve technological challenges as well as innovative marketing and new business models.

SKIDATA has been on the cutting-edge for 38 years. It provides operators with constantly evolving solutions that are easy to roll out, simple to manage and powered by the latest technology, to optimize the operations of its customers day after day.

1200 INTERNATIONAL
ACCESS EXPERTS

10 000 INSTALLATIONS WORLDWIDE
DEPLOYED IN 97COUNTRIES

23 SUBSIDIARIES

700 NEW INSTALLATIONS IN 2015

38 YEARS OF SUCCESS AND INNOVATION

SKIDATA
EMPOWERING CUSTOMERS TO DRIVE THEIR BUSINESS FORWARD

› WORLD LEADER IN PUBLIC ACCESS

SKIDATA is a global leader in access and revenue management solutions, providing fast and safe access for people and vehicles. Over the past years, the company has grown to become the market leader with over 10 000 installations in 97 countries and more than 1 200 international access experts spread over 23 subsidiaries and 3 joint-ventures.

SKIDATA increased its international footprint during the past year by entering new markets with installations in Latvia, Botswana, Guatemala, Panama and Paraguay. In 2015, SKIDATA achieved more than 700 new installations and celebrated its 7 000th parking facility installation. The company also opened offices in Tunisia and India.

COMPLETE SOLUTION FROM A SINGLE SOURCE

SKIDATA offers innovative and perfectly sized solutions including not only comfortable and secure access systems but also customized sales and marketing channels, easy integration with third-party systems, optimized business processes and professional data management, all from a single platform.

ADDRESSING COMPLEX CLIENT REQUIREMENTS

The daily business demands of SKIDATA are becoming increasingly diverse and complex: ensuring quick and convenient access, profiting from the evaluation results of data collected, customizing an efficient workflow, generating sales, integrating third-party systems and satisfying a wide variety of customer demand.

SKIDATA helps to simplify operations management and to ensure sustainable efficiency and revenue optimization to continually drive the customer's business forward.

INNOVATIVE TECHNOLOGIES

Always marked by a culture of innovation, SKIDATA today is not only the world leader in the field of access and revenue management, but also the innovation leader in the industry. Around 200 developers at six development sites are working to continue to deliver innovations. SKIDATA customers have access to an extensive network of innovative technologies.

A PIONEER IN SKI ACCESS

SKIDATA is a pioneer and the world leader in the field of access and ticketing solutions for alpine regions. The skiing experience, as guests are accustomed to today, has been crucially shaped by SKIDATA.

In 1977 SKIDATA introduced a cash register as well as printed ski tickets to the market. The second generation of access readers made complete billing possible in 1983, allowing ski resorts to team up in larger pools for the first time.

By 1987 SKIDATA had developed tickets for touch-free access based on RFID technology. With inconvenient manual ticket scanning gone, ski tickets could be read on the go from skiers' pockets, allowing them to hit the slopes in no time.

INVESTING IN STRATEGIC GROWTH AREAS

SKIDATA will continue to invest in the strategic growth areas that have brought success until today: further expanding its global presence, delivering complete solutions with a focus on quality, usability and future-readiness of systems and innovations, and continuously developing employees' know-how.

Capitalizing on its steady growth and technological expertise, SKIDATA is well on track to continue shaping the future of access management by delivering innovative, intelligent and customer-oriented solutions.

In order to grow qualitatively and profitably, the company will also continue placing a major focus on the development of structures and processes, targeting to deliver as much benefit as possible for customers, operators and end-users.

Off-street parking management solutions
1 worldwide

Barrier.Gate

Operators worldwide rely on SKIDATA's expertise for their parking management.

The latest generation solution is a ticketless parking solution relying on license plate recognition technology. Benefits include hassle-free entry and exit, less queuing and a purpose-built digital application enabling customers to link their license plate number with payment.

Access and ticketing solutions for alpine resorts
1 worldwide

EasyBoarding.Gate

The latest product is an innovative entry portal for gondolas, the EasyBoarding.Gate. The fully automated system allows passengers to enter their respective portal until the correct group size is reached and assigns them to the gondolas. The new gate increases the profitability of gondola operators through the optimal use of the available load capacity.

Access and visitor management solutions

Vario.Gate

The main challenge in visitor access is speed and safety. With its world record-holding Vario.Gate turnstile, SKIDATA provides the fastest access control on the market, capable of managing more than 2 000 people passing through a gate in one hour. More than 200 stadiums worldwide benefit from SKIDATA's access systems.

Services supporting implementation and daily system operation

Expert Services

Along with hardware and software, services are an important part of SKIDATA's offering. They include support processes, coordinated solution delivery, know-how transfer through training sessions as well as on-call support provided by specialists in their respective areas.

SKIDATA
2015 MARKET HIGHLIGHTS

› WORLD LEADER IN PUBLIC ACCESS

AUCKLAND INTERNATIONAL AIRPORT - NEW ZEALAND

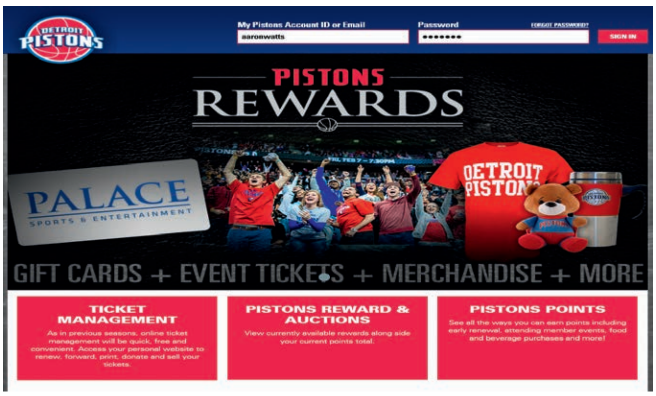
MERRION CENTRE LEEDS - UNITED KINGDOM

WINTER PARK RESORTS - USA

CAPE TOWN STADIUM - SOUTH AFRICA

SALALAH INTERNATIONAL AIRPORT - OMAN

DETROIT PISTONS BASKETBALL TEAM - USA



A WORLD LEADER IN THE PUBLIC ACCESS SECTOR WITH MORE THAN 10000 INSTALLATIONS CURRENTLY DEPLOYED

REAL PLAZA SALAVERRY - PERU

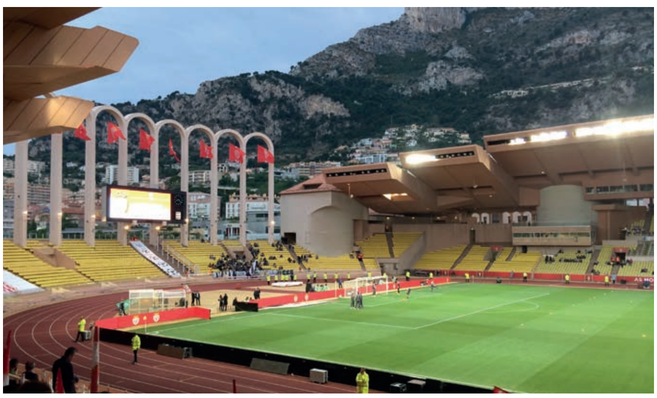
FÈS-SAÏSS AIRPORT - MOROCCO

BAD GASTEIN - AUSTRIA

GRAN TORRE SANTIAGO - CHILE

STEAMBOAT RESORT - USA

AS MONACO FOOTBALL CLUB - MONACO



CORPORATE GOVERNANCE

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 2015.

In compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC), modifications of the articles of association required by OaEC have been voted by the shareholders at the 2015 General Meeting.

The articles of association of Kudelski SA may be found on the Kudelski Group website via the following link: http://www.nagra.com/investors/publications

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 three 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); People Access (events)).

Results by sector are presented in note 6 to the Kudelski Group's 2015 financial statements.

Main operating companies held directly or indirectly by Kudelski SA

The list of the Group's main operating companies is provided in note 56 to the 2015 financial statements. Additional information is also included in the 2015 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 capitalization of CHF 714 713 574 as of 31 December 2015. 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 155 and 161 of the Kudelski Group's 2015 financial statements.

INTERNATIONAL PRESENCE

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

1.2. Significant shareholders

As of 31 December 2015, the principal shareholders of Kudelski SA consist of a group of shareholders with total voting rights of 63.38%, 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/investors/publications

All announcements made by Kudelski SA to SIX Swiss Exchange may also be found on the SIX Swiss Exchange website under the 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 2015	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	14 394 423	35.17%	63.38%

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 31.12.2015 and
2.2. Specific information concerning authorized and conditional capital

Ordinary capital

The share capital amounts to CHF 540 911 470. It is divided into 49 461 147 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 108 526 090 and is structured as follows:

– a maximum amount of CHF 8 526 090 through the issuance of a maximum of 852 609 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	31.12.15	31.12.14	31.12.13
Registered share capital	46 300	46 300	46 300
Bearer share capital	494 611	492 747	491 582
Legal reserve	110 000	110 000	110 000
Capital contribution reserve	8 300	19 111	29 877
Net profit	-29 495	-29 905	-33 872
Retained earnings	156 320	191 224	226 519
TOTAL SHAREHOLDERS' EQUITY	**815 532**	**859 382**	**904 278**

For information relating to changes in capital which have taken place in 2015, 2014 and 2013, 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 2015 financial statements..

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2015 consisted of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 49 461 147 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 provisions 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 shares 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 favorable 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 2015 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 Annual 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 Goetschmann, 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	22.03.2016
CLAUDE SMADJA Deputy Chairman and Lead Director	1945	Swiss	**DEGREE IN POLITICAL SCIENCE** University of Lausanne	1999	22.03.2016
PATRICK FŒTISCH	1933	Swiss	**DOCTORATE IN LAW** University of Lausanne **BAR EXAM**	1992	22.03.2016
LAURENT DASSAULT	1953	French	**DEGREE IN BUSINESS LAW** **DEGREE FROM ESLSCA** Ecole supérieure libre des sciences commerciales appliquées, Paris	1995	22.03.2016
PIERRE LESCURE	1945	French	**DEGREE IN LITERATURE AND JOURNALISM** Centre de formation des journalistes, Paris	2004	22.03.2016
MARGUERITE KUDELSKI	1965	Swiss	**ENGINEERING DEGREE IN MICROTECHNOLOGY** **DOCTORATE IN MICROTECHNOLOGY** Ecole polytechnique fédérale de Lausanne **EXECUTIVE MBA** IMD Lausanne	2006	22.03.2016
ALEXANDRE ZELLER	1961	Swiss	**DEGREE IN ECONOMICS AND SOCIAL SCIENCES** University of Lausanne	2007	22.03.2016
JOSEPH DEISS	1946	Swiss	**DOCTORATE IN ECONOMICS AND SOCIAL SCIENCES** University of Fribourg	2012	22.03.2016
ALEC ROSS	1971	American	**DEGREE IN HISTORY** Northwestern University, USA	2014	22.03.2016

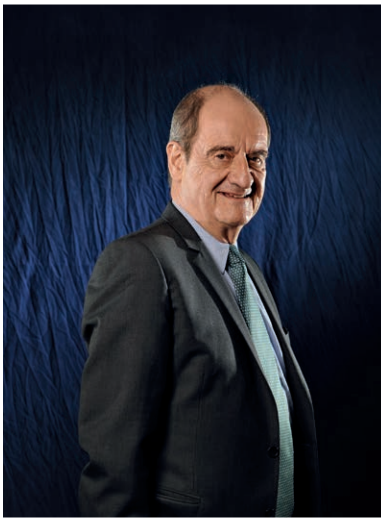
* *André Kudelski is the only member of the Board of Directors to combine his Board duties with an executive function within the Group (Chief Executive Officer). Apart from Mr Kudelski, no other member of the Board of Directors performed any executive function during the past three years.*


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 – SmarDTV SA, in Switzerland, Chairman	– 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, a strategic advisory firm that collaborates on strategic issues with multinationals and government bodies and organizes international events.		– Smadja & 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
- Catalyst Investments II L.P., in Israel, Chairman of the Advisory Board
- DASSAULT BELGIQUE AVIATION S.A, in Belgium, 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, in France, Directeur Général Délégué and Board member
- Immobilière Dassault SA, in France, Chairman of the Supervisory Board
- LA MAISON SA, in Luxemburg, Member 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 INSTRUMENT CORPORATION, in USA, 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 of Canada (stock company), 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
- WARWYCK Private Bank Ltd, in Mauritius, 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 parti cular 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 AnnaRose 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
- Lagardère SCA, in France, member of the Supervisory Board
- Molotov SAS, in France, Chairman

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 (ATS) for which she serves as Chairman of the Board of Directors. Until the end of 2014, Marguerite Kudelski was in charge of the R&D department of ATS. Since the beginning of 2015, she has been a strategic advisor to ATS.

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
- Clinique Générale-Ste-Anne SA, in Switzerland, Chairman
- General Electric (Switzerland) GmbH, Chairman
- Interprox SA, in Switzerland, Chairman
- Liberty Global, European Advisory Board, member
- Zurich Insurance Company Ireland (ZIP), Board member
- Zurich Insurance Group AG, in Switzerland, International Advisory Council, Vice-Chairman

CURRENT MANDATES:

ALEC ROSS

Alec Ross began his professional career in 1994 as a teacher with the Teach for America program in underprivileged neighborhoods of Baltimore. He joined Enterprise Community Partners (formerly Enterprise Foundation) two years later, a non-profit organization 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 organization 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 Columbia University and a Distinguished Senior Fellow at John Hopkins University, and he is the author of "The Industries of the Future" (Simon & Schuster) published in February 2016. 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:

- Amida Technology Solutions Inc., in USA, Advisory Board member
- AnchorFree Inc., in USA, Advisory Board member
- Andela Inc., in USA, Advisory Board member
- FiscalNote Inc., in USA, Advisory Board member
- Jobbatical Inc., in Estonia, supervisory Board member
- Leeds Equity Partners LLC, in USA, Advisory Board member
- Teach for America, in USA, Advisory Board member
- Telerivet Inc., in USA, 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 section 18 of the articles of association, members of the Board of Directors may exercise no more than five mandates in upper management or administrative bodies of third-party legal entities whose shares are listed on a stock exchange and no more than ten mandates in other third-party legal entities. They may also exercise up to ten mandates in upper management or administrative bodies of non-profit or charitable third-party legal entities.

A company is not considered a third-party legal entity according to this provision, and is therefore not taken into account when calculating the maximum number of mandates mentioned above, if:
1. it controls the company directly, indirectly or jointly with third parties, or is controlled by it; or
2. it does not have to be entered in the Commercial Register or in a corresponding foreign register (e.g., corporations and public entities, non-profit associations, religious foundations or family foundations); or
3. the mandate is carried out at the company's request.

Mandates carried out for legal entities directly or indirectly controlled by a single individual or legal entity, or by a single group of individuals or legal entities acting in concert, or at the request of one of these individuals or legal entities, are deemed to constitute a single mandate for the purposes of this provision.

Members of the Board of Directors must notify the Chairman of positions they hold at third-party legal entities.

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 Annual General Meeting for a period of one year. The term of office ends on the day of the next Annual 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.

3.5.1. Allocation of tasks within the Board of Directors
Except for the Chairman who is elected at the General Meeting, the Board of Directors constitutes itself and nominates its Deputy Chairman. If the Board of Directors assigns the

	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
Alec Ross		Member	

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.

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 counter- balance 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 Meeting, 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, divestments 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 at the General Meeting 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 at the General Meeting 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 2015, 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 97%. 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

The Board of Directors:

- is responsible for the overall management of the company and issues all necessary directives;
- determines the organization;
- determines the organization 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); and
- 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 requirements 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 improves 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 decisions 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 2015.

- 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 Operating 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, 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 synchronization 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 3.5 hours 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 analyzed 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 litigation, government investigations and other regulatory 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 enhances 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

MAURO SALADINI, ANDRÉ KUDELSKI AND PIERRE ROY
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 fédérale 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 études 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
– Nagra-Kudelski Ltd, in UK, Chairman (until mid-April 2013)
– OpenTV Europe SASU, in France, Board member
– OpenTV Australia Pty Ltd, Board member
– SmarDTV SA, in Switzerland, Board member

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 section 25 of the articles of association, members of the Executive Board may exercise no more than two mandates in upper management or administrative bodies of third-party legal entities whose five mandates in other third-party legal entities. They may also exercise up to ten mandates in upper management or administrative bodies of non-profit or charitable third-party legal entities.

A company is not considered a third-party legal entity according to this provision, and is therefore not taken into account when calculating the maximum number of mandates mentioned above, if:
1. it controls the company directly, indirectly or jointly with third parties, or is controlled by it; or
2. it does not have to be listed in the Commercial Register or in a corresponding foreign register (e.g., corporations and public entities, non-profit associations, religious foundations or family foundations); or
3. the mandate is carried out at the company's request.

Mandates carried out for legal entities directly or indirectly controlled by a single individual or legal entity, or by a single group of individuals or legal entities acting in concert or at the request of one of these individuals, or legal entities are deemed to constitute a single mandate for the purposes of this provision.

For members of the Executive Board who are also members of the Board of Directors, the maximum number of mandates in the upper management or administrative bodies of third-party legal entities is governed exclusively by Article 18, paragraphs 7 to 10 and as mentioned above in section 3.3 of this report.

4.4. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2015.

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 2015 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/investors/publications

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 Meeting 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 by law 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 provisions 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 Swiss Financial Market Infrastructure Act (art. 135 LIMF: 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 with the Group are audited by other auditors. The auditors were reappointed by the Annual General Meeting of Shareholders of Kudelski SA of 31 March 2015 for a statutory period of one year. The PricewaterhouseCoopers 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 2015 the sum of CHF 1 044 000. 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 2015 the sum of CHF 307 200 representing CHF 261 600 for tax advisory services and CHF 45 600 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 audio webcast.

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 168 of this report.

Important dates

- 22 March 2016: Annual General Meeting, Cheseaux-sur-Lausanne;

- 18 August 2016: Publication of the Interim Financial Report and Press Conference;

- 16 February 2017: Publication of the 2016 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 7 and 8 of this Compensation Report are audited. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31December 2015.

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

2. COMPENSATION APPROVAL BY GENERAL MEETING

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

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

– the maximum aggregate amount granted to the Board of Directors for the compensation of its members for the period up to the following Ordinary General Meeting; and

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

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

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

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

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

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

3. PRINCIPLES OF COMPENSATION

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

– coherence of compensation levels with the tasks, workload and responsibilities assumed;

– appropriate match between compensation levels and current business, trends and evolution of the market and competitive environment of the Group as well as the mid- and long-term strategy of the Group;

– global assessment (not individually-based) of compensation to enhance a long-term vision of the Group's interests; and

– for Executive Board members, pay for performance to support both short-term and long-term Group objectives.

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

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

– high technology companies listed on the Nasdaq or NYSE;

– high technology companies listed on the Euronext;

– high technology companies listed on the SIX Swiss Exchange and belonging to the Swiss Performance. Index (SPI), Technology sector; and

– privately held high technology companies.

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

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

The level of remuneration of the non-executive members of the Board of Directors is determined by their role with the Board of Directors and its Committees. The elements of their compensation are set out in section 4.1.

The total annual compensation of members of the Executive Board includes a fixed and a variable component. The variable component depends on the Group's results (both economic and strategic), the level of responsibility assumed and individual performance, which factors can in the aggregate have a positive or negative impact on the variable compensation of each Executive Board member. Variable compensation helps align the interests of Executive Board members with company strategy and shareholders' interests and ultimately seeks to reward value creation. The variable component is not expressed as a percentage of fixed compensation (see also section 4.2).

Currently, there are no provisions providing for a particular allowance or benefit – including with regard to blocking or vesting periods applicable to shares – in the event of a termination of the employment contract of an Executive Board member, in the event of a departure of a member of the Board of Directors or in the case of a change of control of the company. Executive Board members have employment contracts with an unlimited term and with eleven month's termination notice expiring on the last day of a calendar month, both of which help promote stability within the management of the Group.

4. ELEMENTS OF COMPENSATION

Section 7 sets forth the compensation paid to the members of the Board of Directors and Executive Board in accordance with OaEC requirements.

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

4.1. Members of the Board of Directors

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

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

4.2. Members of the Executive Board

In compliance with sections 30 paragraphs 4, 31 and 32 of the articles of associations, the total annual compensation of the executive members of the Board of Directors and of the Executive Board members includes a fixed salary and a variable component.

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

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

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

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

5. PROCEDURE FOR DETERMINING COMPENSATION

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

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

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

6. SPECIAL INFORMATION REGARDING 2015

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

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

6.2. Special information regarding 2015

The compensation of each Executive Board member is determined globally, and the variable compensation of the Executive Board members is not based on the fixed salary as specified in section 3. The variable compensation of each Executive Board member represented between 50% and 60% of his total compensation, except for the Chief Executive Officer (see section 7). There is no pre-determined ratio between the variable component and the fixed salary; such ratio may be different from year to year. The different ratios of fixed to variable compensation among Executive Board members are based on their function and responsibilities within the Group and market practices.

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

Total compensation paid directly or indirectly by Kudelski SA or one of its affiliated companies in 2015 and 2014 to former and current members of the Board of Directors and Executive Board is described below. Compensation does not include reimbursement for business expenses incurred by members in the course of performing their responsibilities or representation allowances, which are not considered as compensation by the Swiss fiscal authorities.

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

YEAR 2015	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 2015 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 368	**554 368**
SMADJA CLAUDE Vice-chairman	130 000	–	–	–	6 222	**136 222**
DASSAULT LAURENT Member	40 000	–	–	–	2 694	**42 694**
DEISS JOSEPH Member	60 000	–	–	–	2 374	**62 374**
FOETISCH PATRICK Member	60 000	–	–	–	115 579 **	**175 579**
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	1 171 000	–	–	–	150 055	**1 321 055**

YEAR 2015	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 2015 CHF
MANAGEMENT						
KUDELSKI ANDRÉ CEO	582 750	4 456 210	80 000	686 342	333 507	**6 058 809**
OTHER MEMBERS	1 275 000	1 131 860	40 062	377 284	60 499	**2 844 644**
TOTAL MANAGEMENT	1 857 750	5 588 070	120 062	1 063 626	394 007	**8 903 453**

** This section includes social security charges.*

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

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

YEAR 2014 BOARD OF DIRECTORS	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
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**

YEAR 2014 MANAGEMENT	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
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 social security charges.*

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

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

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

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

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

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

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

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

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

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

REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT 2015

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

We have audited the accompanying remuneration report (chapters 7 and 8; pages 85 to 88) dated February 17 2016 of Kudelski S.A. for the year ended 31 December 2015.

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

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

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

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

OPINION
In our opinion, the remuneration report of Kudelski S.A. for the year ended 31 December 2015 complies with Swiss law and articles 14–16 of the Ordinance.

pwc

PricewaterhouseCoopers SA

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

Lausanne, February 17, 2016

FINANCIAL OVERVIEW AND STATEMENTS

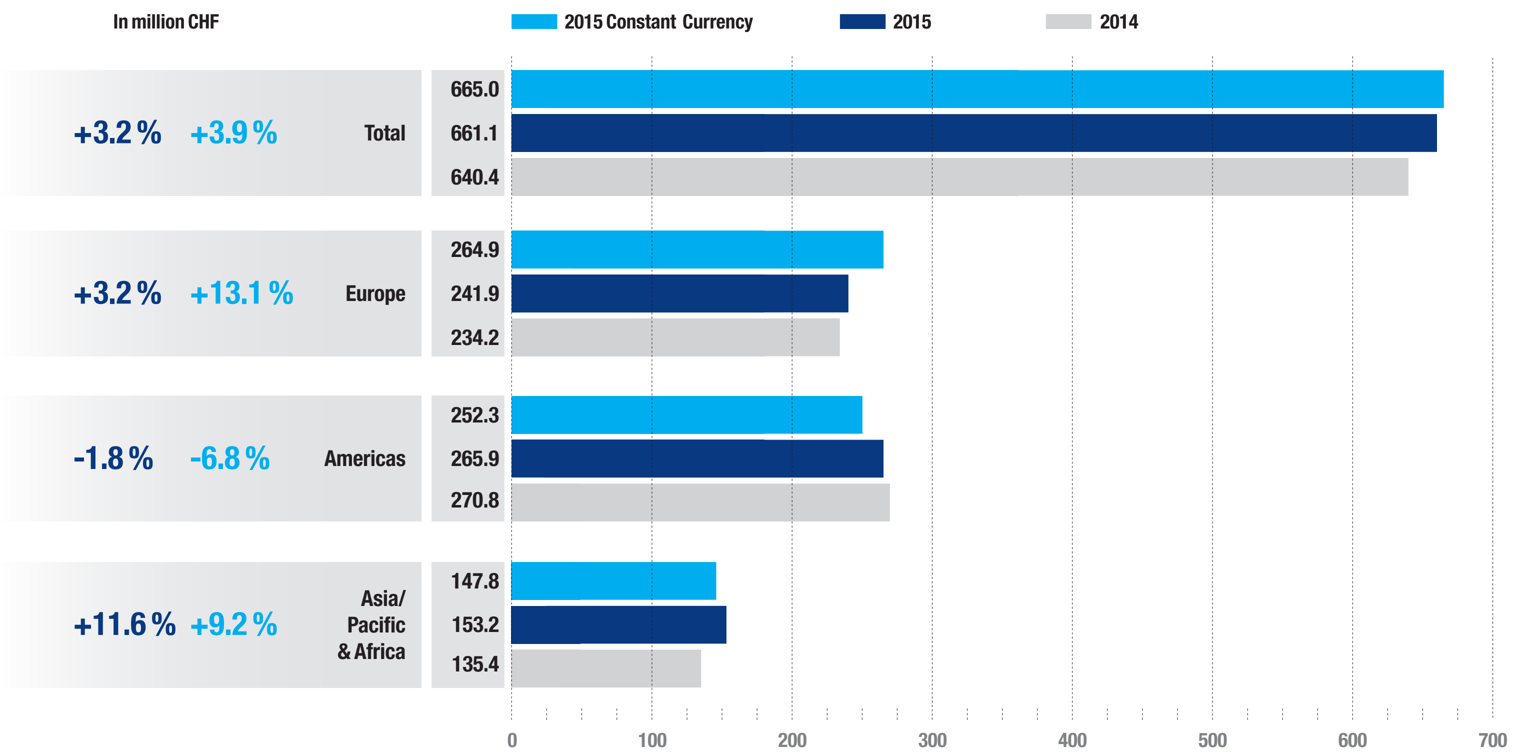
FINANCIAL OVERVIEW

In 2015, the Kudelski Group achieved double digit growth of consolidated revenues and operating income in spite of major exchange rate volatility. Foreign exchange movements had an overall negative effect of CHF 28.5 million on revenues, while the overall impact on operating income was slightly positive, as the average EUR/CHF rate declined from 1.2145 to 1.0684 and the USD/CHF rate went from 0.9155 to 0.9627.

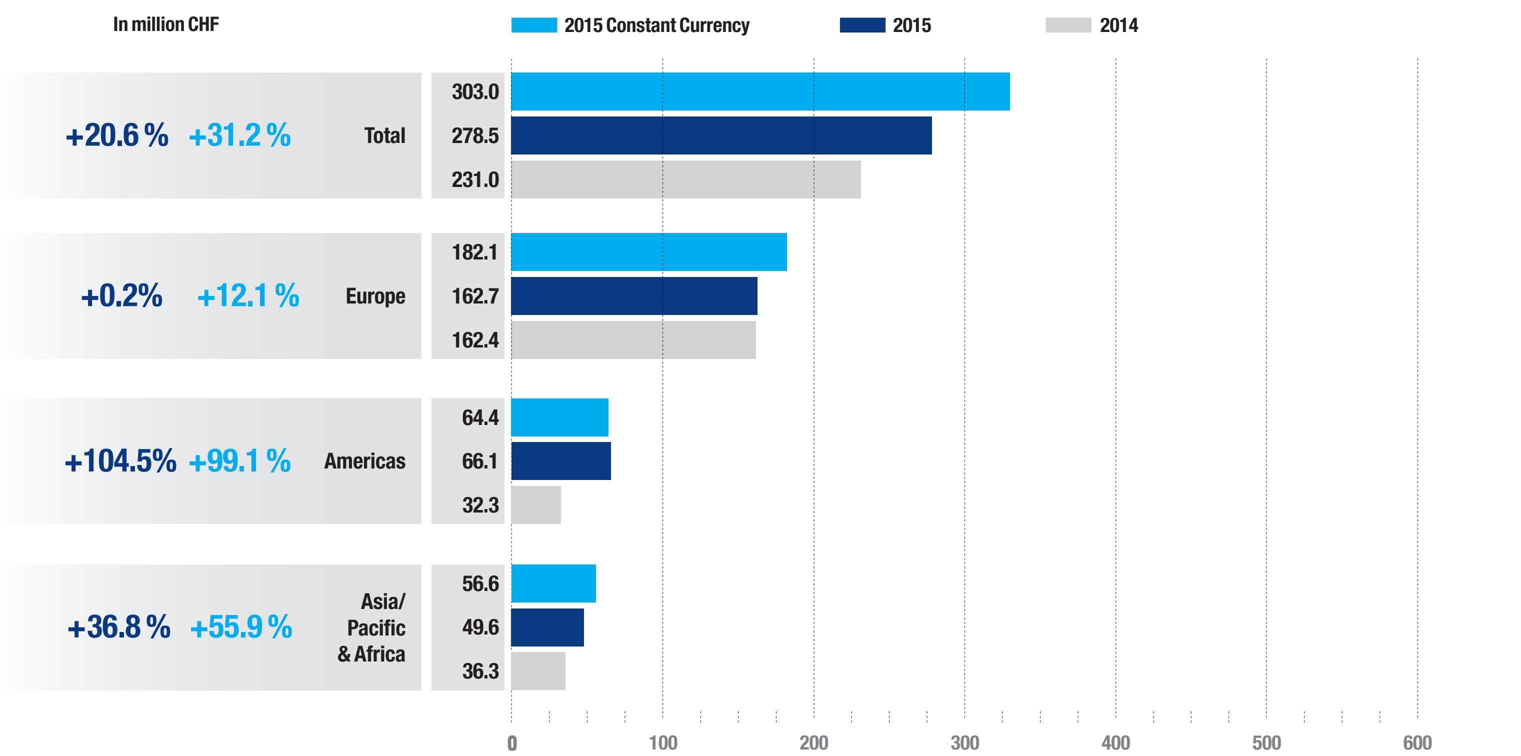
Operationally, the Group expanded its distribution capabilities in the Public Access segment and continued to optimize its integrated Digital TV (iDTV) activities.

REVENUE BREAKDOWN
EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



In 2015, the Kudelski Group achieved double digit growth of consolidated revenues and operating income in spite of major exchange rate volatility. Foreign exchange movements had an overall negative effect of CHF 28.5 million on revenues, while the overall impact on operating income was slightly positive, as the average EUR/CHF rate declined from 1.2145 to 1.0684 and the USD/CHF rate went from 0.9155 to 0.9627.

Operationally, the Group expanded its distribution capabilities in the Public Access segment and continued to optimize its Integrated Digital TV (iDTV) activities.

In Public Access, the Group acquired 60% of Sentry Control Systems, SKIDATA's largest distributor in the United States, for CHF 14.0 million with an option to acquire the remaining 40% share for an additional CHF 9.9 million of deferred and contingent consideration. SKIDATA also acquired Don Harstad, a smaller distributor in the Midwestern region of the United States, for CHF 0.5 million. In addition, SKIDATA purchased for a nominal amount the intellectual property portfolio of 3M's parking business, gaining privileged access to an installed base of close to 10 000 former 3M parking customers. Finally, following the acquisition of a 50% stake in October 2014, SKIDATA assumed operational control of its Australian distributor, now renamed SKIDATA Australasia Pty Ltd, at the beginning of the year and maintains an option to acquire the remaining shares in this entity. With these acquisitions, SKIDATA significantly expanded its presence outside its traditional European markets, increasing its non-European revenue base by CHF 47.1 million to CHF 115.7million to become a worldwide leader in the off-street parking business.

In iDTV, the Group's SmarDTV subsidiary merged with EchoStar's European set-top box operations. SmarDTV completed the acquisition of such entities for CHF 0.5 million, thereby extending the Group's set-top box portfolio with a feature-rich set of gateways and set-top boxes and gaining access to a next-generation chipset platform. As the identifiable net assets acquired exceed the consideration paid to EchoStar, this transaction qualifies as a bargain purchase for accounting purposes. Hence, a CHF 4.1 million gain was booked as other operating income. Concurrently with this acquisition, the Group sold 22.5% of SmarDTV's equity and debt to EchoStar for a total cash consideration of CHF 12.7 million.

Finally, the Group continued its positive momentum in the field of intellectual property licensing, signing patent license agreements with Netflix, Google, Disney, Bloomberg and a European broadcaster, resulting in a positive contribution to 2015 revenues and operating income.

Overall, 2015 Group revenues in constant currency increased by 11.1% over the previous year, primarily driven by the 31.2% constant currency growth of the Public Access segment. IDTV constant currency revenues were 3.9% higher compared to the previous year. Reported revenues increased by 7.8% to CHF 939.6 million.

The Group reported operating income of CHF 81.2 million in 2015, representing growth of 32.7%. Net income improved by 47.6% to CHF 49.3 million in 2015, as compared to CHF 33.4 million in the prior year.

CHANGE IN ACCOUNTING POLICIES

In 2015, the Group retrospectively adopted an amendment to IAS 19R – 'Defined Benefit Plans: Employee Contributions.' The amendment allows contributions that are linked to service and do not vary with length of employee service to be deducted from the cost of benefits earned in the period in which the service is provided (e.g. contributions dependent on the employee's age or contributions representing a fixed percentage of the employee's salary). The Group elected to apply this amendment as it improves the accuracy of estimated pension commitments. As a result, 2015 employee benefits liabilities decreased by CHF 17.6 million, while deferred tax assets decreased by CHF 3.9 million. The impact on the consolidated income statement is minor.

The accounting treatment of foreign exchange differences was revised to consider all exchange differences in connection with subsequent measurements and settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences related to debtors and suppliers as part of revenue and cost of material, licenses and services. As a result of this change, revenues increased by CHF 1.9 million in 2015, while cost of material decreased by CHF 1.4 million. Reported operating income is therefore CHF 3.3 million higher, while other finance income decreased by the same amount.

Note 37 of the financial report provides further details on the impact of these changes in accounting policies.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income in 2015 increased by CHF 64.1 million to CHF 950.8 million. Revenues grew by CHF 68.2 million, while other operating income declined by CHF 4.1 million, due on the one hand to the CHF 4.1 million gain from the acquisition of EchoStar's European set-top box operations and on the other hand to a decrease of CHF 5.0 million in government grants (mainly French "Crédit d'Impôt Recherche").

"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 15.4 million to CHF 664.1 million. Relative to total revenues, margin after cost of material decreased from 73.2% to 69.8%, reverting close to the level seen in 2013. The main driver of this margin reduction relates to a shift of the revenue mix from relatively higher margin iDTV revenues to Public Access revenues. Public Access accounted for 29.3% of total revenues and other operating income in 2015 compared to 26.1% in 2014.

Personnel expenses increased by CHF 12.4 million to CHF 393.0 million, as the Group consolidated the additional operating expenses of its newly acquired subsidiaries. Total Group headcount at year end was 3 459 compared to 3 034 at the end of 2014. SKIDATA was the primary driver of this headcount increase, accounting for most of the additional 155 employees in the United States (mainly from the Sentry acquisition) and the additional 61 employees from SKIDATA Australasia.

The integration into SmarDTV of the newly acquired operations from EchoStar was the main driver of the Group's headcount expansion in the United Kingdom by 108. In Switzerland, the Group marginally decreased overall headcount by 8 employees. Finally, the Group continued to expand its Indian operations, adding another 82 employees in 2015.

Compared to 2014, the Group reduced other external operating expenses in 2015 by CHF 15.2 million to CHF 148.6 million. Development and engineering expenses were CHF 4.3 million lower, with currency effects as the key driver of this cost reduction. In 2015, the Group released net provisions of CHF 4.0 million compared to the additional net provisions of CHF 9.3 million in 2014, as collection of outstanding receivables in the iDTV segment exceeded expectations.

The Group's operating income before depreciation and amortization was CHF 122.6 million in 2015, a CHF 18.2 million increase from the previous year. At CHF 41.3 million, depreciation, amortization and impairment were CHF 1.9 million lower than in 2014, reflecting the reduced levels of capital expenditures over the last four years and in spite of the additional amortization costs related to the acquisitions made by the Group in 2015 as well as the 2014 acquisition of Conax.

Overall, the Group generated operating income of CHF 81.2 million in 2015, representing a 32.7% improvement compared to 2014.

At CHF 14.5 million, interest expense increased by CHF 3.1 million over the previous year, as the Group fully amortized transaction costs related to the syndicated credit facility entered in connection with the Conax acquisition, which was fully repaid in the first half. The Group posted CHF 9.3 million of net finance expenses, primarily due to the negative foreign exchange effects from the declining EUR/CHF rates. Income tax expense decreased by CHF 3.3 million to CHF 9.8 million. Overall, the Group improved net income by CHF 15.9 million to CHF 49.3 million.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 3.2% to CHF 661.1 million, representing constant currency growth of 3.9%.

The Group's European iDTV business posted constant currency growth of 13.1%. In Italy, strong adoption of SmarDTV's new WiFi CAM resulted in solid year-on-year growth. In Spain, the Group benefited from Telefonica's migration of its multiscreen users onto the MediaLive-powered "Yomvi by Movistar+" platform. Through the addition of Conax, the Group also gained an important presence in the Scandinavian region and further expanded its Eastern European footprint.

Constant currency revenues in the Americas region declined by 6.8% compared to the previous year. Resilient business from North American digital TV customers as well as the revenue contributions from the patent license agreements with Netflix, Google, Disney and Bloomberg supported the region's results. Brazil slowed down in the second half, while other South American markets, including in particular Peru, experienced positive momentum.

The Asia/Pacific and Africa region posted constant currency growth of 9.2%. Digitization of the Indian cable market renewed its momentum in the second half of 2015. In addition to the three major national MSOs (multiple-system operators) already deploying NAGRA technology, five new regional Indian MSOs have selected the Group's solutions. In China and Taiwan, Beijing Cable, Shandong Cable, Guangdong Cable, TBC and KBRO are the primary drivers of the Group's growth in these markets, due to the digitization of their networks and the deployment of OpenTV 5 and MediaLive.

Overall, operating income from the iDTV segment improved by 28.9%, reaching CHF 83.3 million in 2015. Resilient revenues and a double digit million reduction of operating expenses resulted in solid performance of the Group's core digital TV business. Five new patent license agreements also contributed to segment profitability and reflect the continued momentum of the Group's intellectual property licensing activities with key industry players. The iDTV segment also benefitted from the consolidation of Conax for the full year, compared to consolidation of only three quarters of results in the previous year. Conax's business was highly resilient in 2015 with new contract wins in Asia and Africa. While on the right track to expand for the future, the cyber security business is still in an early stage of development, generating low revenues and an operating loss in 2015.

PUBLIC ACCESS

Following a strong first half of 2015, SKIDATA's growth further accelerated in the second half, resulting in year-on-year constant currency revenue growth of 31.2%. Reported revenues increased by 20.6% to CHF 278.5 million. The full consolidation of newly acquired Sentry and SKIDATA Australasia, together with the entry into new markets such as Latvia, Botswana, Guatemala, Panama and Paraguay, set the foundation for the continued growth of the SKIDATA's business.

SKIDATA's European business developed favorably in the second half of 2015. Year-on-year constant currency growth in revenues for the European region was at 12.1%. Among the positive highlights, the Austrian, German and UK markets posted solid revenue growth.

In the Americas, constant currency revenues increased by 99.1% in 2015. Reported revenues for the region were at CHF 66.1 million compared to CHF 32.3 million in 2014. The first time consolidation of the newly acquired Sentry business was the main factor underlying the high growth rate of this region. With the integration of Sentry, SKIDATA has considerably strengthened its service organization in the parking segment for the US market, establishing a solid foundation to further grow top line results from this region.

Constant currency revenues for Asia/Pacific and Africa grew by 55.9%. Reported revenues for the region were at CHF 49.6 million compared to CHF 36.3 million in 2014. This growth reflects the consolidation of SKIDATA Australasia, the newly acquired parking subsidiary. As a result of this acquisition, Australia is now the second largest market for SKIDATA after the United States.

Following a weak first half, Public Access operating income recovered in the second half of 2015, reaching CHF 15.7 million for the full year, an increase of 4.4% from the previous year.

BALANCE SHEET AND CASH FLOW

Total non-current assets decreased by CHF 18.5 million to CHF 599.3 million at the end of 2015, with tangible fixed assets increasing by CHF 6.0 million and intangible fixed assets decreasing by CHF 19.4 million. The first time consolidation of the Group's newly acquired entities added CHF 30.5 million to tangible and intangible assets, including CHF 18.4 million of goodwill, while foreign exchange effects resulted in a CHF 35.2 million decrease. The CHF 8.1 million reduction of financial assets and other non-current assets was primarily driven by a reduction of long-term deferred contract costs.
The Group's continuing tight control over capital expenditures was a further driver of the reduction of non-current assets.

Total current assets increased by CHF 60.1 million to CHF 490.2 million in 2015. The CHF 1.0 million increase of inventory reflects a CHF 6.7 million increase at SKIDATA and lower inventory levels at Nagravision and SmarDTV. Trade accounts receivable increased by CHF 37.0 million to CHF 257.0 million, as the Group generated significant revenues during the last quarter of 2015. SKIDATA, in particular, ended the year with total net receivables that was CHF 31.9 million higher than at the end of 2014, as seasonality effects were even more pronounced in 2015 than in previous years. Other current assets decreased by CHF 22.7 million, mainly reflecting a CHF 15.1 million reduction in amounts due from government grant programs. The Group managed to reduce this item, as it collected outstanding government grants and only recognized net new grants of CHF 3.4 million, compared to CHF 8.7 million in the previous year. At the end of 2015, cash and cash equivalents amounted to CHF 136.8 million, a CHF 44.5 million increase from the end of 2014.

Total equity declined by CHF 6.4 million, as the Group generated CHF 49.3 million of net income, distributed a dividend of CHF 16.2 million and booked a negative CHF 34.0 million currency translation adjustment and a positive CHF 9.2 million effect from the SmarDTV and the SKIDATA Australasia transactions.

Total non-current liabilities decreased by CHF 21.0 million, while total current liabilities increased by CHF 69.1 million. These changes mainly reflect the CHF 55.6 million decrease of long-term financial debt and CHF 47.7 million increase of short-term financial debt. On May 12, 2015, the Group issued a new CHF 200 million bond with a 1.875% interest rate and maturity of 7 years and 3 months. With the proceeds of this bond, the Group fully repaid the remaining CHF 165 million credit facility obtained in 2014 to finance the acquisition of Conax. Following the repurchasing of CHF 7.0 million in 2015, the outstanding CHF 102.8 million of the CHF 110 million bond due in December 2016 was reclassified from long-term to short-term financial debt.

Employee benefits liabilities increased by CHF 18.9 million to CHF 77.8 million, of which CHF 10.1 million were due to changes in financial assumptions (discount rate). Other long-term liabilities and derivative financial instruments increased by CHF 17.7 million to CHF 21.0 million. With its acquisition of 22.5% of SmarDTV's equity, EchoStar also acquired the same percentage of the company's CHF 30 million debt, resulting in a CHF 6.75 million liability. A CHF 7.3 million increase of deferred/contingent consideration relates to the estimated future payments for the acquisition of the minority interest in Sentry. A CHF 10.8 million higher deferred income linked to a large iDTV project to be delivered in the first half of 2016 is the main driver for the CHF 14.9 million increase of other current liabilities.

In 2015, the Group generated CHF 106.4 million of cash from operating activities, representing a decrease of CHF 2.9 million as compared to cash flows generated in 2014. Change in working capital is the primary driver of this decrease, with a drop from CHF 7.1 million in 2014 to CHF -6.1 million in 2015, which corresponds to a year-on-year reduction of CHF 13.2 million. SKIDATA materially expanded its working capital, with a CHF 38.7 million increase in 2015, in line with the accelerated growth momentum of the last 12 months.

The Group used CHF 45.5 million of cash for investing activities. Cash used for purchasing tangible and intangible assets represented CHF 32.6 million, while cash used for the acquisition of subsidiaries was CHF 12.1 million.

Cash out for financing activities amounted to CHF 12.3 million. This includes CHF 199.1 million net proceeds from the new bond and the CHF 165.0 million repayment of the credit facility established in 2014 for the acquisition of Conax. In 2015, Kudelski SA paid a dividend of CHF 16.2 million. Cash from financing activities includes CHF 12.7 million proceeds received for the sale of 22.5% of SmarDTV. Overall, changes in foreign exchange rates had a CHF -4.2 million effect on cash and cash equivalents during 2015.

OUTLOOK

In 2016, the Group expects to maintain the positive momentum from the previous year.

In the core digital TV business, the Group expects to benefit from the solid momentum of key Asian markets, where the Group has established a strong competitive position. In Europe and the Americas, particularly in South America, market conditions are expected to be less favorable this year. As IP licensing activities have established a robust track record in the past two years, the Group expects to benefit from further agreements in 2016. Overall, iDTV business resilience is expected to be sustained in 2016, resulting in a growing revenue base.

In the Public Access segment, the Group will complete the integration of its newly acquired entities, with the aim to maintain the growth trajectory of the last few years and materially improve cash generation. Following a year with a particularly strong seasonality, the Group is implementing measures to mitigate the impact of year-end seasonality effects on revenue and profit generation by the Public Access segment.

FINANCIAL STATEMENTS

CONTENTS

KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	2015	restated 2014[1]
Revenues	6	939 594	871 370
Other operating income	7	11 236	15 304
Total revenues and other operating income		**950 830**	**886 673**
Cost of material, licenses and services		-286 724	-237 925
Employee benefits expense		-392 984	-380 612
Other operating expenses	8	-148 569	-163 762
Operating income before depreciation, amortization and impairment		**122 553**	**104 374**
Depreciation, amortization and impairment	9	-41 330	-43 183
Operating income		**81 223**	**61 191**
Interest expense	10	-14 515	-11 443
Other finance income/(expense), net	11	-9 242	12 526
Share of result of associates	17	1 671	1 554
Income before tax		**59 137**	**63 828**
Income tax expense	12	-9 827	-13 062
Net income for the period from continuing operations		**49 311**	**50 765**
Net result from discontinued operations	38	–	-17 376
Net income for the period		**49 311**	**33 389**
Attributable to:			
- Equity holders of the company		*44 421*	*26 028*
- Non-controlling interests		*4 890*	*7 361*

Earnings per share (in CHF)			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	13	0.8191	0.4800
- Continuing operations		*0.8191*	*0.8198*
- Discontinued operations		*-*	*-0.3398*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	13	0.0819	0.0480
- Continuing operations		*0.0819*	*0.0820*
- Discontinued operations		*-*	*-0.0340*

1) see note 37

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	2015	restated 2014[1]
Net income	**49 311**	**33 389**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:		
Currency translation differences	-34 030	-7 839
Cash flow hedges, net of income tax	380	-234
Net (loss)/gain on available-for-sale financial assets, net of income tax	-638	-793
	-34 288	**-8 866**
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	-10 432	-12 602
	-10 432	**-12 602**
Total other comprehensive income, net of tax	**-44 720**	**-21 468**
Total comprehensive income	**4 591**	**11 921**
Attributable to:		
Shareholders of Kudelski SA	-486	2 356
- Continuing operations	*-886*	*20 795*
- Discontinued operations	*-*	*-18 439*
Non-controlling interests	5 077	9 565

1) see note 37
The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	31.12.2015	restated 31.12.2014[1]	restated 01.01.2014[1]
ASSETS				
Non-current assets				
Tangible fixed assets	14	139 120	133 145	147 487
Intangible assets	15	349 127	368 549	169 250
Investment property	16	1 096	1 347	1 459
Investments in associates	17	4 499	6 217	4 768
Deferred income tax assets	18	61 407	56 310	51 707
Financial assets and other non-current assets	19	44 051	52 233	60 198
Total non-current assets		**599 300**	**617 801**	**434 869**
Current assets				
Inventories	20	48 087	47 083	64 383
Trade accounts receivable	21	256 977	219 998	197 233
Other current assets	22	47 892	70 553	49 959
Derivative financial instruments	36	365	–	–
Cash and cash equivalents	23	136 840	92 382	100 273
Total current assets		**490 161**	**430 016**	**411 848**
Total assets		**1 089 461**	**1 047 817**	**846 718**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	540 911	539 047	537 882
Reserves		-117 777	-108 334	-81 195
Equity attributable to equity holders of the parent		**423 135**	**430 713**	**456 687**
Non-controlling interests	25	23 872	22 731	5 618
Total equity		**447 006**	**453 444**	**462 305**
Non-current liabilities				
Long-term financial debt	26	199 660	255 223	123 444
Deferred income tax liabilities	18	11 509	13 430	506
Employee benefits liabilities	29	77 823	58 873	41 181
Provisions for other liabilities and charges	30	–	65	288
Other long-term liabilities and derivative financial instruments	31	20 952	3 337	2 288
Total non-current liabilities		**309 944**	**330 928**	**167 707**
Current liabilities				
Short-term financial debt	32	123 459	75 796	59 257
Trade accounts payable	33	50 662	52 134	37 729
Other current liabilities	34	123 409	108 531	97 904
Current income taxes		9 739	7 846	2 137
Advances received from clients	35	22 040	13 055	13 620
Derivative financial instruments	36	434	1 086	–
Provisions for other liabilities and charges	30	2 768	4 996	6 057
Total current liabilities		**332 511**	**263 444**	**216 705**
Total liabilities		**642 455**	**594 372**	**384 412**
Total equity and liabilities		**1 089 461**	**1 047 817**	**846 718**

1) see note 37

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	2015	restated 2014[1]
Net income for the year		**49 311**	**33 389**
Adjustments for net income non-cash items:			
- Current and deferred income tax		9 827	13 063
- Interests, allocation of transaction costs and foreign exchange differences		23 383	6 028
- Depreciation, amortization and impairment	9	41 330	45 206
- Share of result of associates	17	-1 671	-1 554
- Non-cash employee benefits expense		7 410	5 066
- Deferred cost allocated to income statement		9 084	9 690
- Additional provisions net of unused amounts reversed		558	2 946
- Non-cash government grant income		-902	-7 658
- Other non cash income/expenses		-17 357	7 576
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		19	91
Adjustements for change in working capital:			
- Change in inventories		5 789	12 866
- Change in trade accounts receivable		-31 616	-17 976
- Change in trade accounts payable		-3 386	10 981
- Change in deferred costs and other net current working capital headings		23 080	1 235
Government grant from previous periods received		11 520	916
Dividends received from associated companies	17	1 191	1 905
Interest paid		-9 527	-8 412
Interest received		1 131	1 417
Income tax paid		-12 787	-12 827
Cash flow from operating activities		**106 387**	**109 263**
Purchases of intangible fixed assets		-13 358	-13 184
Purchases of tangible fixed assets		-19 280	-16 217
Proceeds from sales of tangible and intangible fixed assets		144	339
Investment in financial assets and loans granted		-2 808	-4 140
Divestment of financial assets and loan reimbursement		1 985	2 527
Acquisition of subsidiaries, cash outflow (net of cash acquired)	4	-12 148	-211 286
Disposal of subsidiaries and operations, cash inflow	5	–	3 461
Acquisition of associated companies	17	–	-2 193
Cash flow used in investing activities		**-45 465**	**-240 693**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-205 103	-75 437
Increase in bank overdrafts, long term loans and other non-current liabilities		201 862	219 235
Proceeds from employee share purchase program		61	63
Acquisition of non controlling-interests		-187	–
Proceed from a partial sale of subsidiary and loan not resulting in a loss of control		12 741	–
Dividends paid to non-controlling interests		-5 399	-4 711
Dividends paid to shareholders	40	-16 225	-16 170
Cash flow from/(used in) financing activities		**-12 250**	**122 980**
Effect of foreign exchange rate changes on cash and cash equivalents		-4 214	559
Net increase / (decrease) in cash and cash equivalents		**44 458**	**-7 891**
Cash and cash equivalents at the beginning of the year	23	92 382	100 273
Cash and cash equivalents at the end of the year	23	136 840	92 382
Net increase / (decrease) in cash and cash equivalents		**44 458**	**-7 891**

1) see note 37
The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2014 published		**537 882**	**43 758**	**-61 460**	**-1 577**	**-77 720**	**5 618**	**446 501**
Restatement due to an amendment on IAS 19R	37			15 808		-4		15 804
January 1, 2014 (restated)		**537 882**	**43 758**	**-45 652**	**-1 577**	**-77 724**	**5 618**	**462 305**
Net income				26 028			7 361	33 389
Other comprehensive income				-12 602	-1 190	-9 880	2 204	-21 468
Total comprehensive income		**–**	**–**	**13 426**	**-1 190**	**-9 880**	**9 565**	**11 921**
Employee share purchase program	41	81	14					95
Exercise of stock options by employees		1						1
Shares issued for employees		1 083	-164					919
Dividends paid to shareholders	40		-10 780	-5 390				-16 170
Dividends paid to non-controlling interests							-4 711	-4 711
Non-controlling interests arising on business combinations	4						465	465
Transactions with non-controlling interests	4			-13 175			11 794	-1 381
December 31, 2014		**539 047**	**32 828**	**-50 791**	**-2 767**	**-87 604**	**22 731**	**453 444**
Net income				44 421			4 890	49 311
Other comprehensive income				-10 445	-495	-33 967	187	-44 720
Total comprehensive income		**–**	**–**	**33 976**	**-495**	**-33 967**	**5 077**	**4 591**
Employee share purchase program	41	81	6					87
Shares issued for employees		1 783	-522					1 261
Dividends paid to shareholders	40		-10 817	-5 408				-16 225
Dividends paid to non-controlling interests							-5 399	-5 399
Non-controlling interests arising on business combinations	4						3 449	3 449
Transactions with non-controlling interests	4			7 784			-1 986	5 798
December 31, 2015		**540 911**	**21 495**	**-14 439**	**-3 262**	**-121 571**	**23 872**	**447 006**

Fair value and other reserves as of December 31, 2015 include kCHF -2 640 (2014: kCHF -2 002) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF -622 (2014: kCHF -765) relating to cash flow hedges.

1) see note 37

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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 better enable 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 it 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 transactions 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 assumed 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 primarily considers development technologies, customer lists, trademarks and brands as intangibles.
Any contingent consideration which depends on the future financial performance of the acquired company ("earn out clause") is recognized at fair value on the 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 months after the balance sheet date is discounted to its present value and disclosed within other long term liabilities.
The Group recognizes non-controlling interests 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 interests 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 the 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 over 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 associates 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 results in the reclassification of any translation difference to the income statement.

(D) Revenue recognition

Revenue is comprised of 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 such contingencies 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 share of performance obligation fulfilled in the reporting period.

(b) Services rendered

Revenue for services rendered includes various types of services such as system integration, specific developments and customization, maintenance, training, and 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 to complete 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 ac-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

cording to the specific arrangements is recognized when contractually earned, and is usually dependent on 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 to 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 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 recognized to the income statement on a straight-line basis over the term of the contract, as a reduction of revenue. They are subject to periodic impairment reviews.

(f) Government grants

Grants from governments or similar organizations are recognized at their fair value when there is a reasonable assurance that the Group complies with all conditions associated with their grants receipt and use. Where a government grant is subject to audit before payment, the fair value is determined using management's best estimate of the audit risk. Grants 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 cost 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 by external suppliers for sublicenses on a per-unit basis 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). At the inception of the transaction the Group documents 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 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 and 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. 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 are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Temporary differences and tax losses which generate deferred tax assets and liabilities based on their future probable use are combined within each legal entity to provide a net deferred tax asset or liability amount.
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 is 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 lives on a straight-line basis. Such useful lives 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 each asset's 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 2015

Each 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 associated with long-term finance leases 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 assets which take a substantial period of time to be ready for their intended use of 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 from 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, 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 associated with 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 are ready for sale .

(d) Computer software
Acquired computer software licenses are capitalized in the amount expended to acquire the software and ready it for its intended use. These costs are amortized on a straight-line basis over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as 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 cost 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 as opposed to property intended for internal use. If part of a building is leased, it is accounted for 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 with 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 those with 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 is comprised of 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 charged to profit and loss.

(M) Deferred costs
Deferred costs are measured at cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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 during a period that exceeds 12 months from the balance sheet date 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 included in short-term financial debt in current liabilities on the balance sheet.

(P) Marketable securities

Marketable securities consists 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 net proceeds 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 if all of the facility will be drawn down. If 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 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. 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 benefit 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 their employer, 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 during which they are made.

(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. The cost of such deferred compensation arrangements is recognized on an accrual basis and included within 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 on a preferential basis, subject to a prohibition on the sales of the shares for a period of 3 years.The difference between the fair value of these shares and the employee' payments for the shares is expensed in the income statement on the subscription date. The fair value of the shares transferred is determined based on the market price of the shares adjusted for the estimated value of the restrictions on sales.

(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 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 and change in accounting policies

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, 2014, except for the adoption of new standards and interpretations as of January 1, 2015 and change in treatment for foreign exchange differences, described below.

In the current year, the Group changed its accounting treatment of foreign exchange differences to consider all exchange differences in connection with the settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences in connection with debtors and supplier settlements as part of revenue and cost of material. This change in accounting treatment only impacts the classification of these foreign exchange differences in the income statement. Comparative information has been restated for comparison purposes.

In the current financial year, the Group has retrospectively adopted an amendment to IAS 19R – 'Defined Benefit Plans: Employee Contributions'. 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 period of service.

Note 37 describes the financial effects of the above changes in accounting policies.

The Group for the first time applied the amendments included in the annual improvement to IFRSs 2010-2012 and 2011-2013 cycles, effective from July 1, 2014. These amendments had only limited impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'.
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement.
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9.
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owneroccupied property and determining whether the acquisition of an investment property is a business combination.

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 2016 or later periods, and which the Group has not early adopted:
- IFRS 15 – 'Revenue from Contracts with Customers' – (effective from 1 January of 2018) – This new revenue standard establishes a new five-step 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.
- IFRS 16 - Leases substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 Leases and is effective January 1, 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Group is currently assessing the impact of adopting IFRS 16.
- IFRS 9 - 'Financial instruments' – (effective from 1 January of 2018) – IFRS 9 intoduces new requirements for the classification and measurement, impairment and hedge accounting of financial assets and liabilities. This new standard comprises two measurement categories for financial assets and liabilities: amortized cost and fair value. It also introduces a new impairment model based on expected credit loss.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:

- IFRS 11 – 'Joint Operations: Accounting for Acquisitions of Interests' (amendment)
- IFRS 14 – 'Regulatory Deferred Accounts'
- IAS 16 and IAS 38 – 'Clarification of Acceptable methods of depreciation and amortisation' (amendments)
- IAS 16 and IAS 41 –'Agriculture: Bearer Plants' (amendments)
- IFRS 10 and and IAS 28 – 'Sale between investor and its associates or joint ventures' (amendments)
- IFRS 10, IFRS 12 and and IAS 28 – 'Investment entities: Applying the consolidation exception' (amendments)
- IAS 27 – 'Equity method in separate financial statements' (amendments)
- IAS 1 – 'Disclosure initiative' (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 which generate 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 result in an impairment of the assets made available to the client or of the deferred costs, which would impact the profitability of the Group.

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 18). 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 significantly modify the deferred tax asset and the income taxes. 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 which occur 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 or the assessment of the eligibility of a project qualifying for a grant).

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 these plans. The 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 29) 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's estimate of 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 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 a 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 (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 gener-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

ally 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 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 group manages this risk 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 the Group's 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 investments.

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 information 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 annually by the department in charge.
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

In exchange for 22.5% of SmarDTV SA and a cash payment (see Transaction with Non-Controlling Interests), SmarDTV SA acquired 100% of the share capital of Eldon Technology Limited (UK), Echostar Technologies Limited (UK), DCS Copy Protection Limited (UK) and EIC Spain II S.L. (Spain), resulting in the Group owning a 77.5% interest in those companies through SmarDTV SA. The acquired companies are active in the set-top-box industry. Through this acquisition, SmarDTV benefits from extended engineering capabilities. The Group determined a fair value of nil for this acquisition and only considered as purchase price the working capital adjustment, amounting to kCHF 530.
The acquisition of these companies qualifies as a 'bargain purchase' as the amounts of the identifiable net assets acquired exceed the sum of the value of consideration transferred and the non-controlling interest in the acquired companies. The bargain purchase results from the acquisition of loss-making operations for which material restructuring costs will be incurred. As a result, we recognized a gain amounting to kCHF 4 135 in the income statement which is disclosed under 'other operating income'.
This transaction did not give rise to material external acquisition costs. The gross contractual amount of trade receivables is kCHF 1 304 which are considered to be fully collectable, leading to a fair value of kCHF 1 304.

On January 7, 2015, SKIDATA Inc., USA, signed a share purchase agreement whereby it acquired 60% of the shares of Sentry Control Systems LLC, USA, for consideration of kCHF 13 999. Sentry Control Systems provides premium parking solutions and is SKIDATA's largest distributor in the US. Hence, this acquisition allows SKIDATA to strengthen its position in the US market. The agreement includes option mechanisms for the seller to sell and for the purchaser to buy the remaining shares. If the options are not exercised, the agreement stipulates that SKIDATA will subsequenty acquire the remaining 40% for a fixed amount and a contingent consideration based on the target's revenue, gross margin and free cash flow. The fixed amount to be paid for the acquisition of the remaining 40% interest is structured as four payments of USD 2 million each, payable yearly on March 31, 2016 to 2019, resulting in a transfer to SKIDATA of a 10% interest each year. The Group considered a 100% interest and recognized a deferred/contingent consideration for the 40% share resulting in a total acquisition cost of kCHF 23 906. The goodwill arising from this acquisition amounts to kCHF 18 449 and is allocated to the Public Access operating segment. The goodwill arises from a number of factors including expected synergies resulting from acquiring a workforce experienced in service support as well as a valuable sales knowledge and expertise in the relevant market. None of the goodwill is expected to be deductible for tax purposes. Acquisition related costs of kCHF 300 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 7046 is expected to be fully collectable leading to a fair value of kCHF 7046.

Starting January 1, 2015, the Group gained control over SKIDATA Australasia Pty Ltd without any additional consideration paid and as of that date the company is accounted for as a subsidiary. The Group initially acquired 50% interest in its Australian distributor and partner WTS (renamed SKIDATA Australasia Pty Ltd following the acquisition) in 2014 and treated it as an associate for accounting purposes. The purchase agreement included a call option whereby the Group had the ability to purchase the remaining 50% interest in the company as of January 1, 2015. A non-controlling interest of kCHF 2 095 and no goodwill arose from this business combination. The gross contractual amount of trade receivables due is kCHF 5 862, which are considered to be fully collectable, leading to a fair value of kCHF 5 862.

In 2015, SKIDATA also completed a non-significant asset deal in the United States, acquiring assets of a smaller distributor for an aggregate amount of CHF 0.5 m which qualified as a business combination according to IFRS 3.

From the date of acquisition, the acquired companies have contributed kCHF 49 216 of revenues and kCHF 1 875 to the net income to the continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kCHF 945 713 and the net income from continuing operations for the period for the Group would have been approximately kCHF 48 774.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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

In CHF'000	Fair value of assets acquired 31.12.2015
Tangible fixed assets	7 262
Intangible fixed assets (Goodwill excl.)	4 812
Other non current assets	39
Trade accounts receivable	15 165
Other current assets	11 199
Cash and cash equivalents	2 307
Trade accounts payable	-9 946
Other current liabilities	-10 041
Non current liabilities	-2 453
Deferred income tax liabilities	-2 222
Total identified net assets	**16 122**
Non controlling interests resulting from a business combination	-3 449
Group's net asset portion prior to gain in control	-2 095
Goodwill	18 449
Bargain purchase	-4 135
Total consideration	**24 892**
Total consideration, of which:	
- cash	14 455
- deferred	7 190
- contingent	3 247
Total consideration	**24 892**

Transaction with non-controlling interests

On May 13, 2015, the Group closed a transaction whereby it sold to EchoStar 22.5% of SmarDTV SA and 22.5% of SmarDTV's CHF 30 million long-term Group loan for a cash and a share consideration. The cash consideration consisted of a payment equivalent to kCHF 12 741 of which kCHF 6 750 is attributable to the sale of the long-term loan and kCHF 5 991 to the equity sale. The consideration in shares consists of the entire share capital of Eldon Technology Limited (UK), Echostar Technologies Limited (UK), DCS Copy Protection Limited (UK) and EIC Spain II S.L. (Spain). The transaction includes a working capital adjustment mechanism in connection with consideration received in shares. As a result, the Group recognized a debt against Echostar of kCHF 530.

The acquisition of a controlling interest in an unrelated entity in exchange for a non-controlling interest in a wholly owned subsidiary is treated as a business combination. The sale of ownership interest that does not result in a loss of control is accounted for as an equity transaction (transaction with non-controlling interest). The Group determined the fair value of the acquired unrelated entities as being nil before the working capital adjustment, as the acquired companies had no viable operations on a stand-alone basis and a material restructuring was required (see Business Combinations). Thus, the full cash consideration received is attributed to the sale of the non-controlling interest, resulting in a gain of kCHF 7 858, recognized in retained earnings.

On July 8, 2015, the Group acquired an additional interest of 10.5% of Hantory Co Ltd, for a total consideration of kCHF 14 bringing its total stake to 80.5%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF 124 and non controlling interests for kCHF -152.

On November 27, 2015, the Group purchased the remaining 28% of SKIDATA South Afrika (pty) Ltd, for a total consideration of kCHF 171 bringing its total stake to 100%. This transaction was treated as a transaction with non-controlling interests and was allocated to retained earnings for kCHF -198 and non controlling interests for kCHF 33.

ARISING IN 2014:

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 fair values of the identifiable assets and liabilities as of 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
Total identified net assets	**66 924**	**2 035**	**68 959**
Non controlling interests resulting from a business combination	–	-451	-451
Group's net asset portion prior to gain in control	–	-642	-642
Goodwill	144 980	–	144 980
Total consideration	**211 904**	**942**	**212 846**
Total consideration, of which:			
- cash	211 904	942	212 846
Total consideration	**211 904**	**942**	**212 846**

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**

5. DIVESTMENTS

No divestment took place in 2015.

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 38).

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

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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 the reporting to assess the allocation of ressources to, and the performance of, each segment.
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 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.

In CHF'000	Integrated Digital Television 2015	Integrated Digital Television restated 2014	Public Access 2015	Public Access restated 2014	Total 2015	Total restated 2014
Total segment Revenues	**661 448**	**641 302**	**278 512**	**231 014**	**939 960**	**872 316**
Inter-segment revenues	-366	-944	–	-2	-366	-946
Revenues from external customers	**661 082**	**640 358**	**278 512**	**231 012**	**939 594**	**871 370**
Depreciation and amortisation	-31 455	-35 735	-8 211	-7 372	-39 666	-43 107
Impairment	-1 664	-76	–	–	-1 664	-76
Operating income - excluding corporate common functions	**83 305**	**64 641**	**15 684**	**15 020**	**98 989**	**79 661**
Corporate common functions					-17 766	-18 469
Interest expense and other Finance income/(expense), net					-23 757	1 083
Share of result of associates					1 671	1 554
Income before tax					**59 137**	**63 829**
	31.12.2015	restated 31.12.2014	31.12.2015	restated 31.12.2014	31.12.2015	restated 31.12.2014
Total segment Assets	**806 671**	**855 353**	**243 624**	**163 703**	**1 050 295**	**1 019 056**

In CHF'000	31.12.2015	restated 31.12.2014
Total Segment Assets	1 050 295	1 019 056
Cash & Cash equivalents	28 603	14 981
Other current assets	87	3 198
Financial assets and other non-current assets	10 476	10 582
Total Assets as per Balance Sheet	**1 089 461**	**1 047 817**

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 2015	Revenues from external customers restated 2014	Non-current assets 31.12.2015	Non-current assets restated 31.12.2014
Switzerland	36 923	33 946	108 436	121 875
United States of America	219 470	188 571	141 013	124 235
France	67 415	71 110	22 355	22 861
Italy	49 410	37 359	515	389
Germany	46 315	49 231	4 316	4 468
Netherlands	43 706	46 629	384	339
India	43 009	29 236	1 865	2 051
Norway	9 647	10 145	154 861	192 492
Rest of the world	423 699	405 143	70 611	58 762
	939 594	**871 370**	**504 356**	**527 472**

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

INFORMATION ABOUT MAJOR CUSTOMERS

No aggregate revenues resulting from transactions with a single external customer amount to 10% of the Group's total revenues.

REVENUE CATEGORIES

In CHF'000	2015	restated 2014
Sale of goods	501 463	410 242
Services rendered	296 791	300 312
Royalties and licenses	141 340	160 816
	939 594	**871 370**

7. OTHER OPERATING INCOME

In CHF'000	2015	2014
Government grants (research, development and training)	3 383	8 655
Gain on bargain purchase resulting from business combination	4 135	–
Income from rental of property	2 856	2 174
Gain on sale of subsidiares	–	3 214
Others	862	1 261
	11 236	**15 304**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

8. OTHER OPERATING EXPENSES

In CHF'000	2015	2014
Development and engineering expenses	16 815	21 084
Travel, entertainment and lodging expenses	29 136	29 080
Legal, experts and consultancy expenses	34 444	33 115
Administration expenses	22 687	23 848
Building and infrastructure expenses	25 526	24 223
Marketing and sales expenses	10 807	10 178
Taxes other than income tax	4 055	4 678
Change in provisions	-4 035	9 277
Insurance, vehicles and others	9 135	8 279
	148 569	**163 762**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2015	2014
Land and buildings	14	3 869	3 694
Equipment and machines	14	13 277	15 398
Investment property	16	115	113
Total depreciation and impairment of tangible fixed assets		**17 260**	**19 205**
Intangible assets	15	24 070	23 978
Total amortization and impairment on intangible fixed assets		**24 070**	**23 978**
Depreciation, amortization and impairment		**41 330**	**43 183**

10. INTEREST EXPENSE

In CHF'000	Note	2015	restated 2014
Interest expense:			
- Bond 2011-2016	28	3 791	3 581
- Bond 2015-2022	28	2 462	–
- Credit facility	27	5 560	5 440
- Net interest expense on pension plan	29	954	981
- Other and bank charges		1 749	1 441
		14 515	**11 443**

Total interest expense related to the credit facility amount to kCHF 5 560 (2014: 5 440) and include amortization of transaction costs for kCHF 2 874 (2014: 1 483). This include extraordinary amortization due to the full reimbursement in 2015 and the reduction of the amount drawn down in 2014.

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2015	restated 2014
Interest income		1 403	2 132
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-2 051	-1 702
Net foreign exchange transaction gains/(losses)		-9 053	13 052
Others		459	-956
		-9 242	**12 526**

Changes in the fair value of available-for- sale financial assets were recognized directly in comprehensive income for kCHF -638 (2014: kCHF -793). The change in fair value of held for trading financial assets amounting to kCHF -2 051 (2014: kCHF -1 702) 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	2015	restated 2014
Current income tax		-13 738	-12 904
Deferred income tax	18	5 331	1 630
Non refundable witholding tax		-1 420	-1 788
		-9 827	**-13 062**

The tax on the Group's income 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	2015	restated 2014
Income before taxes	**59 137**	**63 828**
Expected tax calculated at domestic tax rates in the respective countries	-13 338	-11 983
Effect of income not subject to income tax or taxed at reduced rates	1 381	2 359
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	15 636	6 580
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-16 721	-8 966
Effect of changes in tax rates	949	-7
Efffect of associates' result reported net of tax	415	322
Effect of disallowed expenditures	-667	-1 814
Effect of prior year income taxes	1 144	-157
Effect of non-refundable withholding tax	-1 420	-1 788
Other	2 792	2 393
Tax expense	**-9 827**	**-13 062**

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose taxes are paid by the subsidiaries' shareholders. However, 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 2 640 (2014: kCHF 2 289) and is disclosed under Other in the above table.

The weighted average applicable tax rate increased from 18.77% in 2014 to 22.55% in 2015. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

13. EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares outstanding 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 resources.

In CHF'000	2015	restated 2014
Net income attributable to bearer shareholders	40 629	23 806
- Continuing operations	*40 629*	*40 661*
- Discontinued operations	*-*	*-16 855*
Net income attributable to registered shareholders	3 792	2 222
- Continuing operations	*3 792*	*3 795*
- Discontinued operations	*-*	*-1 573*
Total net income attributable to equity holders	**44 421**	**26 028**
Weighted average number of bearer shares outstanding	49 604 697	49 597 154
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in CHF)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	0.8191	0.4800
- Continuing operations	*0.8191*	*0.8198*
- Discontinued operations	*-*	*-0.3398*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	0.0819	0.0480
- Continuing operations	*0.0819*	*0.0820*
- Discontinued operations	*-*	*-0.0340*

The company has no share options nor share subscription rights outstanding which could lead to a dilution of earnings per share.

14. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2015	31.12.2014
Land and buildings	105 427	102 740
Equipment and machines	33 693	30 405
	139 120	133 145

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
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 January 1, 2015	**23 097**	**109 877**	**13 197**	**146 171**
Additions	–	1 646	1 119	2 765
Impact of business combinations	1 365	3 719	198	5 282
Disposals and retirements	–	-144	-933	-1 077
Currency translation effects	-171	-1 969	-399	-2 539
Reclassification & others	–	-167	100	-67
As of December 31, 2015	**24 291**	**112 961**	**13 282**	**150 535**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
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 January 1, 2015	**–**	**-32 090**	**-11 341**	**-43 431**
Systematic depreciation	–	-2 955	-841	-3 796
Impairment	–	-69	-4	-73
Disposals and retirements	–	78	974	1 052
Currency translation effects		844	257	1 100
Reclassification & others	–	39	–	39
As of December 31, 2015	**–**	**-34 153**	**-10 956**	**-45 108**
Net book values as of December 31, 2014	**23 097**	**77 787**	**1 856**	**102 740**
Net book values as of December 31, 2015	**24 291**	**78 809**	**2 327**	**105 427**
Useful life in years	Indefinite	10 – 50	4 – 8	

In CHF'000	31.12.2015	31.12.2014
Corporate buildings on land whose owner has granted a permanent and specific right of use	6 708	6 912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
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 January 1, 2015	**149 019**	**10 814**	**159 832**
Additions	15 383	1 132	16 515
Impact of business combinations	387	1 593	1 980
Disposals and retirements	-10 179	-1 051	-11 230
Currency translation effects	-4 891	-639	-5 530
Reclassification & others	149	-119	31
As of December 31, 2015	**149 867**	**11 730**	**161 598**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
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 January 1, 2015	**-121 473**	**-7 955**	**-129 428**
Systematic depreciation	-11 741	-1 530	-13 271
Impairment	-6	–	-6
Disposals and retirements	10 036	1 064	11 101
Currency translation effects	3 404	293	3 696
Reclassification & others	-74	76	2
As of December 31, 2015	**-119 854**	**-8 051**	**-127 905**
Net book values as of December 31, 2014	**27 546**	**2 859**	**30 405**
Net book values as of December 31, 2015	**30 014**	**3 679**	**33 693**
Useful life in years	4 – 10	4 – 7	

Technical equipment and machinery is comprised of assets made available to clients which generates recurring service revenue.

15. 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, 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 January 1, 2015	**125 228**	**51 886**	**68 109**	**272 099**	**731**	**518 053**
Additions	9 920	–	3 439	–	–	13 359
Impact of business combinations	–	4 562	250	18 450	–	23 262
Disposals and retirements	-1 384	–	-310	–	-2	-1 696
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	-5 457	-7 597	-864	-21 624	-60	-35 602
As of December 31, 2015	**128 307**	**48 851**	**70 616**	**268 925**	**669**	**517 368**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
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
Impact of discontinued operations	–	201	–	–	–	201
Currency translation effects	-1 041	–	-541	–	-33	-1 615
As of January 1, 2015	**-82 241**	**-6 773**	**-59 960**	**–**	**-530**	**-149 504**
Systematic amortization	-14 497	-5 142	-2 659	–	-186	-22 484
Impairment	-994	–	-591	–	–	-1 586
Recovery of amortization on disposal and retirements	1 384	–	310	–	2	1 695
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	2 096	903	603	–	45	3 646
As of December 31, 2015	**-94 253**	**-11 013**	**-62 305**	**–**	**-669**	**-168 240**
Net book values as of December 31, 2014	**42 987**	**45 113**	**8 149**	**272 099**	**201**	**368 549**
Net book values as of December 31, 2015	**34 054**	**37 839**	**8 311**	**268 925**	**–**	**349 127**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2015 technology Impairment for kCHF 541 relates to the development of a product initiated with a third-party company which has currently severe financial difficulties, and uncertainties exist on the re-usage of such product development. The remaining technology impairments relate to development projects that have been stopped. 2015 software impairment relates to software that have been decommissioned.

Intangibles with indefinite useful lives are subject to a yearly impairment review. Goodwill has been allocated for impairment testing to their cash generating units, which are defined within the framework of the Group as its operating segments.
In 2015, kCHF 246 520 of goodwill has been allocated to Integrated Digital Television (2014: kCHF 267 701) and kCHF 22 405 (2014: kCHF 4 398) to Public Access Solutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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 Group management covering a five-year period and a discount rate of 9.0% (2014: 8.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% (2014: 1.5%) for core digital TV activities and 1.5% for initiatives (2014: 1.5%) 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 2015 and 2014, 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 the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

16. INVESTMENT PROPERTY

In 2015, rental income and direct operating expenses for the investment property were kCHF 219 (2014: kCHF 251) and kCHF 7 (2014 : kCHF 5) respectively. The 2014 fair value of the investment property was estimated at CHF 2.8 million, corresponding to planned rental income capitalized at 9%. In January 2016, investment property was sold for CHF 2.3 million, corresponding to its fair value as of December 31, 2015.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2014	**2 742**
Additions	5
Currency translation effects	-50
As of December 31, 2014	**2 697**
Currency translation effects	-270
As of December 31, 2015	**2 427**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2014	**-1 283**
Systematic depreciation	-113
Reclassification & others	22
Currency translation effects	24
As of December 31, 2014	**-1 350**
Systematic depreciation	-115
Currency translation effects	134
As of December 31, 2015	**-1 331**
Net book values as of December 31, 2014	**1 347**
Net book values as of December 31, 2015	**1 096**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

17. INVESTMENTS IN ASSOCIATES

In CHF'000	2015	2014
At January 1	**6 217**	**4 768**
Share of profit	1 671	1 554
Dividends received	-1 190	-1 905
Acquisition of an associated company	–	2 193
Associated company fully consolidated	-2 095	-642
Currency translation effects	-104	249
At December 31	**4 499**	**6 217**

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

		Interest held	
Name of associate	**Principal activity**	**2 015**	**2 014**
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	Subsidiary	50%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In CHF'000	31.12.2015	31.12.2014
Total assets	31 217	37 071
Total liabilities	18 803	21 688
Net assets	12 414	15 383
Group's share of associates' net assets	3 981	5 667

	2015	2014
Revenue	40 228	67 125
Result of the period	5 994	5 619
Group's share of associates' result for the period	1 671	1 554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

18. 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	31.12.2015	restated 31.12.2014
Deferred tax assets	61 407	56 310
Deferred tax liabilities	-11 509	-13 430
	49 898	**42 880**

Movement on the deferred income tax account is as follows:

In CHF'000	Note	2015	restated 2014
At January 1		**42 880**	**51 201**
Exchange differences		1 098	1 511
Recognized against other comprehensive income		2 811	3 650
Impact of business combinations		-2 222	-15 112
Income statement (expense)/income	12	5 331	1 630
At December 31		**49 898**	**42 880**

The movement in deferred tax assets and liabilities during 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In CHF'000	restated At January 1, 2015	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2015
Deferred tax assets associated with						
- intangibles	30 934	438			40	31 412
- employee benefits	12 721	1 475		2 811	-288	16 719
- tax losses	8 304	1 794			-307	9 791
- provisions and other elements tax deductible when paid	2 828	-813			-306	1 710
- inter-company profit elimination	1 903	0			-130	1 773
- others	-29	102			-23	50
Total deferred tax assets (gross)	**56 661**	**2 997**	**–**	**2 811**	**-1 014**	**61 455**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	-39	45			–	6
- intangibles	-13 482	2 096	-1 825		1 965	-11 245
- provisions & accelerated tax depreciation	-125	-176	-397		123	-575
- others	-135	368			24	257
Total deferred tax liabilities (gross)	**-13 781**	**2 334**	**-2 222**	**–**	**2 112**	**-11 557**
Net deferred tax asset/(liability)	**42 880**	**5 331**	**-2 222**	**2 811**	**1 098**	**49 898**

And for 2014:

In CHF'000	restated At January 1, 2014	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	restated At December 31, 2014
Deferred tax assets associated with						
- intangibles	31 838	-911	–	–	7	30 934
- employee benefits	8 712	448	–	3 650	-89	12 721
- 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	–	–	-30	-29
Total deferred tax assets (gross)	**51 766**	**1 112**	**147**	**3 650**	**-14**	**56 661**
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)	**51 201**	**1 630**	**-15 112**	**3 650**	**1 511**	**42 880**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 926.6 million (2014: CHF 909.4 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 283.5 million (2014: CHF 282.5 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 643.2 million (2014: CHF 626.9 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	2015	2014
Expiration within:		
One year	3.6	8.7
Two years	1.3	3.6
Three years	61.1	1.3
Four years	32.6	112.3
Five years	36.4	33.8
More than five years	508.2	467.2
Total	**643.2**	**626.9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

19. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2015	31.12.2014
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	500	834
- equity instruments with no quoted market price (level 3)	400	400
- marketable securities (level 1)	417	1 237
Loan – third party	7 191	5 481
Loan – related party	–	576
State and government institutions	11 646	13 442
Deferred contract cost (long term portion)	10 513	18 963
Contingent consideration	7 383	7 031
Trade accounts receivable - long-term portion	1 938	–
Guarantee deposits	3 320	3 844
Prepaid expenses and accrued income (long-term portion)	743	425
	44 051	**52 233**

Available-for-sale financial assets is comprised of 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 500 (2014: kCHF 834). Also included is one equity instrument listed in an active market and classified as marketable securities for kCHF 417 (2014: kCHF 1 237). A temporary value adjustment of kCHF 0 (2014: kCHF -1 000) 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 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. It has been reclassified as short term in 2015. The effective interest rate on third party loans is 2.49% (2014:2.30%). 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%.

20. INVENTORIES

In CHF'000	31.12.2015	31.12.2014
Raw materials	1 727	7 232
Work in progress	4 360	2 634
Finished goods	42 000	37 217
	48 087	**47 083**

The cost of inventories recognised as an expense includes kCHF 4 311 (2014: kCHF 906) in respect of write-downs, and has been reduced by kCHF 787 (2014: kCHF 1 191) 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 6 833 (2014: kCHF 1 334).

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2015	31.12.2014
Trade accounts receivable	245 517	229 511
Less: provision for impairment	-20 811	-22 512
Trade accounts receivable related parties	3 596	8 072
Trade receivables – net	**228 302**	**215 071**
Amounts due from customers for contract work	28 675	4 927
Total	**256 977**	**219 998**

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	2015	2014
January 1,	**-22 512**	**-19 312**
Provision for impairment charged to income statement	-2 753	-7 811
Utilization	944	951
Reversal	3 152	3 120
Change in scope	–	456
Translation effects	358	84
December 31,	**-20 811**	**-22 512**

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 -2 753 (2014: kCHF -7 811). 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	31.12.2015	31.12.2014
Not overdue	133 788	143 383
Past due and not impaired:		
- not more than one month	49 234	34 072
- more than one month and not more than three months	22 609	21 210
- more than three months and not more than six months	7 451	3 247
- more than six months and not more than one year	9 231	9 164
- more than one year	5 989	3 995
Total trade accounts receivable, net	**228 302**	**215 071**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

22. OTHER CURRENT ASSETS

In CHF'000	31.12.2015	31.12.2014
Loans third parties – short term portion	15	37
Prepaid expenses	12 483	16 951
Accrued income	1 216	796
State and government institutions	18 366	33 510
Advances to suppliers and employees	2 569	4 263
Deferred contract cost (short term portion)	9 941	10 433
Other receivables - third parties	1 968	1 748
Other receivables - related parties	1 333	2 815
	47 892	**70 553**

Loans are measured at amortized cost. The effective interest rate on short term loans was 2.32% (2014: 4.94%).

23. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2015	31.12.2014
Cash at bank and in hand	130 964	88 995
Short term deposits	5 876	3 387
	136 840	**92 382**

The effective interest rate on short term deposits was 0.70% (2014: 0.54%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

24. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2015	31.12.2014
49'461'147 / 49'274'709 bearer shares, at CHF 10 each	494 611	492 747
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	540 911	**539 047**

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	2015	2014
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	2015	2014
Conditional share capital as of January 1	110 390	103 555
Increase of conditional share capital	–	8 000
Employee share purchase plan	-81	-82
Shares allotted to employees	-1 783	-1 083
Conditional share capital as of December 31	**108 526**	**110 390**
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:		
852'609 / 1'039'047 bearer shares, at CHF 10 each	8 526	10 390
	108 526	**110 390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

25. 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, 2015 (in CHF'000)	**Nagrastar**	**275, Sacramento Street LLC**
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	3 998	36 834
Current Assets	38 584	633
Non-current liabilities	–	13 761
Current liabilities	21 320	314
Total Equity	**21 263**	**23 392**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	10 631	11 719
Carrying amount of non-controlling interests	**10 631**	**11 719**
Revenue	25 851	4 043
Net result	11 439	1 688
Other comprehensive income	51	507
Total comprehensive income	11 490	2 195
Total comprehensive income allocated to non-controlling interests	5 745	1 100
Dividend paid to non controlling interests	-4 814	-482
Net increase /(decrease) in cash and cash equivalents	3 026	-401

As at December 31, 2014 (in CHF'000)	**Nagrastar**	**275, Sacramento Street LLC**
Non-controlling interests percentage	**50.0%**	**50.1%**
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
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

These companies are treated as subsidiaries because the Group controls them either by financing or bearing an over-proportional responsibility for the main risks.

26. LONG TERM FINANCIAL DEBT

In CHF'000	**Note**	**31.12.2015**	**31.12.2014**
Bank loans - long term	27	–	145 761
CHF 200 million 1.875% bond 2015/2022	28	199 188	–
CHF 110 million 3% bond 2011/2016	28	–	109 444
Other long term financial liabilities		472	18
		199 660	**255 223**

27. LONG TERM BANK LOANS

In CHF'000	31.12.2015	31.12.2014
Credit facility agreement	–	132 000
Mortgage - long term portion	–	13 761
Total long term bank loans	**–**	**145 761**

The average effective interest rate on total long term bank loans was 2.49% (2014: 2.28%).

In 2014, the Group obtained a new committed long term credit facility of CHF 235 million until June 30, 2019 in connection with the acquisition of Conax AS. As of December 31, 2014, the Group had drawn CHF 165 million of which CHF 132 million were classified as long term and CHF 33 million as short term in the balance sheet.
In early 2015, the Group decided to replace this long term credit facility with a new bond (see note 28). The outstanding amount was fully repaid in May 2015 and the credit facility consequently cancelled.

28. BONDS

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 Group repurchased kCHF 6 980 of this bond in 2015.

On May 12, 2015 Kudelski SA issued an additional CHF 200 million bond with a subscription price of 100%, bearing an annual interest rate of 1.875% and maturing on August 12, 2022 at par, with denominations of CHF 5'000.- nominal and multiples thereof. The proceeds amounted to kCHF 200'000 less issuance costs of kCHF 870 totaling an initial net proceed of kCHF 199'130 and resulting in an effective interest rate of 1.97%.

Bonds are recognized in the consolidated balance sheets as of December 31, as follows:

In CHF'000	2015	2014
Initial balance	**109 444**	**109 174**
Net proceed from bond issuance	199 130	–
Amortization of transaction costs less premium	355	270
Repurchase	-6 980	–
Liability component as of December 31	**301 949**	**109 444**
of which:		
- short term portion (bond 2011/2016)	102 761	–
- long term portion (bond 2015/2022)	199 188	109 444
	301 949	**109 444**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

29. EMPLOYEE BENEFITS LIABILITIES

Defined benefit plan income, expense, plan assets and defined benefit obligations are determined by independent actuaries. Defined benefit obligations are calculated using the "Projected Unit Credit" method, and plan assets have been measured at fair market values. Most of the employee benefit obligation results from the Swiss pension plan.

SWITZERLAND

In addition to the legally required social security schemes, the Group has an independent pension plan. Swiss legislation prescribes that the employer has to contribute a fixed percentage of an associate's pay to an external pension fund. Additional employers or employees' contribution may be required whenever the plan's statutory funding ratio falls below a certain level. The associate also contributes to the plan. The pension plan is run by a separate legal entity, governed by a Board of Trustees which consists of representatives nominated by the Group and by the active insured associates. The Board of Trustees is responsible for the plan design and the asset investment strategy. This plan covers all employees in Switzerland and is treated as a defined benefit plan with associated risks exposure being:

- Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plan's liabilities. In order to minimize the risk, mortality assumptions are reviewed on a regular basis.
- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular-basis.

ABROAD

Outside Switzerland, the Group sponsors ten other post-employment benefit plans and, following Conax acquisition, one pension plan treated as defined benefit plan according to IAS 19 revised. Post-employment benefit plans may include jubilee and termination benefits. Other post-employment benefit plans are not funded.

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

In CHF'000	31.12.2015	restated 31.12.2014
Fair value of plan assets	156 621	147 554
Defined benefit obligation	-234 444	-206 427
Funded status	**-77 823**	**-58 873**
Other comprehensive income	-28 262	-15 246
Prepaid/(accrued) pension cost	-49 562	-43 627
Funded status	**-77 823**	**-58 873**

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2015 and 2014:

In CHF'000	2015	restated 2014
Service cost	-19 528	-17 432
Interest cost	-3 206	-3 893
Interest income	2 253	2 912
Employees contributions	5 638	5 753
Amortization of gains/(losses)	-14	-175
Curtailment gain / (loss)	–	68
Net pension (cost)/income	**-14 857**	**-12 767**

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2015 and 2014 are as follows:

	31.12.2015	31.12.2014
Switzerland		
Discount rate	1.00%	1.50%
Rate of future increase in compensations	1.50%	2.00%
Rate of future increase in current pensions	0.75%	1.00%
Interest rate credited on savings accounts	1.00%	1.50%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	2.23%	2.25%
Rate of future increase in compensations	2.63%	2.83%
Turnover *(on average)*	5.8%	8.0%

The weighted average duration of the defined benefit obligation is as follows :

	31.12.2015	31.12.2014
Weighted average duration of the defined benefit obligation in years		
Switzerland	24.4	22.9
Abroad	15.6	16.9

The changes in defined benefit obligation and fair value of plan assets during the years 2015 and 2014 are as follows:

A. Change in defined benefit obligation

In CHF'000	2015	restated 2014
Defined benefit obligation as of 1.1.	**-206 427**	**-175 581**
Service cost	-19 528	-17 432
Interest cost	-3 206	-3 893
Change in demographic assumptions	-8	30
Change in financial assumptions	-10 089	-19 926
Other actuarial gains / (losses)	-1 509	-690
Benefits (paid)/received	4 115	-1 069
Exchange rate difference	2 209	915
Curtailment	–	68
Acquisition of subsidiaries	–	-6 647
Disposal of subsidiaires	–	17 797
Defined benefit obligation as of December 31,	**-234 444**	**-206 427**

B. Change in fair value of plan assets

In CHF'000	2 015	2 014
Fair value of plan assets as of 1.1.	**147 554**	**134 400**
Interest income	2 253	2 912
Employees' contributions	5 638	5 753
Employer's contribution	7 782	7 578
Plan assets gains/(losses)	-1 651	4 200
Benefits (paid)/received	-4 115	1 069
Exchange rate difference	-841	-546
Acquisition of subsidiaries	–	4 675
Disposal of subsidiaires	–	-12 486
Fair value of plan assets as of December 31,	**156 621**	**147 554**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

The actual return on plan assets amounts to kCHF 602 in 2015 (kCHF 7 112 for the year 2014). The estimated employer's contribution to the pension plans for the year 2016 is kCHF 7 039.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2015 and 2014 as follows:

In CHF'000	31.12.2015	Proportion in % 31.12.2015	31.12.2014	Proportion in % 31.12.2014
Cash	1 205	0.8%	2 293	1.6%
Swiss bonds	39 492	25.2%	41 083	27.9%
Foreign bonds	9 986	6.4%	15 828	10.7%
Swiss shares	55 001	35.1%	43 304	29.4%
Foreign shares	33 525	21.4%	28 973	19.6%
Real estates	6 792	4.3%	7 437	5.0%
Alternative investments	5 622	3.6%	3 431	2.3%
Assets held by insurance company	4 998	3.2%	5 205	3.5%
Total	**156 621**	**100.0%**	**147 554**	**100.0%**

There is no complete information available about quoted/not quoted assets.The assets are mainly held by the Swiss pension fund which has no asset-liabilities matching strategy.

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

In CHF'000	Switzerland	Abroad
2015	6 929	145
2016	6 701	59
2017	6 460	88
2018	6 289	96
2019	6 055	108
2020-2024	27 322	1 940

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 2015 year-end defined benefit obligation		Change in 2014 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	restated In CHF'000	restated In CHF'000
50 basis point increase in discount rate	-24 295	-1 217	-20 656	-1 650
50 basis point decrease in discount rate	28 797	1 241	24 508	1 521
50 basis point increase in rate of salary increase	273	n/a	187	n/a
50 basis point decrease in rate of salary increase	-297	n/a	-187	n/a
50 basis point increase in rate of pension increase	15 480	n/a	12 009	n/a
50 basis point decrease in rate of pension increase	-13 995	n/a	-10 960	n/a
50 basis point increase of interest in saving accounts	9 192	n/a	8 009	n/a
50 basis point decrease of interest in saving accounts	-8 606	n/a	-7 492	n/a

30. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restruc-turing provisions	Legal fee and litigations	Provision for warranty	Total 2015	Total 2014
As of January 1	**3 307**	**75**	**1 679**	**5 061**	**6 346**
Additional provisions	–	–	718	718	2 936
Change in scope of consolidation	–	–	794	794	–
Unused amounts reversed	-140	-9	-11	-160	-460
Used during the year	-2 023	–	-1 070	-3 093	-3 720
Exchange differences	-319	-7	-226	-552	-41
As of December 31	**825**	**59**	**1 884**	**2 768**	**5 061**
Thereof:					
- Short term	825	59	1 884	2 768	4 996
- Long term	–	–	–	–	65
	825	**59**	**1 884**	**2 768**	**6 346**

Restructuring provisions

2015 and 2014 restructuring provision balances relate to commitments for lay-offs amounting to kCHF 760 (2014: kCHF 2 987) and termination of leases agreements considered as onerous contracts for kCHF 65 (2014: kCHF 320) following the reorganization and the closure of selected offices.

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 lawsuits are valued according to management's best estimate.

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.

31. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Note	31.12.2015	31.12.2014
Long-term loans - third parties		11 015	–
Deferred and contingent consideration		8 783	1 381
Derivative financial instruments	36	–	486
Other long-term liabilities		1 154	1 470
		20 952	**3 337**

Long-term loans – third parties relate to loans granted by sellers in connection with 2015 business combinations. The effective interest rate is 3.28%.

Deferred and contingent consideration balances include the long-term portion of deferred fix and earn-out payments in connection with the acquisition of Sentry in 2015 as well as earn-out payment for the acquisition of 50% of NagraID Security. Assumptions for earn-out payments are dependent on the achievement of financial performance targets of the acquired companies and are reviewed by management on a periodic basis. Discount rates used for this heading vary from 5.0% to 7.6%. Contingent consideration (level 3) amounts to kCHF 4 012 (2014: kCHF 1 381) and deferred consideration amounts to kCHF 4 771 (2014: kCHF 0).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

32. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2015	31.12.2014
Short term bank borrowings		20 503	75 794
CHF 110 million 3% bond 2011/2016	28	102 761	–
Other short term financial liabilities		195	2
		123 459	**75 796**

The average effective interest rate paid in 2015 for short term bank borrowings was 1.53% (2014: 1.30%). In 2014, short term bank borrowings included the short-term portion of a credit facility agreement (see note 27) for kCHF 33 000.

33. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2015	31.12.2014
Trade accounts payable – third parties	50 640	52 014
Trade accounts payable – related parties	22	120
	50 662	**52 134**

34. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2015	restated 31.12.2014
Accrued expenses	76 293	75 154
Deferred income	26 391	15 551
Deferred consideration	1 889	–
Contingent consideration (level 3)	686	–
Payable to pension fund	488	542
Other payables	17 662	17 284
	123 409	**108 531**

Deferred and contingent consideration balances include the short-term portion of deferred fix and earn-out payments in connection with the acquisition of Sentry.

35. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2015	31.12.2014
Amounts due to customers for contract work	3 590	2 265
Advances from clients	18 450	10 790
	22 040	**13 055**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

36. DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	Contract of underlying principal amount 31.12.2015	Contract of underlying principal amount 31.12.2014	Assets 31.12.2015	Assets 31.12.2014	Liabilities 31.12.2015	Liabilities 31.12.2014
Currency related instruments (level 2)						
- Over the counter currency options	42 132	23 760	39	–	434	280
- Forward contracts	19 800	19 800	326	–	–	245
Interest related instrument (level 2)						
- Interest rate swap	–	88 860	–	–		1 047
Total of derivatives financial instruments	**61 932**	**132 420**	**365**	**–**	**434**	**1 572**
Of which:						
- Short-term	61 932	118 560	–	–	434	1 086
- Long-term	–	13 860	–	–	–	486

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

37. IMPACT OF CHANGES IN ACCOUNTING POLICIES

The impact of changes in accounting policies relates to the following elements:
- Adoption of an amendment to IAS 19R (2011)
- Change in treatment for foreign exchange differences

ADOPTION OF AN AMENDMENT TO IAS 19R (2011)

In the current financial year, the Group has retrospectively adopted an amendment to IAS 19R – 'Defined Benefit Plans: Employee Contributions'. 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 period of service. The amendment, issued in November 2013, clarifies the application of IAS 19R to post-employment benefit plans that require employees or third parties to contribute towards the cost of benefits. The amendment allows contributions that are linked to service, and do not vary with length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided (e.g. contributions dependent on the employee's age or contributions that are a fixed percentage of the employee's salary). The Group elected to apply this amendment as it better approximates the Swiss pension commitment.

The impact of the adoption of the IAS 19R amendment on the balance sheet is as follows:

In CHF'000	31.12.2015	31.12.2014	01.01.2014
Decrease in the employee benefits liabilities (non-current)	17 616	20 378	20 101
Decrease in deferred tax assets (non-current)	-3 852	-4 487	-4 410
Increase in deferred tax liabilities (non-current)	–	-13	-16
Decrease in other current liabilities (current)	–	194	130
Net impact on equity	**13 764**	**16 072**	**15 804**
Equity attributable to equity holders of the parent	13 764	16 072	15 804
Non controlling interests	–	–	–

The impact of the adoption of the IAS 19R amendment on the income statement and the other comprehensive income is as follows:

In CHF'000	2015	2014
Decrease in employees benefits expense	–	-9
Decrease in interest expense	308	424
Increase in current tax expense	-67	-89
Impact on net profit for the year (continuing operations)	**241**	**326**
Attributable to equity holders of the parent	241	326
Non controlling interests	–	–
Increase / decrease in remeasurements on post-employment benefit obligations, net of income tax	-2 549	-61
Effect of currency translation adjustments	–	3
Impact in other comprehensive income, net of tax	**-2 549**	**-58**
Attributable to equity holders of the parent	-2 549	-58
Non controlling interests	–	–

There was no material impact on the Group's consolidated statement of cash flows or basic and diluted EPS.

CHANGE IN TREATMENT FOR FOREIGN EXCHANGE DIFFERENCES

In the current year, the Group changed its accounting treatment of foreign exchange differences to consider all exchange differences in connection with subsequent measurements and settlements of debtors and suppliers as part of finance income/expense. In the past, the Group recognized exchange differences in connection with debtors and suppliers' subsequent measurements and settlements as part of revenue and cost of material. This change in accounting treatment only impacts the classification of these foreign exchange differences in the income statement and had no impact on the balance sheet, other comprehensive income and the cash flow statement. Comparative information has been restated for comparison purposes.

The impact of this accounting treatment change on the income statement is as follows:

In CHF'000	2015	2014
Increase/(decrease) in Revenues	1 852	-8 445
Decrease/(increase) in Cost of material, licences and services	1 415	1 567
Increase/(decrease) in Other finance income/(expense), net	-3 267	6 878
Impact on net income for the period	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

38. 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.

In CHF'000	2014
Revenue	14 015
Expenses	-21 573
Operating result	**-7 558**
Finance costs	-1 267
Result before tax from discontinued operations	**-8 825**
Income tax	-23
Result after tax from discontinued operations	**-8 848**
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**

In CHF'000	2014
Cash flow used in operating activities	-3 850
Cash flow used in investing activities	-1 160
Cash flow from financing activities	3 029

39. RESEARCH AND DEVELOPMENT

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

In CHF'000	2015	2014
Research and development	192 578	195 363

40. DIVIDEND

The ordinary dividend paid in 2015 was kCHF 16 225 (2014: kCHF 16 170) which corresponds to a dividend of CHF 0.30 (2014: CHF 0.30) per bearer share and CHF 0.03 (2014: CHF 0.03) per registered share. For the current year, the Board of Directors proposes to carry forward the available retained earnings.

41. 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 a distribution of additional shares.

	Shares 2015	Shares 2014
Shares underwritten by employees	6 790	6 815
Bonus shares and options from ESPP	1 358	1 363
Total employee share program	**8 148**	**8 178**
Amount paid by employee (In CHF'000)	61	62
Booked corporate charges (excluding social charges) (In CHF'000)	26	33
	87	**95**

The following table summarizes the options part of this plan:

Changes in options held	Strike price in CHF	Options 2015	Options 2014
In circulation on January 1	15	–	584
Total in circulation on January 1		**–**	**584**
Rights exercised	15	–	-50
Rights forfeited	15	–	-534
In circulation on December 31		**–**	**–**
- of which exercisable as of January 1	15	–	584
- of which exercisable as of December 31	15	–	–

SHARES ISSUED TO EMPLOYEES

In 2015, 178 290 (2014: 108 251) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 138 705 (2014: 65 980) include a seven-year blocking period and 39 585 (2014: 42 271) include a three year blocking period. The fair value recognized for this equity based compensation is kCHF 1 261 (2014: kCHF 919)

42. 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 members of the Group:

	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
In CHF'000	**2015**	**2014**	**2015**	**2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Hantory Co., Ltd	subsidiary	2 032	subsidiary	–	subsidiary	–	subsidiary	–
APT-Skidata Ltd	9 377	7 449	–	–	–	–	2 062	1 499
SKIDATA Parking System	3 163	2 854	–	–	–	–	922	1 559
SKIDATA India Private Limited	309	674	–	–	10	87	205	297
SKIDATA Australasia Private Limited	subsidiary	8 205	subsidiary	–	subsidiary	–	subsidiary	6 496
iWedia SA	155	138	403	618	88	421	34	42
Total associated companies	**13 004**	**21 352**	**403**	**618**	**98**	**508**	**3 223**	**9 893**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 619
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 619**

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 is shown below:

In CHF'000	**2015**	**2014**
Salaries and other short-term employees benefits	9 162	8 182
Post-employments benefits	105	101
Share-based payments	1 064	981
	10 331	**9 264**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

43. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Kudelski family pool	63%	63%	35%	35%

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

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2015 and 2014, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2015 and 2014 variable compensation - issued in 2016 and 2015 respectively):

	31.12.2015	31.12.2014
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 394 423	14 294 423
Smadja Claude, vice chairman	1 300	1 300
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	–	–
Total board members	**14 402 063**	**14 302 063**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	173 272	200 820
Roy Pierre, COO	61 236	62 900
Total Management (excluding CEO)	**234 508**	**263 720**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2015 and 2014.

No loans were granted in 2015 and 2014 to the members of the Board of Directors and Group management.

44. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 015	2 014
Within one year	11 792	11 870
In the second to fifth year inclusive	23 932	23 744
	35 724	**35 614**

45. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2015:

Assets as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2015
Financial assets and non current assets:						
- equity instruments with no quoted market price	19			900		900
- marketable securities	19			417		417
- long term loans	19				7 191	7 191
- Trade accounts receivable - long-term portion	19				1 938	1 938
- guarantee deposits	19				3 320	3 320
- contingent consideration	19		7 383			7 383
Trade accounts receivable	21				228 302	228 302
Other current assets:						–
- Loans	22				15	15
Derivative financial instruments (short and long term)	36	326	39			365
Cash and cash equivalents	23				136 840	136 840
		326	**7 422**	**1 317**	**377 606**	**386 671**

Liabilities as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2015
Long term financial debt	26			199 189	199 189
Other long term liabilities	31		8 783	11 487	20 270
Short term financial debt	32			123 459	123 459
Trade accounts payable	33			50 662	50 662
Other current liabilities	34		2 574	1 956	4 530
Derivative financial instruments (short and long term)	36	377	57		434
		377	**11 414**	**386 753**	**398 544**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

And for 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	19	–	1 234	–	1 234
- marketable securities	19	–	1 237	–	1 237
- long term loans - third party	19	–	–	5 481	5 481
- long term loans - related party	19	–	–	576	576
- guarantee deposits	19	–	–	3 844	3 844
- contingent consideration	19	7 031	–	–	7 031
Trade accounts receivable	21	–	–	215 071	215 071
Other current assets:					
- Loans	22	–	–	37	37
Cash and cash equivalents	23	–	–	92 382	92 382
		7 031	**2 471**	**317 391**	**326 893**

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	26	–	–	255 223	255 223
Other long term liabilities	31	–	–	1 381	1 381
Short term financial debt	32	–	–	75 796	75 796
Trade accounts payable	33	–	–	52 134	52 134
Other current liabilities	34	–	–	17 285	17 285
Derivative financial instruments (short and long term)	36	486	1 086	–	1 572
		486	**1 086**	**401 819**	**403 391**

46. 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 (as prices) or indirectly (derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

The table below illustrates the three hierarchical levels for valuing financial instruments carried at fair value as of December 31, 2015 and 2014:

In CHF'000		Note	31.12.2015	31.12.2014
Financial assets:				
- marketable securities	Level 1	19	417	1 237
- derivative financial instruments	Level 2	36	365	–
- equity instuments with no quoted market price	Level 3	19	400	400
- contingent assets	Level 3	19	7 383	7 031
Total financial assets			**8 565**	**8 668**
Financial liabilities:				
- derivative financial instruments	Level 2	36	434	1 572
- contingent consideration (short-term portion)	Level 3	34	686	–
- contingent consideration (long-term portion)	Level 3	31	4 012	1 381
Total financial liabilities			**5 132**	**2 953**

Level 3 equity instruments with no quoted market price are based on discounted cash flow calculation provided by the company. A Level 3 contingent asset consisting of an earn-out has been calculated using projections of revenues of a disposed company, as estimated by management. The fair value measurement uses a 5% discount rate.
Level 3 contingent liabilities consists of earn-out payments calculated on companies that have been acquired. The fair value is measured using projections reviewed by management, and discount rate comprised between 5.0 and 7.6%.

RECONCILIATION OF LEVEL 3 FAIR VALUES:
The following table shows a reconciliation for the level 3 fair values:

In CHF'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2014	1 400	–	–
Assumed in a transaction with non-controlling interest	–	–	-1 381
Resulting from a divestment	–	7 031	–
Value adjustment	-1 000	–	–
Balance at December 31, 2014 and January 1, 2015	**400**	**7 031**	**-1 381**
Assumed in a business combination	–	–	-3 247
Discount effect	–	352	-70
Balance at December 31, 2015	**400**	**7 383**	**-4 698**

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 2015	Fair value 2015	Carrying amount 2014	Fair value 2014
Financial liabilities				
- CHF 110 million bond	102 761	105 905	109 444	114 730
- CHF 200 million bond	199 188	202 600	–	–

The fair values of the bonds are based on their market price.

47. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

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
	2 015	2 014	2 015	2 014	2 015	2 014	2 015	2 014	2 015	2 014
Bonds	109 881	3 300	15 080	113 300	207 560	–	-30 572	-7 156	301 949	109 444
Long term bank loans	–	3 006	–	151 723	–	–	–	-8 968	–	145 761
Short term financial debt	20 698	75 796	–	–	–	–	–	–	20 698	75 796
Trade accounts payable	50 662	52 134	–	–	–	–	–	–	50 662	52 134
Other payables	17 662	17 285	–	–	–	–	–	–	17 662	17 285
Total	**198 903**	**151 521**	**15 080**	**265 023**	**207 560**	**–**	**-30 572**	**-16 124**	**390 971**	**400 420**

48. 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% (2014: 10%) increase and decrease in the USD and a 20% (2014: 20%) 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 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.

In CHF'000	USD 2 015	USD 2 014	EUR 2 015	EUR 2 014
Post-tax net income				
- Increase	3 505	13 615	15 145	6 555
- Decrease	-6 945	-13 615	-16 210	-6 555
Comprehensive income (post-tax effect)				
- Increase	11 622	5 407	3 385	4 176
- Decrease	-10 354	-4 807	-3 472	-4 176

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, corresponding to each currency, represent management's assessment of the reasonable possible change in interest rates for purposes of reporting interest rate sensitivity:

- USD: increase of 150 basis points and decrease of 50 basis points (2014: 150 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2014: 150 basis points increase or 50 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2014: 100 basis points increase or 100 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, 2015 would increase by kCHF 969 and decrease by kCHF 833 (2014: decrease by kCHF 377 /decrease by kCHF 690). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2015 (2014: increase by kCHF 259 / decrease by 86) . The other comprehensive income impact is 0 as an interest rate swap qualifying for cash-flow hedge accounting has been unwound during 2015.

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

49. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2015	31.12.2014
Guarantees in favor of third parties	33 324	29 936

50. RISK CONCENTRATION

At December 31, 2015 and 2014, no financial asset exposure was more than 10% of the financial assets.

51. 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 2015 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

52. 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 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 2015 was 57.2% (2014: 45.8%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2015

53. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2015	2014	2015	2014
1 USD	0.9900	0.9900	0.9627	0.9155
1 EUR	1.0820	1.2025	1.0684	1.2145
100 CNY	15.2450	15.9700	15.3168	14.8610
100 NOK	11.2650	13.3250	11.9412	14.5380
1 GBP	1.4680	1.5400	1.4712	1.5070
100 BRL	25.2000	37.3000	29.2800	38.9300
100 INR	1.5000	1.5700	1.5011	1.5004
1 SGD	0.7000	0.7480	0.7003	0.7222
100 ZAR	6.4000	8.5400	7.5700	8.4400
100 RUB	1.3360	1.7910	1.5864	2.4140
1 AUD	0.7230	0.8100	0.7236	0.8250

54. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 17, 2016.

55. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2015	2014
Integrated Digital Television				
Nagravision SA	CH – Cheseaux	Solutions for Digital TV	100	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	77.5	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	100
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.

56. 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 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 S.A., which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 100 to 156), for the year ended 31 December 2015.

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 2015 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 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 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 17, 2016

BALANCE SHEETS AT DECEMBER 31, 2015 AND 2014

ASSETS

In CHF'000	Notes	31.12.2015	31.12.2014
Current assets			
Cash and cash equivalents		31 872	14 981
Accounts receivable from Group companies		33 750	39 729
Other current receivables and prepaid expenses	3.1	1 158	3 754
Total current assets		**66 779**	**58 464**
Fixed assets			
Financial assets:			
- Loans to Group companies		699 578	765 064
- Other long term assets		1 081	1 081
Investments	3.2	370 053	337 514
Total fixed assets		**1 070 712**	**1 103 659**
Total assets		**1 137 491**	**1 162 123**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2015	31.12.2014
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		3 268	–
- Bank, short term borrowings	3.3	–	33 000
- Bonds	3.4	103 020	–
Other short-term liabilities :			
- due to third parties		403	424
- due to Group companies		12 761	25 528
Accrued expenses		2 507	1 790
Total short-term liabilities		**121 959**	**60 741**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bank, long term borrowings	3.3	–	132 000
- Bonds	3.4	200 000	110 000
Total long-term liabilities		**200 000**	**242 000**
Total liabilities		**321 959**	**302 741**
Shareholders' equity			
Share capital		540 911	539 047
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		8 300	19 111
Retained earnings		185 815	221 129
Net income		-29 495	-29 905
Total shareholders' equity	**3.5**	**815 532**	**859 382**
Total liabilities and shareholders' equity		**1 137 491**	**1 162 123**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2015

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

In CHF'000	Notes	2015	2014
Financial income	4.1	17 510	55 587
Gain/(Loss) on sale of investments	4.2	5 883	-35 499
Administrative and other expenses	4.3	-3 266	-6 370
Financial expenses and exchange result	4.4	-44 453	-13 782
Impairment of financial fixed assets	4.5	-3 832	-28 352
(loss)/Income before tax		**-28 156**	**-28 416**
Direct taxes (other than income tax)		-1 338	-1 489
Net (loss)/income		**-29 495**	**-29 905**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2015

In CHF'000	Legal reserves from capital contribu-tion	Retained earnings
Balance brought forward from previous year	8 300	185 815
Net result	–	-29 495
Total available earnings	**8 300**	**156 320**
Balance to be carried forward	**8 300**	**156 320**

The Board of Directors proposes to carry forward the available retained earnings.

NOTES TO THE FINANCIAL STATEMENTS 2015

1. INTRODUCTION

Kudelski SA, with registered office in Cheseaux, is the ultimate holding company of the Kudelski Group, which comprises subsidiaries and associated companies.

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the new Swiss accounting legislation, which became effective since January 1, 2013 and required implementation in 2015, of the Swiss Code of Obligations (SCO). In accordance with the SCO, Kudelski SA elected to restate the 2014 financial statements to be comparable with the 2015 presentation. This resulted in changes to the presentation of the income statement, balance sheet and notes.

These financial statements were prepared under the historical cost convention and on an accrual basis.

Kudelski SA is presenting consolidated financial statements according to IFRS. As a result, these financial statements and notes do not include additional disclosures, cash flow statement and management report.

FINANCIAL 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 2015

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2015	31.12.2014
Withholding tax	66	310
Other accounts receivable	11	4
Prepaid expenses	1 080	3 440
	1 158	3 754

Prepaid expenses mainly includes the amortized cost of the difference between nominal value and net proceeds less issuance costs of the bonds (note 3.4). These amounts are allocated against income statement over the contractual periods of their underlying borrowings. In 2014, prepaid expenses also included transaction costs relating to the CHF 235 million credit facility agreement (note 3.3) for kCHF kCHF 2874, which have been impaired and expensed in full in the income statement in 2015 following the reimbursment of the borrowing.

3.2 INVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2015	2014
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	AT - Salzburg	Public access	kEUR	3 634	100	100
Nagra Plus	CH – Cheseaux	Analog Pay-TV solutions	kCHF	100	50	50
SmarDTV SA	CH – Cheseaux	Conditional access modules and set-top-boxes	kCHF	1 000	77.5	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
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
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	T
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR	163	100	T
OpenTV Europe SAS	FR - Issy les Moulineaux	Research & development	kEUR	38	100	T
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD	50	100	T
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD	1	100	T

T : transfer from another group company

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2015	2014
Conax AS	NO - Oslo	Conditional access modules and set-top-boxes	kNOK	1 111	100	100
OpenTV Inc	US - Delaware	Middleware for set-top-boxes	kUSD	112 887	100	100
NagraStar LLC	US – Englewood	Smartcards and digital TV support	kUSD	2 043	50	50
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	0
SKIDATA Benelux BV	NL – Barenbrecht	Public access	kEUR	90.6	100	100
SKIDATA (Schweiz) AG	CH - Adliswil	Public access	kCHF	150	100	100
SKIDATA Inc	US – Hillsborough	Public access	kUSD	5 510	100	100
SKIDATA Australasia Pty Ltd	AU – Melbourne	Public access	kAUD	5 472	50	0

3.3 BANK BORROWINGS

In 2014, the Group obtained a committed long term credit facility of CHF 235 million until June 30, 2019. As of December 31, 2014 the Group had drawn CHF 165 million of which CHF 132 million were classified as long term and CHF 33 million as short term in the balance sheet. This borrowing has been fully reimbursed as of December 31, 2015.

3.4 BONDS

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 Company repurchased kCHF 6 980 of this bond in 2015.

On May 12, 2015 the company also issued a CHF 200 million bond with a subscription price of 100%, bearing an interest rate of 1.875% and maturing on August 12, 2022 with denominations of CHF 5 000 and multiples thereof.

Each bond is measured at its nominal value. The initial difference between nominal value and net proceeds less issuance costs is considered as a prepaid expense and allocated against the income statement over the period of the bond.

3.5 CHANGE IN SHAREHOLDERS' EQUITY

In CHF'000	Share capital	Legal reserves from retained earnings	Legal reserves from capital contribution	Retained earnings	Total Shareholders' equity
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**
Dividend	–	–	-10 817	-5 408	-16 225
Share capital increase	1 864	–	6	–	1 870
Net Income	–	–	–	-29 495	-29 495
As of December 31, 2015	**540 911**	**110 000**	**8 300**	**156 321**	**815 532**

NOTES TO THE FINANCIAL STATEMENTS 2015

COMPOSITION OF SHARE CAPITAL

In CHF'000	31.12.2015	31.12.2014
49'461'147 / 49'274'709 bearer shares, at CHF 10 each	494 611	492 747
46'300'000 registered shares, at CHF 1 each	46 300	46 300
	540 911	**539 047**

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	2015	2014
Conditional share capital as of January 1	110 390	103 555
Increase of conditional share capital	–	8 000
Employee share purchase plan	-81	-82
Shares allotted to employees	-1 783	-1 083
Conditional share capital at December 31	**108 526**	**110 390**
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:		
852'609 / 1'039'047 bearer shares, at CHF 10 each	8 526	10 390
	108 526	**110 390**

AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2015	31.12.2014
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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Kudelski family pool	63%	63%	35%	35%

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2015	2014
Dividends received from Group subsidiaries	–	39 043
Interest income third parties	177	119
Interest on loans to Group subsidiaries	17 333	16 425
	17 510	**55 587**

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2015 gain on sale of investments is mainly due to the sale of 22.5% of SmarDTV SA to EchoStar for kCHF 5 766. 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	2015	2014
Administrative expenses	-3 266	-6 370
	-3 266	**-6 370**

4.4 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2015	2014
Net currency exchange result	-32 311	-4 494
Interest on loans from Group subsidiaries	-18	-39
Interest expenses and bank charges	-12 124	-9 249
	-44 453	**-13 782**

NOTES TO THE FINANCIAL STATEMENTS 2015

4.5 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2015	2014
Change in provision on Group investments and loans	-3 000	-26 143
Value adjustment on investments	-832	-2 209
	-3 832	**-28 352**

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2015	31.12.2014
Guarantee commitments		
Commitment in favor of third parties	1 699	1 328
	1 699	**1 328**
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. FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for 2015 and 2014 did not exceed ten people.

7. 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.

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 S.A., which comprise the balance sheet, income statement and notes (pages 158 to 165), for the year ended 31 December 2015.

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 2015 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 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 17, 2016

INTERNET LINKS

GROUP WEBSITE
www.nagra.com

INVESTOR RELATIONS SECTION
www.nagra.com/investors/key-figures

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Corporate Communication, Kudelski Group

SUPPORT
Desrochers Communication

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DISCLAIMER

This report contains forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. These statements are subject to known and unknown risks and uncertainties and could be affected by other factors that could cause actual results, plans and objectives to differ materially from those expressed or implied in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, performance of the financial markets, competitive factors and changes in laws and regulations.

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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