

# KUDELSKI GROUP ANNUAL REPORT 2010

**60**  
YEARS  
OF INNOVATION  
1951-2011  
**NAGRA**  
KUDELSKI GROUP

# KEY FIGURES

## SOLID 2010 RESULTS

Group total revenues and other operating income rose by 7.6% at constant currencies, driven by strong organic growth in the Digital TV division, posting a sales growth of 6.8% at constant currencies, and by a one-off positive contribution from government grants. These effects contrast with weaker growth rates in the Middleware and Advertising and Public Access segments, posting constant currency growth of 0.5% and 2.1% respectively.

In a challenging environment characterized by plummeting exchange rates against the CHF, with the EUR average rate down 8.6% and year-end rate down 15.8%, the USD average rate down 4.2% and the year-end rate down 9.2%, Kudelski managed to deliver a robust operating result, with an operating income before depreciation and amortization of CHF 173.0 million, representing a best ever mark for the Group, a CHF 110.0 million operating income for the full year, compared to CHF 73.3 million in 2009, an increase of 50%.

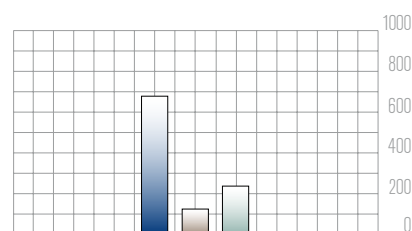
## KEY FIGURES 2010

In million CHF	2010	2009	Variation %
<b>Total Revenues &amp; OOI</b>	<b>1 069.3</b>	<b>1 060.8</b>	<b>0.8%</b>
OIBDA <sup>1)</sup>	173.0	137.8	25.5%
<b>Operating income</b>	<b>110.0</b>	<b>73.3</b>	<b>50.0%</b>
<b>Net Income / (loss)</b>	<b>66.7</b>	<b>51.1</b>	<b>30.5%</b>

<sup>1)</sup> OIBDA: operating income before interest, taxes, depreciation and amortization

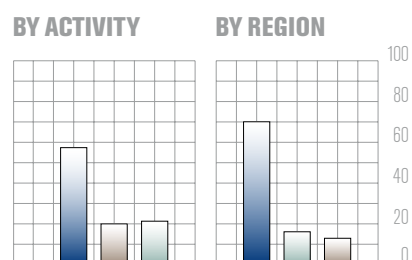
## REVENUE BREAKDOWN BY SECTOR

In CHF '000	2010
Digital TV	684 477
Middleware & Advertising	126 071
Public Access	224 624
<b>Total</b>	<b>1 035 172</b>



## EMPLOYEE BREAKDOWN

Digital TV *	58%	Europe	70%
Middleware & Advertising	20%	Americas	16%
Public Access	22%	Asia & Oceania	14%
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>



\* Includes Nagra Audio employees (23)  
Total employees at 31.12.2010: **3068**

# HIGHLIGHTS

**1**

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**SOLID PERFORMANCE OF THE GROUP  
IN A DIFFICULT ENVIRONMENT**

**2**

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**INCREASE OF 50% OF OPERATING  
INCOME OVER PREVIOUS YEAR**

**3**

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**DEVELOPMENT STRATEGY FOCUSING  
ON EMERGING MARKETS**

**4**

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**PROFITABILITY IMPROVEMENT  
PROGRAM LAUNCHED INCLUDING  
COST REDUCTION INITIATIVES FOR ALL  
SECTORS**

**5**

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**RENOVATION OF THE MIDDLEWARE &  
ADVERTISING ACTIVITY**

**6**

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**SUCCESS IN OVER-THE-TOP AND CABLE  
US SECTORS**

**7**

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**KUDELSKI TECHNOLOGIES SERVING  
MORE THAN 120 MAJOR OPERATORS  
WORLDWIDE AND SECURING CONTENT  
DELIVERED TO MORE THAN 144 MIL-  
LION ACTIVE SMART CARDS/DEVICES**

# GROUP PROFILE

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## DIGITAL TELEVISION

Digital television is the Kudelski Group's core business. The company is a world leader in this sector, with security and access control solutions providing an optimal level of protection throughout the content distribution chain, from creation to consumption. The Group's innovations are continuously contributing to the evolution of the digital television ecosystem, enabling operators to extend their multimedia offering.

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## PUBLIC ACCESS

Public access designs both hardware- and software-based solutions to globally manage access of people and vehicles to sites and installations such as car parks, ski lifts, stadiums, arenas and amusement parks. The division also provides a multifunction solution designed for university campuses, business premises and hospitals.

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## AUDIO

Audio is the founding activity of the Kudelski Group, which, 60 years ago, gave birth to the Nagra Brand, legendary for its professional recording equipment. This sector now also includes a range of high-end Hi-Fi devices designed for music lovers in search of perfection.

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## DIGITAL TELEVISION



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## PUBLIC ACCESS



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## AUDIO



# TABLE OF CONTENTS

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<b>01</b>	<b>CHAIRMAN'S LETTER</b>	<b>P. 02</b>
<b>02</b>	<b>FINANCIAL REVIEW</b>	<b>P. 04</b>
<b>03</b>	<b>STRATEGIC REVIEW</b>	<b>P. 08</b>
<b>04</b>	<b>DIGITAL TELEVISION</b>	<b>P. 14</b>
<b>05</b>	<b>PUBLIC ACCESS</b>	<b>P. 24</b>
<b>06</b>	<b>NAGRA AUDIO</b>	<b>P. 28</b>
<b>07</b>	<b>CORPORATE GOVERNANCE</b>	<b>P. 32</b>
<b>08</b>	<b>APPENDICES</b>	<b>P. 54</b>

# 01 CHAIRMAN'S LETTER

The Kudelski Group experienced a mixed year in 2010. Despite sovereign debt crises in several eurozone countries and a spectacular rise in the Swiss franc, which contributed to a particularly unstable operating environment, we delivered strong financial results.

Total revenues and other operating income for the reporting period stood at CHF 1.069 billion, with operating income at CHF 110 million and net income at CHF 66.7 million.

The changeover to the service-based business model implemented over the previous two years paid off, strengthening our overall position. Our installed base of service-mode cards and modules grew by 15% in 2010 to a total of 69.4 million units, ensuring a strong, stable and recurring revenue base for the Group going forward.

The 2010 reporting period also saw the full integration of OpenTV within the Group, as well as the strengthening of our middleware and user interface R&D teams. As expected, the development efforts currently underway to bring the next generations of interactive solutions to market are proving to be substantial. However, this area should return to profitability in 2012.

With regard to our overall strategy, we experienced the first concrete examples of the anticipated convergence between digital TV, telecoms and IT in 2010.

Convergence is often seen as a risk for established operators, but it also represents an extraordinary opportunity to develop new generations of solutions and open up new horizons for consumers. In a convergence-driven environment, quality and simplicity count. Here, we feel we are in a strong position, thanks to the experience accumulated by our various teams working in digital TV, telecoms and

IT over the last decade. The awards we have won for our innovations testify to our strength in this new, interconnected environment. To cite only two examples, the Kudelski Group won awards at IBC 2010 and TV Innovation for our Persistent Rights Management and Next User Experience extended security solutions.

Keeping pace with the new "super digital ecosystem" that convergence has produced will require intense R&D efforts going forward –and these are efforts we intend to make.

However, convergence is not the only potential revenue driver for the Group in the years ahead. Other opportunities are out there, for example the accelerating growth trend in emerging markets, even as developed economies are showing weak growth.

We have been active internationally for decades. Historically, our main revenue streams have come from developed countries, but this situation is now fundamentally changing. Emerging markets are playing an increasingly important role in the global economy, as is illustrated by the fact that China has become the world's second-largest economy.

Brazil is another example of this paradigm shift toward emerging markets. We grew our revenues in Brazil by 100% in 2010, and that country is now one of our top seven markets.

The trend observed during the second half of 2010 has continued into 2011, and this has led Management to adopt a series of initiatives designed to boost revenues and enhance profitability. The following measures have already been initiated:

– A dedicated emerging-markets team has been created in order to leverage the growth potential of these regions. We intend to offer solutions specifi-

cally designed for these markets so as to maximize medium- and long-term growth. This unit has been up and running since late 2010.

– The geographical footprint of our teams has been adjusted, with the creation of a new R&D unit in India, as well as growth in our China- and India-based teams. This will lower unit costs, allowing us to be more competitive in emerging markets.

– We have rolled out a series of cost-cutting measures designed to both compensate for unfavorable currency movements and bring our cost structures into line with revenue streams. Concretely, our more expensive service providers are being systematically replaced by our India- and China-based teams.

– We are undertaking a comprehensive review of our activities. In line with the Group's medium- and long-term strategy, some current areas of operation could be merged, sold, or dropped, while other areas will be strengthened and new areas developed. The Group will increasingly resort to strategic partnerships in order to round out its offering in areas that are non-core but nonetheless complementary to our businesses.

In addition, we will take a more targeted approach to innovation. Here, the idea will be to sharpen the focus on the Group's medium- and long-term potential, with an eye to keeping R&D cost growth below top-line growth over the medium term. This will result in a structural improvement in our profitability and enhance our competitive position in emerging markets.

There will be many challenges in 2011. We will have to gain pace in emerging markets and counter the impact of the



rise in the Swiss franc. We are positioning ourselves to meet these challenges by growing revenues while reducing costs.

Finally, 2011 has a certain symbolic value at Kudelski Group, since the company was founded 60 years ago this year. For six decades, innovation has been at the heart of our corporate culture. It is this very innovation that has allowed us to reinvent the company several times over

the last few decades: the Kudelski Group has proved strong and durable through changing environments, yet flexible enough to meet new challenges successfully.

Based on our 2010 financials and our medium-term outlook, the Board of Directors will propose a dividend of CHF 0.30 per bearer share and CHF 0.03 per registered share for approval by the

shareholders at our upcoming annual general meeting.

On behalf of the Board, I would like to thank our clients, our teams, and you, our shareholders, for your continuing trust. It is this trust that is our strongest source of motivation.

**ANDRÉ KUDELSKI**

# 02 FINANCIAL REVIEW

**In a difficult environment characterized by plummeting exchange rates against the CHF, with the EUR average rate down 8.6% and year-end rate down 15.8%, the USD average rate down 4.2% and the year-end rate down 9.2%, Kudelski managed to deliver a robust operating result, with an operating income before depreciation and amortization of CHF 173.0 million, representing a best ever mark for the Group and a strong operating cash flow at CHF 149.1 million.**

Group total revenues and other operating income rose by 7.6% in local currency, driven by strong organic growth in the Digital TV division, posting a sales growth of 6.8% in local currency, and by a one-off positive contribution from government grants. These effects contrast with weaker growth rates in the Middleware and Advertising and Public Access segments, posting constant currency growth of 0.5% and 2.1% respectively.

## **Solid 2010 group profitability**

Reported total revenues and other operating income for the year rose by CHF 8.5 million to reach CHF 1 069.3 million. The "Margin after cost of material" (a pro-forma non-IFRS item) rose by CHF 69.9 million to CHF 809.1 million. Relative to total revenues, this translates to a 6% increase to 75.7%, reflecting a second half margin materially higher than in previous years. The Group's ability to defend prices in a difficult environment and the beneficial impact of supply chain improvements were instrumental in allowing the Group to expand its gross margin in spite of the challenging macroeconomic environment. Further, 2010 margins benefit from CHF 29.8 million of R&D government grants including a one-off entitlement accrued from work performed in previous years and fulfilling Group revenue recognition criteria in 2010.

Personnel expenses rose by CHF 28.4 million from 2009, representing a 7.6% growth. This increase took place mainly in the first half, when personnel expenses rose by CHF 20.5 million. Following the full acquisition of OpenTV, the Group has significantly strengthened its middleware operations through new hires and transfers from the DigitalTV segment resulting in an increase of close to 150 Full Time Equivalents of the Middleware and Advertising headcount. In 2010, total Group headcount expanded by 3.9% to 3'068 employees.

Other operating expenses rose by CHF 6.3 million from 2009, representing a 2.8% increase. Incremental costs were generated in the first half, when other operating expenses rose by CHF 6.6 million. The main driver of this increase relates to legal and consultancy costs increased by 5.7 million compared to 2009 including a new CHF 7.5 million litigation provision for legal fees and litigations related to a suit filed by Echostar *et al* (including Nagrastar) against NDS.

The Group operating income before depreciation and amortization amounts to CHF 173.0 million, representing a CHF 35.2 million improvement from the previous year. Depreciation, amortization and impairments were at CHF 63.0 million. This resulted in a CHF 110.0 million operating income for the full year, compared to CHF 73.3 million in 2009, an increase of 50%.

At constant currencies, operating margins for 2010 were CHF 22 million higher at CHF 132 million. Adjusted operating income, net of the aforementioned one-off other operating income and litigation provision amounts to CHF 116 million, representing a 58.3% increase from 2009.

Interest expenses of CHF 16.7 million include, in addition to the charges related to the outstanding convertible bond, the interest charges for the loans - now fully refunded - aimed at financing the full acquisition of OpenTV. The CHF 16.7 million net finance expenses are mainly driven by a CHF 17.5 million net foreign exchange transaction loss, while the share of results of associates includes a CHF 3.1 million gain related to the sale of our 28% stake in Ticketcorner. Overall, the Group generated CHF 66.7 million net income for the full year, an improvement of CHF 15.6 million from the previous year.



**Digital TV business driven by strong first half**

A very strong first half with a constant currency growth of over 20% drove Digital TV full year results. For the full year, reported revenues were substantially stable, translating to a 6.8% revenue lift in constant currency.

Following the sustained double digit growth of the last reporting periods, European Digital TV sales in constant currency experienced a slow down with a 6.4% rise for the full year. First half reported growth was at 20.8% while second half sales were lower than in the first half year. The steep decline of the Euro in the second half significantly affected reported sales. Moreover, seasonality patterns reversed compared to previous years, as several customers delivered an exceptionally strong first half.

In the first half, the Group posted material revenues from the swap out of the Virgin Media installed base of smart cards. The Group Italian business delivered a particularly strong performance in the first half, benefitting from the continued growth of Mediaset Premium cards as well as sustained sales of SmarDTV Common Interface modules. In the second half, these sales materially slowed down compared to the first half. The Spanish digital terrestrial business, a material contributor to 2009 sales as retail distribution channels were filled to support the launch of the new digital terrestrial operations, generated materially lower volumes in 2010. Finally, a mixed picture characterized the Eastern European landscape, with some operators suffering from a tougher economic environment in the second half, resulting in a slower subscriber acquisition.

Digital TV revenue in the Americas rose 12.1% in local currencies, with the Brazilian market representing the strongest growth driver. At a consolidated level, the

Group's Brazilian revenues more than doubled to reach CHF 72.7 million, with close to 90% of these sales generated in Digital TV.

Finally, Asian Digital TV sales were substantially stable year-on-year as well as in both half-years, with the core conditional access business posting solid growth rates and Abilis' CMOS RF Modulators product line with a shrinking second half top line, following a strong first half.

Digital TV operating income for the year climbed from CHF 67.5 million to CHF 129.5 million, representing a 91.8% increase and an operating margin of 18.9%.

Overall, Digital TV profitability was ahead of target, as the core conditional access continued to deliver a strong performance and segment results benefitted from the improved profitability of new business areas. In particular, year-on-year profitability of SmarDTV's Common Interface business developed favorably. Other operating income materially contributed to segment profitability. Finally, Quative's mission was recast to extend the existing Service Delivery Platform business into the middleware space: hence, Quative results are now included in the Middleware and Advertising segment.

On the other hand, the aforementioned European slowdown resulted in a shrinking volume of cards delivered in the second half as compared to the first half. The contraction of the Italian and Spanish terrestrial markets affected second-half profits from the Group's digital terrestrial operations and from the Common Interface business. Further, the Group's semiconductor business was down from the first to the second half and mobile TV equally consolidated its top line contribution following a successful first half.

**Subdued Public Access growth and profitability**

In a difficult environment, Public Access delivered a 2.1% revenue growth in constant currency. European revenues declined by 0.8% in constant currency, with Italy and Germany as the main underperforming markets. Public Access, on the other hand, continued to extend its extra-European business, in particular with a 37.9% constant currency growth in the Americas. Following a strong 2009, driven in particular by the access business from the World Cup in South Africa, Asia Pacific and Africa consolidated 2010 sales decreased by 9.2%.

A lower gross margin and a continued growth of the operating cost base resulted in a Public Access Operating Income decline of CHF 8.0 million to CHF 8.8 million.

**Middleware & Advertising turnaround**

With the full acquisition of OpenTV completed at the beginning of 2010, the Group launched a turnaround plan, with a reconfiguration of the product roadmap representing the key milestone of the program. This program resulted in a ramp-up of R&D investments aimed at accelerating the deployment of the next generation Group middleware solution. With a material headcount increase, this ramp-up mainly took place in the first half year, resulting in an operating loss of CHF 6.0 million for the first half. Further, the recognition of one-off government grants supported segment profitability. In the second half of 2010, the operating loss was reduced to CHF 0.4 million, while the development of the next generation solutions continued to progress as planned.

Against this backdrop, the substantial top line stability, with a 0.5% year-on-year growth in constant currency represented a satisfactory result. Similarly to Digital TV, American revenues developed

particularly well driven, in particular, by the strong performance of Brazilian operators.

**Balance sheet and cash flow**

Total non-current assets decreased by CHF 36.4 million to CHF 506.8 million. The item mainly driving such decrease was Financial assets and other non-current assets declining from CHF 97.0 million to CHF 72.5 million, as the Group sold most marketable securities and continued to amortize deferred contract costs for assets provided to Digital TV customers in a service model.

Total current assets decreased by CHF 116.4 million to CHF 598.6 million. Inventories were substantially stable, posting a CHF 3.4 million increase to CHF 85.7 million, mainly due the segmentation of customized chip platforms for conditional access customers. Trade accounts receivable continued to improve, with a reduction of CHF 46.6 million to CHF 245.5 million. Past due Trade accounts receivable improved by CHF 31.1 million to reach CHF 82.2 million.

Other current assets declined by CHF 26.6 million, with the reduction driven, among other factors, by the repayment of an outstanding loan to the former associate Ticketcorner early in the year. The sale of Ticketcorner and the loan repayment resulted in a total cash-in of over CHF 30 million. The sale of most outstanding marketable securities reduced Short-term financial assets by CHF 35.6 million to CHF 2.1 million. Cash and cash equivalents at the end of 2010 were at CHF 199.0 million.

Total equity decreased by CHF 5.0 million, reflecting, among others, the effect of the squeeze out of OpenTV minority interests booked against equity. Total liabilities decreased by CHF 147.8 million as the Group paid back most of the loans taken up for the acquisition of OpenTV.

In 2010, the Group generated a strong cash flow from operating activities of CHF 149.1 million, representing an increase of CHF 13.9 million compared to 2009. The Group used CHF 41.0 million of cash for investing activities, consisting of a net CHF 62.8 million inflow from the divestment of financial assets, including the repayment of the aforementioned Ticketcorner loan, a CHF 32.0 million net outflow for acquisitions (mainly related to the squeeze out of OpenTV minority interests) and net capital expenditures of CHF 71.8 million. Finally, a CHF 108.7 million cash flow was used for financing activities, mainly consisting of the reimbursement of bank loans and of a CHF 16.0 million dividend payment.

### **Outlook**

Currency headwind is likely to continue affecting Group total revenues and operating income. Average USD and EUR exchange rates in for the first 7 weeks of 2011 lost a further 7% to 9% compared to average 2010 rates.

If the current exchange rate environment persists for the remainder of the year, the Group would report declining total revenues in 2011. Operating profits would also be further affected by a two-digit million amount as compared to 2010.

To contain the negative macroeconomic developments, the Group has launched a set of profitability improvement initiatives in each segment.

In the Digital TV segment, the Group is strengthening its focus on emerging markets. To this end, it set up a sales unit specifically targeting these markets with customized offers. Further, the Group is systematically replacing external development and engineering resources in high cost locations with its own resources in lower cost locations. To this end, it set up a new engineering unit in India, already staffed with 35 employees.

This unit will serve both the Digital TV and the Middleware and Advertising segments. The Group expects to start reaping economic benefits from these initiatives in 2012. Headcount in India will be expected to grow significantly as transfers of external resources will be effected.

In Middleware and Advertising, the Group started restructuring its roadmap as it acquired full control of OpenTV in early 2010. As originally planned, the initial outcome of this effort is expected in 2012. Furthermore, the Group announced that it will organize its advertising operations in a joint entity with Korean satellite operator SkyLife. This entity will develop a groundbreaking advanced advertising platform and initially deploy this solution in the Korean market.

Finally, the Group launched a targeted cost reduction program in the Public Access segment. This program is aimed at reducing operating expenses effective this year.

# 03 STRATEGIC OVERVIEW

**In hardly more than ten years, the Kudelski Group has undergone fundamental change, with revenues rising by a factor of ten to reach more than one billion Swiss francs in 2010. While initially, the Group's Television business consisted essentially of designing content security and encryption systems for pay-TV operators, the Group has become a truly global player today as digital convergence becomes a reality across all sectors.**

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## DIGITAL TELEVISION

### Across the ecosystem

The Kudelski Group operates in the digital television sector, a market that is constantly evolving and in which frontiers are being pushed back. Players from many different sectors are now involved in Digital TV. They include TV operators as well as telecoms and Internet Service Providers, to name just a few. Increasingly, these market participants are combining their network and service offerings in order to provide end-users with an extended digital experience. The aim is to provide a digital ecosystem in which users, no matter where they are and what they are doing, can move seamlessly between various devices – from TV to PC to game console to mobile phone to tablet – with access to content in an intuitive way.

This trend toward multi-screen convergence is a technological challenge on several levels. Operators need to be able to protect the content assets that drive their revenues. In addition, platforms combining different types of networks (satellite, terrestrial, cable, telecom, and broadband internet) must be integrated. Finally, providing a consistent and user-friendly user interface is crucial to enable consumers to access content easily as they navigate today's increasingly content-rich digital landscape.

The Kudelski Group provides innovative responses to these technological challenges by delivering solutions, technologies and federated services that address market needs across the entire digital ecosystem.

### Focusing on operators and markets

Of course, technological advances and innovative breakthroughs are of little use unless they actually help operators be more competitive and grow their revenues. This has been driving the

Kudelski Group's product development strategy. For several years now, we have proactively sought to develop cost-effective solutions, designing our product and service offerings in line with market requirements and operators needs. One example is the way we have developed differentiated solutions for mature and emerging markets. This illustrates our commitment to tailoring our solutions to context, and more fundamentally, to ensuring that each of our client operators receives the best possible solution for their particular environment and requirements, both in terms of technical performance and return on investment.

Infrastructures have become more complex with the development of multimedia, multi-content and multi-platform services. To keep in step, we have developed a range of extremely flexible system architectures that can be easily integrated with existing configurations. Our solutions can be quickly implemented and are simple to manage, while enabling operators to offer services based on various business models – a key decision-driver when choosing new equipment.

### Leverage strong growth in emerging markets

The Kudelski Group already enjoys strong presence in the mature markets of Europe and North America. Here, many opportunities still await, driven by digital convergence, technological advances and changing lifestyles. One such opportunity is the shift from analog to digital television and from standard to high definition television. These transitions have the potential to drive strong organic growth for the Group as digital enables pay-TV services to reach new mass markets and generate high-volume business. The advent of digital is also leading to the mass development of certain markets that were not initially considered as pay-TV target markets, such as digital terrestrial television.

Additionally, emerging markets, particularly in Asia and Latin America, are a potential growth driver for the Group. We have been building our presence in those regions for years, and now have a network of subsidiaries and a constantly growing sales force. In 2009 we opened an R&D center in Beijing (China). The center's 300 employees focus on tailoring our solution offering to the specific requirements of Asian markets, bringing out solutions and services that are more closely attuned to local needs, both technologically and economically. This approach is paying off, as shown by our recent contract wins with Asian operators and our overall success in these markets.

### Keeping the focus on innovation

Innovation has been at the heart of the Kudelski Group's success for 60 years. We make a major commitment to research and development every year, with almost one quarter of our revenues earmarked for R&D. In absolute terms, we have invested over one billion Swiss francs in R&D over the last five years.

This approach has proven relevant, particularly in the context of today's fundamental market changes, and has enabled us to consolidate our role as market driver and shaper in a highly competitive industry.

### Helping TV operators meet the broadband challenge

The digital TV market has recently experienced profound structural change, and this has revolutionized the way in which digital content and services are provided. The transformation of the digital TV ecosystem has been driven by several factors:

- hybrid broadband-broadcast networks are a fact and OTT (Over-The-Top) is coming of age along with it;
- multi-screen digital media services are required to respond to consumers' emerging digital lifestyle;
- the user experience defines or even becomes the service and gradually transforms the business model altogether.





Advanced advertising offers a myriad of new possibilities

These changes have significant implications. Hybrid network have for example made possible so-called OTT transmissions. OTT is a widely adopted term used by the digital industry to characterize video services that make use of the open internet to transport content to end users. It refers to the fact that the service provider is using a transport network that they do not own, hence the name "Over-The-Top". The availability of broadband and the advances in internet delivery technology have gradually transformed a phenomenon that was initially limited to the PC world into a new reality. Today, the OTT content delivery is feasible on the widest spectrum of devices. Connected TVs, game consoles, tablets, and mobile phones are all new platforms that can be used by consumers to access video content.

OTT falls logically into the Kudelski Group's product strategy based on its Federated Services Architecture. We are ideally positioned as the partner of choice for our customers to lead in this new playground. We are able to provide them with the tools to respond to the new trends and to consumers' needs for finding any type of content from a one-stop shop, seamlessly, and regardless of the device types and the conduits being used.

**Offering a unified and consistent user experience**

In a market where networks and devices interconnect and where content is consumed over various screens, it is particularly important for users to move across devices totally seamlessly.

In view of this requirement, The Kudelski Group has placed a special focus on developing a new generation user interface through its affiliate OpenTV, specialized in middleware solutions. OpenTV has launched a user interface based on an innovative design and navigation philosophy that can be used as is or reskinned in line with an operator's brand identity.

**Advanced advertising solutions**

Middleware is becoming an increasingly important component of the digital TV ecosystem. Within the operating system, the middleware powers the creation and the management of innovative interactive features that take the television experience far beyond simply watching programs. These features include for example video on demand, access to internet content, program recommendations via social networks, etc. Middleware also enables the rollout of advanced advertising solutions which contribute to the user experience.

In order to gain additional expertise in the field of middleware and advanced advertising and to have a better control of the development of this strategic element of the digital TV value chain, the Kudelski Group finalized the acquisition of OpenTV in March 2010, following the acquisition of a majority stake in this company in 2007.

While interactivity allows new forms of advertising to emerge, it also enables consumers to control their viewing experience including, for example, skipping over content – in particular with DVR time-shifting capabilities and VOD. This means that advertising has to be relevant and interesting for consumers, otherwise it will simply get skipped. The Kudelski Group offers advanced solutions for the delivery and management of addressable, targeted and interactive advertising, which is destined to become a major revenue stream for operators.

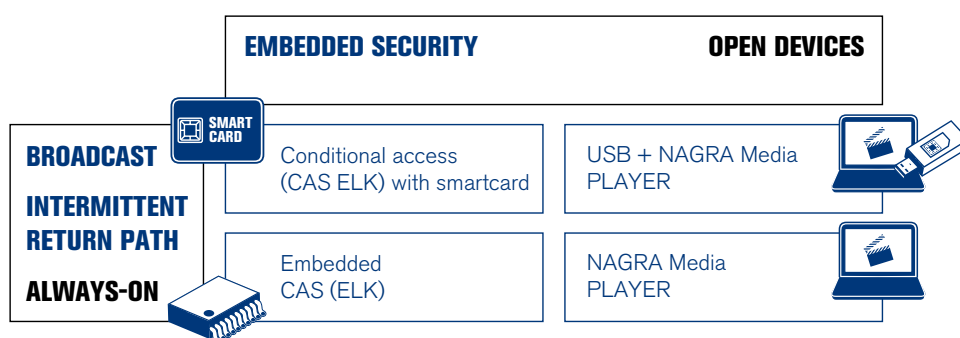
### Differentiated security solutions

As user interfaces move toward an increasingly unified user experience, security solutions are heading in the opposite direction, toward diversity, with technologies that take into account the special security requirements of each particular device and network type.

The Kudelski Group’s philosophy when it comes to digital content protection is based on the principle that each context requires a specific security solution. The Kudelski Group offers three families of security solutions which enable operators to adopt the security strategy that is ideally suited to their particular needs:

- smartcard-based security for broadcast networks;
- embedded security solutions for always-on networks;
- software security for open devices, sometimes with the use of a removable dongle.

The Kudelski Group offers the broadest security solution in the industry.



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**PUBLIC ACCESS****Endless possibilities for users**

Public Access – the Kudelski Group's second activity sector – focuses on designing systems that control the access of people and vehicles to facilities and sites. These activities account for 22% of the Group's revenues.

Public Access markets both hardware- and software-based solutions to manage access to car parks, ski lifts, stadiums and amusement parks. It also offers multifunction access management solutions designed for schools, business premises and hospitals.

As in the Digital TV sector, digital technologies have opened up a large array of new possibilities enlarging the range of features available to users.

For example, it is now possible for consumers to buy ski passes and book parking spots straight from their smartphone, using a dedicated application. People with electric cars can now use a mobile-phone application to access battery charging stations with their parking ticket. Integrated parking access management systems can also automatically load the vehicle's license-plate number.

**Powerful tools for operators**

Public Access designs solutions that are in step with today's digital lifestyle. They are ideally suited to a world in which technologies work interdependently to bring more freedom and mobility to consumers in the course of their daily lives.

Here, our highly intuitive product designs play a crucial role in ensuring that consu-

mers find our access solutions simple to use despite the complex state-of-the-art technology inside.

These solutions can be tailored to a given marketing strategy. Our objective is to provide operators with powerful management tools that allow them to launch the most attractive combination of services, increase the number of consumers using those services and win the loyalty of their customers.

Our solutions also allows operators to centrally manage multi-site systems from a secure network hub. Global access management solutions, combining the system platform with management services, have become one of the core offerings of Nagra Public Access. This division also offers hosting and maintenance services enabling operators to securely host their platform and data as well as to perform maintenance and upgrades on their system remotely. This solution keeps costs down, providing smaller operators with the opportunity to implement access solutions that might prove difficult to finance otherwise.

Consulting and service activities are also a key component of our Public Access offering. This has taken on an even greater value recently, given the high level of expertise required in an increasingly complex technological environment.

**Continuing with international expansion**

While Public Access continues to grow in its traditional markets, it is pursuing a very active strategy of international expansion. Business trends in 2010 confirmed the success of this strategy with contract wins on five continents, including two major new deals in emerging markets. Six stadiums in South Africa were equipped with Nagra Public Access solutions for the World Cup, and six cric-



ket stadiums in India were fitted out with access systems.

Geographical diversification contributes to a better balance of revenue streams, reduces the potential impact of market-specific risk and alleviates foreign exchange rate volatility.

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## **NAGRA AUDIO**

### **Audio excellence**

The Kudelski Group has been active in the audio segment since 1951: 2011 will mark the 60<sup>th</sup> anniversary of the invention of the portable, self-contained Nagra recorder that revolutionized the sound engineering industry.

With the strong growth of the Group's other business activities, Audio revenues now represent a relatively small proportion of overall Group sales. But Nagra Audio's impact on the Nagra brand transcends mere numbers. This legendary line of products is the Group's historical business line and represents the foundation of Nagra's brand identity.

### **Two product lines**

The Nagra Audio division has two main product lines: professional recorders and the more recent (1995) Hi-Fi range dedicated to high-end equipment. Both ranges are designed by the same product development teams, with distinctive sales and marketing channels.

Nagra's recorders have been digital for the last twenty years and feature the most advanced technology enabling

them to become part of the IP-based multimedia production process.

The devices range in size from compact to hand-held and, like previous Nagra products over the years, are considered market leaders in terms of sound quality and durability. The recorder product line also includes devices dedicated to security applications. A micro-recorder small enough to fit within a case the size of a credit card was launched in 2010 and met with immediate success.

The new Nagra SD handheld recorder is currently in production and is slated for launch in 2011. This device replaces the bestselling Nagra ARES-M. Its even more attractive pricing should pave the way for success.

The Hi-Fi sector is focusing on progressively rounding out its product offering with all the components needed for a 100% Nagra sound system. The target demographic is demanding audiophiles who are looking for the ultimate in performance and prefer a timeless – rather than a trend-based – approach to Hi-Fi product design.

From a business perspective, the addition of the Hi-Fi range has proven to be an effective revenue-stream diversifier: it now accounts for almost half of the division's sales.

# 04 DIGITAL TELEVISION



**2010 was a good year for our Digital Television Division despite a difficult economic environment. We secured new contracts and strengthened our presence in markets throughout the world – particularly in emerging markets. Operators adopted and launched our new solutions and we received awards for our innovations. These achievements confirm the growing momentum of our Digital Television Division as well as to the drive of our teams, partners and clients.**

## STRENGTHENING OUR MARKET PRESENCE

In 2010, Nagra, the Digital TV division of the Kudelski Group, continued to strengthen its international footprint in mature as well as in emerging markets, through new partnerships or extensions of existing contracts.

### Europe

The Group signed an agreement with ONO, Spain's leading cable operator, to secure the first hybrid broadband/broadcast content delivery platform in Spain. This agreement further extends the relationship between ONO and Nagra to include conditional access. The new platform will combine traditional pay TV services with the power of the Internet and will be delivered over ONO's exclusive fiber-optic network. Nagra's latest conditional access solution will secure ONO's next generation services which will feature video on demand and pay-per-view as well as new and advanced PVR features. This agreement further consolidates Nagra as the leading conditional access supplier in Spain, securing the most important satellite, cable and terrestrial pay TV operators.

In Poland, we extended our long-term agreement with Cyfrowy Polsat, Poland's leading DTH platform. The ten-year extension relates to the operator's conditional access system. With this new agreement, Nagra reinforces its long-term commitment to Cyfrowy Polsat and demonstrates the confidence we have in the on-going growth of digital pay TV in Poland.

In Israel, Nagra extended its partnership with triple-play operator HOT to include an advanced cross-platform solution designed to provide a compelling user experience powered by OpenTV middleware and offering advanced security capabilities through NAGRA Media PRM. A total of 1.3 million households

in Israel subscribe to HOT's multimedia services.

Numericable, France's leading cable operator serving more than 3 million subscribers, will integrate the latest release of OpenTV's middleware onto its platform. Numericable already uses a comprehensive Nagra end-to-end solution and has now selected Nagra to roll-out widget applications. Further, both parties have agreed to partner on a joint 3DTV project.

### Americas

In North America, the Group signed a strategic contract with Cable One, Inc., one of the top cable service providers in the United States, to support the roll out of the operator's new digital television service. This agreement marks the entry into the US cable market of a Nagra end-to-end solution. Cable One serves approximately 720 000 customers in 10 states with cable television, telephone and high-speed Internet services.

In South America, Kudelski has established a strong presence in the last few years. The most recent contracts include DISH Mexico and Hi-tv in Mexico, Oi Brazil and Embratel in Brazil, American Movil in Panama, Clara Puerto Rico DTH in Puerto Rico and Cable Magico Perú in Peru.

Nagra's South American presence was further strengthened in 2010 with a new contract signed with CTBC, a Brazilian telecom company. CTBC selected Nagra's latest conditional access solution to secure its new satellite service beginning in June 2010. This service is part of CTBC's triple-play offering for its 1.4 million subscribers.

The Kudelski Group developed and deployed the industry's first geo-control technology for the Brazilian operator Globo in 2010. This technology allows

selected transmission depending on the geographical location of the consumer, while blocking reception of the signal outside a pre-defined area. The solution enables Globo to broadcast to non-urban areas in Brazil. It includes a conditional access system as well as geographical localizer chips.

### Asia/Pacific

The Kudelski Group performed well in the Asia/Pacific region in 2010, especially in Korea, Taiwan and China which are amongst the area's most promising markets.

In Korea, Nagra and DTH operator SkyLife started a multi-fold cooperation in 2010. SkyLife chose to work with Nagra to complete the fast-paced migration of its services from standard to high definition television. SkyLife selected the NAGRA Media ACCESS conditional access solution to secure its new services in replacement of its legacy system. The operator plans to introduce a hybrid satellite/IPTV offer as well as 3D programming supported by Kudelski's technology. Nagra now secures one of the largest and most advanced satellite platforms in Asia.

Cooperation between the Group and this major operator was further extended in January 2011 with the creation of a joint-venture company to develop world leading advanced advertising solutions enabling operators to offer and monetize addressable and interactive advertising.

Kudelski and SkyLife also joined forces to create a state-of-the-art 3D experience for home viewers. The operator is using high-end 3D production systems which enable it to launch a variety of 3D content, focusing on live sporting events and concerts. Nagra developed a comprehensive 3D content sourcing and distribution operation and will license original 3D content to SkyLife.



Nagra's booth at the International Broadcasting Convention (IBC) 2010 in Amsterdam, The Netherlands

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*Korea Digital Satellite Broadcasting Co. Ltd., more universally recognized under its "SkyLife" brand, is the only satellite broadcasting operator (DTH platform) in Korea, providing more than 220 channels, 72 of which are HD channels, the most in Korea. SkyLife commenced its commercial service in March 2002 and had 2.8 million subscribers at the end of 2010.*

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Nagra is also well established in Taiwan, a market with strong potential in the Asia/Pacific region. In 2010, Nagra further strengthened its leadership with the signature of new contracts.

HYA (Hsin Yeong An Cable TV), Taiwan's largest independent cable television operator, will digitize its network and roll-out advanced digital services secured by Nagra's next generation conditional access solution. Kudelski will act as lead integrator of the platform. This agreement confirms Nagra's leading position as DTV and CAS system integrator in Taiwan, where four major cable operators use its technology.

A partnership was also formed between Nagra and DishHD for the delivery of a conditional access system to secure DishHD's new satellite TV service, which was launched in July 2010. The service offers the widest variety of high definition video channels in Taiwan and delivers more than 30 HD channels from Asia and around the world.



Nagra OpenTV nX: a user interface with advanced functionalities

Taiwan Broadband Communications (TBC), one of the leading multi-system cable operators in Taiwan with more than 750 000 subscribers and a Nagra customer since 2008, signed a new contract for the launch of its turnkey Push VOD project. Nagra is the system integrator and will deploy NAGRA Media PRM, content management and video server solutions within the operator's systems.

These new contracts follow the agreement signed by Nagra in 2009 with China Network Systems Co., Ltd (CNS), one of the leading triple play operators in Taiwan. The agreement provides for the delivery of a last-generation NAGRA Media ACCESS system to secure the operator's new premium and high definition services.

In China, Beijing Gehua CATV Network Co. Ltd (BGCTV), the sole cable operator in Beijing and surrounding area with more than 3.5 million subscribers, signed a new agreement extending a long-standing relation to introduce Nagra's latest generation conditional access technology, NAGRA Media PRM content protection and a new Push VOD on-demand solution.

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*The Kudelski Group has been present in China since 1999. Our solutions are currently being used by some of China's leading digital television operators including Beijing Gehua Cable TV Network (BGCTV), Chinese Suzhou Digital Television Company, OCN (Oriental Cable Network) and CBC, the mobile operator of CMMB.*

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## ADDRESSING NEW MARKET TRENDS

Nagra's multichannel and multi-screen solutions enable operators to broadcast content and provide a consistent user experience on television, PC and mobile phone. This is made possible thanks to a federated head-end and a complete suite of applications which ensure an intuitive, seamless HD user experience on various consumer devices.

### An innovative user interface

One of the key elements of the user experience is the interface. OpenTV, a Kudelski Group entity specialized in Middleware and Advertising solutions, offers the OpenTV nX application – an innovative interface which enables consumers to enjoy a unified experience across all content (live, on-demand, music, photos, etc.) and across all devices.

With the extraordinary diversity of content delivered to consumers today, ranging from linear to on-demand television, video on demand and internet-based content, this advanced interface simplifies the content discovery process by offering smooth and intuitive navigation. It also includes recommendation and search features over social networks, enabling consumers to access particularly interesting and meaningful content.

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*Nagra OpenTV nX won the TV innovation Award for Advanced User Interface during the TV 3.0 – Innovations in TV and Content Delivery conference in Los Angeles in December 2010. This award honors groundbreaking companies that are shaping the future of television.*

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### Advanced advertising: endless possibilities

OpenTV also offers a wide range of advanced advertising services. Advanced advertising comprises everything – largely enabled by digital TV – that goes beyond the simple TV commercial, including on demand, interactive, addressable and cross-platform advertising. With the concept of "TV everywhere", people want to control what they watch. The possibility to target broadcasting opens up huge opportunities to personalize the TV environment.

Addressable advertising allows different households to receive advertising messages specific to the geographic, demographic or psychographic profile of that household even though they may be watching the same program.

Interactive advertising is another form of advanced advertising. Viewers can obtain further information about products, order them and take part in games. For example, they can press a button on their remote control to view a long-form

ad about a product and obtain a free product sample.

Advanced advertising can also include voting and polling, dedicated advertiser links, video on demand and electronic program guide advertising. The possibilities are endless.

### Applications: for a personalized TV experience

Today, with the surge of connected TV, certain web applications have been adapted for television and can enhance the television viewing experience. These applications come from the Internet and are the first step in the convergence of the broadcast (TV) and broadband (web) worlds into a seamless multimedia experience.

Nagra has developed a dedicated solution for rolling out these applications. It comprises both the technological platform and a library of applications.

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## END-TO-END CONDITIONAL ACCESS SOLUTIONS

Today, the Kudelski Group's offering covers the entire digital television ecosystem including conditional access, middleware, content management and protection, interactivity, user interfaces and security modules. We offer comprehensive and scalable solutions that address all types of networks and meet their needs in terms of security, content management and functionality.



Web-based applications for enhanced user experience



Awards received by Kudelski's solutions

#### **NAGRA Media ACCESS ELK-CAS: security for IP and hybrid networks**

Nagra's next generation conditional access solution, NAGRA Media ACCESS ELK-CAS (Embedded Link CAS) is specifically designed to protect live video content over "always-on" IP managed networks. This state-of-the-art security system leverages an innovative combination of software and hardware root of trust using Nagra On Chip Security (NOCS). This technology has been certified on most chipset models manufactured by the major chipset suppliers.

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*Nagra set up a partnership program called Nagra On-Chip Security (NOCS) which establishes standards for the integration of security within chipsets. So far, more than 80 million NOCS-compliant chipsets have been certified and embedded in set-top boxes to serve more than 120 pay-TV operators worldwide.*

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#### **Solutions for IPTV networks**

NAGRA Media ACCESS ELK-CAS is also the security component of Nagra's global IPTV solution.

Nagra's integrated, end-to-end solution is designed for telecom and cable operators who want to rapidly launch IPTV services. It comprises a state-of-the-art Service Delivery Platform (SDP) combined with a comprehensive Content Management System (CMS), NAGRA Media ACCESS ELK-CAS for condi-

tional access and the NAGRA Media Guide. It enables operators to offer subscriptions to live TV, pay-per-view, video on demand and PVR applications.

#### **Security for VOD and PVR applications: NAGRA Media PRM**

NAGRA Media PRM (Persistent Rights Management) is a security solution for VOD and PVR based on Nagra On Chip Security (NOCS) technology. It is independent of the conditional access system and deployed as a standalone component. This makes for the short time-to-market, regardless of whether it is deployed on new or existing set-top boxes. NAGRA Media PRM gives operators gateway control over content consumption and delivery. In 2010, this security solution was integrated in the NAGRA Media PLAYER platform to address the specific needs of open devices such as personal computers, tablets and mobile phones.



Television everywhere thanks to the mobile phone

NAGRA Media PRM addresses both hardware security enabled devices (set-top box, iDTV) and open devices. Its robustness rules are certified by the Nagra Advanced Security Certification (NACS) program.

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*NAGRA Media PRM won the CSI Award in the "Best Content Protection" category during the IBC 2010 trade-show in Amsterdam.*

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**Solution for OTT networks:  
NAGRA Media PLAYER**

NAGRA Media PLAYER is an extension to the Nagra hybrid solution offering. It allows premium content to securely flow to open devices such as personal computers, mobile phones, tablets and game consoles, over multiple networks.

Open devices do not have a smart card slot or a secure embedded root of trust. This is why Nagra introduced the NAGRA Media PLAYER solution. It is a software application to secure content based on the NAGRA Media PRM solution. Its unified multi-screen interface delivers a consistent media experience, whatever the device users choose to view the content on.

**Solution for mobile networks:  
NAGRA Media MOBILE**

The NAGRA Media MOBILE solution has made Nagra the undisputed global leader in the mobile TV market. This solution protects services that are broadcast over mobile networks using the major mobile broadcast technologies.

Nagra is continually developing innovative solutions designed to boost the mass adoption of mobile TV throughout the world. In 2010, NAGRA Media MOBILE brought to market a number of innovative Mobile TV solutions: these include proof of concept solutions dedicated to secured streaming Mobile TV on smart phones and interactive tablets, catch-up TV and VOD markets over 3G/4G and WiFi networks.

**3D TV**

After HDTV, the next logical step in the evolution of digital television is three-dimensional television. Nagra developed a new version of its user interface NAGRA Media GUIDE that offers a 3D experience for viewers. NAGRA Media GUIDE enables users to navigate the electronic program guide in order to view and purchase 3D video content. It is designed for operators who want to expand their subscriber service offering and capitalize on the rapidly growing market for 3D content.



Conditional Access Modules (CAMs): increasing success throughout the world



### Conditional access modules: growing success worldwide

Conditional access modules (CAMs) enable consumers to access services that use different conditional access systems through one single device, such as a set-top box or an integrated digital television set. A leader in this sector, SmarDTV continued its sustained growth in 2010, following major deployments completed on DTT networks in Europe in 2009.

In 2010, Swedish operator Com Hem selected SmarDTV's CI Plus modules for its conditional access system. Com Hem is one of the leading distributors of TV, broadband and telephony in Sweden and has more than 40% of Swedish households (representing 1.76 million households) connected to its cable network. Com Hem aims to roll out high definition services to integrated digital televisions using the CI Plus specification.

In Italy, SmarDTV launched a new Conditional Access Module especially designed for high definition services, SmarCAM-3 Italia. This module offers TV viewers who have subscribed to services such as Mediaset Premium and Dahlia TV access to their high definition programs directly on their HD digital-ready TV sets without the use of an external set-top box.

Recognizing the enormous potential of Latin America, and in particular Brazil which will host the World Cup in 2014 and the Olympic Games in 2016, SmarDTV set up an office in North America as a regional base to be closer to its customers in the Americas.

#### Reinforcing CI Plus capability

With CI Plus gaining traction across Europe, the Kudelski Group entered into an agreement in 2010 to purchase assets from technology company Iwedia in order to strengthen our R&D capability in this area.

### Abilis – Innovative DTT tuner

In 2010 Abilis introduced an innovative DTT tuner designed to address the needs of the worldwide digital terrestrial TV market. The AT810 tuner is integrated in consumer devices such as set-top boxes, PCTVs, portable TVs, DVD players and automotive media appliances. It provides enhanced user experience thanks to features such as picture-in-picture, multichannel visual programming guides and PVR applications. The performance and cost effectiveness of this silicon tuner are helping to accelerate the adoption of the multiple receiver functionality by the DTT mass market.

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### NAGRAID – A REVOLUTION IN DISPLAY CARDS

The Kudelski Group offers state-of-the-art smartcard expertise through our affiliates NagraID and NagraID Security. These companies produce multi-component and other complex cards for the security and identification industries. NagraID provides advanced design, development and industrialization capabilities for innovative authentication solutions. It holds international patents for a non-violent lamination process used for embedding sensitive, electronic components into card and other form-factors.

At the Cartes 2010 trade show in Paris, NagraID Security demonstrated its 5<sup>th</sup> generation Display Card, the NagraID Security MasterCard® Information Display Card. This is the first smartcard that connects the EMV (EuroCard/MasterCard/Visa) payment contact chip to an embedded LCD display that enables information stored on the card to be uploaded every time the card goes online. With this new revolutionary payment card, for the first time cardholders can access up-to-date, vital account and payment-related information such as account balance, transaction history, reward points,



Digital display cards developed and produced by NagraID Security

payment due dates and more, precisely when they need it, anywhere, anytime using their trusted and familiar payment card. The card allows for PIN activation thanks to the embedded keypad and the secure chip.

The new Information Display Card enables unprecedented levels of interactivity between issuers and cardholders. One of the major advantages of this technology is that it is very easy to deploy and leverages the standard EMV investment by using the existing payment infrastructure and equipment.

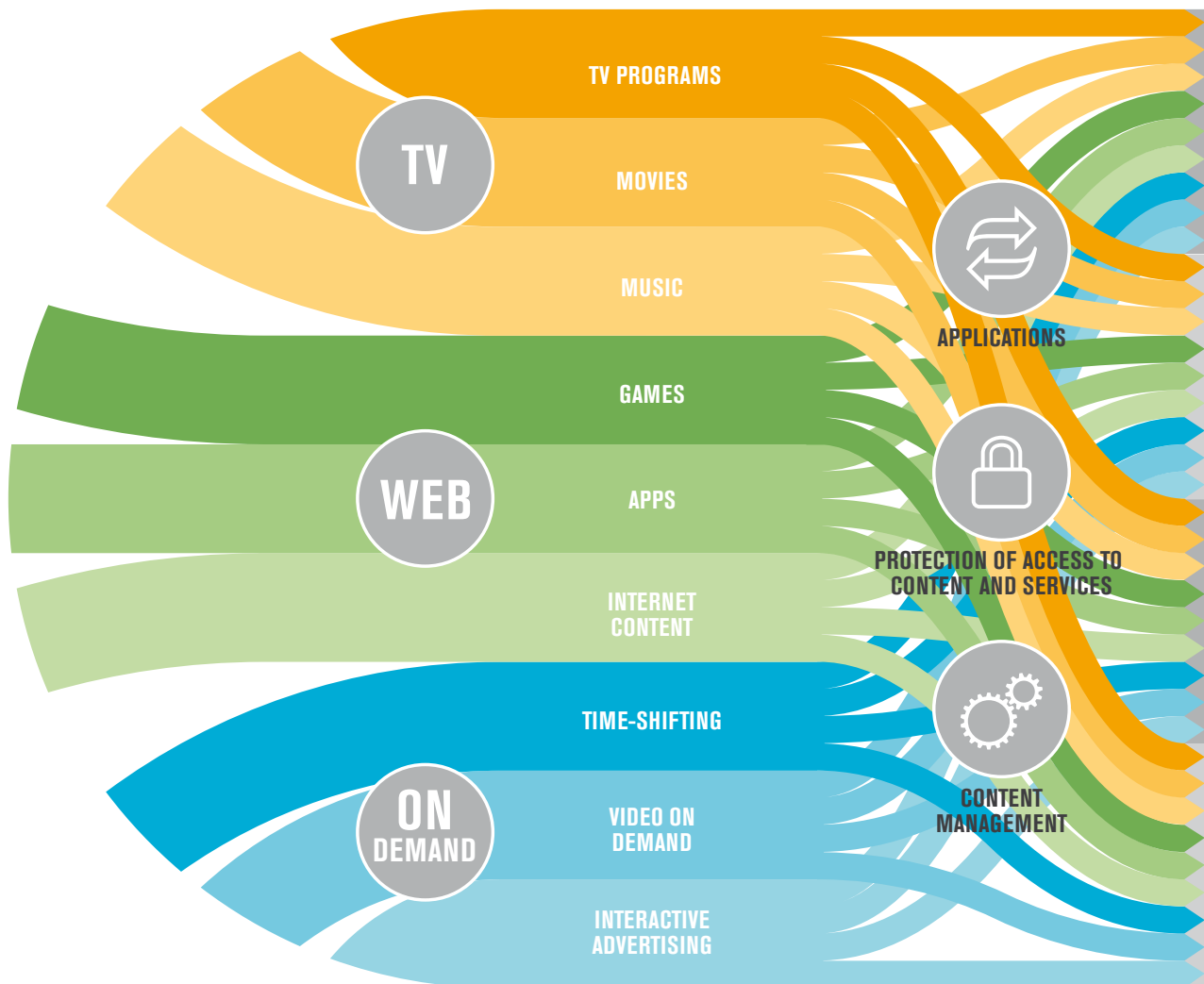
# DIGITAL MEDIA ECOSYSTEM

## KUDELSKI END-TO-END SOLUTIONS

### 1. CONTENTS

#### MANAGE THE MULTITUDE OF CONTENTS AND OFFER GREATER CHOICES TO CONSUMERS

The multitude of contents offered to consumers is opening up new opportunities for operators. The Kudelski Group's solutions enable them to protect their content, expand their services and offer additional value-added applications.



## 2. DISTRIBUTION

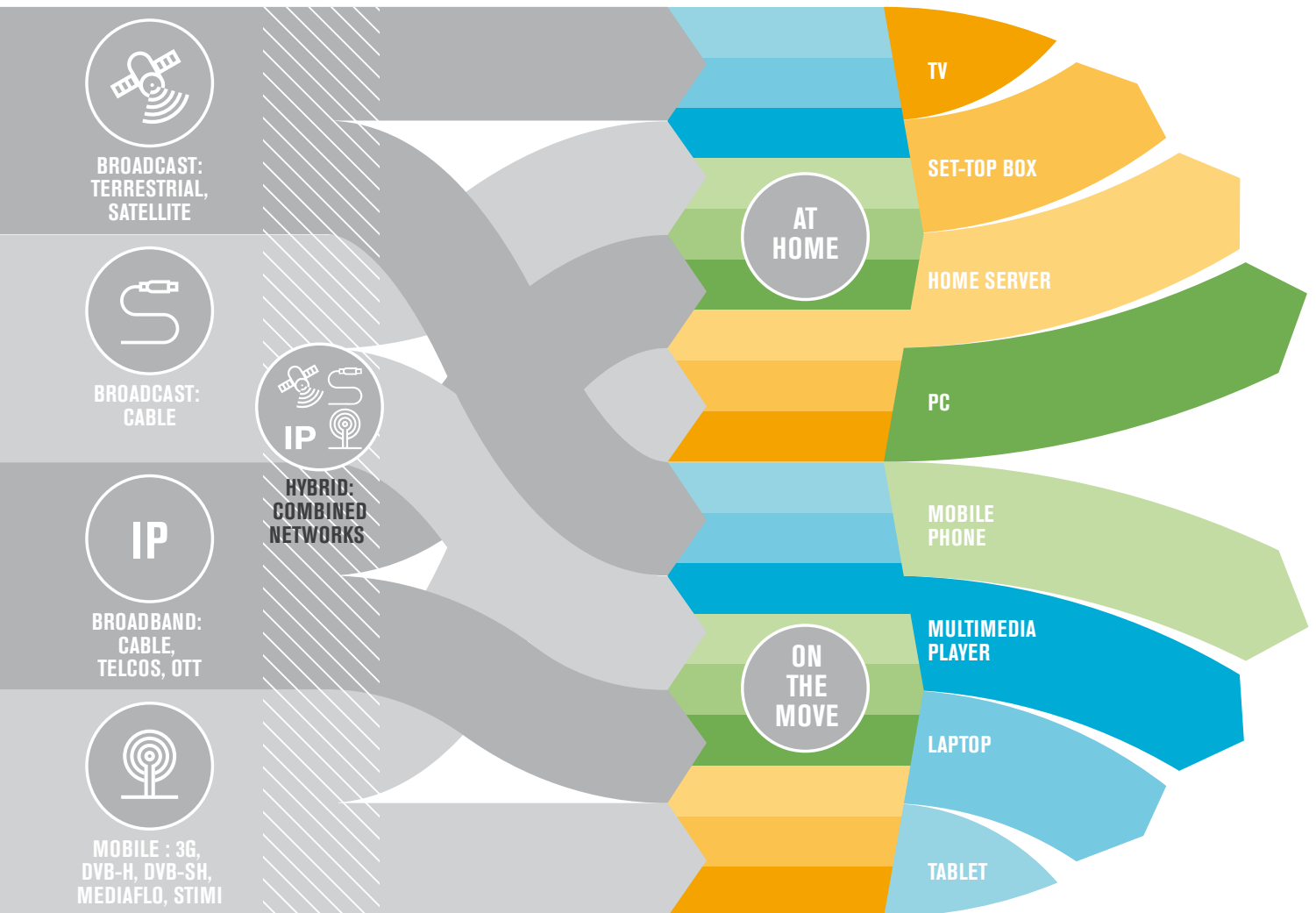
### MAXIMIZE OPPORTUNITIES ON ALL TYPES OF NETWORKS

One of the key issues for operators is to be able to integrate new platforms and technologies in order to extend their services to other types of consumers. Thanks to their open architecture and their modular design, Kudelski's solutions enable them to achieve this in a rapid and cost-effective manner.

## 3. CONSUMPTION

### OFFER A SEAMLESS VIEWING EXPERIENCE

The Groups' solutions provide optimal comfort and ease of use. They are designed to offer subscribers a seamless and consistent TV experience across all devices.



# 05 PUBLIC ACCESS



**Despite a difficult environment, SKIDATA's new service-oriented product strategy continued to be popular with operators working across transversal market segments and over multiple platforms. Geographically, the company succeeded in extending its foothold in certain key markets including Australia and South America.**

## **Strengthening expertise**

SKIDATA entered partnership with Signal Telecom/Parktime, one of the leading parking management operators in Russia. This partnership allows SKIDATA to further extend its market presence and enter the parking segment in Russia. Signal Telecom/Parktime is a market leader with more than 500 parking facility installations in Russia. This partnership enables SKIDATA clients to access a network of specialists throughout Russia.

SKIDATA has already established a strong presence in the ski sector in Russia. Its access solutions currently equip a dozen ski resorts in the country.

In the parking segment, SKIDATA also entered into strategic partnership with PARKEON, the on-street parking systems specialist. This partnership dovetails nicely with SKIDATA's off-street systems. By uniting forces, the two companies provide parking facility operators with concrete solutions for improving operational efficiency and enhancing services offered to end users on the move. This partnership is in line with the trend towards increased interaction between private and public transportation, a dynamic in which parking plays a key role.

The alliance between PARKEON and SKIDATA will generate innovative integrated solutions to car park operators, enabling them to combine data from both areas of the parking business (on-street and off-street) using a single parking back-office. Operators will thus be able to better manage their operations and ensure consistency across all car parks within a given area. The platform will also enable them to optimize vehicle flows into a city and control access to certain areas.

In May 2010, SKIDATA announced the acquisition of c-oncept software GmbH, an innovative provider of online solutions and services. Thanks to this acquisition, SKIDATA's customers will benefit from an enhanced web-enabled, feature-rich platform allowing them to launch new services such as pay-per-use purchases.

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## **CAR ACCESS**

In parallel to the new partnerships concluded in this sector, SKIDATA implemented several new projects in various parts of the world including Europe, the United States and New Zealand. The largest deployment was made at Dallas/Forth Worth airport in the United States.

### ***Airport segment***

Dallas/Forth international airport, one of the world's ten largest airports, selected a SKIDATA turnkey solution for parking access management at the airport. This comprehensive solution, based on the Hosted Business Services concept, provides hardware, software and administration. Intelligent software solutions support airport management with functional planning options, thereby improving their efficiency. The system self-monitors, which frees employees from routine tasks and enables air travelers and airport staff to benefit from advanced technology. An Automatic Vehicle Identification (AVI) system enables regular customers to access and exit parking areas smoothly and rapidly.

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*A leader in airport parking solutions, SKIDATA equips major airports in the world including those serving Munich, London, Zurich, Amsterdam, Montreal, Abu Dhabi and Hong Kong, to name but a few.*

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Making your life easier: parking payment system using the mobile phone



The new Prime Tower in Zurich (Switzerland) equipped with a SKIDATA parking system





SKIDATA access systems used in a variety of situations

26

**PEOPLE ACCESS**

**Hosted Business Services**

The centralized services of the Hosted Business Services platform range from marketing to management and maintenance. This solution is designed for operators who wish to benefit from a simple global solution to help them manage customer relationships, obtain statistical network analysis, host data securely, monitor and maintain their installations and perform marketing activities.

Hosted Business Services can be used for many types of application including stadium access, fairs and exhibitions, and ski resorts. In 2010, this platform was rolled out successfully across the company's various activity sectors.

**Ski segment**

This very dynamic segment continues to offer some of the most innovative solutions on the market. In 2010, SKIDATA launched the iSkiPass application allowing users to quickly and securely buy a ski pass from their iPhone. This solution is the first ski pass reservation application for iPhones. It will be deployed in the 2010/2011 season in several European countries.

Other technological innovations were launched in 2010 including the Easy.Gate unit. The Sölden ski resort in Austria selected this equipment as a complement to their existing SKIDATA Freemotion system.

*Easy.Gate is a compact scanner based on the RFID (Radio-Frequency IDentification) technology. It is ideally suited for small- and medium-sized resorts or to expand an existing system. It provides fast and easy access to the skiing area, while requiring little infrastructure and maintenance.*

The Ski segment also showed strong momentum in terms of geographical expansion. There were new contract wins in several key markets outside Europe where SKIDATA had not been present before. As an example, the Australian mountains welcomed SKIDATA for the first time. A ski access solution will equip Perisher Resort, the country's largest ski destination, as well as the Thredbo resort. Both ski areas are located in the Snowy Mountains.

In Argentina, SKIDATA will also deploy its ski access solutions in Las Leñas, one of the country's largest Andean ski resorts, and in Tierra del Fuego. SKIDATA already equips the large Cerra Cathedral resort in this market.

**Stadiums and Arenas**

SKIDATA signed an agreement with ENJOY Montpellier in France which will result in the installation of people access solutions in several cultural and sports venues in the city, including a concert hall, congress and exhibition centers, etc. This is the first project in the Stadiums and Arenas segment based on the Hosted Business Services platform: systems are centrally managed and hosted on SKIDATA's secure servers. The operator

can access data and reports online at anytime, globally or site by site. The Hosted Business Services platform enables customers to deploy state-of-the-art access management solutions without a costly investment in IT infrastructure.

The North Sea islands of Juist and Nordney, as well as the seven connecting ferries, were equipped with an access and online ticketing solution. All services that are part of the global offering

may be booked online via a "one-stop shopping" set-up. Residents also benefit from pay-per-use arrangements. This is a typical Destination Management project integrating a whole array of services on a unified SKIDATA platform.



Parking access: Dallas/Fort Worth International airport



Stadium access: Moses Mabhida stadium in Durban, South Africa



Ski access: Las Leñas ski resort, Argentina

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## MAIN PROJECTS IN 2010

### CAR ACCESS

#### Airports

<b>USA</b>	Installations for Dallas/Fort Worth international airport
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#### Other segments

<b>France</b>	Q-Park: Network of 9 parking sites in the city of Valence
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<b>New Zealand</b>	Parking lot of the Sky City resort in Auckland
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<b>Switzerland</b>	Parking lot of Switzerland's tallest commercial building, the Prime Tower in Zurich
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### PEOPLE ACCESS

#### Stadiums & Arenas

<b>France</b>	Access for various cultural and commercial venues in the City of Montpellier
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<b>Germany</b>	Ticketing and access solution for German islands of the North Sea
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#### Ski

<b>Argentina</b>	Installations in the Las Leñas and Tierra del Fuego ski resorts
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<b>Australia</b>	Installations in the Perisher and Thredbo ski resorts
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<b>Canada</b>	Installations in the Massif of Charlevoix
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# 06 NAGRA AUDIO



**Nagra Audio's two sectors, professional recorders and Hi-Fi, have broadened their product range with new devices that define the state-of-the-art in their respective fields. These products stand out for their exceptional technical characteristics. They deliver pure audio transparency and rigorously faithful sound and music reproductions.**

## PROFESSIONAL RECORDERS

Digital technology and advanced engineering have made it easier to build recorders to high specifications. Today's devices, contrary to those made in the analog era, do not contain any mechanical components requiring precision engineering techniques to build. Even the hard drives on which recording data is saved are no longer motor-driven: they now use solid state disk (SSD) technology in a 100% electronic environment.

However, the digital revolution does not mean that designing a state-of-the-art recorder is now an easy accomplishment. Today, performance specifications are not the only characteristics driving the high end of the recorder market: customers also scrutinize recorders' software, range of functions, ergonomics and ability to integrate into a variety of different multimedia ecosystems. This is especially true among professionals.

It is precisely in these areas that Nagra Audio is innovating. Nagra's devices are constantly pushing back the limits on recording techniques, delivering sound captures of the highest quality in all environments (on-set filming, extreme outdoor conditions and studio recording), no matter how demanding they may be.

Like Nagra's previous models, the current generation of recorders is built to last, featuring the same robust construction that has helped make the Nagra brand a legend. Many Nagra recorders purchased decades ago are still in use – and are still delivering pitch-perfect sound captures. In addition, it has become even easier to maintain Nagra devices today, as updates can be accessed directly online from [www.nagraaudio.com](http://www.nagraaudio.com).

### **The Nagra VI now offers eight tracks**

The Nagra VI was launched in 2008

as a six-track recorder. Two new tracks were added in 2010, further enhancing the device's versatility. The Nagra VI's comprehensive range of features, such as time code and metadata, are a perfect illustration of how digital technology has improved what the latest generation of recorders has to offer in terms of functions and ease of use. It is operated via a series of straightforward menus on a large LCD color screen.. The exceptional quality of its microphone inputs – a Nagra specialty – ensures sound recordings of the highest caliber. This makes the Nagra VI a popular choice for high-precision audio mastering work as well as many other areas of sound recording.

The Nagra VI received the Technical Excellence and Creativity (TEC) Award at the Audio Engineering Society (AES) show in New York.

### **Nagra LB**

The Nagra LB is a compact two-track recorder designed primarily for radio journalists. Since its launch in 2009 it has experienced great success not just in its main target market, however, but also among musicians, sound engineers and other individuals looking for a versatile, portable device. The LB has dual color screens and its top panel is equipped with a full on-board audio editing and communication platform. Sound can be captured, edited and sent straight from the field ready for use in the studio.

### **Nagra SD**

This new high performance hand-held recorder is now ready for the market and will be officially launched in 2011. The SD was designed to replace the perennial bestseller Ares-ML, which has sold more units than any other recorder over the last twenty years.

The Nagra SD takes its name from the Secure Digital memory card technology

28



Nagra VI 8-channel digital recorder



Nagra LB 2-track digital recorder





Nagra SD handheld stereo digital recorder



Nagra CDP CD player



Nagra PL-L tube line preamplifier



Nagra PL-P tube line/phono preamplifier



Nagra VPS tube phono preamplifier



Nagra BPS transistor phono preamplifier

aboard. It offers a wide range of functions for a handheld at an attractive price, and is built to the usual high Nagra standard.

### HI-FI RANGE

Nagra's Hi-Fi range was launched in 1995 and quickly established its position at the top of the industry. These devices have won the most prestigious prizes awarded by trade magazines throughout the world, and their reputation for excellence now rivals that of Nagra's professional recorders. This success has been driven by the devices' exceptionally pure sound, although the units are also stand-outs for their precise and exacting designs and their robust, high-quality construction.

Nagra Audio's suite of Hi-Fi products has grown to include the following devices:

- Nagra CDC, CDT and CDP compact disc players
- Nagra PL-L and PL-P tube preamplifiers
- Nagra VPS (tube) and BPS (transistor) phono preamplifiers
- Nagra VPA monoblock tube amplifiers
- Nagra PMA (mono) and PSA (stereo) transistor amplifiers
- Nagra MSA compact stereo transistor power amplifiers
- Nagra 300i integrated tube amplifiers and 300p power tube amplifiers

Nagra Hi-Fi is present in the principal markets of Europe, North America and Asia.

### Nagra MSA amplifier

The Nagra MSA stereo amplifier has been commercially available since early 2010. It got off to a strong start thanks to its range of features, which attracted immediate attention amongst sound industry professionals.

The MSA comes in a compact case designed to be compatible with Nagra's preamplifiers and CD players. It features innovative transistor technology that delivers 60 watts per channel and performs with perfect precision. It is comfortable even when paired with speakers considered difficult to drive.

### Two new amplifiers based on the legendary 300B tube

At the 2010 CES (Consumer Electronics Show) in Las Vegas, Nagra presented a prototype version of an amplifier built around the legendary 300B tube. The prototype generated considerable buzz, both among trade journalists and other CES visitors. Product testing and development were completed later in 2010, and the new device was officially launched at the 2011 CES. It is available in two versions: the 300i integrated stereo amplifier and the 300p power amplifier.

This launch coincided with the 60<sup>th</sup> anniversary of Nagra's founding, which is particularly appropriate in light of the historical resonance of the 300B tube. That legendary tube symbolizes the lasting importance of certain key inventions in audio technology, such as the first self-contained audio recorder, created by Nagra in 1951.

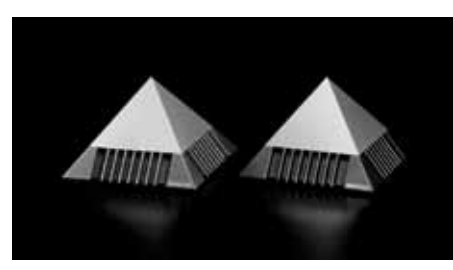
The basic idea behind the 300i and 300p amps was to surround the 300B tubes with the latest state-of-the-art technology in order to maximize the acknowledged sound quality of the triode tubes. The amps deliver 20 watts per channel and can thus be used to drive the many medium-to high-output speakers on the market today.



Nagra 300p (power) and 300i (integrated) triode tube amplifiers



Nagra MSA MOSFET stereo power amplifier



Nagra PMA (mono) and PSA (stereo) transistor amplifiers



Nagra VPA monoblock tube amplifiers

# 07 CORPORATE GOVERNANCE

**This report was prepared in compliance with the directive on information relating to corporate governance issued by the SIX Swiss Exchange. Unless otherwise mentioned, the information provided in this report reflects the situation as of 31 December 2010.**

**1. GROUP STRUCTURE AND SHAREHOLDING****1.1. Group structure**

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

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

**1.1.1. Operational structure of the Group**

From an operational point of view, the Group's activities are divided into three

divisions: Digital Television, Middleware & Advertising and Public Access, which develop their solutions with the assistance of departments dedicated to Marketing, Research and Development, Sales and Management of Intellectual Property.

The Digital Television division is composed of four departments:

- Sales and Operations
- Products and Solutions
- Conditional Access
- Corporate Development

The Middleware & Advertising division is composed of the two segments referred to in its name.

The Public Access division is divided into three segments:

- Car Access
- People Access (ski)
- People Access (events)

The company's Audio activities are consolidated in the accounts of Nagravision SA and are under the operational direction of Charles Egli.

Results by sector are presented on pages 22 and 23 of the Kudelski Group's 2010 financial statements.

**MAIN OPERATING COMPANIES HELD DIRECTLY OR INDIRECTLY BY KUDELSKI SA**

DIGITAL TELEVISION	0%	50%	100%
Nagravision SA (Switzerland)	100%		
Nagra France SAS (France)	100%		
Nagra USA, Inc. (U.S.A.)	100%		
Nagravision Asia Pte Ltd (Singapore)	100%		
Nagravision Shanghai Technology (China)	100%		
Nagra Media India Pvt. Ltd. (India)	100%		
Nagra Media Korea LLC (South Korea) 100%	100%		
NagraID SA (Switzerland)	100%		
SmarDTV SA (Switzerland)	100%		
Abilis Systems Sàrl (Switzerland)	100%		
EDSI SAS (France)	100%		
TESC Test Solution (Germany)	100%		
Embedics LLC (U.S.A.)	100%		
Quative Ltd (United Kingdom)	100%		
NagraStar LLC (U.S.A.)	100%		
Nagra plus SA (Switzerland)	100%		
Nagra Thomson Licensing SA. (France)	100%		
NagraID Security SA (Switzerland)	100%		

MIDDLEWARE/ ADVERTISING	0%	50%	100%
OpenTV (U.S.A.)*	100%		

PUBLIC ACCESS	0%	50%	100%
SkiData AG (Austria)	100%		
polyright SA (Switzerland)	100%		

\* Since 26 March 2010, OpenTV is fully owned by the Kudelski Group

On June 4th 2010, effective 1st January 2010, Nagra Public Access AG was absorbed by Kudelski SA

■	Head offices
■	Subsidiaries / companies with specific purpose
■	Offices

## INTERNATIONAL PRESENCE

		DIGITAL TV	MIDDLEWARE/ ADVERTISING	PUBLIC ACCESS	NAGRA AUDIO
<b>EUROPE</b>	Switzerland	■ ■ □	□ □ □	■ ■ ■	■ □ □
	France	□ ■ ■	□ ■ □	□ ■ □	□ □ ■
	Austria	□ □ □	□ □ □	□ ■ □	□ □ □
	Germany	□ ■ □	□ □ □	□ ■ □	□ □ □
	Belgium	□ □ □	□ □ □	□ ■ □	□ □ □
	Spain	□ ■ □	□ □ □	□ ■ □	□ □ □
	Italy	□ ■ □	□ □ □	□ ■ □	□ □ □
	Netherlands	□ □ □	□ ■ □	□ ■ □	□ □ □
	Sweden	□ □ □	□ □ □	□ ■ □	□ □ □
	United Kingdom, Ireland	□ ■ □	□ ■ □	□ □ ■	□ □ ■
	Portugal	□ □ ■	□ □ □	□ □ □	□ □ □
<b>AMERICAS</b>	USA	□ ■ □	■ □ ■	□ ■ □	□ □ ■
	Brazil	□ □ ■	□ □ □	□ □ □	□ □ □
	Chili	□ □ □	□ □ □	□ □ ■	□ □ □
<b>MIDDLE EAST</b>	United Arab Emirates	□ □ □	□ □ □	□ ■ □	□ □ □
<b>ASIA / PACIFIC</b>	Singapore	□ ■ □	□ □ □	□ □ □	□ □ □
	China	□ ■ □	□ ■ □	□ □ □	□ □ □
	Hong Kong	□ □ ■	□ □ □	□ □ ■	□ □ □
	Japan	□ □ □	□ ■ □	□ □ ■	□ □ □
	Taiwan	□ □ ■	□ □ □	□ □ □	□ □ □
	South Korea	□ ■ □	□ □ □	□ □ □	□ □ □
	Australia	□ □ □	□ ■ □	□ □ □	□ □ □
	India	□ ■ □	□ □ □	□ □ ■	□ □ □

**1.1.2. Listed companies included in the scope of consolidation**

Kudelski SA is a Swiss holding company listed on the SIX Swiss Exchange (Ticker: KUD; Sec. No 001226836/ ISIN: CH0012268360) with a market capitalization at 31 December 2010 of CHF 971 459 540. Only the bearer shares of Kudelski SA are listed on the SIX Swiss Exchange. Following the tender offer made by the Kudelski Group at the end of 2009, the company OpenTV

Corp, headquartered in San Francisco (United States), has not been listed on the NASDAQ since 26 March 2010.

**1.1.3. Unlisted companies included in the scope of consolidation**

Information concerning the company name, registered office, share capital and holdings owned by unlisted Group companies included in the scope of consolidation is shown on pages 62 and 68 of the Kudelski Group's 2010 financial statements.

**1.2. Significant shareholders**

The principal shareholders of Kudelski SA are the Kudelski family pool including Mr André Kudelski and Mr Stefan Kudelski and, outside the Kudelski family pool, Mrs Irène Kudelski Mauroux and Mr Henri Kudelski (and their respective descendants), and Mrs Marguerite Kudelski and Mrs Isabelle Kudelski Haldy (and their respective descendants) through two investment structures of which they are the beneficiaries. Furthermore,



Mrs Marguerite Kudelski holds 51 12 bearer shares in her own name. To the Group's knowledge, no other shareholder holds more than 3% of the voting rights and there are no shareholder agreements between the family pool and other shareholders.

The shareholding structure, under which the Kudelski family pool has control over the company, guarantees 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.

Kudelski Financial Services SCA has issued a convertible bond (ISIN: CH 0022692609) for an amount of CHF 350 million, representing 5 225 440 bearer shares (5.51% of voting rights). See section 2.7 for details.

As part of the Group's share purchase plan (which is described in section 2.7 below and in pages 49-50 of the financial report) Kudelski SA has issued a certain number of stock options for Group employees.

Announcements made by Kudelski SA to SIX Swiss Exchange concerning disclosure of shareholdings may be consulted

on the company website at: [www.nagra.com/investors-doc.html](http://www.nagra.com/investors-doc.html).

They are also available on the SIX Swiss Exchange website under the following link: [http://www.six-exchange.com/shares/security\\_info\\_fr.html?id=CH0012268360CHF4](http://www.six-exchange.com/shares/security_info_fr.html?id=CH0012268360CHF4). Click on the link regarding management transactions.

### 1.3 Cross-holdings

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

AT 31 DECEMBER 2010	REGISTERED SHARES	BEARER SHARES	SHARE CAPITAL HELD	VOTING RIGHTS HELD
Kudelski family pool	46 300 000	8 034 311	23.73%	57.17%
Mrs I. Kudelski Mauroux and Mr H. Kudelski (and their respective descendants)		3 000 000	5.62%	3.16%
Mrs M. Kudelski* and Mrs I. Kudelski Haldy (and their respective descendants)		3 000 000	5.62%	3.16%

\* Mrs Marguerite Kudelski holds in addition 5 112 bearer shares in her own name

## 2. CAPITAL STRUCTURE

### 2.1. Amount of ordinary, authorized and conditional capital at 31.12.2010 and 2.2. Specific information concerning authorized and conditional capital

#### Ordinary capital

The share capital amounts to CHF 533 683 120. It is divided into 48 738 312 bearer shares with a nominal value of CHF 10 per share and 46 300 000 registered shares with a nominal value of CHF 1 per share. Each share confers the right to one vote. All shares are fully paid up.

#### Authorized capital

The Board of Directors is authorized to increase the share capital in one or more stages until 4 May 2012 by a maximum amount of CHF 40 881 640 through the issue of 3 768 164 bearer shares with a nominal value of CHF 10 per share and 3 200 000 registered shares with a nominal value of CHF 1 per share to be fully paid up.

The issue price, the nature of contributions, the date from which new shares shall give entitlement to dividends and other modalities of the share issue 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 whole or partial acquisition of other companies in Switzerland or elsewhere. All statutory restrictions to the transfer of shares are applicable to new registered shares.

**Conditional capital**

The conditional capital amounts to CHF 107 754 440 and is structured as follows:

- a maximum amount of CHF 7 754 440 through the issue of a maximum of 775 444 bearer shares with a nominal value of CHF 10 per share, to be fully paid up, as and when the option rights or share subscription rights which will be granted to 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. Issue at a price below market conditions is authorized;

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

There are no preferential subscription rights for shareholders. The preferential subscription right of shareholders to the issuance of a convertible bond may be limited or eliminated by decision of the Board of Directors on valid grounds, namely (a) if the convertible bonds are placed primarily on markets outside Switzerland, or if the issue proceeds contribute (b) to the financing or refinancing of acquisitions of companies or firms or (c) to the financing of other strategic investments of the Group, or (d) to financing the redemption of all or part of convertible loans previously issued by the company or its subsidiaries. If the convertible bond is not offered preferentially to shareholders, (a) the convertible bonds must be sold to the public under market conditions, (b) conversion rights must be exercised within a period of seven years from the day of issuance of the respective bond, and

(c) the conversion price must be at least the equivalent of market conditions at the time of the issue of the bond.

the Swiss Code of Obligations, i.e. if admission of the acquirer of the stocks into the shareholder's group is incompatible

**2.3. Changes in capital**

CHF'000	31.12.10	31.12.09	31.12.08
Registered share capital	46 300	46 300	46 300
Bearer share capital	487 383	485 635	477 660
Legal reserve	84 611	81 887	79 028
Net profit	90 615	42 834	48 321
Total available earnings	394 900	322 532	290 079
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1 013 194</b>	<b>936 354</b>	<b>893 067</b>

*For information relating to changes in the capital which have taken place in 2010, 2009, 2008, please refer to the Group's corresponding financial statements*

**2.4. Shares and participation certificates**

The capital of Kudelski SA at 31 December 2010 was made up of 46 300 000 registered shares with a nominal value of CHF 1 per share, and 48 738 312 bearer shares with a nominal value of CHF 10 per share. Each share confers 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. Profit sharing certificates**

Kudelski SA does not have profit sharing certificates.

**2.6. Restrictions on transferability and nominee registration**

As per the Articles of Incorporation 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; also subject to the Swiss Federal Act on Intermediated Securities.

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 valid reason within the meaning of article 685 b paragraph 2 of

with the object of the company or may 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 stock could jeopardize the existing majorities.

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

c) If the acquirer does not expressly declare that he has acquired 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 by debt enforcement, the company may only refuse its consent if it makes an offer to the acquirer to take over the shares at their real value.

In the event of a dispute, the real value referred to in this section will be determined by the court having jurisdiction in the place where the company has its registered office. The company will bear the costs of such valuation. If the acquirer does not reject the purchase offer within one month of becoming aware of the real value, the offer will be deemed accepted.

Kudelski SA has no regulations concerning the registration of nominees.

Limitations on the transferability of registered shares, authorized or conditional increases in share capital and limitations on or eliminations of preferential subscription rights 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 nominal share capital represented.

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

## 2.7. Convertible bonds and options

### Convertible bond

On 5 October 2005, Kudelski Financial Services Holding S.C.A., a wholly owned subsidiary of Kudelski SA, issued a non-subordinated convertible bond of CHF 350 million in order to pursue the aim of the Kudelski Group to actively manage its assets, in particular by optimizing its financial costs and by improving the duration of its financial debt instruments. The issue proceeds were used mainly for the redemption of the previous convertible bond issued at the end of January 2002, and the remainder is used for potential acquisitions or other purposes corresponding to the general interest of the Group outside Switzerland.

The annual coupon amounts to 1.625% calculated with reference to the nominal amount of the bond payable on 5 October each year from 5 October 2006. The conversion price was initially set at CHF 67.76 per ordinary bearer share of Kudelski SA. At the Ordinary General Meeting of shareholders of Kudelski S.A., held on 24 May 2007, it was decided in particular to pay, on 30 May 2007, an ordinary gross dividend of CHF 0.30 and

an extraordinary gross dividend of CHF 0.30 per bearer share with a nominal value of CHF 10. In accordance with section D.1.2 (1) (c) of the bond conditions, the methods of conversion were adjusted as follows, with effect from 30 May 2007: bonds, with a nominal value of CHF 5000 each, may be converted at no cost until 21 September 2012 (subject to early repayment), into 74,6491 (instead of 73,7898) bearer shares of Kudelski S.A. with a nominal value of CHF 10 per share. The conversion price of bearer shares now amounts to CHF 66.98 (instead of CHF 67.76). A conditional capital of 5 225 440 Kudelski SA shares has been constituted for this purpose, as mentioned in section 1.2 above.

The repayment price of the bonds is at par on 5 October 2012. Early repayment can take place from 5 October 2010. Kudelski SA unconditionally and irrevocably guarantees this issue. The convertible bond is quoted on the SIX Swiss Exchange, under security number ISIN CH0022692609.

The offering circular for the convertible bond is available on request from the Group's head office or by e-mail to [info@nagra.com](mailto:info@nagra.com). More information about the convertible bond can be found in the financial reports, note 28 of the consolidated financial statements.

### Options

In 2003, the Kudelski Group implemented a stock option plan for certain employees. At 31 December 2010, there were no longer any options in issue.

NUMBER OF OPTIONS	VESTING	EXPIRATION	RATIO	EXERCISE PRICE
125 000	01.04.2006	01.04.2007	1 –for– 1	CHF 20
126 000	01.04.2007	01.04.2008	1 –for– 1	CHF 20
126 000	01.04.2008	01.04.2009	1 –for– 1	CHF 20

For more information on the stock option plan, please refer to the financial reports of the Kudelski Group, pages 49-50

### Share purchase plan

In 2004, the Kudelski Group introduced a share purchase plan for the employees of certain Group companies, 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 2010 can be found on pages 49-50 of the Kudelski Group 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 Incorporation. The Board currently consists of eight members elected by the General Meeting of Shareholders.

Three Committees, an Audit Committee, a Strategy Committee and a Remuneration and Nomination Committee, are formed within the Board of Directors and are responsible for specific tasks (see sections 3.4.1 - 3.5.)

Mr Stefan Kudelski has been the Honorary Chairman of the Board of Directors since 2 May 2006.

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

#### 3.1. Members of the Board of Directors

	YEAR OF BIRTH	NATIONALITY	EDUCATION	FIRST ELECTION	END OF TERM OF OFFICE
<b>38 ANDRÉ KUDELSKI*</b> Chairman of the Board and Chief Executive Officer	1960	Swiss	<b>Degree in Physical Engineering</b> Ecole Polytechnique Fédérale de Lausanne (EPFL)	1987	05.04.2011
<b>CLAUDE SMADJA</b> Deputy Chairman of the Board and Lead Director	1945	Swiss	<b>Degree in Political Science</b> University of Lausanne	1999	05.04.2011
<b>NORBERT BUCHER</b>	1931	Swiss	<b>Doctorate in Engineering</b> Ecole Polytechnique Fédérale de Lausanne Various postgraduate studies at the University of New York, Harvard Business School and IMD Lausanne	1992	05.04.2011
<b>PATRICK FÖTISCH</b>	1933	Swiss	<b>Doctorate in Law</b> University of Lausanne <b>Bar Exam</b>	1992	05.04.2011
<b>LAURENT DASSAULT</b>	1953	French	<b>Degree in Corporate Law</b> <b>Degree from ESLSCA</b> Ecole Supérieure Libre des Sciences Commerciales Appliquées, Paris	1995	05.04.2011
<b>PIERRE LESCURE</b>	1945	French	<b>Degree in Literature and Journalism</b> Centre de formation des journalistes, Paris	2004	05.04.2011
<b>MARGUERITE KUDELSKI</b>	1965	Swiss	<b>Engineering degree in Microtechnology</b> <b>Doctorate in Microtechnology</b> , Ecole Polytechnique Fédérale de Lausanne (EPFL) <b>Executive MBA</b> IMD Lausanne	2006	05.04.2011
<b>ALEXANDRE ZELLER</b>	1961	Swiss	<b>Degree in Economics</b> University of Lausanne	2007	05.04.2011

\*André Kudelski is the only member to combine his Board duties with an executive function within the Group (Chief Executive Officer).



**ANDRÉ KUDELSKI**



**CLAUDE SMADJA**



**NORBERT BUCHER**



**PATRICK FÉTISCH**



**LAURENT DASSAULT**



**PIERRE LESCURE**



**MARGUERITE KUDELSKI**



**ALEXANDRE ZELLER**

## CURRENT MANDATES

## KUDELSKI GROUP

## OTHER

**ANDRÉ KUDELSKI**

André Kudelski began his career in 1984 as a Research & Development engineer with Kudelski SA. In 1986, after working for several months with a firm 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.

- Nagravision SA, Chief Executive Officer
- Nagra plus SA, Chairman and Chief Executive Officer
- SkiData AG, Member of the Supervisory Board
- Open TV Corp., Executive Chairman until 31.12.2010
- NagraStar LLC., Co-Chairman

- Dassault Systèmes SA (France), Board member, member of the Audit Committee and of the Remuneration and Nomination Committee
- Edipresse SA (Switzerland), Board member, Chairman of the Audit Committee
- HSBC Private Banking Holdings (Suisse) SA (Switzerland), Board member
- Nestlé SA (Switzerland), Board member, member of the Audit Committee
- Comité d'economiesuisse (Switzerland), member
- Swiss-American Chamber of Commerce (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 & Associates, Strategic Advisory, which collaborates on strategic problems with multinationals and government bodies and organizes international events.

- OpenTV Corp., Board member until 31.12.2010

- Edipresse SA (Switzerland), Board member, Chairman of the Remuneration Committee
- Infosys Technologies Ltd. (United States), Independent Director, Chairman of the Nomination Committee
- International Board of Overseers of the Illinois Institute of Technology (United States), member.

**NORBERT BUCHER**

Norbert Bucher began his professional career as an engineer with Sulzer, in Winterthur and in New York, then moved to Syska & Hennessy Inc, Consulting Engineers in New York. He then joined Philip Morris Europe SA as Deputy Managing Director. After eleven years as Deputy Managing Director at Interfood SA in Lausanne, he occupied the position of Senior Vice President with Jacobs Suchard in Zurich for seven years.

- Nagra plus SA, Board member

**PATRICK FÆTISCH**

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

- Nagravision SA, (Switzerland) Chairman
- Nagra France SAS, (France) Chairman
- NagraID SA, (Switzerland) Chairman
- Nagra plus SA, (Switzerland) Board member
- SkiData AG, (Austria) Member of the Supervisory Board

- Renault Finance SA (Switzerland), Board member



## OTHER

### LAURENT DASSAULT

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

- 21 Centrale Partners SA (France), member of the Supervisory Board
- Amis du FRAC (Fond Régional d'Art Contemporain en Aquitaine) (France), President
- Arqana SAS (France), advisory to the Directoire
- Artcurial Développement Sàrl (France), Co-gérant
- Artcurial Holding SA (France), Chairman of the Development Committee
- Association des Amis du Musée d'Art Moderne (France), Board member
- Banque Privée Edmond de Rothschild Europe SA (Luxembourg), Board member
- Catalyst Investments II L.P. (Israel), Chairman of the Advisory Board
- Château Dassault SAS (France) (since 1994), Chairman
- Dassault Systèmes SA (France) (since 1992), Board member
- Financière Louis Potel & Chabot SAS (France), Board member
- GENERALI France SA (France), Board member and member of the Accounting Committee
- Groupe Industriel Marcel Dassault SAS (France), Vice-Chairman (since 1992)
- Immobilière Dassault SA (France) (since 2003), Chairman of the Supervisory Board
- Laurent Dassault Rond Point (LDRP) SCI (France), Associé Gérant
- Lepercq, de Neuflyze & Co. Inc. (United States), Board member
- Organisation pour la Prévention de la Cécité (OPC) (France), Board member
- ONE DROP France (association), President
- PECHEL INDUSTRIES SAS (France), membre du comité de suivi
- Power Corporation du Canada (company incorporated under Canadian law on joint stock companies) (Canada), Board member
- SAGARD PRIVATE EQUITY PARTNERS SAS (France), membre du comité consultatif
- SGAM ALTERNATIVE INVESTMENTS SA (France), prestataire
- Sita SA (Switzerland), Board member
- SOGITEC Industries SA (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 Europe 1 radio stations where he successively occupied a variety of positions, in particular Deputy Editor and Director of Programs. In 1981 he returned to television as Editor in Chief of Antenne 2. From 1984, he worked with André Rousselet on the launch project for the pay TV channel CANAL+ where he was appointed Director and then Chief Executive Officer. From 1993 to 2002, he was Chairman and Chief Executive Officer of the CANAL+ Group. From 2000 to 2002 Pierre Lescure was also co-Chief Executive Officer of Vivendi-Universal. Since 2002, he has been Chairman and Chief Executive Officer of Anna Rose Production SAS, a company active in audiovisual and cinematographic production as well as in communication consultancy services. Lastly, since July 2008 he has directed the Théâtre Marigny in Paris.

- Lagardère SCA (France), member of the Supervisory Board
- Havas SA (France), Board member
- PrisaTV S.A.U. (Spain), member of the Supervisory Board
- DTS Distribuidora de Televisión Digital, S.A. (Digital+) (Spain), member of the Supervisory Board (since 20.01.2011)



**CURRENT MANDATES**

KUDELSKI GROUP

**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 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 Nagrad in 2003, she took responsibility for certain key projects for the Group within the Finance Department from 2004 to 2006. Since March 2007, Marguerite Kudelski has worked as a consultant, offering services such as business development and management consulting.

— polyright SA, Board member

**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 of Credit Suisse Private Banking. In November 2002, Alexandre Zeller joined the Banque Cantonale Vaudoise. Since July 2008, he has been CEO of HSBC Private Bank (Switzerland).

**3.4.1. Distribution of tasks within the Board of Directors**

The Board of Directors constitutes itself by appointing from within its ranks the Chairman and the Deputy Chairman. The functions of Chief Executive Officer and Lead Director are allocated if the Board decides to elect a Chief Executive Officer. Otherwise management of the company is delegated in full to the Executive Board. A Corporate Secretary may be appointed and chosen from outside the Board of Directors. He or she is not a member of the Board of Directors.

The Chairman of the Board leads the discussions at the General Meeting, ensures that the minutes are taken, is in charge of protocol and directs meetings of the Board, informs 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 a Director 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.

**3.2. Other activities and vested interests**

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

**3.3. Election and term of office**

The Board of Directors comprises between one and ten members. Board members are appointed by the General Meeting for a period of one year. The term of office ends on the day of the Ordinary General Meeting. They 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.

**3.4. Internal organization**

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 Remuneration and Nomination.

The internal organization of the Board of Directors is defined in the Articles of Incorporation and the Board Regulations. The regulations are available on request to the General Secretariat 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.

Management of the company may be delegated to the Chief Executive Officer, unless otherwise stipulated by law. In his management activities, the Chief Executive Officer acts in accordance with directives issued by 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 functions of Chairman of the Board of Directors and Chief Executive Officer are exercised by one 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 functions 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 and also 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.

### **3.4.2. Composition, attributions and delimitation of competencies of Board Committees**

Committees are constituted by the Board of Directors which appoints their members and chairpersons. The Board Committees meet as often as is necessary. They have a consultative and preparatory role vis-à-vis the Board of Directors, to which they report on a regular basis. Committee reports serve as the basis for decision making by the Board of Directors.

#### Audit committee

The Committee consists of at least three non-executive members of the Board of Directors. At least one Committee member has proven experience in the field of accounting. All members may have knowledge or practical experience in the field of financial management. The Audit Committee meets in principle 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 relating to 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 and provides appropriate recommendations to the Board of Directors concerning renewal of the term of office of external auditors or, where necessary, their replacement. The Committee ensures that the recommendations of external auditors are followed up 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

Until 30 June 2010, the Strategy Committee was composed of three members of the Board of Directors, including the Chairman and Deputy Chairman. Since 1 July 2011, the Committee has been composed of four members. It meets at least twice a year.

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

and oversees the Group's development by means of investments, disinvestments and reorganization.

To define strategic choices, the Strategy Committee relies upon information supplied by 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.

#### Remuneration and Nomination Committee

This Committee is composed of three non-executive members of the Board of Directors. It meets at least twice a year.

The Committee supervises the remuneration policy put in place by the company (confer section 5: Remuneration, 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.

### **3.4.3. 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 chapter 3.4.2.

The Board of Directors meets at least four times a year, but as often as is required for the proper conduct of business.

■ Chairman  
■ Member

	AUDIT COMMITTEE	STRATEGY COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
André Kudelski	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> ■	<input type="checkbox"/> <input type="checkbox"/>
Claude Smadja	■ <input type="checkbox"/>	<input type="checkbox"/> ■	<input type="checkbox"/> ■
Norbert Bucher	<input type="checkbox"/> ■	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
Laurent Dassault	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
Patrick Fœtisch	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	■ <input type="checkbox"/>
Marguerite Kudelski	<input type="checkbox"/> ■	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
Pierre Lescure	<input type="checkbox"/> <input type="checkbox"/>	■ <input type="checkbox"/>	<input type="checkbox"/> ■
Alexandre Zeller	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> ■	<input type="checkbox"/> <input type="checkbox"/>

In 2010, the Board of Directors and its Committees met as follows:

Board of Directors	<b>7 times</b>
Strategy Committee	<b>2 times</b>
Audit Committee	<b>3 times</b>
Remuneration and Nomination Committee	<b>2 times</b>

Average attendance at Board meetings exceeded 90%. Meetings of the Board of Directors lasted on average five hours. Most Committee meetings lasted between two and three hours.

### 3.5. Competencies

Please see also section 3.4.1 for details of the internal organization of the Board of Directors and the position of Chief Executive Officer.

#### The Board of Directors

The Board of Directors:

- has the ultimate management of the company and issues all necessary instructions;
- determines the organization;
- determines the principles of the accounting system and of the financial controls and also of financial planning insofar as this is necessary for the management of the company;
- appoints and dismisses persons entrusted with management and representation;
- exercises ultimate supervision over persons entrusted with management

to ensure in particular compliance with the law, the Articles of Incorporation, regulations and instructions given;

- writes the annual report, calls the General Meeting and implements its decisions;
- takes decisions on 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 Incorporation (articles 651 para. 4, 651 a, 652a, 652g, 652h, 653g, 653h of the Code of Obligations);
- informs the judge in the event of over-indebtedness.

#### Group management

The Board of Directors has delegated full management of the company to the Chief Executive Officer, subject to legal imperatives and contrary provisions in the Articles of Incorporation. The Chief Executive Officer therefore coordinates the day-to-day operations of the Group companies.

### 3.6. Information and control instruments with respect to Group management

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, 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 this is necessary.
- At least twice a year, members of management are invited to present their activities to members of the Board of Directors. Members of the Board 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 management, Group executives or outside experts are invited to present specific subjects to members of the Board of Directors.

#### Operations and strategy

- In the Group's key sectors, ad hoc committees comprising a cross-disciplinary panel of internal experts evaluate market, strategic, operational, legal and financial risks. These ad hoc committees analyze risks, manage processes relating to the evaluation of such risks, propose measures and monitor their implementation. There is a committee for each segment,

as well as a security committee and an innovation committee. Information and comments arising from these committees are conveyed to the Group management during the Executive Board Meetings, which take place at least once a month. The Digital TV Executive Board Meetings, which take place at least once a month and last on average four hours, also use the information provided by the ad hoc committees and review in particular two specifically chosen and relevant topics for the Digital TV segment.

#### **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 also makes available a platform of analytical services to Group management and operational departments.
- Each year the Group improves the level of detail and efficiency of its information management system, in particular by combining financial information and quantitative information while taking into account the different stages in the sales process. This provides an increasingly accurate and global view of the activity. Every month, the Controlling entity prepares a number of reports which are made available to management. Those reports are then adapted and sent to each regional head and account manager with the corresponding analytical metrics. The reports include: a report providing an overview of the Group's profit and loss broken down by activity and showing profit trends and budget overruns/shortfalls, with adaptations based on quarterly revisions of the annual

forecast by entity, as well as their operational indicators; a sales report including region, client and sales type-specific analysis as well as their respective margins; a report on the operational cost trend broken down by cost center and a report on the financial development of key projects.

- 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 (PriceWater-houseCoopers).

#### **Legal**

- Close involvement of the Legal Department in decision making contributes to improving legal risk management.
- Contract management and electronic archiving tools have been introduced enabling more efficient tracking of contracts and confidentiality agreements.
- Under the responsibility of the Legal Department, management implemented an "IP Board" including experts from the Legal Department and from the Corporate Development Department. This Board is responsible for providing management with proposals regarding operational and strategic issues in the field of intellectual property. The Board is also in charge of the implementation and of the follow-up of management decisions. It meets at least once a month, submits proposals and reports on its activity during the Executive Board Meetings

at least twice a year

#### **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.

#### **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 and backup, etc.).

## 4. GROUP MANAGEMENT

### 4.1. Group executive management members

	DATE OF BIRTH	NATIONALITY	POSITION	EDUCATION
<b>ANDRÉ KUDELSKI</b>	1960	Swiss	<b>Chairman and Chief Executive Officer (CEO) of the Group</b>	<b>Engineer-physicist</b> Ecole Polytechnique Fédérale de Lausanne (EPFL)
<b>PIERRE ROY</b> Executive Vice President of the Group	1952	Swiss	<b>Director of Operations (COO), Digital TV</b>	<b>Degree in Business Management</b> Hautes Etudes Commerciales (HEC) de l'Université de Lausanne
<b>CHARLES EGLI</b> Executive Vice President of the Group	1948	Swiss	<b>Director</b> Chief Executive Officer of Nagra Public Access AG	<b>ETS Engineer in Electronics</b> Ecole Supérieure Technique (or today HES (Hautes Hautes Etudes Spécialisées Lausanne)
<b>46 MAURO SALADINI</b> Executive Vice President of the Group	1966	Swiss	<b>Chief Financial Officer (CFO)</b>	<b>ETHZ Electrical Engineer</b> Ecole polytechnique fédérale de Zurich <b>MBA</b> INSEAD (France)
<b>LUCIEN GANI*</b> General Counsel	1948	Swiss	<b>Director of Group Legal Affairs</b>	<b>Doctorate in Law</b> <b>HEC Degree</b> University of Lausanne <b>Bar Exam</b>
<b>JOHN BURKE</b> Senior Vice President	1953	Irish	<b>Director of Group Human Resources</b>	<b>Degree in Economics</b> <b>MBA (Hons)</b> Trinity College (Dublin)
<b>NICOLAS GÛETSCHMANN</b> Corporate Secretary	1960	Swiss	<b>Director of Group Administration</b>	<b>Degree in Economics</b> University of Fribourg
<b>ALEX OSADZINSKI**</b> Executive Vice President of the Group	1958	British/ American	<b>Director Product</b>	<b>Degree equivalent to a USA BSc in Computer Science / Management Information Systems and Marketing*</b>
<b>YVES PITTON</b> Senior Vice President	1968	Swiss	<b>Director Corporate Development</b>	<b>Degree in Physical Engineering</b> University of Lausanne <b>Doctorate in Materials Science</b> Ecole Polytechnique Fédérale de Lausanne (EPFL) <b>MBA SDA Bocconi (Italy)</b>

\*Lucien Gani, General Counsel of the Kudelski Group, has decided to retire from the function of General Counsel as from 31 March 2011. He will continue to respond to occasional requests from the Group. Mark Beariault (born in 1971, American National, Doctor in Law (Juris Doctor) from the University of Georgetown and admitted to the California and New York bars) will succeed Lucien Gani as Group General Counsel and member of the Executive Board as from 1 April 2011.

\*\*Alex Osadzinski obtained various scientific diplomas in the United Kingdom in return for which the company International Education Evaluations Inc. in 1991 issued an equivalence to an American Bachelor's degree in Computer Science/Management Information Systems and Marketing.



**ANDRÉ KUDELSKI**



**PIERRE ROY**



**CHARLES EGLI**



**MAURO SALADINI**



**LUCIEN GANI**



**JOHN BURKE**



**NICOLAS GÖETSCHMANN**



**ALEX OSADZINSKI**



**YVES PITTON**



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**ANDRÉ KUDELSKI**

Please see article 3.1 of this section.

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**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.

- 
- OpenTV Corp., Board member until 31.12.2010
  - Nagravision SA, Board member, Director
  - SmarDTV SA, Board member
  - Nagra USA, Inc., Board member
  - Quative Ltd., Board member
  - Nagravision Asia Pte Ltd., Board member
  - Nagra Media Korea LLC, Board member
  - Nagra Media Pvt Ltd., India, Board member
  - Nagra Thomson Licensing SA, Chairman
- 

**48 CHARLES EGLI**

Charles Egli worked at Studer Revox in Zurich as a Development Engineer then as Project Manager until 1989, when he joined Nagravision as Project Manager. In 1992, he was appointed as Chief Operating Officer of Kudelski SA and then, in January 2003, Chief Executive Officer of Nagra Public Access AG (until 4 June 2010) and Executive Vice President of the Kudelski Group. He has also occupied the post of Chief Executive Officer of SkiData AG since September 2004.

- 
- SkiData AG, CEO Vorstandsvorsitzender
  - Nagra Public Access AG, Chief Executive Officer (until 4 June 2010)
  - Nagravision SA, Board member
  - polyright SA, Board member, Vice President
  - Nagra plus SA, Director
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**MAURO SALADINI**

After five years as a financial services consultant with Accenture, Mauro Saladini 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.

- 
- Nagravision SA, Director
  - OpenTV Corp., Board member (until 31 December 2010)
  - SkiData AG, Chairman of the Board of Directors
  - NagralD Security SA, Board member
  - Quative Ltd, Board member
  - Other:
  - Newave Energy Holding SA (Switzerland), Board member
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**LUCIEN GANI**

Lucien Gani began his professional career in 1972 as a lawyer with the Federal Tax Administration, and then occupied the post of Deputy Director with the Compagnie Vaudoise d'Electricité in Lausanne, where he remained from 1974 until 1976. Between 1977 and 1983, he was a trader with the company La Commerciale SA in Lausanne. From 1984, he wrote his doctoral thesis in law and undertook a law internship in 1987. Since 1990, he has worked as an independent lawyer with a law firm in Lausanne. He joined the Kudelski Group in January 2006 as Director of Legal Affairs. Previously, he acted as counsel for several years as an independent lawyer in the drafting and negotiation of strategic contracts for the Kudelski Group.

- 
- OpenTV Corp., Board member (until 31 December 2010)
  - SmarDTV SA, Chairman
  - NagralD SA, Board member
  - Nagravision SA, Board member
  - EDSI SAS (France), Chairman
  - EmbedCs LLC, Director
  - Nagra Media Pvt, Ltd., India, Board member
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## MANDATES WITH MAIN OPERATIONAL COMPANIES HELD BY KUDELSKI SA

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### JOHN BURKE

John Burke began his professional career in marketing with Procter & Gamble International in Geneva in 1977. From 1982, he was appointed Group Marketing Manager with various Group subsidiaries, including Geneva, Athens, Cincinnati and Madrid. In 1986, he joined RotoVision SA as Sales Director. He then joined the IUCN (World Conservation Union) in 1991 as Director of Communications and Public Relations. In 1996, he joined Novartis Consumer Health, initially as Head of Human Resources and Communication. He was then appointed Head of the Medical Nutrition division and a member of the Executive Committee, before being promoted to worldwide Head of the Nutrition division. In 2001, John Burke joined the Geneva-based International Federation of Red Cross and Red Crescent Societies as Director of Support Services and in 2004 was appointed Chief Administrative Officer of the Global Fund to Fight Aids, TB and Malaria, where he remained until he joined the Kudelski Group on 1 June 2006.

- Nagravision SA, Director

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### NICOLAS GOETSCHMANN

From 1986 to 1989, Nicolas Goetschmann was a Private Client Executive with Credit Suisse in Geneva before becoming a Fund Manager with Kestrel SA in Neuchâtel. In 1990, he joined the Kudelski Group as Director of Finance and Administration. Since 2004, he has been the Corporate Secretary of the Kudelski Group as well as Director of Group Administration.

- Nagravision SA, Director
- Nagra ID SA, Board member
- Nagra Public Access AG, Director (until 4 June 2010)
- Nagra USA Inc., Board member
- Nagra France Holding SAS (France), Chairman

49

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### ALEX OSADZINSKI

Alex Osadzinski began his professional career in the United Kingdom in 1978, at two successful start-up companies which were subsequently sold. In 1984, he joined AT&T as European Sales Manager. From 1986 to 1994 he worked for Sun Microsystems, where he became Vice President for Markets and Product Strategy. After two years with Grass Valley Group (Tektronix) as Vice President for Marketing and International Sales, President of Grass Valley Japan and General Manager, Mr Osadzinski returned to the world of start-ups with the companies BE from 1996 to 1998 and Vitria Technology from 1998 to 2000. Both these companies were subsequently listed on the stock exchange. He then became CEO of the start-up Katmango. From 2001 to 2008 he was involved in start-ups as a "Venture Partner" through the company Trinity Ventures, one of the main venture capital companies in Silicon Valley and active in software and digital media. In December 2008 Mr Osadzinski joined the Kudelski Group as Executive Vice President Product in the Digital Television division.

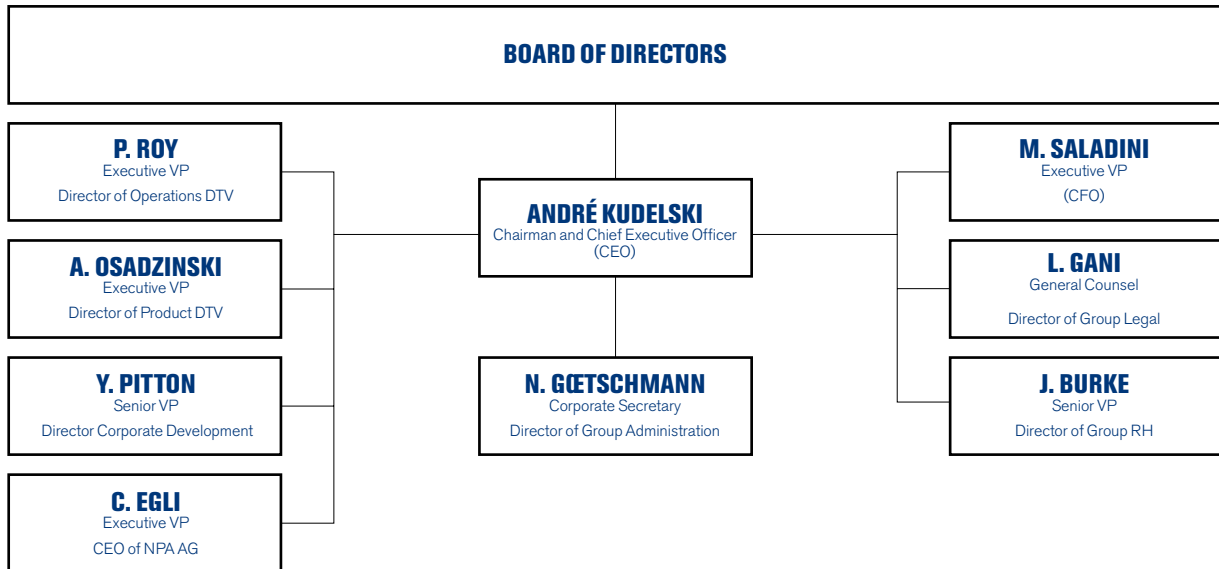
- Nagravision SA, Director
- OpenTV Corp., Board member
- Quative Ltd., Board member

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### YVES PITTON

Mr Pitton worked on several projects at the Ecole Polytechnique Fédérale de Lausanne (EPFL) and for various international companies during the three years of his PhD thesis. After obtaining his PhD in Material Sciences & Engineering, he joined Alusuisse (now called Alcan Aluminium Valais SA) as Project and Product Manager, with responsibilities for product development, marketing and business development. He left Alusuisse to study for an MBA, which he obtained after one year's study in 2001. From August 2001, Mr Pitton worked as a consultant and then Engagement Manager for McKinsey & Co in Europe and the United States, where he led strategic projects for international companies operating in various business sectors, including finance, TV & new media, high-tech, technology and industrial businesses, both in Europe and in the US. He joined the Kudelski Group in October 2006 and was put in charge of strategic projects. In September 2008, he took responsibility for Business Development, and on 15 December he was appointed to the Group Executive Board as Senior Vice President in charge of Corporate Development.

- Nagravision SA, Director
- Abilis Systems Sàrl, gérant
- Other :
- Ligaris SA (Switzerland), Board member



50

#### 4.2. Other activities and vested interests

Please refer to the individual profiles of members of the Group management under 4.1 above.

#### 4.3. Management contracts

There were no management contracts in place at Kudelski SA on 31 December 2010.

### 5. REMUNERATION, SHAREHOLDINGS AND LOANS

#### 5.1. Principles of remuneration

The objective of the remuneration policy of the Remuneration and Nomination Committee is to align the interests of the management bodies as closely as possible with those of the company over the medium and long term. In particular, the variable component of remuneration can change depending on the evolution of business, the level of responsibility assumed by executive members and their performance, which can have a positive or negative effect on the remuneration of each member of management. The method for determining the remuneration of each executive member is optimized in such a way as to avoid favoring short-term results.

The Committee seeks to ensure that global remuneration offers a salary level that is comparable with that of an executive manager with similar competencies and responsibilities, also taking into account national and international practices in the digital television and Internet activity sectors. The Committee also takes into account the Group's desire not to dilute the capital of the company excessively.

Fixed remuneration is not considered individually as a comparison factor for the Committee, which favors an overall assessment of remuneration in the long-term interest of the company and of its shareholders. The Remuneration and Nomination Committee's assessment of the terms of remuneration was based on its own opinion and on the terms applied in the market by other companies of similar size (in terms of complexity, revenues and number of employees and listed on Nasdaq or on Swiss Performance Index – SPI – sectors Technology) and with which it competes in hiring board members and upper managers, without being implicitly in the same activity sector, without referring to particular benchmarks or engaging the services of consultants. The Remuneration and

Nomination Committee considers that there are no companies that can be compared to the Group, outside the above-mentioned general elements. This is in particular due to the diversification of the Group's activities and the rapid evolution of the markets in which the Group operates on the one hand, and the influence of the players in these markets on the other hand.

The purpose of the variable component of remuneration is to align the interests of the members of Group Management with those of the company by having members contribute to value creation or be penalized in the opposite situation. The variable component of remuneration depends on the Group's results (both economic and strategic), the employee's level of responsibility, and the achievement of individual objectives. Variable remuneration is not expressed as a percent of fixed remuneration.

There is currently no provision setting forth a particular allowance or benefit – including with regard to share vesting periods – in the event of termination of the employment contract of a member of Group Management, early departure

of a member of the Board of Directors or change in control of the company.

## 5.2. Components of remuneration

Note 44 to the financial statements shows the breakdown of payments to members of the Board of Directors and Group Management, pursuant to Article 663bis of the Swiss Code of Obligations. The principles governing the determination of components of remuneration are different for non-executive members of the Board of Directors and for Group Management

### 5.2.1 Members of the Board of Directors

Overall remuneration of non-executive members of the Board of Directors is composed of fixed annual fees and an allowance for costs and other expenses incurred while performing their duties. This remuneration is paid in cash.

If specific tasks or services not within the usual scope of activities are assigned to Board members, the services rendered are remunerated on the basis of fees that correspond to market rates for the same type of services.

### 5.2.2 Members of Group Management

#### Instruments of remuneration

The total annual remuneration of members of Group Management includes a salary and a variable component.

Remuneration is paid in cash, shares and payment in kind, including for example payment of all or part of the health insurance premium and the provision of a company car. The fixed component is in principle paid in cash. The Remuneration and Nomination Committee has discretionary authority to determine how the variable part is paid, taking into account such criteria as the share price and the dilution effect. A maximum of 50% of the variable part of remuneration is in principle paid in the form of Kudelski SA bearer shares, with the exception

of a member of Group Management who does not reside in Switzerland and whose variable remuneration is paid entirely in cash. These shares are blocked for a period of 1, 3 or 7 years in accordance with the employee's wishes, but at least half of these shares must be blocked for at least three years. Members of Group Management may also take part in the share purchase plan introduced in 2004, in accordance with the terms of said plan (refer to section 2.7).

#### Variable remuneration

The amount of the variable component depends on the individual performance of the member of management and the strategic, economic and operational performance of the Group. The key factors determining variable remuneration levels are the performance of the Group and its divisions, the budget, the strategic initiatives, the achievement of objectives and the quality of management delivered by the member of management concerned.

The objectives are set by the Board of Directors and reflect the Group's strategy; they also represent part of the objectives of the Chief Executive Officer (CEO).

The CEO sets the individual objectives of each member of Group Management with the Remuneration Committee.

The Remuneration and Nomination Committee has discretionary authority to determine how the components of individual performance and those relating to the Group are to be weighted, in order to set the remuneration of each member of Group Management.

The global results of the assessment of each individual objective are calculated according to a weighted geometric average. The result of the mathematical formula promotes excellence at all levels and encourages members of management to work on their weakest points. The variable component of compen-

sation is thus maximized by reaching, or even surpassing, several individual objectives. However, failing to reach a single important objective has a non-linear effect that can impact variable salary significantly.

#### Special information regarding 2010

The remuneration of each member of management is fixed globally and the variable remuneration of management members is not determined according to the fixed component of remuneration as specified in section 5.1. above. As an indication, the variable component of the remuneration of members of management in 2010 represented between 30% and 65% of the global remuneration, except for the remuneration of the Chief Executive officer (see note 44 of the Financial Statements). This ratio is not fixed and can therefore change every year. The differences in the ratio between fixed and variable remuneration between the management members is based on the practices used in the market at the time of the person's nomination, the function and the status within the company as mentioned under section 5.1. above.

The variable component of the remuneration of members of management was lower than in 2009, mainly because of the Group's results which were negatively impacted by a certain number of external factors related to the effects of foreign exchange rates and slower growth in some regions, among other causes.

## 5.3 Competency and procedure for determining remuneration levels

The Remuneration and Nomination Committee is responsible for setting the remuneration policy as well as the remuneration of each member of the Board of Directors and Group Management. As an exception to this principle, the remuneration of members of the Remuneration

and Nomination Committee is set by the Board of Directors (refer to section 3.4.2, Remuneration and Nomination Committee). The Chairman of the Board is invited to take part in setting the remuneration of members of the Board and key managers in the company, with the exception of the Chairman's own remuneration.

Each year, the Remuneration and Nomination Committee examines the remuneration policy and sets the remuneration of each member of the Board of Directors and Group Management, in principle during the first quarter; during the same period, the Chief Executive Officer sets the performance objectives of the members of Group Management. He presents the decisions to the Board of Directors in a meeting that is generally held during the first quarter as well. The remuneration of non-executive members of the Board of Directors and of the Remuneration and Nomination Committee is set by the entire Board of Directors in a meeting that is also generally held during the first quarter. The individuals whose remuneration is being discussed do not attend the relevant meetings of the Remuneration and Nomination Committee and of the Board of Directors

#### **5.4 Changes to the remuneration policy during the year under review**

No major change was made to Kudelski Group's remuneration policy relative to the 2010 financial year.

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## **6. SHAREHOLDER PARTICIPATION**

The provisions of the Articles of Incorporation governing the participation rights of shareholders are in compliance with the law as set out in the Swiss Code of Obligations. The Articles of Incorporation of Kudelski SA may be consulted on the Kudelski Group website via the following link: [www.nagra.com/ar/statuts\\_Kudelski.pdf](http://www.nagra.com/ar/statuts_Kudelski.pdf).

### **6.1. Voting rights and representation restrictions**

In accordance with the Articles of Incorporation of Kudelski SA, there are no restrictions on voting rights and no statutory Group clauses and rules on granting exceptions.

### **6.2. Statutory quorums**

The Kudelski SA Articles of Incorporation do not provide for any statutory quorums.

### **6.3. Convening of the General Meeting of Shareholders**

The rules in the Articles of Incorporation on calling 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. Agenda**

Items on the agenda are mentioned in the notice regarding rules for adding items to the agenda, the Articles of Incorporation of Kudelski SA do not contain provisions that differ from the Swiss Code of Obligations, namely Art. 699 CO, "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 0.2% of the capital of Kudelski SA.

### **6.5. Registration in the share register**

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

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## **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 Incorporation. This means that if a shareholder reaches the limit laid down by the law on stock markets (art. 32 LBVM: 33 1/3% of the voting rights), he must by virtue of this law submit a takeover bid.

### **7.2. Clauses on changes of control**

No such clauses exist.

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## **8. AUDITORS**

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

The auditors of Kudelski SA are PricewaterhouseCoopers SA (Lausanne). Some companies affiliated to the Group are audited by other auditors. The auditors were reappointed by the General Meeting of Shareholders of Kudelski SA of 4 May 2010 for a statutory period of one year. The PricewaterhouseCoopers SA mandate began in 1985. It has been under the responsibility of Ms Corinne Pointet Chambettaz since 1 January 2010. The auditor in charge is replaced at the latest seven years after the year in which he 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 2010 the sum of CHF 1 104 590.

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, performed by PricewaterhouseCoopers.

### 8.3. Additional fees

The Kudelski Group paid PricewaterhouseCoopers for additional services for the year 2010 the sum of CHF 391 240, representing CHF 297 400 for tax advisory services and CHF 63 840 for other additional services. Additional services mean in particular services such as the auditing of occasional transactions, advice for the implementation of a cash flow management and personnel profit-sharing plan and other services such as new or modified accounting methods.

### 8.4. Monitoring and control instruments pertaining to the 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 and under its terms of reference, it is responsible for monitoring the work 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 within 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 to all three meetings of the Audit Committee with the exception of 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 points 3.4.2 and 3.4.3 of this report.

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## 9. INFORMATION POLICY

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

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

Press releases are issued in compliance with the rules in force on the Swiss Exchange concerning factual publicity and are available on the Group's website simultaneously with their publication. A link on the home page of the Group's web site allows direct access to press releases. The Group communicates as often as necessary in this manner. Press releases are generally published in French and in English. In certain specific cases a German version is also provided. They are available in these languages on the website. Persons wishing to receive Kudelski Group press releases may subscribe to a mailing list using a form available on the Kudelski Group website. Financial results are presented to investors and financial analysts during a press conference held twice a year. Persons invited can also follow the conference by phone. The Group's website is a permanently 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).

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## INTERNET LINKS

### Group web site

[www.nagra.com](http://www.nagra.com)

### Investor relations section

[www.nagra.com/investors.html](http://www.nagra.com/investors.html)

### Important dates

[www.nagra.com/investors-calendar.html](http://www.nagra.com/investors-calendar.html)

### Financial documentation

[www.nagra.com/investors-doc.html](http://www.nagra.com/investors-doc.html)

### Press releases

[www.nagra.com/media-pr.html](http://www.nagra.com/media-pr.html)

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## E-MAIL ADDRESSES

### General information

[info@nagra.com](mailto:info@nagra.com)

### Investor relations

[ir@nagra.com](mailto:ir@nagra.com)

### Media relations

[communication@nagra.com](mailto:communication@nagra.com)



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### DIGITAL TELEVISION

#### **Nagra**

Integrated software security solutions for digital television operators and content providers. Middleware solutions enabling advanced digital television services including interactive television as well as interactive and addressable advertising. Multi-screen user interfaces. Last generation turnkey IPTV platform including content protection, management and distribution.



#### **SmarDTV**

Removable Conditional Access Modules (CAM) for digital TV access on digital devices.



#### **Abilis Systems**

Integrated circuits for digital television and wireless communications.



#### **NagraID**

Development and production of modules and smart cards for contact and contactless identification systems.



#### **Nagra+**

Security systems for analog pay television. Innovative concepts developed in cooperation with Canal+ in the digital TV area. Joint-venture with Canal+ (F).



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### PUBLIC ACCESS

#### **SkiData**

Integrated access and management solutions for car parks, ski lifts as well as sports, culture, entertainment and exhibition facilities.



#### **polyright**

Open-ended rights and service management solutions for hospitals, universities and corporations. Joint-venture with the Securitas group.

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### AUDIO

#### **Nagra Audio**

Portable digital recorders for professionals; products in the high-end Hi-Fi sector

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**1951**

Creation of the company by Stefan Kudelski and launch of the first portable recorder, the Nagra I.

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**1958**

Release of the Nagra III, the legendary cinema recorder.

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**1986**

The company is listed on the stock market.

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**1989**

Canal+ adopts Kudelski's access control system for pay television.

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**1991**

André Kudelski succeeds Stefan Kudelski as Chairman and Chief Executive Officer of the Kudelski Group.

First million analog decoders sold. Conditional access television systems become Kudelski's core business.

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**1992**

Creation of Nagra+, joint-venture with Canal+.

Launch of the Nagra D, the first portable-professional 4-track digital recorder.

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**1995**

First order (from EchoStar) for a Nagra-vision digital system, marking the arrival of Nagra-vision in the North American market.

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**1996**

Full conversion of the convertible bond (1986-1996) as part of a PEO.

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**1997**

Digital television becomes the company's core business.

Nagra Audio launches a range of high-end Hi-Fi products

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**1998**

Creation of NagraStar, a joint-venture with EchoStar, and of NagraCard.

Capital increase and first indirect split of the Kudelski share (5+1).

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**1999**

The company becomes a holding company.

Kudelski stock is listed on the principal market of SIX Swiss Exchange.

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**2000**

Investment in SportAccess (today poly-right).

Capital increase and second indirect split (10+2).

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**2001**

The Group makes several acquisitions in the public access sector (SkiData, Ticketcorner) and in digital television (Lysis, Livewire).

The Kudelski share is split by 10.

Launch of a convertible bond of USD 325 million. The operation is heavily over-subscribed.



<p><b>2002</b> After a ten-year period of uninterrupted growth, the Kudelski Group suffers from the impact of the crisis in the television market, particularly in Europe, and of unfavourable developments in the foreign exchange markets. The company carries out an in-depth review of its structures.</p> <p>Creation of the holding company Nagra Public Access (including SkiData, Ticketcorner and polyright).</p>	<p><b>2006</b> Strategic investments for the development of the digital TV ecosystem.</p> <p>Acquisition of the digital TV activity of SCM Microsystems resulting in the creation of SmarDTV.</p> <p>Intensified Research &amp; Development effort with a focus on content protection, IPTV and mobile TV.</p>	<p><b>2009</b> Migration to service mode completed, ensuring a more stable revenue base for the Group.</p> <p>Massive deployments on digital terrestrial television markets.</p> <p>Full OpenTV acquisition.</p> <p>Market expansion and long term contract with DISH network (USA).</p> <p>Creation of an R&amp;D center in China.</p>
<p><b>2003</b> Recovery of the digital television market.</p> <p>Acquisition of the MediaGuard product line from Canal+ Technologies and creation of Nagra France.</p>	<p><b>2007</b> The group becomes a leader in middleware and interactivity for digital television with the acquisition of a controlling interest in OpenTV.</p> <p>Launch of new IPTV and mobile TV solutions.</p> <p>Launch of new families of security solutions.</p> <p>Excellent results for Nagra Public Access.</p>	<p><b>2010</b> Expansion strategy focusing on emerging markets.</p> <p>Renovation of the Middleware &amp; Advertising activity.</p> <p>Success in Over-The-Top and US cable markets.</p>
<p><b>2004</b> The Group publishes record results, tripling its digital TV revenues in Europe and almost doubling them in America.</p>	<p>Success of the Nagra CD player.</p>	
<p><b>2005</b> Early redemption of the USD 325 million convertible bond and issuance of a new convertible bond of CHF 350 million.</p> <p>Creation of Quative (IPTV sector).</p> <p>New Nagra Public Access structure; the entity is profitable again.</p> <p>Sale of the majority stake of Ticketcorner.</p> <p>Success of the new Nagra PMA pyramidal amplifier.</p>	<p><b>2008</b> Revenues pass the billion Swiss francs milestone for the first time thanks to a 20.4% Group revenue growth in constant currency.</p> <p>Over 101 million digital TV active smart cards &amp; devices worldwide.</p> <p>25 million smart cards successfully migrated to service mode.</p> <p>Increasing footprint in Asia including for new solutions.</p>	

## ADDRESSES

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### NAGRA AUDIO

#### NAGRA AUDIO

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**PROJECT MANAGEMENT**

Corporate Communications,  
Kudelski Group

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**DESIGN**

essencedesign

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**SUPPORT, COORDINATION**

Desrochers Communication

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**PRINTING**

Swissprinters, Renens, Switzerland

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**PHOTOLITHOGRAPHY**

atelierZed

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

In case of inconsistency between the French and the English versions of the 2010 Annual Report, the French version prevails.

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