KUDELSKI GROUP 2017 ANNUAL REPORT

NAGRA
KUDELSKI GROUP

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SHAPING THE FUTURE OF THE GROUP

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

How would you characterize 2017 for the Kudelski Group?

In 2017, we have seen simultaneously growing demand for cybersecurity, IoT security and public access solutions and softer demand for digital TV solutions. The weaker demand in digital TV is both structural and the result of increased caution by customers concerning new investments.

The slowdown at Conax is a perfect illustration of this trend, in particular in emerging markets. They experienced new demand for Internet TV solutions, but not yet at a level that compensates fully for the weakness of the legacy digital TV market.

To address these market changes, the Group has taken a number of important actions to improve the profitability of its core business, while continuing to ramp up the investments required to seize the new opportunities in cybersecurity, IoT security and Internet TV. The extent of these required investments compounded by the transformation and restructuring constraints have had a negative impact on the Group's profitability.

With that in mind, how do you foresee 2018?

Overall, 2018 will be a challenging year for the Kudelski Group, mainly due to the evolution of the legacy digital TV market. The transformation launched in the second half of 2017 will continue in 2018, with the primary objective of adjusting the Group's structure to the new market reality.

The Group will continue to invest in cybersecurity, IoT security, public access and Internet TV and will simultaneously improve the efficiency of the integrated Digital TV business. The newly appointed DTV COO, Morten Solbakken, will drive the business excellence effort with a special focus on improving the cost structure of the iDTV business.

The Group accelerated the transformation of its iDTV business in 2017 - will it pay off in 2018?

The Group's transformation will not yet realize its full effect in 2018. The process we have launched requires important investments in new high potential sectors together with the streamlining and restructuring of legacy businesses. The restructuring efforts are expected to impact 2018 profitability negatively, and we do not expect to fully realize the returns from new investments this year.

This transformation means building new teams to address new challenges and at the same time launching cost reduction measures, including the downsizing and active reduction of the total number of sites involved with our legacy business. New investments are being made in sectors that are expected to grow fast in future years.

What are the trends in digital TV?

It is well known that the Internet and digitalization are revolutionizing the world, including TV. What is less known is that television is also revolutionizing the Internet. With Internet technologies, the bottleneck of content distribution has disappeared. This means that the major broadcasters and TV operators no longer have the capability of controlling the distribution pipe. This evolution has enabled a number of new small and niche players to enter the market and offer alternative content.

Managing video content requires an in-depth knowledge that is the privilege of those who have worked in the video space for decades. Having this expertise is a clear asset for our Group, and we are positioning ourselves strongly to offer our know-how in this fast-changing and challenging environment.

"Today, Kudelski Security is an important player in the cybersecurity space, uniquely positioned for growth in the future, with innovation as a differentiating factor."

How is the cybersecurity business developing, especially with regards to innovation?

Since the early days of cybersecurity, the Kudelski Group has considered that it had a role to play in this sector; the expertise we gained over three decades in fighting piracy is a real competitive differentiator when fighting cyber hackers.

With Kudelski Security, the Group developed its cybersecurity business first in Switzerland and, since 2015, globally, with a special focus on the US. Today, Kudelski Security is not only an important player in the cybersecurity space, but uniquely positioned for growth in the future, with innovation as a differentiating factor.

The Kudelski Security business is now growing by double digits, both in the US and in Switzerland. We expect this trend to continue in 2018 and beyond. Kudelski Security's recent innovation includes the advanced features in the Cyber Fusion Center, the security enclave solutions and the advanced secure blueprint solution. Kudelski Security's investments in innovation are intended to improve the detection and remediation of cyber-attacks and to deliver secure-by-design solutions. Further innovations will be announced in the future.

In Internet of Things Security, what is the Group' s offering and why is it unique?

The Internet of Things is one of the most promising sectors of the future. With the Internet interacting with the real world, security is critical to avoiding major disasters. The skill and experience required to address adequately IoT security issues are precisely the technologies that the Kudelski Group has developed over the past 20 years. We are investing heavily in the design and development of an advanced secure IoT platform with customization capabilities for specific client projects.

Today, more than 400 million of the Group's secure devices are in operation around the world. Our expertise in very low power solutions from the Nagra Audio activities is an additional differentiator versus the competition. The strategy of the IoT Center of Excellence is to deliver end-to-end secure solutions, monitor threats and mitigate the consequences in case of communication disruptions and cyber-attacks.

How is Public Access evolving to ensure future growth?

Public Access has been extremely successful over the last decade in terms of revenue growth. This growth has been both organic and through acquisitions. Going forward, Public Access will focus on further organic growth as well as increased operational excellence for higher profitability and better cash generation. Innovation also plays a key role for Public Access, creating competitive differentiation and enabling the company to deliver a better value for its client base.

What are the new innovation opportunities for 2018?

The main focus of the Kudelski Group's innovation is to further develop its technology portfolio in cybersecurity and IoT security. One of the research areas is the combination of advanced security technologies developed by the Group with blockchain technologies. We consider that this combination is a powerful approach to the future of Internet security.

What will be the distribution to shareholders for fiscal year 2017?

The Group's dividend policy is based on caution and stability. The ongoing Group transformation will have a short-term negative effect on cash generation, mainly due to restructuring costs.

The Board of directors is proposing a reduced distribution through a return of capital of CHF 0.10 per bearer shares (CHF 0.01 per registered share).

What is the outlook for 2018?

We expect that the Group's 2018 revenues will be in line with 2017, with cybersecurity and public access activities experiencing further growth while the legacy part of the Group's digital TV business will remain challenging. Profitability is expected to be under continued pressure due to restructuring costs in connection with the Group's reorganization efforts.

Despite this financial outlook for 2018, we see solid underlying growth opportunities in the areas of cybersecurity, Internet of Things and Internet TV activities, and we are making investments in these areas to develop the sustainable profitability of the Group.

On behalf of the Board of Directors, I would like to take the opportunity to thank our shareholders, employees, clients and partners for contributing to the long-term success of the Group and for supporting us especially during these challenging times.

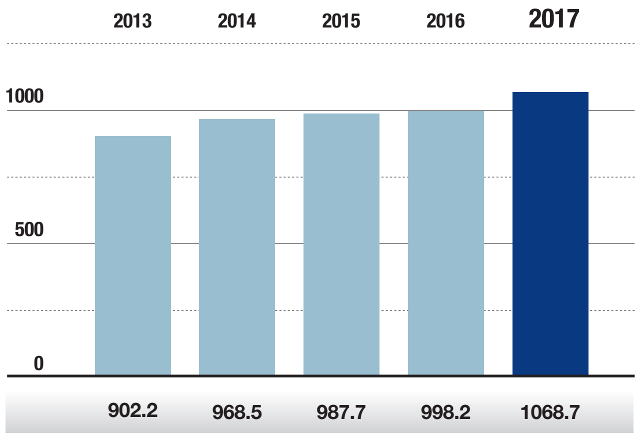
"The Group will continue to invest in cybersecurity, IoT security, public access and Internet TV."

KEY FINANCIAL DATA 2017

		31.12.2017	31.12.2016	Change
Total revenues and other operating income	USD million	**1068.7**	**998.2**	**7.1%**
Operating income before depreciation, amortization and impairment (OIBDA)	USD million	**64.2**	**153.8**	-58.3%
in % of total revenues	%	6.0	15.4	
Operating income (EBIT)	USD million	**25.6**	**110.5**	-76.8%
in % of total revenues	%	2.4	11.1	
Net income from continuing operations	USD million	**2.7**	**88.5**	-96.9%
Earnings per share	USD	**-0.2092**	**1.1728**	
Money returned to shareholders (proposed per bearer share)	CHF	**0.10**	**0.35**	-71.4%
Share price at December 31 (bearer shares)	CHF	**12.05**	**17.65**	-31.7%
Market capitalization at December 31 (bearer shares)	CHF million	**599.6**	**875.8**	-31.5%
Equity attributable to equity holders	USD million	**476.7**	**469.8**	1.5%
Cash flow from operating activities	USD million	**-54.2**	**124.2**	
Cash and cash equivalents	USD million	**71.9**	**174.4**	-58.8%
Financial debt	USD million	**424.3**	**374.9**	13.2%
Number of employees at December 31 (headcount)		**3940**	**3801**	3.6%

TOTAL REVENUES AND OTHER OPERATING INCOME

In million USD



REVENUES PER SEGMENT

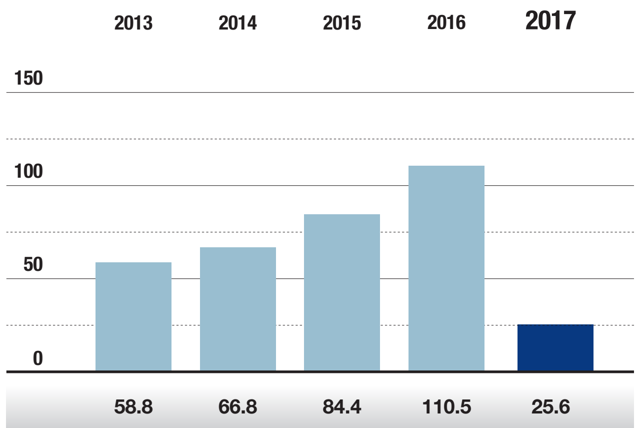
INTEGRATED DIGITAL TV

65.6 %

PUBLIC ACCESS

34.4 %

OPERATING INCOME

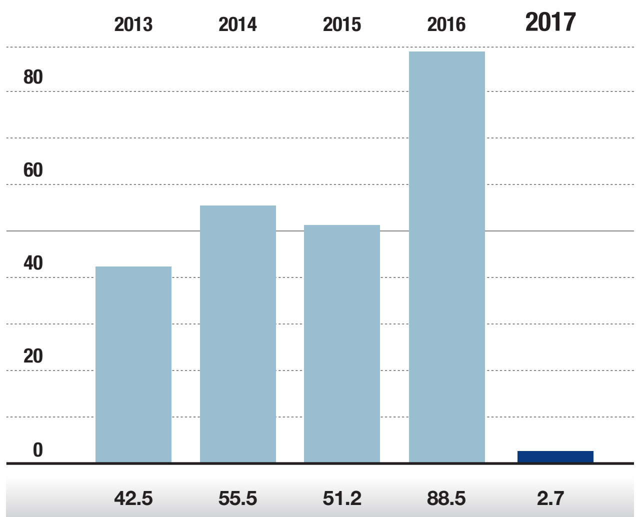


OIBDA *

2017 **64.2** **

2016 **153.8** **

NET INCOME FROM CONTINUING OPERATIONS



EARNINGS PER BEARER SHARE

2017 **-0.2092** ***

2016 **1.1728** ***

*Operating Income Before Depreciation, Amortization and Impairement **

*In million USD ***

*In USD ****

2015 figures include retrospective application of new accounting standards and change in accounting policy.

2013 -2016 figures have been restated in USD for comparison purposes.

THE KUDELSKI GROUP

A GLOBAL TECHNOLOGY LEADER

The Kudelski Group is the world leader in the creation 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 all network types. The Group's solutions enable consumers to access content seamlessly over any device through a compelling viewing experience.

Leveraging on its long-standing expertise in securing digital content and fighting piracy, the Group is a global provider of cybersecurity solutions and services focused on protecting companies' and organizations' data, processes and systems.

The company also designs and delivers technology and services to support companies across all industries in securing their Internet of Things innovations.

Public Access solutions are another activity sector of the Group. The world's largest parking facilities, stadiums and mountain resorts use SKIDATA's integrated people and vehicle management solutions.

The Group capitalizes on its intellectual property patent portfolio through cross access to state-of-the-art technology patents and license agreements, demonstrating the relevance of the Group's innovation and the key role it is playing in the industries in which it operates.

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

63

LOCATIONS IN 34 COUNTRIES

3 940

EMPLOYEES

COMPANY PORTFOLIO

INTEGRATED DIGITAL TV

CORE ACTIVITIES

Integrated content protection and multi-device user experience solutions that fit large operators' ecosystems perfectly — **NAGRA**

Off-the-shelf, innovative and cost-efficient solutions for mid-sized operators to deliver pay-TV content securely over broadcast, Internet and connected devices — **Conax**

Smart devices for digital TV access including Conditional Access Modules and set-top boxes — **SmarDTV**

Watermarking technologies and solutions to protect media content against illicit redistribution — **NexGuard**

Media asset management solutions — **DVnor**

GROWTH INITIATIVES

Cybersecurity solutions and services for enterprises and public sector — **Kudelski Security**

Development, protection and licensing of the Group's innovations — **Intellectual Property**

Technology and services to support companies across all industries in securing their Internet of Things innovations — **IoT Center of Excellence**

PUBLIC ACCESS

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

Innovation is a key growth driver for the Kudelski Group. The Group's history and heritage is built on the flagship name of "NAGRA", originally referring to the world-famous recorder developed in 1951. The company has ever since been a technology pioneer driven by an acute vision and a sharp sense of innovation.

INNOVATION AS A GROWTH DRIVER

THE AUDIO AGE

1951

CREATION OF THE COMPANY BY STEFAN KUDELSKI.

LAUNCH OF THE FIRST PORTABLE RECORDER, THE NAGRA I. 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, THE LEGENDARY RADIO, TV AND CINEMA RECORDER, 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 SWISS STOCK MARKET.

PAY-TV: FROM NICHE TO MASS MARKET

1989

DELIVERY OF THE 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 PROFESSIONAL AUDIO PORTABLE DIGITAL RECORDER.

1995

DELIVERY OF THE FIRST DIGITAL TV ACCESS SOLUTIONS.

1996

ANDRÉ KUDELSKI RECEIVES AN EMMY AWARD FROM THE NATIONAL ACADEMY OF ARTS AND SCIENCES FOR ACHIEVEMENTS IN THE AREA OF PAY-TV CONDITIONAL ACCESS AND SCRAMBLING SYSTEMS.

1997

DIGITAL PAY TELEVISION BECOMES THE COMPANY'S CORE BUSINESS.

NAGRA AUDIO LAUNCHES A RANGE OF HIGH-END HI-FI PRODUCTS.

1998

FIRST SYSTEMS OFFERING MIXED PAY-TV AND INTERNET SOLUTIONS.

CREATION OF NAGRASTAR, A JOINT-VENTURE WITH ECHOSTAR.

1999

THE GROUP CREATES THE FIRST ENCRYPTION SYSTEMS DESIGNED FOR BROADBAND NETWORKS.

ENTRY INTO PUBLIC ACCESS

2001

DIVERSIFICATION INTO THE PUBLIC ACCESS SECTOR WITH THE ACQUISITION OF SKIDATA.

2003

THE GROUP BECOMES THE WORLD LEADER IN THE FIELD OF CONDITIONAL ACCESS SOLUTIONS THROUGH THE ACQUISITION OF CANAL+ TECHNOLOGIES (MEDIAGUARD).

2004

LAUNCH OF SECURITY SOLUTIONS FOR MOBILE DEVICES.

LAUNCH OF PRE-PAID CARDS GIVING ACCESS TO PREMIUM CONTENT ON A TEMPORARY BASIS.

2006

THE GROUP ADDS REMOVABLE SECURITY MODULES TO ITS OFFERING THROUGH THE ACQUISITION OF THE DIGITAL TV ACTIVITY OF SCM MICROSYSTEMS RESULTING IN THE CREATION OF SMARDTV.

2007

ACQUISITION OF A CONTROLLING INTEREST IN OPENTV.

FIRST SOLUTIONS DESIGNED FOR HYBRID NETWORKS.

EXPANDING IN THE DIGITAL TV ECOSYSTEM

2009

LAUNCH OF MULTISCREEN SOLUTIONS.

ACQUISITION OF 100% OF OPENTV: THE GROUP'S SOLUTIONS MANAGE THE ENTIRE PAY-TV ECOSYSTEM.

ENTRY INTO CYBERSECURITY

2012

THE GROUP DIVERSIFIES INTO THE CYBERSECURITY SECTOR WITH THE CREATION OF KUDELSKI SECURITY.

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 OPENTV5, 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

SUCCESS OF INTEGRATED SECURITY, NEXT-GENERATION MIDDLEWARE AND MULTISCREEN SOLUTIONS.

KUDELSKI SECURITY LAUNCHES THE FIRST SWISS CYBER FUSION CENTER.

SECOND HEADQUARTERS IN THE U.S.

2016

LAUNCH OF NAGRA'S INTUITV, A CUTTING-EDGE, END-TO-END USER EXPERIENCE TURNKEY PLATFORM.

THE KUDELSKI GROUP OPENS A SECOND HEADQUARTERS IN PHOENIX, ARIZONA.

KUDELSKI SECURITY EXPANDS IN THE US MARKET WITH THE ACQUISITION OF MILESTONE SYSTEMS.

ACQUISITION OF NEXGUARD LABS, A LEADER IN WATERMARKING SOLUTIONS, EXPANDING THE GROUP'S PORTFOLIO OF END-TO-END CONTENT PROTECTION SECURITY SOLUTIONS.

THE GROUP LAUNCHES INSIGHT, NAGRA'S ANALYTICS PLATFORM BASED ON BIG DATA AND ARTIFICIAL INTELLIGENCE.

INTENSIFICATION OF THE GROUP'S PATENT LICENSING ACTIVITY.

FURTHER EXPANSION INTO INTERNET OF THINGS SECURITY

2017

FURTHER TRANSFORMATION OF THE DIGITAL TV MARKET INTO INTERNET TV.

CONTINUED EXPANSION OF THE GROUP'S SOLUTION PORTFOLIO WITH THE ACQUISITION OF DVNOR.

ACCELERATED INVESTMENTS IN AND GROWTH OF THE CYBERSECURITY AND INTERNET OF THINGS SECTORS TO ADDRESS INCREASING MARKET DEMAND.

CONTINUED DEVELOPMENTS IN THE INTERNET OF THINGS SPACE WITH THE LAUNCH OF A COMPLETE IOT CHIP-TO-CLOUD SECURITY SOLUTION SUITE AND WHITE NOISE, A SECURE MOBILE COMMUNICATION SOLUTION FOR BUSINESSES AND GOVERNMENT INSTITUTIONS.

STRONG DEVELOPMENT OF THE CYBERSECURITY SECTOR WITH THE LAUNCH OF NEW ADVANCED SOLUTIONS.

IMPROVING CONSUMER EXPERIENCE

› THE KUDELSKI GROUP

END-USER FOCUS

Thanks to highly advanced technologies that enable intuitive interactions, the Kudelski Group solutions simplify the life of more than 500 million consumers in the world every day.

TECHNOLOGY PIONEER

The Kudelski Group has been a pacesetter for decades. Every day, passionate and talented people develop innovative solutions that fuel the Group's intellectual property patent portfolio.

ENGINEERING EXCELLENCE

The Kudelski Group is an undisputed expert in securing data, content and assets around the globe. Kudelski's solutions enable customers to grow in their markets with the necessary confidence.

More than 500 million users enjoy Kudelski Group solutions every day

INTEGRATED DIGITAL TELEVISION


TELEVISION

CAPITALIZING ON A STRONG FOOTPRINT

Leveraging on 30 years of experience in the digital television industry, the Kudelski Group develops and delivers a wide range of highly secure content protection solutions addressing the needs of the digital television ecosystem across Internet, satellite, cable, terrestrial and hybrid end-to-end transmission systems. The Group's solutions enable the deployment of advanced services with the appropriate level of protection, providing consumers with a thrilling viewing experience.

The activities of the Kudelski Group's integrated Digital Television (iDTV) segment are carried out by its affiliated companies operating under the NAGRA, Conax, NexGuard, SmarDTV and DVnor brands.

In 2017, NAGRA and Conax operations were brought together to deliver a broader end-to-end integrated solution offering, stimulate innovation and increase operational synergies between the entities.

The Group also offers cybersecurity services. In charge of this sector, Kudelski Security leverages the Group's long-standing security expertise in pay-TV to other industries, including public and private sector organizations and institutions.

Leveraging its security expertise, the Group offers technology and services to support companies across all industries in securing their Internet of Things innovations.

The innovations resulting from the Group's long-standing experience and pioneering history are integrated in a global Intellectual Property program aimed at optimizing the Group's patent portfolio through a number of development, protection, licensing and cross-licensing initiatives.

CONTENT PROVIDERS

CONTENT AGGREGATION

SERVICE CREATION

CONTENT DELIVERY

CONTENT CONSUMPTION

VIEWERS

CONTENT PROTECTION

End-to-end multi-device security platform

System integration

BUSINESS EFFICIENCY

Big data and artificial intelligence

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

$ 100B
enabled pay-TV revenues

Great TV experience – seamless, anywhere, on any device

+400M
devices deployed

Support operators and content providers in developing their business

$ 189M
R&D investment (2017)

Optimize integration and deployment speed & costs for operators

550
clients operators worldwide

NAGRA
PREMIUM CUSTOMIZED SOLUTIONS

NAGRA 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 manages overall system integration, from set-top box design and production to the deployment of a complete end-to-end platform featuring linear and on-demand TV services delivered to multiple screens.

INNOVATIVE SOLUTION PORTFOLIO LEVERAGING A LONG-STANDING EXPERIENCE

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

END-TO-END CONTENT VALUE PROTECTION THROUGH ACTIVE SECURITY

NAGRA's end-to-end content value protection solutions give service providers and content owners the ability to protect their investment in premium content and maximize subscriber revenues by securing the delivery of video across any network to any device and by effectively managing piracy when it does occur. NAGRA provides the right combination of content protection technologies and services for the digital ecosystem, providing a holistic approach for true Content Value Protection. No other company provides such a broad and effective arsenal in the fight against piracy.

EVOLVING MARKET WITH STRONG OPPORTUNITIES

The continuous evolution of the content distribution industry is bringing new players such as telecommunications and Internet companies into the market, while also enabling traditional pay-TV operators to seize new opportunities, expand their offering and create new business models. NAGRA provides a unified security solution that allows operators to implement the appropriate level of content protection on any network and any device.

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		
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	SECURE PLAYER Pay-TV-centric software player for open consumer electronics devices	TRUSTED EXECUTION ENVIRONMENT Solution supporting broadcast, multicast, OTT and in-home distribution of premium content to devices	NAGRA ON-CHIP SECURITY 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	DIGITAL RIGHTS MANAGEMENT (DRM) - NAGRA PRM					
	WATERMARKING AND FINGERPRINTING - NEXGUARD					
	ANTI-PIRACY INTELLIGENCE - NAGRA ANTI-PIRACY SERVICES					

NAGRA CONNECT

Next-generation multi-network content protection

NAGRA CONNECT, the converged CAS/DRM client for connected networks and devices, and the NAGRA Security Services Platform, the cloud-based, modular, scalable CAS and multi-DRM command center for the advanced multi-network operator, provide a unique adaptive security solution that delivers the highest level of content protection achievable in any device.

Anti-Piracy Services

Procedural, technical and legal anti-piracy expertise

NAGRA's multi-disciplinary team of experts provides deep insight into broadcast and online piracy and helps service providers monitor, identify and take down pirated content and illicit services. Leveraging forensic watermarking by NexGuard, NAGRA Anti-Piracy Services apply all necessary procedural, technical and legal means to help both service providers and content owners create the ultimate closed-loop approach to piracy to secure, mark, monitor, detect, identify and act.

NexGuard

Secure framework for implementing, controlling and updating anti-piracy

NexGuard provides session-based watermarking to the entire content ecosystem, with deployment either in end-consumer devices (in set-top boxes for pay-TV) or server-side (for OTT streaming).

Watermarking is becoming one of several key technologies that enable pay-TV service providers to acquire rights to exclusive, high-value content like 4K Ultra HD, and better track and shut down illegal redistribution of exclusive linear content like live sports.

TVkey

Direct-to-TV security technology

Jointly developed by NAGRA and Samsung, TVkey, a CES 2017 Innovation Awards honoree, allows consumers to enjoy premium content directly on new TV sets through a simple sign-up process with their pay-TV provider and experience high-quality services, including 4K Ultra HD and HDR, on premium Samsung Smart TVs using the TV remote control.

The system provides the highest level of content protection and the USB dongle offers a fast and secure way for pay-TV operators to bring advanced services directly to a growing number of models of consumer TV sets.

NASC

Security certification

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

NAGRA
INTUITIVE USER EXPERIENCE

New technologies, in particular 4K ultra-high definition, represent another major TV upgrade cycle and bring new opportunities in terms of user experience. The user experience is playing a major role in users' choices and subscriber retention in pay-TV.

A DEDICATED USER EXPERIENCE STUDIO

OpenTV's user experience studio team based in San Francisco 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

OpenTV'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 and fully immersive, connected entertainment experience to consumers, seamlessly blending the broadcast and Internet worlds.

ALL-IN-ONE PLATFORM TO SERVE THE ENTIRE ECOSYSTEM

Media content delivery platforms become more relevant with the increasing complexity of managing a huge range of ultra-high definition screens, smartphones, tablets and other devices that are becoming part of the pay-TV infrastructure. Reducing today's system complexity has become one of the key benefits that a comprehensive, secure, packaged and robust solution from NAGRA delivers and this gives clear operational advantages of deployment speed, performance, and scalability to the market NAGRA delivers to.

OpenTV Suite is a powerful set of innovative digital television solutions from the NAGRA portfolio. It provides secure, engaging and intuitive user experiences via a powerful back-end platform that delivers an all-screen connected home environment. The system is designed and built for operational efficiency to drive down the total cost of operations and is comprised of four key components as shown in the table below.

OPENTV SUITE

	NAGRA PRODUCTS	CORE FEATURES FOR USERS	CORE FEATURES FOR OPERATORS
PRODUCTION SERVERS OPTIMIZATION	OpenTV Platform	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 OS OpenTV Player		
UNIQUE AND ENGAGING USER INTERFACE	OpenTV Experience		

ON SITE – HOSTED – PUBLIC / PRIVATE CLOUD

OpenTV Platform

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

OpenTV Platform provides a cloud based, multi-tenanted, highly flexible, componentized multiscreen platform that delivers a vast range of TV services to all devices across multiple networks and offers exceptional monetization capabilities through an e-commerce style, analytics-based content management system.

OpenTV OS

Latest-generation television operating platform

In combination with the OpenTV Platform, OpenTV OS enables all use-cases that are required for today's pay-TV landscape from simple broadcast to sophisticated hybrid networks enabling exceptional user experiences through their device of choice.

OpenTV Player

From TV to mobile phone, from PC to tablet

OpenTV Player 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.

OpenTV Experience

Multiple journeys to the same content destination

Open TV's innovative Electronic Program Guide including menu and tile-based navigation, recommendations and voice search, with all of these options packaged into a single user interface providing an unparalleled user experience.

OpenTV Signature Edition

Turnkey, cloud-based and multi-tenant solution

OpenTV Signature Edition provides the most complete, cloud-based and always evolved pay-TV video ecosystem to help service providers build a better video business. Powered by the OpenTV Suite and an analytics-driven content management system, it enables a fully personalized and unique video entertainment experience by optimizing linear and on-demand content and catalogue services to keep subscribers satisfied and coming back for more.

CONAX
MODULAR COST-EFFECTIVE SOLUTIONS

Conax provides flexible, cost-effective content security solutions and total service protection for digital TV services for telecommunication companies, cable, satellite, IP, mobile, terrestrial and broadband operations, representing 425 customers in 85 countries.

The company focuses on developing standardized, pre-integrated solutions, tapping a global partner network to provide optimal operator choice in end-to-end complete platforms.

Conax provides mid-sized pay-TV operators with a uniquely packaged, holistic content protection approach that is ready to deploy. Along with this solution Conax provides pay-TV operators with security audits to prevent a wide range of content piracy including attacks from unmanaged networks.

All Conax solutions are based on a single unified Conax Contego security back-end which effectively reduces cost and complexity.

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

All Conax solutions are based on the Conax Contego unified security back-end. This provides customers with a simplified platform model encompassing flexibility and scalability of operations, with reduced Capital Expenditures and operational complexity. Conax prioritizes open partnering and pre-integrated solutions to enable operators to select from an attractive portfolio of complete ecosystems. Conax provides operators with a 360-degree, holistic security approach encompassing expert guidance, operational audits and content security.

GLOBAL PARTNER HIGHLIGHTS

Conax further developed its network of strategic technology partners, client device partners and reseller agreements for enabling the delivery of end-to-end 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.

ISO CERTIFIED FOR ORGANIZATIONAL EXCELLENCE AND DEVELOPMENT STANDARDS

Committed 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.

In 2017, Conax' Core Access cardless security client for premium HD content and for 4K/UHD linear content for pay TV DVB operations completed Cartesian's Farncombe Security Audit. Cartesian's multi-phase audit encompassed a 360-degree on-site review of Conax, including product, people and processes, operations in-and-after-deployment and security infrastructure.

Contego

Unified content security back-end

The Conax Contego unified security platform provides consistent handling of conditional access and DRM across broadcast, OTT, terrestrial, IPTV, cable and satellite delivery networks and devices.

In 2017, Conax expanded its portfolio with the following products:

– **Prime Access** and **Lynx**, targeting premium 4K/UHD content in hybrid set-top boxes.

– A security architecture for **Android**, enabling operators to further simplify their content security operations by easily adding Android set-top boxes to their device portfolio.

– **Core Access**, a cardless security client for premium HD content and for 4K/UHD linear content for pay-TV DVB operations

– **Media Service**, a solution that includes DVnor Media Asset Manager solution (Organizer), Conax Contego Multi DRM and NexGuard watermarking technology. It enables Pay TV operators to outsource the preparation of their VOD content in a less expensive, faster and more flexible way, with the appropriate security profiles.

– **Arena**, a modular multiscreen hub enabling unique flexibility for operators and encompassing all key components needed to launch a complete multiscreen offering with reduced cost, complexity and time-to-market.

CAMs

Best-in-class security-compliant 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.

In 2017, SmarDTV was the first to embed a Conax Cardless Client in a Conditional Access Module. The new SmarCAM-5.0 provides the market with a highly secure cardless solution utilizing a unique combination of hardware and software security resulting in a high level of protection not available in pure software solutions.

SMARDTV SMART & SECURE DEVICES ENHANCING THE CONSUMER EXPERIENCE

SmarDTV develops state-of-the-art consumer electronic devices for the B2B4C market. The product portfolio includes of a cost-effective range of interactive TV modules and Conditional Access Modules based on the CI Plus standard, a full range of pay-TV operator and retail level set-top boxes (Broadcast, HbbTV), media servers and gateways designed to operate on satellite, cable, terrestrial, IPTV and OTT networks.

SmarDTV includes the latest security solutions from the Group including NAGRA PROTECT, NAGRA CONNECT, NAGRA COMMAND and Conax card-based and cardless conditional access solutions. SmarDTV is starting a new product line for the Internet Of Things market in collaboration with Kudelski Security and the Kudelski Group's Internet of Things product team.

PREMIUM CONTENT DELIVERED DIRECTLY TO TV SETS

SmarDTV is a leader in Conditional Access Modules (CAMs) that use DVB CI (Common Interface) and CI Plus standards. By integrating SmarDTV's Conditional Access Modules in their television ecosystem, operators can deliver premium content directly to integrated TV sets through broadcast or broadband IP networks.

COMPLETE PORTFOLIO OF SET-TOP BOXES

SmarDTV has invested in a complete portfolio of set-top boxes ready for the Android TV set-top box markets. SmarDTV is suporting both OpenTV OS and Android TV for hybrid and OTT deployments. SmarDTV is leveraging the Group assets to prepare pre-integrated solutions including OpenTV platform, NAGRA and Conax CAS and DRM. Pre-integration is a critical aspect to fulfil recent demand of operators who are looking at very quick turnaround in the continuously changing pay-TV market.

FACILITATING LOCAL MANUFACTURING

SmarDTV's System-In-Package (SIP) technology has evolved through market deployments in Asia and Latin America. The technology facilitates local manufacturing since all key elements such as security assets and user interface requirements are all pre-integrated within the SIP silicon. The new SIP version selected by Altech UEC and CANAL+ International for the African market is based on latest generation chipsets that bring the highest level of security to the set-top box and customer-premises equipment market.

EXPLORING THE IOT MARKET

SmarDTV's innovation effort has also been put into a new product line for the Internet of Things (IoT) market. With the DNA of SmarDTV being secured and connected devices, it was a natural move to explore the IoT market starting from a critical market request for a secured video surveillance solution. Working with NAGRA and Kudelski Security, SmarDTV decided to explore the production of a secured device to update legacy cameras with a "bump-in-the-wire" approach. SmarDTV presented a demonstration of the device at CES 2018 running onto the Kudelski Group's secure IoT platform and showing live video content encryption out of an existing retail camera.

SMARDTV PRODUCT RANGE

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

SmarCAM 5.0

Conditional Access Modules

SmarDTV develops Conditional Access Modules relying on the DVB CI and CI Plus standards, plugged directly into the TV set to decrypt pay-TV services. SmarDTV is promoting innovation in CAMs as a driver in these standards. The SmarCAM range also includes WiFiCAM modules, which enable the seamless reception of hybrid services without the need for a set-top box.

In 2017, SmarDTV launched a new Conditional Access Module embedding a Conax cardless client. The new SmarCAM 5.0 leverages fundamental innovations in embedded silicon and device security, offering robustness across a broad range of security profiles.

SmarDTV showcased at IBC 2017 its next-generation CI Plus 1.4 and broadcast/broadband hybrid Conditional Access Module. The new solution enables pay-TV operators to offer access to their content portal, catch-up TV and other interactive services directly on the main TV screen. Launch is expected in 2018.

vdoCAST Dongle

OTT / IPTV Modules

SmarDTV vdoCAST Dongle is a direct-to-TV solution allowing consumers to throw and view mobile OTT content on any big screen TV. The Dongle integrates with the operator's managed devices for analytics enabling a closer relationship with subscribers. In addition to OpenTV Platform and Conax GO Live, the device can be integrated with any pay-TV operator back-end with the choice of a NAGRA, PlayReady or Widevine DRM.

OTT and hybrid set-top boxes

Set-top boxes

SmarDTV has a family of set-top boxes supporting broadcast, hybrid and OTT distribution networks up to 4K. Powered by OpenTV Suite, AndroidTV and/or a range of third party solutions, they feature a complete range of NAGRA content value protection solutions to meet the operators' business needs, whether cardless or card-based, on premise or from the cloud.

INTEGRATED DIGITAL TV FORWARD-LOOKING OFFERINGS

In line with the Kudelski Group strategy to leverage its footprint of customers and to remain as critical as possible to its customers' business, the Group decided to invest in big data and artificial intelligence as well as media asset management.

Based on the large amount of data collected each day on its solutions combined with the most relevant data available on its customers' platforms, the Group developed an artificial intelligence platform aimed at improving the operator's business using top-notch industry, processes and infrastructure knowledge.

With the evolution of the video content distribution landscape, and recognizing the importance and the complexity of handling the versioning and the metadata of each asset, the Group acquired DVnor in 2017.

EMPOWERING OPERATORS TO MAKE BETTER STRATEGIC DECISIONS

With its Software-as-a-Services (SaaS) Insight platform, the Group helps pay-TV providers drive their business using data. Insight uses big data and artificial intelligence to generate smart actions that improve the business bottom line. The platform leverages a cross-functional team that has strong pay-TV experience and that includes high-level consultants, marketers, content distribution strategists, data scientists, architects, developers and data technologists.

Unlike business intelligence generalist platforms, Insight comes with big data and artificial intelligence algorithms already applied to pay-TV business issues. Insight can be used directly by operational, marketing and content teams at pay-TV providers to improve business metrics, as well as by business intelligence teams to enrich their data and predictions.

The infrastructure of pay-TV operators is a strong asset and differentiator. Insight adds an intelligent layer on top of it to make it agile and customer-centric, creating artificial intelligence-driven actions and measuring their impact. It enables pay-TV operators to make more money and make better strategic decisions.

DVNOR STRENTGHENING THE GROUP'S OFFERING

In 2017, the Kudelski Group acquired DVnor, an Oslo-based provider of media asset management services. The company provides technology and competence highly complementary to the Conax content security portfolio, further strengthening Conax' position in the media consumption industry.

DVnor's core product, DVnor Organizer, provides a highly automated all-in-one platform for metadata and digital file management, transcoding, storage, distribution and post-production services. Combining the highly efficient content workflow from the DVnor Organizer with benchmark content security from Conax Contego makes the Conax and DVnor market offerings very attractive to an enlarged set of players in the value chain.

MAKING THE MOST OF THE RELATIONSHIP WITH CUSTOMERS

At the heart of its customers' operations for decades, the Group has the know-how and experience to lead large technology and integration projects, while ensuring the continuity of service all along the transition and implementation phases.

Insight

Artificial intelligence platform for pay-TV analytics

insight

Insight enables operators to address specific business issues through actionable business intelligence and an iterative approach. With Insight, operators can collect and connect multiple data sources, create and share reusable analysis, share actionable outputs with operations for immediate action and measure the impact of these actions with predefined key performance indicators in real time.

DVnor Organizer

Media asset management

Automated all-in-one platform for metadata and digital file management, transcoding, storage, distribution and post-production services.

Integration Services

Design and deployment of end-to-end systems and infrastructures

The Kudelski Group 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 the Group’s extensive knowledge of solutions and ecosystems gained over the past 30 years.

INTEGRATED DIGITAL TV 2017 MARKET HIGHLIGHTS

AMERICAS

In the United States, NAGRA continued to strengthen its long-term relationship with the fast-growing Altice Group. As part of NAGRA's new multi-year agreement with the Altice Group, NAGRA CONNECT and the NAGRA OpenTV platform have been selected to enable content security and multiscreen experience for Altice One. Launched in November 2017 by Altice USA – one of the largest broadband communications and video service providers in the United States –, Altice One is the new connectivity platform which reinvents the way consumers connect to the entertainment and content they want.

Still in the United States, Evolution Digital and Conax announced that Conax will be providing its multi-DRM solution for Evolution Digital's eVUE-TV platform, available on the National Cable Television Cooperative's (NCTC) VU-IT! Platform. Evolution Digital's eVUE-TV delivers IP Video on Demand content, as well as IP linear channels, network DVR and catch-up TV functionalities as a managed-service offering for Tier 2 and Tier 3 cable operators in the United States. The flexible Conax Contego unified security back-end is integrated with the eVUE-TV platform in both operating models: hosted and on premise.

In Argentina, regional pay-TV operators CableVideo and Colsecor selected technology and services from Conax, with regional partner, BOLD MSS, to drive expansion in their pay-TV and multi-DRM content offerings. CableVideo is migrating its existing security platforms to a new system from security vendor Conax, including advanced OTT services. Colsecor, a cooperative composed of operators throughout Argentina, deployed a pay-TV platform secured by Conax Contego content protection, enabling flexibility to easily execute on plans to provide advanced OTT consumer offerings in the future.

In Colombia, AMVL Claro launched an end-to-end solution for providing Network DVR, Catch-up and Start-over to their entire base of installed NAGRA subscribers using the NAGRA MediaLive/OpenTV5 platform. This allows for their clients to store any show that they wish and watch later. All the technology is provided centrally removing the need for extensive hard drives in the home.

NAGRA also supplied a suite of end-to-end interactive applications to AMVL Claro's clients with NAGRA's partners EchoStar and NagraStar. These are the same applications used today throughout the US for DISH's subscribers. They were integrated with the NAGRA OpenTV5 OS used on their installed base. They are unique as they provide the consumer with an easy way to navigate through a long list of available live sports programs that are provided within the package of linear programming included in the service.

AMVL Claro also continued to add DTH subscribers in the Central America region with NAGRA's CAS products and services.

Claro Brazil continued to roll-out advanced features on their MediaLive/OpenTV5 platform in 2017. These features include Electronic Sell-Through, that allows consumers to buy and store content over their IP devices or the set-top box. NAGRA also begun to transition many of their value-added features from broadcast to IP, such as Video on Demand (NET Now) and live linear channels. What makes the platform unique is the fact that they can also use their legacy set-top boxes with the NAGRA MediaLive platform to deliver all their value-added content over IP, extending the life expectancy of set-top boxes, while enabling new IP-based services. This allows to reduce CAPEX.

NAGRA was selected by VTR, a Liberty Global (LGI Group) company and Chile's largest multi-channel television provider as well as a leading provider of broadband internet and residential voice services to provide its CAS solution.

Telefónica is one of the largest telecommunications companies in the world by number of customers with a comprehensive offering and quality of connectivity that is delivered over world class fixed, mobile and broadband networks. The company has a significant presence in 21 countries and 346 million accesses around the world. It has a strong presence in Spain, Europe and Latin America, where it focuses an important part of its growth strategy.

NAGRA will provide Telefónica and its subsidiaries with next generation content protection for the operator's IPTV content, including 4K. The NAGRA Security Services Platform (SSP) and CONNECT client provide a single security headend to secure both legacy and new generation set-top boxes deployed by the operator. Deployed in field trials in Brazil and Spain, the solution addresses use cases from live TV to VOD and nPVR, while meeting the Hollywood studio requirements for the protection of premium and enhanced content such as 4K.

NAGRA is also rolling out the next generation of connected set-top boxes including OpenTV5 OS with the Telefónica-supplied User Experience in Peru, Colombia, Chile and Central America. This allows Telefónica to enhance broadcast pay-TV services with value-added services such as its own video-on-demand service as well as third-party video on-demand services.

In 2017, Telefónica began to roll-out and sell their DTH service in multiple Central America countries with NAGRA technologies.

ASIA - PACIFIC

In July 2017, NAGRA successfully delivered a major broadcast headend migration and renovation project with StarHub in Singapore. As system integrator and prime contractor, NAGRA managed over 30 vendors to seamlessly migrate all customer equipment and services to a new location without impact to end-users.

Digital penetration continued to grow in the Taiwan cable market with kbro adding over 1.3 million digital set-top boxes based on NAGRA's DLK (cardless) and smartcard platforms in 2017. OTT also showed strong growth with an additional 300 000 new subscribers. In this market, NAGRA was also selected by Taiwan Broadband Cable as their system integrator for the Disaster Recovery headend and OTT.

In India, the cable digitization momentum continues with millions of subscriber additions. In this market, NAGRA announced in 2017 the launch of the TVKey product in partnership with Samsung.

Indian pay-TV operator Triple Play deployed technology from Conax and partner Corpus to help drive expansion in the blossoming triple-play arena. The new solution includes a Conax-secured multi-DRM offering based on the Conax Contego-as-a-Service cloud-based platform, combined with pre-integrated middleware from partner Corpus, with system integration by Corpus. The operator is targeting its current cable and Internet subscriber base which includes a mix of high and low ARPU consumers, with combined triple-play services, TV everywhere and a compelling new user experience. The contract represented the first deployment of the joint Conax/Corpus offering and the first launch of Conax' cloud-based multi-DRM platform in the Indian market.

An early player in India with operations established in this market in 2002, Conax has played a leading role in guiding Indian operators through digitization. Conax has long-term partnerships serving two of the five largest Multi-System Operators, including Essel Group's Dish TV and SitiCable.

INTEGRATED DIGITAL TV 2017 MARKET HIGHLIGHTS

In South Korea, NAGRA expanded its content protection coverage with Korean satellite broadcaster KT Skylife to include watermarking. In addition to the successful deployment of the NAGRA CONNECT two-way cardless security solution in 2017, the NexGuard solution was selected for set-top box forensic watermarking for 4K Ultra HD set-top boxes with premium content. NAGRA now provides end-to-end content value chain protection for KT Skylife.

Additionally, KT Skylife launched the world's first LTE (mobile Internet)/satellite hybrid service with NAGRA's Conditional Access solution, which enables a better viewing experience for users by preventing the DTH signal from freezing or from being lost when vehicles pass through a tunnel.

In Australia, NAGRA was selected by Foxtel for the deployment and managed services of OpenTV's operating system on a DTH/DTT/IP hybrid zapper set-top box in 2018.

AFRICA

SmarDTV's Conditional Access Module was deployed for AZAM TV in Kenya.

Conax' 10-year plus strategic partnership with Chinese operator StarTimes, the fastest-growing pan-African digital TV operator, continued to develop including new DTT deployments and next-generation consumer propositions.

After the successful deployment of first generation SmarDTV satellite set-top boxes, with more than 5 million units delivered to date, SmarDTV renewed its contract for next-generation set-top boxes for the satellite and terrestrial markets with new decoding capabilities to support CANAL+ INTERNATIONAL in delivering high quality content to African consumers. The cost-effective solution provides a high level of quality, reliability and security.

SmarDTV worked actively with NAGRA to integrate security technology to protect CANAL+ INTERNATIONAL assets. The solution is based on NAGRA COMMAND embedded in a low-end set-top box which also incorporates an ASIC developed by SmarDTV.

SmarDTV continued to deploy set-top boxes in South Africa for the analog switch-off. The company also deployed a new-generation high-definition set-top box for OpenView HD (OVHD), South Africa's first free-to-air digital satellite TV platform, working with a new local manufacturer (Tellumat).

EUROPE

NAGRA has renewed and expanded its digital security and convergent media solution partnership with Altice Group, a global leader in the telecom, content, media, entertainment and advertising industry. As part of this new long-term agreement benefitting Altice Group's subsidiaries in the USA, France, Israel, Portugal and the Dominican Republic, NAGRA will provide its wide range of security solutions including NAGRA CONNECT (NAGRA's converged CAS/DRM security solution for broadcast, IPTV, OTT and the connected home), NAGRA GUARD and Nagra PROTECT as well as the OpenTV Service Platform, its multi-screen solution.

As part of the agreement with the Altice Group, OpenTV suite has been selected to power and secure the launch of the new NEXT streaming service, launched in 2017 by HOT Telecommunications Systems Ltd, a subsidiary of the Altice Group and the leading pay-TV operator in Israel. NEXT streaming service is a new digital platform specifically designed to address the young generation of consumers who want have access to their favorite content anytime, anywhere and on the device of their choice.

CANAL+ adopted NAGRA Insight, a pay-TV data intelligence platform that enables operators to pilot their business using data and make better strategic decisions. It leverages big data and artificial intelligence to understand individual TV watcher's taste and recommends actions that will increase both customer satisfaction and bottom line.

In Italy, after thirteen years of partnership, NAGRA and Mediaset Premium S.p.A. signed a multi-year agreement renewal for CAS and PRM to secure premium content on a DVB-T network.

In Spain, NAGRA is working on a project with Telefónica Spain to secure, with the NAGRA CONNECT technology, all Telefónica IPTV set-top boxes, including the new 4K service to be launched in the first half of 2018.

NAGRA has deployed for Vodafone Spain its security solution, NAGRA CONNECT, to secure Vodafone's new-generation set-top box. Vodafone Group and NAGRA have been working together in integrating NAGRA security solutions into the Vodafone Group TV solution. This solution will be deployed across several countries within the next years.

Still in Spain, NAGRA is continuously evolving its end-to-end solution deployed at Euskaltel, including OpenTV back-end, CDN, encoding and security on Android set-top boxes to address Euskaltel's IPTV network, leveraging NAGRA CONNECT's flexibility and NOCS (NAGRA-On-Chip Security) requirements to secure the Android open platform using state-of-the-art security standards.

In Bulgaria, Conax' customer since 2010 Unicoms Services deployed its UnyQTV hosted OTT platform for pay-TV operators deploying advanced technology provided by Conax and Appear TV. The new platform supports Unicoms Services' expansion into the OTT arena. Unicoms Services is already hosting over 50 operators from the Balkans region with Conax Contego conditional access and is the first professional white label OTT solution available in Bulgaria.

JOYNE, the newest Dutch pay-TV operator, deployed pay-TV operations in the cloud with Conax, Eutelsat and SmarDTV solutions. The new multi-channel pay-TV operation is targeting Dutch viewers with second homes and mobile homes as well as public spaces in camping sites and bars, using Conax' Contego-as-a-Service, cloud-based unified security hub for quick time to market and scaling capability. JOYNE has deployed the Conax Cardless CAM, developed by SmarDTV, providing reduced subscriber acquisition cost with simple plug-and-play and including built-in Conax Core Access security client enabling access to premium HD and 4K/UHD content. The new JOYNE service utilizes their multi-year, multi-transponder contract with Eutelsat for uplink services and content distribution.

In Iceland, Vodafone has been a Conax customer since 2004. In 2017, they selected Conax' Connected Access solution to convert their existing IPTV set-top boxes in the field. By replacing the already-existing DRM solution in the set-top boxes, Vodafone will significantly reduce the cost of the transition. Connected Access will also provide the security on Vodafone's next-generation 4K set-top box to be released in 2018, after which they will have a complete, integrated DVB/OTT/IPTV solution from a single headend - with the inherent business benefits this brings.

MIDDLE EAST

In the Middle East, Dubai-based My-HD Media deployed Conax' cloud-based content protection solution to support the growth of its next generations of platforms in the Middle East and Northern Africa. The Conax solution provides the operator with a wide range of modular features and functionality, coupled with the benefits of cloud scalability, providing a natural path for rapid deployment of new and advanced features as the operation expands. My-HD Media uses Conax Contego both for its traditional DTH operation and its OTT service.

KUDELSKI SECURITY GLOBAL PROVIDER OF CYBERSECURITY SOLUTIONS

KUDELSKI SECURITY

Kudelski Security builds on the Group's deep expertise and investments in digital security innovation to provide cybersecurity that has real business impact. In 2017, the entity experienced solid growth on both sides of the Atlantic, becoming the largest pure-play cybersecurity solutions provider in Switzerland and one of the fastest growing cybersecurity solutions companies in the United States, earning important recognition from industry analysts, technology partners and customers along the way.

Kudelski Security's performance in 2017 is underpinned by a fundamentally different approach to tackling the cybersecurity challenge. It's driven by purposeful and applied innovation, and leverages the Group's pool of talented R&D engineers and dedicated cybersecurity experts across advisory, technology and managed security services.

Kudelski Security's global reach and cyber solutions focus are reinforced by key international partnerships, including alliances with leading Chief Information Security Officers (CISOs) and the world's most powerful security technology companies. Collaboration has been a key theme for Kudelski Security throughout 2017, reflecting the company's conviction that cybersecurity will only deliver on its promise if all stakeholders of the same spirit and vision work together.

CHALLENGING THE STATUS QUO OF CYBERSECURITY

Investment in cybersecurity products and services is at all-time high, yet the severity and frequency of large-scale data breaches continue to increase.

For many clients, the desire to adopt solutions that drive positive results starts with the use of Kudelski Security's proprietary Secure Blueprint.

This programmatic approach helps clients map their current security investments and – based on an analysis of business objectives, risk appetite and threats – articulate a vision of optimal security.

The Secure Blueprint methodology covers all elements of a client's enterprise security – including people, process and technology – and recognizes that every organization is unique in their needs and risks as well as in the assets they can leverage.

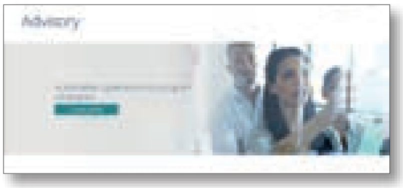
This framework establishes a baseline for clients and guides the design and deployment of security solutions, be they through consulting, analysis of technology architectures, deployment of new technology or through outsourced support.

The result is a measurable approach to security that is manageable and aligned with the needs of the business.

Other clients may have specific challenges that are not being served by solution providers or where no solution currently exists.

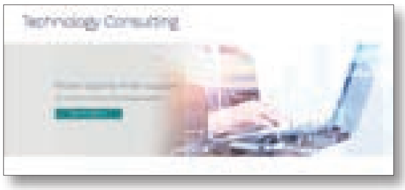
For these engagements, Kudelski Security leverages resources from across its entire business, defining and delivering solutions that meet the unique needs.

Advisory



Kudelski Security's Advisory services empower organizations to build business-aligned security programs through a strategic cyber program approach. Consultants provide consulting across four strategic areas: Strategy and Governance, Risk Vulnerability and Threat Management, Incident Response and Cyber Resilience, and Cybersecurity Staffing.

Technology Services



Kudelski Security helps clients select and implement technology that best matches their business and operational requirements. Leveraging long-term relationships with a wide range of leading technology companies, the team of solution architects, and senior engineers offers Technology Assessments, Architecture Design as well as Planning and Solution Implementation services.

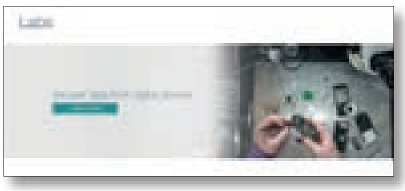
Kudelski Security is also able to integrate technologies from multiple vendors and, using the expertise of the Research and Development teams, design custom capabilities to automate and orchestrate security functions.

Managed Security Services

Kudelski Security's Managed Security Services, delivered from its Cyber Fusion Centers in Europe and the U.S., are built from the ground up to address gaps in the traditional managed security market and drive greater value to clients.

The services combine expert analysts, innovative technologies as well as detection and hunting approaches to rapidly discover and block threats, outpacing the modern cyber adversary and building stronger cyber resilience.

Research and Development – Custom Solutions



At the Research Center, Laboratories and IoT Security Center of Excellence, teams of security experts and engineers engage in cutting-edge research and the development of technology that provide innovative solutions to the clients' toughest security challenges.

KUDELSKI SECURITY GLOBAL PROVIDER OF CYBERSECURITY SOLUTIONS

KUDELSKI SECURITY

COMPREHENSIVE OFFERING BUILT ON FOUR BUSINESS PILLARS

Part of the Kudelski Security advantage stems from the depth of experience offered across its four business pillars – Advisory Consulting, Technology, Managed Security Services, and Research and Development. Part also lies in the fact that Kudelski Security can scale up to support clients from Switzerland and Central Europe to across the United States.

This global capacity is sustained by industry leading expertise, including dedicated consultants, engineers and technical specialists, who are based close to the client organizations.

Bringing consulting, technology, outsourcing and custom R&D capabilities to bear, Kudelski Security offers clients a multi-dimensional view of the challenge as well as a range of multifaceted solutions. The result is that clients have a trusted advisor capable of comprehensively addressing threats, enabling them to reduce enterprise risks, maintain compliance and increase overall efficiencies across their security organization.

CONTINUED MARKET MOMENTUM

Since launching its new business strategy in early 2016, Kudelski Security has continued to gain market momentum through client adoption and positive recognition for its multidimensional approach to cybersecurity from partners and industry analysts.

Building on two recent acquisitions in the U.S., Kudelski Security continues to expand with new organic growth, broader client relationships, new and innovative market offerings, and additions to its experienced team of cyber professionals.

STRONG NEW PRODUCTS AND SERVICES, ALONG WITH AGGRESSIVE GEOGRAPHIC EXPANSION, ARE EXPECTED TO DRIVE CONTINUED INCREASES IN MARKET SHARE AND ACCELERATE GROWTH FOR KUDELSKI SECURITY IN 2018

KUDELSKI SECURITY 2017 MARKET HIGHLIGHTS

Kudelski Security continued to expand in 2017, creating disruption in a global market that recognizes that in order to get ahead of cyber threats, it needs to innovate, evolve and take a new approach to cybersecurity.

STRONG ADOPTION OF NEW CYBER SOLUTIONS

Throughout 2017, Kudelski Security continued to launch innovative products and services and expand geographically to drive significant new business. The philosophy of working together to challenge the status quo has resonated with the market, resulting in a significant increase in new clients in Switzerland and the United States.

The year started with the Group's acquisition of M&S Technologies, a complementary add on for Kudelski Security in the South Central United States. The addition of this experienced team and its bench of marquee clients provided Kudelski Security with proven technical and sales resources as well as a strong client base to cross sell its products and services.

In the first quarter of 2017, Kudelski Security relaunched its Managed Security Services, featuring a new Cyber Fusion Center (CFC) with redesigned processes, infrastructure and capabilities to efficiently support large-scale global growth. The new CFC features a proactive approach to security services including cyber threat hunting and attacker deception services as well as an innovative portal for clients to monitor security events and activities.

The response to the new managed security offerings has been exciting and the business added major clients in both Switzerland and the United States, including international firms requiring support on a global basis. Further, Kudelski Security was recognized as one of the top 100 Managed Security Service Providers by MSSP Alert, and by Gartner for Managed Detection and Response services.

Kudelski Security also launched a portfolio of Advisory services aimed at enabling Chief Information Security Officers (CISOs) to better manage security program strategies, with a specific focus on developing effective reporting to communicate with business executives and boards of directors. These services created an immediate pipeline of services opportunities, as well as a future pipeline for Secure Blueprint SaaS, which is expected to launch in the second quarter of 2018.

INNOVATION IS THE KEY TO CYBER SUCCESS

The strategic importance of Kudelski Security's Research and Development expertise came clearly into focus in 2017.

The ability to work directly with clients on unique solutions is a clear differentiator for Kudelski Security, and an essential component of the strategy to challenge the cybersecurity status quo. These efforts resulted in new high-profile clients for services that ranged from security evaluations of IoT devices to the integration of physical and cybersecurity systems and the orchestration and automation of security platforms to create efficiencies and save manpower.

As with all innovation, the starting point is real-world problems for which no efficient or workable solution exists. Key innovations in 2017 were driven by the following client challenges:

- A global law services firm needed better threat visibility on a sprawling global IT infrastructure. They leveraged Kudelski Security's Cyber Fusion Center and Managed Attacker Deception services to improve responsiveness and increase overall security posture.

- A international engineering firm sought to improve the efficiency and decrease the complexity of managing confidential client data. They selected Kudelski Security to develop a high-assurance monitored data enclave to improve access and security, while enabling them to meet the demands of regulatory compliance.

- A worldwide vacation rental company needed to improve the speed and responsiveness of managing their network security architecture. They engaged with Kudelski Security to develop a custom automation and orchestration solution to integrate multiple security technologies and define workflows for security teams around the world.

LOOKING AHEAD: PURPOSEFUL INNOVATION IN 2018

Kudelski Security develops products and services that meet a growing market demand for more effective and workable solutions to evolving cybersecurity challenges. Its purposeful innovation makes complex IT environments more efficient, supports business growth, and strengthens security postures.

Kudelski Security plans to launch several flagship innovations in 2018:

- **Secure Blueprint SaaS**: A web-based cyber business management platform. A first-of-its-kind product, the software calculates current and target program maturity and enables Chief Information Security Officers (CISOs) to track Key Performance Indicators and prioritize security investments. It also generates executive dashboards to enable CISOs to communicate effectively with senior leadership. Already in use by major clients acting as development partners, Secure Blueprint SaaS is expected to be launched commercially in mid-2018.

- **Managed Enclave**: A solution addressing the safe storage of sensitive data, such as intellectual property, client personal information or other regulated data. More often today, due to increasing threats, contractual demands, or regulatory requirements, organizations are segregating this data from regular IT data in secure, high assurance data enclaves to minimize the risk of data loss.

- **Automation & Orchestration**: Custom scripts to automate and orchestrate a company's IT and security operations. Working with the organization's existing technology, Automation and Orchestration services result in faster, more scalable and more efficient delivery of operations and security services.

- **Cryptography Services**: Audit, design and implementation expertise by world-class cryptography experts, enabling enterprises to obtain target security levels for products and systems.

INTELLECTUAL PROPERTY MANAGING THE PATENT PORTFOLIO

With over 65 years of innovation in developing award-winning products and investing on average some $200 million annually in research and development, the Kudelski Group and its subsidiaries have carefully developed and strengthened their global intellectual property position over decades. The Group has benefited broadly from its long-standing commitment to protecting its intellectual property rights and believes they are essential to ensuring collaborative development, future competitiveness and economic growth that would not be possible otherwise.

The Kudelski Group and its subsidiaries hold a substantial worldwide portfolio comprised of thousands of patent assets in a variety of technology areas, including digital and cybersecurity, access control, watermarking, digital television and rights management, among other areas. Many of these patents relate to fundamental and valuable technologies with broad impact across many businesses.

The Group's IP strategy, like the strategies of its core businesses, continues to adapt to changing market conditions and the emergence of new opportunities. As such, the Group continues to review and optimize its approach to intellectual property protection, including its patent portfolio holdings, to emphasize strategic value and return on investment.

DEVELOPING VALUABLE INTELLECTUAL PROPERTY

The Group's Intellectual Property organization is responsible for setting the Group's overall intellectual property strategy with a focus on protecting, developing, managing and licensing the Group's worldwide patent portfolio and supporting the overall innovation programs within the Group.

In 2017, the Group continued its successful execution on its strategic intellectual property and innovation plan by expanding its patent holdings, securing access to valuable IP rights of third parties. The Group completed licensing agreements and/or settled litigation with industry leaders like AT&T, Roku, Arris, Scripps Networks Interactive, Advance Magazine Publishers, Twitte and Comcast; this in addition to many of the marquee agreements concluded in prior years such as Apple, Cisco, Google, Netflix, Disney, Hulu, Yahoo and Verizon.

2017 also brought an increased focus in supporting the Group's growing cybersecurity business, Kudelski Security. The Intellectual Property organization is enhancing the Group's patent portfolio in this area with new patent filings and developing patentable technology based on Kudelski Security's integration of the Group's best-in-class security architectures developed for pay-TV with Research & Development in the cybersecurity marketplace.

BUILDING RECIPROCAL IP PRODUCT PARTNERSHIPS WITH KEY PLAYERS

There is no "one-size-fits-all" approach to product partnerships and intellectual property licensing. Different businesses have different needs and different technology requirements. To that end, the Kudelski Group seeks business relationships that extend beyond patent licensing. When appropriate, the Group's IP-based agreements incorporate product relationships, patent or technology transfers and cross-licenses into the engagement.

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 GROUP HOLDS THOUSANDS OF PATENT ASSETS WORLDWIDE AND HAS PARTNERED WITH THE MOST INNOVATIVE PLAYERS IN THE INDUSTRY

INTERNET OF THINGS SECURITY CENTER OF EXCELLENCE

In early 2017, capitalizing on the expertise of Kudelski Security and decades of innovation in protecting digital TV contents and devices, the Kudelski Group launched its Internet of Things (IoT) Security Center of Excellence to address demand for increased protection of connected devices.

The Center provides solutions to help companies across all industries secure their IoT devices and business models during the design phase and throughout their entire product lifecycles.

It offers product developers the ability to focus on their core products while being assured that security is maintained over time; a strategy that can both accelerate time-to-market and enable and protect competitive advantage.

LEVERAGING THE GROUP'S 25 YEARS OF INNOVATION

The Group's Security Center of Excellence focuses on addressing demand for increased protection of connected devices, leveraging the Group's 25 years of innovation in the fields of digital content and device protection.

The Group has an unparalleled ability to develop and implement security assessment and certification programs for a wide variety of silicon and device vendors, and has been doing this in the pay-TV space for decades.

It is now applying those same skills and procedures to IoT device manufacturers and service providers in order to help them launch secure solutions and ensure their security over the long term.

The Security Center of Excellence works with clients to build security into the design and architecture of their products and reduce risks throughout the entire product lifecycle.

For existing products, the Center carries out in-depth assessments and evaluations and creates security recommendations supporting business objectives.

EXPANDED OFFERING AND LAUNCH OF INNOVATIONS

Building on the successful first year of the Center, the Kudelski Group launched its IoT Security Suite during CES 2018 in Las Vegas. The comprehensive suite of services and technologies targets device manufacturers and service providers who need solid security foundations in order to enable long-term monetization, privacy and safety of their devices and enable new sustainable business models.

The Suite uses best-in-class technologies and patented mechanisms to implement security controls in embedded systems, software/firmware, communication protocols, platforms and applications to protect IoT devices and services at every level. It also embeds sleeper counter-measures that can be activated against emerging threats over time, driven by threat intelligence from the Group's Cyber Fusion Center.

The Group's legal teams also provide support for litigation.

Two real-world applications of the IoT Security Suite include WHITE NOISE Secure Communications, a secure hardware-based mobile communication solution, and a Surveillance Camera Security solution.

By leveraging its unique heritage in both pay TV and cybersecurity, the Kudelski Group is uniquely positioned to provide companies with design, implementation and long-term security lifecycle management of their connected business models across a variety of industries.

THE CENTER OF EXCELLENCE PROVIDES SOLUTIONS TO SUPPORT COMPANIES ACROSS ALL INDUSTRIES SECURE THEIR INTERNET OF THINGS INNOVATIONS OVER THEIR ENTIRE PRODUCT LIFECYCLE

IoT Security Suite

IoT chip-to-cloud security

At the end of 2017, the Kudelski Group announced the expansion of its Internet of Things (IoT) security Center of Excellence with the launch of its IoT Security Suite. The Suite targets device manufacturers and service providers who need to address the long-term privacy and safety issues of their devices and protect their business models from attack.

The comprehensive IoT Security solution provides the ability to ensure network and device integrity as well as control access to business-critical data coming from IoT devices, thereby enabling and protecting new IoT business models, both at launch and when the system comes under attack.

The first release of the IoT Security Suite contains a dedicated secure element designed to resist the highest level of attacks even when operating in IoT battery-powered devices. The secure element comes provisioned with credentials that are authenticated directly by the Kudelski Group's cloud-based servers using techniques proven in the highly competitive pay-TV space and guaranteeing the identity and authenticity of devices embedding the chip.

WHITE NOISE

Secure mobile communication solution

In November 2017, the Kudelski Group also announced the launch of WHITE NOISE, a secure mobile communication solution for businesses and government institutions. WHITE NOISE can support the highest security levels, up to "Secret", while allowing people to continue using the mobile devices they already own. The solution leverages the IoT Security Suite from the Kudelski Group.

WHITE NOISE is deployed as a simple hardware add-on to existing devices available either as an SD card for Android devices, as a security case for iPhones, or a secure headset. The WHITE NOISE application enables and protects both voice calls as well as group chat messaging using highest encryption standards. The proprietary hardware secure element (SE) used to secure WHITE NOISE communications is from the Kudelski Group's IoT Security Suite, a flexible, multi-purpose solution for protecting a wide variety of different IoT devices and their associated services.

Surveillance Camera Security

Video and camera protection technologies

As part of the IoT Security Suite, the Kudelski Group has developed a solution that has the ability to re-secure security cameras already deployed in the field that may be vulnerable to cyberattacks and interception of the video. The solution uses a small appliance that protects the video and the camera using strong encryption and firewall technologies. The solution incorporates key technologies from partners like Ionic Security Inc. (policy and enterprise key management system), 42Crunch (API Firewall), and SmarDTV (hardware design and manufacturing), a Kudelski Group subsidiary.

PUBLIC ACCESS

PUBLIC ACCESS
COMPREHENSIVE SOLUTIONS

› PUBLIC ACCESS

SKIDATA carries out the Group´s Public Access activities.

The company designs and markets comprehensive solutions which help infrastructure operators optimize their revenues and drive their business forward, and enable them to manage access to ski resorts, stadiums, fairs, amusement parks and parking facilities.

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

SKIDATA stands for 40 years of innovation. Since its foundation in 1977, SKIDATA has set standards in access and revenue management with global expert know-how and innovative solutions.

The company’s broad spectrum of proven standard to customized solutions guarantees every customer the optimal solution to maximize sales and to offer the best comfort.

10 000
INSTALLATIONS WORLDWIDE IN OVER 100 COUNTRIES

800
NEW INSTALLATIONS IN 2017

40 YEARS
OF SUCCESS AND INNOVATION

SKIDATA
GLOBAL LEADER IN ACCESS AND REVENUE MANAGEMENT SOLUTIONS

SKIDATA is the global leader in access and revenue management solutions, providing fast and safe access for people and vehicles. With innovative ideas, the company has developed to an internationally successful digital solution provider and the world market leader in access and visitor management with over 10 000 installations in over 100 countries.

SKIDATA increased its international footprint during the past year by entering new markets and with some 800 new installations in 2017.

TECHNOLOGICAL PIONEER AND INNOVATION DRIVER

SKIDATA is a pioneer and the world leader in the field of access and ticketing solutions for alpine regions. In 1977, SKIDATA introduced a cash register as well as printed ski tickets to the market – a milestone in the history of the mountain sports regions. The skiing experience to which guests are accustomed today has been fundamentally shaped by SKIDATA.

It wasn't only the printed SKIDATA ski ticket in the late 1970s that conquered the ski slopes. Over the last four decades, the portfolio was expanded with additional business units and innovative solutions like RFID chips for contactless entrance, vehicle access management, and solutions for stadiums, leisure parks and trade fairs. In addition to the portfolio, strong growth has also been seen in the sales network.

COMPLETE SOLUTION FROM A SINGLE SOURCE

With its extensive network of innovative technologies as well as access to thousands of international patents, SKIDATA offers solutions that provide a significant added value and continually drive the customer's business forward. This starts with ensuring quick and convenient access and visitor management, profiting from the evaluation results of data collected and extends all the way to customizing an efficient workflow as well as generating sales – with technology that helps streamline processes and boost productivity.

INVESTING IN STRATEGIC GROWTH AREAS

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

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.

Ampere.Gate

Electric Charging: Power with Intelligence

The electric charging station enables convenient handling of the entire charging procedure of an electric car in carparks. Fully integrated into the SKIDATA solution, operators and guests benefit from a single billing for parking and charging and an optimized, convenient workflow. An environmentally friendly all-round service for a sustainable future.

Summit.Logic

Centralized management solutions for alpine resorts

The Summit.Logic management software is the core element of the SKIDATA Mountain solution. Its three central elements directly control the complete solution. The Management Center combines all configuration and administration tools, while the Operation Center controls and monitors all lifts and accesses in the ski area. The Summit Server provides a secure data base. Key benefits include centralized as well as local management, faster processes and proven workflows with intuitive operation together with shorter training times and easier supervision. With its many preconfigured interfaces, Summit.Logic allows for optimal customization to meet specific needs.

Online sales platform (DTA)

Value-added, convenient and efficient advance sales

Whether from home or on the road, guests have numerous opportunities to get their tickets. In this area SKIDATA has already connected more than 3 800 online distribution channels and manages over 600 million euros in sales volume per year – trend rising sharply.

SKIDATA's DTA online sales platform offers customers and sales partners the service of convenient and efficient advance sales. As a core component of the Business Enabling Platform, DTA (Direct-to-Access) forms the basis for SKIDATA's own cloud-based sales, allowing for the connection with third-party solutions by integrators. The combination of the sales solutions of more than 100 partners in the fields of e-commerce and m-commerce, B2C and B2B sales, vending machines and more, is proof of this capability.

Expert Services

Services supporting implementation and daily system operation

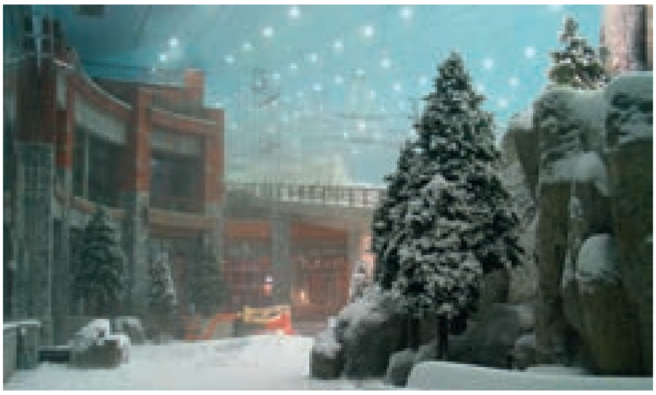
Along with hardware and software, services are an important part of SKIDATA's offering. They include support processes, coordinated solution delivery, know-how transfer through training sessions as well as on-call support available 24/7 provided by specialists in their respective areas.

SKIDATA
2017 MARKET HIGHLIGHTS

› PUBLIC ACCESS

WESTFIELD CENTURY CITY CENTER – LOS ANGELES – USA

SKI DUBAI – DUBAI – UNITED ARAB EMIRATES

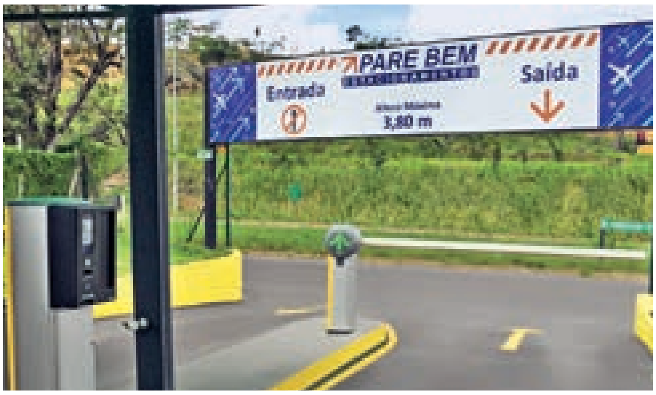


LOVEFIELD AIRPORT – DALLAS – USA

FRANCEVILLE STADIUM – FRANCEVILLE – GABON

ROZAFA CASTLE – SHKODËR – ALBANIA

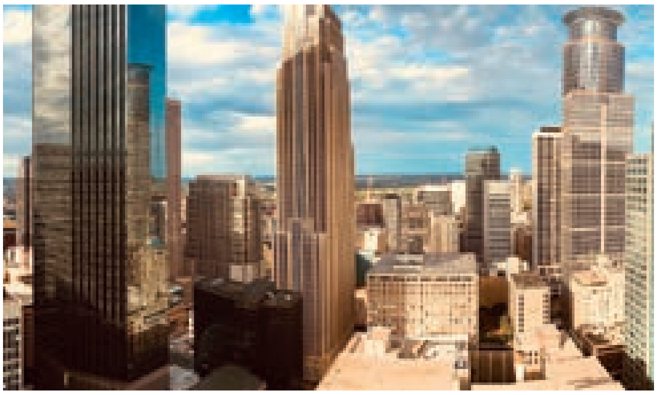
CONFINS INTL. AIRPORT – BELO HORIZONTE – BRAZIL



A WORLD LEADER IN THE PUBLIC ACCESS SECTOR WITH MORE THAN 10 000 INSTALLATIONS CURRENTLY DEPLOYED

CSKA ARENA – MOSCOW – RUSSIA

MINNEAPOLIS – USA



AMITIE STADIUM – LIBREVILLE – GABON

PALLADIUM CURITIBA SHOPPING CENTER – CURITIBA – BRAZIL

CORPORATE GOVERNANCE


PORA
VERNANCE
ANC

CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange and in compliance with the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC). Unless otherwise stated herein, the information provided in this report reflects the situation as of 31 December 2017.

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 Kudelski SA and its affiliated companies (the “Kudelski Group“ or the “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, Intellectual Property and Corporate IT departments support the entire organization.

The iDTV division includes sales and marketing, services and operations, the four Product Units, including Content and Access Security, User Experience (UEX), Internet of Things (IoT) and Cyber Security. Product Units are responsible for defining research and development. The Conax and NexGuard teams were fully integrated in 2017 and early 2018 into the different teams of the Content and Access Security Product Unit of the iDTV division and into the corporate departments of the Group. Only SmarDTV is managed autonomously. This company is under the responsibility of the CMO (Chief Marketing Officer) of the iDTV division.

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 2017 financial statements.

<ins>Main operating companies held directly or indirectly by Kudelski SA</ins>

The list of the Group's main operating companies is provided in note 54 to the 2017 financial statements. Additional information is also included in the 2017 Annual Report's key figures.

1.1.2. All listed companies belonging to the issuer's Group

Kudelski SA, the parent company of the Group, is a Swiss holding company based in Cheseaux-sur-Lausanne in the canton of Vaud. Kudelski bearer share are listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ ISIN: CH0012268360). As of December 31, 2017, the market capitalization of Kudelski SA bearer shares was CHF 599 605 048.

Kudelski SA and its subsidiaries did not hold any bearer shares of Kudelski SA.

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 150 and 161 of the Kudelski Group's 2017 financial statements.

INTERNATIONAL PRESENCE

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

1.2. Significant shareholders
As of 31 December 2017, Kudelski SA has two significant shareholders.

The first one consists of a group of shareholders related to the Kudelski family ("Family Pool") with a total of 59.07% of the voting rights of Kudelski SA (see the table below). The Family Pool comprises Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irène Kudelski Mauroux and their respective descendants. Members of the Family Pool own the shares of Kudelski SA directly or through an investment structure of which they are the beneficiaries.

The second significant shareholder ("Kudelski Family outside the Pool") is composed of two discretionary and irrevocable trusts, whose beneficiaries are members of the family of Mr. André Kudelski. As of December 31, 2017, the Kudelski Family outside the Pool held a total of 4.16% of the voting rights of Kudelski S.A. (see table below). In its capacity as a protector of these trusts, Eigenmann Associés in Lausanne, Switzerland, freely exercises the voting rights of the shares held by these trusts.

To the Group's knowledge, no other shareholder or group of shareholders holds more than 3% of the voting rights.

All announcements made by Kudelski SA to the SIX Swiss Exchange can be found on the SIX Swiss Exchange website at the following address: http://www.six-swiss-exchange.com/shares/security_info_fr.html?id=CH0012268360CHF4 and then clicking on the "Principal shareholders" link.

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

AS OF 31 DECEMBER 2017	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Family Pool	46 300 000	10 434 423	27.70%	59.07%
Kudelski Family outside the Pool		4 000 000	7.35%	4.16%

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital as at 31.12.2017

Ordinary capital
The share capital of Kudelski SA is CHF 435 118 040. It is divided into 49 759 755 bearer shares with a nominal value of CHF 8.00 per share and 46 300 000 registered shares with a nominal value of CHF 0.80 per share. Each share confers the right to one vote. All shares are fully paid up.

Articles 6 to 7 of the articles of association of Kudelski SA, which can be found on the company's website at the following address: https://www.nagra.com/sites/default/files/Statuts_KSA_15-02-2017.pdf also contain an authorized capital clause and two conditional capital clauses (see section 2.2 below).

2.2. Specific information concerning authorized and conditional capital

Authorized capital
According to Article 7 of the articles of association of Kudelski SA, the Board of Directors is authorized to increase the share capital in one or more stages until 22nd March 2018 by a maximum amount of CHF 32 705 312 (representing 7.52% of the existing share capital) through the issuance of 3 768 164 bearer shares with a nominal value of CHF 8.00 per share and 3 200 000 registered shares with a nominal value of CHF 0.80 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. The statutory restrictions on the transfer of shares applies to new registered shares issued on the basis of the authorized capital.

Conditional capital

The articles of association of Kudelski SA (Articles 6 and 6bis) provide two clauses related to conditional capital for a total amount of CHF 84 601 696 (19.45% of the existing share capital) structured as follows:

– according to article 6 of the articles of association (conditional capital for option or subscription rights), the share capital of Kudelski SA can be increased by a maximum amount of CHF 4 432 008 (1.06% of the existing capital) through the issuance of a maximum of 554 001 bearer shares with a nominal value of CHF 8.00 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

– according to article 6bis of the articles of association (conditional capital for conversion rights), the share capital of Kudelski SA can be increased by a maximum amount of CHF 80 000 000 (18.39% of the existing capital) through the issuance of a maximum of 10 000 000 bearer shares with a nominal value of CHF 8.00 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 seven 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.

As of December 31st, 2017, Kudelski SA had issued 21 211 bearer shares on the basis of conditional capital for option or subscription rights. These new bearer shares will be entered in the commercial register in the first three months of 2018, in accordance with Article 653h of the Code of Obligations. As of December 31st, 2017, the available amount of contingent capital for option and subscription rights was therefore CHF 4 432 008, representing a maximum of 554 001 bearer shares with a par value of CHF 8.00 each.

As at December 31st, 2017, Kudelski SA had not issued any option rights within the meaning of article 6 of the articles of association and no conversion rights related to debt obligations within the meaning of article 6bis of the articles of association. The conditional capital for option or subscription rights under article 6 of the articles of association may, however, be used in the context of the employee share purchase plan (see section 2.7 below).

2.3. Changes in the capital of Kudelski SA

IN THOUSAND CHF	31.12.17	31.12.16	31.12.15
Registered share capital	37 040	37 040	46 300
Bearer share capital	398 078	396 965	494 611
Legal reserve	110 000	110 000	110 000
Capital contribution reserve	85 010	97 925	8 300
Net profit	-49 369	44 102	-29 495
Retained earnings	145 616	200 423	156 320
TOTAL SHAREHOLDERS' EQUITY	**775 744**	**842 353**	**815 532**

For information relating to changes in capital which have taken place in 2017, 2016 and 2015, please refer to the Group's corresponding financial statements. These reports can be found on the Kudelski SA website at www.nagra.com/investors/publications. Information regarding the capital contribution reserve can be found under note 3.4 to the Kudelski SA financial statements in the Kudelski Group's 2017 financial statements.

2.4. Shares and participation certificates

The structure of the share capital of Kudelski SA is described in section 2.1 above.

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

Shares of Kudelski SA which are listed on the stock exchange are issued to the bearer. For these shares, the exercise of shareholder rights does not depend on an entry in the share register. There are therefore no statutory restrictions on their transfer or the exercise of shareholder rights through nominees.

The registered shares of Kudelski SA are not listed on the stock exchange. As of December 31st, 2017, they were all owned by the Kudelski "Family Pool" (see section 1.2 above). Pursuant to the articles of association of Kudelski SA, subject to the provisions of the Swiss Federal Act on Intermediated Securities, 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.

Article 9 of Kudelski SA's articles of association allows the Board of Directors to refuse the approval of 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 Kudelski SA 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.

Article 9 of the articles of association also provides that 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.

2.7. Convertible bonds and options

Convertible bond

The Kudelski Group 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 2017 can be found in note 38 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 Executive member of the Board	1960	Swiss	**DEGREE IN PHYSICAL ENGINEERING** Ecole polytechnique fédérale de Lausanne (EPFL)	1987	15.03.2018
CLAUDE SMADJA Deputy Chairman of the Board and Lead Director Non-Executive Board Member	1945	Swiss	**DEGREE IN POLITICAL SCIENCE** University of Lausanne	1999	15.03.2018
PATRICK FŒTISCH Non-Executive Board Member	1933	Swiss	**DOCTORATE IN LAW** University of Lausanne **BAR EXAM**	1992	15.03.2018
LAURENT DASSAULT Non-Executive Board Member	1953	French	**DEGREE IN BUSINESS LAW** **DEGREE FROM ESLSCA** Ecole supérieure libre des sciences commerciales appliquées, Paris	1995	15.03.2018
PIERRE LESCURE Non-Executive Board Member	1945	French	**DEGREE IN LITERATURE AND JOURNALISM** Centre de formation des journalistes, Paris	2004	15.03.2018
MARGUERITE KUDELSKI Non-Executive Board Member	1965	Swiss	**ENGINEERING DEGREE IN MICROTECHNOLOGY** **DOCTORATE IN MICROTECHNOLOGY** Ecole polytechnique fédérale de Lausanne **EXECUTIVE MBA** IMD Lausanne	2006	15.03.2018
ALEXANDRE ZELLER Non-Executive Board Member	1961	Swiss	**DEGREE IN ECONOMICS AND SOCIAL SCIENCES** University of Lausanne **ADVANCED MANAGEMENT PROGRAM** Harvard Business School, Boston	2007	15.03.2018
JOSEPH DEISS Non-Executive Board Member	1946	Swiss	**DOCTORATE IN ECONOMICS AND SOCIAL SCIENCES** University of Fribourg	2012	15.03.2018
ALEC ROSS Non-Executive Board Member	1971	American	**DEGREE IN HISTORY** Northwestern University, USA	2014	15.03.2018

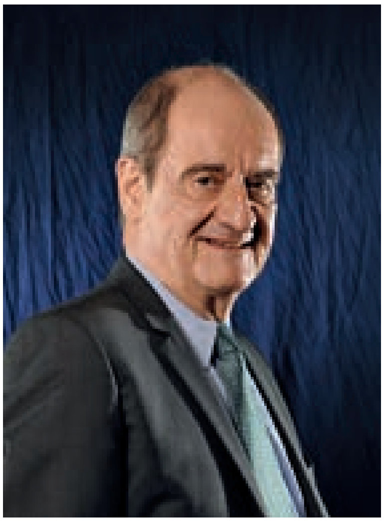
* *André Kudelski is the only member of the Board of Directors to combine his Board duties with an executive function within the Group (Chief Executive Officer). Apart from Mr. Kudelski, no other member of the Board of Directors performed any executive function within the Group during the past three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

ANDRÉ KUDELSKI

CLAUDE SMADJA

PATRICK FŒTISCH

LAURENT DASSAULT



PIERRE LESCURE

MARGUERITE KUDELSKI

ALEXANDRE ZELLER

JOSEPH DEISS

ALEC ROSS

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.

Current mandates Kudelski Group:

- Conax AS, in Norway, Chairman
- Kudelski Corporate, Inc., in USA, Chairman and Chief Executive Officer
- Kudelski Security, Inc., in USA, Executive Chairman
- Kudelski Security Holdings, Inc., in USA, Chairman and Chief Executive Officer
- Nagravision SA, in Switzerland, Chief Executive Officer
- NAGRA PLUS SA, in Switzerland, Chairman and Chief Executive Officer
- Nagra USA, Inc., in USA, Chairman and Chief Executive Officer
- NagraStar LLC, in USA, Co-Chairman
- OpenTV, Inc., in USA, Chairman and Chief Executive Officer
- SKIDATA AG, in Austria, Member of the Supervisory Board
- SmarDTV SA, in Switzerland, Chairman

Important mandates outside the Kudelski Group:

- 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
- Greater Phoenix Economic Council (GPEC), in USA, member of the non-profit company
- Innosuisse, in Switzerland, Chairman
- Publicis Groupe, in France, member of the Supervisory Board and of the Audit Committee
- Swiss-American Chamber of Commerce, in Switzerland, Vice-Chairman

- HSBC Private Banking Holdings (Suisse) SA, Board member (until the 31st of January 2017)

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.

Main mandate outside the Kudelski Group:

- Smadja & Smadja Strategic Advisory SA, in Switzerland, Board member

Mr Smadja has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any material business relationship with Kudelski SA or any of its subsidiaries.

PATRICK FŒTISCH

Patrick Foetisch 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.

Current mandates Kudelski Group:

- 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

Main mandate outside the Kudelski Group:

- AMRP Handels, in Switzerland, Chairman

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.

Current mandates Groupe Industriel Marcel Dassault SAS (France)[1]:

- Arqana SAS, in France, advisor to the Directoire (Managing Board)
- Artcurial Développement Sàrl, in France, Co-manager (Co-gérant)
- DASSAULT BELGIQUE AVIATION S.A, in Belgium, Board member
- DASSAULT INVESTESSEMENTS Sàrl, in France, Managing Director
- Dassault Wine Estates SASU, in France, Chairman
- Immobilière Dassault SA, in France, Chairman of the Supervisory Board
- Groupe Industriel Marcel Dassault SAS, in France, Directeur Général Délégué and Board member
- MARCEL DASSAULT TRADING CORPORATION (USA), Board member
- MIDWAY AIRCRAFT CORPORATION, in USA, Chairman
- ONE DROP France (association), Chairman
- SERGE DASSAULT TRADING CORPORATION (USA), Board member
- SOGITEC Industries SA, in France, Board member

Other important mandates outside the Kudelski Group:

- 21 Centrale Partners SA, in France, member of the Supervisory Board
- Catalyst Investments II L.P., in Israel, Chairman of the Advisory 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
- PECHEL INDUSTRIES SAS, in France, member of the Monitoring Committee
- SAGARD PRIVATE EQUITY PARTNERS SAS, in France, member of the Advisory Committee
- WARWYCK Private Bank Ltd, in Mauritius, Board member

- Amis du FRAC (Fonds Régional d'Art Contemporain en Aquitaine), in France, Chairman
- Amis du Musée Centre Pompidou, Association, 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
- Fonds pour Paris, association, in France, Board member
- Organisation pour la prévention de la Cécité (OPC), Association, in France, Board member
- Société des Amis des musées d'Orsay & de l'Orangerie, in France, Board member

Mr. Dassault has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

PIERRE LESCURE

Save for a two year period (1972-1974) as a television news presenter for Antenne 2, Pierre Lescure spent the first fifteen years of his professional career with the RTL, RMC and Europe1 radio stations where he successively occupied a variety of positions, in particular Deputy Editor and Director of Programs. In 1981 he returned to television as News Director 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.

Current mandates with the Festival de Cannes[1]:

- Association française du festival international du film (known as "Le Festival de Cannes"), in France, Chairman
- Société de gestion d'opérations commerciales pour le festival international du film SASU, (France), Chairman

Current Mandates exercised for the Festival de Cannes:

- Fonds de dotation du festival international du film, in France, Chairman

Other important mandates outside the Kudelski Group:

- ANNAROSE PRODUCTIONS Sàrl, in France, Chairman and CEO
- Lagardère SCA, in France, member of the Supervisory Board
- Molotov SAS, in France, Chairman

Mr. Lescure has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

[1] *As per section 18 of the articles of association and as described below in section 3.3, mandates for legal entities under common control are deemed to constitute a single mandate.*

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 2017, Marguerite Kudelski is a Board member of Bovay & Partenaires SA and Wire Art Switzerland SA. She is also a member of the Expert Committee of Switzerland Innovation.

Main mandates outside the Kudelski Group:

- AudioTechnology Switzerland SA, in Switzerland, Chairman
- Bovay & Partenaires SA, in Switzerland, Board member
- Swiss Innovation Park, fondation, in Switzerland, member of the Expert Committee
- Wire Art Switzerland SA, in Switzerland, Board member

Apart from the mandates and functions mentioned above, neither Ms. Kudelski nor any organization she represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

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. From May 2014 to September 2016, Alexandre Zeller was Chairman of the Board of SIX Group SA. Since the 1st October 2016, Alexandre Zeller is Chairman of Credit Suisse (Suisse) SA.

Main mandates outside the Kudelski Group:

- Central Swiss Classic Cars SA (Suisse), Chairman
- Credit Suisse (Suisse) SA, Chairman
- Credit Suisse Group SA, in Switzerland, Board member, member of the Chairman's and Governance Committee and of the Compensation Committee
- Garage Central SA, in Switzerland, Chairman
- Maus Frères SA, in Switzerland, Board member
- Spencer Stuart & Associates B.V., Rotterdam, branch of Zurich, in Switzerland, Advisory Board member

Mr. Zeller has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

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.

Main mandates outside the Kudelski Group:

- Adolphe Merkle Foundation, in Switzerland, Chairman
- Clinique Générale-Ste-Anne SA, in Switzerland, Chairman

Mr. Deiss has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

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 programs 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. On April 26, 2017, Alec Ross announced his candidacy for the November 2018 election to the position of Governor of Maryland in the United States.

Main mandates outside the Kudelski Group:

- AmidaTechnology 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
- Mark43, in USA, Advisory Board member
- Teach for America, in USA, Advisory Board member
- Telerivet Inc., in USA, Board member

Mr. Ross has never been part of a management body of the Kudelski Group. Neither he nor any organization he represents has any significant business relationship with Kudelski SA or any of its subsidiaries.

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 senior 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 senior 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 another company directly, indirectly or jointly with third parties for which a mandate is being carried out, or is controlled by such company; 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 elected 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 reelected. 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 election of the Chairman.

3.5. Internal organization structure

The Board of Directors performs inalienable and nontransferable duties prescribed by the law (see section 3.6 below) 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 Annual General Meeting, the Board of Directors constitutes itself and nominates its Deputy Chairman. The Board of Directors may elect that one of its members will exercise the function of Chief Executive Officer of the company. If the Chairman is elected to exercise the function of Chief Executive Officer, the Board of Directors shall also elect a "Lead Director" from among its members. 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 Annual 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 Board of Directors and the General Meeting in the absence of the Chairman.

According to Article 25 of Kudelski SA's articles of association, the Board of Directors may delegate the management of the company 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, Mr. André Kudelski holds the positions of Chairman of the Board of Directors and Chief Executive Officer. 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. As the functions of chairman and Chief Executive Officer are held by the same person, the Board of Directors has appointed Claude Smadja as 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. 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 Annual 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

	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	

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 advisors.

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. The Compensation Committee is responsible for setting the remuneration of each member of the Board of Directors and the Executive Board. An exception to this principle is the remuneration of the members of the Compensation and Nomination Committee, which is fixed by the Board of Directors itself. The Compensation and Nomination Committee also assists the Board of Directors 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 2017, 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

The participation of the members of the Executive Board to the discussion and decisions of the Board of Directors are described in section 3.7 below. Average attendance at Board meetings exceeded 92%. 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 Annual 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 above-mentioned internal organization structure. 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, legal, 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 2017.

- 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, the Senior Vice President Executive Affairs 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 over-runs/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 SA).

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 is responsible for recruiting the talent necessary for the Group's needs, developing and promoting high performing employees and ensuring successions. In particular, it maintains a catalog of training tailored to the needs of the Group, managers and employees.

- The Human Resources Department is in charge of the processes and the implementation of performance evaluation tools related to the objectives of the group, the different departments and each employee.

- In respect of the Group's values, the Human Resources Department advises employees and senior managers from all Group departments on a daily basis in matters relating to human resources.

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.

- The Corporate IT department regularly reviews the infrastructure of its systems to ensure their evolution in accordance with the new standards and rules that apply to them.

- The information systems infrastructure is monitored 24/7 by the teams of the Cyber Fusion Center of Kudelski Security.

Main identified risks and treatment

The main identified risks are listed below. The various information and control instruments of the Board of Directors with respect to the Executive Board described above in section 3.7 are used and allow monitoring of each risk appropriately and according to its criticality for the Group.The communications of the Chairman and Chief Executive Officer to the Board of Directors ensure regular and appropriate information flow and the activities of the committees of the Board of Directors guarantee appropriate supervision by the members of the Board of Directors of the decisions of the Executive Board.

- The business segments in which the Kudelski Group's iDTV division operate (conditional access, UEX, etc.) are evolving rapidly and constantly requiring the Kudelski Group to offer products and services that are flexible enough to respond quickly to the commercial and technological changes of the digital media industry.

- The Group provides its products and services in many countries with different currencies (payments are made mainly in US dollars and Euros). The Group's suppliers are paid in different currencies. Fluctuations in foreign exchange rates may affect the Group's results of operations and financial position.

- The Kudelski Group's results could be impacted if the security provided by its products is compromised and if the Group fails to put in place adequate countermeasures.

- The operating results and growth of the Kudelski Group could decrease if the customer base of the Group's customers does not continue to increase.

- The Group's success depends on its ability to attract and retain qualified personnel. Competition for hiring and retaining highly qualified personnel is high.

- A leak of confidential, proprietary or personal information held by the Group could adversely affect the Group's activities.

4. EXECUTIVE BOARD

4.1. Executive Board members

MAURO SALADINI, ANDRÉ KUDELSKI, PIERRE ROY AND MORTEN SOLBAKKEN
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 **MBA** INSEAD, France
PIERRE ROY Executive Vice President of the Group	1952	Swiss	**Chief Marketing Officer (CMO), Digital TV**	**Degree in Business Management** Hautes études commerciales (HEC) de l'Université de Lausanne
MORTEN SOLBAKKEN* Executive Vice President of the Group	1970	Norwegian	**Chief Operating Officer (COO), Digital TV**	**Master of Science** Norwegian University of Science and Technology (NTNU)

* Morten Solbakken is an Executive Board member since the 1st of January 2018

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.

Current mandates Kudelski Group:

- Conax AS, in Norway, Board member
- iWedia, in Switzerland, Chairman
- Kudelski Corporate, Inc., in USA, Board member
- Kudelski Norway AS, Board of Directors, Chairman
- Kudelski Security Inc., in USA, Board member
- Kudelski Security Holdings, Inc., in USA, Board member
- Nagra IP, Inc., in USA, Board member
- Nagra Media Beijing Ltd., in China, Supervisor
- Nagra Media Germany GmbH, in Germany, Executive Board member
- Nagra Media UK Limited, in United Kingdom, Board member
- Nagra USA, Inc, in USA, Board member
- OpenTV, Inc., in USA, Board member
- SKIDATA AG, in Austria, Vice Chairman of the Supervisory Board
- Nagravision SA, in Switzerland, Executive Board member (until 18th of January 2017)

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. On January 1, 2018, Pierre Roy was appointed Chief Marketing Officer (CMO), Digital TV.

Current mandates Kudelski Group:

- Conax AS, in Norway, Board member
- Kudelski Security, Inc, in USA, Board member
- Kudelski Security Holdings, Inc., in USA, Board member
- Kudelski Corporate, Inc.., in USA, Board member
- Nagravision India Private Limited, in India, Board member
- Nagra Media Germany GmbH, in Germany Board member
- Nagra Media UK Ltd, in the United Kingdom, Board member
- Nagravision Italia s.r.l., in Italy, Board member
- Nagravision Iberica SL, in Spain, Board member
- Nagra USA Inc., in USA, 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 Media (Taiwan) Co. Ltd, Board member
- Nagra Media Beijing Ltd, in China, CEO
- Nagra Media Beijing Ltd., Shanghai Branch, in China, Director
- Nagra Media Japan KK, in Japan, Board member
- Nagra Media Australia Pty. Ltd., in Australia, Board member
- Nagravision SA, in Switzerland, Board member and Executive Board member
- NexGuard Labs B.V., in Netherlands, Board member
- NexGuard Labs Netherlands B.V., in Netherlands, Board member
- NexGuard Labs France S.A.S., in France, Board member
- NexGuard Labs USA, Inc., in USA, Board member
- OpenTV Australia Holdings Pty Ltd, in Australia, Board member
- OpenTV, Inc., in USA, Board member
- SmarDTV SA, in Switzerland, Director

MORTEN SOLBAKKEN

Morten Solbakken started his professional career in 1995 as a satellite systems engineer in Telenor International. From there on, he held numerous positions in the Telenor structure dealing in particular with strategy and business development around the pay TV assets as well as the management of Telenor's ownership in international satellite organizations. From 2007 to 2011, he was Chief Strategy Officer in Telenor Broadcast Holding AS (owner of Canal Digital, Telenor Satellite, Norkring and Conax). In March 2011, Solbakken was appointed COO at Telenor Broadcast Holding, and Chairman of the Boards of Conax, Telenor Satellite and Norkring. Morten Solbakken joined Conax as acting CEO in September 2011 and was made CEO from December 2011 – driving a transformation of the company including the process which led to the acquisition of Conax by the Kudelski Group in April 2014. He starts as a COO Digital TV and Executive Vice President of the Kudelski Group on the 1st of January 2018.

Current mandates Kudelski Group:

- Conax AS, in Norway, Board member and CEO
- Digital Video Holding AS, in Norway, Chairman of the Board
- Digital Video Drift AS, in Norway, Chairman of the Board
- Digital Video Health AS, in Norway, Chairman of the Board
- NexGuard Labs B.V., in Netherlands, Director
- NexGuard Labs Netherlands B.V., in Netherlands, Director
- NexGuard Labs France S.A.S., in France, Director
- Kudelski Corporate, Inc., in USA, member of the Board of Directors
- Kudelski Norway AS, in Norway, executive Board Member and Managing Director
- Nagra USA, Inc., in USA, member of the Board of Directors
- Open TV, Inc., in USA, member of the Board of Directors
- SmarDTV SA, in France, member of the Board of Directors
- Techno Venture AS, in Norway, Chairman of the Board and Managing Director
- Conax Access Systems Pvt Ltd, in India, Chairman of the Board (until December 31st, 2017)

Other mandates:

- Telenor Satellite AS, in Norway, Member of the Board of Directors

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 senior 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 senior 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 senior 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
As of December 31st, 2017, Kudelski SA and its subsidiaries had not entered into any management contract with companies outside the Group.

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 2017 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 Annual 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 Annual General Meeting of Shareholders.

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

6.3. Convocation of the Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders must be called at least 20 days before the date of the meeting. The notice of the Annual 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 totaling 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 0.23% of the capital of Kudelski SA or 0.13% 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 in its articles of association on "opting-out" within the meaning of Article 125 para. 3 or 4 of the Federal Act on Financial Market Infrastructure (FMIA) or «opting-up» within the meaning of Article 135 para. 1 LIMF. This means that if a shareholder reaches the limit laid down by the Swiss Financial Market Infrastructure Act (art. 135 LIMF: 331/3% of the voting rights), he will be required by the same law to submit a takeover bid on all bearer shares of the company that it does not yet hold, at the minimum price defined in article 135 para. 2 LIMF.

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 21 March 2017 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Mr. Luc Schulthess since 1 January 2017. 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 2017 the sum of CHF 1 130 000. 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 2017 the sum of CHF 278 829 representing CHF 275 499 for tax advisory services and CHF 3 330 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, Annual 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 172 of this report.

Important dates

- 15 March 2018: Annual General Meeting, Cheseaux-sur-Lausanne;

- 15 August 2018: Publication of the Interim Financial Report and Press Conference.

COMPENSATION REPORT

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 31 December 2017.

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 Annual 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 Annual 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 Annual 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 section 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 2017

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 2017 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 2017

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 30.0% and 36.0% 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 2017 and 2016 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. 52 112 (2016: 60 000) bearer shares were allocated to members of the Executive Board with a seven-year blocking period and 7 376 (2016: 21 846) with a three-year blocking period. Shares granted as part of variable compensation for fiscal years 2017 and 2016 were granted at the beginning of the respective following year.

YEAR 2017	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 2017 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 353	**554 353**
SMADJA CLAUDE Vice-chairman	130 000	–	–	–	6 190	**136 190**
DASSAULT LAURENT Member	40 000	–	–	–	2 683	**42 683**
DEISS JOSEPH Member	60 000	–	–	–	2 362	**62 362**
FOETISCH PATRICK Member	60 000	–	–	–	147 087 **	**207 087**
KUDELSKI MARGUERITE Member	50 000	–	–	–	3 353	**53 353**
LESCURE PIERRE Member	120 000	–	–	–	5 644	**125 644**
ZELLER ALEXANDRE Member	110 000	–	–	–	7 377	**117 377**
ROSS ALEC Member	50 000	–	–	–	3 353	**53 353**
TOTAL BOARD MEMBERS	1 171 000	–	–	–	181 403	**1 352 403**

YEAR 2017	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 2017 CHF
MANAGEMENT						
KUDELSKI ANDRÉ CEO	605 500	2 693 500	40 000	335 190	215 488	**3 849 678**
OTHER MEMBERS****	1 315 547	538 584	19 488	179 528	147 078	**2 180 737**
TOTAL MANAGEMENT	1 921 047	3 232 084	59 488	514 718	362 566	**6 030 415**

* *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.*

**** *Morten Solbakken is a member of the Management since the 1st January 2018. His compensation is not part of this compensation report.*

One member of the management receives his remuneration in USD, and another received part of the 2017 fixed remuneration in USD, which was converted using a 0.9845 exchange rate.

YEAR 2016	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 2016 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 353	**554 353**
SMADJA CLAUDE Vice-chairman	130 000	–	–	–	6 190	**136 190**
DASSAULT LAURENT Member	40 000	–	–	–	2 683	**42 683**
DEISS JOSEPH Member	60 000	–	–	–	2 362	**62 362**
FOETISCH PATRICK Member	50 000	–	–	–	69 720 **	**119 720**
KUDELSKI MARGUERITE Member	50 000	–	–	–	3 353	**53 353**
LESCURE PIERRE Member	120 000	–	–	–	5 644	**125 644**
ZELLER ALEXANDRE Member	110 000	–	–	–	7 377	**117 377**
ROSS ALEC Member	50 000	–	–	–	3 353	**53 353**
TOTAL BOARD MEMBERS	1 161 000	–	–	–	104 038	**1 265 038**

YEAR 2016	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 2016 CHF
MANAGEMENT						
KUDELSKI ANDRÉ CEO	599 250	4 845 149	60 000	708 289	368 381	**6 521 069**
OTHER MEMBERS	1 345 869	983 121	21 846	325 577	146 752	**2 801 318**
TOTAL MANAGEMENT	1 945 119	5 828 270	81 846	1 033 865	515 133	**9 322 387**

* *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.*

For one management member, part of the 2016 fixed remuneration was paid in USD, which was converted using a 0.9851 exchange rate.

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 Annual General Meeting, subject to subsequent approval and an obligation to repay such compensation in the event it is not approved by the Annual General Meeting.

As of December 31, 2017 and 2016, 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, 2017 and 2016, 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 2017

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

We have audited the accompanying remuneration report of Kudelski S.A. (chapters 7 and 8) for the year ended 31 December 2017.

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 2017 complies with Swiss law and articles 14–16 of the Ordinance.

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PricewaterhouseCoopers SA

Luc Schulthess Audit expert Auditor in charge	Mario Berckmoes Audit expert

Lausanne, 13 February 2018

FINANCIAL OVERVIEW AND STATEMENTS


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FINANCIAL OVERVIEW

In 2017, the Group increased its consolidated revenues and other operating income from continuing operations by 7.1% to USD 1’068.7 million. SmarDTV’s revenues are not included in the reported revenue line as they are classified as discontinued operations. Operating income excluding restructuring costs decreased from USD 113.5 million to USD 48.1 million in 2017. After USD 22.5 million restructuring costs, 2017 operating income was USD 25.6 million.

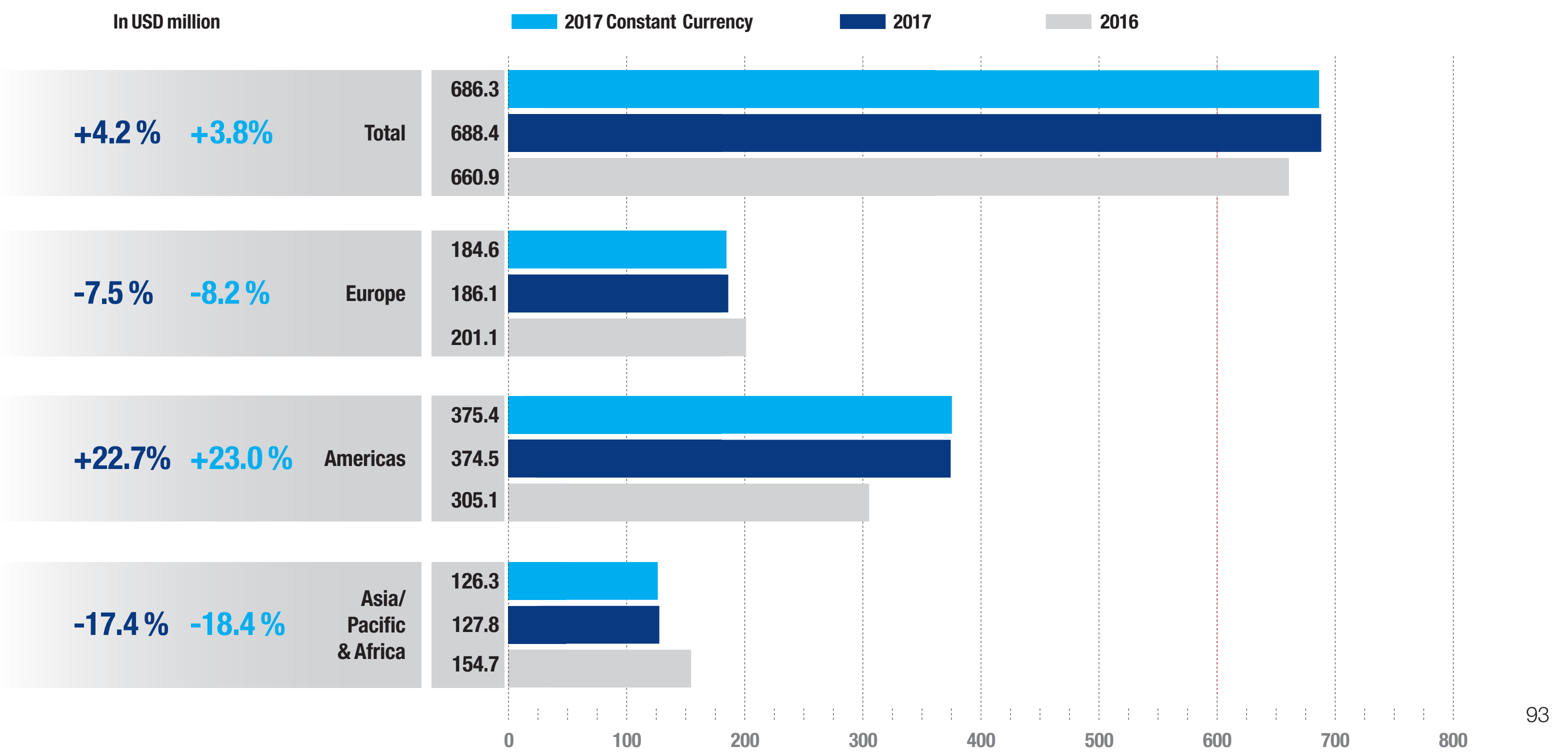
iDTV segment revenues increased by 4.2% in 2017, reaching USD 688.4 million.

Kudelski Security, the Group’s cybersecurity business, more than doubled its revenue contribution in 2017, reflecting the full consolidation of M&S Technologies as of January 2017 and the strong performance of its European operations. M&S Technologies is a Dallas-based cyber and network security provider that extends the Group’s cybersecurity presence into the South-Central region of the United States.

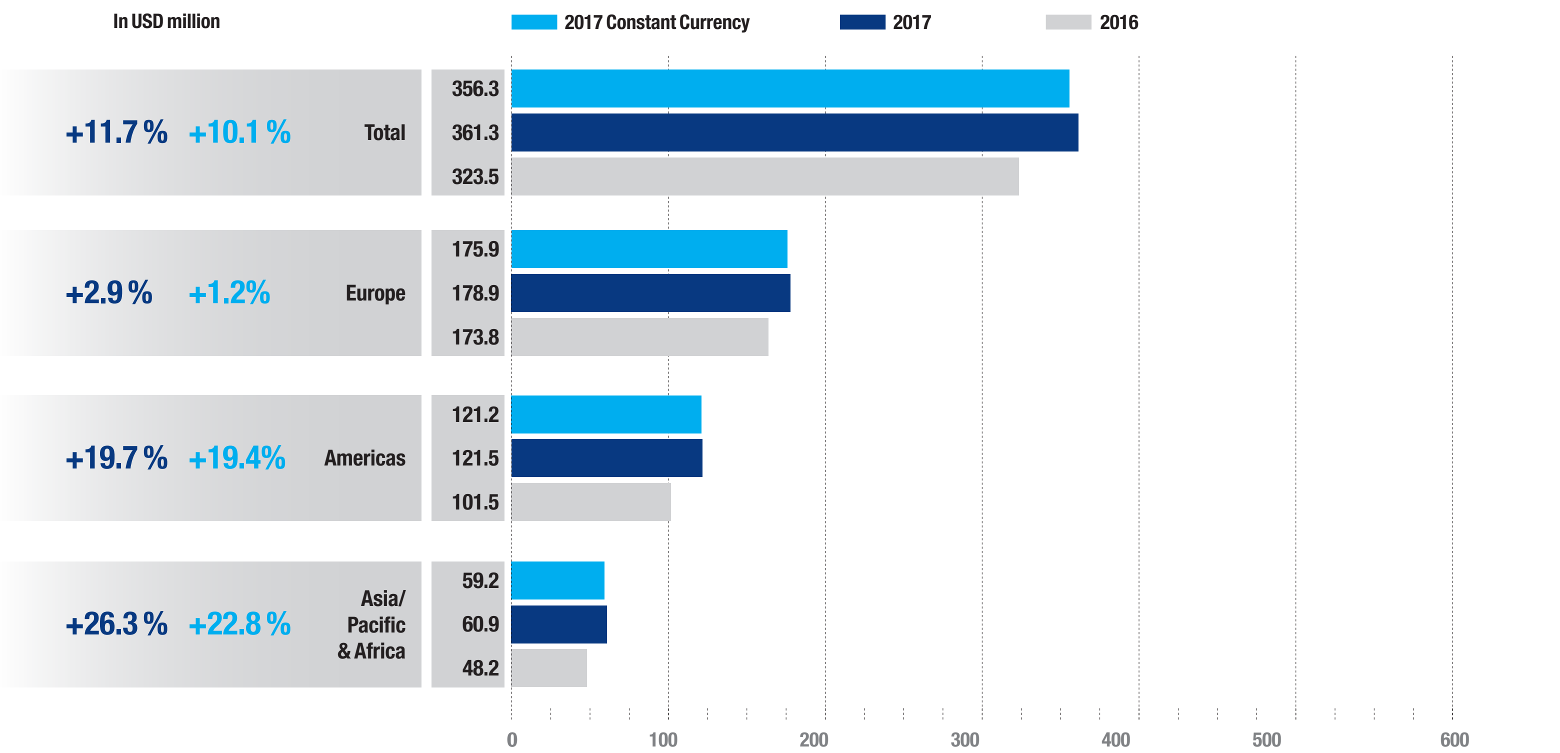
Public Access maintained its strong top line momentum, with revenues growing at two-digit rates to reach USD 361.3 million, representing 11.7% growth.

REVENUE BREAKDOWN BY SEGMENT
EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



In 2017, the traditional pay TV market continued to slow down, negatively impacting the Group's revenues and contribution margins from its core digital TV products. The Group initiated a restructuring program in the second half of the year to better align its core digital TV cost base with market demand. In the context of this program, the integrated Digital TV (iDTV) structure is undergoing a major transformation that involves, in particular, the full integration of Nagravision and Conax operations and the streamlining of digital TV operations in Switzerland, France and Norway. The Group is also consolidating its operations into locations with a critical mass and proximity to key target markets. As part of this process, the Group is downsizing several locations and closing smaller sites. In 2017, the Group completed several IP licensing transactions and settled its major ongoing litigation. As a result, the Group expects a material reduction in legal costs for 2018. Finally, the Group is increasing its Public Access segment's focus on profitability and cash generation, seeking to better leverage SKIDATA's market leadership.

In connection with the ongoing efforts to streamline its core digital TV operations, the Group is seeking to establish strategic partnerships with best-of-breed set-top box and conditional access module suppliers, which comprise the Group's SmarDTV subsidiary. Such partnerships are likely to encompass a transfer of relevant assets and resources to the selected partners. As such assets and resources, and the related businesses, represent the bulk of SmarDTV's profit and loss and balance sheet, SmarDTV has been reported as a discontinued operation in the current period and in the comparative previous period and the assets and liabilities of the entity have been reclassified as held for sale at the end of the reporting period.

Group activities are increasingly expanding beyond traditional pay TV, in particular into cybersecurity and security for Internet of Things (IoT). The Group continues to invest in the expansion of these fields of activity, significantly raising expenditures in both domains. Furthermore, the Group continues to develop its cloud-based portfolio. In May 2017, the Group acquired DVNor, a Norwegian entity providing media asset management services, including transcoding, storage, distribution and post-production services for USD 4.3 million.

As over 56% of its revenues are denominated in USD and 47% of Group revenues are generated in the Americas, the Group changed its reporting currency from CHF to USD as of January 1, 2017. Accordingly, prior year's numbers have been restated in USD for comparison purposes.

In 2017, the Group increased its consolidated revenues and other operating income from continuing operations by 7.1% to USD 1'068.7 million. SmarDTV's revenues are not included in the reported revenue line as they are classified as discontinued operations. Operating income excluding restructuring costs decreased from USD 113.5 million to USD 48.1 million in 2017. After USD 22.5 million restructuring costs, 2017 operating income was USD 25.6 million.

iDTV segment revenues increased by 4.2% in 2017, reaching USD 688.4 million.

Intellectual property (IP) licensing agreements materially contributed to the 2017 segment revenues. In 2017, the Group completed licensing agreements and/or settled litigation with AT&T, Turner, Scripps Networks Interactive, Advance Magazine Publishers, Twitter, Arris, Comcast and Roku.

Kudelski Security, the Group's cybersecurity business, more than doubled its revenue contribution in 2017, reflecting the full consolidation of M&S Technologies as of January 2017 and the strong performance of its European operations. M&S Technologies is a Dallas-based cyber and network security provider that extends the Group's cybersecurity presence into the South-Central region of the United States.

The Group's cybersecurity operations benefit from strong organic growth and an expanding portfolio of offerings. For example, in 2017, the Group launched a new cybersecurity CxO Performance Solution to improve planning, management and reporting to Cyber Executives as well as White Noise, a platform for secure mobile phone communications. In 2017, the Group materially increased its investment in the development of a comprehensive IoT security platform and also initiated its first customer engagements in this area targeting several vertical markets. Together with the Group's continued investment in the development of a proprietary technology portfolio for enterprise security, the Group's overall investment level has resulted in widening losses for the cybersecurity and IoT business line.

Public Access maintained its strong top line momentum, with revenues growing at two-digit rates to reach USD 361.3 million, representing 11.7% growth. Public Access completed two small acquisitions in 2017. In July, it acquired Advanced Parking Solutions for USD 1.4 million, strengthening its distribution in Ireland. In November 2017, it completed an asset transaction for USD 3.0 million resulting in the takeover of Tecnopass, which strengthens Public Access' distribution and service capabilities in the Chilean market.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income from continuing operations for 2017 grew by USD 70.5 million to reach USD 1'068.7 million. Revenues grew by USD 65.3 million to USD 1'049.7 million, while other operating income grew by USD 5.2 million.

Margin after cost of material decreased by USD 5.2 million to USD 706.6 million. Relative to total revenues, margin after cost of material decreased from 71.3% to 66.1%. The main driver of this margin reduction relates to a shift of revenue mix from relatively higher margin core digital TV revenues to relatively lower margin cybersecurity revenues. While cybersecurity currently generates lower margins, the Group expects this business to increase its margins as the share of proprietary technologies increases in the cybersecurity business' revenue mix.

Personnel expenses increased by USD 58.8 million to USD 462.9 million. USD 22.8 million of this increase are due to a 2016 accounting effect related to Swiss pension fund accounting. The remaining USD 36.0 million increase of personnel costs was primarily driven by the addition of substantial headcount to the Group's cybersecurity operations, including headcount from newly acquired M&S Technologies, and by hiring activity at SKIDATA required to support business expansion. In 2017, the Group also fully consolidated the NexGuard watermarking business acquired in July 2016 as well as the business of DVNor, the Norwegian-based provider of media asset management services acquired in May 2017. Total Group headcount at year end was 3'962 compared to 3'801 at the end of 2016. Group US headcount increased by 112 to 782 employees, mainly driven by the expansion of Kudelski Security and SKIDATA's North American operations and the establishment of the Group's second headquarters in Phoenix, Arizona. In addition, the Group continues to grow in India, adding an additional 110 employees in 2017 to reach a total headcount of 513.

Compared to 2016, the Group increased other operating expenses by USD 25.8 million to USD 179.6 million. Main drivers of this increase were USD 12.8 million in higher legal expenses at Nagravision driven by the Group's IP licensing activities, as well as higher operating costs at SKIDATA and the restructuring provision booked in respect of Nagravision.

In 2017, the Group booked USD 22.5 million of restructuring costs as operating expenses, compared to USD 3.0 million in 2016. Between 2016 and 2017, total recurring operating expenses increased from USD 577.7 million (including USD 22.8 million of pension cost adjustments and a net of USD 3.0 million of restructuring costs) to USD 620.0 (net of USD 22.5 million restructuring costs). Cybersecurity and IoT security platform investments were the major driver of this increase, adding USD 29.0 million in related costs year-on-year. The expansion of SKIDATA's operations resulted in an operating cost increase of USD 21.4 million, while Nagravision booked an additional USD 12.8 million of legal costs related to IP litigation. The ongoing restructuring program already resulted in a USD 23.3 million cost reduction in 2017, mainly though efficiency improvements in the core digital TV domain. Further USD 50 to 70 million operating cost reductions are expected to be realized in 2018.

The Group's operating income before depreciation and amortization net of restructuring costs was USD 86.7 million in 2017, a USD 70.1 million decrease over the previous year. At USD 38.6 million, depreciation, amortization and impairment were USD 4.7 million lower than in 2016, due to lower impairment charges compared to the previous year. Overall, the Group generated operating income of USD 25.6 million in 2017. Operating income net of restructuring costs for the year was at USD 48.1 million, compared to USD 113.5 million in 2016.

At USD 8.5 million, 2017 interest expense was USD 1.4 million lower than in the prior year. The Group's primary interest-bearing liabilities include the CHF 200 million bond issued in 2015 with a 1.875% interest rate and the CHF 150 million bond issued in 2016 with a 1.5% interest rate. The Group posted USD 2.8 million of net finance expenses in 2017, including in particular a USD 3.3 million negative foreign exchange effect. This represents a decrease of USD 8.0 million over 2016.

The Group booked USD 12.6 million of income tax expenses in 2017. Tax rate reductions, including in particular the cantonal tax rate in Vaud (Switzerland), generated a USD 20.9 million charge to Group income tax expenses, reducing deferred income tax assets by the corresponding amount. This impact was partly offset by a USD 10.0 million positive effect from the capitalization of previously unrecognized tax assets on tax losses carried forward in the United States. The integration of SKIDATA's US operations with the Group's US tax group is expected to enable the Group to offset the taxable income of SKIDATA's US operations against existing tax losses carried forward.

The Group generated USD 2.7 million of net income from continuing operations in 2017, a decrease of USD 85.8 million from the previous year. Net loss from discontinued operations decreased from USD 20.1 million in 2016 to USD 9.4 million in 2017. In addition to the losses from SmarDTV's operations, 2016 results included the impairment of the contingent consideration related to the NagraID Security sale transaction completed in 2014. Including discontinued operations, the Group booked a USD 6.7 million net loss in 2017.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 4.2% to USD 688.4 million, representing a constant currency growth of 3.8%.

The Group's European iDTV business declined by 7.5% in 2017 to USD 186.1 million. Larger Western European markets continue to be affected by a declining traditional pay TV subscriber base. In Italy, for example, the main digital terrestrial pay TV operator has been focused on improving profitability, while reducing its emphasis on subscriber growth.

The Group's Americas business posted a 22.7% growth in spite of lower volumes from DISH Network. The consolidation of newly acquired M&S Technologies and strong organic growth are driving revenues from the Group's cybersecurity operations. Brazil also contributed to regional growth, as revenues from Brazilian customers recovered compared to a weak 2016.

The Asia/Pacific and Africa region posted 17.4% lower revenues in 2017, which was primarily due to the base effect of a strong 2016. In 2016, regional revenues benefitted from a large project with Starhub in Singapore and strong momentum in India. While Starhub continues to represent a positive highlight for the Group, the bulk of revenues from this large project was earned in the previous year. In India, sales by Conax normalized in 2017 following the exceptional volumes generated in 2016. Africa remains highly volatile, with a 2017 revenue contribution that is significantly lower than in the previous year.

Overall, operating income excluding restructuring costs for the iDTV segment was USD 44.2 million compared to USD 115.1 million in 2016, mainly reflecting lower core digital TV profitability and higher investments in the growing cybersecurity and IoT security businesses. Conax's contribution was materially lower compared to the previous year. The Group is currently in the process of fully integrating Nagravision and Conax operations, eliminating duplicate functions and extracting cost synergies.

In spite of the decline in traditional pay-tv volumes, the Group continues to gain traction in emerging video distribution markets. For example, the Group entered into an agreement with IBCAP to fight illegal content streaming through the deployment of its advanced monitoring and detection technologies. In Germany, the Group has entered into a cooperation with the Deutsche Fussball Liga to fight illegal content distribution of football matches.

In 2017, IP licensing continued to progress. The Group completed licensing agreements and/or settled litigation with AT&T, Turner, Scripps Networks Interactive, Advance Magazine Publishers, Twitter, Arris, Comcast and Roku.

While still loss making, the Group's cybersecurity business continues to gain traction. Completed in January 2017, the acquisition of M&S Technologies added a strong foothold in the South-Central region of the United States. Total consideration for this transaction was USD 10.4 million. Kudelski Security added a record number of 105 new customers in the United States and 74 new customers in Europe. With the newly launched Internet of Things Center of Excellence, the Group continues to drive innovation leveraging its track record with end-to-end secure architectures and device security and through partnerships with market leaders. While these initiatives drive top line growth, they also resulted in a widening loss compared to the previous year.

PUBLIC ACCESS

SKIDATA maintained its strong momentum from 2016, posting 10.1% constant currency growth in 2017 to achieve revenues of USD 361.3 million.

At USD 178.9 million, revenues generated in Europe were 2.9% higher compared to the previous year. Among the markets that performed well, Spain, France and Italy were the main contributors of SKIDATA's regional growth.

In the Americas, SKIDATA generated revenues of USD 121.5 million, representing 19.7% growth. The United States market alone generated over USD 100 million revenues for SKIDATA in 2017, with over 300 employees located in 14 offices. Over the past three years, SKIDATA has increased its revenues in the Americas more than threefold. Highlights from 2017 include several new wins in the events segment, such as Disneyland in Los Angeles.

Revenues for Asia/Pacific and Africa grew by 26.3%, reaching USD 60.9 million. SKIDATA continues to extend its footprint in this region; for example, in the first half 2017, SKIDATA completed its first installation in the Philippines. In early 2018, SKIDATA announced the acquisition of a controlling stake of Cytel, the Chinese leader of premium parking access control solutions. With this acquisition, SKIDATA gains a strong foothold in the Chinese parking market.

Public Access' operating income improved by USD 3.9 million in 2017, reaching USD 21.3 million. The profitability improvement was driven by top line expansion and was achieved in spite of continued investment to further expand its business, including, for example, the opening of new offices in Ireland and in US states such as Virginia and Georgia.

BALANCE SHEET AND CASH FLOW

The fair value of SmarDTV's balance sheet items are reported as "Assets classified as held for sale" and "Liabilities classified as held for sale". Such assets represent USD 62.7 million and the liabilities represent USD 32.5 million.

Total non-current assets increased by USD 33.0 million to USD 705.3 million at the end of 2017, with tangible fixed assets decreasing by USD 9.1 million and intangible fixed assets increasing by USD 23.4 million. The acquisition of M&S Technologies, DVNor and SKIDATA Ireland, as well as currency translation effects, added USD 21.2 million to goodwill. Financial fixed assets increased by USD 23.7 million, mainly due to a USD 25.3 million increase in the long-term portion of trade accounts receivable driven by, among others, discounted revenues related to the licensing of the Group's intellectual property portfolio.

Total current assets decreased by USD 47.8 million to USD 525.2 million in 2017. A USD 5.8 million higher inventory is mainly due to a USD 9.5 million increase at SKIDATA. The Group increased trade receivables by USD 61.1 million, as newly acquired M&S Technologies added USD 11.5 million and other cybersecurity activities added an additional USD 7.7 million. SKIDATA was the main driver of the increase with an additional USD 38.4 million of trade receivables in 2017. At the end of 2017, cash and cash equivalents amounted to USD 71.9 million.

Total equity increased by USD 6.7 million, mainly reflecting a positive USD 36.5 million of other comprehensive income and the USD 19.3 million distribution to shareholders in March 2017.

Total non-current liabilities decreased by USD 15.9 million to USD 428.9 million. Long-term financial debt includes the CHF 200 million 1.875% bond maturing in August 2022 and the CHF 150 million 1.5% bond maturing in September 2024. As both these bonds are denominated in CHF, long-term financial debt increased by USD 13.9 million primarily due to foreign exchange translation effects. Other long-term liabilities decreased by USD 14.0 million due to a USD 8.5 million reduction of long-term advances from customers and a USD 6.5 million reduction of long-term loan granted by a seller in connection with a business combination.

Total current liabilities increased by USD 24.5 million to USD 333.4 million. Short-term financial debt increased by USD 35.4 million, reflecting higher short-term borrowings by SKIDATA.

In 2017, the Group used USD 54.2 million of cash flows for operating activities, mainly reflecting a total of USD 118.0 million of negative working capital adjustments. This variation includes, in particular, a USD 75.1 million increase of trade accounts receivable. SKIDATA's higher working capital and amounts due to the Group in connection with the licensing of its intellectual property portfolio are the main driver of this working capital increase. The Group used USD 59.3 million of cash for investing activities. The net cash consideration for the acquisition of M&S Technologies, DVNor and a SKIDATA distributor in Ireland amounted to USD 13.5 million. In 2017, the Group invested USD 20.1 million for purchases of tangible assets, including USD 9.0 million at SKIDATA and USD 17.3 million for purchases of intangible assets, including for the deployment of a new ERP system for the Group.

Cash in from financing activities amounted to USD 1.7 million, including in particular USD 19.3 million repaid as a distribution to Kudelski SA's shareholders in March 2017.

OUTLOOK

The slowdown of the traditional pay TV business is expected to continue into 2018, reflecting the continued major transformation of the digital TV landscape. While new opportunities are emerging, in particular for end-to-end security solutions in the Internet video space, revenues from these new areas are not yet expected to fully replace the decline of traditional pay TV revenues. As a result, the Group expects declining revenues and margins in its legacy digital TV business and is implementing measures to adapt its cost base accordingly. These measures include efficiency improvements in core digital TV and corporate functions, the full integration of Nagravision and Conax operations, the rationalization of the iDTV global presence with the closure of smaller locations and the downsizing of underutilized sites.

The Group's cybersecurity business is expected to maintain its top line momentum in 2018, delivering sustained organic growth both in the United States and Europe. However, as the Group continues to invest in this emerging business, cybersecurity is expected to continue to generate materially negative contribution margins in 2018.

In the Public Access segment, SKIDATA is expected to continue extending its market leadership and delivering growth. In 2018, the Group also expects SKIDATA to achieve higher profitability and cash generation.

FINANCIAL STATEMENTS

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KUDELSKI GROUP CONSOLIDATED FINANCIAL STATEMENTS

KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	restated 2016
Revenues	5	1 049 656	984 380
Other operating income	6	19 051	13 772
Total revenues and other operating income		**1 068 707**	**998 151**
Cost of material, licenses and services		-362 093	-286 445
Employee benefits expense	7	-462 851	-404 117
Other operating expenses	8	-179 559	-153 761
Operating income before depreciation, amortization and impairment		**64 204**	**153 829**
Depreciation, amortization and impairment	9	-38 566	-43 321
Operating income		**25 637**	**110 507**
Interest expense	10	-8 500	-9 925
Other finance income, net	11	-2 759	5 242
Share of result of associates	16	888	854
Income before tax		**15 266**	**106 678**
Income tax expense	12	-12 595	-18 143
Net income for the period from continuing operations		**2 672**	**88 535**
Net result from discontinued operations	35	-9 412	-20 132
Net income for the period		**-6 741**	**68 403**
Attributable to:			
- Equity holders of the company		*-11 378*	*63 620*
- Non-controlling interests		*4 637*	*4 783*

Earnings per share (in USD)

Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	13	-0.2092	1.1728
- Continuing operations		*-0.0756*	*1.4918*
- Discontinued operations		*-0.1336*	*-0.3190*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	13	-0.0209	0.1173
- Continuing operations		*-0.0075*	*0.1491*
- Discontinued operations		*-0.0134*	*-0.0319*

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	restated 2016
Net income		**-6 741**	**68 403**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:			
Currency translation differences		23 766	-1 229
Cash flow hedges, net of income tax		105	790
Net gain on available-for-sale financial assets, net of income tax		-196	196
		23 675	**-243**
Other comprehensive income never to be reclassified into the consolidated income statement in subsequent periods:			
Remeasurements on post employment benefit obligations, net of income tax		12 834	-3 358
		12 834	**-3 358**
Total other comprehensive income, net of tax		**36 509**	**-3 601**
Total comprehensive income		**29 768**	**64 803**
Attributable to:			
Shareholders of Kudelski SA		24 385	60 167
- Continuing operations		*29 893*	*77 883*
- Discontinued operations		*-5 508*	*-17 716*
Non-controlling interests		5 383	4 636

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

CONSOLIDATED BALANCE SHEETS

(AT DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Tangible fixed assets	14	136 668	145 770
Intangible assets	15	451 136	427 722
Investments in associates	16	5 858	4 939
Deferred income tax assets	17	55 212	61 186
Financial assets and other non-current assets	18	56 405	32 708
Total non-current assets		**705 279**	**672 326**
Current assets			
Inventories	19	58 997	53 221
Trade accounts receivable	20	340 357	279 289
Other current assets	21	53 469	65 701
Derivative financial instruments	33	475	350
Cash and cash equivalents	22	71 911	174 440
Total current assets		**525 209**	**573 001**
Assets classified as held for sale	**35**	**62 650**	**–**
Total assets		**1 293 137**	**1 245 327**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	332 222	331 091
Reserves		144 455	138 688
Equity attributable to equity holders of the parent		**476 676**	**469 779**
Non-controlling interests	24	21 653	21 839
Total equity		**498 329**	**491 618**
Non-current liabilities			
Long-term financial debt	25	357 528	343 595
Deferred income tax liabilities	17	9 014	10 847
Employee benefits liabilities	27	52 311	66 379
Provisions for other liabilities and charges	34	10	–
Other long-term liabilities and derivative financial instruments	28	9 998	23 987
Total non-current liabilities		**428 861**	**444 807**
Current liabilities			
Short-term financial debt	29	66 902	31 471
Trade accounts payable	30	88 696	66 797
Other current liabilities	31	137 794	153 990
Current income taxes		7 502	14 608
Advances received from clients	32	21 895	31 989
Derivative financial instruments	33	202	97
Provisions for other liabilities and charges	34	10 420	9 948
Total current liabilities		**333 412**	**308 901**
Liabilities classified as held for sale	**35**	**32 535**	**–**
Total liabilities		**794 808**	**753 709**
Total equity and liabilities		**1 293 137**	**1 245 327**

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

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	2017	2016
Net income for the year		**-6 741**	**68 403**
Adjustments for net income non-cash items:			
- Current and deferred income tax		12 989	19 318
- Interests, allocation of transaction costs and foreign exchange differences		9 510	5 394
- Depreciation, amortization and impairment		42 529	44 737
- Share of result of associates	16	-888	-854
- Non-cash employee benefits (income) / expense		1 752	-14 300
- Deferred cost allocated to income statement		8 993	10 146
- Additional provisions net of unused amounts reversed		14 186	9 303
- Non-cash government grant income		-14 921	-12 279
- Other non cash (income) / expenses		2 922	2 296
Adjustments for items for which cash effects are investing or financing cash flows:			
- Net result on sales of subsidiaries and operations		133	–
- Other non-operating cash items		-45	-1 461
Adjustments for change in working capital:			
- Change in inventories		-10 779	5 154
- Change in trade accounts receivable		-75 056	-13 503
- Change in trade accounts payable		23 403	2 091
- Change in deferred costs and other net current working capital headings		-55 584	7 211
Government grant from previous periods received		10 215	5 316
Dividends received from associated companies	16	175	1 271
Interest paid		-7 238	-8 400
Interest received		888	1 081
Income tax paid		-10 626	-6 729
Cash flow from operating activities		**-54 184**	**124 195**
Purchases of intangible fixed assets		-17 343	-19 023
Purchases of tangible fixed assets		-20 112	-28 069
Proceeds from sales of tangible and intangible fixed assets		-1 640	1 145
Proceeds from sale of investment property		–	2 395
Investment in financial assets and loans granted		-3 328	-3 643
Divestment of financial assets and loan reimbursement		2 226	2 006
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Cash consideration arising from current year business combinations	4	-13 457	-72 261
- Cash acquired from business combinations	4	2 809	10 926
- Payment arising from prior years business combinations		-8 208	-3 064
Disposal of subsidiaries and operations, cash outflow		-266	–
Acquisition of associated companies	16	–	-1 025
Cash flow from investing activities		**-59 318**	**-110 613**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-4 757	-116 888
Increase in bank overdrafts, long term loans and other non-current liabilities		31 225	170 615
Proceeds from employee share purchase program	38	114	85
Acquisition of non-controlling interests		-281	-2 778
Capital contribution from non-controlling interests		–	180
Dividends paid to non-controlling interests		-5 286	-5 208
Dividends paid to shareholders	37	-19 329	–
Reimbursment of share capital to Shareholders of Kudelski SA		–	-19 271
Cash flow from financing activities		**1 685**	**26 735**
Effect of foreign exchange rate changes on cash and cash equivalents		9 287	-4 099
Net movement in cash and cash equivalents		**-102 529**	**36 218**
Cash and cash equivalents at the beginning of the year	22	174 440	138 222
Cash and cash equivalents at the end of the year	22	71 911	174 440
Net movement in cash and cash equivalents		**-102 529**	**36 218**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016)

In USD'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2016		**439 615**	**7 483**	**-20 414**	**-3 522**	**4 265**	**24 095**	**451 522**
Net income		–	–	63 620	–	–	4 783	68 403
Other comprehensive income		–	–	-3 343	986	-1 096	-147	-3 601
Total comprehensive income		**–**	**–**	**60 277**	**986**	**-1 096**	**4 636**	**64 803**
Employee share purchase program	38	64	59	–	–	–	–	122
Shares issued to employees	38	1 535	72	–	–	–	–	1 607
Par value reduction of share capital		-110 122	90 851	–	–	–	–	-19 271
Dividends paid to non-controlling interests		–	–	–	–	–	-5 208	-5 208
Impairment of contingent consideration		–	–	1 483	–	–	–	1 483
Transactions with non-controlling interests		–	–	-1 756	–	–	-1 863	-3 619
Equity contribution from non-controlling interest		–	–	–	–	–	179	179
December 31, 2016		**331 091**	**98 464**	**39 591**	**-2 535**	**3 169**	**21 839**	**491 618**
Net income		–	–	-11 378	–	–	4 637	-6 741
Other comprehensive income		–	–	12 835	-91	23 018	747	36 509
Total comprehensive income		**–**	**–**	**1 457**	**-91**	**23 018**	**5 384**	**29 768**
Employee share purchase program	38	111	53	–	–	–	–	164
Shares issued to employees	38	1 020	635	–	–	–	–	1 655
Dividends paid to shareholders		–	-13 807	-5 523	–	–	–	-19 330
Dividends paid to non-controlling interests		–	–	–	–	–	-5 286	-5 286
Transactions with non-controlling interests	4	–	–	24	–	–	-305	-281
Sale of non-controlling interest							-21	-21
Non controlling interests arising on business combinations		–	–	–	–	–	42	42
December 31, 2017		**332 222**	**85 345**	**35 549**	**-2 626**	**26 187**	**21 653**	**498 329**

Fair value and other reserves as of December 31, 2017 include kUSD -2 845 (2016: kUSD -2 649) of unrealized loss on available-for-sale financial assets and an unrealized gain of kUSD 219 (2016: kUSD 114) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

(B) Change in Presentation Currency
As the majority of revenues are denominated in U.S. Dollars, the Group announced June 1, 2016, that it will change the currency in which it presents its financial results from the Swiss Franc (CHF) to U.S. Dollar (USD) beginning January 1, 2017. To assist shareholders with this change, comparative financial information as of and for the year ended December 31, 2016 have been re-presented in USD.

In order to satisfy the requirements of IAS 21 with respect to a change in presentation currency, the consolidated financial information as of and for the year ended December 31, 2016 has been restated from CHF to USD using the procedures described below:

Assets and liabilities of foreign operations where the functional currency is other than USD were translated to USD at the relevant rates of exchange.

Non-USD income/expense results were translated to USD at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the period have been taken to the foreign currency translation reserve (CTA).

The cumulative foreign currency translation reserve was set to nil at January 1, 2004, the date of transition to IFRS. All subsequent movements comprising differences on the retranslation of the opening net assets of non-USD subsidiaries have been taken to the foreign currency translation reserve. Share capital, share premium and other reserves were translated at the historic rates prevailing at the dates of the transactions.

All exchange rates used were extracted from the Group's underlying accounting records, as previously reported in the annual reports.

(C) 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 also comprise companies in which the Group does not own, directly or indirectly, more than one half of the voting rights but exercises significant power to govern their financial and operating policies and bears an over-proportional responsibility for the main risks. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany 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 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.

(D) Foreign currencies

Beginning January 1, 2017, the consolidated financial statements of the Group are expressed in U.S. Dollars ("USD"), which is the presentation currency.

The local currency is generally 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 U.S. dollars using average exchange rates. Assets and liabilities are translated at the closing rate at the date of the balance sheet. All resulting translation differences, including those arising from the translation of any net investment in foreign entities, are recognized 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.

(E) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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, which may comprise hardware, software, specific developments, licenses, smartcards, maintenance and other services according to the specific arrangements, is recognized when contractually earned and is usually dependent on 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) Interest income

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

(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) 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 sub-licenses 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.

(H) Derivative financial instruments

Derivative financial instruments, including foreign exchange forward contracts, options and interest rate swaps, are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. The method of recognizing the resulting gain or loss is dependent on whether the derivative is designated to hedge a specific risk and therefore qualifies for hedge accounting.

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

(a) Derivatives that do not qualify for hedge accounting

Certain derivatives transactions, while providing effective economic hedging under the Group's risk management policy, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of 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.

(I) 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 substatively 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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.

(J) 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

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 over the shorter of the asset's useful life or the lease period 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.

(K) 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 ac-

cumulated 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

(L) 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

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measured. Fair value is determined in the manner described in note 43. 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.

(M) 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.

(N) Deferred costs
Deferred costs are measured at cost 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.

(O) 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.

(P) 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.

(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 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 certain restrictions 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) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. The Group considers this condition to be met when management is committed to a sale and a sale is highly probable of being completed within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying value or fair value less costs to sell.

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(X) 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, 2016, except for the adoption of new standards and interpretations as of January 1, 2017 described below.
The Group has applied the following standards and amendments effective from January 1, 2017:
- IFRS 12 – 'Recognition of Deferred Tax Assets for Unrealised Losses' (amendment)
- IFRS 7 – 'Disclosure initiative'

The adoption of these amendments had only limited impact on the Group's accounting policies, financial position and performance. 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 2018 or later periods, and which the Group has not early adopted:
- On the 1 January, 2018, IFRS 15 'Revenue from Contracts with a Customer' will come in to effect. The new standard replaces the current IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognizing, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognized based on a five-step model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognized upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on the treatment of any costs to obtain and/or fulfil a contract that may be recognized as assets.

The Group will adopt IFRS 15 with an effective date as of 1 January, 2018. We are currently in the process of reviewing our various revenue streams to determine whether there will be a material impact on initial application of the standard. The following areas highlight the major IFRS 15 considerations that we are currently assessing which might potentially result in a difference between the current accounting standard and IFRS 15:

• We sell multiple goods and services to the same customer simultaneously which typically includes hardware, software, maintenance and services. For most of our contracts, these are already accounted for as separate performance obligations but for selected contracts, these goods and services are integrated and combined into one service offering and were recognized together as a bundle over time under IAS 18. We are currently reviewing whether the goods and services in those arrangements need to be accounted for as separate performance obligations or not.

• Many of our arrangements include licensing of our intellectual property, mainly in the form of technology and software. Whilst we expect that the majority of our license revenue would continue to be recognized at a point in time and upon delivery, we are currently reviewing the IFRS 15 license specific guidance to determine whether certain licensing arrangements that take the form of "rental" or "subscription" should be recognized over time or at a point in time.

• We are in the process of determining the stand-alone selling price for the various performance obligations identified and consequently we might revisit the allocation of the transaction price to the various performance obligations.

• As a result of the clarified guidance for agent vs principal in IFRS 15, the Group might be deemed an agent for some goods and services that were previously accounted for as principal.

• In certain circumstances IFRS 15 requires that the cost of acquiring a contract be capitalized. On certain contracts and commission plans this could lead to additional cost capitalization.

• Based on our analysis so far, we do not anticipate an impact in relation to the timing of revenue recognition for maintenance, technical support, implementation or consultancy services type contracts that are identified as separate performance obligations as we expect that it will continue to be recognized over time. Similarly, we do not anticipate an impact with respect to the timing of recognizing revenue from delivering hardware (i.e. set-top boxes or equipment) as we expect that it will continue to be recognized upon delivery as this is the point at which control is transferred. In addition, contracts selling multiple products and services that comprise one overall solution that have been deemed as one performance obligation under IFRS 15 would continue to be recognized over time using a measure of progress that is similar to the current accounting treatment.

The Group continues to assess any other impact the new standard might have on Group's consolidated financial statements which includes impact on its systems, processes and controls. We are also finalizing our future IFRS 15 revenue recognition policies that will be applied for the financial year ended 31 December 2018.

- IFRS 16 – 'Leases' – (effective from 1 January of 2019) – IFRS 16 will substantially change the financial statements as it requires the majority of leases to be recognized on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases.
The standard will affect primarily the accounting for the Group's operating leases. As of the reporting date, the group has non-cancelable operating lease commitments of kUSD 56 700.

However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

- IFRS 9 - 'Financial instruments' – (effective from 1 January of 2018) – IFRS 9 introduces 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 Group has reviewed its financial assets and liabilities and expects the following impact from the adoption of the new standard on January 1, 2018. The majority of the Group's debt instruments that are currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income and hence there will be no change to the accounting for these assets. Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no change to the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group financial statements in the current or future reporting periods and on foreseeable future transactions.

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 E, 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

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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 17). 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 27) 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, coordinates 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 generally offset by increases in the value of the hedged transactions.

(a) Foreign exchange risk

The Group conducts business in a variety of countries using a variety of foreign currencies. However, the Group prepares its consolidated financial statement in U.S. Dollars. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swiss franc 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 simlar 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.

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4. BUSINESS COMBINATIONS

Integrated Digital Television

On January 11, 2017, the Group signed a share purchase agreement whereby it acquired 100% of M&S Technologies, Inc. for total consideration of kUSD 10 400. Total consideration includes deferred consideration of kUSD 1 000. Founded in 2004, M&S Technologies, Inc. is headquartered in Dallas, USA and is a specialist provider of cyber and network security solutions. The acquisition is expected to broaden the customer and partnership base of Kudelski Security, the Group's growing cyber-security division.

In addition, on May 2, 2017, through its subsidiary Conax, the Group signed a share purchase agreement whereby it acquired 100% of Digital Video Norge Holdings AS, including its subsidiaries Digital Video Norge Drift, Digital Video Health and Sweet Chili Entertainment (together DVNor) for total consideration of kUSD 4 300. Total consideration includes an earn-out estimate of kUSD 1 359 and deferred consideration of kUSD 58. The actual earn-out payment will be based on gross profits and customer retention targets over the next three years. Management has based its earn-out estimate on the business plan used to establish the purchase price allocation and support the transaction. Founded in 2005, DVNor is a Norwegian company that develops and delivers media asset management services and provides transcoding, storage, distribution and post-production services to customers around the world.

The goodwill arising from these acquisition amounts to kUSD 9 187 and is allocated to the Integrated Digital Television operating segment. The goodwill arises from a number of factors, including technology and competence highly complimentary to the Conax and Kudelski Security portfolios, as well as expected synergies resulting from acquiring an experienced workforce and valuable sales knowledge and expertise in the relevant markets.

Public Access

On July 26, 2017, SKIDATA signed a share purchase agreement to acquire 100% of Advanced Parking Solutions for total consideration of kUSD 1 350. Advanced Parking Solutions is headquartered in Bangor, Northern Ireland and is an international solution provider specializing in the development and distribution of guest management systems, access technologies and ticketing solutions for people (people access) and cars (vehicle access). The acquisition continues the Public Access expansion across Europe and provides access to new markets in Ireland.

In addition, on November 6, 2017, SKIDATA completed an asset deal to take over the business of Tecnopass SpA for total consideration of kUSD 2 996. Tecnopass is headquartered in Santiago, Chile and is a leader in providing technological solutions for parking management and access control throughout Chile. The acquisition is expected to broaden the customer base and increase the servicing capabilities of the existing Chilean entity. Total consideration includes an earn-out estimate of kUSD 1498 and deferred consideration of kUSD 1 498. The fair value of the earn-out and deferred consideration was estimated by calculating the present value of the expected future cash flows at a discount rate of 10%.

The Goodwill arising from these acquisition is kUSD 3 051 and is attributed to the Public Access cash generating unit. Goodwill is mainly attributed to the acquisition of the skilled workforce and sales expertise in the relevant markets.

Acquisition related costs of kUSD 68 are included in other operating expenses.

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

In USD'000	Public Access acquisitions	Integrated Digital Television acquisitions	Fair value of net assets acquired 31.12.2017
Tangible fixed assets	37	198	235
Intangible fixed assets (Goodwill excl.)	798	6 171	6 969
Other non-current assets	–	3	3
Trade accounts receivable	198	11 977	12 175
Other current assets	512	403	915
Cash and cash equivalents	415	2 394	2 809
Short-term financial liabilities	–	-2 900	-2 900
Trade accounts payable	-107	-7 752	-7 859
Other current liabilities	-241	-2 784	-3 025
Non-current liabilities	-253	-472	-725
Deferred income tax liabilities	-64	-1 683	-1 747
Total identified net assets	**1 295**	**5 555**	**6 850**
Non-controlling interest resulting from a business combination	–	-42	-42
Goodwill	3 051	9 187	12 238
Total consideration	**4 346**	**14 700**	**19 046**
Total consideration, of which:			
- cash	1 174	12 283	13 457
- deferred	1 674	1 058	2 732
- contingent	1 498	1 359	2 857
Total consideration	**4 346**	**14 700**	**19 046**

Goodwill is expected to be deductible for tax purposes for M&S Technolgies, Inc. as a tax election has been made in order to treat the transaction as an asset deal. The goodwill arising from the acquisitions of DVNor, Advanced Parking Solutions and Tecnopass SpA are not expected to be deductible from a tax perspective.

Proforma information

From the date of acqjuisition, the acquired companies have contributed mUSD 68.7 of revenues and kUSD 1 343 to the net income from continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately mUSD 1 052.5 and the net income from continuing operations for the period would have been approximately kUSD 2 877.

Transaction with non-controlling interests

On April 13, 2017, the Group acquired an additional 19.5% of Hantory Co., Ltd. for total consideration of kUSD 281. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kUSD -23 and non-controlling interests for kUSD 304.

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5. 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 products and services for which such internal reporting is maintained. The chief operating decision maker reviews the internal segment reporting in order to allocate resources to the segments and assess their performance.

The Group is organized operationally on a worldwide basis in two operating segments which are reflected in internal management reporting:

- Integrated Digital Television
- Public Access

The Integrated Digital Television division provides end-to-end integrated solutions, including open conditional access solutions, which allow 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 end-user experience. The Integrated Digital Television operating segment also includes the Group's Cybersecurity and Intellectual Property activities.

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

The measure of income presented to manage segment performance is the segment operating income. Segment operating income is based on the same accounting policies as consolidated operating income except that intersegment sales are eliminated at the consolidation level. 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". Reportable segment assets include total assets allocated by segment with the exclusion of intersegment balances, which are eliminated. Unallocated assets include assets managed on a centralized basis, included in the reconciliation to balance sheet assets.

	Integrated Digital Television		Public Access		Total	
In USD'000	**2017**	**restated 2016**	**2017**	**2 016**	**2017**	**restated 2016**
Total segment Revenues	**688 800**	**661 305**	**361 293**	**323 510**	**1 050 093**	**984 815**
Inter-segment revenues	-436	-428	-2	-7	-438	-435
Revenues from external customers	**688 364**	**660 877**	**361 291**	**323 503**	**1 049 656**	**984 380**
Depreciation and amortisation	-27 925	-25 999	-10 337	-9 320	-38 262	-35 319
Impairment	-283	-8 002	-21	–	-304	-8 002
Operating income - excluding corporate common functions	**21 711**	**112 114**	**21 357**	**17 350**	**43 068**	**129 464**
Corporate common functions					-17 431	-18 957
Interest expense and other Finance income/(expense), net					-11 259	-4 683
Share of result of associates	6	-327	882	1 181	888	854
Income before tax					**15 266**	**106 678**
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total segment Assets	**876 888**	**945 332**	**348 217**	**278 566**	**1 225 105**	**1 223 898**

In USD'000	**31.12.2017**	**31.12.2016**
Total Segment Assets	1 225 105	1 223 898
Cash & Cash equivalents	2 580	18 488
Other current assets	85	128
Financial assets and other non-current assets	2 717	2 813
Asset of disposal group classified as held for sale	62 650	–
Total Assets as per Balance Sheet	**1 293 137**	**1 245 327**

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 USD'000	Revenues from external customers 2017	Revenues from external customers restated 2016	Non-current assets 31.12.2017	Non-current assets 31.12.2016
Switzerland	47 415	44 062	82 558	82 650
United States of America	393 560	310 035	251 828	243 077
France	49 053	49 084	12 176	24 760
Norway	9 993	10 899	156 686	152 192
Rest of the world	549 636	570 299	91 302	77 406
	1 049 656	**984 380**	**594 551**	**580 085**

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 USD'000	2017	restated 2016
Sale of goods	487 898	433 583
Services rendered	360 516	333 786
Royalties and licenses	201 242	217 010
	1 049 656	**984 380**

2017 total revenues and other operating income including revenues from discontinued operations amount to kUSD 1 138 128 (2016: kUSD 1 083 627).

6. OTHER OPERATING INCOME

In USD'000	2017	restated 2016
Government grants (research, development and training)	13 498	9 948
Income from rental of property	2 770	2 848
Others	2 783	976
	19 051	**13 772**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

7. EMPLOYEE BENEFITS EXPENSE

In USD'000	Note	2017	restated 2016
Wages and salaries		374 888	336 674
Social security costs		52 816	46 935
Defined benefit plans expenses	27	7 781	-8 290
Defined contribution plans expenses		10 169	9 841
Other personnel expenses		17 197	18 957
		462 851	**404 117**

8. OTHER OPERATING EXPENSES

In USD'000	2017	restated 2016
Development and engineering expenses	12 267	11 649
Travel, entertainment and lodging expenses	37 496	32 649
Legal, experts and consultancy expenses	45 176	36 372
Administration expenses	28 870	24 706
Building and infrastructure expenses	28 880	25 848
Marketing and sales expenses	10 572	10 825
Taxes other than income tax	3 767	3 914
Change in provisions	1 060	-1 824
Insurance, vehicles and others	11 472	9 622
	179 559	**153 761**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In USD'000	Note	2017	restated 2016
Land and buildings	14	4 288	3 559
Equipment and machines	14	13 606	13 838
Total depreciation and impairment of tangible fixed assets		**17 894**	**17 396**
Intangible assets	15	20 672	25 925
Total amortization and impairment on intangible fixed assets		**20 672**	**25 925**
Depreciation, amortization and impairment		**38 566**	**43 321**

10. INTEREST EXPENSE

In USD'000	Note	2017	restated 2016
Interest expense:			
- Bond 2011-2016	26	–	3 298
- Bond 2015-2022	26	3 952	3 948
- Bond 2016-2024	26	2 383	615
- Net interest expense recognized on defined benefit plans	27	689	907
- Other and bank charges		1 476	1 158
		8 500	**9 925**

11. OTHER FINANCE INCOME, NET

In USD'000	Note	2017	restated 2016
Interest income		1 549	1 332
Net gains/(losses) on foreign exchange related derivative financial instruments		-594	-884
Net foreign exchange transaction gains/(losses)		-3 271	4 981
Others		-443	-187
		-2 759	**5 242**

Changes in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kUSD -196 (2016: kUSD 196). The change in fair value of held for trading financial assets amounting to kUSD -195 (2016: kUSD -884) is disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments.

12. INCOME TAX EXPENSE

In USD'000	Note	2017	restated 2016
Current income tax		-11 920	-19 342
Deferred income tax	17	540	2 254
Non refundable withholding tax		-1 215	-1 055
		-12 595	**-18 143**

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 USD'000	2017	restated 2016
Income before taxes	**15 266**	**106 678**
Expected tax calculated at domestic tax rates in the respective countries	-3 593	-21 926
Effect of income not subject to income tax or taxed at reduced rates	4 809	990
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	9 986	9 381
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-400	-6 757
Effect of changes in tax rates	-20 859	273
Efffect of associates' result reported net of tax	66	318
Effect of disallowed expenditures	-3 564	-1 784
Effect of prior year income taxes	-303	253
Effect of non-refundable withholding tax	-1 215	-802
Other	2 478	1 910
Tax expense	**-12 595**	**-18 143**

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 kUSD 2 574 (2016: kUSD 2 617) and is disclosed under 'Other' in the above table.

The weighted average applicable tax rate increased from 20.55% in 2016 to 23.54% in 2017. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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.

In USD'000	2017	restated 2016
Net income attributable to bearer shareholders	-10 409	58 190
- Continuing operations	*-3 765*	*65 101*
- Discontinued operations	*-6 645*	*-6 911*
Net income attributable to registered shareholders	-969	5 430
- Continuing operations	*-350*	*6 075*
- Discontinued operations	*-618*	*-645*
Total net income attributable to equity holders	**-11 378**	**63 620**
Weighted average number of bearer shares outstanding	49 751 978	49 616 010
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in USD)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in USD)	-0.2092	1.1728
- Continuing operations	*-0.0756*	*1.4918*
- Discontinued operations	*-0.1336*	*-0.3190*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in USD)	-0.0209	0.1173
- Continuing operations	*-0.0075*	*0.1491*
- Discontinued operations	*-0.0134*	*-0.0319*

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 USD'000	31.12.2017	31.12.2016
Land and buildings	97 941	106 728
Equipment and machines	38 728	39 042
	136 668	**145 770**

LAND AND BUILDINGS

In USD'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2016	**24 536**	**114 100**	**13 603**	**152 239**
Additions	–	2 723	3 657	6 380
Impact of business combinations	–	–	131	131
Disposals and retirements	–	-202	-1 138	-1 340
Currency translation effects	-644	-2 847	-304	-3 796
Reclassification & others	–	–	328	328
As of January 1, 2017	**23 892**	**113 773**	**16 276**	**153 942**
Additions	–	5 536	2 823	8 359
Impact of business combinations	–	–	94	94
Disposals and retirements	–	–	-456	-456
Classified as held for sale	-2 816	-13 392	-4	-16 212
Currency translation effects	567	4 171	676	5 414
Reclassification & others	–	–	-273	-273
As of December 31, 2017	**21 643**	**110 088**	**19 137**	**150 869**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2016	**–**	**-34 495**	**-11 252**	**-45 747**
Systematic depreciation - continuing operations	–	-2 679	-870	-3 549
Systematic depreciation - discontinued operations	–	-268	–	-268
Impairment	–	-10	–	-10
Disposals and retirements	–	99	1 018	1 117
Currency translation effects	–	1 001	254	1 255
Reclassification & others	–	–	-13	-13
As of January 1, 2017	**–**	**-36 351**	**-10 862**	**-47 214**
Systematic depreciation	–	-2 635	-1 653	-4 288
Disposals and retirements	–	-79	424	345
Classified as held for sale	–	786	4	789
Currency translation effects	–	-2 106	-481	-2 587
Reclassification & others	–	–	26	26
As of December 31, 2017	**–**	**-40 385**	**-12 543**	**-52 928**
Net book values as of December 31, 2016	**23 892**	**77 422**	**5 414**	**106 728**
Net book values as of December 31, 2017	**21 643**	**69 703**	**6 595**	**97 941**
Useful life in years	Indefinite	10 – 50	4 – 8	

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In USD'000	31.12.2017	31.12.2016
Corporate buildings on land whose owner has granted a permanent and specific right of use	12 318	7 682

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EQUIPMENT AND MACHINES

In USD'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2016	**154 904**	**11 816**	**166 720**
Additions	18 445	3 252	21 697
Impact of business combinations	377	62	439
Disposals and retirements	-5 618	-1 119	-6 737
Currency translation effects	-4 223	-146	-4 369
Reclassification & others	7	-336	-328
As of January 1, 2017	**163 893**	**13 529**	**177 423**
Additions	9 390	1 748	11 138
Impact of business combinations	34	107	142
Disposals and retirements	-9 127	-416	-9 543
Classified as held for sale	-5 347	-601	-5 948
Currency translation effects	9 451	567	10 018
Reclassification & others	290	-17	273
As of December 31, 2017	**168 584**	**14 917**	**183 501**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2016	**-124 587**	**-8 100**	**-132 687**
Systematic depreciation - continuing operations	-11 308	-1 363	-12 672
Systematic depreciation & impairment - discontinued operations	-700	-22	-722
Impairment	-1 161	-5	-1 166
Disposals and retirements	5 227	260	5 486
Currency translation effects	3 224	142	3 367
Reclassification & others	-15	27	13
As of January 1, 2017	**-129 319**	**-9 061**	**-138 381**
Systematic depreciation	-11 655	-1 775	-13 430
Impairment	-156	-20	-176
Disposals and retirements	10 034	288	10 322
Classified as held for sale	3 685	600	4 285
Currency translation effects	-6 979	-389	-7 368
Reclassification & others	-77	51	-26
As of December 31, 2017	**-134 466**	**-10 307**	**-144 774**
Net book values as of December 31, 2016	**34 574**	**4 468**	**39 042**
Net book values as of December 31, 2017	**34 118**	**4 610**	**38 728**
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.

2016 Technical equipment impairment related mainly to assets made available to clients which had to be impaired following a contract renegotiation with a customer.

15. INTANGIBLE ASSETS

In USD'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2016	**129 603**	**49 345**	**71 429**	**271 641**	**626**	**522 643**
Additions	10 804	31	9 363	–	–	20 198
Impact of business combinations	1 730	13 460	67	65 008	72	80 336
Disposals and retirements	-2 167	–	-768	–	–	-2 935
Reclassification & others	–	–	–	0	–	0
Currency translation effects	-2 514	596	-1 850	1 150	-15	-2 633
As of January 1, 2017	**137 456**	**63 432**	**78 241**	**337 798**	**683**	**617 610**
Additions	4 322	1	11 554	–	–	15 877
Impact of business combinations	–	6 944	25	12 239	–	19 207
Disposals and retirements	–	–	-3 002	–	-238	-3 239
Classified as held for sale	-17 713	-767	-882	-1 515	–	-20 877
Currency translation effects	6 922	2 773	3 581	10 477	58	23 811
As of December 31, 2017	**130 985**	**72 383**	**89 517**	**358 999**	**503**	**652 388**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2016	**-95 206**	**-11 124**	**-63 034**	**–**	**-625**	**-169 989**
Systematic amortization - continuing operations	-10 066	-6 481	-2 495	–	-58	-19 099
Systematic amortization - discontinued operations	-335	-39	-49	–	–	-423
Impairment	-6 826	–	–	–	–	-6 826
Recovery of amortization on disposal and retirements	2 167	–	585	–	–	2 752
Currency translation effects	2 191	39	1 453	–	14	3 697
As of January 1, 2017	**-108 074**	**-17 605**	**-63 539**	**–**	**-669**	**-189 888**
Systematic amortization	-8 732	-8 756	-3 051	–	-5	-20 544
Impairment	-127	–	–	–	–	-127
Recovery of amortization on disposal and retirements	1 020	–	3 015	–	238	4 273
Classified as held for sale	11 911	767	837	–	–	13 515
Currency translation effects	-4 923	-826	-2 674	–	-56	-8 479
As of December 31, 2017	**-108 926**	**-26 420**	**-65 412**	**–**	**-492**	**-201 250**
Net book values as of December 31, 2016	**29 381**	**45 827**	**14 702**	**337 798**	**14**	**427 722**
Net book values as of December 31, 2017	**22 059**	**45 963**	**24 105**	**358 999**	**10**	**451 137**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2016 Technology impairment mainly related to technologies than became obsolete and for which future cash flows became unsure.

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 2017, kUSD 325 665 of goodwill has been allocated to Integrated Digital Television (2016: kUSD 308 223) and kUSD 33 334 (2016: kUSD 29 575) to Public Access Solutions.

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Integrated Digital Television
Integrated Digital Television goodwill has been tested for impairment with a value in use calculation based on cash flow projections approved by Group management covering a five-year period and a discount rate of 9.0% (2016: 8.5%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% per annum (2016: 1.5%) for Digital Television. 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 2017 and 2016, 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. Based on such analyses, 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. INVESTMENTS IN ASSOCIATES

In USD'000	2017	2016
At January 1	**4 939**	**4 544**
Share of profit	888	854
Dividends received	-175	-1 271
Acquisition of associated companies	–	1 025
Currency translation effects	206	-213
At December 31	**5 858**	**4 939**

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

		Interest held	
Name of associate	**Principal activity**	**2017**	**2016**
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%
SJack GmbH, Austria	Sales of Public Access products	26%	26%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45%	45%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%
Kryptus Segurança da Informaçao Ltda.	Cyber Security activities	* 16%	* 16%

*Through a shareholder agreement, Kudelski Group is entitled to appoint and has appointed one board member of Kryptus Segurança da Informaçao Ltda. and participates in significant financial and operating decisions. The Group has therefore determined that it has significant influence over this entity, even though it only holds 16% of the voting rights.

SUMMARIZED FINANCIAL INFORMATION OF THE GROUP'S ASSOCIATES

In USD'000	31.12.2017	31.12.2016
Total assets	33 867	27 122
Total liabilities	18 843	14 808
Net assets	15 024	12 314
Group's share of associates' net assets	4 471	3 650

	2017	2016
Revenue	43 496	47 035
Result of the period	3 286	3 596
Group's share of associates' result for the period	888	854

17. 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 USD'000	31.12.2017	31.12.2016
Deferred tax assets	55 212	61 186
Deferred tax liabilities	-9 014	-10 847
	46 198	**50 339**

Movement on the deferred income tax account is as follows:

In USD'000	Note	2017	2016
At January 1		**50 339**	**50 402**
Exchange differences		1 993	-1 521
Recognized against other comprehensive income		-5 177	1 040
Impact of business combinations		-1 747	-1 857
Reclassification as held for sale		250	–
Income statement (expense)/income	12	540	2 275
At December 31		**46 198**	**50 339**

The movement in deferred tax assets and liabilities during 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In USD'000	At January 1, 2017	Income statement effect	Change in scope	Other Compre-hensive income	Currency translation effects	At December 31, 2017
Deferred tax assets associated with						
- intangibles	28 732	-22 220	–	–	930	7 442
- employee benefits	14 284	-1 916	-245	-5 181	665	7 607
- tax losses	14 627	19 671	–	–	866	35 164
- provisions and other elements tax deductible when paid	2 292	-515	-8	3	84	1 856
- inter-company profit elimination	2 576	481	–	–	-10	3 047
- others	261	-359	-47	–	-5	-150
Total deferred tax assets (gross)	**62 772**	**-4 858**	**-300**	**-5 177**	**2 530**	**54 967**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	–	–	–	–	6
- intangibles	-9 722	1 900	–	–	-365	-8 187
- provisions & accelerated tax depreciation	-1 939	2 227	-1 197	–	-145	-1 054
- others	-778	1 271	–	–	-27	466
Total deferred tax liabilities (gross)	**-12 433**	**5 398**	**-1 197**	**–**	**-537**	**-8 769**
Net deferred tax asset/(liability)	**50 339**	**540**	**-1 497**	**-5 177**	**1 993**	**46 198**

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Included in change in scope are the impacts of business combinations and assets and liabilities reclassified as held for sale at December 31, 2017.

And for 2016:

In USD'000	At January 1, 2016	Income statement effect	Change in scope of consolida-tion	Other Compre-hensive income	Currency translation effects	At December 31, 2016
Deferred tax assets associated with						
- intangibles	31 729	-2 284	–	–	-713	28 732
- employee benefits	16 888	-3 273	–	1 040	-371	14 284
- tax losses	9 890	4 950	–	–	-213	14 627
- provisions and other elements tax deductible when paid	1 727	577	–	–	-12	2 292
- inter-company profit elimination	1 791	864	–	–	-79	2 576
- others	51	191	–	–	19	261
Total deferred tax assets (gross)	**62 076**	**1 025**	**–**	**1 040**	**-1 369**	**62 772**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	–	–	–	–	6
- intangibles	-11 359	1 890	–	–	-253	-9 722
- provisions & accelerated tax depreciation	-581	441	-1 857	–	58	-1 939
- others	260	-1 081	–	–	43	-778
Total deferred tax liabilities (gross)	**-11 674**	**1 250**	**-1 857**	**–**	**-152**	**-12 433**
Net deferred tax asset/(liability)	**50 402**	**2 275**	**-1 857**	**1 040**	**-1 521**	**50 339**

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of mUSD 1 077.6 (2016: mUSD 883.6) available for offset against future profits. A deferred tax asset has been recognized in respect of mUSD 423.2 (2016: mUSD 285.1) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining mUSD 654.3 (2016: mUSD 598.7) 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 USD million	2017	2016
Expiration within:		
One year	52.9	1.3
Two years	12.4	31.7
Three years	40.5	29.8
Four years	38.7	37.2
Five years	72.8	19.7
More than five years	437.0	479.0
Total	**654.3**	**598.7**

18. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In USD'000	31.12.2017	31.12.2016
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	512	493
- equity instruments with no quoted market price (level 3)	410	394
- marketable securities (level 1)	422	612
Loan – third party	11 672	9 223
State and government institutions	11 376	15 049
Deferred contract cost (long-term portion)	889	1 654
Trade accounts receivable (long-term portion)	26 993	1 746
Guarantee deposits	3 061	2 628
Prepaid expenses and accrued income (long-term portion)	1 070	911
	56 405	**32 708**

Available-for-sale financial assets include equity instruments that do not have a quoted market price in an active market or whose fair values cannot be reliably measured. Such assets are measured at cost net of impairment of kUSD 512 (2016: kUSD 493). Also included is one equity instrument listed in an active market and classified as marketable securities for kUSD 422 (2016: kUSD 612).

Third party loans are measured at amortized cost. The effective interest rate on third party loans is 2.38% (2016: 2.51%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months. The long term portion of trade accounts receivable includes, among others, discounted revenues related to the licensing of the Group intellectual property portfolio.

19. INVENTORIES

In USD'000	31.12.2017	31.12.2016
Raw materials	1 352	5 100
Work in progress	5 893	6 241
Finished goods	51 752	41 880
	58 997	**53 221**

The cost of inventories recognised as an expense includes kUSD 175 (2016: kUSD 178) in respect of write-downs, and has been reduced by kUSD 226 (2016: kUSD 87) 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 kUSD 8 384 (2016: kUSD -6 070).

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20. TRADE ACCOUNTS RECEIVABLE

In USD'000	31.12.2017	31.12.2016
Trade accounts receivable	310 187	259 466
Less: provision for impairment	-26 453	-24 754
Trade accounts receivable related parties	2 012	1 577
Trade receivables – net	**285 746**	**236 290**
Amounts due from customers for contract work	54 611	43 000
Total	**340 357**	**279 289**

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 USD'000	2017	2016
January 1,	**-24 754**	**-21 021**
Reclassified as held for sale	2 324	–
Provision for impairment charged to income statement	-7 285	-7 514
Utilization	423	616
Reversal	4 061	3 120
Change in scope	-9	-530
Translation effects	-1 213	575
December 31,	**-26 453**	**-24 754**

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 kUSD -7 285 (2016: kUSD -7 514). 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 USD'000	31.12.2017	31.12.2016
Not overdue	176 893	131 741
Past due and not impaired:		
- not more than one month	45 021	48 257
- more than one month and not more than three months	24 985	24 913
- more than three months and not more than six months	20 099	18 202
- more than six months and not more than one year	15 317	9 841
- more than one year	3 430	3 335
Total trade accounts receivable, net	**285 746**	**236 290**

As at 31 December 2017, trade receivables of mUSD 109 (2016 : mUSD 105) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The other classes within trade receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

21. OTHER CURRENT ASSETS

In USD'000	31.12.2017	31.12.2016
Loans third parties – short term portion	117	16
Prepaid expenses	11 873	13 580
Accrued income	9 960	2 001
State and government institutions	18 084	27 813
Advances to suppliers and employees	7 578	7 788
Deferred contract cost (short term portion)	1 034	9 743
Other receivables - third parties	3 503	3 379
Other receivables - related parties	1 320	1 380
	53 469	**65 701**

Loans are measured at amortized cost. The effective interest rate on short term loans was 3.02% (2016: 1.53%).

22. CASH AND CASH EQUIVALENTS

In USD'000	31.12.2017	31.12.2016
Cash at bank and in hand	67 954	170 896
Short term deposits	3 957	3 544
	71 911	**174 440**

The effective interest rate on short term deposits was 0.62% (2016: 0.32%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

23. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

The share capital consists of 49 759 755 (2016: 49 620 619) bearer shares at CHF 8.00 par value each and 46 300 000 (2016: 46 300’000) registered shares at CHF 0.80 par value each. Each share confers the right to vote and is fully paid up. The counter-value for the share capital is kUSD 332 222 (2016: kUSD 331 091).

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

The Board of Directors is authorized to increase the share capital in one or more stages until 22 March 2018 by a maximum amount of CHF 32 705 312 through the issuance of 3 768 164 bearer shares with a nominal value of CHF 8.00 per share and 3 200 000 registered shares with a nominal value of CHF 0.80 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 SHARE CAPITAL

Conditional share capital consists in 10 000 000 (2016: 10 000 000) bearer shares at CHF 8.00 each to satisfy convertible bond exercise right and 554 001 (2016: 693 137) bearer shares at CHF 8.00 each to satisfy option exercise or share subscriptions to employees.

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24. 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, 2017 (in USD'000)	Nagrastar	275, Sacramen-to Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	1 567	36 928
Current Assets	36 365	410
Non-current liabilities	–	9 100
Current liabilities	14 004	199
Total Equity	**23 928**	**28 039**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	11 964	14 048
Carrying amount of non-controlling interests	**11 964**	**14 048**
Revenue	24 761	4 157
Net result	10 241	2 227
Other comprehensive income	–	–
Total comprehensive income	10 241	2 227
Total comprehensive income allocated to non-controlling interests	5 120	1 116
Dividend paid to non controlling interests	-5 000	–
Net increase /(decrease) in cash and cash equivalents	-1 155	-31

As at December 31, 2016 (in USD'000)	Nagrastar	275, Sacramen-to Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	2 641	37 074
Current Assets	40 014	429
Non-current liabilities	–	11 500
Current liabilities	18 968	191
Total Equity	**23 687**	**25 812**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	11 843	12 932
Carrying amount of non-controlling interests	**11 843**	**12 932**
Revenue	25 797	4 108
Net result	12 210	2 184
Other comprehensive income	–	–
Total comprehensive income	12 210	2 184
Total comprehensive income allocated to non-controlling interests	6 105	1 094
Dividend paid to non controlling interests	-5 000	–
Net increase /(decrease) in cash and cash equivalents	3 978	-150

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

25. LONG TERM FINANCIAL DEBT

In USD'000	Note	31.12.2017	31.12.2016
CHF 200 million 1.875% bond 2015/2022	26	204 332	196 362
CHF 150 million 1.5% bond 2016/2024	26	153 111	147 148
Other long term financial liabilities		85	85
		357 528	**343 595**

26. 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 outstanding amount was fully repaid by December 2016.

On May 12, 2015 Kudelski SA issued a 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 5000 nominal and multiples thereof. The proceeds amounted to kCHF 200000 (kUSD 214891) less issuance costs of kCHF 870 (kUSD 939) totaling an initial net proceed of kCHF 199130 (kUSD 213952) and resulting in an effective interest rate of 1.97%.

On September 27, 2016 Kudelski SA issued an additional CHF 150 million bond with a subscription price of 100%, bearing an annual interest rate of 1.5% and maturing on September 27, 2024 at par, with denominations of CHF 5 000 nominal and multiples thereof. The proceeds amounted to kCHF 150’000 (kUSD 154384) less issuance costs of kCHF 665 (kUSD 684) totaling an initial net proceed of kCHF 149’335 (kUSD 153700) and resulting in an effective interest rate of 1.58%.

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

In USD'000	2017	2016
Initial balance	**343 510**	**304 999**
Net proceeds from bond issuance	–	153 700
Amortization of transaction costs less premium	205	142
Reimbursement and repurchase	–	-101 124
Exchange differences	13 728	-14 207
Liability component as of December 31	**357 443**	**343 510**
of which:		
- long term portion (bond 2015/2022)	204 332	196 362
- long term portion (bond 2016/2024)	153 111	147 148
	357 443	**343 510**

27. 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 both the employer and the employee contribute a fixed percentage of the employee’s insured salary 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 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 employees. 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.

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The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2017 and 2016 are as follows:

	31.12.2017	31.12.2016
Switzerland		
Discount rate	0.90%	0.85%
Rate of future increase in compensations	1.50%	1.50%
Rate of future increase in current pensions	0.75%	0.75%
Interest rate credited on savings accounts	0.90%	0.85%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	1.86%	1.95%
Rate of future increase in compensations	2.83%	2.66%
Turnover *(on average)*	8.1%	5.7%

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

	31.12.2017	31.12.2016
Weighted average duration of the defined benefit obligation in years		
Switzerland	23.7	23.8
Abroad	12.9	15.9

The changes in defined benefit obligation and fair value of plan assets during the years 2017 and 2016 are as follows:

A. Change in defined benefit obligation

In USD'000	2017	2016
Defined benefit obligation as of 1.1.	**-230 817**	**-236 812**
Service cost	-19 095	-20 856
Interest cost	-2 215	-2 593
Change in demographic assumptions	–	-11 200
Change in financial assumptions	1 899	-2 152
Other actuarial gains / (losses)	4 566	6 388
Benefits payments	10 588	7 794
Exchange rate difference	-10 215	5 686
Curtailment	13 860	251
Settlement	4 555	–
Acquisition of subsidiaries	-262	-124
Plan amendment	-73	22 800
Classified as held for sale	692	–
Defined benefit obligation as of December 31,	**-226 517**	**-230 817**

B. Change in fair value of plan assets

In USD'000	2017	2016
Fair value of plan assets as of 1.1.	**164 438**	**158 203**
Interest income	1 525	1 675
Employees' contributions	5 855	5 907
Employer's contribution	7 810	7 718
Plan assets gains/(losses)	11 437	2 688
Benefit payments	-10 588	-7 794
Curtailment	-8 361	–
Settlement	-4 555	–
Exchange rate difference	6 645	-3 960
Fair value of plan assets as of December 31,	**174 206**	**164 438**

The actual return on plan assets amounts to kUSD 12 962 in 2017 (kUSD 4 364 for the year 2016). The estimated employer's contribution to the pension plans for the year 2018 is kUSD 6 530.

The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2017 and 2016 as follows:

In USD'000	31.12.2017	Proportion in % 31.12.2017	31.12.2016	Proportion in % 31.12.2016
Cash	354	0.2%	2 917	1.8%
Swiss bonds	14 477	8.3%	33 822	20.6%
Foreign bonds	46 091	26.5%	15 763	9.6%
Swiss shares	37 422	21.5%	34 395	20.9%
Foreign shares	39 375	22.6%	33 804	20.6%
Real estate	33 533	19.2%	28 715	17.5%
Alternative investments	2 954	1.7%	9 921	6.0%
Assets held by insurance company	–	0.0%	5 101	3.1%
Total	**174 206**	**100.0%**	**164 438**	**100.0%**

With the exception of assets held by insurance company, plan assets are quoted on liquid markets.

The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis in order to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments.

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

In USD'000	Switzerland	Abroad
2018	8 148	86
2019	7 723	48
2020	7 164	80
2021	6 671	125
2022	6 214	638
2023-2027	27 456	3 192

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 2017 year-end defined benefit obligation		Change in 2016 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In USD'000	In USD'000	In USD'000	In USD'000
50 basis point increase in discount rate	-22 962	-865	-23 184	-1 269
50 basis point decrease in discount rate	27 216	948	27 556	1 467
50 basis point increase in rate of salary increase	249	n/a	202	n/a
50 basis point decrease in rate of salary increase	-274	n/a	-224	n/a
50 basis point increase in rate of pension increase	15 408	n/a	15 380	n/a
50 basis point decrease in rate of pension increase	-13 880	n/a	-13 835	n/a
50 basis point increase of interest in saving accounts	8 001	n/a	8 174	n/a
50 basis point decrease of interest in saving accounts	-7 533	n/a	-7 677	n/a
50 basis point increase of turnover	-2 192	n/a	-2 302	n/a
50 basis point decrease of turnover	2 052	n/a	2 175	n/a

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The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

28. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In USD'000	31.12.2017	31.12.2016
Long-term loans - third parties	233	6 709
Deferred consideration	3 995	4 043
Contingent consideration	4 568	3 601
Advance from customer (long-term portion)	–	8 465
Other long-term liabilities	1 202	1 169
	9 998	**23 987**

2016 Long-term loans – third parties related to loans granted by sellers in connection with business combinations which has been reclassified as held for sale in 2017. The effective interest rate is 2.00% (2016 : 2.80%.)

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with business acquisitions. Assumptions for contingent consideration include discount rates varying from 4.0% to 10.0% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

29. SHORT TERM FINANCIAL DEBT

In USD'000	Note	31.12.2017	31.12.2016
Short term bank borrowings		66 875	31 440
Other short term financial liabilities		27	32
		66 902	**31 471**

The average effective interest rate paid in 2017 for short term bank borrowings was 1.24% (2016: 1.26%).

30. TRADE ACCOUNTS PAYABLE

In USD'000	31.12.2017	31.12.2016
Trade accounts payable – third parties	88 694	66 609
Trade accounts payable – related parties	1	188
	88 696	**66 797**

31. OTHER CURRENT LIABILITIES

In USD'000	31.12.2017	31.12.2016
Accrued expenses	94 617	95 620
Deferred income	19 384	24 715
Deferred consideration	2 783	3 307
Contingent consideration (level 3)	3 212	5 429
Payable to pension fund	558	642
Other payables	17 240	24 277
	137 794	**153 990**

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

32. ADVANCES RECEIVED FROM CLIENTS

In USD'000	31.12.2017	31.12.2016
Amounts due to customers for contract work	4 312	2 578
Advances from clients	17 583	29 411
	21 895	**31 989**

33. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In USD'000	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Currency related instruments (level 2)						
- Over the counter currency options	36 000	30 000	297	322	-202	-97
- Forward contracts	10 000	10 000	175	27	–	–
- FX Swaps	17 742	–	3	–	–	–
Total of derivatives financial instruments	**63 742**	**40 000**	**475**	**350**	**-202**	**-97**

There were non long-term derivative instruments at 31 December 2017 and 2016.

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34. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In USD'000	Restruc-turing provisions	Legal fee and litigations	Provision for warranty	Total 2017	Total 2016
As of January 1	**7 540**	**197**	**2 211**	**9 948**	**2 795**
Reclassified as held for sale	-4 311	–	–	-4 311	–
Additional provisions	13 707	231	783	14 721	9 597
Change in scope of consolidation	–	–	2	2	–
Unused amounts reversed	-122	-171	-412	-705	-170
Used during the year	-9 632	-22	-113	-9 767	-1 721
Exchange differences	317	28	197	542	-554
As of December 31	**7 498**	**264**	**2 668**	**10 430**	**9 948**
Thereof:					
- Short term	7 498	264	2 658	10 420	9 948
- Long term	–	–	10	10	–
	7 498	**264**	**2 668**	**10 430**	**9 948**

Restructuring provisions

2017 restructuring provisions mainly relates to headcount reduction measures impacting group digital TV operations. 2016 restructuring provision related to commitments for lay-offs and outplacement fees amounting to kUSD 7 540 following internal reorganization and the closure of selected sites.

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.

35. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In connection with the ongoing efforts to streamline its core digital TV operations, the Group is seeking to establish strategic partnerships with best-of-breed set-top box and conditional access module suppliers. Such partnerships are likely to encompass a transfer of relevant assets and resources to the selected partners. As such assets and resources, and the related business, represent the bulk of the SmarDTV subsidiary's profit and loss and balance sheet, SmarDTV has been reported as a discontinued operation in the current and in the comparative previous period and the assets and liabilities of the entity have been reclassified as held for sale at the end of the reporting period. Financial information relating to the discontinued operation is set out below. Such information includes intercompany transactions with other Group companies that are not discontinued.

In 2014, the Group disposed of NagraID Security SA (NIDS). At the time of disposal, total consideration included a contingent asset (earn-out payment) based on future NIDS revenues. During 2016, the Group determined the earn-out payment was not likely and impaired, in totality, this contingent asset for kUSD 7 555.

In USD'000	2017	2016
Revenue	75 464	93 254
Expenses	-78 936	-104 464
Operating result	**-3 472**	**-11 210**
Impairment to measure at fair value	-4 614	-7 555
Finance costs	-932	-191
Result before tax from discontinued operations	**-9 018**	**-18 957**
Income tax	-394	-1 175
Net result from discontinued operations	**-9 412**	**-20 132**

In USD'000	2017	2016
Cash flow used in operating activities	2 454	-695
Cash flow used in investing activities	-1 908	-2 354
Cash flow from financing activities	-662	161

Assets and liabilities of the disposal group reclassified as held for sale are as follows:

In USD'000	31.12.2017
Assets classified as held for sale:	
- Tangible fixed assets	18 435
- Intangible fixed assets	6 481
- Financial assets	9 905
- Trade and other receivables	15 041
- Inventories	6 505
- Other current assets	6 283
Total assets held for sale	**62 650**
Liabilities classified as held for sale:	
- Trade and other payables	13 981
- Other current liabilities	6 984
- Employee benefits liabilities	873
- Other long-term liabilities	6 982
- Advances received from clients	2 749
- Current income taxes	580
- Deferred tax liabilities	251
- Provision for other liabilities and charges	134
Total liabilities held for sale	**32 535**
Total net assets held for sale	**30 115**

36. RESEARCH AND DEVELOPMENT

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

In USD'000	2017	restated 2016
Research and development	189 562	186 746

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37. DIVIDEND

On March 29, 2017, the Group paid a distribution of CHF 0.35 per bearer share and CHF 0.035 per registered share. The distribution amounted to kUSD 19 330. Since year end, the Board of Directors have proposed a distribution of kUSD 5 573, representing CHF 0.10 per bearer share and CHF 0.01 per registered share respectively. The final distribution may fluctuate upon the issuance of additional share capital for employees by utilization of conditional share capital or utilization of authorized share capital for acquisitions. The proposal calls for the distribution of CHF 0.10 per bearer share (CHF 0.01 per registered share) from capital contribution reserves at 31 December 2017 and is subject to shareholder approval at the Annual General Meeting. This proposed distribution has not been recorded as a liability in these financial statements.

38. EMPLOYEE SHARE PARTICIPATION PLANS

EMPLOYEE SHARE PURCHASE PROGRAM (ESPP)

The Group has 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 obtained through this plan, are subject to a three-year blocking period.

	Shares 2017	Shares 2016
Shares underwritten by employees	11 315	6 400
Bonus shares from ESPP	2 263	1 280
Total employee share program	**13 578**	**7 680**
Amount paid by employee (In USD'000)	114	85
Booked corporate charges (excluding social charges) (In USD'000)	50	37
	164	**122**

SHARES ISSUED TO EMPLOYEES

In 2017, 125 558 (2016: 151 792) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 70 017 (2016: 110 497) include a seven-year blocking period and 55 541 (2016: 41 295) include a three-year blocking period. The fair value recognized for this equity based compensation is kUSD 1 655 (2016: kUSD 1 607)

39. 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:

In USD'000	Sale of goods and services 2017	Sale of goods and services 2016	Purchase of goods and services 2017	Purchase of goods and services 2016	Amounts owed to related parties 31.12.2017	Amounts owed to related parties 31.12.2016	Amounts owed by related parties 31.12.2017	Amounts owed by related parties 31.12.2016
APT-Skidata Ltd	7 464	8 513	–	–	–	–	1 164	305
SKIDATA Parking System Ltd	2 091	2 963	–	–	–	–	276	769
SKIDATA India Private Limited	818	962	–	–	1	–	177	73
iWedia SA	145	166	667	1 780	308	477	46	59
Total associated companies	**10 518**	**12 603**	**667**	**1 780**	**309**	**477**	**1 662**	**1 206**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 659	1 595
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 659**	**1 595**

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

Services provided to/by associates and other related parties are performed at arm's length. The associates are listed in Note 16. Outstanding balances are unsecured and are repayable in cash.

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 USD'000	2017	2016
Salaries and other short-term employees benefits	6 976	9 699
Post-employments benefits	68	90
Share-based payments	523	1 050
	7 567	**10 839**

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40. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Kudelski family pool	**59%**	**63%**	**28%**	**35%**
Kudelski family interests outside Kudelski family pool	**4%**	**0%**	**7%**	**0%**

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2017 and 2016, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2017 and 2016 variable compensation - issued in 2018 and 2017 respectively):

	31.12.2017	31.12.2016
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	10 434 423	14 474 423
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	1 250	1 250
Total board members	**10 443 313**	**14 483 313**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	97 075	108 214
Roy Pierre, COO	39 837	47 956
Total Management (excluding CEO)	**136 912**	**156 170**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2017 and 2016.

No loans were granted in 2017 and 2016 to the members of the Board of Directors and Group management.

41. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In USD'000	2 017	2 016
Within one year	14 059	13 317
In the second to fifth year inclusive	36 712	36 314
More than five years	5 929	5 277
	56 700	**54 908**

42. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2017:

Assets as per balance sheet date December 31, 2017 (in USD'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2017
Financial assets and non current assets:						
- equity instruments with no quoted market price (at cost less impairment)	18	–	–	512	–	512
- equity instruments with no quoted market price (level 3)	18	–	–	410	–	410
- marketable securities (level 1)	18	–	–	422	–	422
- long term loans	18	–	–	–	11 672	11 672
- state and government institutions	18	–	–	–	11 376	11 376
- trade accounts receivable - long-term portion	18	–	–	–	26 993	26 993
- guarantee deposits	18	–	–	–	3 061	3 061
Trade accounts receivable	20	–	–	–	285 746	285 746
Other current assets:						
- loans	21	–	–	–	117	117
- state and government institutions	21				18 084	18 084
- other receivable (third and related parties)	21	–	–	–	4 823	4 823
Cash and cash equivalents	22	–	–	–	71 911	71 911
Derivative financial instruments (level 2)	33	475	–	–	–	475
		475	**–**	**1 344**	**433 783**	**435 602**

Liabilities as per balance sheet date December 31, 2017 (in USD'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2017
Long term financial debt	25	–	–	357 528	357 528
Other long term liabilities:					
- deferred consideration	28	–	–	3 995	3 995
- contingent consideration (level 3)	28	–	4 568	–	4 568
- loans and others	28			1 435	1 435
Short term financial debt	29	–	–	66 902	66 902
Trade accounts payable	30	–	–	88 696	88 696
Other current liabilities:					
- deferred consideration	31	–	–	2 783	2 783
- contingent consideration (level 3)	31	–	3 212	–	3 212
- payable to pension fund	31	–	–	558	558
- other payables	31	–	–	17 240	17 240
Derivative financial instruments (level 2)	33	–	202	–	202
		–	**7 982**	**539 137**	**547 119**

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And for 2016:

Assets as per balance sheet date December 31, 2016 (in USD'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2016
Financial assets and non current assets:						
- equity instruments with no quoted market price	18	–	–	886	–	886
- marketable securities	18	–	–	612	–	612
- long term loans	18	–	–	–	9 223	9 223
- Trade accounts receivable - long-term portion	18	–	–	–	1 747	1 747
- guarantee deposits	18	–	–	–	2 628	2 628
Trade accounts receivable	20	–	–	–	236 289	236 289
Other current assets:						–
- Loans	21	–	–	–	16	16
Derivative financial instruments (short term)	33	350	–	–	–	350
Cash and cash equivalents	22	–	–	–	174 440	174 440
		350	**–**	**1 498**	**424 343**	**426 191**

Liabilities as per balance sheet date December 31, 2016 (in USD'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2016
Long term financial debt	25	–	–	343 595	343 595
Other long term liabilities	28	–	3 601	11 022	14 623
Short term financial debt	29	–	–	31 471	31 471
Trade accounts payable	30	–	–	66 797	66 797
Other current liabilities	31	–	5 429	7 324	12 753
Derivative financial instruments (short term)	33	–	97	–	97
		–	**9 127**	**460 209**	**469 336**

43. 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, 2017 and 2016:

In USD'000		Note	31.12.2017	31.12.2016
Financial assets:				
- marketable securities	Level 1	18	422	612
- derivative financial instruments	Level 2	33	475	350
- equity instuments with no quoted market price	Level 3	18	410	394
Total financial assets			**1 307**	**1 356**
Financial liabilities:				
- derivative financial instruments	Level 2	33	202	97
- contingent consideration (short-term portion)	Level 3	31	3 212	5 429
- contingent consideration (long-term portion)	Level 3	28	4 568	3 601
Total financial liabilities			**7 982**	**9 127**

The fair value of Level 3 equity instruments with no quoted market price is determined using a discounted cash flow method provided by the company.
Level 3 contingent consideration consists of earn-out payments on companies that have been acquired. The fair value is measured using projections reviewed by management, and discount rate comprised between 4.0 and 7.6%.

RECONCILIATION OF LEVEL 3 FAIR VALUES:

The following table shows a reconciliation for the level 3 fair values:

In USD'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2016	404	7 458	-4 745
Assumed in a business combination	–	–	-5 588
Assumed in a transaction with non-controlling interest	–	–	-817
Settlements	–	–	474
Impairment	–	-7 556	1 483
Remeasurement (recognized in other operating income)	–	–	271
Discount effect (recognized in interest expense)	–	182	-88
Exchange difference	-10	-121	24
Currency translation adjustment		37	-44
Balance at December 31, 2016 and January 1, 2017	**394**	**0**	**-9 030**
Assumed in a business combination	–	–	-2 857
Settlements	–	–	4 566
Remeasurement (recognized in other operating income)	–	–	-146
Discount effect (recognized in interest expense)	–	–	-126
Exchange difference	16	–	–
Currency translation adjustment	–	–	-188
Balance at December 31, 2017	**410**	**0**	**-7 781**

2016 contingent assets and liabilities impairment consisted of earn-outs relating to a disposed company which realizations were not likely.

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 USD'000	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Financial liabilities				
- CHF 200 million bond	204 332	210 100	196 362	205 714
- CHF 150 million bond	153 111	154 707	147 149	153 103

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

44. MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

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

In USD'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
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Bonds	6 183	5 946	229 672	23 783	158 345	355 271	-36 757	-41 490	357 443	343 510
Short term financial debt	66 902	31 471	–	–	–	–	–	–	66 902	31 471
Trade accounts payable	88 696	66 797	–	–	–	–	–	–	88 696	66 797
Other payables	17 240	24 277	–	–	–	–	–	–	17 240	24 277
Total	**179 021**	**128 491**	**229 672**	**23 783**	**158 345**	**355 271**	**-36 757**	**-41 490**	**530 281**	**466 055**

45. 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 CHF and the EUR. The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in the CHF and a 10% (2016: 10%) 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.

	CHF		EUR	
In USD'000	2 017	2 016	2 017	2 016
Post-tax net income				
- Increase	-7 804	-13 515	-5 359	-8 871
- Decrease	2 023	8 806	5 359	8 871
Comprehensive income (post-tax effect)				
- Increase	-20 791	-17 487	-2 038	-1 799
- Decrease	21 436	17 821	2 038	1 799

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 200 basis points and decrease of 50 basis points (2016: 200 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2016: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2016: 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, 2017 would increase by kUSD 152 and increase by kUSD 129, respectively. (2016: increase by kUSD 1 484 and decrease by kUSD 948). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2017 and 2016.

Equity prices

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

46. COLLATERAL RECEIVED AND GIVEN

In USD'000	31.12.2017	31.12.2016
Guarantees in favor of third parties	47 010	44 850

47. RISK CONCENTRATION

At December 31, 2017 and 2016, no financial asset exposure was more than 10% of the financial assets.

48. 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 2017 was representative of the Group risk profile at that date and is determined by Group management to be representative for future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

49. 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 2017 was -15.4% (2016: 61.9%).

2017 operating cash flow was negative USD 54.2 million. Such negative operating cash flow is due to a negative USD 110.5 million adjustment for changes in working capital. Such adjustment is a one-off in nature and is mainly due to additional temporary working capital requirements at SKIDATA as well as the structure of 2017 IP licensing transactions resulting in delayed cash inflows. 2017 cash flow from operating activities, net of such adjustments, was positive at USD 56.3 million.

50. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Acquisition of Cytel (Shanghai) Co., Ltd

On January 30, 2018, the Kudelski Group, through SKIDATA, its Public Access sector subsidiary, acquired 51% of Cytel (Shanghai) Co., Ltd, a company specialized in car park revenue control and management systems. It has more than 20 years track record in the supply and installation of parking management systems. As a high-end parking system supplier for the most prestigious projects in China, Cytel has an experienced and well trained team, and has over the years established a nationwide sales and service network across the country. The Group has an option to purchase the remaining 49% of the company between January 1, 2022 and January 31, 2022.

At the time the financial statements were authorized for issue, the Group had not yet completed the accounting for this acquisition, and accordingly, the financial effects of this transaction have not been recognized in these financial statements. The operating results, assets and liabilities of the acquired company will be consolidated from January 30, 2018.

51. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2017	2016	2017	2016
1 CHF	1.0246	0.9852	1.0157	1.0151
1 EUR	1.1988	1.0581	1.1293	1.1066
100 CNY	15.3688	14.4039	14.7996	15.0541
100 NOK	12.1926	11.6345	12.1009	11.9126
1 GBP	1.3514	1.2374	1.2885	1.3554
100 BRL	30.2254	30.7389	31.3459	28.8702
100 INR	1.5676	1.4778	1.5363	1.4884
1 SGD	0.7479	0.6926	0.7244	0.7244
100 ZAR	8.0943	7.3005	7.5165	6.8318
100 RUB	1.7275	1.6394	1.7153	1.5010
1 AUD	0.7818	0.7232	0.7667	0.7440

52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 13, 2018.

53. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2017	2016
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	77.5
NagraStar LLC	US – Englewood	Smartcards and digital TV support	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
Kudelski Security, Inc.	US - Minneapolis	Cyber Security Solutions	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

54. 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.

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting on the consolidated financial statements 2017

pwc

Report of the statutory auditor

to the General Meeting of Kudelski SA

Cheseaux-sur-Lausanne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kudelski SA and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 100 to 151) give a true and fair view of the consolidated balance sheet of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: USD 3'056'000

We concluded full scope audit work at 11 reporting components in 7 countries and for 13 reporting components we performed specified procedures. Our audit scope addressed over 83% of the Group's revenue and 84% of the Group's assets.

The goodwill impairment assessment has been identified as an area of focus.

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Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole.

The group financial statements are a consolidation of 72 reporting components. Following our assessment of the risk of material misstatement to the Group's consolidated financial statements and considering the significance of the reporting components' business operations relative to the Group, we selected 24 reporting components which represent the principal business operations of the Group. Of the 24 reporting components, 11 of these components were subject to an audit of complete financial information and 13 reporting components were subject to specific audit procedures.

The reporting components subject to an audit of complete financial information or specific audit procedures accounted for 83% of Group revenue and 84% of the Group's assets.

For the remaining reporting components, we performed other procedures to test or assess that there were no significant risks of material misstatement in relation to the Group's consolidated financial statements.

The group audit team, in addition to the audit of the consolidation, was directly responsible for auditing 4 of the 11 reporting components which were subject to a full audit and 1 of the 13 reporting components subject to specific audit procedures. For the other reporting components, the group audit team directed and supervised the audit work performed by the PwC component teams at all stages of the audit.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 3'056'000
How we determined it	5% of average net income before tax from continuing operations of the last 3 years
Rationale for the materiality benchmark applied	We chose net income before tax from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. To account for the volatility of the project-based business, the average value of the last three years was chosen for the materiality calculation.

We agreed with the Audit Committee that we would report to them misstatements above USD 305'600 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group's goodwill is recognised in two Cash Generating Units (CGUs): "Integrated Digital Television" (USD 326m) and "Public Access Solutions"(USD33m). We consider the assessment of the carrying value of the "Integrated Digital Television" goodwill to be a key audit matter for the following reasons. The "Integrated Digital Television" Goodwill is a significant balance sheet position amounting to USD 326m as per December 31, 2017. • Judgement is required to determine the assumptions relating to the future results and the discount rate applied to the forecasted cash flows. • In particular, those assessments and judgements made to support the carrying value of the goodwill allocated to the "Integrated Digital Television" segment were critical, given the 2017 underlying results. Management also performed a sensitivity analysis over the value in use impairment calculation, by varying the assumptions used (growth rates, including the terminal growth rate and discount rate) to assess the impact on the valuations. Refer to page 114 (note 2 – Critical accounting estimates and judgements), and pages 126-127 (note 15– Intangible assets) for details of management's impairment test and assumptions.	We evaluated the reasonableness of management's cash-flow forecasts and the process by which they were developed, by comparing them to the latest Board approved budgets. We found that the budgets used in the value in use calculations were consistent with the Board approved budget. We noted that the Board approved the 2018 budget, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 2-5 a particular focus area for the procedures below. We challenged management to substantiate the key assumptions in the cash flow projections during the forecasted period and their intention and ability to execute their strategic initiatives. We considered with the support of our valuation specialists, the reasonableness of the discount rate of 9% applied to those future cash flows by assessing the cost of capital for the Group by comparing it to market data. We also tested the mathematical accuracy of the model. We tested the reasonableness of the terminal growth rate of 1.5% by comparing to the growth realised in the period prior to the terminal growth. We assessed management's sensitivity analysis around key estimates to quantify the downside changes in assumptions that could result in an impairment. We assessed the disclosures included in Note 15. As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the carrying value of goodwill were reasonable and supportable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Kudelski SA and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

Luc Schulthess	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Lausanne, 13 February 2018

BALANCE SHEETS AT DECEMBER 31, 2017 AND 2016

ASSETS

In CHF'000	Notes	31.12.2017	31.12.2016
Current assets			
Cash and cash equivalents		3 009	18 662
Accounts receivable from Group companies		55 993	63 471
Other current receivables and prepaid expenses	3.1	1 204	1 375
Total current assets		**60 206**	**83 508**
Fixed assets			
Loans to Group companies		746 077	731 913
Investments	3.2	377 472	399 741
Total fixed assets		**1 123 549**	**1 131 654**
Total assets		**1 183 755**	**1 215 162**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2017	31.12.2016
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		20 464	–
Other short-term liabilities :			
- due to third parties		480	433
- due to Group companies		35 050	19 248
Accrued expenses		2 017	3 128
Total short-term liabilities		**58 011**	**22 809**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	350 000
Total long-term liabilities		**350 000**	**350 000**
Total liabilities		**408 011**	**372 809**
Shareholders' equity			
Share capital		435 118	434 005
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		85 010	97 925
Retained earnings		194 985	156 321
Net (loss) / income		-49 369	44 102
Total shareholders' equity	**3.4**	**775 744**	**842 353**
Total liabilities and shareholders' equity		**1 183 755**	**1 215 162**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2017

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

In CHF'000	Notes	2017	2016
Other non operating income		133	90
Financial income	4.1	42 717	44 626
Administrative and other expenses		-3 106	-3 175
Financial expenses and exchange result	4.2	-10 577	4 036
Impairment of financial fixed assets	4.3	-77 221	–
Income/(loss) before tax		**-48 054**	**45 577**
Direct taxes (other than income tax)		-1 315	-1 475
Net income/(loss)		**-49 369**	**44 102**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2017

In CHF'000	Legal reserves from capital contribu-tion	Retained earnings
Balance brought forward from previous year	97 925	200 423
Dividend	-13 593	-5 437
Share capital increase	678	–
Net result	–	-49 369
Total available earnings	**85 010**	**145 617**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.10 on 49'759'755* bearer shares (out of capital contribution reserve)	-4 976	–
- CHF 0.01 on 46'300'000 registered shares (out of capital contribution reserve)	-463	–
Balance to be carried forward	**79 571**	**145 617**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2017 and may fluctuate upon issuance of additional share capital for the employees by utilization of the conditional share capital or utilization of the authorized share capital to acquire companies.

NOTES TO THE FINANCIAL STATEMENTS 2017

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 Swiss accounting legislation of the Swiss Code of Obligations (SCO).

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 initially recognized at cost. Investments in Kudelski Group subsidiaries are assessed annually and in case of an impairment adjusted to their recoverable amount within their category.

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 2017

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2017	31.12.2016
Prepaid expenses	1 169	1 355
Withholding tax	19	7
Other accounts receivable	16	13
	1 204	1 375

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.

3.2 INVESTMENTS

DIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2017	2016
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	77.5
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
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 Beijing Co. Ltd	CN - Beijing	R & D, Sales and services	KCNY	15 890	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
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Nagra Media (Taiwan) Co., Ltd	TW - Taipei	Sales and support	kNTD	500	100	H
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	40
Kryptus Segurança da Informaçao Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL	298	16	16
E.D.S.I. SAS	FR - Cesson Sévigné	Research & development	KEUR	163	100	100
OpenTV Europe SAS	FR - Issy les Moulineaux	Research & development	kEUR	38	M	100
Nagra Media Australia Pty Ltd	AU - New South Wales	Sales and support	kAUD	50	100	100
OpenTV Australia Holding Pty Ltd	AU - New South Wales	Holding	kAUD	1	100	100
NexGuard Labs B.V.	NL - Eindhoven	Watermarking Solutions	kEUR	25	100	100

M : Merged companies

H : Held indirectly

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2017	2016
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
Kudelski Security Inc.	US - Minneapolis	Cyber Security Solutions	kUSD	0	100	100
Sentry Control Systems LLC	US – Van Nuys	Public access	kUSD	45	60	60
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	100	100

3.3 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 redeemed the bond at nominal value on December 16, 2016.

On May 12, 2016 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.

On September 27, 2016 the company also issued a CHF 150 million bond with a subscription price of 100%, bearing an interest rate of 1.5% and maturing on September 27, 2024 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.

3.4 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, 2015	**540 911**	**110 000**	**8 300**	**156 321**	**815 532**
Share capital increase	1 575	–	128	–	1 703
Share capital reduction	-108 481	–	89 497	–	-18 984
Net Income	–	–	–	44 102	44 102
As of December 31, 2016	**434 005**	**110 000**	**97 925**	**200 423**	**842 353**
Dividend			-13 593	-5 437	-19 030
Share capital increase	1 113		678		1 791
Net Income				-49 369	-49 369
As of December 31, 2017	**435 118**	**110 000**	**85 010**	**145 616**	**775 744**

NOTES TO THE FINANCIAL STATEMENTS 2017

SHARE CAPITAL

In CHF'000	31.12.2017	31.12.2016
49'759'755 / 49'620'619 bearer shares, at CHF 8 each	398 078	396 965
46'300'000 registered shares, at CHF 0.80 each	37 040	37 040
	435 118	434 005

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	2017	2016
Conditional share capital as of January 1	85 545	108 526
Reduction of nominal share value	–	-21 408
Employee share purchase plan	-109	-85
Shares allotted to employees	-1 004	-1 488
Conditional share capital at December 31	**84 432**	**85 545**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each	80 000	80 000
- Options or share subscriptions to employees:		
554'001 / 693'137 bearer shares, at CHF 8 each	4 432	5 545
	84 432	**85 545**

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AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2017	31.12.2016
3'768'164 bearer shares, at CHF 8 each	30 145	30 145
3'200'000 registered shares, at CHF 0.80 each	2 560	2 560
Authorized share capital as of December 31	**32 705**	**32 705**

The Board of Directors is authorized to increase the share capital in one or more stages until March 22, 2018, for the purpose of acquiring companies or parts of companies.

MAJOR SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Kudelski family pool	59%	63%	28%	35%
Kudelski family interests outside Kudelski family pool	4%	0%	7%	0%

The Kudelski family pool includes Mr. André Kudelski, Mrs. Marguerite Kudelski, Mrs. Isabelle Kudelski Haldy, Mrs. Irene Kudelski Mauroux and their respective descendants. The Kudelski family interests outside Kudelski family pool are two discretionary and irrevocable trusts of which the beneficiaries are family members of M. André Kudelski.

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2017	2016
Dividends received from Group subsidiaries	18 038	20 887
Interest on loans to Group subsidiaries	24 397	23 366
Interest income third parties	282	170
Value adjustment on investments	–	203
	42 717	**44 626**

4.2 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2017	2016
Net currency exchange result	-3 697	12 186
Interest on loans from Group subsidiaries	-237	-77
Interest expenses and bank charges	-6 643	-8 074
	-10 577	**4 036**

4.3 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2017	2016
Change in provision on Group investments and loans	-77 012	–
Value adjustment on investments	-209	–
	-77 221	**–**

NOTES TO THE FINANCIAL STATEMENTS 2017

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	31.12.2017	31.12.2016
Guarantee commitments		
Commitment in favor of third parties	5 458	5 610
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 2017 and 2016 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.

Kudelski SA

Cheseaux-sur-Lausanne

Report of the statutory auditor to the General Meeting

on the financial statements 2017

pwc

Report of the statutory auditor
to the General Meeting of Kudelski SA
Cheseaux-sur-Lausanne

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Kudelski SA, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 158 to 165) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 11'800'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

Valuation of investments in subsidiaries and loans to Group companies has been identified as a key audit matter.

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Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 11'800'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. Total assets is a generally accepted benchmark for determining the materiality according to auditing standards. This calculation results in an overall materiality of CHF 11'800'000.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1'180'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Valuation of investments in subsidiaries and loans to Group companies

Key audit matter	*How our audit addressed the key audit matter*
Kudelski SA's investments in and loans to Group companies are valued at CHF 429m and CHF 771 m respectively. The company has allocated the investments in subsidiaries and loans to Group companies to 2 Cash Generating Units (CGU's): "Integrated Digital Television"(CHF 1'033m) and "Public Access Solutions" (CHF 167m). We consider the assessment of the carrying value of the "Integrated Digital Television" investments in subsidiaries and loans to Group companies to be a key audit matter for the following reasons: "Integrated Digital Television" investments in subsidiaries and loans to Group companies represent a significant balance amounting to CHF 1'031m as per December 31, 2017. For the year ended 31 December 2017, management have performed an impairment assessment of investments in subsidiaries and loans to Group companies. To determine the Enterprise Value management uses a discounted cash flow method. • Judgement is required to determine the assumptions relating to the future results and the discount rate applied to the forecasted cash flows. • In particular, those assessments and judgements made to support the carrying value of the investments in subsidiaries and loans to Group companies allocated to the "Integrated Digital Television" segment were critical, given the 2017 underlying results. The results of management's impairment testing indicated that the "Integrated Digital Television" investments in subsidiaries and loans to group companies were impaired. As a result, management recorded an impairment for the value of CHF 77m. Refer to page 161 (note 3.2– Investments) for details of the investments and the impairment booked.	We evaluated the reasonableness of management's cash-flow forecasts and the process by which they were developed, by comparing them to the latest Board approved budgets. We found that the budgets used in the value in use calculations were consistent with the Board approved budget. We noted that the Board approved the 2018 budget, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 2-5 a particular focus area for the procedures below. We challenged management to substantiate the key assumptions in the cash flow projections during the forecasted period and their intention and ability to execute their strategic initiatives. We considered with the support of our valuation specialists, the reasonableness of the discount rate of 9% applied to those future cash flows by assessing the cost of capital for the Group by comparing it to market data. We also tested the mathematical accuracy of the model. We tested the reasonableness of the terminal growth rate of 1.5% by comparing to the growth realised in the period prior to the terminal growth. As a result of our procedures, as discussed with the Audit Committee, we determined that the conclusions reached by management with regard to the impairment of the "Integrated Digital Television" investments in subsidiaries and loans to group companies for an amount of CHF77m are reasonable and acceptable.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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.

PricewaterhouseCoopers SA

Luc Schulthess	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Lausanne, 13 February 2018

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This report is published in English and French, except for the Financial statements which are only published in English. In case of inconsistency between the French and the English version of the Corporate Governance report and the Compensation report, the French version prevails.

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