KUDELSKI GROUP 2016 ANNUAL REPORT

NAGRA
KUDELSKI GROUP

CONTENTS

INVESTING FOR THE FUTURE

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

How would you describe 2016 for the Kudelski Group?

The Kudelski Group's performance in 2016 was solid, with revenues and other operating income reaching CHF 1 067 433 000, operating income of CHF 97 805 000 and net income from continuing operations of CHF 74 804 000. The Group improved its topline by 12.3% and its operating income by 20.4%, while at the same time investing CHF 196.8 million in R&D to develop the innovation and technology that will power our future.

In 2016, new generation connected Digital TV solutions, cybersecurity, intellectual property licensing and SKIDATA contributed to the Group's overall revenue growth. But more importantly, 2016 was a year in which the Group took important steps to better address the future opportunities and challenges facing the Group, specifically within the fields of Internet TV, cybersecurity and the Internet of Things.

In 2016, the global political landscape was quite active, with unexpected events in the UK and the US. What impacts do you see for the Group and its main activities?

The world experienced significant volatility in 2016 and witnessed a few political surprises as well. The mood of the middle and working classes in Western countries demonstrates their aspiration for disruptive change, while the world's increasing connectivity has helped some seemingly unlikely scenarios become reality.

The amplitude of change remains almost invisible on the radars of traditional media before disruptive change happens, while the fast digitalization of the world with borderless connectivity has become a key driver of social transformation. This transformation showcases some paradoxes, with the demand for global interconnectivity increasing at the same time as a growing part of Western society is challenging some fundamental notions of globalization and demanding better protection through national borders.

For the Kudelski Group, the current trends have important consequences. On one side, the fast digitalization of our world requires new technologies to facilitate easy access to digital media content, including social networks, on multiple devices and without geographic boundaries. On the other side, the need for content owners to protect their content and ensure its traceability is paramount to protecting their assets, especially when we consider the nature and scale of the piracy that is being fueled by global interconnectivity.

Cyber risks are a growing concern due to the asymmetric risk posed by new hacking techniques and the hyper connectivity. Recent examples have demonstrated that cyber attacks may have much broader implications on our lives than previously anticipated. The digitalization of our society increases our exposure to attacks that can be originated in countries where the legal framework may not be appropriately adapted. The new generations of cyber attacks are also not limited to cyber space; their impacts on the real world and its mass quantity of everyday objects have dramatically increased by virtue of the Internet of Things.

The Kudelski Group sees opportunities with these new paradoxes. In Digital TV, it is about enabling access to cross border content, taking into account the desires of consumers while preserving the interest of content owners. In cybersecurity, it is also about avoiding cross border threats as well as domestic threats that impact business and personal lives. Efficient cyber protection may avoid disasters that the legal system, which is slow to adapt, can at best only hope to mitigate over the long term.

In this new landscape, the Kudelski Group has decided to continue to invest in Digital TV, with a special focus on Internet TV and new security technologies, like watermarking and analytics, while also ramping up its investment in cybersecurity through Kudelski Security, with a special focus on securing IT, digital infrastructures and the Internet of Things.

For the Group, innovation remains a key element in an environment in which fundamentals change quite rapidly. We focus on developing technologies that will be relevant with these transformations.

With this in mind, how do you foresee 2017?

2017 will be more challenging than 2016, as most sectors in which the Group is active are in a state of transformation, with new risks and opportunities. The Digital TV industry is evolving fast, with new opportunities such as extended content protection, enhanced user experience and analytics.

In 2017, we will continue to invest heavily in R&D to ensure that the Group is well-positioned to face the challenges that await us in the future. Our primary areas of focus will be Internet TV, cybersecurity and the Internet of Things.

In cybersecurity, we have successfully expanded our distribution network in the United States. In 2017, we will continue to grow our Kudelski Security business with a focus on broadening our product portfolio through innovation and R&D.

Analytics, thanks to our global installed base in digital TV and our long experience in this industry, is also a key investment topic, as most third party solutions currently available in the market are too generic to enable pay-TV operators to differentiate themselves from new competitors. In the DTV business, the needs of content viewers and the demands of content owners remain disconnected, with a real impact on the entire digital content distribution ecosystem. We will look to introduce solutions that help address this disconnect.

In June 2016, the Group announced the opening of a second headquarters in Phoenix, Arizona. Now that nine months have passed, how do you see this decision?

For many years, the Group has striven to be close to its primary markets. The rationale of this approach is to better understand and appreciate the specificities of each region, with the recognition that even though a company can be global, there is no real global consumer. This approach applies not only to sales, marketing and operations; it can apply to most of the functions of the Group.

Over the last decade, the Group has established R&D centers in Europe, America and Asia as part of our strategy to be closer to our markets and to optimize our cost structure. When a business segment is R&D intensive, it is critical to ensure that every Swiss franc or US dollar is spent as efficiently as possible.

Our decision to establish a second headquarters in Phoenix was motivated by our strategy to ramp up our cybersecurity activity in the United States, the largest cybersecurity market in the world. The build-up of our Phoenix presence also benefits from the transfer of support functions from Switzerland.

The strong increase of revenues generated in the US in 2016 demonstrates the importance of an increased local presence there. Furthermore, the growing protectionist mood in many Western countries further validates this strategy, as our exposure to currency exchange rate fluctuations and potential barriers to international trade can be better mitigated through local operations.

Furthermore, in order to better reflect the reality of the sectors in which we operate, as well as our international focus, we have decided to report our financial results in US$ beginning as of January 1, 2017.

From a business perspective, what were the Group's major achievements of 2016?

For iDTV, we had a particularly good year in Asia and Africa. South America continues to suffer from deteriorating economic conditions. Nevertheless, the Group was able to extend its presence in all of these markets, primarily by introducing new technologies such as solutions for Internet TV.

We launched new products, especially our content distribution platform, providing content protection services on the most popular devices. We also introduced, in partnership with Samsung, a new concept called TVkey to secure distribution of content on connected TVs, which will enable smart TVs to become a premium content receiver, whatever the means of transmission.

We also strengthened our market position in the field of watermarking, with the acquisition of NexGuard (formerly Civolution), to provide unique traceability solutions for premium content distribution. This reinforces our end-to-end content protection offering, by allowing active detection of pirated content in all watermarked content.

In the area of user experience, we developed new ways of discovering content that are more intuitive and stickier in order to increase viewer satisfaction.

"Our primary areas of focus in 2017 will be Internet TV, cybersecurity and the Internet of Things."

For SKIDATA, 2016 was a good year mainly focused on global expansion and with the launch of new products helping infrastructure operators to increase their revenues.

For Kudelski Security, we are executing on our strategy to expand aggressively in the US market, with two recent acquisitions closed, but we also continue to develop unique proprietary solutions that will reinforce our positioning in the US and Europe.

In respect of the Internet of Things, we brought together our significant capabilities in a "Center of Excellence," in order to leverage our 25 years of expertise in connected devices. We have already gained important traction from prospects operating in industries in which the need for security was not perceived as critical until recently.

Our Intellectual Property team continued to deliver patent license agreements in 2016, including some important cross-license arrangements with industry-leading technology players. Once more, these agreements validate the quality of our R&D investments and enable us to better protect our own customer base.

What will be the distribution to shareholders for fiscal year 2016?

We are focused on striking the right long-term balance as we distribute the value the Kudelski Group creates among various stakeholders. We manage the Group with a long-term vision. Regarding the distribution to shareholders, considering the solid performance of the Group in 2016 and the prospects for 2017, the Board of Directors is proposing at the next Annual General Meeting a distribution of CHF 0,35 per bearer share.

What is the outlook for 2017?

For 2017, we expect to further grow Group revenues by approximately 10%. We expect to see growth momentum in Kudelski Security and Public Access and further consolidation of revenues in the iDTV sector, as this market continues to experience major transformation. We will continue to invest aggressively in our growth initiatives, including cybersecurity and the Internet of Things, in order to strengthen the Group's position in these respective markets.

On behalf of the Board of Directors of the Kudelski Group, I would like to thank our clients, employees and shareholders for their support and continued trust.

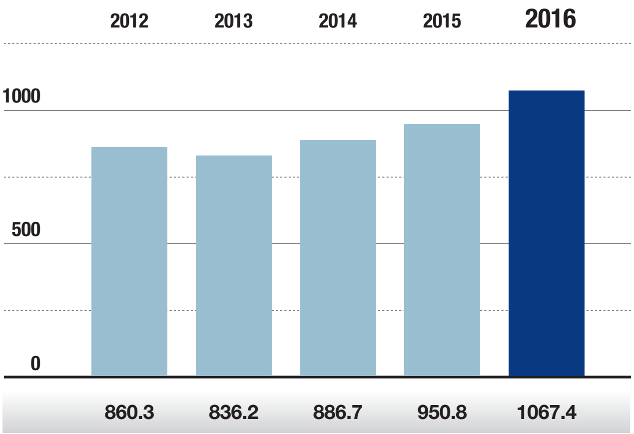
KEY FINANCIAL DATA 2016

		31.12.2016	31.12.2015	Change
Total revenues and other operating income	CHF million	**1 067.43**	**950.83**	12.26 %
Operating income before depreciation, amortization and impairment (EBITDA)	CHF million	**141.87**	**122.55**	15.77 %
in % of total revenues	%	13.29	12.89	
Operating income (EBIT)	CHF million	**97.80**	**81.22**	20.42 %
in % of total revenues	%	9.16	8.54	
Net income from continuing operations	CHF million	**74.80**	**49.31**	51.69 %
Earnings per share	CHF	**1.1549**	**0.8191**	41.00 %
Money returned to shareholders (proposed per bearer share)	CHF	**0.35**	**0.35**	0 %
Share price at December 31 (bearer shares)	CHF	**17.65**	**14.45**	22.14 %
Market capitalization at December 31 (bearer shares)	CHF million	**875.80**	**714.71**	22.54 %
Equity attributable to equity holders	CHF million	**477.29**	**423.14**	12.80 %
Cash flow from operating activities	CHF million	**122.62**	**106.39**	15.26 %
Cash and cash equivalents	CHF million	**177.06**	**136.84**	29.39 %
Financial debt	CHF million	**380.69**	**323.12**	17.82 %
Number of employees at December 31 (headcount)		**3 801**	**3 459**	9.89 %

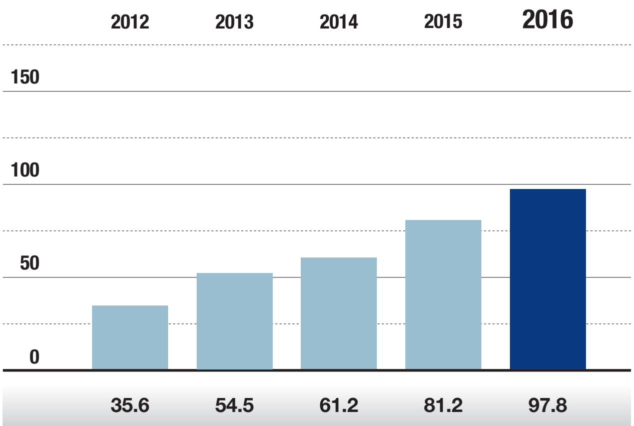
Except for headcount information, 2015 figures include retrospective application of new accounting standards and change in accounting policy.
2012 information has not been retreated for comparison purposes to include such changes.

TOTAL REVENUES AND OTHER OPERATING INCOME

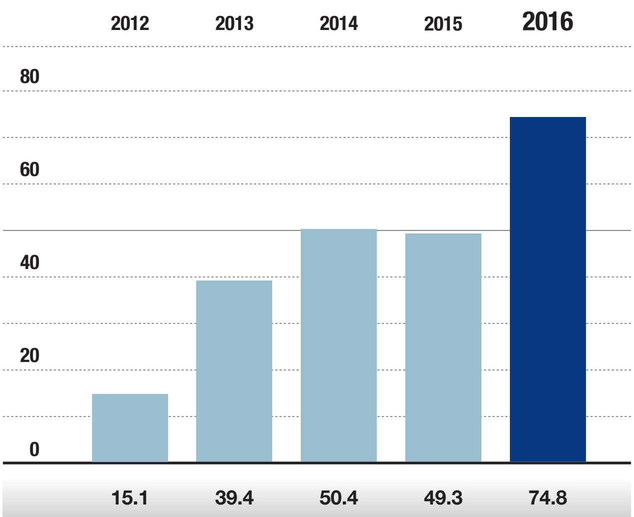
In million CHF



OPERATING INCOME



NET INCOME FROM CONTINUING OPERATIONS



* *Operating Income Before Depreciation and Amortization*

** *In million CHF*

*** *In CHF*

REVENUES PER SEGMENT

INTEGRATED DIGITAL TV

69.6 %

PUBLIC ACCESS

30.4 %

OIBDA *

2016 **141.9** **

2015 **122.6** **

NET INCOME FROM CONTINUING OPERATIONS

2016 **74.8** **

2015 **49.3** **

EARNINGS PER BEARER SHARE

2016 **1.15** ***

2015 **0.82** ***

THE KUDELSKI GROUP

A GLOBAL TECHNOLOGY LEADER

The Kudelski Group is the world leader in the development and delivery of state-of-the-art technologies to secure the revenues of content owners and service providers for digital television and interactive applications across all network types. The Group's solutions enable consumers to access content seamlessly over any device through an exciting viewing experience.

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

The Group capitalizes on its 5 300 patent-rich intellectual property portfolio through licensing arrangements that involve state-of-the-art technology portfolios, demonstrating the relevance of the Group's innovation and the key role it is playing in the industries in which it operates.

Public access solutions represent the Group's second pillar. The world's largest parking facilities, stadiums and mountain resorts use SKIDATA's integrated people and vehicle management solutions.

63

LOCATIONS IN 33 COUNTRIES

3 801

EMPLOYEES

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

COMPANY PORTFOLIO

INTEGRATED DIGITAL TV

CORE ACTIVITIES

Integrated content protection and multi-device user experience solutions to reach users at home and on the move	NAGRA
Modular cost-efficient solutions to deliver pay-TV content securely over broadcast, Internet and connected devices	Conax
Smart devices for digital TV including Conditional Access Modules and set-top boxes	SmarDTV
Watermarking technologies and solutions to protect media content against illicit redistribution	NexGuard

GROWTH INITIATIVES

Cybersecurity solutions and services for enterprises and the 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

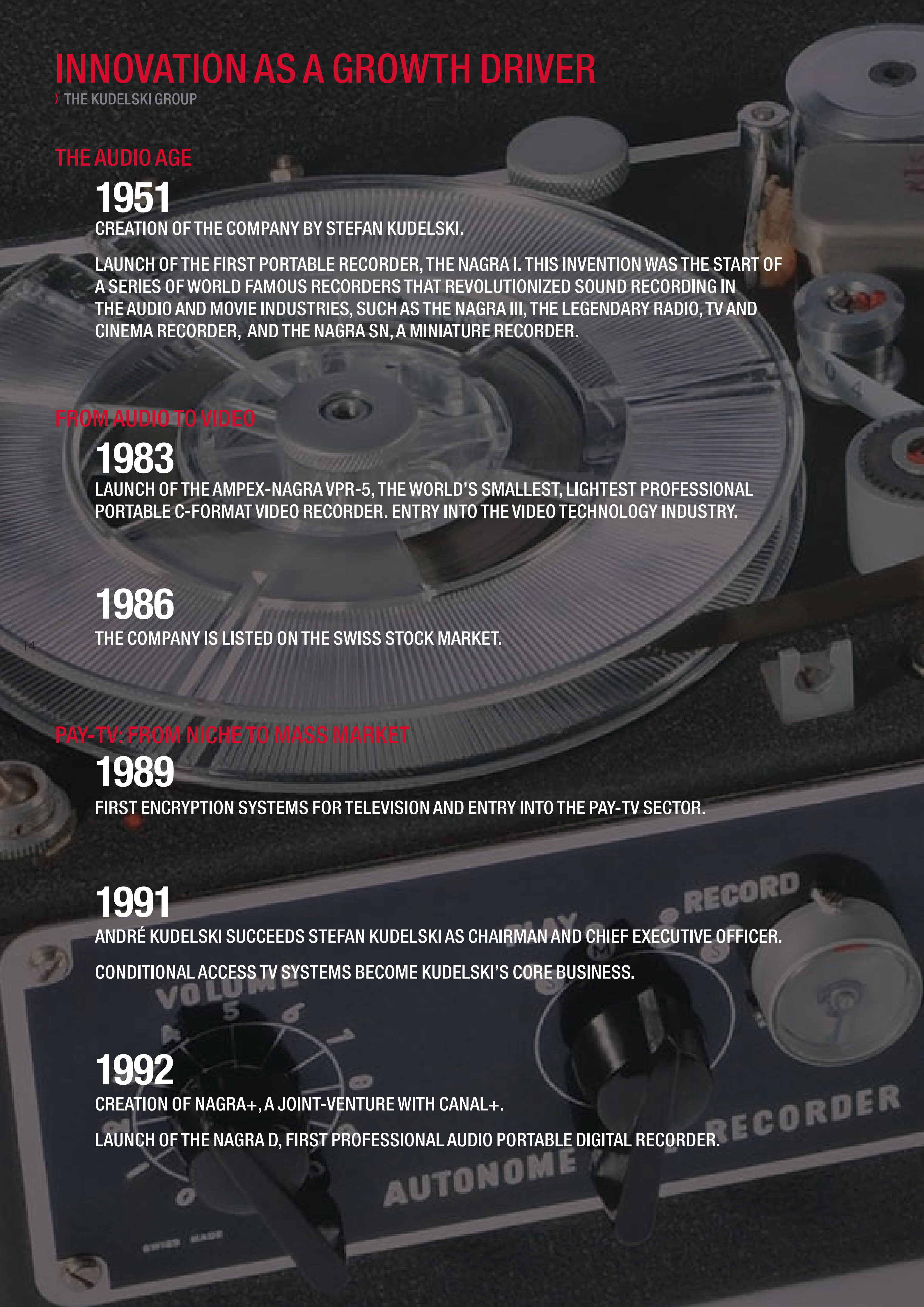
PUBLIC ACCESS

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 company creates value day after day for customers, shareholders and employees. In nearly 25 years, revenues have been multiplied by 50, demonstrating the Group's ability to sustain strong long-term growth and to seize opportunities outside digital television.

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

FIRST ENCRYPTION SYSTEMS FOR TELEVISION AND ENTRY INTO THE PAY-TV SECTOR.

1991

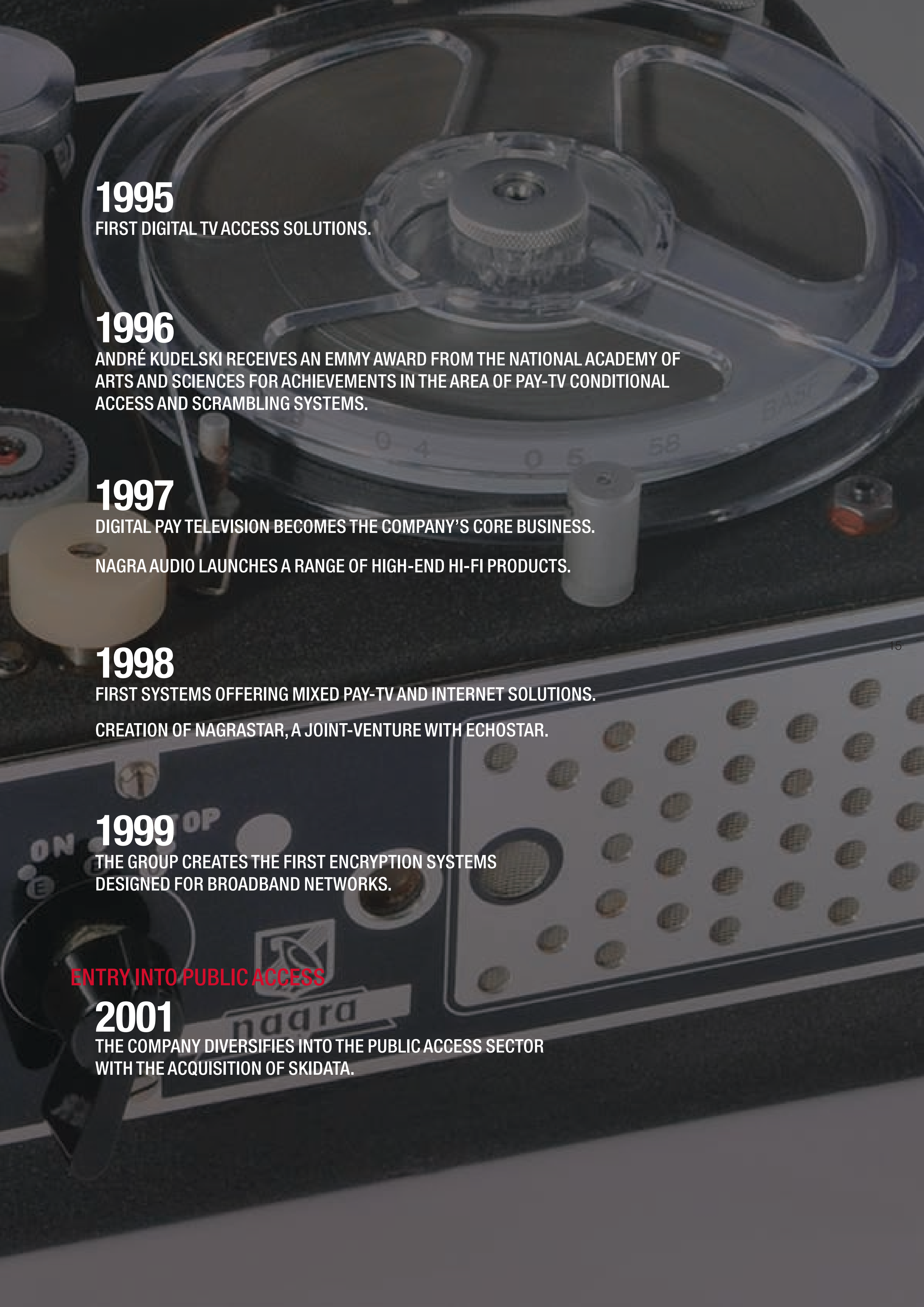
ANDRÉ KUDELSKI SUCCEEDS STEFAN KUDELSKI AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER.

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
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
THE COMPANY DIVERSIFIES INTO THE PUBLIC ACCESS SECTOR WITH THE ACQUISITION OF SKIDATA.

2003

THE GROUP BECOMES THE WORLD LEADER IN THE FIELD OF CONDITIONAL ACCESS SOLUTIONS.

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 NO. 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.

SKIDATA LAUNCHES THE FIRST ILLUMINATED PARKING ACCESS BARRIERS.

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 CREATES A SECOND HEADQUARTERS IN PHOENIX, ARIZONA.

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

WITH THE ACQUISITION OF NEXGUARD LABS, A LEADER IN DIGITAL CONTENT WATERMARKING SOLUTIONS, THE KUDELSKI GROUP EXPANDS ITS PORTFOLIO OF END-TO-END CONTENT PROTECTION SECURITY SOLUTIONS.

INTENSIFICATION OF THE GROUP'S PATENT LICENSING ACTIVITY.

IMPROVING CONSUMER EXPERIENCE

› THE KUDELSKI GROUP

ENGINEERING EXCELLENCE

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

TECHNOLOGY PIONEER

The Kudelski Group has been a pacesetter for decades. Every day, passionate and talented people develop innovative solutions that fuel the 5 300 patent-rich intellectual property portfolio of the Group.

SERENITY PROVIDER

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.

More than 500 million users enjoy Kudelski Group solutions every day

INTEGRATED DIGITAL TELEVISION

CAPITALIZING ON A STRONG FOOTPRINT

With 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 and SMARDTV brands. These companies address today's dynamic, connected and multiscreen TV landscape through an array of products, solutions and services that seamlessly work to help generate and sustain pay-TV service providers' revenues.

The Group also offers cybersecurity solutions. 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.

The innovations resulting from the Group's experience and pioneering history are integrated in a global Intellectual Property program aimed at optimizing the Group's 5 300 patent assets 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

Actionable 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

$ 90B protected revenues

Great TV experience – seamless, anywhere, on any device

+300M devices deployed

Support operators and content providers in developing their business

$ 197M R&D investment (2016)

Optimize integration and deployment speed & costs for operators

550 clients operators worldwide

NAGRA
PREMIUM CUSTOMIZED SOLUTIONS

› INTEGRATED DIGITAL TELEVISION

NAGRA KUDELSKI

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

SOLID 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 protection solutions is designed to be capable of continuous evolution and dynamic upgrades to counter any security risks, based on the use of state-of-the-art security tools and the extensive experience gained in worldwide deployments for broadcast and IPTV environments.

END-TO-END CONTENT PROTECTION

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

EVOLVING MARKET WITH STRONG OPPORTUNITIES

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

END-TO-END CONTENT PROTECTION

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

NexGuard

Secure framework for implementing, controlling and updating anti-piracy

NAGRA NexGuard embeds a secure watermarking client in the set-top box, while also implementing a server-side watermarking solution for content delivered to any device.

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

TVkey

Direct-to-TV security technology

TVkey enables consumers to receive premium 4K pay-TV channels directly on supported televisions with a simple TVkey USB dongle. The TVkey framework is based on a NAGRA-designed root of trust that enables strict enforcement of usage rules as required by Hollywood for the protection of high-value content.

In January 2017, NAGRA and Samsung established a new co-venture to license TVkey technology to industry stakeholders. TVkey will be used on select new Samsung TVs. MStar Semiconductor, a leading global semiconductor company for display and digital home solutions, also announced its plan to adopt TVkey in its EMC SoCs for 4K Ultra HD HDR televisions.

Anti-Piracy Services

Procedural, technical and legal anti-piracy expertise

NAGRA's large, multi-disciplinary team of experts provides deep insight into broadcast and online piracy and helps service providers monitor, identify and react to pirated services and content with all necessary procedural, technical and legal means.

NASC

Security certification

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

NAGRA
INTUITIVE USER EXPERIENCE

› INTEGRATED DIGITAL TELEVISION › CORE ACTIVITIES

Media content delivery continues to be transformed by the adoption of ultra-high definition screens, smartphones, tablets and other devices with multimedia capabilities. Consumers now have multiple options of watching an increased quantity of content when they want it and where they want it. The user interface plays a major role in enabling consumers to discover content seamlessly, on the device of their choice.

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

A DEDICATED USER EXPERIENCE STUDIO

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

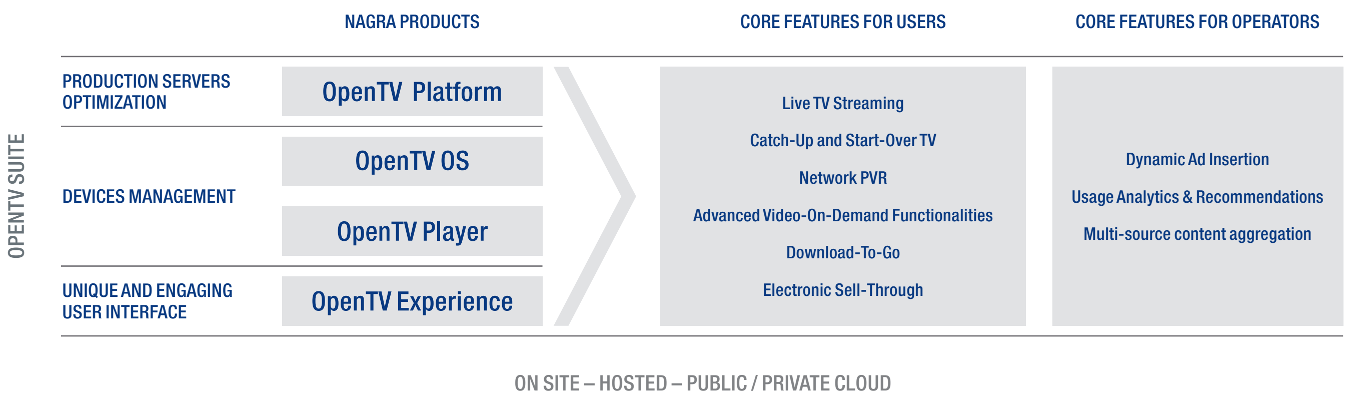
A CONSISTENT EXPERIENCE ACROSS ALL DEVICES

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

ALL-IN-ONE PLATFORM TO SERVE THE ENTIRE ECOSYSTEM

OpenTV's operating platform enables service providers to deliver an integrated TV experience to consumers across different networks and services. It serves as the foundation for a multi-service home platform. The platform includes a suite of user experience solutions enabling operators to deliver feature-rich pay-TV services with a seamless user experience.



From TV to mobile phone, from PC to tablet

OpenTV Platform

NAGRA OpenTV Platform is a powerful set of innovative and modular components offering service providers the tools to manage, secure and operate a wide range of media services across multiple delivery networks, devices and content types in a totally seamless manner.

Latest-generation television operating platform

OpenTV OS

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

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

OpenTV Player

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

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.

State-of-the-art user interfaces

OpenTV Experience

The consumer experience and satisfaction with a service is paramount in today's multi-faceted TV market. The OpenTV Experience focuses on easy navigation, quick content discovery across live TV and VOD/SVOD, multi-platform adaptability, access to applications, built-in recommendations and social features and many other key features, all driven through a highly tuned User Interface.

NAGRA
SUPPORTING CUSTOMERS IN THEIR NEW CHALLENGES

› INTEGRATED DIGITAL TELEVISION › CORE ACTIVITIES

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

REDUCING SETUP AND OPERATIONAL COSTS

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

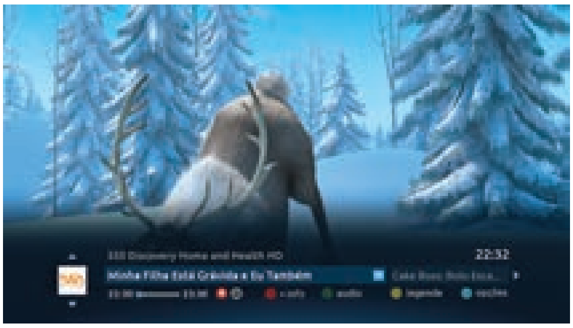
NAGRA's scalable solutions address the current needs of operators, with the ability to increase capacity as business requires.

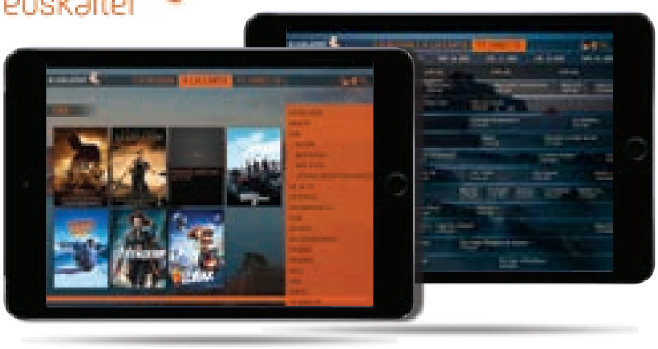
MAKING THE MOST OF THE RELATIONSHIP WITH USERS

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

INCREASING THE RELEVANCE OF OPERATORS THROUGH NEW BUSINESS MODELS

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





Integration services

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

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

NAGRA Insight

One-stop-shop platform for pay-TV analytics

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

Apps

Development of applications for digital TV

NAGRA's Apps Team develops applications especially designed for television. NAGRA's app store includes more than 70 applications developed to date. These apps are an ideal add-on to TV programs, allowing users to enhance their experience.

AMERICAS

In the United States, the deployment of NAGRA COMMAND at Dish is well under way with about 1.2 million total devices delivered since the inception of the project including 800 000 devices in 2016. The NAGRA COMMAND technology defeats popular forms of piracy like control word sharing and paves the way for premium 4K services.

Still in the United States, NAGRA continued to strengthen its long-term relationship with the fast growing Altice Group.

Altice USA, the fourth largest U.S. cable operator, selected NAGRA to provide its content protection solution and multiscreen platform to launch the operator's new 4K Ultra HD cable service and enable an all-screen connected home environment.

Altice USA provides residential and business services to more than 4.6 million customers across 20 states and is offering digital cable television, high-speed Internet, voice, WiFi and data products and services to keep its customers connected anywhere across any device.

NAGRA CONNECT – NAGRA's converged CAS/DRM security solution for broadcast, IPTV, OTT and the connected home – along with the NAGRA OpenTV Suite, will allow Altice USA to deploy new IP and QAM-based content including 4K Ultra HD. Through the use of advanced encryption technology, the NAGRA solution can efficiently coexist within legacy U.S. cable systems while avoiding duplication of precious bandwidth and also enabling an open choice of set-top box suppliers.

Cable ONE continued its transition to an all-digital network. In 2016, Cable ONE concluded their 41 city upgrade of all-digital by implementing the final city with their NAGRA all-digital technology, which includes Conditional Access, User Experience and middleware, a NAGRA-provided set-top box and NAGRA System Integration Services.

In Brazil, during the Olympics, NET was able to offer its customers 56 different channels of Olympic content, a robust line-up of content that beat the competition. This was achieved thanks to NAGRA's integration of 40 channels over IP into the current broadcast channel environment, allowing delivery of this content in the exact same form as the regular NET content. Olympic content was also available in 4K format in set-top boxes integrated with NAGRA's CAS, OpenTV5 and User Guide.

Throughout 2016, NET continued to deploy OpenTV5 set-top boxes and started to provide access to its content Over-The-Top using NAGRA's security, player and OpenTV Suite of management platforms. NAGRA also added more value to its OpenTV5 environment at NET with Replay TV and enhancing IP delivery methods in parallel to broadcast, amongst many other new features.

The GLOBO SatHD Regional distribution of Globo's content countrywide saw substantial growth in 2016, more than doubling its users' base using NAGRA's system.

VIVO, the Brazilian company of the Telefonica Group, selected NAGRA's security solutions for their new IPTV/OTT platform. Still in Brazil, NAGRA was selected by Telefonica to provide the DRM/CAS technology for their new IPTV product offering. NAGRA will be supplying its new CONNECT conditional access product which is a software-based CAS system conducive to both IPTV networks and DRM for open retail devices.

In Colombia, AMVL launched its full modernized cable platform with NAGRA technology. NAGRA supplied a state-of-the-art user experience along with its OpenTV5 platform and its OpenTV Suite of content management platform. NAGRA was also selected to provide an extensive upgrade to the platform to add catch-up TV, start-over TV and nDVR (network Digital Video Recorder). AMVL will be the first cable operator in the region to offer such modern technology to their client base. The nDVR feature allows every client in every outlet in the home to connect to the cloud to store and replay TV shows that were previously recorded. This approach allows operators to save on the cost of supplying hard drives to every set-top box in every outlet in the house.

In Panama, NAGRA supplied the set-top box platform used to offer pay-TV services over satellite for consumers who are not connected to the C&W/LGI Panama cable network. The set-top boxes are supplied by SmarDTV and embed NAGRA's technology.

SmarDTV is supplying the next generation of set-top box for Dish Mexico's satellite platform. The new cost-effective set-top boxes, produced in Mexico, provide a wide variety of features. They embed NAGRA's Conditional Access System and the Inview user experience solution, specifically customized for Dish Mexico.

Telefonica LatAm concluded a long-term agreement with NAGRA to supply a conditional access system and media security services for their operations throughout the region. NAGRA is working with Telefonica to ensure they have the newest technology and services available for platform security in the region.

NAGRA also rolled out the next generation connected set-top boxes to support OpenTV5 middleware with the Telefonica-supplied User Experience. This allows Telefonica to offer advanced services to their client base in a cost effective manner, including the ability to use Internet-supplied subscription video-on-demand services to enhance the Telefonica broadcast pay-TV package. This product will be used in Peru, Chile and Colombia.

ASIA - PACIFIC

With the recent momentum in the India cable digitization, NAGRA crossed the 10 million cable subscriber milestone which is a significant achievement in less than five years. With the Phase 3 and 4 digitization underway, there is a tremendous growth potential not only for converting analogue subscribers to digital but also for adding new services for this market like high definition, hybrid and OTT.

The Beximco group of Bangladesh has awarded NAGRA a long-term contract for its DTH services. With a population of over 150 million, about 35 million TV households and less than 20 percent cable TV penetration, Bangladesh offers a huge potential for DTH services in the years to come.

In Singapore, NAGRA has successfully integrated Netflix on StarHub OpenTV5 IPTV set-top boxes. The service was launched in March 2016 and provides the highest video quality.

In Vietnam, VTVcab has selected NAGRA OpenTV5 middleware and SmarDTV's hardware to deploy a next generation 4K set-top box, managed by the full NAGRA Conditional Access System security and OpenTV Suite business backend.

In South Korea, NAGRA extended its content protection partnership with Korean satellite broadcaster KT Skylife. In addition to renewing the smartcard-based pay-TV security, this contract also includes NAGRA CONNECT two-way cardless security solution. NAGRA CONNECT will allow KT Skylife to secure the expansion of its 4K Ultra HD service and implement a flexible two-way content protection solution across multiple networks.

KT Skylife successfully launched its 4K Ultra HD offer to subscribers in June 2015. Today, its 24/7 satellite broadcast of five 4K Ultra HD channels makes KT Skylife the operator with the most comprehensive line-up of 4K Ultra HD channels in the world. Finally, NAGRA delivered to Skylife its new TVkey CAS Dongle solution for Samsung iDTV, as a proof of concept which will enable KT Skylife to promote its 4K Ultra HD offer with Samsung.

Passing 5.5 million subscribers the Taiwan cable market continues to show strong growth for NAGRA. One of NAGRA's customers, Taiwan Broadband Cable, deployed close to one million OpenTV5 set-top boxes, making it the largest OpenTV5 deployment in Asia. Another NAGRA customer, kbro, launched its island-wide OTT service on NAGRA OpenTV Suite platform and successfully expanded its B2B OTT service into Taiwan Mobile Group.

In Australia, Foxtel continued to deploy its iQ3 set-top box, including advanced services such as start-over, reverse electronic program guide, subscription video-on-demand, transaction video on demand and pay-per-view, which are delivered by the NAGRA OpenTV Suite.

NAGRA
2016 MARKET HIGHLIGHTS

AFRICA

2016 was a successful year for the Group in Africa with the signature of several new customers as well as deployments with existing clients.

In South Africa, Sentech partnered with NAGRA to launch its Satellite Gap Filler program in order to bring service to areas not covered by its DTT network. In the same market, Platco, a subsidiary of the eTV Group and Africa's fastest growing DTH operator, switched from a competitor to NAGRA's cardless security technology for its new Openview HD service offering, which was successfully launched in November 2016.

In Nigeria, the National Broadcasting Commission is using NAGRA for its Analog Switch Off (ASO) projects and launched in April 2016 in Jos, followed by its Gap Filler element in August and Abuja in December.

In Ghana, KNET, the government appointee for the Analog Switch Off project, successfully deployed a NAGRA platform able to handle both DTT and DTH in October 2016 and will start deploying set-top boxes for both DTT and DTH in early 2017.

NAGRA and SmarDTV also contributed to the success of the commercial launch of terrestrial pay TV in Africa.

In Africa, SmarDTV secured the CANAL+ Overseas business for the launch of their new bouquet on the African Terrestrial Network. SmarDTV's solution guarantees a high quality of image and sound, as well as installation flexibility with an easy-to-use and direct connection to the terrestrial antenna.

Finally, Canal+ Afrique launched pay-TV services named "Easy TV" in Congo and in the Democratic Republic of Congo.

EUROPE

In Portugal, NAGRA was selected to provide its content protection platform NAGRA CONNECT as well as its OpenTV Suite multi-screen solution suite to Portugal Telecom, the market leader in fixed, mobile, B2B and B2C communications (acquired by Altice Group in 2015).

Still in Portugal, NAGRA CONNECT was chosen by NOS Comunicações SA, a leading pay-TV service provider, for its brand-new 4K Ultra HD RDK (Reference Design Kit)-enabled set-top box.

In Spain, Telefónica kept a good growth track on their OTT platform based on the OpenTV Suite. Lately, Telefonica has been leveraging NAGRA's technology and security to expand services on high-speed trains through an agreement with RENFE, the state-owned company operating the train service in the country.

Euskaltel, a regional cable operator in Euskadi and Galicia also selected Nagra CONNECT to protect cable, IP and OTT networks from standard definition up to 4K quality.

Finally, NAGRA and Groupe Canal+ signed a multi-year framework agreement to secure Groupe Canal+ content in its subsidiaries (France, Poland, Caribbean, Africa, Vietnam, Madagascar and Mauritius) and to deploy the NAGRA Insight analytics solution. The security technology includes NAGRA CONNECT, NAGRA PROTECT and NexGuard combined with cybersecurity services.

NAGRA IS PROUD TO SERVE ITS CUSTOMERS WORLDWIDE

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.

Conax 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 pay-TV operators with a uniquely packaged 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 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.

MORE THAN 200 TECHNOLOGY AND SERVICE PROFESSIONALS FROM OVER 26 COUNTRIES

With core development teams based in Oslo, Norway, Conax has 11 regional offices in EMEA, the Americas and Asia, including a Global 24/7 Support Center in Delhi, India. The company employs over 200 technology and service professionals from over 26 countries. From 2015, the company has captured Kudelski Group synergies through shared infrastructure in Delhi, Singapore and Beijing.

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.

In 2016, Conax enhanced its cardless chipset portfolio with leading chip manufacturers MStar Semiconductor, ALi Corporation and Broadcom.

Additionally, Conax strengthened its Connect Partner Platform program. The ongoing integration of a broad variety of new partners in this ecosystem enhances Conax's open partnering strategy and enables operators freedom of choice in end-to-end solutions. This program today confirms thirty platform participants.

INCREASING FOOTPRINT IN EMERGING MARKETS

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

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 2016, Conax was awarded renewed certificates for compliance with these two international standards.

Unified content security back-end

Contego

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.

Transitioning to a service-based business model, Conax introduced and deployed in 2016 its new Contego-as-a-Service (CaaS) cloud platform. This solution provides operators with a highly sustainable growth model through low capital expenditures, reduced operational complexity and operational security managed by Conax. The solution also enables premium scalability, easy integration of new advanced features and complementary partner technologies.

The Contego Multi DRM solution provides flexibility in securing content across technologies and multiscreen devices. In 2016, four new customers deployed this solution and four new customers selected the Conax GO Live OTT offering for launching live TV on iOS and Android.

Launched and deployed in 2016, the new CONAX Connected Access IPTV solution is built on a flexible security architecture handling both Conditional Access and DRM, delivering different levels of security based on requirements and available technology in each device, from free-to-air content to 4K/UHD content.

The Conax range also includes an end-to-end secure 4K watermarking architecture combining the NexGuard watermarking technology and Kudelski Security's forensic detection services.

Best-in-class security-compliant Conditional Access Modules

Conditional Access Modules

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

CONAX
2016 MARKETS HIGHLIGHTS

In 2016, Conax displayed continued strength demonstrated in the conclusion of eleven new customer contracts, encompassing six broadcast operations, two contracts for advanced services and three operators deploying Conax' newly launched cloud services platform. These comprise a spread of operators from Europe, Latin America and Indian markets. The company also signed twenty additional contracts with existing customers for advanced services, cloud services, cardless technology and more.

AMERICAS
STRENGTHENING COMPANY POSITIONING

Conax experienced strong growth in Latin America while strategic partnerships continued to create significant added value throughout the region. Conax secures over 10 million active devices and 40 DTH, cable, terrestrial and IPTV operators across the Americas and has experienced positive continued development since its first deployment in this region in 2005.

2016 saw the deployment of a Conax-secured end-to-end solution for a new digital TV Everywhere service platform called BLACK, for Supercanal, the third largest cable TV operator in Argentina. The solution will enable Supercanal to expand its offering with a comprehensive bouquet of on-demand and OTT services from leading content providers. Using the latest hybrid set-top boxes and multiscreen user apps will allow viewers to easily access content across multiple screens such as tablets and smartphones.

ASIA - PACIFIC
MAJOR CONTRACTS

Volumes in the Asia Pacific region overall remained stable. Joint projects with strategic partner and customer, China-based Star Times – one of China's top 100 innovation-oriented enterprises – continued to evolve.

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 three of the five largest Multi-System Operators.

Essel Group's Dish TV India Limited, Asia Pacific's largest DTH TV provider, and leading multisystem operator SITI Cable, selected Conax for cardless content protection as one of the key partners for their pay-TV expansion in the region. Based on flagship Conax Contego security hub, the Conax Cardless conditional access technology will be an essential security component integrated in the chipsets, which will enable the use of multiple layers of content protection in the new Dish TV and SITI Cable cardless set-top boxes. The arrangement signifies a continued commitment between the Essel Group and Conax to further their long-term partnership and jointly bring new generations of technology to the Group's platforms.

In the Philippines, Cignal TV selected Conax Cardless content protection technology for their next phases of growth. A subsidiary of telco group, PLDT, Cignal is the leading Philippines DTH satellite provider. Cignal is deploying new generation standard definition, high definition and hybrid DTH set-top boxes with Inview middleware and secured by CONAX Cardless technology.

dishtv

"Conax has been a long-term partner and we believe their strong security solutions will provide an important layer of security to our growing pay-TV business already servicing over 13 million subscribers."

Jawahar Goel, Managing Director

"Conax' strong track record provides a de facto standard for European terrestrial pay-TV. Conax is delivering a highly flexible content security solution that we are confident can support our growth and future roadmap."

Predrag Culibrk, Chief Executive Officer

AFRICA
LONG-STANDING COMMITMENT

Already securing content revenue, operations and set-top box infrastructure for 34 DTH and DTT operators across the continent, Conax is a leading driver for Africa's pay-TV. With a strong regional track record in secure digital migration and innovations for a robust operator roadmap, Conax is continuing its strong commitment to the African market by providing pay-TV operators with future-ready solutions, expertise and the guidance to build their business into the future for next-generation consumers.

The partnership with Chinese operator StarTimes, the fastest-growing pan-Africa digital TV operator, continued to evolve around new DTT deployments as well as next-generation consumer propositions.

In Nigeria, terrestrial pay-TV operator Communications Trend Limited (CTL) was the first customer to deploy the newly launched Contego-as-a-Service cloud-based content protection platform. Its MMDS operator CTL Cable provides a bouquet of services spanning twelve major cities in Nigeria. The upgrade to the cloud-based service provides CTL Cable with a robust, flexible and secure solution with premium scalability, fast-time-to-market and low investment for adopting new consumer services. CTL Cable has been a Conax customer since 2003.

EUROPE
BUILDING ON A STRONG EXISTING CUSTOMER BASE

Conax has for many years held a strong presence in Europe, serving a wide variety of operators in its traditional markets of Northern, Western and Eastern Europe. The European market showed an increase in Conditional Access Module performance, in addition to strong volume growth with small and mid-sized operators across the region.

A key focus in 2016 included further developing Conax' existing customer base through the introduction of additional new solutions that provide tier 2 and tier 3 customers with off-the-shelf, low risk business models for secure entry to multiscreen services – preparing operators for the next wave of opportunity in content distribution and increasing consumer expectations, and developing their platforms to stay relevant.

In 2016, Conax displayed strong growth in the region. This growth reflects new customers, upgrades to the new cloud-based Conax Contego-as-a-Service platform, the first deployment of the Conax Connected Access CAS/DRM IPTV solution and deployment of Conax OTT and multi-DRM services. Conax has numerous contracted OTT projects underway for its benchmark Conax GO Live and multi-DRM solutions in Europe and a strong pipeline for 2017.

Conax announced that Telekom Srbija selected Conax Contego unified content security solution to secure its expansion into the DVB-T2 pay-TV arena. The highly flexible and scalable Conax architecture will provide Telekom Srbija with a natural migration path for future upgrades and additional consumer offerings. The next generation terrestrial platform will deliver nationwide pay-TV services in a completely new offering for Serbian viewers.

Conax will provide complete protection for the Belgrade-based telco's new expanded business model enabling the deployment of new-generation consumer services. Conax Contego enables the secure and seamless integration of all major distribution technologies and formats including UHD/4K, unified CAS/DRM IPTV, advanced multi-DRM / OTT services offerings and new hybrid network combinations.

SMARDTV
SMART DEVICES DESIGNED TO HOST NAGRA AND CONAX SOLUTIONS

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.

PREMIUM CONTENT DELIVERED DIRECTLY TO TV SETS

SmarDTV is the worldwide 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.

DISRUPTIVE CAM USE CASE

NexMedia – the terrestrial broadcaster of SCTV, the second largest television network in Indonesia – selected SmarDTV's Conditional Access Modules to deploy and secure pay-TV and entertainment services, NexDrive, for cars on their DVB-T2 platform. With this initiative, SmarDTV was able to deviate from the standard usage of CAM in a CI Plus TV environment.

DELIVERING INTO THE GROWING 4K MARKET

SmarDTV has a first mover advantage for the most recent range of technologies from the Kudelski Group portfolio of NAGRA, Conax and OpenTV Suite. Further investment in Android gives SmarDTV a very strong market-ready product portfolio.

SmarDTV's range of set-top boxes includes a set-top box specifically designed to address the growing 4K consumer market.

In Europe, SmarDTV is proud to have delivered a new 4K Satellite PVR product sold into the German retail market. This product offers up an exciting, immersive viewing experience.

In Asia, SmarDTV has delivered a 4K Hybrid STB, embedding OpenTV OS to VTVcab in Vietnam. This STB integrates the best up-to-date technology for 4K video decoding, Wi-Fi connectivity and Bluetooth capability.

FACILITATING LOCAL MANUFACTURING

SmarDTV's System-In-Package (SIP) technology has evolved through market deployments in Asia and Latin America. The SIP 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 for the South African market is based on latest-generation chipsets that bring the highest level of security to the STB/CPE market.

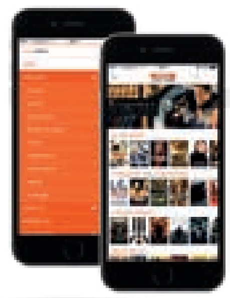
SMARDTV PRODUCT RANGE

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

Conditional Access Modules

WiFiCAM

SmarDTV develops Conditional Access Modules relying on the DVB CI and CI Plus standards which are 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 includes WiFiCAM modules, which enable the seamless reception of hybrid services without the need for a set-top box.

The latest-generation WiFiCAM includes a fast and easy “push-to-connect” configuration button, simplifying consumer connectivity and increasing take-up of value-added pay-TV services. The WifiCAM also reports user data therefore feeding the operator with highly valuable insights on user behavior and device operations for both linear and VOD consumption.

OTT / IPTV Modules

CAST Dongle

In 2016, SmarDTV extended its module portfolio with the CAST Dongle, which enables users to access premium content via their mobile device (smartphone or tablet) and continue consuming it on the big screen by casting or throwing the content via the Dongle.

With the CAST Dongle, SmarDTV offers an operator-controlled HDMI Dongle thus allowing the service provider to keep control of its device and invent its own business model that fits its goals.

Ultra-High Definition set-top boxes

SmarBOX HYBRID 4K

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

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

KUDELSKI SECURITY GLOBAL PROVIDER OF CYBERSECURITY SOLUTIONS

KUDELSKI SECURITY

Kudelski Security leveraged almost 30 years of the Group's expertise and investments in digital security-related innovation, cryptography, monitoring and research to develop a unique solutions platform in demand around the world. Already the largest pure-play cybersecurity solutions provider in Switzerland, it is now one of the fastest growing firms in the United States.

With more than 300 dedicated employees and offices in Switzerland and the United States, Kudelski Security provides tailored cybersecurity solutions for large enterprise and public sector clients. It has direct acces to the Group's pool of more than 1 000 talented R&D engineers. Its teams of experts use a combination of technology, innovation, and services capabilities to empower organizations to build, deploy and manage effective cybersecurity programs.

Kudelski Security's global reach and cyber solutions focus are reinforced by key international partnerships. These include alliances with the world's leading security technology companies that are aligned with internal industry experts focused on offering clients the tools, knowledge and methodologies they need to meet any cybersecurity challenge they face.

AN ORIGINAL APPROACH TO CYBERSECURITY

Kudelski Security uses its proprietary Secure Blueprint approach to help clients map their current security investments and – based on an analysis of business objectives, risk appetite and threats – articulate a vision of optimal security. It provides a measurable action plan to help them address the gaps and move towards greater cyber maturity.

Kudelski Security's methodology covers all elements of a client's enterprise security – and recognizes that every organization is unique in their needs and risks as well as in the assets they can leverage.

Advisory consultancy engagements with clients deliver advice and the associated metrics that can be deployed to measure risk and progression toward greater cyber maturity, supported by a software platform that facilitates C-Level communication and engagement across senior leadership and board of directors.

COMPREHENSIVE OFFERING BUILT ON FOUR BUSINESS PILLARS

Kudelski Security offers extensive capabilities across four business pillars – Advisory, Technology, Managed Security Services and Custom Solutions.

Clients are able to leverage these capabilities to gain true and pervasive visibility into threats, enabling them to reduce enterprise risks, maintain compliance and increase overall efficiencies.

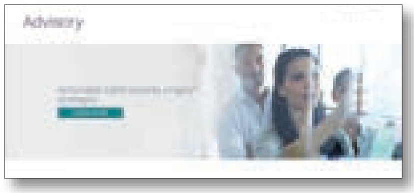
Kudelski Security is built on a unique set of skills, leveraging the expertise of dedicated consultants, engineers and technical specialists based in the U.S and Switzerland.

THE WAY FORWARD

Kudelski Security continues to implement its multi-dimensional strategy, increasing its offering of industry-leading security technologies and expanding its geographic footprint.

The acquisition of two U.S companies, Milestone Systems (2016) and M&S Technologies (early 2017), and an expanding team of new, senior professionals, fuel its expansion, providing impetus to the effective execution of its strategy.

Advisory Services



Kudelski Security's Advisory Services engage clients through a strategic cyber program-based approach. Leveraging industry proven models, methodologies and best practices, expert advisors work with clients to identify gaps in the security program and prioritize strategies for improved processes, management and technology. Through its Advisory Services, Kudelski Security empowers Chief Information Security Officers and senior leadership to plan, manage and measure program areas that minimize business risk and strengthen cyber resiliency.

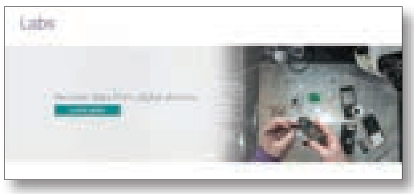
Technology and Technology Services Consulting

Kudelski Security provides a breadth of technology solutions, supported by end-to-end services to support enterprise security architecture development and technology deployment. The team includes solution architects and senior engineers with the skill sets to help clients design, deploy and maintain an optimal IT security architecture. Services are built on a proven methodology that delivers planning workshops and IT architecture and technology assessments as well as full on-site support.

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. Combining a fusion of advanced threat intelligence, disruptive technology and expert analysts, Kudelski Security provides a service that responds to the demands of modern threat detection, containment and remediation and helps clients build stronger cyber resilience.

Custom Solutions



Kudelski Security provides a unique ability to take on complex projects focused on developing and delivering new innovation to solve its clients' most complex security challenges. Leveraging industry-leading advanced lab capabilities, the resources are in place to provide a specialized range of services – from security evaluations and penetration testing to digital forensic investigations and patent infringement analysis. Kudelski Security's labs have been providing specialist expertise in digital device and chip technology for over 20 years. The Group's Internet of Things (IoT) Security Center of Excellence delivers comprehensive solutions to address security needs relating to the Internet of Things.

KUDELSKI SECURITY 2016 MARKET HIGHLIGHTS

Kudelski Security continued to expand in 2016, establishing its position as a global provider of solutions that enable enterprise and public sector clients to detect threats and strengthen their cybersecurity posture.

EXPANDED US FOOTPRINT

In 2016, Kudelski Security established its U.S. headquarters in Phoenix, Arizona, alongside its existing Switzerland-based facility. This location provides a major U.S. office for core Group functions and allows the company to better address the U.S. cybersecurity market needs. The new dual headquarters structure enables Kudelski Security to be closer to the world's largest cybersecurity markets while maintaining its Swiss and international roots.

Within a year following this, the Group acquired two major US-based cybersecurity companies, Milestone Systems (in 2016) and M&S Technologies (early 2017).

Milestone is widely recognized for its strong commitment to clients as well as its deep expertise in network security and complex infrastructure solutions. Its legacy business is in North Central and Southeastern United States. The company has an enviable list of Fortune 500 clients and is regularly named as a top solution partner for leading cybersecurity technology companies.

Based in Dallas, Texas, M&S is a specialist provider of cyber and network security solutions. M&S has a strong reputation for developing advanced network security architectures and solutions that enable effective cyber defenses. The addition of M&S enhances Kudelski Security's technical capabilities and provides it with a strong foothold in the South Central region of the U.S.

NEW STRATEGIC PARTNERSHIPS

Supporting growth in solutions using its four-pillar strategy, Kudelski Security has pursued strategic partnerships with leading organizations around the world. These include relationships that either enhance its programmatic security approach using Secure Blueprint, or expand its geographic reach.

In 2016, Kudelski Security signed a global agreement with RSA, the security division of EMC, making Kudelski Security one of RSA's leading global solutions providers. Since this initial agreement, Kudelski Security has continued to expand its portfolio of strategic relationships with technology manufacturers, in support of critical areas defined by the Secure Blueprint approach. This enables Kudelski Security to position comprehensive solutions with its clients, using products that have been tested and that can be supported with enhanced services.

Also in 2016, Kudelski Security signed an extended strategic partnership with Kryptus Information Security S.A., an EED Brazilian Security Defense Company. Through this agreement, Kryptus will become Kudelski Security's preferred distribution channel for its portfolio of cybersecurity solutions in Brazil which includes Kudelski Security's innovation capabilities in three key areas: advanced threat monitoring, security audits and assessments, and secure communications.

In addition, Kudelski Security and Kryptus will partner in research and development efforts aimed at creating new solutions to emerging cyber challenges and at the ongoing protection of digital assets of Brazil's public sector and enterprise customers.

STRENGTHENING OF THE FOUR BUSINESS PILLARS

During this last year, Kudelski Security reorganized its cybersecurity offering around four business pillars: Advisory, Technology, Managed Security Services and Custom Solutions. Its solutions and services cover the full cyber-risk management lifecycle and enable clients to develop cybersecurity programs that are relevant, effective and business-driven.

The new Advisory consulting services approach has received extremely positive reviews from early clients and industry leading Chief Information Security Officers who have participated in early stages of the development process.

2016 saw sustained growth in the area of Technology Services, including security architecture, assessment, design and review, and solution implementation. The program reinforces the company's position as top reseller for leading technology solution companies, including F5, Palo Alto Networks, Juniper and Check Point.

Ensuring clients are equipped with the knowledge for optimal technology management, the Kudelski Security Authorized Training Center (ATC) continues to provide training in support of all technologies in its portfolio.

In keeping with its disruptive approach to cybersecurity, the Managed Security Services have been developed to detect and block threats more rapidly and help clients remediate more effectively. Comprehensive security device support and security device management have been added to the portfolio, while the 2017 launch of the Cyber Fusion Center in Phoenix and the adoption of industry-leading threat detection and disruption technologies will enable Kudelski Security to provide a premium level of support to its clients.

Powered by the Group's solid R&D investments, engineering expertise, technology and existing intellectual property, innovation has continued to drive Kudelski Security's strategic competitiveness and ability to provide comprehensive cybersecurity solutions.

WITH ACCELERATED DEVELOPMENT IN 2016, THE OUTLOOK FOR 2017 IS ENCOURAGING. KUDELSKI SECURITY IS UNIQUELY POSITIONED TO MEET CURRENT AND FUTURE SECURITY NEEDS OF LARGE ENTERPRISES AND PUBLIC SECTOR INSTITUTIONS.

INTELLECTUAL PROPERTY MANAGING THE PATENT PORTFOLIO

With over 65 years of innovation in developing award-winning products dating back to the pioneering NAGRA line of portable recording devices, the Kudelski Group and its subsidiaries have placed a worldwide emphasis on intellectual property. Well-defined intellectual property rights are essential to ensure collaborative development and economic growth that would not be possible otherwise.

The Kudelski Group and its subsidiaries hold 5 300 patent assets worldwide 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.

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 leading the overall innovation programs within the Group.

In 2016, the Group continued its successful execution on its strategic intellectual property and innovation plan by entering into patent licenses with industry giants like Apple and Verizon and IP leaders like RPX Corporation.

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, technology transfers and cross-licenses into the engagement.

BUILDING RECIPROCAL IP PRODUCT PARTNERSHIPS WITH KEY PLAYERS

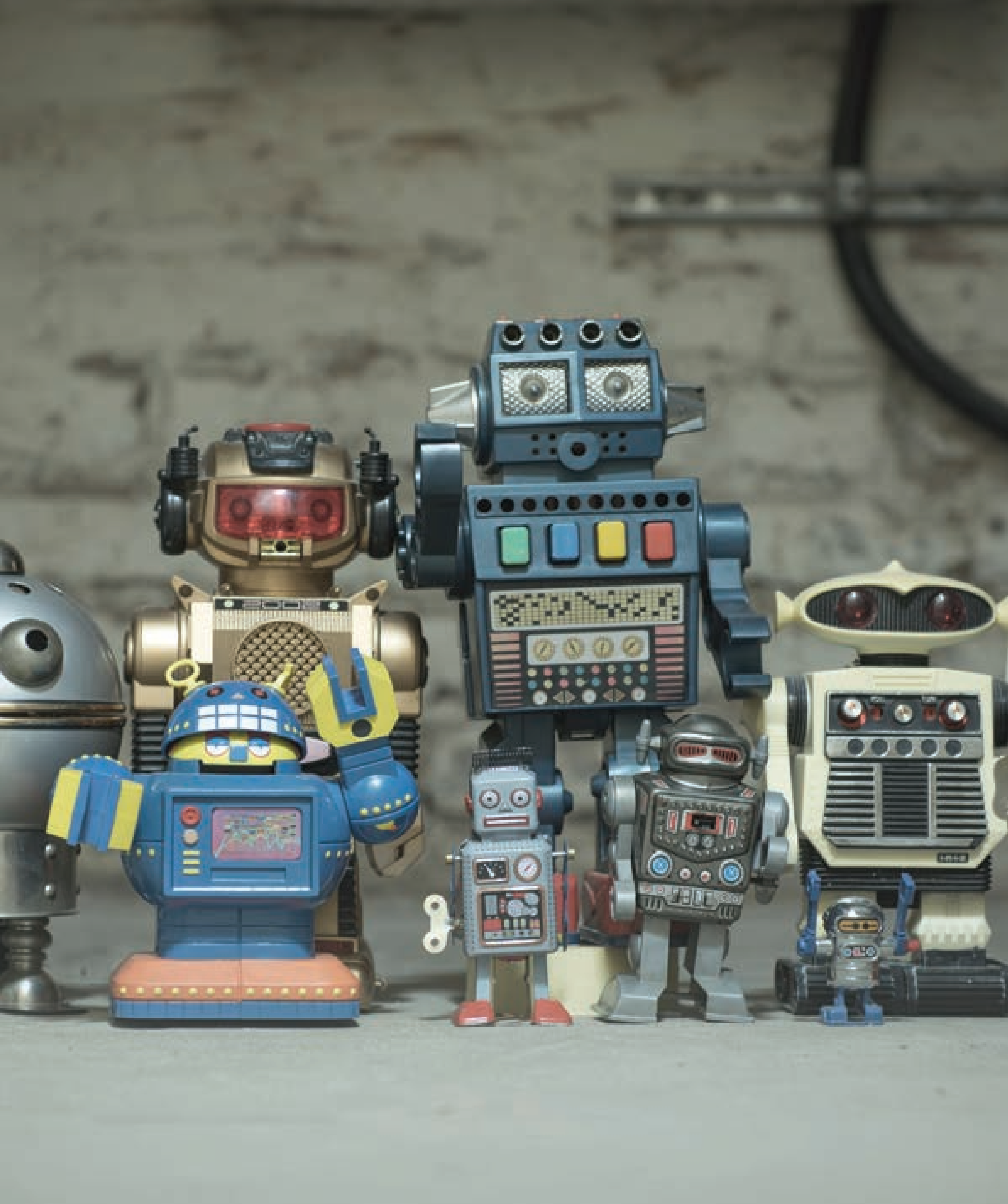
The strength of the Group's patent portfolio and its intellectual property strategies were further validated in 2016 through additional patent licenses with well-known companies including Apple, Twitter, Verizon, Hulu, Yahoo, RPX, in addition to the agreements concluded in 2015 with Bloomberg, Disney, Google and Netflix.

The quality of the companies that the Group has partnered with confirms the quality of its patent portfolio and fundamental research, especially for the most innovative players in the industry.

The Group's broad patent license with RPX provides access to many of RPX's members to Kudelski's valuable portfolio of invention rights and provides business relationship opportunities for the Group in return. This relationship, along with the growing list of other completed IP relationships, provides substantial IP clearance for the Group's Integrated Digital Television and cybersecurity products and services.

2016 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 through industry relations.

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 5 300 PATENT ASSETS WORLDWIDE AND HAS PARTNERED WITH THE MOST INNOVATIVE PLAYERS IN THE INDUSTRY.

KUDELSKI GROUP 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 guidance and technology to help companies across all industries secure their IoT innovations over 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 design ad hoc security specifications to develop and to operate certification programs. Its unique blended approach of hardware and software security in low-power environments is a strong asset, particularly where the challenge in IoT is to provide security over broadly deployed critical systems.

SECURITY DESIGN AND ASSESSMENT

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

For existing products, it carries out in-depth assessments and evaluations to determine security levels of chipsets, hardware and software components. It uses industry standards, best practices and proprietary methodologies to create security recommendations supporting business objectives.

SECURITY POSTURE IMPROVEMENT

Once vulnerabilities, flaws and weaknesses that may affect the IoT product ecosystem have been identified, the Center of Excellence uses best-in-class technologies and patented mechanisms to implement security controls in embedded systems, software/firmware, communication protocols, platforms and applications.

CYBERCRIME COUNTERMEASURES

The Center of Excellence provides prompt advice and access to response services in the event of sustained attacks or emerging threats targeting the deployed IoT products and services.

It can embed sleeper countermeasures into devices that can be activated against threats and carry out rapid prototyping of countermeasures powered by threat intelligence from the Group's Cyber Fusion Center.

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

THE CENTER OF EXCELLENCE PROVIDES GUIDANCE AND TECHNOLOGY TO SUPPORT COMPANIES ACROSS ALL INDUSTRIES SECURE THEIR INTERNET OF THINGS INNOVATIONS OVER ENTIRE PRODUCT LIFECYCLES.

PUBLIC ACCESS

DESIGNING AND MARKETING COMPREHENSIVE SOLUTIONS TO MANAGE PUBLIC ACCESS

SKIDATA, headquartered in Salzburg, Austria, carries out the Group´s Public Access activities.

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

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 founding 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.

1350
INTERNATIONAL ACCESS EXPERTS

10 000
INSTALLATIONS WORLDWIDE IN OVER 100 COUNTRIES

25
SUBSIDIARIES

OVER 700
NEW INSTALLATIONS IN 2016

40 YEARS
OF SUCCESS AND INNOVATION

SKIDATA
FAST AND SAFE ACCESS FOR PEOPLE AND VEHICLES

› PUBLIC ACCESS

SKIDATA is the global leader in access and revenue management solutions, providing fast and safe access for people and vehicles. Over the past years, the company has grown to become the market leader with over 10 000 installations in over 100 countries and more than 1 350 international access experts spread over 25 subsidiaries and 4 joint-ventures.

SKIDATA increased its international footprint during the past year by entering new markets and with more than 700 new installations in 2016. The company also opened offices in Mexico and Dubai.

COMPLETE SOLUTION FROM A SINGLE SOURCE

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

ADDRESSING COMPLEX CLIENT REQUIREMENTS

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

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

A PIONEER IN SKI ACCESS

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

In 1977, SKIDATA introduced a cash register as well as printed ski tickets to the market.

The second generation of access readers made complete billing possible in 1983, allowing ski resorts to team up to form larger operating pools for the first time.

In 1987, SKIDATA launched revolutionary contactless ski access systems based on RFID technology allowing skiers to hit the slopes in no time.

INVESTING IN STRATEGIC GROWTH AREAS

SKIDATA will continue to invest in the strategic growth areas that have brought success 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.

Off-street parking management solutions #1 worldwide

PlateTech.Logic / Ticketless

More than 7 000 operators around the world rely on SKIDATA's expertise for their parking management.

The latest SKIDATA license plate recognition technology makes parking more convenient. Customers drive in and out of the facility without having to stop for tickets. The barrier opens automatically after the license plate of the car has been read. The solution can be used to replace tickets completely or to enhance the ticket information with the license plate as identifier, so that customers can drive out easily and quickly via license plate recognition and without inserting the ticket.

Access and ticketing solutions for alpine resorts #1 worldwide

Flex.Gate

The entirely new developed Flex.Gate is the state-of-the-art access device for mountain sports, arenas and leisure parks. The customer defines the features that need to be added – the "long-range" antenna, a Userbox or an integrated camera – or all. The signal light and the recessed handle on the antenna of the mountain version provide skiers and snowboarders with comfort and ease of use.

Access and visitor management real time solutions

sweb.Control

The web-based solution sweb.Control for simple, centralized operation and monitoring of systems enables operators to manage car parks and facilities virtually from any tablet or smartphone, as well as in any professional control room. It allows operators to access all relevant operational data in real time and to provide assistance to end customers quickly and efficiently, without having to be on site.

Services supporting implementation and daily system operation

Expert Services

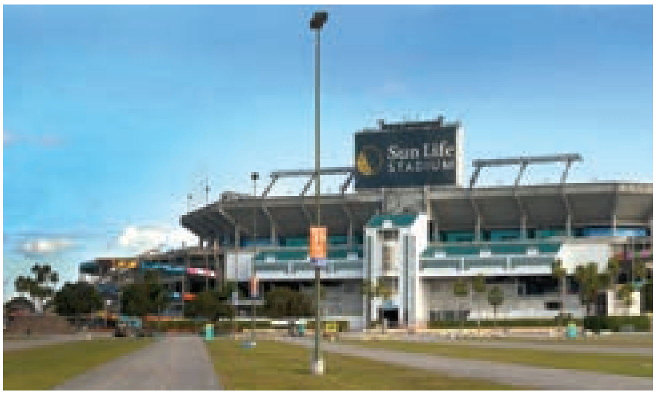
Along with hardware and software, services are an important part of SKIDATA's offering. They include support processes, coordinated solution delivery, know-how transfer through training sessions as well as on-call support available 24/7 provided by specialists in their respective areas.

SKIDATA
2016 MARKET HIGHLIGHTS

› PUBLIC ACCESS

PARQUE TOREO - MEXICO CITY - MEXICO

MIAMI DOLPHINS - USA



HAKUBA - NAGANO - JAPAN

WESTPOINT SHOPPING CENTRE - AUSTRALIA

MELROSE ARCH MALL- JOHANNESBURG - SOUTH AFRICA

SHOPPING CATUAÍ PALLADIUM - FOZ DO IGUAÇU - BRAZIL

CSKA ARENA - MOSCOW - RUSSIA

FOOTBALL CLUB TWENTE - ENSCHEDE - THE NETHERLANDS

ZERMATT - WALLIS - SWITZERLAND

TUNIS–CARTHAGE INTERNATIONAL AIRPORT - TUNISIA

MGM CASINO - LAS VEGAS - USA

CHERRY CREEK SHOPPING CENTER - DENVER - USA

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange 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 2016.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1. Group structure

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

The structure of the Kudelski 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 and Intellectual Property departments support the entire organization.

The iDTV division includes sales and operations, the three Product Units (Content and Access Security, User Experience (UEX) and Cyber Security, which have the responsibility for managing research and development, marketing and production of products) as well as companies dedicated to specific products (such as SmarDTV).

The Public Access division is comprised of three units (Car Access; People Access (ski); People Access (events)). Results by sector are presented in note 6 to the Kudelski Group's 2016 financial statements.

Main operating companies held directly or indirectly by Kudelski SA

The list of the Group's main operating companies is provided in note 54 to the 2016 financial statements. Additional information is also included in the 2016 Annual Report's key figures.

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

Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ ISIN: CH0012268360),with a market capitalization of CHF 875 803 925 as of 31 December 2016. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange.

1.1.3. The non-listed companies belonging to the issuer's consolidated entities

Information about the company name, registered office, share capital and holdings owned by non-listed Group companies included in the scope of consolidation is shown on pages 151 and 161 of the Kudelski Group's 2016 financial statements.

INTERNATIONAL PRESENCE

		iDTV	PUBLIC ACCESS
EUROPE	Germany	■	■
	Austria	■	■
	Belgium	□	■
	Spain	■	■
	France	■	■
	Italy	■	■
	Norway	■	□
	The Netherlands	■	■
	Portugal	■	□
	United Kingdom	■	■
	Russia	■	■
	Slovenia	■	□
	Sweden	□	■
	Switzerland	■	■
	Turkey	□	■
AMERICAS	Brazil	■	■
	Chile	□	■
	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 2016, the principal shareholders of Kudelski SA consist of a group of shareholders with total voting rights of 63.4%, comprising Mr André Kudelski, Mrs Marguerite Kudelski, Mrs Isabelle Kudelski Haldy, Mrs Irène Kudelski Mauroux and their respective descendants. The shares are directly owned or owned through an investment structure of which the above-mentioned persons are the beneficiaries. To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no existing shareholder agreements between the family pool and other shareholders. This shareholding structure has the effect of giving the Kudelski family pool voting control over the company, which the family pool believes is important for the Group's long-term stability. This stability is essential to ensure long-term continuity and independence, which are key elements for the Group's main customers.

For further information, please refer to the announcements made to SIX Swiss Exchange, which are available at the following address: http://www.nagra.com/investors/publications

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

AS OF 31 DECEMBER 2016	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS
Kudelski family pool	46 300 000	14 474 423	35.22%	63.36%

1.3. Cross-shareholdings

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

2. CAPITAL STRUCTURE

2.1. Amount of ordinary, authorized and conditional capital as at 31.12.2016 and

2.2. Specific information concerning authorized and conditional capital

Ordinary capital

The share capital amounts to CHF 434 004 952. It is divided into 49 620 619 bearer shares with a nominal value of CHF 8 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.

Authorized 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 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 capital

The conditional capital amounts to CHF 85 545 096 and is structured as follows:

– a maximum amount of CHF 5 545 096 through the issuance of a maximum of 693 137 bearer shares with a nominal value of CHF 8 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to the employees of the company and of affiliated companies are exercised. There are no preferential subscription rights for shareholders. Share option or subscription conditions are determined by the Board of Directors. Issuance at a price below market conditions is authorized; and

– a maximum amount of CHF 80 000 000 through the issuance of a maximum of 10 000 000 bearer shares with a nominal value of CHF 8 per share, to be fully paid up, as and when the conversion rights related to the convertible bonds of the company or its subsidiaries are exercised.

There are no preferential subscription rights for shareholders. The preferential subscription right of shareholders to the issuance of a convertible bond may be limited or excluded by decision of the Board of Directors on valid grounds, namely (a) if the convertible bonds are placed primarily in markets outside Switzerland, or (b) if the issuance proceeds contribute (i) to the financing or refinancing of acquisitions of companies or firms, (ii) to the financing of other strategic investments of the Group, or (iii) to financing the redemption of all or part of convertible bonds previously issued by the company or its subsidiaries.

If the convertible bond is not offered preferentially to shareholders, (a) the convertible bonds must be sold to the public under market conditions, (b) conversion rights must be exercised within a period of 7 years from the day of issuance of the respective bond, and (c) the conversion price must be at least equivalent to market conditions at the time of the issuance of the bond.

2.3. Changes in the capital of Kudelski SA

IN THOUSAND CHF	31.12.16	31.12.15	31.12.14
Registered share capital	37 040	46 300	46 300
Bearer share capital	396 965	494 611	492 747
Legal reserve	110 000	110 000	110 000
Capital contribution reserve	97 925	8 300	19 111
Net profit	44 102	-29 495	-29 905
Retained earnings	200 423	156 320	191 224
TOTAL SHAREHOLDERS' EQUITY	**842 353**	**815 532**	**859 382**

For information relating to changes in capital which have taken place in 2016, 2015 and 2014, please refer to the Group's corresponding financial statements. Information regarding the capital contribution reserve can be found under note 3.4 to the Kudelski SA financial statements in the Kudelski Group's 2016 financial statements.

2.4. Shares and participation certificates

The capital of Kudelski SA at 31 December 2016 consisted of 46 300 000 registered shares with a nominal value of CHF 0.80 per share, and 49 620 619 bearer shares with a nominal value of CHF 8 per share. Each share gives the right to one vote at the General Meeting and to a dividend proportional to the nominal value of the relevant type of share. Kudelski SA does not have participation certificates.

2.5. Dividend-right certificates

Kudelski SA does not have dividend-right certificates.

2.6. Limitations on transferability and nominee registrations

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

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

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

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

c) If the acquirer does not expressly declare that he is acquiring the shares in his own name and for his own account. If the shares are acquired by inheritance, division of an estate, marital property rights or as a result of debt enforcement proceedings, the company may only refuse its consent if it offers to acquire the shares at their fair value.

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

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

Kudelski SA has no regulations concerning the registration of nominees.

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

2.7. Convertible bonds and options

Convertible bond
The company has no outstanding convertible bond.

Options
The company has no outstanding options.

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

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

A chart showing employee participation in this plan for the year 2016 can be found in note 44 to the consolidated financial statements.

3. BOARD OF DIRECTORS

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

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

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

3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
ANDRÉ KUDELSKI* Chairman of the Board and Chief Executive Officer	1960	Swiss	**DEGREE IN PHYSICAL ENGINEERING** Ecole polytechnique fédérale de Lausanne (EPFL)	1987	21.03.2017
CLAUDE SMADJA Deputy Chairman and Lead Director	1945	Swiss	**DEGREE IN POLITICAL SCIENCE** University of Lausanne	1999	21.03.2017
PATRICK FŒTISCH	1933	Swiss	**DOCTORATE IN LAW** University of Lausanne **BAR EXAM**	1992	21.03.2017
LAURENT DASSAULT	1953	French	**DEGREE IN BUSINESS LAW** **DEGREE FROM ESLSCA** Ecole supérieure libre des sciences commerciales appliquées, Paris	1995	21.03.2017
PIERRE LESCURE	1945	French	**DEGREE IN LITERATURE AND JOURNALISM** Centre de formation des journalistes, Paris	2004	21.03.2017
MARGUERITE KUDELSKI	1965	Swiss	**ENGINEERING DEGREE IN MICROTECHNOLOGY** **DOCTORATE IN MICROTECHNOLOGY** Ecole polytechnique fédérale de Lausanne **EXECUTIVE MBA** IMD Lausanne	2006	21.03.2017
ALEXANDRE ZELLER	1961	Swiss	**DEGREE IN ECONOMICS AND SOCIAL SCIENCES** University of Lausanne	2007	21.03.2017
JOSEPH DEISS	1946	Swiss	**DOCTORATE IN ECONOMICS AND SOCIAL SCIENCES** University of Fribourg	2012	21.03.2017
ALEC ROSS	1971	American	**DEGREE IN HISTORY** Northwestern University, USA	2014	21.03.2017

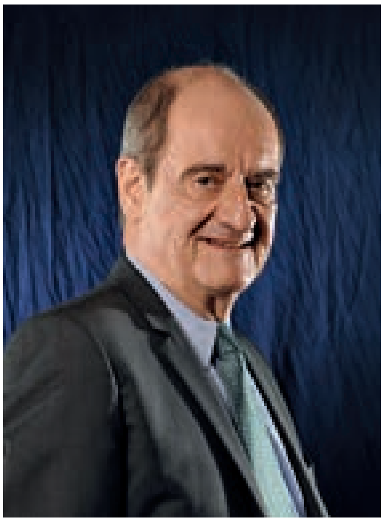
* *André Kudelski is the only member of the Board of Directors to combine his Board duties with an executive function within the Group (Chief Executive Officer). Apart from Mr Kudelski, no other member of the Board of Directors performed any executive function within the Group during the past three years.*

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
- Nagravision SA, in Switzerland, Chief Executive Director
- NAGRA PLUS SA, in Switzerland, Chairman and Chief Executive Director
- NagraStar LLC, in USA, Co-Chairman
- SKIDATA AG, in Austria, Member of the Supervisory Board
- SmarDTV SA, in Switzerland, Chairman

Other:

- Aéroport International de Genève, in Switzerland, first Vice-Chairman
- Comité d'economiesuisse, in Switzerland, member
- École polytechnique fédérale de Lausanne (EPFL), (Switzerland), Strategic Advisory Board member
- HSBC Private Banking Holdings (Suisse) SA, in Switzerland, Board member
- 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

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.

Current mandates:

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

PATRICK FŒTISCH

Patrick Fœtisch is an independent lawyer specializing in contracts and finance at an international level. He acts as legal counsel to Group companies as and when required, bringing to bear his in-depth knowledge of their activities to provide assistance and legal advice.

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
- NagraID SA, in Switzerland, Chairman (until 2 May 2014)*

*This company is no longer part of the Kudelski Group since 2 May 2014

Other:

- AMRP Handels AG, 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 SA, in France, Board member
– 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
– Financière Louis Potel & Chabot SAS, in France, Board member
– 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:

– 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
– 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

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), Président

Other:

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

[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 the beginning of 2015, she has been a strategic advisor to ATS.

Current mandates:

- Audio Technology Switzerland SA , in Switzerland, Chairman

ALEXANDRE ZELLER

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

Current mandates:

- Maus Frères SA, in Switzerland, Board member
- Credit Suisse (Suisse) SA, Chairman of the Board
- Garage Central SA, in Switzerland, Chairman of the Board

JOSEPH DEISS

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

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

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

Current mandates with Zurich Insurance Group AG[1]:

- Zurich Insurance Company Ireland (ZIP), Board member
- Zurich Life Insurance Company Ltd (ZLIC), in Switzerland, Vice-Chairman

Other:

- Adolphe Merkle Foundation, in Switzerland, Chairman
- Clinique Générale-Ste-Anne SA, in Switzerland, Chairman
- Interprox SA, in Switzerland, Chairman
- Liberty Global, European Advisory Board, member

[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.*

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.

Current mandates:

- Amida Technology Solutions Inc., in USA, Advisory Board member
- AnchorFree Inc., in USA, Advisory Board member
- Andela Inc., in USA, Advisory Board member
- FiscalNote Inc., in USA, Advisory Board member
- Jobbatical Inc., in Estonia, supervisory Board member
- Leeds Equity Partners LLC, in USA, Advisory Board member
- Mark43, in USA, Advisory Board member
- Teach for America, in USA, Advisory Board member
- Telerivet Inc., in USA, Board member

3.2. Other activities and vested interests
Please refer to the individual profiles of Board members under section 3.1 above.

3.3. Articles of association provisions on the number of permitted activities
In compliance with section 18 of the articles of association, members of the Board of Directors may exercise no more than five mandates in 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 appointed at the Annual General Meeting for a period of one year. The term of office ends on the day of the next Annual General Meeting. All members may be re-elected. The year of the first election as well as the end of term of office for each member are mentioned under section 3.1 above.

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

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

	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	

3.5.1. Allocation of tasks within the Board of Directors

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

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

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

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

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

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

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

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

Audit Committee
The Audit Committee consists of at least three non-executive members of the Board of Directors. At least one Committee member must have proven experience in the field of accounting. All members have knowledge or practical experience in the field of financial management.

The Audit Committee meets at least three times a year. The Audit Committee may at any time request detailed risk analyses of the Group's various sectors of activity as well as of specific fields of its choice.

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

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

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

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

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

The purpose of the Strategy Committee is to review and define Group strategy. It develops strategic options with a view to ensuring the long-term enhancement of the Group's competitive position and its shareholder value. To this end, the Strategy Committee monitors market trends and the Group's competitive position, drafts future development models and oversees the Group's development by means of investments, divestments and reorganization. To define strategic choices, the Strategy Committee relies upon information supplied by the management, the members of the Board of Directors and, if deemed necessary, by external counsel.

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

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

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

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

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

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business. In 2016, the Board of Directors and its Committees met as follows:

Board of Directors	8 times
Strategy Committee	4 times
Audit Committee	3 times
Compensation and Nomination Committee	2 times

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

Executive Board

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

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

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

Supervision

- The Chief Executive Officer submits a report to the Board members prior to each meeting outlining key aspects of the current business situation (key contracts, sales trends, market trends, human capital) for each Group entity and activity.
- Board members receive weekly or quarterly press digests concerning the Group, depending on the amount of relevant newsflow; they may also receive other informative documents concerning the Group and its entities, as well as a message from the Chief Executive Officer whenever the CEO deems it necessary.

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

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

Operations and strategy

- Executive Board members coordinate their action and take decisions related to the management of the Group during the "Executive Board Committees", the frequency and duration of which are tailored to the needs of the Group. This committee generally met once every two weeks for an average of 3 hours in 2016.

- Management of the iDTV division is supported by an "Executive Board Group Operations" committee composed of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Operating Officer (COO), as well as senior members of the iDTV division. This committee meets twice a month for 2.5 hours and reviews in particular selected relevant topics for the iDTV division. In addition, the members of the Executive Board and the General Counsel, Head of Legal Affairs, the Senior Vice President, Head of Human Resources, the Senior Vice President, Intellectual Property and the Corporate Secretary meet twice a month for at least thirty minutes as part of the "Executive Board Group Functions" committee to discuss relevant topics relating to these functions and not directly related to operations. Finally, the synchronization between the Executive Board and the "Executive Board Group Operations" and the "Executive Board Group Functions" committees is achieved within the "Executive Board Group Management" committee which meets every month for at least one hour.
- Management of the Public Access division is supported by the Supervisory Board which includes a Kudelski Group Board member, the Chairman and CEO of the Group, the CFO of the Group and a non-executive member (currently, Mr Charles Egli, a former Executive Board member) who is Chairman of this Supervisory Board. This Board supervises the whole division. The Supervisory Board

meets at least four times a year for an average of 3.5 hours and reviews the specific and pertinent topics for the Public Access division. Senior Managers of the Public Access division establish regular reports for the Supervisory Board and, depending on the topics, are invited to take part in Board meetings

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

Finance

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

- Every month, the Controlling entity prepares a number of reports which are made available to the management. Those reports are then adapted and sent to each regional head and business unit with the corresponding analytical metrics. The reports include: a report providing an overview of the Group's profit and loss broken down by activity and showing profit trends and budget 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).

Legal

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

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

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

Intellectual Property

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

Human Resources

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

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

Information Management

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

4. EXECUTIVE BOARD

4.1. Executive Board members

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

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

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
- Nagravision SA, in Switzerland, Executive Board member (until 18th of January 2017)
- Kudelski Security Inc., USA, Board member
- Nagra Media Germany GmbH, Executive Board member
- Nagra Media UK Limited, Board member
- SKIDATA AG, in Austria, Vice Chairman of the Supervisory Board
- Kudelski Norway AS, Board of Directors, Chairman
- NagraID SA, in Switzerland, Chief Executive Officer (until 2 May 2014)*
- NagraID Security SA, in Switzerland, Board member (until 31 August 2014)**

* This company is no longer part of the Kudelski Group since the 2 May 2014
** This company is no longer part of the Kudelski Group since the 31 August 2014

Other:
- Myriad Group AG, in Switzerland, Board member

PIERRE ROY

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

Current mandates Kudelski Group:

- Conax AS, in Norway, Board member
- Nagravision SA, in Switzerland, Board member and Executive Board member
- Nagra India Private Limited, India, Board member
- Nagra Media Germany GmbH, Board member
- Nagra Media UK Ltd, Board member
- Nagravision Italia s.r.l., Board member
- Nagravision Iberica SL, Board member
- Nagra USA Inc., Board member
- Nagravision Asia Pte Ltd., in Singapore, Board member
- Nagravision Software Technology Co., Ltd, China, Board member
- Nagra Media Korea LLC, in South Korea, Board member
- Nagra Media Pvt Ltd, in India, Board member
- OpenTV Europe SASU, in France, Board member
- OpenTV Australia Pty Ltd, Board member
- SmarDTV SA, in Switzerland, Board member
- NexGuard Labs B.V., Netherlands, Board member

4.2. Other activities and vested interests
Please refer to the individual profiles of members of the Executive Board under section 4.1 above.

4.3. Articles of association on the number of permitted activities
In accordance with section 25 of the articles of association, members of the Executive Board may exercise no more than two mandates in 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
There were no management contracts in place at Kudelski SA on 31 December 2016.

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 2016 compensation report.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

The provisions of the articles of association governing the participation rights of shareholders are in compliance with the law as set out in the Swiss Code of Obligations. The articles of association of Kudelski SA may be found on the Kudelski Group website via the following link: http://www.nagra.com/investors/publications

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

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

6.2. Quorum required by the articles of association
The articles of association of Kudelski SA do not impose any majority higher than contemplated by law for resolutions of the General Meeting of Shareholders.

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

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

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

6.4. Inclusion of items on the agenda
Items on the agenda are mentioned in the notice. Regarding rules for adding items to the agenda, the articles of association of Kudelski SA do not contain

provisions that differ from the Swiss Code of Obligations, namely Art. 699 CO, which provides that "shareholders who represent shares 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 on opting-out or opting-up in its articles of association. This means that if a shareholder reaches the limit laid down by the Swiss Financial Market Infrastructure Act (art. 135 LIMF: $33^{1/3}$% of the voting rights), he must by virtue of this law submit a takeover bid.

7.2. Clauses on changes of control

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

8. AUDITORS

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

The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated with the Group are audited by other auditors. The auditors were reappointed by the Annual General Meeting of Shareholders of Kudelski SA of 22 March 2016 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Mrs Corinne Pointet Chambettaz since 1 January 2010. The auditor in charge is replaced at the latest seven years after the year in which he/she first occupied this position, as specified in Article 730a paragraph 2 of the Swiss Code of Obligations.

8.2. Auditing fees

The Kudelski Group paid PricewaterhouseCoopers for auditing services for the year 2016 the sum of CHF 1 148 000. 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 2016 the sum of CHF 376 675 representing CHF 290 645 for tax advisory services and CHF 86 030 for other additional services. Additional services mean in particular services such as the occasional accounting review of transactions and other services such as review of new or modified accounting methods.

8.4. Information instruments pertaining to the external audit

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

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

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

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

9. INFORMATION POLICY

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

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

Press releases are issued in compliance with the rules in force of the SIX Swiss Exchange concerning factual publicity and are available on the Group's website simultaneously with their publication. A link on the home page of the Group's web site allows direct access to press releases. The Group communicates as often as necessary in this manner. Press releases are generally published in French and in English. In certain specific cases, a German version is also provided. They are available in these languages on the website.

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

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

The Group's website is a regularly updated source of information. The Investor Relations section contains a list of the principal dates of the corporate calendar (publication of results, General Meeting and presence at major trade shows) as well as the Group's main publications (annual report and half-year report). The Group's main website links and e-mail addresses are on page 172 of this report.

Important dates

- 21 March 2017: Annual General Meeting, Cheseaux-sur-Lausanne;

- 17 August 2017: Publication of the Interim Financial Report and Press Conference;

- 14 February 2018: Publication of the 2017 Financial Results and Press Conference.

COMPENSATION REPORT

1. INTRODUCTION

This report discloses certain information required by the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC). Sections 7 and 8 of this Compensation Report are audited. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31December 2016.

2. COMPENSATION APPROVAL BY GENERAL MEETING

In compliance with section 28 of the articles of association (https://www.nagra.com/sites/default/files/Statuts_31_03_2015.pdf), upon the motion of the Board of Directors, each year the General Meeting shall separately approve the maximum aggregate amount of compensation awarded to the Board of Directors and the Executive Board.

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

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

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

Votes by the General Meeting on compensation-related motions are binding. If the General Meeting rejects one or more of the aforementioned amounts, the Board of Directors shall make an alternative motion for approval by the same General Meeting or a subsequent General Meeting. Compensation payments for activities by members of the Board of Directors and the Executive Board in other legal entities directly or indirectly controlled by the Company are authorized. Compensation paid by these legal entities is included as part of the compensation submitted for approval by the General Meeting.

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

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

3. PRINCIPLES OF COMPENSATION

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

- coherence of compensation levels with the tasks, workload and responsibilities assumed;
- appropriate match between compensation levels and current business, trends and evolution of the market and competitive environment of the Group as well as the mid- and long-term strategy of the Group;

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

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

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

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

- high technology companies listed on the Nasdaq or NYSE;

- high technology companies listed on the Euronext;

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

- privately held high technology companies.

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

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

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

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

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

4. ELEMENTS OF COMPENSATION

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

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

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

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

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

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

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

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

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

5. PROCEDURE FOR DETERMINING COMPENSATION

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

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

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

6. SPECIAL INFORMATION REGARDING 2016

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 2016 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 2016

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 45.5% and 48.2% 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 2016 and 2015 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. 60 000 (2015: 105 149) bearer shares were allocated to members of the Executive Board with a seven-year blocking period and 21 846 (2015: 14 913) with a three- year blocking period. Shares granted as part of variable compensation for fiscal years 2016 and 2015 were granted at the beginning of the respective following year.

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.

YEAR 2015	BASE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN CASH CHF	VARIABLE COMPENSATION IN KUDELSKI SHARES (NUMBER)	VARIABLE COMPENSATION IN KUDELSKI SHARES CHF	OTHER * CHF	TOTAL 2015 CHF
BOARD OF DIRECTORS						
KUDELSKI ANDRÉ Chairman	551 000	–	–	–	3 368	**554 368**
SMADJA CLAUDE Vice-chairman	130 000	–	–	–	6 222	**136 222**
DASSAULT LAURENT Member	40 000	–	–	–	2 694	**42 694**
DEISS JOSEPH Member	60 000	–	–	–	2 374	**62 374**
FOETISCH PATRICK Member	60 000	–	–	–	115 579 **	**175 579**
KUDELSKI MARGUERITE Member	50 000	–	–	–	3 368	**53 368**
LESCURE PIERRE Member	120 000	–	–	–	5 672	**125 672**
ZELLER ALEXANDRE Member	110 000	–	–	–	7 409	**117 409**
ROSS ALEC Member	50 000	–	–	–	3 368	**53 368**
TOTAL BOARD MEMBERS	1 171 000	–	–	–	150 055	**1 321 055**

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

* *This section includes social security charges.*

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

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

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

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

As of December 31, 2016 and 2015, 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, 2016 and 2015, 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 2016

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

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

BOARD OF DIRECTORS' RESPONSIBILITY
The Board of Directors is responsible for the preparation and overall fair presentation of the remunera-tion 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 remu-neration 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 2016 complies with Swiss law and articles 14–16 of the Ordinance.

pwc

PricewaterhouseCoopers SA

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

Lausanne, 15 February 2017

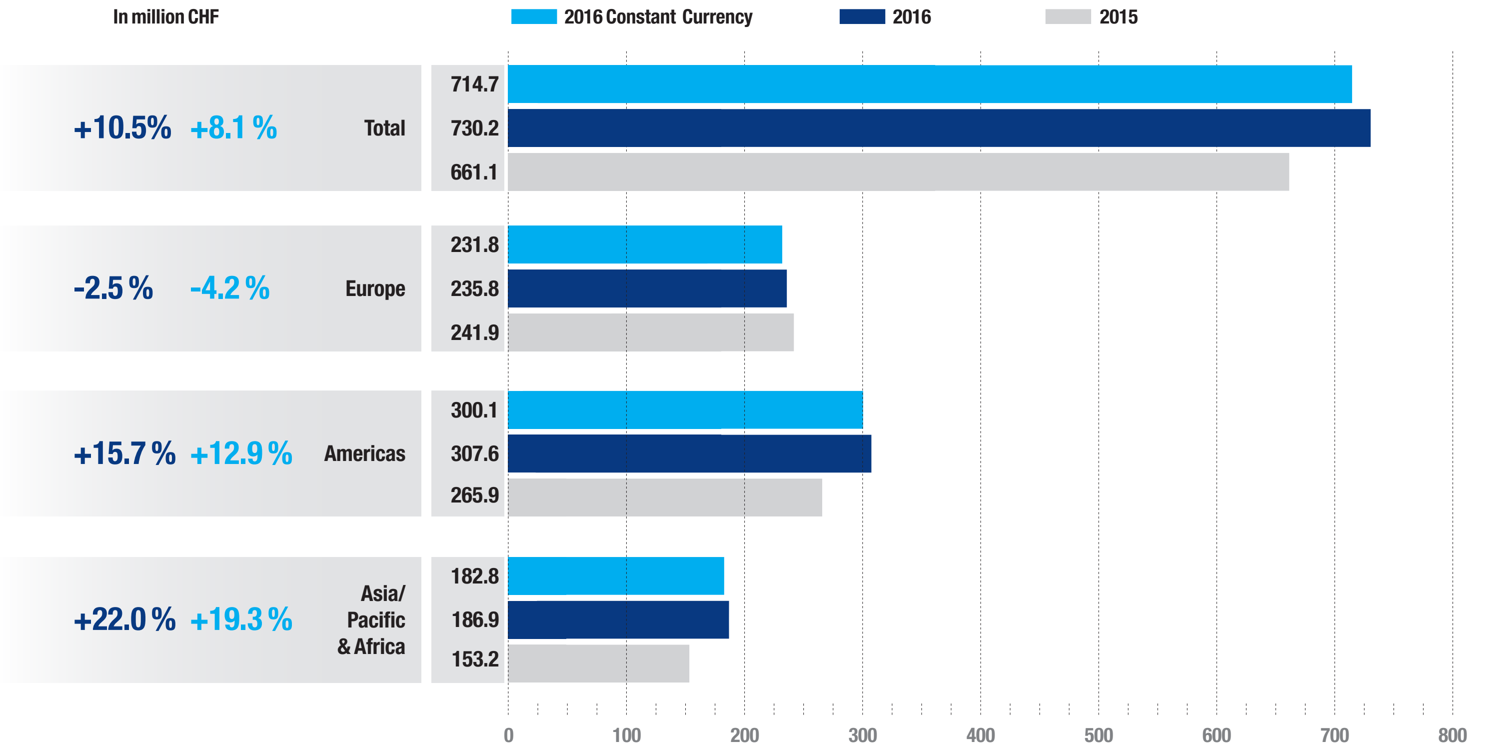
FINANCIAL OVERVIEW AND STATEMENTS

FINANCIAL OVERVIEW

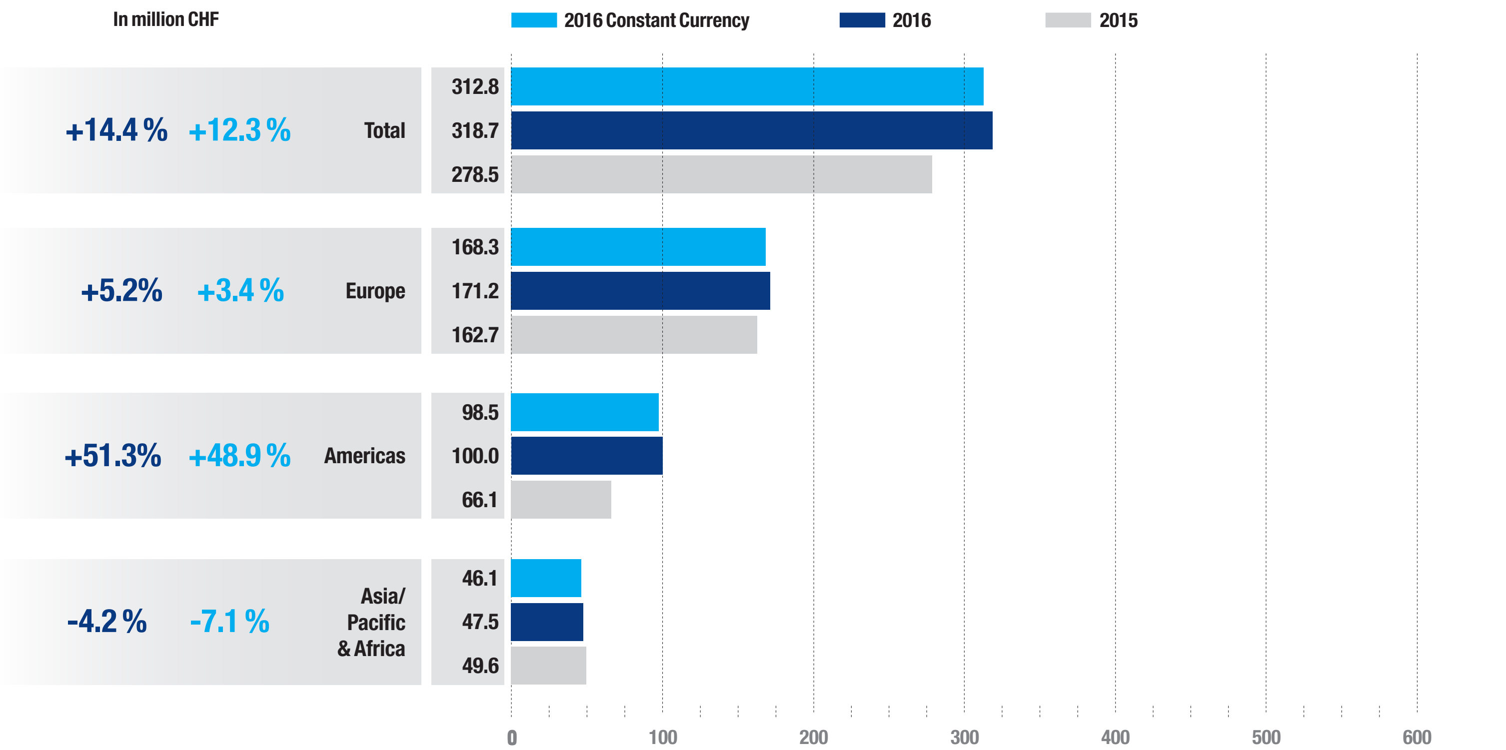
The Group restored its strong growth momentum in 2016, increasing its consolidated revenues and operating income by 12.3% to CHF 1 067.4 million. Operating income increased to CHF 97.8 million, representing a 20.4% improvement over the previous year, while net income from continuing operations grew by 51.7% to CHF 74.8 million.

REVENUE BREAKDOWN BY SEGMENT
EXCHANGE RATE IMPACT

iDTV



PUBLIC ACCESS



Integrated Digital TV (iDTV) segment revenues increased by 10.5% in 2016, reaching CHF 730.2 million, and segment operating income increased by 19.3% to CHF 99.4 million. iDTV benefitted from a stream of intellectual property (IP) licensing agreements, driving both segment revenues and profitability. In the first half 2016, the Group completed licensing agreements with Verizon, Fine Swiss Metals, Yahoo! and an unnamed Fortune 50 company. In the second half, the Group further accelerated the first half momentum by signing deals with Apple, RPX and Hulu.

In 2016, Kudelski Security, the Group's cybersecurity business, continued its expansion, establishing its position as a global provider of solutions that enable enterprise and public sector clients to detect and strengthen their security against cyber threats. In May, the Group completed its acquisition of Milestone Systems, a well-established provider of security services in the network security domain. Milestone Systems provides the Group with a strong platform for the deployment in North America of cybersecurity technologies and managed service capabilities, currently under development. Total consideration for this acquisition was CHF 41.3 million. In January 2017, Kudelski Security acquired Dallas-based M&S Technologies, a cyber and network security provider that provides the Group with a strong foothold in the South Central region of the United States.

In the Group's core digital TV business, the current saturation of traditional pay TV offerings in developed markets resulted in decreased revenues, while sales from emerging markets increased over the previous year.

In July, the Group acquired NexGuard Labs B.V., a leading provider of watermarking technologies. While this acquisition contributed limited revenue and operating profit in 2016, NexGuard expands the Group's portfolio of end-to-end security solutions and enables the Group to better address the content protection needs of content owners and right holders. Total consideration for this acquisition was CHF 28.1 million.

Public Access maintained its strong momentum, achieving its best ever segment revenues and growing operating profits. Revenues grew by 14.4% to CHF 318.7 million and operating income grew by 9.0% to CHF 17.1 million. In Public Access, the Group completed two small acquisitions in 2016. In July, Mexico Grupo Signal, a Mexican distributor, was acquired through an asset deal for CHF 2.6 million. In August, the Group completed the acquisition of Protection Technology, a distributor operating in the states of Washington, Utah and Colorado, for CHF 6.0 million.

GROUP REVENUES AND PROFITABILITY

Total revenues and other operating income for 2016 increased by CHF 116.6 million to CHF 1'067.4 million. Revenues grew by CHF 109.3 million, while other operating income grew by CHF 7.3 million, due in particular to a CHF 10.0 increase in government R&D grants (mainly French "Credit d'Impot Recherche"), as prior year grants were confirmed following the successful completion of tax audits.

"Margin after cost of material" (a pro-forma, non-IFRS item) increased by CHF 63.8 million to CHF 727.9 million. Relative to total revenues, margin after cost of material decreased from 69.8% to 68.2%. The main driver of this margin reduction relates to a shift of the revenue mix from relatively higher margin iDTV pay TV-related revenues to lower margin Public Access and cybersecurity revenues.

Personnel expenses increased by CHF 30.7 million to CHF 423.7 million. Growth of personnel costs was primarily driven by the consolidation of newly acquired entities, including Milestone Systems, NexGuard and the distributors acquired by SKIDATA. Increased SKIDATA headcount required to support business expansion and organic growth of the Group's cybersecurity activities were further drivers of this growth. Total Group headcount at year end was 3'801 compared to 3'459 at the end of 2015. SKIDATA was the primary driver of this headcount increase, accounting for an additional 192 employees, including 91 employees in North America. The acquisition of Milestone Systems added a further 88 employees in the United States, while NexGuard contributed 35 employees, mainly in France. In Switzerland, the Group increased its cybersecurity and core security technologies headcount, leading to a total headcount increase of 16, mainly in R&D, to reach 783 employees at year end. Finally, the Group continues to expand its Indian operations, both in the iDTV and Public Access segments, adding another 92 employees for a total headcount of 403 at year end.

Compared to 2015, the Group increased other operating expenses by CHF 13.7 million to CHF 162.3 million. Change in provisions moved from negative CHF 4.0 million in 2015 to positive CHF 0.3 million in 2016. Travel, entertainment and lodging expenses were CHF 4.6 million higher, as the Group incurred expenses related to the setup of its new headquarters in Phoenix and reflecting higher headcount-related costs.

The Group's operating income before depreciation and amortization was CHF 141.9 million in 2016, a CHF 19.3 million increase over the previous year. At CHF 44.1 million, depreciation, amortization and impairment were CHF 2.8 million higher than in 2015, reflecting higher asset impairments. Overall, the Group generated operating income of CHF 97.8 million, representing a 20.4% improvement compared to 2015.

The 2016 profit and loss statement includes one-off items resulting in CHF 1.0 million of additional costs. In 2016, the Board of Trustees of the Group's Swiss pension fund reduced the fund's technical interest rate from 3% to 2.5%, adopting LPP 2015 parameters. This change leads to the gradual decrease of the conversion rate from 6.4% in 2015 to 6.05% in 2018 for women and from 6.3% in 2015 to 5.9% in 2018 for men. The lower conversion rate results in a CHF 22.5 million reduction of Group pension fund liabilities and a personnel cost reduction of the same amount.

In December 2016, the Group initiated the restructuring of SmarDTV's operations, which includes the closure of SmarDTV's UK operations and the transfer of activities previously carried out in the UK to Group companies in Asia. In connection with these measures, the Group booked restructuring provisions and further customer-related provisions of CHF 9.6 million. In addition, the Group undertook restructuring measures to increase operational efficiency at its OpenTV and Nagra France subsidiaries, and in connection therewith, the Group booked CHF 3.0 million of restructuring provisions. In 2016, the Group continued to streamline its semiconductor supply chain for digital TV products, internalizing select chip development activities previously outsourced. As the reuse of stock sourced from an external party cannot be assured, the Group impaired such stock and all related assets, resulting in a negative impact of CHF 5.2 million. Additional impairments taken in 2016 include assets related to a user interface platform in the amount of CHF 1.8 million and CHF 3.9 million related to discontinued cybersecurity-related assets.

At CHF 9.9 million, 2016 interest expense was CHF 4.6 million lower than in the prior year, as the Group fully repaid the CHF 165 million credit facility with higher interest rates in 2015 and issued a CHF 200 million bond in 2015 and a CHF 150 million bond in 2016, both carrying lower interest rates. The Group posted CHF 5.1 million of net finance income, representing a CHF 14.3 million improvement over 2015. This improvement is due to positive foreign exchange effects in 2016, as compared with the negative foreign exchange impact experienced by the Group in 2015. Income tax expense increased to CHF 19.0 million in 2016.

Overall, net income from continuing operations increased by CHF 25.5 million to reach CHF 74.8 million in 2016. As estimates of potential future contributions from the contractual earn-out provisions entered into in connection with the Group's sale of its NagraID Security business in 2014 are no longer considered reliable, the Group impaired the contingent consideration related to this transaction, booking a loss from discontinued operations of CHF 7.4 million. Overall, the Group improved net income by CHF 18.1 million, reaching CHF 67.4 million in 2016.

INTEGRATED DIGITAL TV

Reported iDTV revenues increased by 10.5% to CHF 730.2 million.

The Group's European iDTV business marginally declined by 2.5% in 2016, reaching CHF 235.8 million. Growing revenues from Eastern European markets largely reflect the strong performance of Conax. On the other hand, the business generally experienced declining revenues in 2016 from large Western European markets, including Italy, Spain and Germany.

The Group's Americas business posted a 15.7% growth compared to the previous year. The primary driver of 2016 revenue growth in this region was the first time consolidation of Milestone Systems as of May 2016. Exceptional revenue contribution from intellectual property licensing agreements was a further growth driver in the Americas region. Growth in the Brazilian market continues to slow; in spite of the Group's positive competitive momentum, iDTV revenues in Brazil declined by 14% from 2015. Other South American markets were also weaker compared to previous periods.

The Asia/Pacific and Africa region posted revenue growth of 22.0% in 2016. Positive highlights included significant progress at Starhub in Singapore, where a large headend migration project generated material revenues in 2016. In Taiwan, the Group continues to benefit from favorable momentum with cable operators. In Korea, the Group extended its content protection partnership with KT Skylife, entering into an agreement for the protection of 4K video streams. In India, Conax deployed high volumes of smartcards while launching a cardless content protection solution. Finally, the Group continued to expand its African footprint, with notable achievements in South Africa, where SmarDTV deployed material volumes of set-top boxes, and Nigeria, where both Nagravision and Conax continued to expand in 2016.

Overall, operating income for the iDTV segment improved by 19.3%, reaching CHF 99.4 million. Emerging market activities delivered robust profit contribution, as did the IP licensing agreements concluded by the Group with Apple, RPX, Hulu, Verizon, Fine Swiss Metals, Yahoo! and an unnamed Fortune 50 company.

While still loss making, the Group's cybersecurity business continues to gain traction, as Kudelski Security further strengthened its team, gained critical mass in the US market through the acquisition of Milestone Systems and M&S Technologies, launched technology development initiatives and further expanded its technology ecosystem through a broad network of partnerships. Additionally, the Group launched a new Internet of Things center of excellence.

PUBLIC ACCESS

SKIDATA continued its strong growth momentum from the previous year, posting a 14.4% sales increase in 2016 to reach revenues of CHF 318.7 million. Although SKIDATA completed two small acquisitions in 2016, its revenue growth was largely achieved organically.

In Europe, revenues grew by 5.2% compared to the prior year. Highlights of the European segment include strong development of the Austrian business, driven by upgrades of software and related equipment, as well as positive momentum from its service business. On a worldwide basis, SKIDATA entered into over 900 new service contracts in 2016.

In the Americas, the acquisition and integration of Sentry drove growth in 2015, while organic development supported 2016. Highlights included the installation of access control solutions in eleven Las Vegas MGM hotels, new airport wins, including Oklahoma and Dallas Love Field, and the largest contract in SKIDATA's history, a multi-year agreement with the City of San Francisco that is expected to generate revenues of USD 20 million.

Negative developments affecting one market resulted in a year-on-year slowdown of revenues for Asia/Pacific and Africa, declining by 4.2% from 2015. Fundamentals, however, remain strong, as SKIDATA is consolidating its leadership in several key markets. In Australia, SKIDATA consolidated its position and is now the market leader.

Public Access operating income improved by CHF 1.4 million, reaching CHF 17.1 million in 2016. The profitability improvement was driven by top line growth and was achieved in spite of continued investment in further business expansion, including, for example, the opening of new offices in Dubai and Mexico.

BALANCE SHEET AND CASH FLOW

Total non-current assets increased by CHF 83.1 million to CHF 682.4 million at the end of 2016, with tangible fixed assets increasing by CHF 8.8 million and intangible fixed assets by CHF 85.0 million. The first time consolidation of Milestone Systems, Nexguard Labs, Protection Technology and Mexico Grupo Signal added CHF 63.4 million to goodwill and CHF 13.1 million to customer list. The CHF 10.9 million reduction of financial assets and other non-current assets was primarily driven by a CHF 8.8 million reduction of long-term deferred contract costs and the CHF 7.4 million impairment of the contingent consideration linked to the sale of NagraID Security.

Total current assets increased by CHF 91.4 million to CHF 581.6 million in 2016. A CHF 5.9 million higher inventory is mainly due to a CHF 9.7 million increase at SKIDATA. Trade accounts receivable were CHF 26.5 million higher compared to the prior year end, as newly acquired entities added CHF 12.0 million. Amounts due from customers for contract work accounted for CHF 14.9 million of the total increase in receivables, including CHF 6.1 million for Nagravision and CHF 5.8 million for SKIDATA. The CHF 18.8 million increase in other current assets is mainly due to CHF 9.8 million of additional grants due from state and government institutions. At the end of 2016, cash and cash equivalents amounted to CHF 177.1 million, CHF 40.2 million higher compared to the end of 2015.

Total equity increased by CHF 52.0 million, mainly reflecting the CHF 67.4 million net income and the CHF 19.0 million capital distribution to shareholders.

Total non-current liabilities increased by CHF 141.6 million to CHF 451.5 million. Total long-term financial debt includes the CHF 200 million 1.875% bond issued in May 2015 that matures in August 2022 and the CHF 150 million 1.5% bond issued in May 2016 that matures in September 2024. The CHF 10.4 million decrease of employee benefit liabilities to CHF 67.4 million includes positive CHF 22.5 million from lower conversion rates of the Swiss pension plan as well as negative CHF 11.0 million from a change in demographic assumptions.

Total current liabilities decreased by CHF 19.0 million to CHF 313.5 million. The Group repaid the CHF 100.2 million outstanding amount of the CHF 110 million bond maturing in December 2016. Trade accounts payable increased by CHF 17.1 million to CHF 67.8 million, including CHF 13.3 million from newly acquired entities. Other current liabilities increased by CHF 32.9 million to CHF 156.3 million, including CHF 13.9 million from newly acquired entities. Higher accrued expenses are the main driver of the increase in other current liabilities, accounting for CHF 20.8 million of the total increase, including in particular provisions for supplier invoices related to customer projects not yet received and additional provisions for expected legal costs related to our IP licensing activities in the US.

In 2016, the Group generated CHF 122.6 million of cash from operating activities, representing a CHF 16.2 million improvement compared to cash flows generated in 2015. The Group used CHF 109.2 million of cash for investing activities. CHF 63.6 million was used for acquisitions in 2016, including net cash out of CHF 29.0 million for Milestone Systems and CHF 27.0 million for NexGuard. In 2016, the Group invested CHF 47.6 million for purchases of intangible and tangible assets.

Cash in from financing activities amounted to CHF 26.3 million. This reflects the CHF 149.3 net proceeds received from the newly issued bond, the repayment of the CHF 110 million bond that matured in December 2016 and the CHF 19.0 million capital distribution paid to Kudelski SA's shareholders.

OUTLOOK

The Group expects to continue growing in 2017, though it does not expect to achieve the same level of profitability as 2016.

In its core digital TV business, many established satellite and cable operators in developed markets are facing new challenges. Following a strong 2016 in emerging markets, the Group expects to consolidate its position in 2017 at a lower revenue level.

IP licensing activities are now well established. The Group expects to benefit from further agreements in 2017. However, in 2017 the Group does not expect to match the exceptionally strong IP licensing performance of 2016.

Kudelski Security will generate substantially higher revenues in 2017, benefitting both from the full consolidation of its newly acquired entities and sustained organic growth. The Group will continue to invest in the development of this business in 2017, including in particular the development of proprietary technologies, which will negatively impact contribution margins.

In the Public Access segment, SKIDATA is expected to maintain the growth trajectory of the last few years and generate higher profitability compared to 2016.

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KUDELSKI SA FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Revenues	5	1 048 924	939 594
Other operating income	6	18 508	11 236
Total revenues and other operating income		**1 067 433**	**950 830**
Cost of material, licenses and services		-339 550	-286 724
Employee benefits expense	7	-423 721	-392 984
Other operating expenses	8	-162 287	-148 569
Operating income before depreciation, amortization and impairment		**141 875**	**122 553**
Depreciation, amortization and impairment	9	-44 070	-41 330
Operating income		**97 805**	**81 223**
Interest expense	10	-9 934	-14 515
Other finance income/(expense), net	11	5 131	-9 242
Share of result of associates	17	841	1 671
Income before tax		**93 843**	**59 137**
Income tax expense	12	-19 039	-9 827
Net income for the period from continuing operations		**74 804**	**49 311**
Net result from discontinued operations	36	-7 443	–
Net income for the period		**67 361**	**49 311**
Attributable to:			
- Equity holders of the company		*62 649*	*44 421*
- Non-controlling interests		*4 712*	*4 890*

Earnings per share (in CHF)			
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	13	1.1549	0.8191
- Continuing operations		*1.2921*	*0.8191*
- Discontinued operations		*-0.1372*	*-*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	13	0.1155	0.0819
- Continuing operations		*0.1292*	*0.0819*
- Discontinued operations		*-0.0137*	*-*

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Net income		**67 361**	**49 311**
Other comprehensive income to be eventually reclassified into the consolidated income statement in subsequent periods:			
Currency translation differences		11 257	-34 030
Cash flow hedges, net of income tax		778	380
Net (loss)/gain on available-for-sale financial assets, net of income tax		203	-638
		12 238	**-34 288**
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		-3 308	-10 432
		-3 308	**-10 432**
Total other comprehensive income, net of tax		**8 930**	**-44 720**
Total comprehensive income		**76 291**	**4 591**
Attributable to:			
Shareholders of Kudelski SA		71 708	-486
- Continuing operations		*-79 150*	*-486*
- Discontinued operations		*-7 443*	*-*
Non-controlling interests		4 583	5 077

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

CONSOLIDATED BALANCE SHEETS
(AT DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Tangible fixed assets	14	147 957	139 120
Intangible assets	15	434 138	349 127
Investment property	16	–	1 096
Investments in associates	17	5 013	4 499
Deferred income tax assets	18	62 104	61 407
Financial assets and other non-current assets	19	33 199	44 051
Total non-current assets		**682 411**	**599 300**
Current assets			
Inventories	20	54 019	48 087
Trade accounts receivable	21	283 479	256 977
Other current assets	22	66 687	47 892
Derivative financial instruments	34	355	365
Cash and cash equivalents	23	177 057	136 840
Total current assets		**581 596**	**490 161**
Total assets		**1 264 007**	**1 089 461**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	434 005	540 911
Reserves		43 288	-117 777
Equity attributable to equity holders of the parent		**477 293**	**423 135**
Non-controlling interests	25	21 700	23 872
Total equity		**498 992**	**447 006**
Non-current liabilities			
Long-term financial debt	26	348 749	199 660
Deferred income tax liabilities	18	11 009	11 509
Employee benefits liabilities	28	67 375	77 823
Other long-term liabilities and derivative financial instruments	29	24 346	20 952
Total non-current liabilities		**451 480**	**309 944**
Current liabilities			
Short-term financial debt	30	31 943	123 459
Trade accounts payable	31	67 799	50 662
Other current liabilities	32	156 300	123 409
Current income taxes		14 827	9 739
Advances received from clients	33	32 469	22 040
Derivative financial instruments	34	98	434
Provisions for other liabilities and charges	35	10 097	2 768
Total current liabilities		**313 535**	**332 511**
Total liabilities		**765 014**	**642 455**
Total equity and liabilities		**1 264 007**	**1 089 461**

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

CONSOLIDATED CASH FLOW STATEMENTS
(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	2016	2015
Net income for the year		**67 361**	**49 311**
Adjustments for net income non-cash items:			
- Current and deferred income tax		19 039	9 827
- Interests, allocation of transaction costs and foreign exchange differences		5 314	23 383
- Depreciation, amortization and impairment	9	44 070	41 330
- Share of result of associates	17	-841	-1 671
- Non-cash employee benefits (income) / expense		-14 087	7 410
- Deferred cost allocated to income statement		9 995	9 084
- Additional provisions net of unused amounts reversed		9 164	558
- Non-cash government grant income		-12 096	-902
- Other non cash (income) / expenses		2 262	-17 357
Adjustments for items for which cash effects are investing or financing cash flows:			
- Other non-operating cash items		-1 439	19
Adjustements for change in working capital:			
- Change in inventories		5 032	5 789
- Change in trade accounts receivable		-13 480	-31 616
- Change in trade accounts payable		2 275	-3 386
- Change in deferred costs and other net current working capital headings		7 402	23 080
Government grant from previous periods received		5 237	11 520
Dividends received from associated companies	17	1 252	1 191
Interest paid		-8 275	-9 527
Interest received		1 065	1 131
Income tax paid		-6 629	-12 787
Cash flow from operating activities		**122 621**	**106 387**
Purchases of intangible fixed assets		-19 897	-13 358
Purchases of tangible fixed assets		-27 659	-19 280
Proceeds from sales of tangible and intangible fixed assets		1 128	144
Proceeds from sale of investment property		2 359	–
Investment in financial assets and loans granted		-3 593	-2 808
Divestment of financial assets and loan reimbursement		1 976	1 985
Acquisition of subsidiaries, cash outflow (net of cash acquired):			
- Cash consideration arising from business combinations	4	-69 991	-14 455
- Cash acquired from business combinations	4	10 462	2 307
- Payment arising from prior year business combinations		-3 017	
Acquisition of associated companies	17	-1 010	–
Cash flow used in investing activities		**-109 242**	**-45 465**
Reimbursement of bank overdrafts, long term loans and other non-current liabilities		-115 146	-205 103
Increase in bank overdrafts, long term loans and other non-current liabilities		168 073	201 862
Proceeds from employee share purchase program		84	61
Acquisition of non-controlling interests		-2 737	-187
Proceed from a partial sale of subsidiary and loan not resulting in a loss of control		–	12 741
Capital contribution from non-controlling interests		177	–
Dividends paid to non-controlling interests		-5 130	-5 399
Dividends paid to shareholders	38	–	-16 225
Reimbursment of share capital to Shareholders of Kudelski SA		-18 984	–
Cash flow from/(used in) financing activities		**26 337**	**-12 250**
Effect of foreign exchange rate changes on cash and cash equivalents		501	-4 214
Net increase in cash and cash equivalents		**40 217**	**44 458**
Cash and cash equivalents at the beginning of the year	23	136 840	92 382
Cash and cash equivalents at the end of the year	23	177 057	136 840
Net increase in cash and cash equivalents		**40 217**	**44 458**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015)

In CHF'000	Notes	Share capital	Share premium	Retained earnings	Fair value and other reserves	Currency translation adjustment	Non-controlling interests	Total equity
January 1, 2015		**539 047**	**32 828**	**-50 791**	**-2 767**	**-87 604**	**22 731**	**453 444**
Net income		–	–	44 421	–	–	4 890	49 311
Other comprehensive income		–	–	-10 445	-495	-33 967	187	-44 720
Total comprehensive income		**–**	**–**	**33 976**	**-495**	**-33 967**	**5 077**	**4 591**
Employee share purchase program	39	81	6	–	–	–	–	87
Shares issued for employees		1 783	-522	–	–	–	–	1 261
Dividends paid to shareholders	38	–	-10 817	-5 408				-16 225
Dividends paid to non-controlling interests		–	–	–	–	–	-5 399	-5 399
Non-controlling interests arising on business combinations	4	–	–	–	–	–	3 449	3 449
Transactions with non-controlling interests	4	–	–	7 784	–	–	-1 986	5 798
December 31, 2015		**540 911**	**21 495**	**-14 439**	**-3 262**	**-121 571**	**23 872**	**447 006**
Net income		–	–	62 649	–	–	4 712	67 361
Other comprehensive income		–	–	-3 293	981	11 370	-129	8 929
Total comprehensive income		**–**	**–**	**59 356**	**981**	**11 370**	**4 583**	**76 290**
Employee share purchase program		63	58	–	–	–	–	121
Shares issued for employees		1 512	71	–	–	–	–	1 583
Par value reduction of share capital		-108 481	89 497	–	–	–	–	-18 984
Dividends paid to non-controlling interests		–	–	–	–	–	-5 130	-5 130
Impairment of contingent consideration		–	–	1 461	–	–	–	1 461
Transactions with non-controlling interests	4	–	–	-1 730	–	–	-1 802	-3 532
Equity contribution from non-controlling interest		–	–	–	–	–	177	177
December 31, 2016		**434 005**	**111 121**	**44 648**	**-2 281**	**-110 201**	**21 700**	**498 992**

Fair value and other reserves as of December 31, 2016 include kCHF -2 437 (2015: kCHF -2 640) of unrealized loss on available-for-sale financial assets and an unrealized loss of kCHF 156 (2015: kCHF -622) relating to cash flow hedges.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities assumed by the former owners of the acquiree and the equity interest issued by the Group. Acquisition-related costs are expensed as incurred. The consideration transferred includes the fair value of any asset or liability resulting from any contingent consideration.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Identified assets acquired include fair value adjustments on tangible and intangible assets. When determining the purchase price allocation, the Group primarily considers development technologies, customer lists, trademarks and brands as intangibles.

Any contingent consideration which depends on the future financial performance of the acquired company ("earn out clause") is recognized at fair value on the acquisition date using management's best estimate of the final consideration payable. The portion of the contingent consideration deferred to a date more than twelve months after the balance sheet date is discounted to its present value and disclosed within other long-term liabilities.

The Group recognizes non-controlling interests as its proportionate share of the recognized amounts of identifiable net assets. Goodwill is initially measured as the excess of the aggregate value of the consideration transferred plus the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. The difference between the fair value of any consideration paid and the relevant acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

(d) Associates

Associates are entities over which the Group has significant influence but which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the control of those policies. Significant influence is presumed to exist when the Group holds at least 20% of the associate's voting power. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(C) Foreign currencies

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

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

Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using average exchange rates. 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.

(D) 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 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 determi-

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nable 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.

(E) 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.

(F) Cost of material, licenses and services

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

(G) 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.

(H) 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 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.

(I) 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.

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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.

(J) Intangible assets

(a) Goodwill

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

(b) Internal research and development

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

(c) External research and development

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

(d) Computer software

Acquired computer software licenses are capitalized in the amount expended to acquire the software and ready it for its intended use. These costs are amortized on a straight-line basis over their estimated useful lives (three to four years). Costs associated with maintaining computer software programs are recognized as expense as incurred.

(e) Customer lists, Trademarks and Brands

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

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

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

(K) Investment property
Investment property is property held to earn rental income or for capital appreciation as opposed to property intended for internal use. If part of a building is leased, it is accounted for separately under investment property only if the portion of building could be sold separately and if the portion held for internal use is insignificant. Transfers are made to or from investment property only when there is a change in use.

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

(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 measured. Fair value is determined in the manner described in note 44. 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.

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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 to if all of the facility will be drawn down. If there is no evidence that all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the loan facility.

(S) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recognized when the Group has developed a formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected. Restructuring provisions comprise employee termination payments, lease termination penalties and dilapidation costs.

(T) Employee benefits

(a) Pension obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by their employer, taking into consideration the recommendations of independent qualified actuaries. For defined benefit plans, the Group companies provide for benefits payable to their employees on retirement by charging current service costs to income.

The liability for defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. Defined benefit obligations are in all material cases calculated annually by independent actuaries using the projected unit credit method, which reflects services rendered by employees to the date of valuation, incorporates assumptions concerning employees' projected salaries and uses interest rates of highly liquid corporate bonds which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group's contributions to the defined contribution plans are charged to the income statement in the year during which they are made.

(b) Other long-term employee benefits
Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. The cost of such deferred compensation arrangements is recognized on an accrual basis and included within employee benefits expense.

(c) Employee Share Purchase Program (ESPP)
The Group's employee share purchase program allows certain employees to buy a specific number of shares on a preferential basis, subject to 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) 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, 2015, except for the adoption of new standards and interpretations as of January 1, 2016 described below.
The Group for the first time applied the amendments included in the annual improvement to IFRSs 2012-2014 cycle, effective from 1 January 2016. The following amendments had only limited impact on the accounting policies, financial position or performance of the Group:
- IFRS 11 – 'Joint Operations: Accounting for Acquisitions of Interests' (amendment)
- IFRS 14 – 'Regulatory Deferred Accounts'
- IAS 16 and IAS 38 – 'Clarification of Acceptable methods of depreciation and amortisation' (amendments)
- IAS 16 and IAS 41 –'Agriculture: Bearer Plants' (amendments)
- IFRS 10 and and IAS 28 – 'Sale between investor and its associates or joint ventures' (amendments)
- IFRS 10, IFRS 12 and and IAS 28 – 'Investment entities: Applying the consolidation exception' (amendments)
- IAS 27 – 'Equity method in separate financial statements' (amendments)
- IAS 1 – 'Disclosure initiative' (amendments)
- Annual IFRS improvement projects.

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 2017 or later periods, and which the Group has not early adopted:
- IFRS 15 – 'Revenue from Contracts with Customers' – (effective from 1 January of 2018) – This new revenue standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.
The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date. At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.

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- 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 kCHF 55 732. 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.
While the group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments 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.

The adoption of the following new standards or amendments will only have a limited impact on the financial statements or disclosures:
- IAS 12 – 'Recognition of deferred tax assets for unrealised losses' (amendments)
- IAS 7 – 'Disclosure initiative' (amendments)
- Annual IFRS improvement projects.

All other standards and interpretations in issue were considered and were deemed not to have a significant impact on the Group's financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

Litigation and product liability provisions
A number of Group subsidiaries can be subject to litigation and product liability claims arising out of the normal conduct of their businesses. As a result, claims could be made against them that might not be covered by existing provisions

or by external insurance coverage. Management believes that the outcomes of such actions, if any, would not be material to the Group's financial condition but could be material to future results of operations in a given period.

Income tax, deferred tax assets and government grants

The Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the portion of tax losses carried forward which can be offset against future taxable profit (note 18). In order to assess whether there is any future benefit, forecasts are made of the future taxable profits by legal entity. Actual outcomes could vary significantly from forecasts of future profits and could therefore significantly modify the deferred tax asset and the income taxes. Furthermore, subsequent changes in tax laws, such as non-exhaustive changes in tax rates, the proportion of tax losses that could be offset with future profits or changes in forfeiting periods which occur after the accounts have been approved might affect the tax asset capitalized.

A tax audit may also lead to significant adjustments, due to a rejection of key components of a tax return or a government grant (e.g. related to transfer pricing or the assessment of the eligibility of a project qualifying for a grant).

Retirement benefit plans

The Group sponsors pension and other retirement plans in various forms covering employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. The factors include assumptions about the discount rate and rate of future compensation increases, as determined by Group management within certain guidelines. In addition, the Group's actuarial consultants use statistical information such as withdrawal and mortality rates for their estimates.

Assumptions used (note 28) may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other factors. Depending on events, such differences could have a material effect on our total equity.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

The value in use calculation requires management's estimate of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Actual cash flows and values could vary significantly from the forecasted cash flows and related values derived using discounting techniques.

3. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through exposure analyses. These risks include market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's treasury policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Internal control procedures ensure compliance with these policies. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports periodically to the Group's finance executive committee which monitors risks and policies implemented to mitigate risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group applies a natural economic hedging strategy and can enter into a variety of derivative financial instruments to manage its exposure to foreign currencies and interest rate risks, including forward foreign exchange contracts or option strategies to hedge the exchange rate risks and interest rate swaps to mitigate the risk of rising interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 Swiss francs. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to manage foreign exchange risks arising from future commercial transactions and certain assets and liabilities, the Group uses forward foreign exchange contracts and foreign currency zero cost option contracts to hedge certain anticipated foreign currency revenues.

It is the policy of the Group to cover specific foreign currency receipts within a determined portion of the exposure generated, leaving to the Finance Executive Committee the decision to cover the remaining portion based on its views on the market. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 12 months within a determined portion of the exposure generated, as defined in the treasury policy.

Net investments in Group affiliates with a functional currency other than the Swiss Franc are of a long-term nature: the Group does not hedge such foreign currency translation exposures.

(b) Interest rates

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

Other price risks

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

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses credit rating information supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the department in charge.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at the end of the year, with the exception of cash balances deposited with a highly rated bank. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The maximum amount of credit risk is the carrying amount of the financial assets.

Liquidity risk management

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

4. BUSINESS COMBINATIONS

Integrated Digital Television

On April 21, 2016, the Group signed a share purchase agreement whereby it acquired 100% of Milestone Systems, Inc, for a total consideration of kCHF 41 295. Founded in 2000, Milestone Systems, Inc. is headquartered in Minneapolis, USA and is focused on enterprise network infrastructure and security as well as support services including certified training, project management, consulting, managed services, and 24x7 technical support. Total consideration includes an earn-out estimate of kCHF 2 744 and deferred consideration of kCHF 1472. The actual earnout payment is based on 2016 gross profit and specific customer retention targets, hence the Group does not expect an actual earn-out payment to be materially different. Management based its earnout estimate on the business plan used to establish the purchase price allocation and support the transaction. The goodwill arising from this acquisition amounts to kCHF 31 582 and arises from a number of factors, including expected synergies resulting from acquiring a workforce experienced in service support as well as valuable sales knowledge and expertise in the relevant market. For the acquisition, the Group made an election for tax purposes whereby the acquisition qualifies as an asset purchase rather than a stock purchase, which allows the difference between the net tax assets acquired and the purchase consideration to be amortized over time. Acquisition related costs of kCHF 179 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 9 694 is expected to be fully collectable leading to a fair value of kCHF 9 694.

On July 7, 2016, the Group signed a share purchase agreement whereby it acquired 100% of NexGuard Labs B.V (formely Civolution BV), for a total consideration of kCHF 28 059. NexGuard Labs BV, based in the Netherlands with offices in Los Angeles, New York, London, Dubai and Rennes (France), is a leading provider of forensic watermarking technology and solutions for protecting media content against illicit redistribution.The goodwill arising from this acquisition amounts to kCHF 24 753 and arises from a number of factors including expected synergies considered when purchasing the company, a highly skilled and experienced workforce, as well as a reinforcement of our content protection offering. Acquisition related costs of kCHF 177 are included in other operating expenses. The gross contractual amount of trade receivables of kCHF 896 is expected to be fully collectable leading to a fair value of kCHF 896.

Public Access

During the year, SKIDATA completed two business combinations by acquiring two distributors. On July 2, 2016 it completed an asset deal to take over the business of Mexico Grupo Signal S.A. de C.V. for a total consideration of kCHF 2 629 including a deferred consideration of kCHF 975 payable on March 19, 2019. On August 15, 2016 it acquired 100% of Protection Technology Inc., USA, its former distribution partner for the US market in the states of Washington, Utah and Colorado for a total consideration of kCHF 5 959 which includes a contingent consideration of kCHF 2 761. In the event that certain revenue thresholds are achieved for the years 2016, 2017 and 2018, additional consideration of up to kCHF 1 000 may be payable in cash in 2017, 2018 and 2019. The fair value of the contingent consideration of kCHF 2 761 was estimated by calculating the present value of the future expected cash flows at a discount rate of 7.1% and assumed probability that the maximum additional consideration should be paid.

The Goodwill arising from these acquisitions are kCHF 1 230 and kCHF 5 850 respectively and are attributed to the Public Access cash generating unit. Goodwill is mainly attributed to the skilled workforce for both acquisitions. Acquisition related costs of kCHF 143 are included in other operating expenses.

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

In CHF'000	Milestone Systems, Inc.	Nexguard Labs BV	SKIDATA acquisitions	Fair value of net assets acquired 31.12.2016
Tangible fixed assets	319	109	115	543
Intangible fixed assets:				
- Technology	–	1 693	–	1 693
- Customer lists, Trademark & Brands	8 269	2 288	2 534	13 091
- Other Intangibles	90	45	–	135
Other non current assets	274	29	4	307
Trade accounts receivable:				
- gross contractual amount	9 723	1 400	1 440	12 563
- allowance for doubtful accounts	-29	-504	–	-533
Other current assets	480	2 571	2 998	6 049
Cash and cash equivalents	8 110	1 199	1 153	10 462
Trade accounts payable	-12 943	-313	–	-13 256
Other current liabilities	-4 580	-3 012	-6 272	-13 864
Non current liabilities	–	-707	–	-707
Employee benefits liabilities	–	-121	–	-121
Deferred income tax liabilities	–	-1 371	-463	-1 834
Total identified net assets	**9 713**	**3 306**	**1 509**	**14 528**
Goodwill	31 582	24 753	7 080	63 415
Total consideration	**41 295**	**28 059**	**8 589**	**77 943**
Total consideration, of which:				
- cash	37 079	28 059	4 853	69 991
- deferred	1 472	–	975	2 447
- contingent	2 744	–	2 761	5 505
Total consideration	**41 295**	**28 059**	**8 589**	**77 943**

Goodwill is expected to be deductible for tax purposes for Milestone Systems, Inc and both of the SKIDATA acquisitions as those transaction are either asset deals or a tax election has been made in order to treat those transaction as asset deals. NexGuard Labs BV goodwill is not expected to be deductible from a tax perspective.

Proforma information

From the date of acquisition, the acquired companies have contributed kCHF 58 862 of revenues and kCHF 1 992 to the net income to the continuing operations of the Group. If the acquisitions had taken place on January 1, revenues from continuing operations would have been approximately kCHF 1 085 528 and the net income from continuing operations for the period for the Group would have been approximately kCHF 72 372.

Transaction with non-controlling interests

On June 30, 2016, the Group acquired the remaining 50% interest of SKIDATA Australasia Pty Ltd for a total consideration of kCHF 3 532, including contingent consideration related to the achievement of targeted financial performances and payable in two tranches. This transaction is treated as a transaction with non-controlling interest and is allocated to retained earnings for kCHF 1 730 and non-controlling interests for kCHF 1 802.

The contingent consideration resulting from the acquisition of the remaining 50% of NagraID Security SA in 2014 has been written off against retained earnings as we no longer expect an earn-out payment due to actual performance of this company compared to the earn-out patterns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) 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 CHF'000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Total segment Revenues	**730 663**	**661 448**	**318 689**	**278 512**	**1 049 352**	**939 960**
Inter-segment revenues	-421	-366	-7	–	-428	-366
Revenues from external customers	**730 242**	**661 082**	**318 682**	**278 512**	**1 048 924**	**939 594**
Depreciation and amortisation	-27 006	-31 455	-9 181	-8 211	-36 187	-39 666
Impairment	-7 882	-1 664	–	–	-7 882	-1 664
Operating income - excluding corporate common functions	**99 388**	**83 305**	**17 091**	**15 684**	**116 479**	**98 989**
Corporate common functions					-18 674	-17 766
Interest expense and other Finance income/(expense), net					-4 803	-23 757
Share of result of associates	-322		1 164		841	1 671
Income before tax					**93 843**	**59 137**
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total segment Assets	**959 615**	**806 671**	**282 745**	**243 624**	**1 242 360**	**1 050 295**

In CHF'000	**31.12.2016**	**31.12.2015**
Total Segment Assets	1 242 360	1 050 295
Cash & Cash equivalents	18 662	28 603
Other current assets	130	87
Financial assets and other non-current assets	2 855	10 476
Total Assets as per Balance Sheet	**1 264 007**	**1 089 461**

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:

	Revenues from external customers		Non-current assets	
In CHF'000	**2016**	**2015**	**31.12.2016**	**31.12.2015**
Switzerland	36 397	36 923	83 890	108 436
United States of America	311 477	219 470	227 810	141 013
France	65 464	67 415	23 859	22 355
Norway	10 742	9 647	154 475	154 861
Rest of the world	624 844	606 139	98 753	77 691
	1 048 924	**939 594**	**588 787**	**504 356**

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

REVENUE CATEGORIES

In CHF'000	**2016**	**2015**
Sale of goods	513 850	501 463
Services rendered	328 945	296 791
Royalties and licenses	206 129	141 340
	1 048 924	**939 594**

6. OTHER OPERATING INCOME

In CHF'000	**2016**	**2015**
Government grants (research, development and training)	13 447	3 383
Gain on bargain purchase resulting from business combination	–	4 135
Income from rental of property	2 811	2 856
Gain on sale of investment property	1 258	–
Others	991	862
	18 508	**11 236**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

7. EMPLOYEE BENEFITS EXPENSE

In CHF'000	Note	2016	2015
Wages and salaries		351 296	307 405
Social security costs		51 166	46 709
Defined benefit plans expenses	28	-8 103	13 904
Defined contribution plans expenses		10 062	8 935
Other personnel expenses		19 301	16 032
		423 721	**392 984**

8. OTHER OPERATING EXPENSES

In CHF'000	2016	2015
Development and engineering expenses	15 137	16 815
Travel, entertainment and lodging expenses	33 714	29 136
Legal, experts and consultancy expenses	36 430	34 444
Administration expenses	24 881	22 687
Building and infrastructure expenses	26 728	25 526
Marketing and sales expenses	10 776	10 807
Taxes other than income tax	4 341	4 055
Change in provisions	331	-4 035
Insurance, vehicles and others	9 950	9 135
	162 287	**148 569**

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In CHF'000	Note	2016	2015
Land and buildings	14	3 769	3 869
Equipment and machines	14	14 342	13 277
Investment property	16	3	115
Total depreciation and impairment of tangible fixed assets		**18 115**	**17 260**
Intangible assets	15	25 955	24 070
Total amortization and impairment on intangible fixed assets		**25 955**	**24 070**
Depreciation, amortization and impairment		**44 070**	**41 330**

10. INTEREST EXPENSE

In CHF'000	Note	2016	2015
Interest expense:			
- Bond 2011-2016	27	3 248	3 791
- Bond 2015-2022	27	3 889	2 462
- Bond 2016-2024	27	606	
- Credit facility		–	5 560
- Net interest expense recognized on defined benefit plans	28	904	954
- Other and bank charges		1 286	1 749
		9 934	**14 515**

In 2015, the total interest expense related to the credit facility amounted to kCHF 5 560 and included amortization of transaction costs for kCHF 2 874. This credit facility was fully reimbursed in 2015 and not renewed.

11. OTHER FINANCE INCOME/(EXPENSE), NET

In CHF'000	Note	2016	2015
Interest income		1 315	1 403
Net gains/(losses) on foreign exchange related derivative financial instruments not qualifying for hedge accounting		-870	-2 051
Net foreign exchange transaction gains/(losses)		5 197	-9 053
Others		-510	459
		5 131	**-9 242**

Changes in the fair value of available-for-sale financial assets were recognized directly in comprehensive income for kCHF 203 (2015: kCHF -638). The change in fair value of held for trading financial assets amounting to kCHF -870 (2015: kCHF -2 051) is disclosed under Net foreign exchange transaction gains/(losses) on foreign derivative financial instruments not qualifying for hedge accounting.

12. INCOME TAX EXPENSE

In CHF'000	Note	2016	2015
Current income tax		-20 233	-13 738
Deferred income tax	18	2 232	5 331
Non refundable witholding tax		-1 039	-1 420
		-19 039	**-9 827**

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

In CHF'000	2016	2015
Income before taxes	**93 843**	**59 137**
Expected tax calculated at domestic tax rates in the respective countries	-21 942	-13 338
Effect of income not subject to income tax or taxed at reduced rates	2 334	1 381
Effect of utilization of previously unrecognized tax asset on tax losses carried forward and temporary differences	7 026	15 636
Effect of temporary differences and tax losses not recognized and deferred tax assets written-off	-6 576	-16 721
Effect of changes in tax rates	269	949
Efffect of associates' result reported net of tax	313	415
Effect of disallowed expenditures	-1 769	-667
Effect of prior year income taxes	218	1 144
Effect of non-refundable withholding tax	-790	-1 420
Other	1 877	2 792
Tax expense	**-19 039**	**-9 827**

Income before tax for tax-transparent companies includes the full income before tax of non-fully-owned subsidiaries whose taxes are paid by the subsidiaries' shareholders. However, the Group only recognizes its ownership percentage tax portion. The theoretical tax impact if the Group had recognized 100% of the taxes on these subsidiaries amounts to kCHF 2 578 (2015: kCHF 2 640) and is disclosed under 'Other' in the above table.

The weighted average applicable tax rate increased from 22.55% in 2015 to 23.38% in 2016. The increase can be explained by a different revenue split between countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 CHF'000	2016	2015
Net income attributable to bearer shareholders	57 302	40 629
- Continuing operations	*64 110*	*40 629*
- Discontinued operations	*-6 808*	*-*
Net income attributable to registered shareholders	5 347	3 792
- Continuing operations	*5 982*	*3 792*
- Discontinued operations	*-635*	*-*
Total net income attributable to equity holders	**62 649**	**44 421**
Weighted average number of bearer shares outstanding	49 616 010	49 720 756
Weighted average number of registered shares outstanding	46 300 000	46 300 000
Basic and diluted earnings per share (in CHF)		
Attributable to shareholders of Kudelski SA for bearer shares : basic and diluted (in CHF)	1.1549	0.8191
- Continuing operations	*1.2921*	*0.8191*
- Discontinued operations	*-0.1372*	*-*
Attributable to shareholders of Kudelski SA for registered shares : basic and diluted (in CHF)	0.1155	0.0819
- Continuing operations	*0.1292*	*0.0819*
- Discontinued operations	*-0.0137*	*-*

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

14. TANGIBLE FIXED ASSETS

In CHF'000	31.12.2016	31.12.2015
Land and buildings	108 329	105 427
Equipment and machines	39 628	33 693
	147 957	**139 120**

LAND AND BUILDINGS

In CHF'000	Land	Buildings	Building improvements	Total
GROSS VALUES AT COST				
As of January 1, 2015	**23 097**	**109 877**	**13 197**	**146 171**
Additions	–	1 646	1 119	2 765
Impact of business combinations	1 365	3 719	198	5 282
Disposals and retirements	–	-144	-933	-1 077
Currency translation effects	-171	-1 969	-399	-2 539
Reclassification & others	–	-167	100	-67
As of January 1, 2016	**24 291**	**112 961**	**13 282**	**150 535**
Additions	–	2 683	3 603	6 285
Impact of business combinations	–	–	127	127
Disposals and retirements	–	-199	-1 121	-1 320
Currency translation effects	-40	38	122	120
Reclassification & others	–	–	323	323
As of December 31, 2016	**24 251**	**115 482**	**16 336**	**156 070**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As of January 1, 2015	**–**	**-32 090**	**-11 341**	**-43 431**
Systematic depreciation	–	-2 955	-841	-3 796
Impairment	–	-69	-4	-73
Disposals and retirements	–	78	974	1 052
Currency translation effects		844	257	1 100
Reclassification & others	–	39	–	39
As of January 1, 2016	**–**	**-34 153**	**-10 956**	**-45 108**
Systematic depreciation	–	-2 902	-857	-3 759
Impairment	–	-10	–	-10
Disposals and retirements	–	98	1 003	1 101
Currency translation effects	–	68	-19	49
Reclassification & others	–	–	-13	-13
As of December 31, 2016	**–**	**-36 899**	**-10 842**	**-47 741**
Net book values as of December 31, 2015	**24 291**	**78 809**	**2 327**	**105 427**
Net book values as of December 31, 2016	**24 251**	**78 583**	**5 495**	**108 329**
Useful life in years	Indefinite	10 – 50	4 – 8	

In CHF'000	31.12.2016	31.12.2015
Corporate buildings on land whose owner has granted a permanent and specific right of use	7 797	6 708

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EQUIPMENT AND MACHINES

In CHF'000	Technical equipment and machinery	Other equipment	Total
GROSS VALUES AT COST			
As of January 1, 2015	**149 019**	**10 814**	**159 832**
Additions	15 383	1 132	16 515
Impact of business combinations	387	1 593	1 980
Disposals and retirements	-10 179	-1 051	-11 230
Currency translation effects	-4 891	-639	-5 530
Reclassification & others	149	-119	31
As of January 1, 2016	**149 867**	**11 730**	**161 598**
Additions	18 170	3 203	21 374
Impact of business combinations	357	59	416
Disposals and retirements	-5 713	-1 405	-7 118
Currency translation effects	-4	205	201
Reclassification & others	7	-331	-323
As of December 31, 2016	**162 686**	**13 462**	**176 147**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
As of January 1, 2015	**-121 473**	**-7 955**	**-129 428**
Systematic depreciation	-11 741	-1 530	-13 271
Impairment	-6	–	-6
Disposals and retirements	10 036	1 064	11 101
Currency translation effects	3 404	293	3 696
Reclassification & others	-74	76	2
As of January 1, 2016	**-119 854**	**-8 051**	**-127 905**
Systematic depreciation	-11 829	-1 365	-13 194
Impairment	-1 144	-5	-1 149
Disposals and retirements	5 327	559	5 886
Currency translation effects	-80	-91	-172
Reclassification & others	-14	27	13
As of December 31, 2016	**-127 594**	**-8 927**	**-136 520**
Net book values as of December 31, 2015	**30 014**	**3 679**	**33 693**
Net book values as of December 31, 2016	**35 092**	**4 535**	**39 628**
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 relates mainly to assets made available to clients which had to be impaired following a contract renegotiation with a customer.

15. INTANGIBLE ASSETS

In CHF'000	Technol-ogy	Customer lists, Trade-marks & Brands	Software	Goodwill	Other intangibles	Total
GROSS VALUES AT COST						
As of January 1, 2015	**125 228**	**51 886**	**68 109**	**272 099**	**731**	**518 053**
Additions	9 920	–	3 439	–	–	13 359
Impact of business combinations	–	4 562	250	18 450	–	23 262
Disposals and retirements	-1 384	–	-310	–	-2	-1 696
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	-5 457	-7 597	-864	-21 624	-60	-35 602
As of January 1, 2016	**128 307**	**48 851**	**70 616**	**268 925**	**669**	**517 368**
Additions	10 643	31	9 225	–	–	19 898
Impact of business combinations	1 693	13 092	65	63 415	70	78 334
Disposals and retirements	-2 134	–	-754	–	-15	-2 903
Currency translation effects	1 009	2 409	168	10 526	4	14 117
As of December 31, 2016	**139 517**	**64 383**	**79 320**	**342 865**	**728**	**626 814**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As of January 1, 2015	**-82 241**	**-6 773**	**-59 960**	**–**	**-530**	**-149 504**
Systematic amortization	-14 497	-5 142	-2 659	–	-186	-22 484
Impairment	-994	–	-591	–	–	-1 586
Recovery of amortization on disposal and retirements	1 384	–	310	–	2	1 695
Reclassification & others	–	–	-8	–	–	-8
Currency translation effects	2 096	903	603	–	45	3 646
As of January 1, 2016	**-94 253**	**-11 013**	**-62 305**	**–**	**-669**	**-168 241**
Systematic amortization	-10 245	-6 423	-2 506	–	-57	-19 231
Impairment	-6 724	–	–	–	–	-6 724
Recovery of amortization on disposal and retirements	2 134	–	572	–	15	2 722
Currency translation effects	-607	-433	-160	–	-3	-1 203
As of December 31, 2016	**-109 695**	**-17 869**	**-64 398**	**–**	**-714**	**-192 676**
Net book values as of December 31, 2015	**34 054**	**37 839**	**8 311**	**268 925**	**–**	**349 128**
Net book values as of December 31, 2016	**29 822**	**46 514**	**14 922**	**342 865**	**14**	**434 138**
Useful life in years	4 – 10	5 – 10	3 – 4	Indefinite	4	

2016 Technology impairment mainly relates 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 2016, kCHF 312 846 of goodwill has been allocated to Integrated Digital Television (2015: kCHF 246 520) and kCHF 30 019 (2015: kCHF 22 405) 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 8.5% (2015: 9.0%). The cash flows beyond that five-year plan have been extrapolated using a steady growth rate of 1.5% per annum (2015: 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 2016 and 2015, management analyzed independently reasonable possible changes in the plan for changes in discount rate, changes in growth rate in perpetuity and the loss of key customers representing approximately 10% of recurring revenue. Based on such analyses, and on the fact that headroom is more than one multiple of the carrying value of goodwill, management concludes that any reasonably possible change in key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

16. INVESTMENT PROPERTY

In 2016, rental income and direct operating expenses for the investment property were kCHF 6 (2015: kCHF 219) and kCHF 1 (2015 : kCHF 7) respectively. In January 2016, the investment property was sold for CHF 2.3 million, corresponding to its fair value as of December 31, 2015.

In CHF'000	Investment property
GROSS VALUES AT COST	
As of January 1, 2015	**2 697**
Currency translation effects	-270
As of December 31, 2015	**2 427**
Disposal	-2 445
Currency translation effects	18
As of December 31, 2016	**–**
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
As of January 1, 2015	**-1 350**
Systematic depreciation	-115
Currency translation effects	134
As of December 31, 2015	**-1 331**
Systematic depreciation	-3
Disposal	1 344
Currency translation effects	-10
As of December 31, 2016	**–**
Net book values as of December 31, 2015	**1 096**
Net book values as of December 31, 2016	**–**
Useful life in years (excluding land which is not subject to depreciation)	5 – 50

17. INVESTMENTS IN ASSOCIATES

In CHF'000	2016	2015
At January 1	**4 499**	**6 217**
Share of profit	841	1 671
Dividends received	-1 252	-1 190
Acquisition of associated companies	1 010	–
Associated company fully consolidated	–	-2 095
Currency translation effects	-85	-104
At December 31	**5 013**	**4 499**

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

		Interest held	
Name of associate	**Principal activity**	**2016**	**2015**
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%	0%
Swiss Peak Experience SA, Switzerland	Sales of Public Access products	45%	0%
iWedia SA, Switzerland	Digital Television sales and service	40%	40%
Kryptus Segurança da Informaçao Ltda.	Cyber Security activities	* 16%	0%

*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 CHF'000	31.12.2016	31.12.2015
Total assets	27 529	31 217
Total liabilities	15 030	18 803
Net assets	12 499	12 414
Group's share of associates' net assets	3 705	3 981

	2016	2015
Revenue	46 335	40 228
Result of the period	3 542	5 994
Group's share of associates' result for the period	841	1 671

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18. DEFERRED INCOME TAXES

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

In CHF'000	31.12.2016	31.12.2015
Deferred tax assets	62 104	61 407
Deferred tax liabilities	-11 009	-11 509
	51 095	**49 898**

Movement on the deferred income tax account is as follows:

In CHF'000	Note	2016	2015
At January 1		**49 898**	**42 880**
Exchange differences		-175	1 098
Recognized against other comprehensive income		974	2 811
Impact of business combinations		-1 834	-2 222
Income statement (expense)/income	12	2 232	5 331
At December 31		**51 095**	**49 898**

The movement in deferred tax assets and liabilities during 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

In CHF'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	31 412	-2 250	–	–	1	29 163
- employee benefits	16 719	-3 174	–	974	-22	14 497
- tax losses	9 791	4 861	–	–	198	14 850
- provisions and other elements tax deductible when paid	1 710	787	–	–	43	2 540
- inter-company profit elimination	1 773	876	–	–	-34	2 615
- others	50	147	–	–	21	218
Total deferred tax assets (gross)	**61 455**	**1 247**	**–**	**974**	**207**	**63 883**
Deferred tax liabilities associated with						
- affiliates and allowances for Group companies	6	-6	–	–	–	–
- intangibles	-11 245	1 813	–	–	-439	-9 871
- provisions & accelerated tax depreciation	-575	307	-1 834	–	39	-2 063
- others	257	-1 129	–	–	18	-854
Total deferred tax liabilities (gross)	**-11 557**	**985**	**-1 834**	**–**	**-382**	**-12 788**
Net deferred tax asset/(liability)	**49 898**	**2 232**	**-1 834**	**974**	**-175**	**51 095**

And for 2015:

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

UNRECOGNIZED TAX LOSSES CARRIED FORWARD

At the balance sheet date, the Group has unused tax losses and temporary differences of CHF 896.9 million (2015: CHF 926.6 million) available for offset against future profits. A deferred tax asset has been recognized in respect of CHF 289.2 million (2015: CHF 283.5 million) of such losses and temporary differences. No deferred tax asset has been recognized for the remaining CHF 607.7 million (2015: CHF 643.2 million) due to the unpredictability of future profit streams. The amount of unused tax losses carried forward which have not been capitalized as deferred tax assets, with their expiry dates, is as follows:

In CHF million	2016	2015
Expiration within:		
One year	1.3	3.6
Two years	32.1	1.3
Three years	30.3	61.1
Four years	37.8	32.6
Five years	20.0	36.4
More than five years	486.2	508.2
Total	**607.7**	**643.2**

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19. FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In CHF'000	31.12.2016	31.12.2015
Available-for-sale financial assets:		
- equity instruments with no quoted market price (at cost less impairment)	500	500
- equity instruments with no quoted market price (level 3)	400	400
- marketable securities (level 1)	621	417
Loan – third party	9 361	7 191
State and government institutions	15 275	11 646
Deferred contract cost (long-term portion)	1 678	10 513
Contingent consideration	–	7 383
Trade accounts receivable (long-term portion)	1 772	1 938
Guarantee deposits	2 667	3 320
Prepaid expenses and accrued income (long-term portion)	925	743
	33 199	**44 051**

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 kCHF 500 (2015: kCHF 500). Also included is one equity instrument listed in an active market and classified as marketable securities for kCHF 621 (2015: kCHF 417).

Third party loans are measured at amortized cost. The effective interest rate on third party loans is 2.51% (2015: 2.49%). State and government institutions include government grants for R&D projects that will not be received within the next 12 months.

Contingent consideration (earn-out payment) relates to the sale of NagraID Security SA in 2014. During 2016, the Group determined that the realization of this contingent consideration was not likely and impaired it in totality.

20. INVENTORIES

In CHF'000	31.12.2016	31.12.2015
Raw materials	5 176	1 727
Work in progress	6 334	4 360
Finished goods	42 508	42 000
	54 019	**48 087**

The cost of inventories recognised as an expense includes kCHF 176 (2015: kCHF 4 311) in respect of write-downs, and has been reduced by kCHF 86 (2015: kCHF 787) in respect of the reversal of such write-downs.

Changes in inventories of finished goods and work in progress included in cost of material are kCHF -4 509 (2015: kCHF 6 833).

21. TRADE ACCOUNTS RECEIVABLE

In CHF'000	31.12.2016	31.12.2015
Trade accounts receivable	263 358	245 517
Less: provision for impairment	-25 125	-20 811
Trade accounts receivable related parties	1 601	3 596
Trade receivables – net	**239 834**	**228 302**
Amounts due from customers for contract work	43 645	28 675
Total	**283 479**	**256 977**

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

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

In CHF'000	2016	2015
January 1,	**-20 811**	**-22 512**
Provision for impairment charged to income statement	-7 402	-2 753
Utilization	606	944
Reversal	3 074	3 152
Change in scope	-522	–
Translation effects	-70	358
December 31,	**-25 125**	**-20 811**

The creation and release of the provision for impairment are included in other operating expenses in the income statement. Provisions recognized for the impairment of trade receivables amount to kCHF -7 402 (2015: kCHF -2 753). Amounts charged to the provision for impairment account are written-off when there is no expectation to recover additional cash.

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

In CHF'000	31.12.2016	31.12.2015
Not overdue	133 717	133 788
Past due and not impaired:		
- not more than one month	48 981	49 234
- more than one month and not more than three months	25 287	22 609
- more than three months and not more than six months	18 475	7 451
- more than six months and not more than one year	9 989	9 231
- more than one year	3 385	5 989
Total trade accounts receivable, net	**239 834**	**228 302**

As at 31 December 2016, trade receivables of mCHF 106 (2015 : mCHF 95) 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.

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22. OTHER CURRENT ASSETS

In CHF'000	31.12.2016	31.12.2015
Loans third parties – short term portion	16	15
Prepaid expenses	13 784	12 483
Accrued income	2 031	1 216
State and government institutions	28 231	18 366
Advances to suppliers and employees	7 905	2 569
Deferred contract cost (short term portion)	9 889	9 941
Other receivables - third parties	3 429	1 968
Other receivables - related parties	1 401	1 333
	66 687	**47 892**

Loans are measured at amortized cost. The effective interest rate on short term loans was 1.53% (2015: 2.32%).

23. CASH AND CASH EQUIVALENTS

In CHF'000	31.12.2016	31.12.2015
Cash at bank and in hand	173 459	130 964
Short term deposits	3 598	5 876
	177 057	**136 840**

The effective interest rate on short term deposits was 0.32% (2015: 0.70%). These deposits have an average maturity of 30 days. The Group only enters into transactions with highly rated banks.

24. SHARE CAPITAL

ISSUED AND FULLY PAID SHARE CAPITAL

In CHF'000	31.12.2016	31.12.2015
49'620'619 / 49'461'147 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	396 965	494 611
46'300'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	37 040	46 300
	434 005	**540 911**

Following the resolution of the General Assembly on March 22, 2016, the nominal values of the bearer and registered shares was reduced from CHF 10 to CHF 8 and from CHF 1 to CHF 0.80 respectively.

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

AUTHORIZED SHARE CAPITAL

In CHF'000	2016	2015
3'768'164 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	30 145	37 682
3'200'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	2 560	3 200
Authorized share capital as of December 31	**32 705**	**40 882**

The Board of Directors is authorized to increase the share capital in one or more stages until March 22, 2018, for the purpose of financing the full or partial acquisition of other companies.

CONDITIONAL SHARE CAPITAL

In CHF'000	2016	2015
Conditional share capital as of January 1	108 526	110 390
Reduction of nominal value of share capital	-21 408	–
Employee share purchase plan	-85	-81
Shares allotted to employees	-1 488	-1 783
Conditional share capital as of December 31	**85 545**	**108 526**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each (31.12.2015: CHF 10 each)	80 000	100 000
- Options or share subscriptions to employees:		
693'137 / 852'609 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	5 545	8 526
	85 545	**108 526**

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25. NON-CONTROLLING INTERESTS

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

As at December 31, 2016 (in CHF'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	2 681	37 630
Current Assets	40 614	436
Non-current liabilities	–	11 673
Current liabilities	19 253	194
Total Equity	**24 042**	**26 199**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	12 021	13 126
Carrying amount of non-controlling interests	**12 021**	**13 126**
Revenue	25 412	4 047
Net result	12 028	2 151
Other comprehensive income	603	656
Total comprehensive income	12 631	2 807
Total comprehensive income allocated to non-controlling interests	6 315	1 406
Dividend paid to non controlling interests	-4 926	–
Net increase /(decrease) in cash and cash equivalents	4 220	-143

As at December 31, 2015 (in CHF'000)	Nagrastar	275, Sacramento Street LLC
Non-controlling interests percentage	**50.0%**	**50.1%**
Non-current assets	3 998	36 834
Current Assets	38 584	633
Non-current liabilities	–	13 761
Current liabilities	21 320	314
Total Equity	**21 263**	**23 392**
Non-controlling interests percentage	50%	50.1%
Theoritical amount of non-controlling interests	10 631	11 719
Carrying amount of non-controlling interests	**10 631**	**11 719**
Revenue	25 851	4 043
Net result	11 439	1 688
Other comprehensive income	51	507
Total comprehensive income	11 490	2 195
Total comprehensive income allocated to non-controlling interests	5 745	1 100
Dividend paid to non controlling interests	-4 814	-482
Net increase /(decrease) in cash and cash equivalents	3 026	-401

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

26. LONG TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2016	31.12.2015
CHF 200 million 1.875% bond 2015/2022	27	199 307	199 188
CHF 150 million 1.5% bond 2016/2024	27	149 356	–
Other long term financial liabilities		86	472
		348 749	**199 660**

27. BONDS

On June 16, 2011 Kudelski SA issued a CHF 110 million bond with a subscription price of 100.284%, bearing an interest rate of 3% and maturing on December 16, 2016, with denominations of CHF 5 000 and multiples thereof. The bonds are measured at amortized cost using the effective interest rate method. The proceeds amounted to kCHF 110 312 less issuance costs of kCHF 1 786 totaling an initial net proceed of kCHF 108 526 and resulting in an effective interest rate of 3.32%. The Group repurchased kCHF 6 980 of this bond in 2015 and the remaining 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 5'000.- nominal and multiples thereof. The proceeds amounted to kCHF 200'000 less issuance costs of kCHF 870 totaling an initial net proceed of kCHF 199'130 and resulting in an effective interest rate of 1.97%.

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 less issuance costs of kCHF 665 totaling an initial net proceed of kCHF 149'335 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 CHF'000	2016	2015
Initial balance	**301 949**	**109 444**
Net proceeds from bond issuance	149 335	199 130
Amortization of transaction costs less premium	140	355
Reimbursement and repurchase	-102 761	-6 980
Liability component as of December 31	**348 663**	**301 949**
of which:		
- short term portion (bond 2011/2016)	–	102 761
- long term portion (bond 2015/2022)	199 307	199 188
- long term portion (bond 2016/2024)	149 356	–
	348 663	**301 949**

28. 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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- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular-basis.

ABROAD

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

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

In CHF'000	31.12.2016	31.12.2015
Fair value of plan assets	166 905	156 621
Defined benefit obligation	-234 280	-234 444
Funded status	**-67 375**	**-77 823**
Other comprehensive income	-32 514	-28 262
Prepaid/(accrued) pension cost	-34 860	-49 562
Funded status	**-67 375**	**-77 823**

In accordance with IAS 19, the following amount is recorded as net pension cost in the income statement for the financial years 2016 and 2015:

In CHF'000	Note	2016	2015
Service cost		-20 545	-19 528
Employees contributions		5 819	5 638
Amortization of gains/(losses)		121	-14
Curtailment gain / (loss)		247	–
Impact of plan amendment		22 460	–
Total recognized in employee benefits expense	**7**	**8 103**	**-13 904**
Interest cost		-2 555	-3 206
Interest income		1 650	2 253
Total recognized in interest expense	**10**	**-904**	**-954**
Net pension (cost)/income		**7 199**	**-14 857**

The impact of plan amendment relates to a 2016 Board of Trustees of the Swiss pension plan decision to reduce the conversion rate (factor used to determine monthly benefits at the date of retirement) of the plan effective 1 January 2017.

The main assumptions used for the calculation of the pension cost and the defined benefit obligation for the years 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Switzerland		
Discount rate	0.85%	1.00%
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	0.85%	1.00%
Turnover *(on average)*	10.0%	10.0%
Abroad		
Discount rate	1.95%	2.23%
Rate of future increase in compensations	2.66%	2.63%
Turnover *(on average)*	5.7%	5.8%

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

	31.12.2016	31.12.2015
Weighted average duration of the defined benefit obligation in years		
Switzerland	23.8	24.4
Abroad	15.9	15.6

The changes in defined benefit obligation and fair value of plan assets during the years 2016 and 2015 are as follows:

A. Change in defined benefit obligation

In CHF'000	2016	2015
Defined benefit obligation as of 1.1.	**-234 444**	**-206 427**
Service cost	-20 545	-19 528
Interest cost	-2 555	-3 206
Change in demographic assumptions	-11 033	-8
Change in financial assumptions	-2 120	-10 089
Other actuarial gains / (losses)	6 293	-1 509
Benefits payments	7 678	4 115
Exchange rate difference	-141	2 209
Curtailment	247	–
Acquisition of subsidiaries	-121	–
Plan amendment	22 460	–
Defined benefit obligation as of December 31,	**-234 280**	**-234 444**

B. Change in fair value of plan assets

In CHF'000	2 016	2 015
Fair value of plan assets as of 1.1.	**156 621**	**147 554**
Interest income	1 650	2 253
Employees' contributions	5 819	5 638
Employer's contribution	7 603	7 782
Plan assets gains/(losses)	2 648	-1 651
Benefit payments	-7 678	-4 115
Exchange rate difference	241	-841
Fair value of plan assets as of December 31,	**166 905**	**156 621**

The actual return on plan assets amounts to kCHF 4 299 in 2016 (kCHF 602 for the year 2015). The estimated employer's contribution to the pension plans for the year 2017 is kCHF 7 238.

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The categories of plan assets, all of which are easily convertible to cash, are stated at their fair value at December 31, 2016 and 2015 as follows:

In CHF'000	31.12.2016	Proportion in % 31.12.2016	31.12.2015	Proportion in % 31.12.2015
Cash	2 961	1.8%	1 205	0.8%
Swiss bonds	34 329	20.6%	39 492	25.2%
Foreign bonds	15 999	9.6%	9 986	6.4%
Swiss shares	34 911	20.9%	55 001	35.1%
Foreign shares	34 311	20.6%	33 525	21.4%
Real estate	29 146	17.5%	6 792	4.3%
Alternative investments	10 070	6.0%	5 622	3.6%
Assets held by insurance company	5 178	3.1%	4 998	3.2%
Total	**166 905**	**100.0%**	**156 621**	**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 CHF'000	Switzerland	Abroad
2017	8 157	102
2018	7 690	83
2019	7 291	96
2020	6 804	106
2021	6 338	145
2022-2026	26 623	2 657

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 2016 year-end defined benefit obligation		Change in 2015 year-end defined benefit obligation	
	Switzerland	Abroad	Switzerland	Abroad
	In CHF'000	In CHF'000	In CHF'000	In CHF'000
50 basis point increase in discount rate	-23 532	-1 288	-24 295	-1 217
50 basis point decrease in discount rate	27 969	1 489	28 797	1 241
50 basis point increase in rate of salary increase	205	n/a	273	n/a
50 basis point decrease in rate of salary increase	-227	n/a	-297	n/a
50 basis point increase in rate of pension increase	15 611	n/a	15 480	n/a
50 basis point decrease in rate of pension increase	-14 042	n/a	-13 995	n/a
50 basis point increase of interest in saving accounts	8 296	n/a	9 192	n/a
50 basis point decrease of interest in saving accounts	-7 792	n/a	-8 606	n/a
50 basis point increase of turnover	-2 337	n/a	-2 400	n/a
50 basis point decrease of turnover	2 208	n/a	2 182	n/a

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.

29. OTHER LONG TERM LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

In CHF'000	31.12.2016	31.12.2015
Long-term loans - third parties	6 809	11 015
Deferred consideration	4 104	4 771
Contingent consideration	3 655	4 012
Advance from customer (long-term portion)	8 592	–
Other long-term liabilities	1 186	1 154
	24 346	**20 952**

Long-term loans – third parties relate to loans granted by sellers in connection with 2015 business combinations. The effective interest rate is 2.80% (2015 : 3.28%.)

Deferred and contingent consideration balances include the long-term portions of deferred fixed and contingent earn-out payments in connection with the acquisitions of Sentry Control Systems LLC in 2015, as well as Protection Technology, Inc. and Mexico Grupo Signal S.A. de C.V. in 2016. Assumptions for contingent consideration include discount rates varying from 4.0% to 7.6% and are dependent on the achievement of certain financial performance targets of the acquired companies and are reviewed by management on a periodic basis.

30. SHORT TERM FINANCIAL DEBT

In CHF'000	Note	31.12.2016	31.12.2015
Short term bank borrowings		31 911	20 503
CHF 110 million 3% bond 2011/2016	27	–	102 761
Other short term financial liabilities		32	195
		31 943	**123 459**

The average effective interest rate paid in 2016 for short term bank borrowings was 1.26% (2015: 1.53%).

31. TRADE ACCOUNTS PAYABLE

In CHF'000	31.12.2016	31.12.2015
Trade accounts payable – third parties	67 608	50 640
Trade accounts payable – related parties	191	22
	67 799	**50 662**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

32. OTHER CURRENT LIABILITIES

In CHF'000	31.12.2016	31.12.2015
Accrued expenses	97 055	76 293
Deferred income	25 086	26 391
Deferred consideration	3 357	1 889
Contingent consideration (level 3)	5 510	686
Payable to pension fund	652	488
Other payables	24 641	17 662
	156 300	**123 409**

Deferred and contingent consideration balances include the short-term portion of deferred fix and earn-out payments in connection with the acquisitions of Sentry, Kudelski Security, Inc. (formerly Milestone Systems, Inc.) and other SKIDATA newly acquired subsidiaries.

33. ADVANCES RECEIVED FROM CLIENTS

In CHF'000	31.12.2016	31.12.2015
Amounts due to customers for contract work	2 617	3 590
Advances from clients	29 852	18 450
	32 469	**22 040**

34. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract of underlying principal amount		Assets		Liabilities	
In CHF'000	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Currency related instruments (level 2)						
- Over the counter currency options	30 450	42 132	327	39	-98	-434
- Forward contracts	10 150	19 800	28	326	–	–
Total of derivatives financial instruments	**40 600**	**61 932**	**355**	**365**	**-98**	**-434**

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

There were non long-term derivative instruments at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

35. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

In CHF'000	Restructuring provisions	Legal fee and litigations	Provision for warranty	Total 2016	Total 2015
As of January 1	**825**	**59**	**1 884**	**2 768**	**5 061**
Additional provisions	8 789	144	522	9 455	718
Change in scope of consolidation	–	–	–	–	794
Unused amounts reversed	–	–	-168	-168	-160
Used during the year	-1 679	–	-17	-1 696	-3 093
Exchange differences	-281	-3	22	-262	-552
As of December 31	**7 654**	**200**	**2 243**	**10 097**	**2 768**

Restructuring provisions

2016 and 2015 restructuring provision relates to commitments for lay-offs and outplacement fees amounting to kCHF 7 654 (2015: kCHF 760) following internal reorganziatiton and the closure of selected sites. The 2015 provision also includes kCHF 65 for a lease termination that was considered an onerous contract.

Legal fees and litigation

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them. Such claims, in whole or in part, might not be covered by insurance. The provisions for legal fees and 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.

36. DISCONTINUED OPERATIONS

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 kCHF 7 443.
Prior to this disposal, the Group acquired the remaining 50% of outstanding shares of NIDS from its former management. The total consideration also included a contingent liabililty based on similar patterns noted above. As a result of the impairment above, the Group has also written off the contingent liability for kCHF 1 461 and has treated this operation as a transaction with minority interest.

37. RESEARCH AND DEVELOPMENT

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

In CHF'000	2016	2015
Research and development	196 842	192 578

38. DIVIDEND

No dividend was paid during the year ended 31 December 2016. Since year end, the Board of Directors have proposed a distribution of kCHF 18 988, representing CHF 0.35 per bearer share and CHF 0.035 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 0.25 per bearer share (CHF 0.025 per registered share) from capital contribution reserves and CHF 0.10 per bearer share (CHF 0.01 per registered share) from retained earnings at 31 December 2016 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.

39. 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 2016	Shares 2015
Shares underwritten by employees	6 400	6 790
Bonus shares from ESPP	1 280	1 358
Total employee share program	**7 680**	**8 148**
Amount paid by employee (In CHF'000)	84	61
Booked corporate charges (excluding social charges) (In CHF'000)	37	26
	121	**87**

SHARES ISSUED TO EMPLOYEES

In 2016, 151 792 (2015: 178 290) bearer shares of Kudelski SA were given to employees for no consideration as part of their compensation, of which 110 497 (2015: 138 705) include a seven-year blocking period and 41 295 (2015: 39 585) include a three-year blocking period. The fair value recognized for this equity based compensation is kCHF 1 583 (2015: kCHF 1 261)

40. RELATED PARTIES

Trading transactions

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

	Sale of goods and services		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
In CHF'000	**2016**	**2015**	**2016**	**2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
APT-Skidata Ltd	8 386	9 377	–	–	–	–	310	2 062
SKIDATA Parking System	2 919	3 163	–	–	–	–	781	922
SKIDATA India Private Limited	948	309	–	–	–	10	74	205
iWedia SA	163	155	1 753	403	484	88	59	34
Total associated companies	**12 415**	**13 004**	**1 753**	**403**	**484**	**98**	**1 224**	**3 223**
Audio Technology Switzerland SA	–	–	–	–	–	–	1 619	1 619
Total other related	**–**	**–**	**–**	**–**	**–**	**–**	**1 619**	**1 619**

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

Services provided to/by associates and other related parties are performed at arm's length. The associates are listed in Note 17. 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 CHF'000	**2016**	**2015**
Salaries and other short-term employees benefits	9 555	9 162
Post-employments benefits	89	105
Share-based payments	1 034	1 064
	10 678	**10 331**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

41. SHAREHOLDINGS AND LOANS

PRINCIPAL SHAREHOLDERS

	Voting rights		Shareholdings	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Kudelski family pool	**63%**	**63%**	**35%**	**35%**

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

BOARD OF DIRECTORS AND MANAGEMENT

As of December 31, 2016 and 2015, the members of the Board of Directors and members of Group management had the following interest in the company (without including shares from 2016 and 2015 variable compensation - issued in 2017 and 2016 respectively):

	31.12.2016	31.12.2015
	Bearer shares	Bearer shares
Board of Directors		
Kudelski André, chairman (as member of the family pool)	14 474 423	14 394 423
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	–
Total board members	**14 483 313**	**14 402 063**
Management		
Kudelski André, CEO	see above	see above
Saladini Mauro, CFO	108 214	173 272
Roy Pierre, COO	47 956	61 236
Total Management (excluding CEO)	**156 170**	**234 508**

The Kudelski family pool also owns 46 300 000 registered shares of Kudelski SA as of December 31, 2016 and 2015.

No loans were granted in 2016 and 2015 to the members of the Board of Directors and Group management.

42. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

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

In CHF'000	2 016	2 015
Within one year	13 517	11 792
In the second to fifth year inclusive	36 859	23 932
More than five years	5 356	8 119
	55 732	**43 843**

43. CATEGORIES OF FINANCIAL INSTRUMENTS

The financial assets and liabilities are classified as follow as of December 31, 2016:

Assets as per balance sheet date December 31, 2016 (in CHF'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2016
Financial assets and non current assets:						
- equity instruments with no quoted market price	19	–	–	900	–	900
- marketable securities	19	–	–	621	–	621
- long term loans	19	–	–	–	9 361	9 361
- Trade accounts receivable - long-term portion	19	–	–	–	1 772	1 772
- guarantee deposits	19	–	–	–	2 667	2 667
Trade accounts receivable	21	–	–	–	239 834	239 834
Other current assets:						
- Loans	22	–	–	–	16	16
Derivative financial instruments (short term)	34	355	–	–	–	355
Cash and cash equivalents	23	–	–	–	177 057	177 057
		355	**–**	**1 521**	**430 707**	**432 583**

Liabilities as per balance sheet date December 31, 2016 (in CHF'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	26	–	–	348 749	348 749
Other long term liabilities	29	–	3 655	11 188	14 843
Short term financial debt	30	–	–	31 943	31 943
Trade accounts payable	31	–	–	67 799	67 799
Other current liabilities	32	–	5 510	7 434	12 944
Derivative financial instruments (short term)	34	–	98	–	98
		–	**9 263**	**467 113**	**476 376**

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And for 2015:

Assets as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total 31.12.2015
Financial assets and non current assets:						
- equity instruments with no quoted market price	19	–	–	900	–	900
- marketable securities	19	–	–	417	–	417
- long term loans	19	–	–	–	7 191	7 191
- Trade accounts receivable - long-term portion	19	–	–	–	1 938	1 938
- guarantee deposits	19	–	–	–	3 320	3 320
- contingent consideration	19	–	7 383	–	–	7 383
Trade accounts receivable	21	–	–	–	228 302	228 302
Other current assets:		–	–	–	–	–
- Loans	22	–	–	–	15	15
Derivative financial instruments (short term)	34	326	39	–	–	365
Cash and cash equivalents	23	–	–	–	136 840	136 840
		326	**7 422**	**1 317**	**377 606**	**386 671**

Liabilities as per balance sheet date December 31, 2015 (in CHF'000)	Note	Derivatives used for hedging	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total 31.12.2015
Long term financial debt	26	–	–	199 189	199 189
Other long term liabilities	29	–	8 783	11 487	20 270
Short term financial debt	30	–	–	123 459	123 459
Trade accounts payable	31	–	–	50 662	50 662
Other current liabilities	32	–	2 574	1 956	4 530
Derivative financial instruments (short term)	34	377	57	–	434
		377	**11 414**	**386 753**	**398 544**

44. 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, 2016 and 2015:

In CHF'000		Note	31.12.2016	31.12.2015
Financial assets:				
- marketable securities	Level 1	19	621	417
- derivative financial instruments	Level 2	36	355	365
- equity instuments with no quoted market price	Level 3	19	400	400
- contingent assets	Level 3	19	–	7 383
Total financial assets			**1 376**	**8 565**
Financial liabilities:				
- derivative financial instruments	Level 2	36	98	434
- contingent consideration (short-term portion)	Level 3	34	5 510	686
- contingent consideration (long-term portion)	Level 3	31	3 655	4 012
Total financial liabilities			**9 263**	**5 132**

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. A Level 3 contingent asset consisting of an earn-out relating to a disposed company was impaired totally as the realization of this contingent asset was not likely.
Level 3 contingent liabilities consists of earn-out payments calculated on companies that have been acquired. The fair value is measured using projections reviewed by management, and discount rate comprised between 4.0 and 7.6%.
It also includes a contingent liabililty the Group has written off for kCHF 1 461 in connection with the impairment of the above contingent asset.

RECONCILIATION OF LEVEL 3 FAIR VALUES:

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

In CHF'000	Equity instruments with no quoted market price	Contingent assets	Contingent liabilities
Balance at January 1, 2015	400	7 031	-1 381
Assumed in a business combination	–	–	-3 247
Discount effect (recognized in interest expense)	–	352	-70
Balance at December 31, 2015 and January 1, 2016	**400**	**7 383**	**-4 698**
Assumed in a business combination	–	–	-5 505
Assumed in a transaction with non-controlling interest	–	–	-805
Settlements	–	–	467
Impairment	–	-7 443	1 461
Remeasurement (recognized in other operating income)	–	–	267
Discount effect (recognized in interest expense)	–	179	-87
Exchange difference	–	-119	24
Currency translation adjustment	–	–	-289
Balance at December 31, 2016	**400**	**–**	**-9 165**

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

In CHF'000	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Financial liabilities				
- CHF 110 million bond	–	–	102 761	105 905
- CHF 200 million bond	199 307	208 800	199 188	202 600
- CHF 150 million bond	149 356	155 400	–	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

45. 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.

	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
In CHF'000										
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Bonds	6 035	109 881	24 140	15 080	360 600	207 560	-42 112	-30 572	348 663	301 949
Short term financial debt	31 943	20 698	–	–	–	–	–	–	31 943	20 698
Trade accounts payable	67 799	50 662	–	–	–	–	–	–	67 799	50 662
Other payables	24 641	17 662	–	–	–	–	–	–	24 641	17 662
Total	**130 418**	**198 903**	**24 140**	**15 080**	**360 600**	**207 560**	**-42 112**	**-30 572**	**473 046**	**390 971**

46. SENSITIVITY ANALYSIS

Foreign currency

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

The Group is mainly exposed to the USD and the EUR. The following table details the Group's sensitivity to a 10% (2015: 10%) increase and decrease in the USD and a 10% (2015: 20%) increase or decrease in the EUR compared to the presentation currency. The sensitivity rate used approximates the fluctuation considered by management when performing risk analysis. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at period end for the above mentioned change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in post-tax profit when the foreign currency strengthens against the relevant currency.

	USD		EUR	
In CHF'000	**2 016**	**2 015**	**2 016**	**2 015**
Post-tax net income				
- Increase	12 976	3 505	8 588	15 145
- Decrease	-17 537	-6 945	-8 588	-16 210
Comprehensive income (post-tax effect)				
- Increase	11 757	11 622	1 700	3 385
- Decrease	-12 005	-10 354	-1 700	-3 472

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 (2015: 150 basis points increase or 50 decrease)
- EUR: increase of 100 basis points and decrease of 100 basis points (2015: 100 basis points increase or 100 decrease)
- CHF: increase of 100 basis points and decrease of 100 basis points (2015: 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, 2016 would increase by kCHF 1 462 and decrease by kCHF 934 (2015: increase by kCHF 969 and decrease by kCHF 833). This is mainly due to the interest rate exposure on cash balances.
- other comprehensive income would not be impacted in 2016 and 2015.

Equity prices

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

47. COLLATERAL RECEIVED AND GIVEN

In CHF'000	31.12.2016	31.12.2015
Guarantees in favor of third parties	45 520	33 324

48. RISK CONCENTRATION

At December 31, 2016 and 2015, no financial asset exposure was more than 10% of the financial assets.

49. 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 2016 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 2016

50. 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 2016 was 60.2% (2015: 57.2%).

51. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Acquisition of M&S Technologies, Inc.
On January 11, 2017, the Kudelski Group acquired 100% of M&S Technologies, Inc., a specialist provider of cyber and network security solutions. The acquisition is expected to broaden the customer and partnership portfolio of Kudelski Security, the Group's growing cybersecurity division. 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 11, 2017.

At the time the financial statements were authorized for issue, the group had not yet completed the accounting for the acquisition of M&S Technologies, Inc.

52. PRINCIPAL CURRENCY TRANSLATION RATES

	Year end rates used for the consolidated balance sheets		Average rates used for the consolidated income and cash flow statements	
	2 016	2015	2 016	2015
1 USD	1.0150	0.9900	0.9851	0.9627
1 EUR	1.0740	1.0820	1.0901	1.0684
100 CNY	14.6200	15.2450	14.8300	15.3168
100 NOK	11.8100	11.2650	11.7400	11.9412
1 GBP	1.2560	1.4680	1.3352	1.4712
100 BRL	31.2000	25.2000	28.4400	29.2800
100 INR	1.5000	1.5000	1.4662	1.5011
1 SGD	0.7030	0.7000	0.7136	0.7003
100 ZAR	7.4100	6.4000	6.7300	7.5700
100 RUB	1.6600	1.3360	1.4800	1.5864
1 AUD	0.7340	0.7230	0.7329	0.7236

53. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issuance on February 15, 2017.

54. PRINCIPAL OPERATING COMPANIES

Company	Place of incorporation	Activity	Percentage held 2016	2015
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	0
Public Access				
SKIDATA Group	AT – Gartenau	People and car access systems	100	100
Corporate				
Kudelski SA	CH – Cheseaux	Holding, parent company of the Group	100	100

These principal companies are all subsidiaries.

55. 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 2016

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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 statement of financial position as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 con-solidated financial position of the Group as at 31 December 2016 and its consolidated financial perfor-mance and its consolidated cash flows for the year then ended in accordance with the International Fi-nancial 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: CHF 4'690'000

We concluded full scope audit work at 6 reporting units in 4 countries. Our audit scope addressed over 68% of the Group's revenue and 78% of the Group's assets. In addition, specified procedures were performed on 2 reporting units representing a further 13% of the Group's revenue

As key audit matter the following area of focus has been identified:

Goodwill impairment assessment

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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, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Following our assessment of the risk of material misstatement to the Group financial statements and considering the significance of the location's business operations relative to the Group, we selected 8 components which represent the principal business units within the Group's reportable segments. 6 of these components were subject to a full audit and 2 were subject to a specified procedures. The work done at specified procedures components primarily include testing over revenues, receivables and cash.

The components subject to full audit or specified procedures accounted for 81% of Group revenue and 78% of the Group's assets.

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

The group audit team, in addition to the audit of the consolidation, were responsible for auditing 6 components directly, including 4 full scope audit and 2 specified procedures locations. For the other components, the group audit team directed and supervised the audit work performed the 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	CHF 4'690'000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 469'000 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 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" (CHF 313 million) and "Public Access Solutions" (CHF 30 million). The goodwill arising from the Acquisition of Milestone Systems (CHF 33 million) has been allocated to the "Integrated Digital Television" CGU. We focused on this area due to the size of goodwill balance (CHF 343 million as at 31 December 2016) and because the directors' assessment of the 'value in use' of the group's Cash Generating Units involves judgements about the future results of the business and the discount rates applied to future cash flow forecast. The most significant element of the goodwill balance is that recognised on the "Integrated Digital Television" CGU. Although, based on historical performance, the Directors believe there is significant headroom between the value in use of the CGUs and their carrying value, this remained an area of focus for us as a result of the size of the related goodwill balance. For the year ended 31 December 2016 management have performed an impairment assessment over the goodwill balance and performed a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rate, terminal growth rate and WACC) to assess the impact on the valuations. Refer to page 18 (note 2 – Critical accounting estimates and judgements), and pages 29-30 (note 15– Intangible assets) for details of management's impairment test and assumptions.	We evaluated management's cashflow forecasts and the process by which they were developed, including verifying the mathematical accuracy of the underlying calculations. We also compared 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 budgets, and that the key assumptions were subject to oversight by the Directors. We noted that the Board approved budgets cover a period of 3 years, but that forecasts for the purposes of the value in use calculation extend out to 5 years. We therefore made years 4-5 a particular focus area for the procedures below. We compared current year (2016) actual results with the figures included in the prior year (2015) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was materially consistent with forecast performance. We also challenged: • management's key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • the discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research. We found that the growth rate assumptions of 1.5% for Integrated Digital Television were acceptable. We found that the discount rate used by management of 8.5% pre-tax was consistent with market data and industry research. We then stress-tested the assumptions used by analysing the impact on results from using other growth rates and discount rates, which were within a reasonably foreseeable range. We found that significant headroom remained between the stress-tested value in use calculations and the carrying value of the CGUs in the financial statements. Our procedures performed and the evidence provided identified no significant issues with respect

	to the valuation of goodwill impairment assessment.

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.

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- 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

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

Lausanne, 15 February 2017

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015

ASSETS

In CHF'000	Notes	31.12.2016	31.12.2015
Current assets			
Cash and cash equivalents		18 662	31 872
Accounts receivable from Group companies		63 471	33 750
Other current receivables and prepaid expenses	3.1	1 375	1 158
Total current assets		**83 508**	**66 779**
Fixed assets			
Financial assets:			
- Loans to Group companies		731 913	699 578
- Other long term assets		–	1 081
Investments	3.2	399 741	370 053
Total fixed assets		**1 131 654**	**1 070 712**
Total assets		**1 215 162**	**1 137 491**

SHAREHOLDERS' EQUITY AND LIABILITIES

In CHF'000	Notes	31.12.2016	31.12.2015
Short-term liabilities			
Short-term interest-bearing liabilities :			
- Bank overdraft		–	3 268
- Bonds	3.3	–	103 020
Other short-term liabilities :			
- due to third parties		433	403
- due to Group companies		19 248	12 761
Accrued expenses		3 128	2 507
Total short-term liabilities		**22 809**	**121 959**
Long-term liabilities			
Long-term interest-bearing liabilities :			
- Bonds	3.3	350 000	200 000
Total long-term liabilities		**350 000**	**200 000**
Total liabilities		**372 809**	**321 959**
Shareholders' equity			
Share capital		434 005	540 911
Legal reserves:			
- from retained earnings		110 000	110 000
- from capital contribution		97 925	8 300
Retained earnings		156 321	185 815
Net income		44 102	-29 495
Total shareholders' equity	**3.4**	**842 353**	**815 532**
Total liabilities and shareholders' equity		**1 215 162**	**1 137 491**

INCOME STATEMENTS AND PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2016

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

In CHF'000	Notes	2016	2015
Other non operating income		90	–
Financial income	4.1	44 626	17 510
Gain on sale of investments	4.2	–	5 883
Administrative and other expenses		-3 175	-3 266
Financial expenses and exchange result	4.3	4 036	-44 453
Impairment of financial fixed assets	4.4	–	-3 832
Income/(loss) before tax		**45 577**	**-28 156**
Direct taxes (other than income tax)		-1 475	-1 338
Net income/(loss)		**44 102**	**-29 495**

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS FOR THE YEAR 2016

In CHF'000	Legal reserves from capital contribution	Retained earnings
Balance brought forward from previous year	8 300	156 321
Share capital increase	128	–
Share capital reduction	89 497	–
Net result	–	44 102
Total available earnings	**97 925**	**200 423**
Proposal of the Board of Directors:		
Ordinary distribution:		
- CHF 0.35 on 49'620'619* bearer shares (of which CHF 0.25 out of capital contribution reserve and CHF 0.10 out of retained earnings)	-12 405	-4 962
- CHF 0.035 on 46'300'000 registered shares (of which CHF 0.025 out of capital contribution reserve and CHF 0.01 out of retained earnings)	-1 158	-463
Balance to be carried forward	**84 362**	**194 998**

* This figure represents the number of bearer shares which are dividend bearing as of December 31, 2016 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 2016

1. INTRODUCTION

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

2. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Kudelski SA, comply with the requirements of the new Swiss accounting legislation, which became effective since January 1, 2013 and required implementation in 2015, of the Swiss Code of Obligations (SCO).

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

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

FINANCIAL ASSETS

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

CASH AND CASH EQUIVALENTS

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

EXCHANGE RATE DIFFERENCES

Transactions in foreign currencies are accounted for in Swiss francs (CHF) at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are accounted for at year-end rates.
Any resulting exchange differences are included in the respective income statement caption depending upon the nature of the underlying transactions; the aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement, while net gains are deferred.

NOTES TO THE FINANCIAL STATEMENTS 2016

3. NOTES TO THE BALANCE SHEETS

3.1 OTHER CURRENT RECEIVABLES AND PREPAID EXPENSES

In CHF'000	31.12.2016	31.12.2015
Withholding tax	7	66
Other accounts receivable	13	11
Prepaid expenses	1 355	1 080
	1 375	**1 158**

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 2016	2015
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
Nagravision Shanghaï Technical Services	CN – Shanghaï	Research & development and software integration	KCNY	100	M	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
Nagravision (Beijing) Trading Co., Ltd	CN - Beijing	Sales	kCNY	5 000	M	100
Nagra Media Japan K.K.	JP - Tokyo	Sales and support	kJPY	10 000	100	100
Kudelski Norway AS	NO - Oslo	Holding	kNOK	200	100	100
iWedia SA	CH - Lausanne	Solutions for Digital TV	kCHF	750	40	40
Kryptus Segurança da Informaçao Ltda.	BR - Sao Paulo	Cyber Security Solutions	kBRL	298	16	0
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	100	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	0

M : Merged companies

SIGNIFICANT INDIRECT INVESTMENTS

Company	Location	Activity	Share capital		Percentage held and voting rights 2016	2015
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	0
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	50

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

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, 2014	**539 047**	**110 000**	**19 111**	**191 224**	**859 382**
Dividend	–	–	-10 817	-5 408	-16 225
Share capital increase	1 864	–	6	–	1 870
Net Income	–	–	–	-29 495	-29 495
As of December 31, 2015	**540 911**	**110 000**	**8 300**	**156 321**	**815 532**
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**

NOTES TO THE FINANCIAL STATEMENTS 2016

SHARE CAPITAL

In CHF'000	31.12.2016	31.12.2015
49'620'619 / 49'461'147 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	396 965	494 611
46'300'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	37 040	46 300
	434 005	**540 911**

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	2016	2015
Conditional share capital as of January 1	108 526	110 390
Reduction of nominal share value	-21 408	–
Employee share purchase plan	-85	-81
Shares allotted to employees	-1 488	-1 783
Conditional share capital at December 31	**85 545**	**108 526**
Of which may be utilized as of December 31 for:		
- Convertible bonds:		
10'000'000 bearer shares, at CHF 8 each (31.12.2015: CHF 10 each)	80 000	100 000
- Options or share subscriptions to employees:		
693'137 / 852'609 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	5 545	8 526
	85 545	**108 526**

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AUTHORIZED SHARE CAPITAL (ARTICLE 7 OF ARTICLES OF INCORPORATION)

In CHF'000	31.12.2016	31.12.2015
3'768'164 bearer shares, at CHF 8 each (31.12.2015 : CHF 10 each)	30 145	37 682
3'200'000 registered shares, at CHF 0.80 each (31.12.2015 : CHF 1 each)	2 560	3 200
Authorized share capital as of December 31	**32 705**	**40 882**

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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Kudelski family pool	63%	63%	35%	35%

4. NOTES TO THE INCOME STATEMENTS

4.1 FINANCIAL INCOME

In CHF'000	2016	2015
Dividends received from Group subsidiaries	20 887	–
Interest income third parties	170	177
Interest on loans to Group subsidiaries	23 366	17 333
Value adjustment on investments	203	–
	44 626	**17 510**

4.2 GAIN/(LOSS) ON SALE OF INVESTMENTS

The 2015 gain on sale of investments is mainly due to the sale of 22.5% of SmarDTV SA to EchoStar for kCHF 5 766.

4.3 FINANCIAL EXPENSES AND EXCHANGE RESULTS

In CHF'000	2016	2015
Net currency exchange result	12 186	-32 311
Interest on loans from Group subsidiaries	-77	-18
Interest expenses and bank charges	-8 074	-12 124
	4 036	**-44 453**

4.4 IMPAIRMENT OF FINANCIAL FIXED ASSETS

In CHF'000	2016	2015
Change in provision on Group investments and loans	–	-3 000
Value adjustment on investments	–	-832
	–	**-3 832**

NOTES TO THE FINANCIAL STATEMENTS 2016

5. COMMITMENTS AND CONTINGENCIES

In CHF'000	**31.12.2016**	**31.12.2015**
Guarantee commitments		
Commitment in favor of third parties	5 610	1 699
	5 610	**1 699**
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 2016 and 2015 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 2016

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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 2016, 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 2016 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 500'000

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.

As key audit matter the following area of focus has been identified:

Judgement in valuation of investments and loans to Group companies

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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 500'000
How we determined it	Assigned by group auditor
Rationale for the materiality benchmark applied	We initially chose total assets as the benchmark because Kudelski SA is a holding company that mainly holds investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore total assets is a generally accepted benchmark for determining the materiality according to auditing standards. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards. This calculation results in an overall materiality of CHF 12'150'000. However, because the materiality allocated by the group auditor (CHF 500'000) was lower, the audit was performed using this lower materiality threshold.

We agreed with the Audit Committee that we would report to them misstatements above CHF 50'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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.

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Judgement in valuation of investments and loans to Group companies

Key audit matter	*How our audit addressed the key audit matter*
Kudelski SA's investments and loans to Group companies are valued at CHF 400 million and CHF 732 million respectively. We focused on this area due to the size these balances and because the directors' assessment of the Enterprise Value involves judgements about the future results of the business and the discount rates applied to future cash flow forecast. For the year ended 31 December 2016, management have performed an impairment assessment over financial fixed assets balances. To determine the Enterprise Value management relies on a discounted cash flow method. Refer to page 65 (note 3.2– Investments) for details of the investments.	We evaluated management's cashflow forecasts and the process by which they were developed, including verifying the mathematical accuracy of the underlying calculations. We compared the consistency of management's profitability forecasts with those included in the annual goodwill impairment test (consolidated accounts). We found that the budgets used in the Enterprise Value calculations were consistent with the Board approved budgets, and that the key assumptions were subject to oversight by the Directors. We noted that the Board approved budgets cover a period of 3 years, but that forecasts for the purposes of the enterprise value calculation extend out to 5 years. We therefore made years 4-5 a particular focus area for the procedures below. We compared current year (2016) actual results with the figures included in the prior year (2015) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was materially consistent with forecast performance. We also challenged: • management's key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic and industry forecasts; and • the discount rate used in the model by assessing the cost of capital for the Group by comparing it to market data and industry research. We found that the growth rate assumptions of 1.5% for Integrated Digital Television were acceptable. We found that the discount rate used by management of 8.5% pre-tax was consistent with market data and industry research. We then stress-tested the assumptions used by analysing the impact on results from using other growth rates and discount rates, which were with-

	in a reasonably foreseeable range. A small variation of the assumptions results in a value (recoverable amount) lower than the carrying statutory values. We have not identified any significant issues with the valuation of the financial fixed assets at the balance sheet date.

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

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

Lausanne, 15 February 2017

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