2014 RESULTS

Management Discussion & Analysis

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

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

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

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

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

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

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

GROUP REVENUES AND PROFITABILITY

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

"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 67.2 million to CHF 655.6 million. Relative to total revenues, margin after cost of material increased from 70.4% to

73.2% due to the favorable impact of the Cisco patent license agreement and the significant margin improvement obtained by outsourcing the production of digital TV smart cards. The Group's Integrated Digital TV business started to benefit from these cost savings through lower arm's length transfer prices from the beginning of the year. The loss generated by NagraID in 2014 is reported in the line item "net result from discontinued operations."

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

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

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

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

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

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

INTEGRATED DIGITAL TV

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

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

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

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

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

In 2014, we continued to invest in the development of the Group's cybersecurity business. While the customer portfolio continued to grow at expected levels, revenues remain in the single digit million range.

PUBLIC ACCESS

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

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

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

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

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

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

BALANCE SHEET AND CASH FLOW

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

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

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

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

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

In 2014, the Group generated CHF 109.3 million of cash from operating activities. The Group used CHF 240.7 million of cash for investing activities. This includes the CHF 211.5 million investment for the acquisition of Conax. Continued tight management of capital expenditures enabled the

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

OUTLOOK

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

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

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