gemalto
security to be free

Trust in a connected world

Annual Report 2017

In this report

Gemalto N.V. (the Company) is a public company with limited liability incorporated in the Netherlands. It is headquartered in Amsterdam and has subsidiaries around the world. Unless otherwise specified, we refer to them as 'Gemalto', or the 'Group'. The Board report comprises the 'Business overview', 'Financial Review', 'Sustainability', 'Risk management' and 'Governance' sections.

Gemalto Annual Report 2017 published March 2, 2018.

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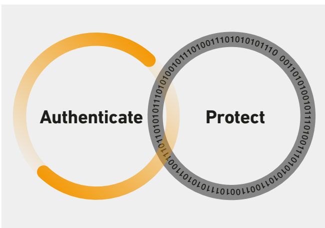
CEO's review



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For more information visit our website

www.gemalto.com

As the global leader in digital security, Gemalto brings trust to an increasingly connected world.

After a slow start, Gemalto finished 2017 on a stronger note with solid contributions from Enterprise, Machine-to-Machine and Government Programs, driven by the rising level of cyber incidents and data breaches, the growing benefits of connected devices and the need for increased security at country borders.

In this context, Gemalto's strategy is built on two pillars: the first one aims at strengthening our leadership in biometrics, civil identity and data protection. The second pillar builds on our leadership in digitalization while rightsizing our operations in the more mature businesses.

Highlights

Revenue
€2,972m
(3.6%) at constant exchange rates

Profit from operations[1]
€310m
2016: €453m

Cash generated from operations
€362m
2016: €533m

Gross margin
37.2%
2016: 40.5%

Adjusted EBITDA[1]
€457m
2016: €594m

Net debt
€684m
2016: €67m

Profit margin from operations
10.4%
2016: 14.5%

Adjusted basic earnings per share
€1.96
2016: €3.00

Net Debt / Adjusted EBITDA[1]
1.5x
2016: 0.1x

[1] Adjusted financial information.

Confronting challenges to find new opportunities

> "In 11 years, Gemalto has created a remarkable amount of value for customers, employees and investors."

In little more than 11 years since its formation, Gemalto has grown to become the world leader in digital security, recognized in over 180 countries.

However, 2017 was the most difficult year in its history. Technology markets can change unpredictably and fast, and in 2017 we saw unfavorable conditions in two of our five main markets. In mobile, the anticipated long-term slowdown in the traditional SIM business proved far steeper and more persistent than expected. And in the banking market we were hit by an interim fall in demand for EMV cards, particularly in the US.

There is very good communication between Board and management in Gemalto, and we were prepared for these developments – but not at such speed. Our high-growth markets, notably Government, Enterprise Security and the Internet of Things, constitute more than 40% of our business; and we have been making good progress in transitioning from historical markets to these fast-developing segments.

But in 2017, our transformation was outpaced by external change and by mid-year we had to issue three outlook revisions. Understandably the market reaction, coupled with the fact that much of the business is still expanding, generated new interest in Gemalto from external parties.

The Board reviewed all options, including the possibility of remaining independent, in order to find the best fit for Gemalto and its stakeholders. In the end, in December 2017 Gemalto reached an agreement with Thales on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per share cum dividend. Upon completion, the offer would result in Gemalto becoming a separate division of the Thales group.

The Board, after full and careful review, together with its financial and legal advisors, of the various options available to the Company, has established unanimously that the Thales offer is in the best interest of Gemalto, the sustainable success of its business, clients, employees, shareholders and other stakeholders. As a result, the Board supports and unanimously recommends the Thales offer to its shareholders.

We are confident that all necessary regulatory approvals will be forthcoming, and expect the deal to close in the second part of 2018. Until then, Gemalto's Board and management will maintain business as usual. Our transition to refocus the Company on its higher-growth markets is continuing. We will ensure that all segments are delivering the best possible performance, and that the Company is in good shape to meet the expectations of all stakeholders now and in the future.

In 11 years, Gemalto has created a remarkable amount of value for customers, employees and investors. As it prepares to begin a new chapter, I thank all those who have contributed to that achievement.

Alex Mandl
Chairman

Building on our vision for digital security

After a challenging year, we are optimistic about the outlook for Gemalto and the proposed acquisition by Thales will add further momentum to realizing our vision for digital security.

Over the past decade, Gemalto has achieved not only strong growth but also substantial diversification. Today, we apply our core technologies across five different markets – with none accounting for more than 30% of our business. In 2017 however, we saw setbacks in the Mobile and Banking & Payment sectors. Given these changing market dynamics, we have been redeploying resources from the weaker segments to boost expansion in faster-growing ones. This transition is facilitated by our common technologies and skills, which can be readily applied and reapplied across the board.

The fast and efficient integration of 3M's Identity Management business, including the Cogent range of biometric technology, contributed to the strong performance of our Government offer during the year (up +20%). Growing demand from governments comes from their need for security and efficiency, and citizens' demand for better public services. Beyond the public sector we see great potential for biometrics in many markets where it can help our customers to offer stronger identification methods combined with a better user experience.

Our customers' relationships with their own customers are becoming increasingly digital. This presents us with constantly-expanding growth opportunities. In both the banking and enterprise markets, the need for cybersecurity solutions continues to increase. Measures such as the European General Data Protection Regulation (GDPR), which comes into effect in 2018, and growing numbers of high profile data breaches are further market drivers.

Our Internet of Things business also achieved double-digit growth as we deployed secure connectivity services to a growing number of customers. We launched innovative wireless modules for the narrow-band IoT, a fast expanding segment. We announced important on-demand connectivity deals with consumer device makers like Microsoft, industrial players such as the Peugeot-Citroën Group and mobile operators like AT&T and Telefonica.

Even in our historical markets, we see many opportunities for innovative technologies like the eSIM for mobile, biometric authentication on payment cards and dynamic security codes for online transactions.

Thales' interest in acquiring Gemalto reflects its recognition of opportunities like these, and our strategy for seizing them. It is also a reflection of our employees' skillset and their ability to deliver in this rapidly-changing digital landscape.

As I have said before, I am convinced that the combination with Thales is the best and the most promising strategic option for Gemalto. It ensures the most positive outcome for the sustainable success of our business, clients, employees, shareholders and other stakeholders. By joining forces with Thales, we will be able to pursue our strategy, accelerate our development and deliver our digital security vision. Both the Thales and Gemalto management teams share the same values, a common industrial vision and endorse the growth project of this newly created digital security global business.

In an increasingly connected world, our skills and resources are more relevant than ever, and the need for them can only grow.

Philippe Vallée
Chief Executive Officer

Understanding Gemalto

Who we are

We are an international digital security company with clients in >180 countries. We develop and deliver hardware and software in many forms to thousands of businesses and governments worldwide.

What we do

We design digital security solutions that help organizations bring trust to a wide range of services. Our solutions manage digital identities and protect assets. We provide two essential, **interlocking functions: authenticating** people and things, and **protecting** data by encrypting it.

Our strategy

We are progressively generating a greater proportion of revenue through platforms and services as well as entering new markets with our core technologies. This is done in four ways:

- Innovation.
- Repurposing our technology.
- Market neutrality.
- Business agility.

Gemalto develops secure solutions which we embed in devices or increasingly, sell as platforms and services.

Our values

Our business is underpinned by three core values that have been in place since our Company's foundation in 2006:

Customers

We put their needs at the center of all we do, develop partnerships and exceed their expectations.

People

We value their diversity, encourage teamwork and conduct ourselves with integrity.

Innovation

We continually develop valuable new ideas and creative approaches to business and technology challenges.

This is how we secure digital exchanges for billions of people and things every day and bring trust to the digital economy.

And how we create value

We enable trusted exchanges

Businesses & Governments with digital assets ⟷ Billions of people and things with unique, protected IDs

In two ways...

Authenticate

We embed secure software in devices and objects to authenticate people and things

Protect

We run secure software on platforms to protect and encrypt data across networks

that provide solutions and services...

Secure Issuance
Combining software, hardware and integration services to issue secure digital identities to people and devices either as physical objects or as software credentials.

Biometric Identification
Identifying individuals in a fast and reliable way through the use of unique biological characteristics to enable seamless access to services.

Authentication
Verifying that people and objects have the rights to use services or network resources and granting them access.

Data Protection
Securing sensitive data by encrypting it – whether at rest or in motion – so that it is unusable in the event of a breach.

Key Management
Centrally and securely managing cryptographic keys and policies across the key management life-cycle – whether in the cloud or on-premises.

Delivered as Embedded Software & Products or Platforms & Services

supplying five main markets...

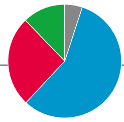
- Banking & Payment
- Enterprise & Cybersecurity
- Government
- Mobile Services
- Internet of Things (Machine-to-Machine)

Bringing trust to digital services and creating value for shareholders and customers.

Our main markets

Market diversification since Gemalto founded.
Approximate revenues (%)

2006



Banking & Payment

Helping financial institutions with their digital transformation

The market

The rapid evolution of financial services is being driven by regulatory change, digital transformation and the arrival of new fintech players. Financial institutions are meeting this challenge by embracing mobile and cloud hosted services as well as biometrics. At the same time consumers demand ever more personalized, convenient yet secure options to pay, communicate and interact with their banks or favorite retailers. If financial institutions don't satisfy these needs, their customers will be more likely to switch to an ever-growing list of service providers that offer financial services.

Our offer

Our wide range of solutions enable more than 3,000 financial institutions to deploy physical and digital payment solutions including cards, mobiles and wearables. Payment services can also be connected to transport and loyalty programs. Our white label offering enables local customization of the broad EMV standards for local authorities to brand and control national payment networks. We also secure digital banking and payment apps and services as well as protect sensitive company and customer data through encryption.

Our ID verification solutions enable banks to verify new customers' identity documents when enrolling them in-branch or online. Through our mobile and Assurance Hub technologies they can provide personalized authentication steps according to the risk level and the context of usage.

Our Trusted Services Hub helps both banks and retailers to offer consumers easier ways to pay with their smartphones and other devices. And our security solutions protect and secure their data at every level of their infrastructure.

Payment card innovation

Our EMV card range now includes biometric authentication – with a built-in fingerprint sensor – and a dynamic security code. These bring security and convenience to payment, in-store and online.

Enterprise & Cybersecurity

Protecting identities, data and software

The market

Digital technology is transforming the way enterprises work, with increasing amounts of data being produced, stored and shared. In fact, more than a third of all corporate data is now stored in the cloud[1].

This rapid change presents complex challenges for organizations' IT and Security teams. Networks and connected devices are proliferating while regulatory and compliance pressures also continue to grow. And threats to data security are becoming more advanced: in 2016 there were 1,792 data breaches globally, exposing almost 1.4 billion records[2]. Of those records breached, more than 95% involved data that was not encrypted.

Our offer

Our technology brings security closer to what matters most: data and identities. We help 30,000+ enterprises to protect and secure their data from the edge to the core, at rest and in motion. Our solutions are based on authenticating people when they access networks and encrypting data wherever it is found. As the world's computing moves to the cloud, we help organizations overcome complex security challenges by providing our solutions as a service. In addition to encrypting data, securing identities and managing access, we also offer software licensing solutions to businesses to protect their Intellectual Property and maximize the uptake and profitability of their software business.

[1] Source: 2016 Global Cloud Data Security Survey.
[2] Source: Breach Level Index.

Trusted to protect and secure

We're trusted by 14 of the world's largest banks, five of the largest cloud service providers, eight of the largest retailers, and ten of the largest software companies to protect valuable data against breaches.

Government

Deploying strong identities and safeguarding nations

The market

Governments worldwide are looking for ways to better protect their citizens and secure their nation. To address the challenges they face, more and more countries are turning to the new opportunities presented by the global digital transformation. By shifting from a paper-based culture to a digital one, nations can better meet citizens' expectations while also lowering costs and delivering more efficient and effective eGovernment services.

At the heart of this digital transformation is a need to provide strong civil ID schemes which help identify citizens and secure countries and their borders. When deploying digital government services, countries are increasingly turning to biometrics and mobile technology to take the strong identification that exists in a physical context into the digital world.

Our offer

We are now a part of over 200 programs worldwide supporting government agencies in areas such as ePassports, border and visa management, biometrics, ID and health cards, voter and vehicle registration, drivers' licenses, and eGovernment services.

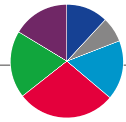
We work constantly with clients on innovative ways to increase efficiency and meet citizens' expectations. For example, we are currently working with five US states to pilot a secure solution for smartphone-based digital drivers' licenses.

Our growing capability in biometrics is creating new opportunities in areas such as ID verification, border controls – and law enforcement, where we have some 80 active projects. We also offer best-in-class biometric solutions in the growing forensics market.

Automating the airport experience

We combine our biometric technology and border management solutions to expedite a traveler's airport pathway from check-in to gate.

Key: Enterprise & Cybersecurity · Mobile Embedded Software & Products · Banking & Payment · Government · Internet of Things (Machine-to-Machine) · Mobile Platforms & Services



2017

Mobile and Internet of Things (IoT)

Enabling secure access and connectivity

The market

Around the world people are increasingly using connected devices to access mobile services. In fact, in 2017 there were some five billion mobile subscribers[1]. These consumers expect to access a growing range of services through their mobile devices. And mobile network operators are eager to meet this demand: as traditional voice call business becomes increasingly commoditized, all industry players are urgently seeking new ways to digitalize the customer journey, add value and increase differentiation.

Our offer

Our technology and innovation are focused on enabling richer services and growth throughout the ecosystem, while managing and protecting identities. We aim to bring trust to this expanding environment, by securing data and authenticating users and devices. We support operators by streamlining business processes such as consumer acquisition with our multi-channel ID verification or seamless connectivity. This is done via over-the-air service activation and management. And we continue exploring opportunities to create new revenue streams as the world transitions to new technologies such as eSIMs and 5G.

[1] Source: GSMA Global Mobile Trends 2017.

Creating the next generation of SIMs

In 2017 we launched the first GSMA-certified secure service for embedded SIM (eSIM) and the management of mobile subscriptions over the entire service life-cycle.

Industrial applications (Machine-to-Machine)

The market

The IoT is expanding at a rapid pace. In 2026, the number of IoT connections is expected to reach 32.5 billion[1]. Industrial companies – from transportation to healthcare to energy – are increasingly turning to the IoT as a way to simplify their processes, monitor systems and devices around the world and improve the overall efficiency and bottom line of their businesses.

Our offer

With the largest portfolio of machine-to-machine and IoT solutions and services, we allow device manufacturers and service providers to accelerate the introduction of new connected objects and services. Our solutions maximize security throughout an object's life-cycle, cut costs and increase revenue.

Gemalto's IoT portfolio is made up of M2M modules, software and hardware security solutions as well as connectivity and life-cycle management platforms. These enable advanced solutions in industries such as healthcare, retail services, smart energy, transportation, logistics and automotive. We help them to bring new connected services to market quickly, add value and open up new revenue streams with secure devices, identities and data.

[1] Source: Berg Insight.

Enabling phenomenal growth

To help IoT developers connect any type of device, our terminals easily add M2M connectivity to smart enterprise applications. With little integration effort, terminals can be connected to applications via standard industrial interfaces.

Consumer electronics

The market

In addition to the smartphone, people now own a growing number of increasingly powerful connected consumer devices.

Home automation, fitness and automotive applications have become significant drivers for IoT growth. And the car – where personal and machine communications converge – is rapidly emerging as the next mass connectivity platform, with onboard devices delivering automotive telematics, infotainment and smart safety solutions.

Consumer device manufacturers are seeking to differentiate their products by offering new connectivity and service possibilities. We provide them with ready-to-go technologies for securing and connecting consumer electronic devices to cellular networks and the cloud right out of the box. And as apps and services handling increasingly sensitive personal and financial data extend more deeply into people's lives, we provide the robust security needed to ensure consumer trust.

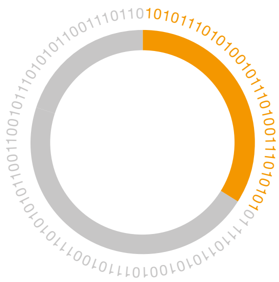
Our offer

Gemalto has a holistic view on the different building blocks like software, hardware and data needed to build robust IoT ecosystems. As a result we deliver secure elements and eSIMs, as well as cloud services – such as subscription management platforms – to a variety of OEMs and service providers in the consumer electronic space as well as mobile operators and cloud service providers.

Powering smart devices

Our eSIM technology seamlessly and securely connects devices and wearables bringing new services – such as health monitoring and fitness activities on-the-go – to users without the need to carry a smartphone.

Our global presence



Our clients are based in over **180 countries** – so our global presence is a vital asset. We can share our international experience locally, provide solutions adapted to specific conditions and be on hand to offer a personalized service.

North and South America

Revenue

€1,009m

47
countries where we are based

114
offices worldwide

121
nationalities of our employees

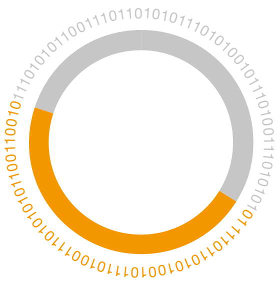
35
research and software development centers

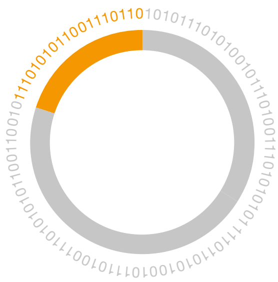
3,000
R&D engineers

40
personalization and data centers

22
production facilities

Gemalto N.V. is the parent company of the Gemalto Group. For more information, see Our governance structure, pages 50–55, and for a list of subsidiaries, see Note 35 Consolidated entities, pages 103–104.





Europe, CIS, Middle East and Africa

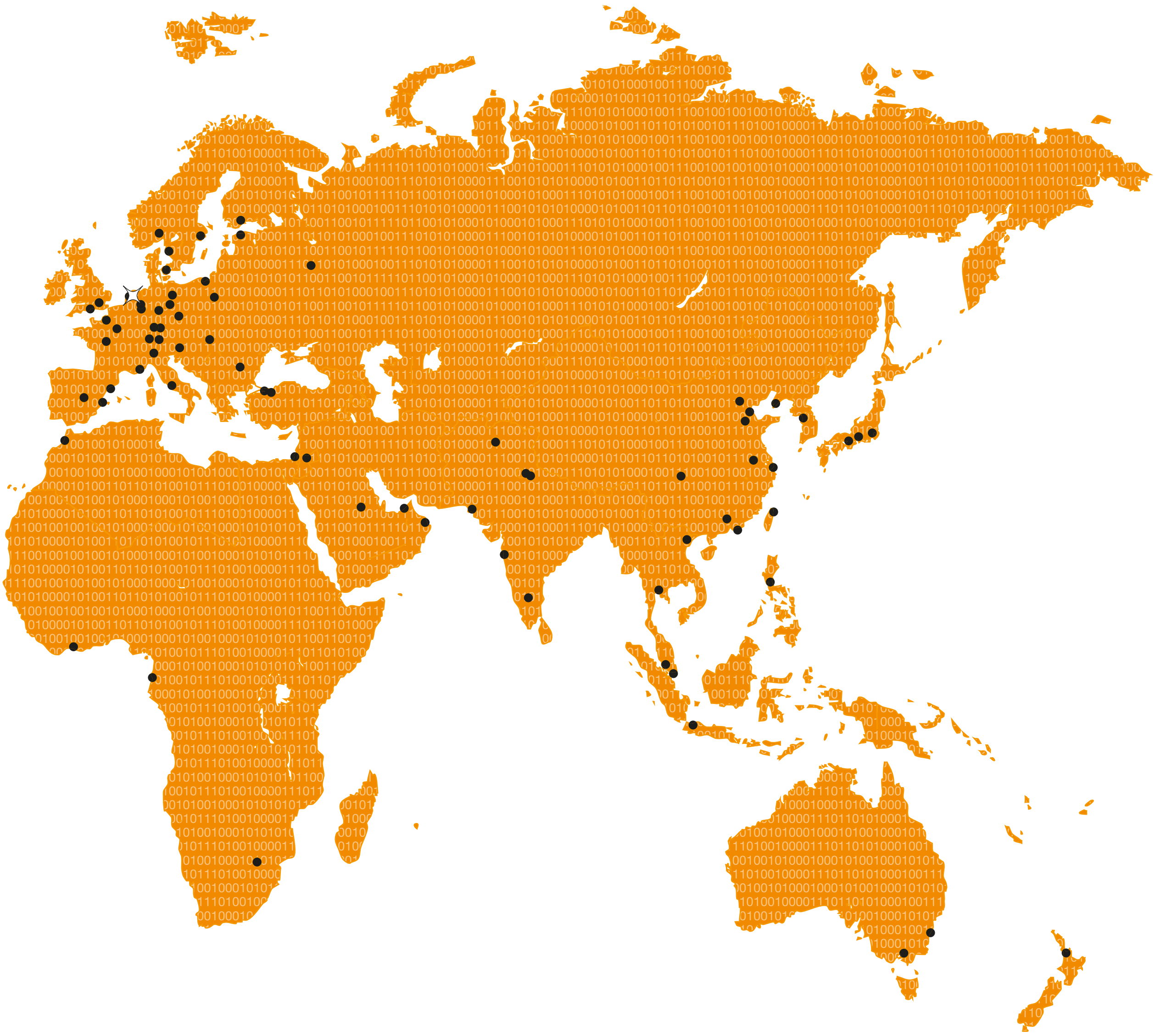
Revenue

€1,373m

Asia Pacific

Revenue

€589m



Key

- Gemalto sites
- Head office

What we've been doing this year

From community initiatives, to new technology certifications and industry recognitions, 2017 was a busy year. Here are just a few of the highlights of the past 12 months.

Feb 2017

Responsible purchasing leads to sustainability award

We have been refining our responsible purchasing policy since 2004. Our efforts won recognition in 2017, when we received a Sustainable Development Award from the Responsible Purchasing Observatory and Lyreco. We were one of only five companies to receive the award, which recognizes the best initiatives in corporate social responsibility.

May 2017

Connected Girls promotes digital careers for women

Our Gemalto Connected Women network aims to promote women's career development throughout our organization. To further extend the reach of this program, we launched the Gemalto Connected Girls initiative to attract more girls into scientific and technical education and careers. Gemalto centers around the world invited girls to participate in events designed to increase their awareness and curiosity about the digital world.

May 2017

Identity management acquisition puts us at the forefront of biometric security

Biometrics is one of the most exciting areas in digital authentication and security – offering opportunities to combine stronger identification with speed and convenience. In May 2017 we reinforced our position in this area by acquiring 3M's Identity Management Business. The addition of this business, which generated an estimated $202 million in revenues and $53 million in profit from operations in 2016 enhances our Government business offering and will accelerate our deployment of new citizen identity solutions. The deal included the market renowned Cogent® range of biometric solutions used for identity and law enforcement as well as document readers and secure materials. Beyond the public sector, this also opens up new opportunities to apply this technology to solutions in our other markets such as banking or enterprise security.

The potential of the biometrics market

Biometrics, as seen at ePassport gates, are increasingly used as part of government identity solutions, whether that is national IDs or passports. At every step of the way they enhance security and this acquisition allows us to insource the technology needed for a growing number of public sector contracts. By adding biometric expertise to our repertoire and building on new partnerships with governments, law enforcement, border control and civil identification bodies, we are going to make the world a safer, more secure place.

Beyond governments we see an even greater potential for biometrics to be used in the private sector by providing a more convenient way to identify people.

May 2017

782 million

Middle East/Africa EMV market is forecast to grow to 782 million cards in circulation in 2022.

Source: ABI Research 2017.

New Dubai center supports rapid EMV growth in Middle East

The Middle East's fast-developing financial services sector is now migrating rapidly to EMV banking. To support this growth, we opened a new banking card personalization center in Dubai in 2017, offering banks a one-stop solution for card personalization and associated services such as PIN by SMS, including the option of same day delivery.

Jul 2017

Recognized leader in data protection

Global market analyst Frost & Sullivan confirmed our leadership in data protection by awarding our SafeNet data protection and encryption solutions with the North American Encryption and Data Protection Technology Leadership Award for 2017. The award recognized our unique position in the market, expertise in creating versatile and flexible solutions supporting a variety of deployment environments, quality of solutions and commitment to R&D.

Aug 2017

Industry first certification for eSIM remote provisioning

Our On-Demand Connectivity Service for embedded SIMs (eSIMs) was the first to fully meet the security requirements of the global-standard GSMA Security Accreditation Scheme. This gives equipment manufacturers and mobile operators the assurance they need to take full advantage of eSIM technology for industrial, enterprise and consumer applications. Unlike conventional SIMs, eSIMs are built directly into devices and managed remotely throughout their life-cycle.

Sep 2017

57%

By mid-2017, there were one billion ePassports in circulation, representing 57% of all passports in use.

Over 30 countries now using our ePassports

The number of countries using our advanced ePassport technologies topped 30 in 2017, including Algeria, France, Sweden and the US, to name a few. Introduced in 2005, ePassports store the holder's personal data and photo in a secure microprocessor – and the next generation will add travel information such as eVisas and entry/exit stamps to support even more efficient immigration control.

Dec 2017

Public offer by Thales

In December 2017 Thales and Gemalto reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto. It is envisaged that Thales will combine its digital businesses into Gemalto, which will continue to operate under its own brand as one of the seven Thales global business units. Both the Thales and Gemalto management teams share a common industrial vision and endorse the growth project of this newly created digital security global business. Philippe Vallée will lead the combined 'digital security' business.

Gemalto and Thales are technology-driven companies with world-class R&D capabilities and an extensive patent portfolio. R&D is at the core of Thales' and Gemalto's digital security businesses, and will remain so. The combined group will have more than 28,000 engineers, 3,000 researchers, and invest more than €1 billion in self-funded R&D.

Thales does not anticipate any reduction in Gemalto's workforce as a consequence of this transaction. Employees who are included in the current Gemalto efficiency program are immediately offered access to Thales' internal job boards and to the Thales internal mobility mechanism under the same conditions as Thales' employees.

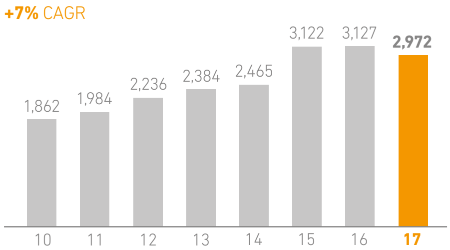
€1 billion +

In self-funded R&D

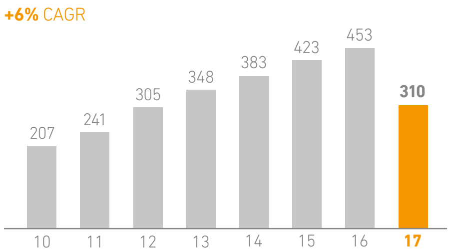
Group financial review

- 2017 full year In line with Company expectations:
  - Revenue at €3 billion with Platforms & Services at €1 billion
  - Second semester revenue up +1% year-on-year at constant exchange rates
  - Profit From Operations (PFO) at €310 million
  - Transition plan savings of €15 million
- 2018 outlook: expected double digit revenue growth in the Identity, IoT & Cybersecurity segment and stable PFO margin for the Smartcards & Issuance segment leading to mid to high single digit growth in profit from operations at Gemalto level
- On December 17th, Gemalto and Thales announced their intention to combine their operations: the combination process is on track

Revenue €m



Profit from ongoing operations €m



Basis of preparation of financial information

Segment information

The Mobile segment reports on businesses associated with mobile cellular technologies including Machine-to-Machine, mobile secure elements (SIM, embedded secure element) and mobile Platforms & Services. The Payment & Identity segment reports on businesses associated with secure personal interactions including Payment, Government Programs and Enterprise. The acquisition of 3M's Identity Management business in May 2017 is part of the Government Programs business.

In addition to this segment information the Company also reports revenues of Mobile and Payment & Identity by type of activity: Embedded software & Products (E&P) and Platforms & Services (P&S).

Historical exchange rates and constant currency figures

The Company sells its products and services in a very large number of countries and is commonly remunerated in other currencies than the Euro. Fluctuations in these other currencies exchange rates against the Euro have in particular a translation impact on the reported Euro value of the Company revenues. Comparisons at constant exchange rates aim at eliminating the effect of currencies translation movements on the analysis of the Group revenue by translating prior-year revenues at the same average exchange rate as applied in the current year. Revenue variations are at constant exchange rates and include the impact of currencies variation hedging program, except where otherwise noted. All other figures in this press release are at historical exchange rates, except where otherwise noted.

Adjusted income statement and profit from operations (PFO) non-GAAP measure

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and with section 2:362(9) of the Netherlands Civil Code.

To better assess its past and future performance, the Company also prepares an adjusted income statement where the key metric used to evaluate the business and make operating decisions over the period 2010 to 2017 is the profit from operations (PFO).

PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and impairment of intangibles resulting from acquisitions, (ii) restructuring and acquisition-related expenses, (iii) all equity-based compensation charges and associated costs; and (iv) fair value adjustments upon business acquisitions. These items are further explained as follows:

- Amortization, and impairment of intangibles resulting from acquisitions are defined as the amortization, and impairment expenses related to intangibles assets and goodwill recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant,…), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of an acquisition process).
- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock Purchase plans; (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of Directors to employees; and the related costs.
- Fair value adjustments over net assets acquired are defined as the reversal, in the income statement, of the fair value adjustments recognized as a result of a business combination, as prescribed by IFRS3R. Those adjustments are mainly associated with (i) the amortization expense related to the step-up of the acquired work-in-progress and finished goods assumed at their realizable value and (ii) the amortization of the canceled commercial margin related to deferred revenue balance acquired.

These non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable IFRS measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with IFRS.

In the adjusted income statement, Operating Expenses are defined as the sum of Research and Engineering expenses, Sales and Marketing expenses, General and Administrative expenses, Other income and Other expenses.

EBITDA is defined as PFO plus depreciation and amortization expenses, excluding the above amortization and impairment of intangibles resulting from acquisitions.

Net debt and net cash

Net debt is a non IFRS measure defined as total borrowings net of cash and cash equivalents. Net cash is a non IFRS measure defined as cash and cash equivalents net of total borrowings.

Adjusted financial information

Extract of the adjusted income statement	Full year 2017 € in millions	Full year 2017 As a % of revenue	Full year 2016 € in millions	Full year 2016 As a % of revenue	Year-on-year variations at historical exchange rates	Year-on-year variations at constant exchange rates
Revenue	**2,971.7**		3,126.5		(5%)	(4%)
Gross profit	**1,104.8**	**37.2%**	1,266.2	40.5%	(3.3 ppt)	
Operating expenses	**(795.2)**	**(26.8%)**	(813.5)	(26.0%)	(0.7 ppt)	
EBITDA	**456.7**	**15.4%**	593.5	19.0%	(3.6 ppt)	
Profit from operations	**309.6**	**10.4%**	452.7	14.5%	(4.1 ppt)	
Net profit (excl. non-controlling interests)	**176.5**	**5.9%**	266.4	8.5%	(2.6 ppt)	
Basic Earnings per share (€)	**1.96**		3.00		(35%)	
Diluted Earnings per share (€)	**1.94**		2.97		(35%)	

Adjusted financial information

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. To better assess its past and future performance, the Company also prepares an adjusted income statement and uses it for daily management purposes.

Company revenue for 2017 stood at €2,972 million, a (3.6%) decline at constant exchange rates.

Gross profit was lower by €161 million at €1,105 million compared with 2016. The reduction in gross profit came in equal measure from the removable SIM and its related services and the Payment business. This reduction was partially offset by an increase in the other businesses. Gross margin was 37%, lower by 3 percentage points year-on-year.

Operating expenses were reduced by €18 million year-on-year as a result of portfolio adjustments and of the transition plan, which has begun to generate first savings, notably through the optimization of Company sales and marketing forces in the more mature businesses.

As a result, profit from operations came in at €310 million. Profit margin from operations settled at 10.4% of revenue compared to 14.5% in 2016.

Gemalto's financial income was (€33) million compared to (€34) million for 2016. Interest expense and amortized costs on the public bond, private placements and credit lines facilities were €2 million higher, at (€15) million in 2017 due to additional debt raised in 2017 to finance the acquisition of the Identity Management Business. Foreign exchange transactions and other financial items amounted to (€17) million versus (€20) million a year ago, mainly due to currency variation impacts and to the change in classification of equity securities. Share of profit in associates was (€1) million for the full year 2017.

As a result, adjusted profit before income tax came in at €286 million.

Adjusted income tax expense came in at (€110) million a (€23) million decrease compared to 2016 essentially reflecting the lower profit before tax. Deferred taxes had been negatively impacted by a valuation allowance booked in the first semester of 2017 and have been partially offset by the positive impact following some tax law changes in the second semester, especially in the US.

As a result, 2017 adjusted net profit for the Company was €177 million, leading to adjusted basic earnings per share of €1.96, and adjusted diluted earnings per share of €1.94 compared to adjusted basic earnings per share of €3.00, and adjusted diluted earnings per share of €2.97 in 2016.

Reconciliation from adjusted financial information to IFRS

Amortization and depreciation of intangibles resulting from acquisitions came in at (€514) million versus (€58) million in 2016. Most of the increase came from the one-off non-cash goodwill impairment of (€425) million announced in the first part of 2017. To a lesser extent the increase also came from amortization of the newly acquired Identity Management Business.

Restructuring and acquisition-related expenses of (€114) million, mainly include the costs associated with the transition plan.

The Gemalto equity-based compensation charge was (€37) million, above 2016 level and in line with the historical annual run rate.

Fair value adjustments mainly related to the non-cash amortization of the revaluation of the pre-acquisition inventory and deferred revenue of the acquired Identity Management Business accounted for (€10) million in 2017.

As a result, Gemalto recorded an operating loss of (€365) million for the full year 2017.

The income tax charge came in at (€36) million compared to (€107) million the previous year. Excluding the impairments and restructuring impacts on the pre-tax result, and the one-off deferred tax adjustments, the income tax rate was at 23%, in line with the Gemalto long-term income tax rate.

The net result is at (€424) million loss for the full year 2017 leading to a basic earnings per share of (€4.72).

Group financial review continued

New financial reporting

Identity, IoT & Cybersecurity

€m	Q1	Q2	H1	Q3	Q4	FY17	FY16
Revenue	256	317	**572**	348	357	**1,278**	
Year-on-year variations	(1%)	+10%	**+5%**	+28%	+10%	**+12%**	
Gross Profit			**238**			**540**	
PFO			**41**			**139**	**133**
PFO Margin			**7%**			**11%**	

Smartcards & Issuance

€m	Q1	Q2	H1	Q3	Q4	FY17	FY16
Revenue	396	425	**820**	403	470	**1,694**	
Year-on-year variations	(12%)	(19%)	**(16%)**	(11%)	(8%)	**(13%)**	
Gross Profit			**264**			**565**	
PFO			**52**			**170**	**319**
PFO Margin			**6%**			**10%**	

From 2018 onwards Gemalto will report its financial results in two main segments.

The Identity, IoT & Cybersecurity segment comprises businesses associated with Government Programs, IoT and Enterprise.

The Smartcards & Issuance segment comprises businesses associated with mobile secure elements (SIM, embedded secure element), mobile Platforms & Services, secure personal interactions including Payment. Patents & Others is also included in this segment.

Above, for information purposes, 2017 Revenue, Gross Profit, PFO and Year-on-Year Revenue variation at constant exchange rates based on the new reporting.

Thales combination

In December 2017 Thales and Gemalto reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto. We are working together with Thales towards achieving the regulatory and antitrust approvals required to complete the transaction. In the meantime, we have started high level preparations for the planned integration of our businesses to ensure a seamless transition for our stakeholders. The transaction is expected to close shortly after Thales has secured all customary regulatory approvals and clearances, which is envisaged for the second half of 2018.

2018 full year outlook

- Double digit revenue growth expected in the Identity, IoT & Cybersecurity segment
- Stable PFO margin expected in the Smartcards & Issuance segment
- Mid to High single digit growth in profit from operations expected at Gemalto level

Cash position variation schedule

€ in millions	Year ended December 31, 2017	2016
Cash and bank overdrafts, beginning of period	**663**	**405**
Cash generated by operating activities, before changes in working capital	356	468
Net change in working capital	(14)	(23)
Cash used in restructuring actions and acquisition related expenses	(48)	(36)
Net cash generated by operating activities before Time de-correlated hedging effect/(Prepaid derivatives)	**294**	**409**
Time-decorrelated hedging effect/(Prepaid derivatives)	48	49
Net cash generated by operating activities	**342**	**458**
Capital expenditure and acquisitions of intangibles	(152)	(140)
Free cash flow	**190**	**318**
Interest received	2	3
Cash used by acquisitions	(759)	(3)
Other cash provided by investing activities	2	4
Currency translation adjustments	(11)	3
Cash generated (used) by operating and investing activities	**(576)**	**325**
Cash generated (used) by the liquidity and share buy-back programs	(1)	1
Dividend paid to Gemalto shareholders	(45)	(42)
Net proceed (repayment) from/of financing instruments	267	(14)
Interest paid	(14)	(15)
Other cash provided (used) by financing activities	8	3
Cash and bank overdrafts, end of period	**302**	**663**
Current and non-current borrowings excluding bank overdrafts, end of period	(986)	(730)
Net (debt), cash, end of period	**(684)**	**(67)**

Statement of financial position and cash position variation schedule

For the full year 2017, operating activities generated a cash flow of €356 million before changes in working capital. Changes in working capital reduced cash flow generation by (€14) million in 2017 compared to (€23) million in 2016.

Capital expenditure and acquisition of intangibles amounted to (€152) million, i.e. 5.1% of revenue compared to 4.5% in 2016. Property, Plant, and Equipment accounted for (€65) million in 2017, at similar level to last year and the acquisition and capitalization of intangible assets accounted for (€87) million.

As a result, in 2017 Gemalto generated free cash flow of €190 million, a 61% conversion rate from profit from operations.

(€759) million were used for acquisitions in 2017 mainly for the Identity Management Business.

Gemalto's share buy-back and liquidity programs consumed (€1) million net cash in 2017. As at December 31, 2017, the Company held 339,043 shares, or 0.37% of its own shares in treasury. The total number of Gemalto shares issued was 90,423,814 shares as consequence of the issuance of 495,175 ordinary shares used to fund share based compensation plans. Net of the 339,043 shares held in treasury, 90,084,771 shares were outstanding as at December 31, 2017. The average acquisition price of the shares repurchased on the market by the Company held in treasury as at December 31, 2017 was €31.62.

On May 18, 2017, Gemalto paid a cash dividend of €0.50 per share in respect of the fiscal year 2016, up +6% on the dividend paid in May 2016 which was of €0.47 per share. The dividend distributed in May 2017 amounted to (45) million in cash outflow.

On December 17th 2017, Thales and Gemalto announced that they had reached an agreement on a recommended all cash offer for all issued and outstanding shares of Gemalto at a price of €51 per share cum dividend. The Gemalto Board of Directors has unanimously recommended the Thales offer and will not propose a dividend distribution for the 2017 fiscal year.

Net proceeds from financing instruments generated a €267 million cash inflow, mainly from the drawdown of commercial paper, issuance of private placement and borrowings.

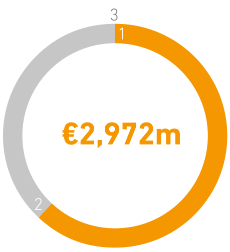
Cash in hand, net of bank overdrafts amounted to €302 million as of year-end 2017 versus €663 million at the end of 2016.

Considering the €986 million total amount of borrowings as at December 31, 2017, Gemalto's net debt position increased to €684 million from a net debt position of €67 million at the end of 2016. The Company net debt currently represents 1.5 times its adjusted EBITDA, in line with the Group financing policies.

Segment financial review

Revenue of segment

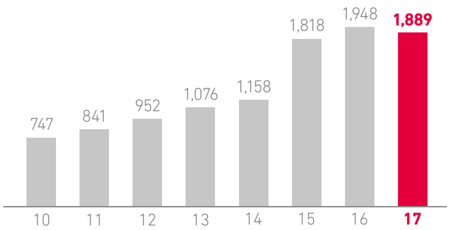
%



1. Payment & Identity 64%
2. Mobile 36%
3. Patents & Others 0%

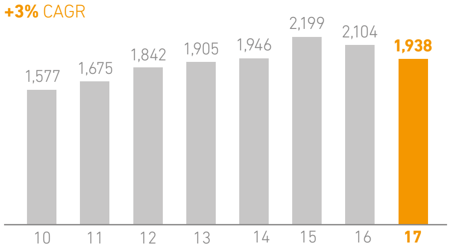
Revenue
Payment & Identity €m

+14% CAGR



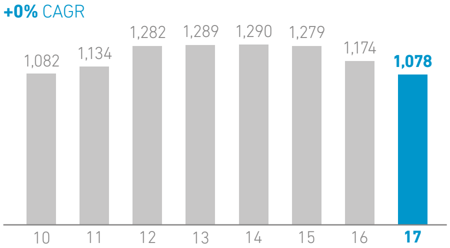
Revenue
Embedded Software & Products €m

+3% CAGR



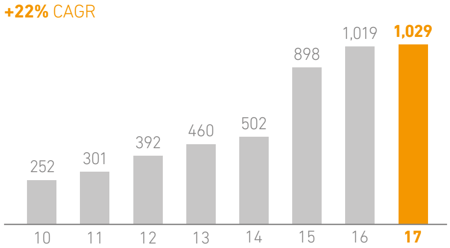
Revenue
Mobile €m

+0% CAGR



Revenue
Platforms & Services €m

+22% CAGR



Full year 2017

(€ in millions)	Embedded software & Products	Platforms & Services	**Total two main activities**	Patents & Others	**Total**
Revenue	1,938	1,029	**2,967**	5	**2,972**
At constant rates	(6%)	+2%	**(4%)**	+27%	**(4%)**
At historical rates	(8%)	+1%	**(5%)**	+24%	**(5%)**
As a percentage of total revenue	65%	35%	**100%**	0%	**100%**

Segment information

In 2017, the Platforms & Services activity exceeded the €1 billion mark reaching the previously announced 2017 objective and represented 35% of total Gemalto revenue in 2017. Embedded software & Products revenue decreased by (6%) mainly due to lower SIM sales to mobile network operators and lower payment cards revenue in the United States.

The Payment and Identity segment contributed 75% of the Company 2017 full year profit from operations while Mobile accounted for 28%. Patents and Others accounted for a (€9) million loss in profit from operations for the full year.

Payment & Identity

The digital age is creating seemingly limitless opportunities to deliver services more conveniently and efficiently. At the same time it also creates ever greater demand for the protection of data and identities, to provide trust, authenticate people and combat fraud.

Revenue
€1,889.3m
2016: €1,948.3m

Gross margin
38.9%
(1.8) percentage points

Profit from operations
€232.7m
2016: €290.2m

Profit margin operations
12.3%
(2.6) percentage points

Payment & Identity's full year revenue came in at €1,889 million, lower by (2%) at constant exchange rates compared to 2016.

The segment's Platforms & Services sales were up by +6% to €807 million driven by the growth in the Enterprise business and by the contribution of the acquired Identity Management Business. Embedded software & Products sales were down (7%) at €1,083 million mainly due to the US EMV normalization process.

The Government Programs business revenue increased by +20% year-on-year, at €578 million with a contribution of €123 million from the acquired Identity Management Business. This increase comes on top of an outstanding +26% revenue growth in 2016. In 2017, the backlog hit a record high on the back of a significant number of passport project wins allowing Gemalto to start 2018 with a significant backlog in this business.

The Enterprise business revenue increased to €472 million, up by +5% compared to 2016 with a contrasted pattern along the year. After a slow start, revenue grew at double digit rates in the second part of 2017 compared to the same period of last year. This is essentially driven by the Data Protection business line that commercializes solutions to prevent data breaches.

The Payment business revenue came in at €838 million, down (15%) year-on-year. Sales in Americas decreased by (16%) during the second semester compared with (37%) in the first semester, as the US EMV market continued to gradually normalize.

Overall, the Payment & Identity segment's gross margin came in at 39%, lower by (1.8) percentage points compared to 2016 as the operating leverage in the Payment business was not fully realized due to the revenue decrease.

Despite increased investments in the Enterprise business and additional expenses coming from the acquired Identity Management Business, the segment's operating expenses were held at a stable level in 2017 at €503 million. This was due to a strong tightening of operating expenses in the Payment business.

As a result, profit from operations in Payment & Identity for 2017 came in at €233 million and profit from operations margin settled at 12.3%.

Payment & Identity continued

Providing data protection on demand

To help businesses deal with the cost and complexity of protecting data across disparate enterprise IT infrastructures and cloud environments, Gemalto launched a cloud-based data security services platform – SafeNet Data Protection On Demand. It provides access to data security services like encryption, key management and Hardware Security Modules in minutes, enabling businesses to protect their sensitive information and meet compliance requirements. The platform integrates easily with existing IT infrastructure and gives companies the flexibility to scale their security operations to address priorities like Big Data, Cloud Security, Blockchain, IoT or Digital Transactions.

3,000

C-zam is available in over 3,000 Carrefour stores

Bringing instant account activation for Carrefour Banque

C-zam, the first current account 'in a box' is at the forefront of the digital transformation sweeping through retail banking. Accessible to anyone, the account comes complete with a contact and contactless MasterCard debit card and can be purchased directly at Carrefour supermarkets and convenience stores across France, for as little as €5. Once activated online, the card can be used immediately and transactions appear in real time in the user's mobile app. The PIN is delivered safely and swiftly via mobile app or website, protected by Gemalto's robust encryption and authentication.

Securing Emirates NBD's online banking and mobile payment services

Emirates NBD, a leading Middle East banking group, is using Gemalto's Mobile Suite technology to protect their online banking and mobile payment services. Instead of having to wait for a One Time Password (OTP) to confirm a transaction, customers who have activated Emirates NBD's Smart Pass service receive an instant notification within their mobile application, prompting them to enter the unique four-digit PIN they received at the time of activation. This provides higher security than SMS technology delivering the code.

Payment & Identity continued

32

The first and largest multi-state biometric system, now serving 32 countries

Powering the world's largest multinational biometric system

The EU relies on Gemalto's fingerprint identification technology for its Eurodac database, the first multinational biometric system in the world, serving 32 countries. The system stores the fingerprints of people seeking asylum in the EU, as well as those detained while crossing borders illegally. Recently expanded to hold seven million records, it helps to determine Member States' responsibility for asylum seekers and is used by Europol and national police forces for rapid identification, criminal investigations and to prevent terrorism.

Mobile

Mobile connectivity is bringing consumers a convenient digital life, wherever they go. Services are proliferating on the devices they carry every day. Machines too, are increasingly connected in the rapidly expanding Internet of Things (IoT).

Revenue	Gross margin	Profit from operations	Profit margin operations
€1,077.7m	**34.0%**	**€85.7m**	**8.0%**
2016: €1,174.4m	(6.1) percentage points	2016: €171.5m	(6.6) percentage points

The Mobile segment annual revenue came in at €1,078 million, (7%) lower year-on-year at constant exchange rates.

Embedded software & Products revenue for the segment stood at €855 million. The Machine-to-Machine business grew by +10% to €348 million. This healthy trend is driven by a dynamic market demand in particular in the Automotive, Healthcare and Smart Grid market segments, supported by a comprehensive and integrated offer. SIM sales were lower by (15%) at €508 million. The removable SIM market is expected to keep declining as mobile network operators continue to redirect their investments toward the next generation connectivity.

Platforms & Services revenue for the segment came in at €222 million in 2017, down (11%) and was marked by revenue volatility from one quarter to another in line with the timing of project deliveries. During the year Gemalto continued to actively participate in the development of embedded SIMs (eSIMs) and its remote provisioning ecosystem as endorsed by the GSMA, adding new references with connected device makers and mobile network operators such as Telefónica, Lenovo, and Microsoft. In addition, Gemalto is adjusting its offer portfolio in light of the maturity of the market.

Gross margin for the Mobile segment decreased to 34% this year. This drop is essentially explained by the lower activity in removable SIM and its related services that resulted in lower operating leverage.

Operating expenses decreased by (€19) million down to (€280) million in 2017 despite sustained investment in Machine-to-Machine and in the next generation connectivity. This reduction reflects the Company's strategy of managing the cost to serve the SIM business and optimizing its portfolio in removable SIMs and related services.

As a result, the Mobile segment's profit from operations for 2017 was €86 million.

Mobile continued

Supporting AT&T's growth strategy with remote subscription management

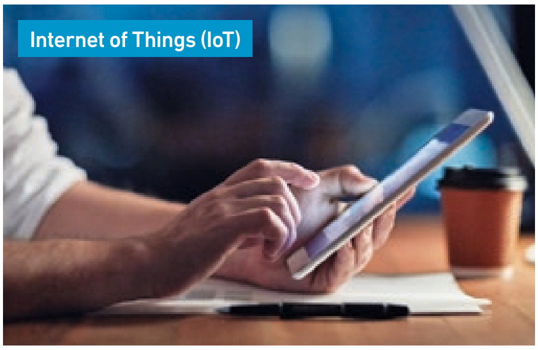
AT&T is transforming itself from mobile operator to mobility service provider. With over 30 million Internet of Things (IoT) devices on its network, it is expanding its services in areas such as automotive telematics and infotainment. Our On-Demand Connectivity and eSIM platform enable AT&T to deploy highly secure new IoT applications globally with simple, low-cost connectivity and subscription management.

30m

AT&T has over 30 million IoT devices on its network

Keeping elderly patients safe at home

Nine out of ten people want to stay at home as they grow older – but the challenges of aging can make that difficult. OnKöl partnered with Gemalto to develop an IoT solution to support 'age in place' individuals. Its award-winning mHealth hub – which can be securely managed over the air – connects health and home monitoring devices, from heart monitors to smoke detectors, to keep family, caregivers and medical professionals informed about elderly individuals' well-being.



Gemalto and Microsoft join forces to provide seamless connectivity for Windows 10 devices

Microsoft's Windows 10 devices are using Gemalto's On-Demand Connectivity subscription management solution and eSIM technology to make it easier than ever for people to stay connected on the move. Compliant with the latest GSMA specifications for remote SIM provisioning, this technology enables consumers to seamlessly manage the connectivity experience of their devices and provides the framework for devices of all types to connect to operator networks worldwide.

400m

There are over 400 million Windows 10 devices.

Mobile continued

Mobile

Securing the smart chip in Samsung's flagship smartphone

Samsung has chosen our embedded Secure Element (eSE) chip for its flagship Galaxy S8 phone in selected markets – enabling it to deploy secure services such as Samsung Pay anywhere in the world. Our end-to-end solution and global relationships with multiple service providers such as transport operators, gives Samsung pay users the ability to pay securely with their phones for services such as train tickets.

Sustainability overview

As a leader in digital security, our solutions help billions of people every day, and enable our customers to offer their services in trusted and sustainable ways.

Our material issues

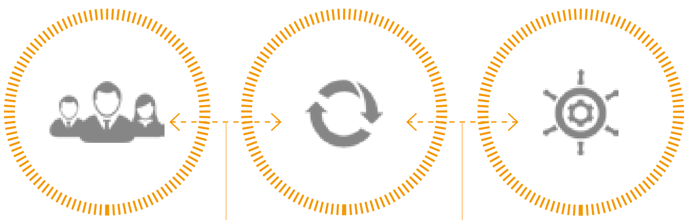
To identify and prioritize the issues that matter most to our stakeholders, we conducted a materiality analysis in 2015. The issues were then grouped into five main reporting areas: Business and customers, People, Governance and compliance, Society and community, and Environment. Ten issues were identified as particularly material:

- Data security.
- Data privacy and confidentiality.
- Changing regulations on data privacy and security.
- Crisis management.
- Anti-bribery, anti-corruption, anti-fraud and ethical behavior.
- Attracting talent.
- Investment in R&D.
- Business continuity management.
- Developing and retaining existing employees.
- Supply chain disruption management.

In the following pages, we review the most material issues for each of the five main reporting areas, and how we addressed them in 2017. All issues raised in our materiality analysis will be covered in greater detail in our 2017 Sustainability Report, to be published in May 2018.

Managing sustainability

From Boardroom to site level, everyone in Gemalto has a role to play in managing sustainability.



The Board of Directors
The Gemalto Board is ultimately responsible for our sustainability performance and vision.

The Sustainability Board
Chaired by the CEO, the Sustainability Board drives strategy and policy development.

The Sustainability Steering committee
Reporting to the Sustainability Board, the committee includes representatives from most business functions. They identify and implement appropriate actions on sustainability worldwide.

Our reporting is done in accordance with the European directive on non-financial reporting and the Global Reporting Initiative (GRI) framework, and we adhere to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises. We are fully committed to implementing and continuously improving corporate practices, processes, programs and policies aimed at ensuring we operate effectively, efficiently and ethically in all areas. These include our:

- Code of Ethics.
- Health, Safety, Environment & Sustainable Development policy.
- Purchasing CSR charter.
- HR pillars.
- Data Privacy policies.

These policies are central to our day-to-day activities and lay the groundwork for ensuring the sustainability of our business moving forward.

Our Sustainability agenda

To ensure our long-term development, we have also developed our 2018 onwards Sustainability agenda, which sets our key priorities for the coming years. In particular, we have identified five engagements:

1. Intensify our data security and resilience.
2. Develop our agile skills and digital learning.
3. Implement best practices in the protection of personal data.
4. Build our 'non-profit program for trust in the digital world'.
5. Increase our renewable energy use.

We also analyzed how Gemalto's Sustainability priorities contribute to the Sustainable Development Goals (SDG). Our five Sustainability engagements will support eight SDGs. A more detailed look at the Sustainability agenda and SDGs will be provided in the 2017 Sustainability Report.

Sustainability focus

Business & Customers

We are constantly developing our business to meet the ever-evolving needs of our customers. Our goal is to work together, building trusted, long-term relationships, in order to create innovative solutions that improve people's connected lives.

Data security

The nature of our business requires us to process huge amounts of data every day. It is critical that we manage the confidentiality and privacy of this data for our customers, their end-users, our employees and suppliers.

Our Corporate Security and IT departments use a risk-based approach to manage data at all our sites, applying stringent safeguards through a worldwide Security Management System (SMS). Effective implementation is assured by a global network of security officers, as well as comprehensive employee training. For example, we track the number of employees that follow our Data security awareness eLearning module.

In 2017 we continued our company-wide Cyber Excellence Program (CEP) which is based on three pillars: prevent, detect and react. The program concentrates on five key security areas including customer data protection, internal information systems infrastructure, cloud security, internal data protection and end-user focus. It is complementary to other measures already in place and boosts our resilience against the threat from cyber-attacks.

Investment in R&D in 2017

€255m

2016: €249m

Customers 'satisfied' or 'very satisfied' with Gemalto

89%

2016: 87%

Innovation

Innovation is one of Gemalto's core values and we continue to accelerate our digital transformation through the use of agile methodologies and cloud technologies. By focusing our corporate mindset on agility, we are able to better and more quickly adjust to our customers' evolving needs. We also target the cloud delivery model for all new projects we undertake.

We are continuing to work on a DevOps software development culture, which includes the use of DevOps tooling to automate the delivery of our solutions. Our value delivery framework strengthens our ability to continuously secure our end-to-end solutions. This protects our customers – and their customers – against data threats.

Moreover, we are transforming our working methods by using an innovation process to manage the constant flow of new ideas from across the Company. This process includes all steps of innovation: from triggering creativity, to nurturing ideas and developing innovative solutions for our traditional and adjacent businesses. Throughout the year, a team with mixed talents, skilled in technology, innovation models and ideation, cultivated ideas generated by Gemalto employees from around the world.

Ensuring business continuity

To ensure resilience in the face of unforeseen events, we have developed robust crisis management and business continuity response plans. For more on our approach to identifying, assessing and mitigating risks associated with our activities, see the Risk section on pages 30–38 of this report.

Managing our supply chain

Our responsible purchasing policies are based on United Nations Global Compact best practices, and our Purchasing CSR Charter. The latter sets out clearly what we expect of suppliers and how we intend to work with them. Our comprehensive Supplier Relationship Management process includes regular business reviews to help identify and address issues together. To enhance efficiency and sustainability across our supplier networks, we also work with suppliers to develop and implement Continuous Improvement Plans.

Effective partnership is key, and we work closely with our suppliers to develop a high-quality, reliable supply chain that supports our business objectives and meets our high ethical standards.

Moreover, in 2017 we deployed a comprehensive risk management process and communicated the points to monitor related to our purchasing activities to the entire supply chain organization.

Main suppliers that signed the Purchasing CSR Charter

98%

2016: 99%

On-site supplier audits since 2014

53

People

Our people are the foundation of our success. Our HR pillars ensure that we continue to attract, nurture and retain a talented and diverse workforce, while maintaining a strong culture of ethics and innovation.

Attracting, developing and retaining talent

We focus on hiring the best and most creative people in their respective fields by leveraging our ambitious talent acquisition strategy. This includes an employee referral system, our University Relations Program, and a growing online and social media presence. In 2017, we recruited over 1,900 people across 45 countries. In total there are 121 different nationalities working at Gemalto, with 18% of exempt employees* working outside of their country of origin.

All new recruits follow our Induction and newcomer orientation programs. In 2017, 75% of employees received training, with overall employee satisfaction at 80%.

Well-being and work-life balance

We are committed to providing an environment in which our employees can flourish. Over the last few years we have implemented a remote working program which continues to be well received by both employees and managers. It allows eligible employees in several locations, the opportunity to work from home one or two days per week. By fostering a greater sense of trust, this initiative offers employees increased flexibility, independence and more efficient time management.

Health and safety

It is essential that we provide a safe environment for all our employees and visitors. Our HR and Health & Safety management systems are designed to reduce risks and ensure continuous improvement across our operations. Many of our production areas and our two main administration offices have achieved OHSAS 18001 accreditation, covering 54% of our employees.

We run awareness and training programs and conduct regular audits to help reduce risks, with a particular focus on high-risk activities such as:

- Handling hazardous substances used in production.
- Ergonomics and musculoskeletal disorders.
- Manufacturing equipment, forklifts and pallet trucks.
- Commuting and business travel.

In 2017 we launched a safety best practices training for site managers and HSE site relays.

Employee satisfaction

80%

2016: 82%

Employees trained in 2017

75%

2016: 75%

Equal opportunities and diverse workforce

We believe our business benefits from a workforce that reflects the global diversity of our customers and the markets they serve. We are an equal opportunities employer, and actively seek to develop and promote women to Senior Management positions. In 2017, 45% of new recruits were women. Furthermore, three of our 13 senior managers and three of our 11 Board members are women.

* **Exempt employees**

'Exempt' employees are those who, because of their responsibilities and level of authority, are exempt from overtime provisions. As in other organizations, they are expected to work the time needed to accomplish their goals. They are most often found in managerial, supervisory, professional, administrative and other leadership roles.

Sustainability focus continued

Governance & Compliance

Our business is built on trust, so it's critical that we conduct our activities with honesty and integrity, comply with best practices and meet the highest standards of corporate governance. To ensure we meet these objectives, we have established a number of codes and charters which underpin our management practices and professional standards.

Ethical conduct

The Gemalto Code of Ethics ensures we meet high ethical and professional standards wherever we operate, regardless of whether they are imposed by law. The code guides everything we do, and governs how we work with clients, suppliers, stakeholders and colleagues. All new employees, including those joining the Company through acquisition, must sign the Code of Ethics as part of the induction process. Moreover, we have developed additional bespoke Codes of Ethics for specific teams, namely Purchasing and Internal Audit.

Employees are also encouraged to play an active role in their local communities by supporting environmental and humanitarian activities as part of 'Your World', our community-based program.

Anti-fraud, bribery and corruption

Gemalto's anti-fraud framework is designed to prevent, detect, deter and respond to fraudulent activities. It is overseen by the anti-fraud commission, which comprises six senior managers and is responsible for the continuous assessment of fraud risks and development of anti-fraud policy. Managers must inform the commission of any suspicion of fraud. Additionally, employees are encouraged to use the Gemalto whistleblower procedure to raise any concerns about financial irregularities.

We extend our anti-fraud focus to relevant third parties. Our Purchasing CSR Charter clearly states obligations relating to identifying, addressing and monitoring corruption concerns or verified practices. In some locations, we work with agents and other intermediaries who promote our solutions and services.

Our agents policy categorically prohibits us from dealing with those who have used, or are suspected of using, corrupt practices or behaviors to gain or retain business.

In 2017, we performed an update of our fraud risk assessment covering our business activities and transversal functions.

Compliance for export controls

We have strict procurement, due diligence and ethics policies and safeguards in place to prevent our products and solutions from being used differently than their originally intended purpose. Moreover, we are compliant with the international 'Wassenaar Arrangement' relating to 'dual use' goods (defined as items or technologies normally used for civilian purposes but which could theoretically have military applications). All companies that work with Gemalto must be screened to ensure they are not listed as a 'denied party' (persons and companies with whom trade is prohibited by law – lists are provided by government agencies) and therefore restricted or prohibited from engaging in transactions.

To ensure such compliance, we have a dedicated network of 22 Trade Compliance champions who operate under the leadership of the Corporate Trade Compliance Manager. The Trade Compliance department organizes regular local and global training sessions, as well as eLearning modules to improve awareness. Since 2010, more than 3,600 employees have received training.

Human rights

Gemalto supports and complies with The United Nations Universal Declaration of Human Rights and the International Labor Organization (ILO) standards. As a signatory of the United Nations Global Compact, we benchmark our policies and results against world-class performers and review them annually against the Global Compact's Ten Principles. Our own HR rules usually exceed local rules and regulations, helping to ensure we avoid potential risks wherever we operate.

Employees trained in anti-fraud, anti-bribery, anti-trust and ethics

487

2016: 267

Society & Community

Digital technology brings positive benefits for people all over the world and helps to stimulate economic growth. We work with others to deliver solutions that meet social needs and help communities everywhere to feel secure in their digital lives.

Data privacy and confidentiality

In an increasingly connected world, it's more important than ever to keep personal data private and secure. As the regulatory environment continues to evolve, we follow the most recognized regulations to ensure the privacy and security of the data we process on behalf of our customers.

To deliver the soundest possible foundation for processing personal data on behalf of our customers, we implement best practices to comply with the strictest privacy standards set by Regulation (EU) 2016/679; the General Data Protection Regulation (GDPR). Our personal data protection program is subject to regular internal controls and widely communicated to all employees and agents dealing with personal data entrusted to Gemalto by its customers.

We monitor the maturity level of our processes following the deployment of best practices related to personal data protection.

Products with social impact

Our solutions help tackle some of society's major challenges – from financial inclusion to efficient and accessible health and welfare services.

These include:

- Connectivity solutions for smart meters that promotes energy efficiency.
- IoT technology that helps curb vehicle emissions, optimize engine efficiency and improve driver safety.
- eSIMs (embedded SIM card) for mHealth solutions that help clients deliver health services efficiently.
- Solutions supporting eHealthcare government programs.

Environment

We're always working to reduce the environmental impact of our operations – creating efficiencies, driving innovation and sharing the benefits with our customers.

Sustainable IT and energy

Sustainable IT is about measuring and reducing the environmental impact of IT products and services. We monitor Sustainable IT metrics including electricity consumption, carbon footprint and printed paper.

We have long prioritized the reduction of energy consumption and costs: some of our sites have been ISO 14001 certified for a decade. We monitor energy usage in line with our corporate plans.

Developing eco-products

We use life-cycle assessment and carbon footprint analysis to guide the design and development of products that are more environmentally friendly, use fewer materials and make the most of sustainable technology.

They include:

- A bio-sourced banking card made from PLA (poly-lactic acid), a corn-derived polymer replacing petroleum-based plastic.
- Smaller SIM cards and card readers.
- Packaging made from eco-friendly materials.

Addressing climate change

In 2009 we launched our carbon footprint program to help monitor and reduce the emissions from our operations. The focus is on lowering our energy usage, increasing sourcing from renewable electricity, reducing emissions from freight, and minimizing business travel.

We also help our customers to offset the carbon emissions associated with the products they buy from us. To date, this program has offset 25,000 tons of CO_2eq through projects in developing countries that improve living conditions while reducing greenhouse gas emissions.

Carbon emissions offset since 2009

25,000 tons

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Risk management and control

We recognize that an element of risk is inevitable when operating in a diverse and innovative business and that taking risks in a controlled manner and in view of a reward is fundamental to innovation and fostering a positive culture. Ensuring we have an efficient risk management system in place is key to developing our business and achieving our objectives."

Philippe Vallée
Chief Executive Officer

The way we manage risk

Trusted to manage our risks

Security is our business – so risk management is a necessary and intrinsic part of the way we work. Our customers trust us to make it integral to our service and our culture. It is part of our responsibility to them, as well as to investors, employees and other stakeholders.

We recognize that an element of risk is inevitable when operating a diverse and innovative business and that taking risks in a controlled manner and in view of a reward is fundamental to innovation and developing a positive culture.

Effectively managing risks is the responsibility of all employees. Managers are accountable for allocating required resources to successfully manage the risks they own.

The Board needs reasonable assurance that our risk management and reporting systems remain sound. So we have a range of policies and processes involving both internal and independent controls: Internal Audit, external certification bodies and external auditors. These are designed to strike the right balance between cost and effectiveness. Together, they aim to help us achieve our business objectives while cutting to an acceptable minimum the risk of operational failures, misstatements, inaccuracies and errors, fraud and non-compliance with laws and regulations.

Risk appetite

Gemalto seeks to maintain an acceptable balance between risk and reward to maximize long-term value for stakeholders.

The key determinants for our risk appetite are as follows:

- Shareholder and investor preferences and expectations.
- Expected business performance (return on capital).
- The net working capital needed to support risk taking.
- The culture of the organization.
- Management experience along with risk and control management skills.
- Long-term strategic priorities.

Gemalto's risk appetite is reflected in the Company's policies (Corporate Authority Limit policy, the Code of Ethics, finance policies…). It is communicated in our multi-year development plans and applied to our management decision processes.

How we share our risk management responsibilities

Who is responsible for what

The Board

- Approves strategic objectives and validates our risk appetite.
- Reviews the Group's key risks and mitigating measures.
- Reviews the Company's risk management and internal control systems.
- Assesses these systems' effectiveness through its Audit committee.

Senior Management

- Is responsible for the 'tone at the top'.
- Oversees design and sustainable implementation of Enterprise Risk Management (ERM) and internal control systems.
- Defines risk appetite.
- Makes decisions when substantial risk is at stake.
- Evaluates the adequacy of risk mitigation plans.

Business management

First line of defense

- Identifies, takes and manages risks in their areas of responsibility.
- Maintains day-to-day internal control.

Support functions

Second line of defense

- Define internal control policies and provide guidance in their areas.
- Develop risk management culture and awareness of internal controls.
- Establish discipline and act as guardrails.

Corporate risk management

Second line of defense

- Develops and promotes ERM framework to help managers identify, assess, manage, monitor and report risks.
- Facilitates reviews of the design and implementation of internal controls.

Internal audit

Third line of defense

- Provides independent assurance of the effectiveness of the Group's risk management and internal control frameworks and activities.

Five key risk management processes

1. Budgeting, planning and reporting See page 32
2. Risk assessment and mitigation See page 32
3. Crisis and business continuity management See page 33
4. Fraud risk management See page 33
5. Transfer to insurance See page 33

Foundations

Our processes are underpinned and informed by:

- **Strategy and objectives**
- **Culture and values**
- **Internal control**
- **Sustainability**

How we address risk management

Five key risk management processes

Our principal risks and mitigating actions are explained on pages 36-38. We have five dedicated processes for managing these and other risks:

1. Budgeting, planning and reporting
2. Risk assessment and mitigation
3. Crisis and business continuity management
4. Fraud risk management
5. Transfer to insurance

1. Budgeting, planning and reporting

To support informed and timely decision-making, we run multi-year strategic planning, detailed annual budgeting and monthly operational and forecast reviews.

The Group strategic plan drives the whole Group objectives and strategy. Our multi-year strategic planning includes analysis of our markets, competition and our own business across our entire portfolio of activities. We also perform reviews of adjacent markets and try to anticipate major changes that may restructure the industries we operate in. Our work uses internal and external resources. In certain cases, when developments deviate meaningfully from key assumptions, we perform deep case reviews and may adjust our approach to business and our objectives accordingly.

Operating and financial results and forecasts are reviewed monthly. The financials are prepared and analyzed by the operational EVPs and their controllers. The Corporate Treasurer and Group Tax Controller contribute to the preparation, each with their expertise. These results and analyses are reviewed, challenged and approved by the CFO and the CEO.

Our business review process covers all operational entities and corporate departments at least quarterly. The budget process delivers an annual Group budget for the following year and is also the first year of the three-year Development Plan. Both the budget and the Development Plan are reviewed and approved by the Board.

The Group Treasurer prepares a monthly review of financial costs, the efficiency of the balance sheet and cash flow hedges, client receivables, and Group cash and debt.

Drawing on the review of the operating results and the treasury report, the Group Controller prepares an operating dashboard and report for review by the CEO and CFO, and for the information of the Board, on a quarterly basis. A review of activity is also presented by the CEO and CFO at each quarterly Board meeting.

In addition to the monthly operational result calls, the Chief Accounting Officer holds, on a half-yearly basis, reviews with each segment and region to help identify any transaction or event which could significantly impact the Group's results or financial condition.

2. Risk assessment and mitigation

Our risk management process has six key elements:

Map and anticipate main identifiable risks and regularly update assessments

↓

Prioritize them against Group strategy and risk appetite

↓

Allocate risk ownership

↓

Develop and implement policies and mitigation plans, including transfer to insurance

↓

Communicate key control objectives to operational managers

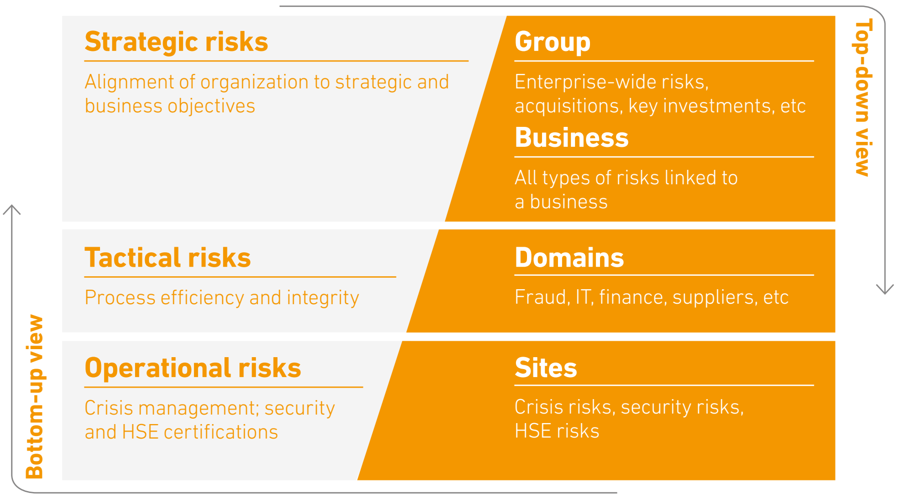
↓

Provide training and support, regularly check the effectiveness of the process

Integrated in the Company's processes, our approach is based on the principles of responsibility, ownership, performance-oriented and continuous improvement. Key risks are assigned to risk owners responsible for developing action plans. Reporting on progress on the mitigation plans is done every six months by each manager sponsor of a risk assessment to the ERM* Steering Committee chaired by the CEO.

Risk assessment is carried out at all management levels as shown in the chart to the right, and is supported by an ERM software tool also used to manage our internal control self-assessment questionnaires.

* Enterprise Risk Management.



3. Crisis and business continuity management

We cannot identify all the risks we may face. So we have crisis management processes and business continuity responses designed to improve our resilience to unforeseen events – such as a supply chain disruption, employee repatriation, or network intrusion attempts – and minimize their impact on our stakeholders and reputation.

Our Crisis Management Framework was first rolled out in 2010. It encompasses basic escalation and communication rules, guidelines for anticipation and action, and clear roles and responsibilities. We currently have in place 145 Crisis Management Leaders worldwide, trained through simulation exercises.

In 2017, as well as continuing to provide support through training and exercises, extensive work to enhance the maturity and content of crisis management plans across the Company has been undertaken.

Our response to ensure we minimize the impact any crisis may have on our business and customers is supported through our business continuity activity. 2017 saw our ongoing efforts to ensure we progressed with the development of two of the main support pillars of this discipline by addressing the key dependencies within our supply chain and ensuring IT recovery planning remained an important area of focus.

In addition we have worked on developing the assessment and continuous improvement of business continuity plans through our Internal Control processes, with particular attention and focus on operations. Our business continuity framework continues to be updated and reinforced, with governance and oversight being supported by the Business Continuity Leadership team through quarterly steering review meetings.

4. Fraud risk management

We have built an anti-fraud framework to prevent, detect, deter, report and respond to fraudulent activities. This is overseen by the Gemalto Anti-Fraud Commission comprising the Group General Counsel, EVP Human Resources, Chief Information Officer, Internal Audit Director, Security Director and Governance and Compliance Officer.

All managers must report any suspicion of fraud to the Commission, and our whistleblower procedure enables employees to raise suspected irregularities with his/her manager or with a confidential advisor. In the event of a fraud, managers must make appropriate changes to systems, controls, education and procedures to prevent recurrence, and the commission monitors the effectiveness of such actions.

In 2017, we performed a comprehensive fraud risk mapping covering all our activities and areas. This assessment allowed us to complete the assessment of corruption and bribery risks done at corporate level in 2016. We trained some 487 key people in anti-fraud, anti-bribery, anti-trust and ethics. In addition, some 1,129 employees were trained in CFIUS and trade compliance topics.

5. Transfer to insurance

Our global insurance programs cover property damage, business interruption, public, product and professional liability, and Directors' and Officers' exposures. They aim to protect the Company against exceptionally large or numerous claims, at a cost that does not impair Group competitiveness. We neither own nor operate any captive insurance: we use only high-quality and financially sound insurers, combining master policies with local insurance policies where countries require this.

Negotiation and coordination of these programs are carried out centrally with the help of leading insurance brokers with integrated international networks. In this way we secure broad and consistent cover for all Gemalto activities and locations worldwide, cost optimization, and global reporting and control, while ensuring compliance with local regulatory requirements. We review our insurance strategies periodically, taking into account changes in our risk profile (such as acquisitions, claims, loss events and other activities) and insurance market trends.

How we monitor effectiveness

Ethical practices and employee confidence

In our 2017 internal PeopleQuest survey, employees confirmed their confidence in our ethical practices and performance. They said that Gemalto and its management:

91%
are committed to ethical practices

89%
provide adequate information about ethical practices

92%
set a good example

Risk management

The Corporate Risk Management department has a global view of risks encompassing Enterprise Risk management, Internal Control, Crisis management, Business Continuity, Insurance and Trade Compliance. This broad view is a powerful asset in understanding and managing our risks, and helps us develop a pragmatic overall risk management approach. The department reports to both the General Counsel and the CFO.

Internal control

Gemalto implemented a strong internal control framework based on a clear statement of ethical business principles, established policies and effective training of the key personnel who implement and oversee it. With the COSO as a reference, it aims at checking that we meet our objectives (including sustainability goals), report financial performance reliably and comply with laws and regulations.

The internal control framework is evolving continuously, especially the referential of controls which is kept in alignment with the Company's structure, objectives, commitments and risks.

Our internal control team, supported by a strong network of coordinators in Business Units, geographical areas, legal entities and IT services, develops awareness across the Company and works with other support functions to embed the controls in the processes and information systems.

Every year, this team runs a self-evaluation campaign to ensure that the proper control is maintained and enhanced at all organization and process levels.

The reliability of these self-evaluations is regularly tested by internal auditors. Action plans are agreed upon to remediate deficiencies and are monitored by the operational management with a particular focus on newly acquired companies. Results of the self-evaluation and progress on remediation plans are reviewed by the Internal Control steering committee.

The 'Security, Quality and Sustainable development' department, with representatives throughout the Group, also promotes the appropriate culture and performs regular audits. The Audit committee regularly reviews the internal control process effectiveness as well as the internal audit activity.

Financial control

Financial controllers, with the support from Internal Audit and Corporate Risk Management, are responsible for identifying risks which significantly impact the financial statements, and for taking action to mitigate those risks. They are also responsible for ensuring that the controls over the Group's earnings and operating performance remain adequate. Business and Group Function Controllers participate in the budget and quarterly business reviews, and oversee the monthly financial results of segments and the Group. They also play an active role in operational and performance improvement projects, and in cost control and cost-effectiveness initiatives, and liaise with Area Controllers to ensure business decisions properly apprehend potential statutory risks/consequences.

How we provide independent assurance

Internal and external bodies provide assurance on the design and effectiveness of the risk management processes and compliance with the relevant standards, policies and norms.

Internal audit

- Our Internal Audit department conforms to the International Standards published by the Institute of Internal Auditors (IIA). It has direct and unlimited access to Group operations, documents and employees. It reports directly to the CFO and has an independent line of communication with the Audit committee Chairman and the CEO. Internal Audit reports to the Audit committee at each meeting and holds regular private sessions with the Audit committee.
- The team reports monthly and annually to the Chairman of the Audit committee and the CFO. Audit missions include ethics and fraud reviews and follow-up diligences of acquisitions.
- The Institut Français de l'Audit et du Contrôle Internes renewed the team's professional certification in December 2017.

External certifications

- We maintain a number of certifications: some, such as EMV, GSM SAS, ISO 9001, ISO/TS 16949, ISO 14001, OHSAS 18001 and ISO 27001 are necessary for the conduct of our business. The effectiveness of our Quality and Health, Safety and Environment (HSE) management systems is constantly challenged by external and internal audits seeking continuous improvement.

External auditor

- The external auditor provides an independent opinion on the financial results of the Group: its report is available on page 116. On top of this regulatory assessment, external auditors are seen as experts by the Company, who interacts with them on a constant basis, gives them unrestricted access to Gemalto sites and documentation, and has them communicate regularly with the Internal Audit department and with the Audit committee.
- The Audit committee assesses the work of the external auditor at least once a year.

Principal risks

In addition to the business risks generally faced by international companies like Gemalto (such as country risks, M&A, foreign exchange, interest rates, liquidity…), we have outlined eight principal risks that could have an impact on the Company, and have taken measures to mitigate each one.

For further information about financial risks (e.g. interest rate risk, liquidity risk and credit risk), see Note 4 Financial risk management, pages 76-79.

Market growth

New businesses and chosen markets do not hold their growth prospect or develop as predicted.

Relevance/materiality
- Failure to benefit as expected from business opportunities particularly in the Internet of Things, Enterprise Security and Government programs.
- Failure to make security a ready-to-use service that grows as fast as the markets it protects.
- Sovereignty consideration reduce potential market for global security solution providers despite increasing needs.
- Abrupt changes in regulations impact our international operations and industry.

Potential impacts/effects
- Negative impact on revenues, cash flows and profitability sustainability.
- Inefficient distribution of physical, personnel and financial resources.

Mitigating actions
- Competitive and market intelligence program.
- Formal multi-year development plan.
- Run a regular Opportunity and Portfolio financial review to gauge investment and cash allocation across our businesses.
- Focus on industries where reach is strong.
- Focus investments in growing markets.
- Target market leadership where we play.
- Design our security solutions to preserve customer ownership and control.
- Design our security solutions to facilitate enforcement of local regulatory compliances.
- Use common core technologies across segments to leverage internal synergies.
- Provide customers with superior functionality and easier deployment by integrating our security services.
- Also cover most stringent security use cases with specific solutions that can hardly be served by public cloud generic environments.
- Offer security consulting and audit services to help to permanently anticipate changes in customer demands.
- Continuous adjustment of our geographic footprint by balancing local hiring with the right network of local partners and distributors.
- Diversification of use cases of our technologies and client bases.

Competition

Change in the business dynamic, whereby a competitor's product or technology may lead to loss of competitive advantage.

Relevance/materiality
- Market demand is not strong enough for cloud independent security solutions.
- Authentication market commoditizes with generic procedures, pre-embedded in consumer devices sufficient for service providers.
- Physical SIM cards and/or payment cards are replaced by software and dematerialized solutions before our position is strongly established there.

Potential impacts/effects
- Negative impact on revenues, cash flows and profitability sustainability.
- Inefficient distribution of physical, personnel and financial resources.

Mitigating actions
- Focus on multi-platform hybrid security technologies.
- Integrate our security solutions into a large number of devices, cloud and software platforms.
- Invest early in the dematerialization of smart card technology, applied to our existing markets.
- Design our security solutions to be deployed in hybrid customer IT environments.
- Design our security solutions to preserve the quality of end-user experience.
- Comprehensive Product and Software Platform architecture in place to quickly answer clients' unmet business needs.
- Effective contribution to standardization bodies.
- R&D, balancing near-term improvements with longer-term 'break-out' solutions.
- Selective M&A.
- Customer intimacy, focus on creating value for clients; high overall customer confidence in the annual 'Tell Me' survey.
- Promoting agility, benchmarking and quick market responses.

Key: Main potential impacts expected when unforeseen circumstances occur:

Financial
Organizational
Reputational
Legal

Data protection and cybersecurity, data privacy regulations

Security failure in our systems or IT infrastructure, cyber attacks. Failure to comply with evolving data protection regulations.

Relevance/materiality

- Data protection and cybersecurity are core to our business, which itself is contingent on customer confidence in our ability to protect the privacy of the data they entrust to us.
- Hacking threats are growing significantly.
- Enhanced data quality and integrity lead to strategic business decisions and better customer service.
- Business development through expansion into jurisdictions with clear privacy regulations.
- New compliance obligations (GDPR), data localization laws.

Potential impacts/effects

- Leakage and/or loss of customers' or Gemalto's confidential data resulting, for example, from cyberattacks, employee negligence or the vulnerability of our IT systems.
- Inquiries, claims and remediation costs.
- Investigation by governmental privacy authorities, financial penalties.
- Constraints on data center footprint.
- Adverse impact on reputation and business.
- Drop in stock prices due to negative publicity.

Mitigating actions

- Global security expertise, including authentication and cryptography expertise, tools and systems.
- Standardized tools and policies for all devices on the Gemalto network 'Cyber Excellence Program' with regular training sessions.
- Development of a global personal data protection program based on the EU General Data Protection Regulation.
- Worldwide security organization with security officers at all important sites and regional/corporate security support.
- Security certifications by third parties (including ISO 27001, EMV, GSM, SAS, etc).
- Internal security audits (extended to IT subcontractors).
- Anti-Fraud Commission.
- Balance between prevention, detection and reaction tools.
- Corporate Emergency Security Incident Response team.
- Regular penetration testing on our systems and solutions, detection systems.
- Log gathering and analysis through the Security Operating Center.
- Work with national agencies.

Product quality and service delivery

Technical requirements becoming more and more complex and demanding with high liabilities.

Relevance/materiality

- Development of embedded products (eSE…) will increase liabilities and replacement costs.
- Defects (visual) on Government Program products could be seen as a security breach (fake, fraud…).
- Our products support our image to the customer (brand).

Potential impacts/effects

- Failure to develop and deploy secure, stable or reliable technology products and solutions.
- Failure of supplier's product embedded in a Gemalto solution.
- Major quality issue in one of our manufacturing facilities.
- Unforeseen software development problems (e.g. bugs).
- Mismanagement of after-sales service.
- Replacement of products.
- Loss of reputation.

Mitigating actions

- Standardized manufacturing processes.
- Quality management system and world-class enterprise organization.
- Dedicated R&D teams for Product as well as Platforms & Services.
- Bid and contract reviews with approval process based on risk assessment and according to limits of authority.
- Product and professional liability insurance.
- Customer satisfaction measured regularly with high overall customer confidence in annual survey.
- Dedicated key account management program.
- Qualification labs continuously improving qualification processes.
- Failure analysis labs.
- Corporate quality improvements programs, anti-error systems.

Talent management

Our people and HR processes may not be adequately scalable to meet our growth and transformation ambitions.

Relevance/materiality

- The Group's success and its strategic shift towards Software and Services are contingent on recruiting and retaining highly skilled personnel (Senior Management, R&D, engineering, sales, marketing…).
- There is intense competition for skilled employees.

Potential impacts/effects

- Inability to attract, develop and retain highly qualified management and suitably skilled employees, particularly to address the markets we want to develop in.
- Loss of key resources, including in acquired companies.
- Shortage of appropriately skilled management.

Mitigating actions

- Comprehensive Human Resources strategy with eight pillars (diversity, mobility, promotion from within, learning, recruitment, compensation & benefits, ethics & well-being, management by objectives).
- Technical Ladder to recognize individual contributors/technical skills.
- Short-term and long-term management incentive plans.
- Succession plan for Senior Management positions.
- Company positioning on professional social networks.
- Yearly Employee satisfaction survey and related action plan.
- Acquisition of specific expertise accelerated through M&A.

Principal risks continued

Key: Main potential impacts expected when unforeseen circumstances occur:

Financial
Organizational
Reputational
Legal

Business integrity, ethics and reputation

Internal fraud, bribery, anti-trust violations; actions or inactions perceived by stakeholders to be inappropriate.

Relevance/materiality
- As a listed company with a worldwide presence, the Group is subject to numerous rapidly evolving and complex laws and regulations.
- Stakeholder trust is directly tied to ethical behavior, compliance with applicable rules and regulations and internal policies and procedures.

Potential impacts/effects
- Loss of trust.
- Impact on our image and reputation.
- Fines and other sanctions.
- Liabilities, including Director and Officer liabilities.

Mitigating actions
- Risk assessments with regular updates (including fraud risks).
- Anti-fraud commission.
- Policies and procedures, Code of Ethics, Agent Policy, whistleblower procedure, employee survey.
- Sustainability structure and framework in place.
- Security certifications and organization.
- CSR charter/clause with suppliers.
- Training/eLearning: security, business principles, anti-fraud, anti-trust.
- Regular internal and external audits of facilities.
- Internal audits on all suspected fraud.
- Investigation process and tools.
- Crisis management framework and associated worldwide training program.
- Code of Ethics signed by employees.
- Clear policies on 'do's and don'ts'.

IP protection and claims

Insufficiently protecting intellectual property (IP) rights, claims from third parties pretending that we have infringed their proprietary rights.

Relevance/materiality
- R&D is an important part of the activity of the Group and is dependent on proprietary technology and intellectual property rights.

Potential impacts/effects
- Failure to protect our proprietary technology and IP rights (inability of the Group to prevent others from commercially using our inventions, thereby increasing competition; lost opportunity to license patent rights to other enterprises which are a source of income for the Group).
- Third-party claims for alleged infringements of their patent rights (inability to use the patented invention in our products and services, damages to be paid for past infringements...).

Mitigating actions
- Dedicated and qualified internal IP team organized by technology.
- Internal IP department, internal inventor policies, formal Open Source software policy and other ad-hoc policies.
- Patent committee.
- Patent management database and third parties' patents search.
- Contract reviews on IP clauses.
- Management of Open Source use within Gemalto through a dedicated process.

Contracts

Ineffectively managing complex national or multinational customer contracts (long-term government contracts, solution or service projects, etc.).

Relevance/materiality
- Potential excessive liabilities arising from contracts.
- Numerous factors including cost variation; delivery delays; changes to customer requirements, budgets, strategies, or businesses; supplier performance; our ability to negotiate back-to back clauses for purchasing or partnership agreements affect the revenue and profitability of a contract and could lead to financial loss.

Potential impacts/effects
- Failure to accurately assess our selection chances within the framework of a bid process may lead to inefficient allocation of resources and additional costs.
- Inability to recover upfront/early investments in government built-operate transfer projects (BOT) or solutions and services (IT infrastructure) contracts due to delays, missed milestones or country risks.
- Poor understanding and/or implementation of client expectations or needs could lead to a failed contract, resulting in reduced future revenue, profitability and cash generation.
- Contingent liabilities.

Mitigating actions
- In-depth analysis at the very beginning of bidding process for major deals in order to measure the Group's likelihood of success.
- Reassessment and contract review with clear presentation of risks and approval process according to limits of authority in order to ensure decision-making at proper management level and efficient allocation of resources.
- Project-based organization of Government Programs and solutions and services contracts to manage delivery risks.
- Authority limits, bid & contract management processes, revenue recognition policy, contractual guidelines, business and geographical legal teams.

Chairman's letter

"Strong governance structures and processes offer perspective and give management the appropriate balance of oversight and support."

A commitment to high governance standards

From secure software to biometrics and encryption, our technologies and services enable businesses and governments to authenticate identities and protect data so they stay safe and enable services in personal devices, connected objects, the cloud and in between.

The challenges Gemalto faced in 2017 highlight the importance of having strong governance structures and processes in place to offer perspective and give management the appropriate balance of oversight and support. Good governance depends on ensuring that developing issues are escalated quickly to the appropriate level, and that decisions are made in the best interests of the organization and its stakeholders.

As with all tech companies, Gemalto operates in markets where challenges and opportunities arise quickly and sometimes unexpectedly. In 2017 we had to adapt very rapidly to weaknesses in some markets, and when the rate of market decline accelerated even faster than anticipated, we had to adjust our outlook. More than ever, we need to maintain a high level of agility to ensure we are able to respond effectively to changing market developments.

One of the ways we have been addressing these challenges is through an appropriate non-executive Board member succession, which continued as planned during the year. At the 2017 AGM we welcomed Jill Smith. Our approach is to select a candidate in advance of the AGM so that they can make a full contribution as soon as their appointment is confirmed. During this time, we invite them to attend Board meetings as a guest, familiarizing themselves with the dynamics of the business and the Board.

In 2017, the Board was also actively involved in the selection of our new Chief Financial Officer, Virginie Dupérat-Vergne, who was interviewed by several Board members. To ensure continuity, there was also a substantial handover period with her predecessor.

Finally, towards the end of 2017, the Board received an offer from Thales to acquire Gemalto. Consistent with its fiduciary duties, the Board of Directors, with the support of its financial and legal advisors, carefully reviewed and unanimously concluded that the offer is in the best interests of the Company, the sustainable success of its business and clients, employees, shareholders and other stakeholders.

Accordingly, the Board of Directors decided to unanimously support the transaction and recommend that Gemalto's shareholders accept the offer and vote in favor of the resolutions relating to the offer at the upcoming General Meeting. Furthermore, all members of the Board of Directors who hold shares for their own account have committed to tender all those shares into the offer.

The transaction is expected to close shortly after Thales has secured all customary regulatory approvals and clearances, which is expected for the second half of 2018.

Thales is expected to publish its offer memorandum in the second half of March 2018. More information of the Thales's offer can be found in the offer memorandum, which will become available at Gemalto's website.

Until then, we will continue to ensure that the Company operates effectively and efficiently. We remain committed to following the good governance processes in place so that we can accelerate our growth markets and continue to exceed customer expectations in the quickly-moving technology sector.

Alex Mandl
Chairman

Business overview
Financial review
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Other information

Our Board

Gemalto has a one-tier Board, which has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole.

Board committee key

- Chairman of committee
- A Audit committee
- C Compensation committee
- N Nomination and Governance committee
- M M&A committee

Alex Mandl 1943

American

Non-executive, independent
Chairman of the Board

N

Initial appointment: 2006

Current term: 2017-2019 (fourth term)

Other current appointments: Member of the Board of Directors of Genpact Limited and of Accretive Health.

Experience: Alex Mandl was Executive Chairman of Gemalto (2006-2007) and President and CEO of Gemplus (2002-2006). He has also been a Board member of Arise Virtual Solutions, Inc. (2013-2017), Levant Power Corporation (2014-2017), Horizon Lines (2007-2012), Hewitt Associates (2007-2010), Visteon Corporation (2008-2010), and a Director of Dell Inc. (1997-2013), including Lead Director (2010-2013). He has been a principal in ASM Investments, focusing on the technology sector, since 2001. He has also been Chairman and CEO of Teligent, a company he started in 1996, offering telecommunication and internet services to business markets. Earlier, he was AT&T's CFO and then President and Chief Operating Officer (1991-1996) with responsibility for long distance, wireless, local communications and internet services. He was also Chairman and CEO of Sea-Land Services, Inc. (1987-1991).

Philippe Vallée 1964

French

Executive, Chief Executive Officer

Initial appointment: 2016

Current term: 2016-2020 (first term)

Other current appointments: None.

Experience: Philippe Vallée is a graduate in engineering from Institut National Polytechnique de Grenoble (INPG) and from the Ecole Supérieure des Sciences Economiques et Commerciales (ESSEC) business school. He began his career with Matra Communication as a product manager on the first generation of GSM mobile phones. Mr. Vallée joined Gemplus in 1992. He held a number of positions in marketing, product management and sales in Europe and in Asia, including Vice-President of Gemplus Technologies Asia based in Singapore. He was afterwards promoted Vice-President of Marketing, and then President of the Gemplus Telecom business unit. After the merger of equals between Axalto and Gemplus which created Gemalto in 2006, he served as the Company's Chief Technology Officer until June 2007, he was appointed as Executive Vice-President in charge of the Telecommunications Business Unit until 2013. He was the Company's Chief Operating Officer from January 2014 to August 2016, with operational responsibility for all the Company's businesses.

Joop Drechsel 1955

Dutch

Non-executive, independent

A C

Initial appointment: 2015

Current term: 2015-2019 (first term)

Other current appointments: Chief Executive Officer of Walvis Group, Chairman of the supervisory Board of Royal Wagenborg, Chairman of the supervisory Board Smit en Zoon, Chairman of the supervisory Board of Payvision/Acapture.

Experience: Joop Drechsel has served as non-executive member of the Boards of various companies, such as Fleurametz (2010-2014), Telegraaf Media Group (2007-2014), Eneco (2001-2014), North Coast Energy (2004-2009) and Versatel (2002-2005). He was non-executive member of the Board of Directors of TRX (2003-2007), Chairman (2007-2011) and again non-executive member (2011-2013). In 2000, he was founding partner of Cairneagle Associates LLP in the UK, an international consultancy company. He was the CEO of BCD Group for 15 years and before that he was a member of the Board of Telecom and President of KPN International (1997-1998) and a member of the executive Board of KPN N.V., Royal Dutch Telecom (1998-2000). Earlier he held various roles with Royal Dutch Shell (1982-1996), culminating in his appointment as Area Head Central/Eastern Europe & Russia, Shell Oil Products (1996-1997).

Johannes Fritz 1954

German

Non-executive, independent

N M

Initial appointment: 2006

Current term: 2016-2018 (fourth term)

Other current appointments: Head of the Quandt/Klatten Family office and managing director of Seedamm-Vermögensverwaltungs GmbH; Chairman of the supervisory board of Solarwatt GmbH; Board member of Drees & Sommer AG; and Board member of Lonrho Holdings Limited).

Experience: Johannes Fritz was a Board member of BHF Kleinwort Benson Group (2015-2016), Board member of Avista AG (2013-2015) and Director of Gemplus (2002-2006). With significant experience in the finance and the banking sector, he has been Head of the Quandt/Klatten Family office since 2000 and was previously its Managing Director, responsible for all financial questions and running the day-to-day-business (1990-2000). Before that he was with KPMG covering financial institutions and industrial companies (1984-1989) and was earlier assistant to the CEO of Bertelsmann. He has an MBA from Mannheim University and a post-graduate qualification from NYU Stern School of Business.

John Ormerod 1949

British

Non-executive, independent

A C

Initial appointment: 2006

Current term: 2017-2018 (fifth term)

Other current appointments: Non-executive Director of ITV plc.; non-executive Director of Constellium N.V.

Experience: John Ormerod is a UK chartered accountant with advisory and non-executive Director experience in finance and in the technology sector. He was a non-executive Director of Gemplus (2004-2006), as well as a non-executive Director of Computacenter plc (2006-2015), a non-executive Director of Misys plc, a leader in the financial software industry (2005-2012), a non-executive Director of Tribal Group plc (2009-2015), and a non-executive Chairman of First Names Group Ltd (2015-2016). Prior to that he was a partner with Deloitte & Touche (2002-2004). Earlier he served with the accounting and consulting firm Arthur Andersen (1970-2002) where he led the development of the firm's European Technology, Media and Communications practice, culminating in his appointment as UK managing partner (2001-2002).

Homaira Akbari 1961

American/French

Non-executive, independent A M

Initial appointment: 2013

Current term: 2017-2021 (second term)

Other current appointments: Non-executive Director of Veolia Environnement (Euronext Paris: VIE), non-executive Director of Landstar System, Inc. (NASDAQ: LSTR), non-executive Director of Banco Santander, S.A. (Euronext Paris: SANT; NYSE: SAN).

Experience: Homaira Akbari has extensive experience and deep domain knowledge in Internet of Things, software and security spaces. She is currently President and CEO of AKnowledge Partners, LLC, an international advisory firm providing services to leading private equity funds and large corporations. From 2007 to 2012, she was the President, Chief Executive Officer and a Director of SkyBitz, Inc. She has held executive and senior managerial roles in Microsoft (NASDAQ: MSFT), Thales, SA (Euronext: HO), and TruePosition, a wholly-owned subsidiary of Liberty Media Corporation (NASDAQ: LMCA). She holds a Ph.D. in particle physics from Tufts University and an MBA from Carnegie Mellon Tepper School of Business.

Buford Alexander 1949

American

Non-executive, independent N M

Initial appointment: 2009

Current term: 2017-2019 (third term)

Other current appointments: Chairman of the supervisory Board of the Amsterdam Institute of Finance; President Emeritus of the American Chamber of Commerce in the Netherlands; and Council of Global Advisors Yale School of Management.

Experience: Buford Alexander is a Director Emeritus of McKinsey & Company, where he pursued a notable consulting career (1976-2008) leading its European high-tech and banking practices and founding its European Corporate Finance practice including M&A and post-merger management. He spent much of his last years at McKinsey designing and leading the transformation of global European multinationals. Since his retirement from McKinsey, Buford has served on corporate Boards in the software, travel and banking industries. He has an MBA from Harvard Business School, and holds the Royal Distinction of Officer in the Order of Oranje-Nassau. Amsterdam has been his European base since 1983.

Philippe Alfroid 1945

French

Non-executive, independent C M

Initial appointment: 2010

Current term: 2014-2018 (second term)

Other current appointments: Board member of Wabtec Corporation Inc.; Board member of Essilor International SA; and Board member of Eurogerm SA.

Experience: Philippe Alfroid was Chief Operating Officer of Essilor International, the world leader in ophthalmic optics (1996-2009) and had previously held several operational and Senior Management positions in the Group including Chief Financial Officer (1991-1996). He was Chairman of Sperian Protection (2003-2005), having been a Director since 1991. He is an engineering graduate from ENSEHRMA Grenoble and holds a Master of Science from the Massachusetts Institute of Technology.

Olivier Piou 1958

French

Non-executive, non-independent A M

Initial appointment: 2004

Current term: 2016-2020 (first term as non-executive)

Other current appointments: Vice-Chairman of the Board of Directors of Nokia.

Experience: Olivier Piou conducted the merger of Gemplus and Axalto which formed Gemalto in 2006, and has been its CEO from 2006 to August 31, 2016. He has been a member of the Board of Directors since 2006. Before that he was CEO and a Board member of Axalto (2004-2006), a company which he had introduced to the stock market in 2004. He previously held a number of positions with Schlumberger across technology, marketing and operations, with global responsibilities, based in France and the US (1981-2004), including heading its Smart Cards division (1998-2004). He has also been a member of the Board of Directors of Alcatel-Lucent (2008-2016), a Board member of INRIA, the French national institute for research in computer science and control (2003-2010), and President of Eurosmart, the international organization representing the chip card industry (2003-2006). He is a Knight of the Legion of Honor in France.

Jill Smith 1958

American/British

Non-executive, independent A C

Initial appointment: 2017

Current term: 2017-2021 (first term)

Other current appointments: President and CEO of Allied Minds (LSE: ALM); non-executive Director of Endo International plc (NASDAQ: ENDP); and non-executive Director at JM Huber Corporation (private).

Experience: Jill Smith brings more than 25 years of experience as an international business leader, including 16 years as CEO of private and public companies in the technology and information services markets.

Previously, Jill Smith served as Chairman, CEO and President of DigitalGlobe Inc. (NYSE: DGI), a global provider of satellite imagery products and services. She started her career as a consultant at Bain & Company, where she rose to become Partner. She subsequently joined Sara Lee as Vice President, and went on to serve as President and CEO of eDial, a VoIP collaboration company, and of SRDS, a business-to-business publishing firm. She also served as Chief Operating Officer of Micron Electronics, and co-founded Treacy & Company, a consulting and boutique investment business. She was a Non-Executive Director of SoundBite Communications (NASDAQ: SDBT) (2012-2013) prior to its acquisition in 2013, of Elster Group (NYSE: ELT) (2011-2012) prior to its acquisition in 2012 and of Hexagon (Nasdaq Stockholm: HEXA B) (2013-2017).

Jill Smith earned her MSc from the MIT Sloan School of Management.

Yen Yen Tan 1965

Singaporean

Non-executive, independent N M

Initial appointment: 2012

Current term: 2016-2020 (second term)

Other current appointments: President, Asia Pacific Vodafone Global Enterprise; Director, Singapore Press Holdings; Chairperson, Singapore Science Center; Director, Singapore Defence Science and Technology Agency; Director, Cap Vista Pte Ltd; Director, Singapore Institute of Directors; Advisory board member, National University of Singapore School of Computing; and advisor mentor of TNF Ventures.

Experience: Yen Yen Tan has considerable experience in the technology sector. She was Regional VP/Managing Director, Asia Pacific (South), SAS Institute; Senior VP Applications, Oracle Corporation Asia Pacific (2010-2014); VP/Managing Director, Hewlett-Packard Singapore (2005-2010) and various Senior Management positions with HP across Asia-Pacific (1993-2005). Chairperson, Singapore's Infocomm Technology Federation (2009-2011); Board member, Infocomm Development Authority (2009-2011), committee member of its Media Masterplan's Talent and Manpower Work Committee (2013-2014); Deputy Chairperson, Singapore's Ministry of Communications & Information Internet & Media Advisory committee (2009-2011); and member, IT sub-committee, Singapore's Government Economic Strategies Committee (2010-2011).

Our Senior Management

Gemalto applies a governance structure, consisting of a one-tier Board with one executive director, the CEO. In discharging his daily responsibilities, the CEO is assisted by 13 senior managers. Together, these senior managers constitute the Senior Management.

Emmanuel Unguran
EVP Central Operations

Isabelle Marand
EVP Corporate Communications

Sébastien Cano
EVP Enterprise & Cybersecurity

Serge Barbe
Chief Technology Officer

Philippe Vallée
Chief Executive Officer

Frédéric Trojani
EVP Government

Martin McCourt
EVP Strategy, M&A and Chief Marketing Officer

For full biographies of our Senior Management team visit our website **http://gemal.to/GTOmanagement**

Frédéric Vasnier
EVP Mobile Services & IoT

Virginie Dupérat-Vergne
Chief Financial Officer

Philippe Cabanettes
EVP Human Resources

Philippe Cambriel
EVP Corporate Projects and France

Bertrand Knopf
EVP Banking & Payment

Eke Bijzitter
Governance and Corporate Officer

Jean-Pierre Charlet
EVP Legal and Company Secretary

Our Board during 2017

Board composition

as at December 31, 2017

Legend

Man Woman Nationality

(Re)appointments in 2017

- Alex Mandl was reappointed as non-executive Board member until 2019.
- Homaira Akbari was reappointed as non-executive Board member until 2021.
- Buford Alexander was reappointed as non-executive Board member until 2019.
- John Ormerod was reappointed as non-executive Board member until 2018.
- Jill Smith was appointed as non-executive Board member until 2021.

Committee composition changes in 2017

- Joop Drechsel was appointed Chairman of the Audit committee as of September 30, 2017, in replacement of John Ormerod who remains a member of the Audit committee.
- Olivier Piou was appointed member of the Audit and M&A committees as of March 2, 2017.
- Jill Smith was appointed member of the Audit and Compensation committees as of May 18, 2017.

The Board's focus during the year

The Board held 20 meetings: four in person and 16 by conference call. One Board resolution was taken without holding a meeting.

During the year the Board addressed the following main subjects (in alphabetical order):

- Agenda for the AGM.
- Annual budget plan.
- CEO and Senior Management remuneration.
- Compliance with tax regulations worldwide where Gemalto operates.
- Corporate governance structure and developments, including the 2016 Dutch corporate governance code.
- Corporate strategy: oversight of the implementation and execution of the Company's strategy, and devotion of a substantial amount of time on the preparation of the next strategy plan.
- Design and effectiveness of risk management and internal control systems and any significant changes to them. Risk management and prevention updates, including cybersecurity.
- Development of business activities, investment and M&A opportunities, including the acquisition of 3M Identity Management Business, as well as the competitive environment.
- Financing requirements for the Group.
- Grants to employees under the Global Equity Incentive Plan.
- Group financial performance and disclosures, as well as review of the outlook statements and their revisions during 2017.
- Long-term evolution of Board and committee composition, including chairmanship, and CEO succession.
- Main risks to the business.
- Opportunities for employees to buy discounted shares under the Global Employee Share Purchase Plan.
- Performance and functioning of the Board, the Board committees and the individual Board members.
- Share buy-back and dividend policy.
- Succession planning for Senior Management, and related management development.
- The unsolicited and conditional proposal by Atos for a possible offer for all issued and outstanding ordinary shares of Gemalto.
- The recommended offer by Thales for all issued and outstanding ordinary shares of Gemalto.

Board and committee attendance records

The table below provides an overview of the attendance record of the members of the Board (B), the Audit committee (A), the Compensation committee (C), the Nomination and Governance committee (N) and the M&A committee (M). Attendance is expressed as the number of meetings attended out of the number of meetings eligible to attend.

	B	A	C	N	M
Alex Mandl	20/20	–	–	4/4	–
Philippe Vallée	20/20	–	–	–	–
Homaira Akbari	18/20	9/10	–	–	1/2
Buford Alexander	19/20	–	–	4/4	2/2
Philippe Alfroid	18/20	–	5/5	–	2/2
Joop Drechsel	19/20	9/10	5/5	–	–
Johannes Fritz	18/20	–	–	4/4	2/2
John Ormerod	18/20	10/10	5/5	–	–
Olivier Piou*	19/20	6/6	–	–	1/1
Jill Smith**	15/16	3/4	3/3	–	–
Yen Yen Tan	14/20	–	–	4/4	2/2

* Appointed member of the Audit and M&A committees as of March 2, 2017.

** Appointed member of Board as of May 18, 2017 and member of the Audit and Compensation committees as of May 18, 2017.

Independence

During 2017, one non-executive Board member is considered not independent, as he is the former CEO. All other Board members meet the independence requirements of the Dutch corporate governance code's best practice provision 2.1.8. The Company is hence compliant with best practice provision 2.1.7.

Board reappointment schedule as at December 31, 2017

The Board adopted a reappointment schedule, which is published on our website and shown below, listing the members of the Board and their terms in office.

Board members	Date of initial appointment	2017 – 2018 – 2019 – 2020 – 2021
Alex Mandl	June 2006	4th term
Philippe Vallée	September 2016	1st term
Homaira Akbari	May 2013	2nd term
Buford Alexander	May 2009	3rd term
Philippe Alfroid	May 2010	2nd term
Joop Drechsel	May 2015	1st term
Johannes Fritz	June 2006	4th term
John Ormerod	June 2006	5th term
Olivier Piou	Feb 2004	1st term as non-executive Board member
Jill Smith	May 2017	1st term
Yen Yen Tan	May 2012	2nd term

Our Board during 2017 continued

Our training and induction program

There is an induction program for new Board members, which includes presentations from management, and provides detailed information about the Group's structure, its governance, activities, products, services and operations.

Our Board members are regularly trained on Gemalto's products and services, and regular updates are provided on the Company's operations, the industry perspective and the competitive landscape in which the Company operates. In 2017, the training of the Board focused on crisis management.

How the Board is performing

Each year the Board performs a self-assessment to benchmark and evaluate the effectiveness of the Board and its committees. The self-assessment of the Board and its committees relating to the year 2016 was performed during the first quarter of 2017, which included a review of the progress of the actions following the previous year's assessment, which is well on track.

During 2017, the Board engaged the services of an external expert for the assessment of the Board and committees. This assessment examines performance, effectiveness and composition. It also covered key areas such as: strategy; risk management and internal controls; performance management; shareholder communication; Board culture and dynamics; Board composition, with particular reference to balance of skills, experience, independence, knowledge of the Group, and diversity; and the Board and committee calendar, agendas, materials and support. The external expert reported on the conclusions to the Board for its consideration, with a number of suggested improvements. The Board is currently implementing the recommendations of the external evaluation conducted in 2017.

Public offer by Thales

In December 2017 Thales and Gemalto reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto. Deutsche Bank and J.P. Morgan Securities plc issued fairness opinions relating to the offer to the Board.

In addition to the arrangements agreed with regard to strategy, R&D, and Gemalto employees described above, Thales and Gemalto have agreed on certain non-financial covenants with regard to the location of the Gemalto headquarters, continuation of the Gemalto brand, financing strategy and CSR matters. In general, these non-financial covenants (including with respect to strategy, R&D and employees) will continue to apply for two years after closing of the offer. Any material deviation from the non-financial covenants will require the affirmative vote of two independent Board members who will remain on the Board for the duration of the non-financial covenants. These independent Board members will particularly monitor that appropriate consideration will be given to the interests of Gemalto minority shareholders and all other stakeholders' and relevant employee representation bodies' information and consultation requirements.

To facilitate the integration of the Gemalto Group within Thales, an Integration Committee will be established that is composed of senior representatives of both Thales and Gemalto. The Integration Committee will determine an integration plan, monitor its implementation and do all things necessary to assist and facilitate the integration.

During the 2018 AGM, Gemalto will inform its shareholders about the offer and propose to adopt certain technical resolutions that are conditional on consummation of the offer.

Board committee reports

These reports describe the meetings held and the main activities performed by the committees during the year.

Report of the Audit committee

Committee members on December 31, 2017
(all being independent, except Olivier Piou)

Joop Drechsel (Chairman)
Homaira Akbari
John Ormerod
Olivier Piou
Jill Smith

Number of committee meetings in 2017: 10

The committee meets during the year at times determined principally by the Company's financial reporting calendar. The committee normally invites the CFO and some of his reports as the case may be, the Company's external auditor, the Internal Audit Director, EVP Legal and Company Secretary, the Governance and Corporate Officer and the Chairman of the Board to attend its meetings. Others, including the CEO, attend from time to time to participate in specific agenda items. The committee regularly meets in separate executive sessions with the CFO, the external auditor, the Internal Audit Director, the EVP Legal and Company Secretary and the Governance and Corporate Officer.

The committee's main responsibilities are to review the financial information to be published by the Company; to oversee the relationship with the Company's external auditor and receive reports on the plans for and findings of their work; to review the Company's risk management framework, the Company's risk management processes and effectiveness of its control systems; to recommend the Company's internal audit plans for Board approval; and to receive reports of internal audit work performed. The full Audit committee charter is posted on the Company's website at: http://gemal.to/AC-charter. The committee reports regularly to the Board on its work.

In carrying out its work, the committee challenges management on the identification of significant risks and the effectiveness of planned mitigating actions. The committee reviews financial policies in areas such as tax and treasury and related authority limits. The committee considers the assumptions and other information supporting key accounting judgments and reviews sensitivity analysis to assess the effect of variations in key assumptions in areas such as valuations and impairment assessments of assets.

In particular, during 2017 the committee considered and reported to the Board on the following:

- Annual financial statements and the related report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements. Areas of focus were:
  - the appropriate application of revenue recognition policies, in particular in areas of business, such as software development and implementation, where contracts have multiple components and Government Programs where contracts often have multiple components and cover extended periods of time;
  - provisions for tax across the range of countries in which the Company operates, in particular where tax laws are applied in a more subjective way;
  - the capitalization and amortization of development expenditure;
  - impairment testing of intangible assets;
  - provisions for credit risk in particular in relation to sales in emerging markets;
  - accounting for bonus payments and share-based compensation expense; and
  - the overall presentation of the financial statements including the preparation of the alternative performance measure (PFO).
- Condensed semi-annual financial statements and the related report to the committee by the external auditor, as well as the announcements of the interim trading updates, including quarterly revenue figures.
- The development and implementation of the external auditor's plan for the 2017 audit. The committee reviewed the external auditor's approach, its assessment of financial risk and materiality and scope of planned procedures for the year. The committee considered the auditor's procedures for maintaining a high standard of audit quality including steps taken to ensure their continuing independence. The committee considered the scope of and fees for non-audit services consistent with the policy established by the committee.

During 2017, the committee reviewed the performance of KPMG, the Company's external auditor. Following the recommendation of the committee, endorsed by the Board, KPMG Accountants N.V. was appointed external auditor for the financial year 2018 at the 2017 AGM.

- Outlook statements and forecasts and the underlying documents. A particular focus during the year was the review of the outlook statements and their revisions during 2017, which the committee together with management dedicated a substantial amount of time to. The committee requested the internal audit team, with the assistance of external consultants to review the internal forecasting processes, the conclusions and recommendations which were shared with the committee. Management's planned actions were well recognized, with continuous oversight of the implementation of the recommendations by the committee.

Board committee reports continued

- The Company's financial and risk management system and key internal financial control policies and procedures. These included a review of the cash management, the share buy-back program, counterparty risk and outstanding credit facilities, including the impact of foreign currency fluctuations, tax and treasury risks, as well as hedging. The committee further reviewed the Enterprise Risk Management program, focusing on export controls, on supplier risk management and on risks related to the banking and payment business unit. These steps are designed to help the Board review and assess the effectiveness of internal controls.
- Information and communication technology risks. The review of this area was based upon a presentation on the Company's Information Solutions and Services (ISS) plans and risks given annually to the committee by the CIO. The committee looked in particular at the Company's management and mitigation plans in relation to the 3M Identity Management Business integration and the global ERP program.
- Presentation on the development of the Company's Business Data centers and operations to support certain of our Platform & Services customer solutions.
- A global ERP implementation project aimed at standardizing key systems across the Company's businesses. Some areas where particular functions or activities are distinct will continue to operate different systems. This is a multi-year project, which started in 2016, and the committee continued to review the scope, governance, and risk management of the project, with a specific focus in 2017 on the roll out of the project in Canada and in the United States.
- Whistle-blowing. Most reports are related to relatively minor issues. They are dealt with in strict confidence by the Company's confidential advisor and where appropriate with the support of our Anti-Fraud Commission and Internal Audit. On the rare occasions where potentially serious issues are reported, in particular involving Senior Management, the issues are investigated, again in strict confidence, by the committee and the Chairman of the Board, assisted by an independent outside counsel.
- Significant claims and disputes – including those resulting in litigation.
- The internal audit charter, the internal audit plan for 2018–2020 and its coverage in relation to external audit.
- The effectiveness and independence of the internal audit process, considering internal audit findings and recommendations and management's follow-up actions.
- 2016 Dutch corporate governance code. Review of the impact of the 2016 Dutch corporate governance code on the committee's duties and responsibilities.

Report of the Compensation committee

Committee members on December 31, 2017
(all being independent)

Philippe Alfroid (Chairman)
Joop Drechsel
John Ormerod
Jill Smith

Number of committee meetings in 2017: 5

As in previous years, the Chairman of the committee met on a regular basis with the committee's own advisor (Mercer) to be updated on both market trends and industry best practice in terms of Compensation and Benefits for the CEO and the Senior Management team.

The committee reviewed the achievement of performance targets and objectives recommended by itself and set by the Board for 2016 and the resultant variable compensation payments for the CEO and Senior Management. The committee proposed to the Board the appropriate 2017 and the 2018 targets.

The committee prepared the 2017 Remuneration report as set out on pages 56-60.

Working with the advisor from Mercer, the committee designed the terms of the 2017 Long Term Incentive (LTI) grant. The committee recommended the Board to grant restricted share units to eligible employees in 2017. It defined the applicable grant characteristics, as well as the performance and service vesting conditions. The committee also began work on the elements of the LTI for 2018.

The committee recommended to the Board that eligible Gemalto employees have the opportunity to buy shares in the Company at 15% below the market price by participating in the Global Employee Share Purchase Plan (GESPP).

The committee reviewed the impact of the 2016 Dutch corporate governance code on the committee's duties and responsibilities.

Report of the Nomination and Governance committee

Committee members on December 31, 2017
(all being independent)

Alex Mandl (Chairman)
Buford Alexander
Johannes Fritz
Yen Yen Tan

Number of committee meetings in 2017: 4

During the year, the committee continued to focus on the future nature, shape and composition of the Board and committees, including chairmen in order to maintain the current high level of effectiveness. The committee made recommendations to the Board for Board (re) appointments and committee memberships, taking into account the profile of the non-executive Board members and the diversity goals set by the Board.

Based on the committee's advice, the Board recommended the reappointment of the Board members who stood for reappointment at the 2017 AGM, as the Board is pleased to be able to capitalize further on the knowledge and experiences of these Board members, which are of particular added value for Gemalto and its stakeholders.

After a thorough selection process supported by a leading executive search firm, the committee proposed to put forward Jill Smith as new independent, non-executive Board member. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and the CEO. Jill Smith was appointed at the 2017 AGM as non-executive Board member until 2021.

The committee advised the Board on the changes on the committee composition changes that occurred during the year.

The committee advised, through the Board, the CEO on the management organization structure, and the appointment of the new CFO.

The committee advised the Board on engaging the services of an external expert for the assessment of the Board and committees in 2017.

The committee reviewed in detail the 2016 Dutch corporate governance code and the impact of changes on the governance structure including on the duties and responsibilities of the Board and committees.

Other topics addressed during the year included the Sustainability Report, governance sections of the Annual Report and the agenda for the AGM. The committee received regular updates on developments in Dutch corporate law.

Report of the M&A committee

Committee members on December 31, 2017
(all being independent, except Olivier Piou)

Johannes Fritz (Chairman)
Homaira Akbari
Buford Alexander
Philippe Alfroid
Olivier Piou
Yen Yen Tan

Number of committee meetings in 2017: 2

The committee advised the Board in respect of the Company's merger, acquisition and divestiture activities. While the committee met twice, the committee facilitated several full Board discussions on strategy and M&A related topics. During 2017, the committee dedicated significant time to reviewing and advising the Board with respect to material acquisitions, including the acquisition of 3M Identity Management Business.

The committee regularly reviewed the post-acquisition performance of several previously acquired businesses.

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2017 and its compliance with the Dutch corporate governance code.

Corporate information and background

Gemalto N.V. (the 'Company') is a public limited liability company (Naamloze Vennootschap) under Dutch law. Gemalto is dual-listed on Euronext Amsterdam (since 2013) and Euronext Paris (since 2004). The market of reference is Euronext Amsterdam. Gemalto N.V. is the parent company of the Gemalto Group (the 'Group').

It was originally incorporated in the Netherlands as Axalto Holding N.V., a public company with limited liability, on December 10, 2002. The name change to Gemalto followed the combination with Gemplus International S.A. on June 2, 2006. The Company is headquartered in Amsterdam and its registered office address is Barbara Strozzilaan 382, 1083 HN, Amsterdam, the Netherlands. Its registration number on the Amsterdam trade register is 27.25.50.26.

Gemalto's corporate governance structure is based on the requirements of Dutch corporate law, the Dutch Financial Markets Supervision Act and Dutch corporate governance rules. The Dutch Autoriteit Financiële Markten (AFM: Netherlands Authority for Financial Markets) is the Company's supervising authority. It follows the French Autorité des Marchés Financiers (AMF: French Financial Markets Authority) regulations where applicable, and is complemented by several internal procedures.

Compliance with the Dutch corporate governance code

Gemalto is committed to high standards of corporate governance, as the Board considers that this contributes to the Company's long-term success and supports sound decision-making. The Board is accountable to the shareholders for Gemalto's corporate governance structure and for compliance with the Dutch corporate governance code (www.mccg.nl), which sets out principles and best practices for Dutch listed companies.

During 2017, the Company reviewed the new 2016 Dutch corporate governance code and analyzed the impact on its governance structure. As a consequence, relevant amendments to the Articles of Association were adopted at the 2017 AGM, relevant changes were made to the Board and committee charters, and appropriate disclosures are provided in the 2017 Annual Report.

The Board agrees with the code's general approach and the majority of its principles and best practice provisions. In accordance with the 2016 code's 'comply or explain' principle, we explain the departures from its provisions:

- **Provision 2.6.1:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities. Gemalto has established a complaints-related procedure relating only to the reporting of alleged financial irregularities. We depart from the code in exempting alleged irregularities of a general or operational nature from this procedure since as a global company we have been taking into account the laws of different countries, including France, where we are located. We are monitoring the evolution of such laws and, if and when feasible, we will reconsider the scope of the complaints-related procedure in 2018.
- **Provision 3.2.3:** this provision recommends that severance payment in the event of dismissal may not exceed one year's salary, being the fixed compensation component. We depart from the code. However, the shareholders have approved the following deviations for the CEO:
  a. Up to August 31, 2019: up to a max of 18 months of reference salary, fixed and variable compensation, to be decided by the Board;
  b. As from September 1, 2019: 12 months of reference salary; and
  c. In the exceptional case that the severance payment based on the CEO's French employment agreement, as required by French law, exceeds the severance payment as provided under a. and b., then the severance payment as required by French law prevails. In such a case no additional severance payment will be due for the part related to the CEO's Executive Board mandate.
- **Provision 5.1.3:** this provision recommends that the Chairman of the Board may not have been an executive Board member. Alex Mandl was executive Chairman of Gemalto from June 2006 to December 2007. Alex Mandl is Chairman of the Board as the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders. As long as Alex Mandl is Chairman of the Board we depart from the code.

Board of Directors

One-tier Board

Gemalto applies a governance structure consisting of a statutory one-tier Board comprising executive and non-executive Board members.

The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole.

This specifically includes:

- Achievement of the Company's objectives.
- Corporate strategy and the risks inherent in the business activities.
- Design and effectiveness of the internal risk management and control systems.
- Compliance with primary and secondary legislation.
- Company-shareholder relationships.
- Corporate social responsibility issues relevant to the enterprise.
- Financial reporting process.

The Board is accountable to the shareholders. In discharging its role, it is guided by the interests of the Company and its affiliated enterprises, taking into consideration the interests of the Company's stakeholders.

The CEO is responsible for day-to-day management and can take such decisions without the need for the Board's approval or consent. In addition, the Board may delegate to the CEO powers that fall outside day-to-day management, so that these do not require a resolution of the Board. In discharging his daily responsibilities, the CEO is assisted by 13 senior managers. Together, these senior managers constitute the Senior Management. The CFO is responsible for the definition and implementation of the financing strategy, the financial communication strategy, the processes of production and analysis of all financial information as well as internal audit, internal control and enterprise risk management strategy. The CFO also supports the CEO in business strategy definition and brings the strong support and insight of the finance function to the operations.

The CEO selects and appoints the Senior Management, with oversight by and advice from the Board. The CEO updates the Board on the performance of the Senior Management and discusses the remuneration of the Senior Management with the non-executive Board members, at least on an annual basis. The CEO acts as the main liaison between the non-executive members of the Board and the Senior Management. The Senior Management is not involved in the decision-making process of the Board, in the meaning of the explanatory notes to Best Practice Provision 2.1.3 of the Dutch Corporate Governance Code. The Board's tasks and functions, as described in the Articles of Association and Board charter, include the duties recommended in the Dutch corporate governance code. The Articles of Association and Board charter are published on our website.

Composition

Effective oversight by the Board depends on having a correspondingly experienced and knowledgeable Board. The composition of the Board aims to ensure that its members can act critically and independently of one another and any particular interests.

The profile setting out the desired expertise and background of the non-executive Board members was updated by the Board in May 2016 and is published on our website. In parallel to this profile, there is an overview of the skills and experiences of the Board members and the pursued goals in respect of the make-up of the Board. With respect to diversity among non-executive Board members, the objective pursued, is to have a variation of age, gender, expertise, social background and nationality. In as much as possible a balance shall be strived for to achieve the above mentioned variation.

The long-term Board composition evolution is discussed regularly at Board meetings. For Board (re)appointments, the Nomination and Governance committee advises the Board, taking into account the diversity policy, the profile of the non-executive Board members and the reappointment schedule of the Board. The Board checks on a regular basis the overall Board composition and defines, if relevant, the appropriate action to be taken.

Dutch law prescribes a 30% gender diversity in the Board. Following the appointment of Jill Smith at the 2017 AGM, there are currently three women out of ten Non-executive Board members. The 30% gender diversity is achieved for the Non-executive Board members, but not for the full Board. We consider that there is no substantive deviation from the Dutch law regarding gender diversity, as a consequence of which no specific action regarding this topic is scheduled.

At least one of the non-executive Board members can be regarded as a financial expert in accordance with the Audit committee charter. At the 2007 AGM, the maximum number of Board members was set at 11 to allow the Board to determine its optimal size from time to time. During 2017, the composition of the Board was as follows:

- Until May 17, 2017: one executive Board member (the CEO) and nine non-executive Board members.
- As from May 18, 2017: one executive Board member (the CEO) and ten non-executive Board members.

The Chairman – currently Alex Mandl – is appointed by the Board to ensure the proper functioning of the Board and its committees and act as the main contact for shareholders on the functioning of the Board. He presides over Board meetings and General Meetings and is responsible for the proper conduct of business at meetings. If the Chairman is absent or indisposed, the committee chairmen will choose a Vice-Chairman from among themselves to take the role temporarily.

The Board is assisted by the Company Secretary, Jean-Pierre Charlet, who was appointed to the role in July 2005. He is also the Group's EVP Legal.

Appointments

Board members are appointed by the shareholders at a General Meeting, under arrangements set out in the Articles of Association. The Board may propose candidates, and such proposals may be binding or not. To date, the Board has not used its option to make a binding nomination. This has allowed the shareholders to appoint nominated candidates by a majority of the votes cast, with no quorum required.

A term is a maximum of four years. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of a maximum of two years each.

There is no limit to the entire service of the executive Board member, except the age of 65 unless otherwise agreed with the Board. The executive Board member is appointed as the CEO by the non-executive Board members. They can revoke the appointment at any time – in which case they will appoint an acting CEO with the same powers and duties.

Board members can be suspended or dismissed by the shareholders. The executive Board member can also be suspended by the Board. Without a proposal from the Board, the shareholders can suspend or dismiss Board members only by a majority vote at a General Meeting where at least a quarter of the Company's issued share capital is represented. If this quorum is not met, a second meeting can be called at which no quorum is required. If the Board makes the proposal, no quorum is required.

Other Board appointments

Dutch law applies, meaning that upon (re)appointment, non-executive Board members may not hold more than five supervisory board memberships of large Dutch companies or foundations; in this context, a chairmanship of a supervisory board counts double. At Gemalto we have set a limit of five for the total number of (supervisory) boards worldwide. Any exception to this rule requires pre-approval of the Chairman of the Board.

Each non-executive Board member needs to receive prior approval from the Chairman of the Nomination and Governance committee before accepting any new corporate board mandate.

In addition to his present position as CEO of Gemalto, the CEO may not hold more than two board memberships at listed companies (worldwide) or large Dutch companies or foundations, and may not chair the board of any such company or foundation.

The acceptance by the CEO of a board membership of a listed company requires the approval of the Board. Other important positions held by the CEO shall be notified to the Board.

Our governance structure continued

Board members are required to inform the Chairman of the Nomination and Governance committee of any change in their existing status as director on any other board.

Conflicts of interest

The Board expects its members to act ethically at all times. Board members are bound by the Gemalto Code of Ethics.

Conflicts of interest, potential or actual, between the Company and members of the Board are governed by the Articles of Association and the Board charter. The Board must approve any decision to enter into a transaction where a Board member has conflicts of interest that are material to the Company or the individual Board member. Any such transaction will be declared in the Annual Report for the relevant year with a declaration that we have complied with best practice provisions 2.7.3 and 2.7.4 of the Dutch corporate governance code. Following the Gemalto Board charter, a Board member must step down temporarily or resign if a significant conflict exists and cannot be resolved. A Board member shall not take part in the assessment by the Board of a potential conflict of interest involving that Board member and shall furthermore not take part in any decision-making process (beraadslaging en besluitvorming) that involves a subject or a transaction in relation to which such Board member has a direct or indirect personal interest which conflicts with the interest of the Company. In 2017, no transactions were reported where a Board member had a conflict of interest that was material to the Company. For an overview of related party transactions, if any, please see note 31 of the consolidated financial statements.

Indemnification of Board members

To the extent permitted by Dutch law, the Company indemnifies Board members against expenses such as the reasonable costs of defending claims: article 19 of the Articles of Association gives the details. There is no entitlement to reimbursement under certain circumstances, for example, where a Board member has been held liable for gross negligence or willful misconduct. Gemalto carries liability insurance for Board members and corporate officers.

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2017

Name	Shares	American Depository Receipts of Shares	Maximum (unvested) Restricted Share Units	Employee options	Units in a Fonds Commun de Placement d'Entreprise
Alex Mandl	10,000[1]				
Philippe Vallée	144,700[2]		205,100[3]	8,600[3]	20,545.28[4]
Homaira Akbari		4,500[5]			
Olivier Piou	443,499[6]		96,250[7]		72,658.96[4]

[1] Purchased in 2014, through a company controlled by the Board member.
[2] Progressively acquired since 2009.
[3] Progressively granted since 2014 for the RSU and 2008 for the employee options.
[4] Progressively purchased through participating in Global Employee Share Purchase Plans.
[5] Progressively purchased since 2014, through a company controlled by the Board member.
[6] Progressively acquired since 2004.
[7] Progressively granted since 2014.

Board committees

The Board has four committees comprising non-executive Board members: Audit, Compensation, Nomination and Governance, and M&A. They do not have executive powers and are subject to the Board's overall responsibility.

Their main role is to provide focused analysis and insight in their respective areas, reporting on their deliberations and making recommendations to meetings of the full Board. The duties of each committee are described in their respective charters.

Audit committee

This committee helps the Board to oversee the quality and integrity of Gemalto's financial statements, risk management and internal control arrangements, compliance with legal and regulatory requirements, external audit arrangements and internal audit function. It meets with the external auditor as often as necessary, and at least once a year without the CEO and management being present. The Board believes that at least one committee member is a financial expert in accordance with the Audit committee charter.

Compensation committee

This committee proposes the remuneration policy, setting the parameters for the CEO's remuneration, for approval by the General Meeting. Within the limits of this policy, it proposes the remuneration for the CEO (reviewed annually). It also proposes the individual remuneration for the non-executive Board members (reviewed from time to time) for approval by the General Meeting.

More broadly, the committee oversees Gemalto's general remuneration policy and long-term awards such as options to acquire shares, restricted share units and/or share appreciation rights, and opportunities for employees to buy Company shares at a discount to the market price.

Nomination and Governance committee

This committee advises on identifying and nominating candidate Board members that meet the Board's criteria; preparing the selection criteria and procedures for Board appointments; and advising on the appointment and resignation of managers reporting directly to the CEO. It also guides the Board through the annual evaluation process, reviews the corporate governance principles affecting Gemalto and advises the Board on any relevant changes to these principles.

M&A committee

This committee advises the Board on Gemalto's M&A policy and on the major features of its merger, acquisition and divestment activities.

Risk management and internal control systems

Gemalto maintains operational and financial risk management systems backed by systems and procedures for monitoring and reporting. A separate internal control function ensures compliance with our internal control requirements. Our risk management and internal control systems are explained in detail on pages 30-38, and the Board's statement on internal risk management and control systems is shown on page 61.

Gemalto's tax policy mainly focuses on ensuring that Gemalto N.V. and each of its controlled entities comply with local regulations, including local obligations with regard to transfer pricing. We are committed to individual and corporate integrity. Our internal procedures include a Code of Ethics describing the appropriate conduct for officers and employees, covering internal controls, financial disclosures, accountability, business practices and legal principles. We have distributed it across the Company and support it with regular training.

Our complaints procedure enables employees to report alleged financial irregularities within the Company to a confidential advisor – Gemalto's General Counsel. The Gemalto Speak Up line ensures that they can report alleged financial irregularities without jeopardizing their legal position. Alleged irregularities of a general or operational nature should be reported internally to the relevant manager.

Board members and employees must comply with the rules of the Gemalto insider trading policy. This prohibits them from trading in Gemalto securities, or other securities, on which they have inside information. In addition, Board members and other designated employees are prohibited from trading in Gemalto securities during closed periods. The Central Officer may also rule that they may not trade in Gemalto or other securities outside closed periods. Transactions in Gemalto securities by Board members and certain members of the Senior Management are notified to the Autoriteit Financiële Markten (Netherlands Authority for Financial Markets) in accordance with Dutch law.

Shares owned and rights to acquire shares

Board members who hold Gemalto shares, hold them for long-term investment. They must comply with the rules on owning and trading in Gemalto securities included in the insider trading policy.

All Board members who hold shares for their own account have committed to tender all those shares into the public offer by Thales.

Shares or other financial instruments in listed companies other than Gemalto N.V.

Board members must comply with regulations on owning and trading in securities of listed companies other than Gemalto N.V. as included in the insider trading policy.

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital of €150,000,000 is divided into 150,000,000 ordinary shares with a nominal value of €1 each. On December 31, 2017, the Company's issued and paid-up share capital amounted to €90,423,814. This consisted of 90,423,814 ordinary shares, of which 339,043 were held in treasury and 90,084,771 were in circulation.

Shareholders have the power to issue shares and may authorize the Board, for a period of up to five years, to issue shares and to determine the terms and conditions of share issuances.

Shareholders have a pre-emption right to subscribe for any newly issued shares in proportion to the nominal value of the shares they hold, unless this right is modified by a shareholder vote as described below. This does not apply to shares issued for considerations other than cash or to shares issued to Company or Group companies' employees.

Shareholders have the power to limit or exclude pre-emption rights in connection with new issues of shares. They can also authorize the Board, for a period of up to five years, to limit or exclude pre-emption rights.

The 2016 AGM gave the Board authorization, renewed by the 2017 AGM, to repurchase Company shares. This allowed us to buy shares in 2017 to provide liquidity. On December 31, 2017, 339,043 shares with a market value of €16,782,629, were held in treasury, acquired at an average price of €31.62 per share. Shares held in treasury carry no voting rights.

The Company has only issued ordinary shares, all of the same category and all in registered form. No certificates representing shares have been issued. Shares are dual-listed on Euronext Amsterdam and on Euronext Paris. The market of reference is Euronext Amsterdam. Company shares can be held in two ways:

- Listed in the shareholder's own name in the shareholders' register.
- Held in an account in a bank, a financial institution, an account holder or an intermediary. These shares are included in the shareholder register in the name of Euroclear France S.A.

2017 AGM

The AGM was held on May 18, 2017. No shareholders exercised their right to add items to the AGM agenda.

At the meeting, the following items were dealt with as individual agenda items:

- 2016 Annual Report (discussion item).
- Application of the remuneration policy in 2016 (discussion item).
- Adoption of the 2016 financial statements (voting item).
- Dividend policy and proposed cash dividend of €0.50 per share for 2016 (voting item).
- Discharge of the CEO's and non-executive Board members for the fulfillment of their respective duties during 2016 (voting items).
- Reappointment of four non-executive Board members (voting items).
- Appointment of a new non-executive Board member (voting item).
- Amendment of the Articles of Association of the Company (voting item).
- Renewal of the Board's authorization to repurchase Company shares (voting item).
- Authorization of the Board to issue shares and to grant rights to acquire shares in the share capital of the Company with or without pre-emptive rights accruing to shareholders (voting items).
- Reappointment of the external auditor for 2018 (voting item).

All resolutions were adopted. The minutes of the meeting are available on our website.

The Annual Report, the financial statements and other regulated information such as defined in the Dutch Financial Markets Supervision Act were published in English.

Our governance structure continued

Voting rights

Shareholders holding Company shares on the record date, which under Dutch law is the 28th day before the General Meeting, are entitled to attend and vote at that General Meeting. Shares are not blocked between the record date and the date of the meeting. All shares carry equal voting rights at the meeting. Votes may be cast directly; alternatively, proxies or voting instructions may be issued to an independent third party before the meeting.

Shareholders' disclosures published on the AFM website on December 31, 2017

December 19, 2017	DNCA Finance	3.40% capital interest and voting rights
June 16, 2016:	S.N. Quandt	5.67% capital interest and voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2017 due to the following:

- Once a shareholder has disclosed a substantial shareholding to the AFM, additional disclosures are only required in case of exceeding or falling below a threshold.
- Shareholders who disclosed a substantial shareholding to the AFM above 3% and below 5% prior to July 1, 2013 and (i) held less than 3% on July 1, 2013, or (ii) held between 3% and 5% after July 1, 2013, were not required to make an additional disclosure to the AFM.

Capital interests and/or voting rights may require several disclosures by companies belonging to the same group.

Authorizations granted to the Board

The Board has the following authorizations, granted by the General Meeting:

a. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, with a maximum of 1.5% of the issued share capital per calendar year, up to a total of 5% of the issued share capital at the date of the 2014 AGM, for a period of five years, starting on May 21, 2014, without preemptive rights accruing to shareholders with respect to such share issues for the purpose of the Gemalto N.V. Global Employee Share Purchase Plan (GESPP) and/or the Gemalto N.V. Global Equity Incentive Plan (GEIP).

b. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 5% of the issued share capital at May 18, 2017, for a period of 18 months, starting on May 18, 2017, with the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.

c. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 25% of the issued share capital at May 18, 2017, for a period of 18 months, starting on May 18, 2017, without the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.

d. To limit or exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 5% of the issued share capital at May 18, 2017 for the purpose of M&A and/or (strategic) alliances for a period of 18 months, starting on May 18, 2017.

e. To limit and exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 10% of the issued share capital at May 18, 2017, for the purpose of a non-dilutive tradable rights offering for a period of 18 months, starting on May 18, 2017.

f. To acquire, at any time, up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including November 17, 2018. On December 31, 2017, the Company's issued share capital consisted of 90,423,814 shares, of which 339,043 were held in treasury: on that basis the remaining authorization covered up to 8,703,338 shares.

Distribution of profits

Our dividend policy is addressed as a separate agenda item at the AGM. It states that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2017, we paid a cash dividend of €0.50 per share for 2016.

The Board has authority to take all or part of each year's profits into the Company's reserves. The General Meeting has authority to vote on how the remaining profit should be allocated. The Articles of Association provide detailed information on the distribution of profits or reserves.

Shareholders' disclosures

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in Gemalto's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% (whether because of an acquisition or disposal of shares or other instruments, or because of a change in the total voting rights or capital issued). Disclosures must be made to the AFM immediately. The table above lists the substantial shareholdings in Gemalto N.V. on record in the AFM register on December 31, 2017, published on the AFM website at www.afm.nl.

Specific provisions of the Articles of Association

Required majorities and quora

Unless otherwise required by Dutch law or the Articles of Association, resolutions can be adopted by a majority of votes cast at a General Meeting where at least one-tenth of the issued share capital is represented. In the absence of this quorum a second meeting can be held, where no quorum is required. General Meetings must be held in Amsterdam, The Hague, Haarlemmermeer (Schiphol Airport), Utrecht or Rotterdam.

Amendment of the Articles of Association, liquidation or (de)merger

The General Meeting has the authority to approve Board proposals to amend the Articles of Association, to wind up the Company, merge or demerge it. Such proposals must be adopted with at least two-thirds of the votes cast at a General Meeting where at least a third of the issued share capital is represented. In the absence of this quorum, a second meeting can be held at which no quorum is required.

(Re)appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2017 AGM approved the reappointment of KPMG Accountants N.V. as the external auditor for 2018.

Specific information in relation to the Dutch Decree on Article 10 of the EU Takeover Directive

Two sections of this Annual Report – 'Board of Directors' on pages 50-53 and 'Shareholders and General Meetings' on pages 53-55 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Global Equity Incentive Plan – awards granted to employees

Awards granted to Gemalto Group employees vest automatically if the Company and/or its affiliates undergoes a change of control or is absorbed by merger and liquidated, provided that the Board adopts no resolutions to the contrary. However, they will not vest automatically if they are maintained in effect by the Company or a successor corporation, or replaced by a plan giving the employee substantially equivalent rights.

The public offer by Thales, if successfully completed, will result in a change of control in respect of Gemalto. This may impact the future strategy of the Gemalto Group and its performance with regards to the performance criteria set in relation to certain awards, and will not easily permit the replacement of existing awards for equivalent instruments. Therefore, the Board has resolved that for each award that would normally vest after the settlement of the public offer, the vesting will be accelerated such that the shares underlying these awards can be sold and/or tendered in the Thales offer.

This accelerated vesting mechanism will apply in case of successful completion of the bid by Thales, as well as in case of successful completion of any competing tender offer. Relevant holders of awards governed by the various plans will be informed in due course on the details of this accelerated vesting mechanism and on how they can subsequently sell and/or tender their shares if they wish to do so.

Global Employee Share Purchase Plan – FCPE: system of control

In 2017, as in previous years, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries can participate in this plan through a Fonds Commun de Placement d'Entreprise (FCPE) which offers tax benefits against long-term holding. The FCPE buys the Gemalto shares and in exchange employees receive units of the FCPE. Participation in the FCPE does not give rise to direct ownership of Gemalto shares or the right to acquire them. The FCPE has an independent Board of Directors and owned 479,14 shares of Gemalto on December 31, 2017. It exercises its voting rights on these shares independently, without instructions from participating employees.

Merger agreement with Thales

Thales and Gemalto have entered into a merger agreement in connection with the recommended offer by Thales for Gemalto. Thales and Gemalto may terminate the merger agreement if a third-party offeror makes an offer which, in the opinion of the Board, taking into account certainty, timing, financing, strategic fit, consequences for employees and other non-financial aspects of Thales's offer, is substantially more beneficial than Thales's offer and exceeds the offer price by 9% at least (a 'Superior Offer'). In the event of a Superior Offer, Gemalto shall give Thales the opportunity to match such offer, in which case the merger agreement may not be terminated by Gemalto. Gemalto has agreed in the merger agreement to customary non-solicitation undertakings. On termination of the merger agreement by Thales on account of a material breach by Gemalto or in the event of a third-party offer at a higher price, Gemalto will be obligated to pay a termination fee of €60 million to Thales.

Taking into account the interests of Gemalto, the sustainable success of its business and clients, employees, shareholders and other stakeholders, in order to secure the benefits of the bid of Thales, Gemalto has agreed to issue contingent rights in the event that a competing offer is declared unconditional at a price that is higher than 100% but less than 109% of the price offered by Thales. These contingent rights will be issued for no consideration to all Gemalto shareholders and will entitle them to receive additional Gemalto shares. On the date such a competing offer is declared unconditional all Gemalto shareholders will acquire contingent rights which will entitle them to receive additional shares of Gemalto within three months after that date. The value of all the shares issued pursuant to the contingent rights will be equal to the difference between (i) the value of an offer made at a price of 109% of the offer price and (ii) the consideration offered in the competing offer. In the event that a competing offer exceeds 109% of the offer price, the contingent rights will be automatically canceled.

Corporate governance statement

The Governance chapter, including the parts of the Annual Report incorporated by reference, together comprise the 'corporate governance statement' as required by Dutch Law.

Non-financial information statement

The chapters Business overview, Sustainability and Risk management, including the parts of the Annual Report incorporated by reference, together comprise the consolidated 'non-financial information statement' as required by Dutch Law.

Remuneration report

This report describes:

- Gemalto's remuneration policy for the CEO.
- Compensation paid to Philippe Vallée as CEO in 2017.
- Compensation paid to non-executive Board members in 2017.

Introduction

The Board determines the CEO's compensation in accordance with the remuneration policy approved by shareholders in 2008. This policy also provides guidance on Senior Management compensation (though the latter is not addressed in this report). The policy is published in full on our website. The CEO's compensation package complies with the Dutch corporate governance code, with the exception of best practice provision 3.2.3, which is explained on page 50.

In considering the remuneration and incentive plans, the Compensation committee is advised by Mercer, an independent consulting firm.

CEO remuneration policy

Our remuneration policy aims to attract, retain and reward talented staff and management by offering compensation that is competitive in Gemalto's industry, motivates management to meet or surpass the Company's business objectives, and aligns managers' interests with those of shareholders.

The policy, and the checks and balances applied in its execution, are designed to align the executive team's interests with the Company's adopted strategy and risk appetite, taking into account the long-term value creation of the Company.

To link reward to performance, a significant proportion of the CEO's compensation package is variable, dependent on the performance of the Company and on the CEO's personal performance over the short and long term. The Board ensures that performance targets are challenging but realistic.

In accordance with best practice provision 3.1.2, before deciding the remuneration of the CEO in line with the remuneration policy, the Board drew up scenario analyses of the possible outcomes for variable remuneration and how these might affect the CEO's total remuneration. The relationships between the chosen strategic objectives and the performance criteria applied, and between performance and compensation, are regularly reviewed.

Comparison with peer companies

We benchmark the Company's performance and remuneration levels against a comparison group of peer companies. Our policy is to maintain overall compensation levels at the 60th percentile of our peers for on-target performance – and in cases of exceptional performance within the upper quartile.

In 2015, the Board decided to review and adapt the composition of the comparison group to improve its representativeness in terms of size, industry and geography. In this context, the Compensation committee analyzed the CEO's remuneration against two panels. One comprises French companies, the other comprises international high-tech companies, and some companies are common to both:

International high-tech peer companies

Atos	Dassault Systèmes	Ingenico
Capgemini	Essilor	Logitech
Capita Group	Idemia	NXP
Computacenter	Infineon Technologies	VMware
Criteo		

French peer companies

Altran Technologies	Idemia	Nexans
Atos	Iliad	STMicroelectronics
Bic	Imerys	Technicolor
Capgemini	Ingenico	Thalès
Dassault Systèmes	Legrand	Vallourec
Essilor		

To ensure appropriate comparisons, the Compensation committee consults with its own advisor, Mercer, and regularly reviews other reports from independent, internationally recognized compensation specialists, drawing on survey data on remuneration policies and actual data on compensation in the comparison group companies.

Compensation elements

The CEO's compensation package consists of:

- Base salary (fixed part of the annual cash compensation).
- Performance-related short-term variable incentive (variable part of the annual cash compensation).
- Performance-related long-term variable incentive (conditional multi-year share-based plan).
- Benefits and mandatory pension contributions (no supplemental pension plan).

Details of the CEO's compensation are shown in the table on page 58 and in note 14 to the statutory financial statements of the Holding Company.

Base salary (fixed part of the annual cash compensation)

We set base salaries to attract and retain Senior Management, including the CEO, targeting the median level in our comparison group.

It is reviewed annually by the Compensation committee. It is currently expected that the base salary will not be changed in 2018.

Performance-related short-term variable incentive (variable part of the annual cash compensation)

The short-term variable incentive aims to focus management on the business priorities for the financial year ahead and to align reward with future shareholder value creation. For meeting 100% of the objectives, this incentive is intended to be clearly above the median level in the comparison group, averaging over the years about the 60th percentile.

The CEO's short-term variable incentive is based on achieving annual financial and personal targets proposed by the Compensation committee and approved by the Board each year. The incentive payment ranges from zero to 180% of base salary. Meeting 100% of the objectives results in an incentive of 120% of base salary. Outperformance can take the incentive to a stretch level of up to 180% of base salary. Below a minimum performance threshold, the incentive for financial performance is zero. The variable incentive is calculated using linear interpolation between two points. In exceptional cases, the Board may use its discretionary power to increase or reduce an amount, but this bonus may never exceed 180% of base salary. The Board never used its discretionary power so far.

Performance-related long-term variable incentive (conditional multi-year share-based plan)

The long-term variable incentive plan aims to reward and retain Senior Management, including the CEO, over the longer term while aligning their interests with the Company's adopted strategy and risk appetite, taking into account the long-term value creation of the Company. The incentive payment is intended to be clearly above the median level in the comparison group for on-target performance and within the upper quartile for exceptional performance.

The plan allows for the award of share options and performance-related shares. The Board may make annual awards to the CEO in different types of instruments similar in substance or nature with a maximum value equivalent to 250,000 market value share options, valued using any generally recognized valuation method. Since 2009 the Board has granted restricted share units rather than share options, as it considers that these provide stronger alignment with shareholders' interests.

Special conditions apply if the Company and/or its affiliates are absorbed by merger and liquidated, or undergo a change of control: unless the Board resolves otherwise, awards that have not yet fully vested will vest automatically. This automatic vesting will not arise if the awards are maintained in effect by the Company or a successor corporation, or replaced by a plan giving the employee substantially equivalent rights.

Restricted share units (RSUs)

RSUs are shares awarded conditionally to the CEO, Senior Management and eligible employees. There is no purchase price to be paid, but vesting is conditional on specific Board-approved performance targets and/or specific service criteria being met.

Share options

Share options were granted to the CEO for the last time in 2008, based on the previous year's performance. These options granted in 2008, vested in 2012 and can be exercised until 2018. The exercise price is equal to the average Gemalto share closing price on the Euronext Amsterdam stock exchange over the five trading days preceding the grant date with no discount.

Employment contract

Philippe Vallée has an employment contract with Gemalto International SAS, a Gemalto subsidiary:

- Originally dated 1992; not limited in time; governed by French law.
- Notice period for Gemalto and for Philippe Vallée: six months under French employment contract.

Philippe Vallée has entered into an agreement with Gemalto N.V. for his executive Board mandate.

Severance payment (as set within the limits of the Company's remuneration policy for the CEO):

a. As from September 1, 2016 up to August 31, 2019: up to a maximum of 18 months of reference salary (base salary + Board fees + bonuses), to be decided by the Board.

b. As from September 1, 2019: 12 months of reference salary.

c. In the exceptional case that the severance payment based on Philippe Vallée's French employment agreement, as required by French law, exceeds the severance payment as provided under a. and b., then the severance payment as required by French law prevails. In such a case no additional severance payment will be due for the part related to Philippe Vallée's executive Board mandate.

Benefits and pension contributions

The CEO enjoys the benefits appropriate to his position that apply to French employees. These include the ability to participate in the Gemalto Employee Share Purchase Plan (GESPP). French employees participate in this plan through a Fonds Commun de Placement d'Entreprise (FCPE), a fund which subscribes to Gemalto shares and gives the employee units of the FCPE in exchange. The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided.

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2017, and none were outstanding on December 31, 2017.

Remuneration report continued

Compensation for Philippe Vallée as CEO in 2017

Base salary	€750,000	The CEO's annual salary is €750,000, including a fixed fee for his position as executive Board member of Gemalto N.V.
Variable incentive	€406,800	For 2017, as in previous years, the targets were: Financial targets, accounting for two-thirds of the variable incentive: • Revenue: 4/15 of the variable incentive. Achievement 0% of objective target. • Profit from operations: 4/15 of the variable incentive. Achievement 0% of objective target. • Free cash flow: 2/15 of the variable incentive. Achievement 89% of objective target. Personal targets, accounting for one-third of the variable incentive: these relate to the CEO's specific responsibilities and are defined as measurable actions linked to Gemalto's success and development. Personal targets include customer satisfaction and employee engagement. Achievement 100% of objective target. For meeting 100% of these objectives, the performance-based annual variable compensation is 120% of base salary. Exceptional performance exceeding 100% achievement of objectives can increase the variable compensation to 180% of base salary. The performance of the CEO and of the Company in 2017 led to a score of 45.2% against the CEO's variable incentive targets. The variable incentive payment to Philippe Vallée was €406,800, representing 54.2% of his base salary. The Board did not use its discretionary power to modify the variable incentive.
Conditional multi-year share-based plan	Max 65,000 RSUs	Depending on performance, the number of RSUs granted may vary on a sliding scale from 0 to 65,000. The RSUs will only vest if the following conditions are met: **Performance vesting conditions:** • Reaching a certain relative performance of Gemalto Total Shareholder's return versus the index STOXX Europe 600 Technology Total Shareholder's Return. Service vesting condition: being an employee of Gemalto on September 30, 2020. The grant is accounted for as equity-based compensation at a charge that may vary from €0 to €1,252,550, which will be expensed over 37 months. Associated with this grant, some social levies, accounted for as an equity-based expense at a charge that may vary depending on both the above-mentioned performance and the share price on delivery, will be expensed over 37 months.
Benefits and pension contributions	€60,251	The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided. In 2017, employees were offered the opportunity to buy shares in Gemalto N.V. at a 15% discount to the market price, based on the lesser of the share values on the first and last day of the offering period. The CEO did not participate in the GESPP in 2017.

More information on the CEO's compensation is shown in note 14 to the statutory financial statements of the Holding Company.

Annual total compensation ratio

We monitor the ratio in annual compensation for our employees. In 2017, the annual compensation ratio of the CEO compensation (€1,230,480) and the median annual compensation of our employees (€38,495) is 32.0.

The basis for determining the ratio is the base salary + the variable incentive of all permanent (full time and part time) employees working for Gemalto worldwide compared to the Group's highest paid individual, i.e. the CEO.

- The CEO's annual compensation is calculated from the annual base salary for 2017 + the variable incentive as CEO (normalized to the full year) paid out in 2017.
- The median annual compensation is calculated from the annual base salary for 2017 + the estimated bonus paid out in 2017 (with December 2017 exchange rates).

Long-term incentive plan awards granted to Philippe Vallée, CEO

Overview of awards over which he did not have unrestricted control at the start of 2017.

Date of grant	Number	Value at grant date	Vesting conditions	Date of vesting	Achievement (Performance vesting conditions)	Value at vesting date[1]	End of lock-up	Value at end of lock-up
March 2012	12,000	€457,920[2]	**Performance vesting condition:** • Reaching a certain profit from operations for 2013. **Service vesting condition:** • Being an employee of Gemalto on December 31, 2014.	December 2014	Achievement 100% of target (Number of RSUs: 12,000)	€814,800	January 2017	€664,560
April 2014	May vary from 0 to 50,000	€3,800,500[3]	**Performance vesting conditions:** • Reaching the 2017 PFO target. • Reaching a certain cumulative PFO over the period 2014-2017. • Reaching a certain cumulative EPS over the period 2014-2017. • Reaching the 2017 Platforms & Services Revenue target. Full vesting by meeting 100% of the above conditions; partial vesting by meeting one or more of the above objectives. **Service vesting condition:** • Being an employee of Gemalto on December 31, 2017.	AGM 2018	N/A	N/A	N/A	N/A
August 2015	May vary from 0 to 40,000	€2,329,200[2]	**Performance vesting conditions:** • Reaching a certain cumulative PFO over the period 2015-2017. • Reaching a certain Platforms & Services revenue target over the period 2015-2017. Full vesting by meeting 100% of the above conditions; partial vesting by meeting at least one of the above objectives. **Service vesting condition:** • Being an employee of Gemalto on August 31, 2018.	August 31, 2018	N/A	N/A	N/A	N/A
June 2016	100	€5,353[3]	**Service vesting condition:** • Being an employee of Gemalto on June 2, 2019.	June 2, 2019	N/A	N/A	N/A	N/A
October 2016	May vary from 0 to 50,000	€2,731,000[3]	**Performance vesting conditions:** • Reaching a certain Platforms & Services revenue target in 2017. • Reaching a certain cumulative revenue target of Government Programs, IDSS and M2M in 2017 • Reaching a certain Profit from Operations in 2017. **Service vesting condition:** • Being an employee of Gemalto on October 3, 2019.	October 3, 2019	N/A	N/A	N/A	N/A
September 2017	May vary from 0 to 65,000	€1,252,550[3]	**Performance vesting condition:** • Reaching a certain Gemalto Total Shareholder's Return ('TSR') versus the index STOXX Europe 600 Technology TSR over the period September 2017 – September 2020. **Service vesting condition:** • Being an employee of Gemalto on September 30, 2020.	September 30, 2020	N/A	N/A	N/A	N/A

[1] For the valuation, the Gemalto share price at the opening of the stock exchange is used.

[2] Method used for valuation: arbitrage portfolio/asset replication.

[3] Method used for valuation: stochastic model.

Remuneration report continued

Remuneration of non-executive Board members

Remuneration of non-executive Board members is approved by the shareholders and is reviewed periodically by the Compensation committee.

The annual remuneration for non-executive Board members, as amended by the 2013 AGM, is:

- €250,000 for the non-executive Chairman of the Board.
- €70,000 for each other non-executive Board member.
- An additional €30,000 for the Chairman of the Audit committee and an additional €16,000 for each member of the Audit committee.
- An additional €15,000 for the Chairman of each other Board committee, and an additional €8,000 for the other members of those Board committees.

Remuneration of non-executive Board members is fixed and not dependent on Gemalto's financial results. Non-executive Board members are not eligible for variable remuneration and do not participate in any incentive plans.

Gemalto does not offer non-executive Board members personal loans, guarantees or similar benefits. None were granted in 2017, and none were outstanding on December 31, 2017.

None of the non-executive Board members has entered into a management services agreement or similar agreement with Gemalto or any of its subsidiaries which provides for benefits upon termination or resignation of their position as non-executive Board member.

The remuneration of each non-executive Board member in office on December 31, 2017, for the year 2017 is detailed in the table below and also disclosed in note 14 to the statutory financial statements of the Holding Company.

Remuneration of Board members in office on December 31, 2017

	2017 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	M&A committee (€)
Alex Mandl	265,000	250,000	–	15,000	–	–
Philippe Vallée**	300,000	300,000	–	–	–	–
Homaira Akbari	94,000	70,000	16,000	–	–	8,000
Buford Alexander	86,000	70,000	–	8,000	–	8,000
Philippe Alfroid	93,000	70,000	–	–	15,000	8,000
Joop Drechsel	97,567	70,000	19,567*	–	8,000	–
Johannes Fritz	93,000	70,000	–	8,000	–	15,000
John Ormerod	104,433	70,000	26,433*	–	8,000	–
Olivier Piou	90,055	70,000	13,370*	–	–	6,685*
Jill Smith***	58,718	43,726	9,995	–	4,997	–
Yen Yen Tan	86,000	70,000	–	8,000	–	8,000
Total	**1,367,773**	**1,153,726**	**85,365**	**39,000**	**35,997**	**53,685**

* Changes in committee composition during the year: amount paid pro rata.

** Fixed fee for his position as non-executive Board member. For an overview of his compensation, please refer to page 58.

*** Joined as Board member during the year: amount paid pro rata.

Board statements

The objectives of our internal risk management process are to identify the significant strategic, legal, regulatory, operational, financial and environmental risks that the Company may face; to map these risks; and to initiate actions that mitigate and reduce these risks to levels consistent with our risk appetite. The risk management techniques applied include operational and financial controls; financial hedging; risk transfer through our contractual arrangements; and insurance. The Company's risk profile is reported in 'Principal risks' on pages 36-38 with a description of principal risks, their most significant impact and the main mitigation actions. Our internal risk management and control systems are described on pages 30-35.

We operate in a dynamic environment and there may be circumstances in which previously unidentified risks arise or the impact of identified risks is greater than expected. While our internal controls are designed to manage these risks within acceptable limits, they may not always prevent or detect all misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations. Nor can they provide certainty that we will achieve our objectives.

The Board is responsible for designing and reviewing our internal risk management and control systems and assessing their effectiveness. The Board is a one tier board as set out in more detail in our Governance Chapter, comprising our CEO and ten non-executive Board members. The Board's Audit committee has worked with management and Internal Audit to review the relevant systems and processes, focusing on matters relating to financial reporting as well as the main strategic, legal, regulatory, operational and environmental risks that have been identified. It has also reviewed the results of management actions aimed at improving the way we organize our internal risk management and control processes. The Board has discussed the Audit committee's findings.

It should be noted that the statements below do not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations. Nor can they provide certainty that we will achieve our objectives.

Responsibility statement (EU Transparency Directive, Dutch Financial Markets Supervision Act)

In conjunction with the EU Transparency Directive, as incorporated in chapter 5.1A of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), the Board declares that, to the best of its knowledge:

- The annual financial statements for the year ended December 31, 2017, give a true and fair view of the assets, liabilities, financial position and profit or loss of Gemalto and its consolidated companies.
- The annual management report gives a true and fair view of the position as of the balance sheet date and the state of affairs during the 2017 financial year of Gemalto and its affiliated companies of which the data have been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch corporate governance code)

For the purpose of complying with provision 1.4.3 of the Dutch corporate governance code related to internal risk management and control systems, the Board states that, to the best of its knowledge:

- There have been no material failings in the effectiveness of Gemalto's internal risk management and control systems.
- Gemalto's internal risk management and control systems provide reasonable assurance that the financial reporting does not contain any errors of material importance.
- There is a reasonable expectation that Gemalto will be able to continue in operation and meet its liabilities for at least 12 months, therefore, it is appropriate to adopt the going concern basis in preparing the financial reporting.
- The Board report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of 12 months after the preparation of this report.

Alex Mandl
Non-executive Chairman of the Board

Philippe Vallée
Executive Board member and Chief Executive Officer

Homaira Akbari
Non-executive Board member

Buford Alexander
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Joop Drechsel
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Olivier Piou
Non-executive Board member

Jill Smith
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Consolidated financial statements and notes

Consolidated financial statements

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Other information

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2017	2016
Assets			
Non-current assets			
Property, plant and equipment	8	316,426	329,448
Goodwill	9	1,468,214	1,561,666
Intangible assets	9	757,814	564,588
Investments in associates	10	8,542	48,011
Deferred tax assets	29	37,818	111,467
Other investment	11	39,183	–
Other non-current assets	12	79,584	64,554
Derivative financial instruments	7	–	–
Total non-current assets		**2,707,581**	**2,679,734**
Current assets			
Inventories	13	226,339	244,962
Trade and other receivables	14	998,500	1,027,215
Derivative financial instruments	7	55,633	11,404
Cash and cash equivalents	15	320,675	663,517
Total current assets		**1,601,147**	**1,947,098**
Total assets		**4,308,728**	**4,626,832**
Equity			
Share capital		90,424	89,929
Share premium		1,303,799	1,291,795
Treasury shares		(10,721)	(29,042)
Fair value and other reserves		32,574	(59,872)
Cumulative translation adjustments		(74,485)	74,265
Retained earnings		834,368	1,303,176
Capital and reserves attributable to the owners of the Company		**2,175,959**	**2,670,251**
Non-controlling interests		**3,375**	**5,196**
Total equity		**2,179,334**	**2,675,447**
Liabilities			
Non-current liabilities			
Borrowings	16	717,986	557,518
Deferred tax liabilities	29	102,081	120,109
Employee benefit obligations	17	126,716	133,136
Provisions and other liabilities	18	129,972	121,480
Derivative financial instruments	7	–	12,604
Total non-current liabilities		**1,076,755**	**944,847**
Current liabilities			
Borrowings	16	286,788	173,088
Trade and other payables	19	682,248	715,767
Current income tax liabilities		27,930	31,383
Provisions and other liabilities	21	52,261	17,332
Derivative financial instruments	7	3,412	68,968
Total current liabilities		**1,052,639**	**1,006,538**
Total liabilities		**2,129,394**	**1,951,385**
Total equity and liabilities		**4,308,728**	**4,626,832**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	2017	2016
		Year ended December 31,	
Revenue	22	**2,971,717**	**3,126,531**
Cost of sales		(2,013,127)	(1,939,966)
Gross profit		**958,590**	**1,186,565**
Operating expenses			
Research and engineering		(197,982)	(188,551)
Sales and marketing		(511,554)	(481,140)
General and administrative		(197,870)	(165,086)
Other income*	26	10,385	3,192
Other expenses*	26	(426,493)	(8,034)
Operating (loss) profit		**(364,924)**	**346,946**
Financial income (expense), net	27	(32,806)	(34,268)
Share of profit of associates	10	(1,243)	2,059
Impairment of associates	10	10,105	(21,042)
Profit (loss) before income tax		**(388,868)**	**293,695**
Income tax (expense)	29	(35,688)	(107,497)
Profit (loss) for the period		**(424,556)**	**186,198**
Attributable to:			
Owners of the Company		(423,907)	185,726
Non-controlling interests		(649)	472
Earnings per share			
Basic earnings per share	30	(4.72)	2.09
Diluted earnings per share	30	(4.72)	2.07
Weighted average number of shares outstanding (in thousands)	30	89,883	88,703
Weighted average number of shares outstanding assuming dilution (in thousands)	30	89,883	89,649

* The "Other Income (expense), net" has been restated to present Other income and Other expenses separately.

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31, 2017	2016
Profit (loss) for the period		**(424,556)**	**186,198**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		(136,197)	36,731
Currency translation adjustments: transfer to financial income (expense), net		(13,601)	(2,690)
Effective portion of gains and losses on cash flow hedging (credited)/charged to gross profit		21,714	47,904
Effective portion of gains and losses on cash flow hedging		90,660	(18,535)
Deferred tax on cash flow hedging gains and losses		(16,182)	(24,617)
Equity securities – net change in fair value		(8,785)	–
Currency translation differences on other comprehensive income items		1,029	1,682
Other comprehensive income (loss) that will never be reclassified to income statement:			
Remeasurement of defined benefit obligation	17	(779)	(12,489)
Deferred tax on remeasurement of defined benefit obligation		(2,036)	(248)
Total other comprehensive income (loss) for the period, net of tax		**(64,177)**	**27,738**
Total comprehensive income (loss) for the period, net of tax		**(488,733)**	**213,936**
Attributable to:			
Owners of the Company		(487,031)	214,183
Non-controlling interests		(1,702)	(247)

Consolidated statement of changes in equity

	Number of shares[1]		Attributable to owners of the Company							
In thousands of Euro	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings	Non-controlling interests	Total equity
Balance as at January 1, 2017	**89,928,639**	**89,210,804**	**89,929**	**1,291,795**	**(29,042)**	**(59,872)**	**74,265**	**1,303,176**	**5,196**	**2,675,447**
Profit (loss) for the period								(423,907)	(649)	(424,556)
Other comprehensive income (loss)						85,626	(148,750)		(1,053)	(64,177)
Total comprehensive income						**85,626**	**(148,750)**	**(423,907)**	**(1,702)**	**(488,733)**
Issuance of ordinary shares used to fund equity-based compensation plans	495,175	495,175	495	18,024		(18,519)				–
Equity-based compensation charge, equity-settled						33,537				33,537
Other net assets change from associates								42		42
Employee share option plans		421,044			16,346	(5,630)				10,716
Purchase of Treasury shares, net		(42,252)			1,975	(2,547)				(572)
Dividend paid/payable to owners of the Company[2]								(44,964)		(44,964)
Non-controlling interests upon 3M's IMB acquisition									40	40
Contribution from NCI to the subsidiary incorporation									792	792
Acquisition of non-controlling interests				(6,020)					(951)	(6,971)
Reclassification of the actuarial gain/losses						(21)		21		–
Balance as at December 31, 2017	**90,423,814**	**90,084,771**	**90,424**	**1,303,799**	**(10,721)**	**32,574**	**(74,485)**	**834,368**	**3,375**	**2,179,334**
Balance as at January 1, 2016	**89,007,709**	**88,103,992**	**89,008**	**1,240,241**	**(36,329)**	**(8,135)**	**39,505**	**1,158,525**	**6,716**	**2,489,531**
Profit for the period								185,726	472	186,198
Other comprehensive income (loss)						(6,303)	34,760		(719)	27,738
Total comprehensive income						**(6,303)**	**34,760**	**185,726**	**(247)**	**213,936**
Issuance of ordinary shares used to fund equity-based compensation plans	920,930	920,930	921	51,554		(51,056)				1,419
Equity-based compensation charge, equity-settled						7,356				7,356
Other net assets change from associates								453		453
Employee share option plans		165,568			5,169	(873)				4,296
Purchase of Treasury shares, net		20,314			2,118	(861)				1,257
Dividend paid/payable to owners of the Company								(41,528)		(41,528)
Dividend paid to non-controlling interests									(1,273)	(1,273)
Balance as at December 31, 2016	**89,928,639**	**89,210,804**	**89,929**	**1,291,795**	**(29,042)**	**(59,872)**	**74,265**	**1,303,176**	**5,196**	**2,675,447**

1 The difference between the number of the shares issued and the number of shares outstanding corresponds to the shares held in treasury. As at December 31, 2017, the number of treasury shares was 339,043 (717,835 as at December 31, 2016).

2 See Note 33.

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2017	2016
Profit (loss) for the period including non-controlling interests		**(424,556)**	**186,198**
Adjustment for:			
Income Tax expenses	29	35,688	107,497
Research tax credit		(17,832)	(17,743)
Depreciation, amortization	8, 9	227,202	198,439
Equity-based compensation charge, equity-settled		33,537	7,356
Gains and losses on sale of fixed assets and write-offs		(649)	3,030
Gain on sales of non-core business		(3,178)	–
Impairment charge		433,633	–
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		(13,601)	(2,690)
Net movement in provisions and other liabilities		60,746	(12,914)
Employee benefit obligations		(4,464)	(276)
Interest income	27	(3,010)	(3,501)
Interest expense and other financial expense	27	13,615	19,138
Share of profit from associates	10	1,243	(2,059)
Impairment of associates, net	10	(10,105)	21,042
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		15,350	31,500
Trade and other receivables		(13,042)	(46,338)
Derivative financial instruments		52,708	63,966
Trade and other payables		(21,488)	(19,458)
Cash generated from operations		**361,797**	**533,187**
Income tax paid		(20,238)	(75,213)
Net cash provided by operating activities		**341,559**	**457,974**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, business, net of cash acquired		(756,062)	–
Purchase of property, plant and equipment		(66,796)	(63,281)
Proceeds from sale of property, plant and equipment		1,759	351
Acquisition and capitalization of intangible assets		(87,011)	(77,207)
Proceeds from, (increase in) other non-current assets		(284)	(1,272)
Loan to associates		(750)	–
Proceeds from sale of a subsidiary		1,772	
Purchase of, contribution to, investments in associates	10	(4,505)	(2,500)
Interest received		2,274	2,540
Dividends received from investments in associates	10	3,186	5,448
Net cash used in investing activities		**(906,417)**	**(135,921)**
Cash flows provided by (used in) financing activities			
Acquisition of non-controlling interests		(6,971)	–
Capital contribution from a non-controlling interest of a newly incorporated subsidiary		792	–
Issuance of ordinary shares to fund up employee share purchase plans		–	1,419
Proceeds from exercise of share options	25	10,716	4,296
Purchase of Treasury shares (net)		(572)	1,257
Proceed from issuance of private placements		92,605	–
Proceed from drawdown of commercial paper	16	660,000	521,000
Repayment of commercial paper	16	(569,000)	(538,500)
Proceed (repayments) of borrowings		2,726	(1,594)
Proceed from term loan	16	80,000	–
Payment of FV hedge Mark-to-Market		3,581	3,012
Interest paid		(14,248)	(15,309)
Dividends paid to owners of the Company	33	(44,964)	(41,528)
Dividends paid to non-controlling interests		–	(1,273)
Dividends received from Equity securities		671	–
Net cash provided by (used in) financing activities		**215,336**	**(67,220)**
Cash and bank overdrafts, beginning of period	15	**663,016**	**404,893**
Net increase (decrease) in cash and bank overdrafts		**(349,522)**	**254,833**
Currency translation effect on cash and bank overdrafts		(11,129)	3,290
Cash and bank overdrafts, end of period	15	**302,365**	**663,016**

Notes to the consolidated financial statements

All amounts are stated in thousands of Euro, except per share amounts which are stated in Euro and unless otherwise stated.

The notes below are an integral part of these consolidated financial statements.

Note 1. General information

Gemalto, a world leader in digital security, is at the heart of our evolving digital society. Billions of people worldwide increasingly want the freedom to communicate, travel, shop, bank, entertain and work – anytime, everywhere, in ways that are convenient, enjoyable and secure. Gemalto delivers on their growing demands for personal mobile services, identity protection, payment security, authenticated online services, cloud computing access, modern transportation, eHealthcare and eGovernment services. Gemalto does this by providing secure software, a wide range of secure personal devices, transaction platforms and services to telecom operators, banks, retailers, enterprises and government agencies.

Gemalto is, in particular, a world leader for electronic passports and identity cards, two-factor authentication devices for online protection, smart credit/debit and contactless payment cards, as well as subscriber identification modules (SIM) and universal integrated circuit cards (UICC) for mobile phones. Also, in the emerging machine-to-machine applications, Gemalto is a leading supplier of wireless modules and machine identification modules (MIM). To operate these solutions and remotely manage the software and confidential data contained in the secure devices, Gemalto also provides server software for back office operations, operates public and private transactional platforms, and offers consulting, training, customization, installation, optimization, maintenance and managed services to help its customers achieve their goals.

The Company is a public company with limited liability incorporated and domiciled in the Netherlands and is listed in the stock exchange of Amsterdam which is its primary market, where it is included in the main index, the AEX. The address of its registered office is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands.

The share capital consisted of 90,423,814 ordinary shares as at December 31, 2017 and of 89,928,639 ordinary shares as at December 31, 2016 with a nominal value of €1 with no specific rights attached thereto.

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2017 have been authorized for issue by the Board on 1 March, 2018 and will be submitted to the AGM of May 18, 2018 for adoption.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with section 2:362(9) of the Netherlands Civil Code. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments used for hedging) at fair value through profit or loss. The preparation of consolidated financial statements in compliance with IAS/IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the following change in the presentation of the income statement: the Company decided to modify its income statement presentation in order to split the line "Other income (expenses), net" in "Other income" and "Other expenses". Accordingly, the comparative figures of the 2017 consolidated financial statements have been restated to comply with IFRS requirements.

2.2 Changes in accounting policies and disclosures

(a) Standards, amendments to existing standards and interpretations mandatory for financial statements as at December 31, 2017

- *Amendments to IAS 7 Disclosure initiative.* The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities, refer to note 16 for further details;
- *Amendments to IAS 12: Recognition of Deferred tax Assets for Unrealized Losses* clarify that: a) unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference, b) the carrying amount of an asset does not limit the estimation of probable future taxable profits, c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, d) an entity assesses a deferred tax asset in combination with other deferred tax assets;
- *Annual Improvements to IFRS Standards 2014–2016 Cycle issued, the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.*

These amendments to the standard did not have a significant impact on the Group's financial statements as at December 31, 2017.

(b) New standards, amendments to existing standards and interpretation issued by the IASB and not yet mandatory for financial statements as at December 31, 2017 (and not early adopted by the Group)

- *Amendments to IFRS 2: Clarifications of classification and measurement of share-based payment transactions.* The amendments aim to clarify the classification and measurement of share-based payment transactions;
- *IFRS 16* Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual reporting periods beginning on or after 1 January 2019;
- *Amendments to IFRS 4: Amended by Applying IFRS 9 with IFRS 4.* The amendments reduce the impacts, but companies need to carefully consider their IFRS 9 implementation approach to decide if and how to use them. The two optional solutions raise some considerations which require detailed analysis and management judgment;
- IFRS 17 Insurance Contracts (issued on 18 May 2017): the objective is to ensure that an entity provides relevant information that faithfully

represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after 1 January 2021;

- IFRIC 22 Foreign Currency Transactions and Advance Consideration, clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted;
- IFRIC 23 Uncertainty over Income Tax Treatments: clarifies the accounting for uncertainties in income taxes. The interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted;
- Amendments to IAS 40: Transfers of Investment Property provides guidance on transfers to, or from, investment properties. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted;
- Amendments to IFRS 9: Prepayment Features with negative Compensation, the amendments relate to changes regarding symmetric prepayment options and clarification regarding the modification of financial liabilities. The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019. Earlier application is permitted;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are effective for periods beginning on or after 1 January 2019. Earlier application is permitted;
- Annual Improvements to IFRS Standards 2015-2017 Cycle makes amendments to the IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted;

The Group is currently assessing the impact of these amendments.

- *IFRS 15 Revenue from Contracts with Customers.* IFRS 15 establishes the accounting principles that an entity shall apply to recognize revenue from contracts with customers. It replaces the previous standards and interpretations related to revenue recognition, notably IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer Loyalty Programmes". The standard provides a single, principle-based, five-step model to be applied in order to define the timing and the amount of revenue arising from a contract with a customer. It provides a guide to applying the standard, notably regarding the licenses and specific provisions for how to recognize incremental costs of obtaining or fulfilling a contract, that are addressed by other standards. The standard requires the disclosure of new qualitative and quantitative information in the notes to the consolidated accounts. The Company will adopt IFRS 15 for the fiscal year beginning January 1, 2018 using the modified retrospective method. Under this method, the impact of the initial application of the standard is accounted for in shareholders' equity as of January 1, 2018, without restating comparative periods presented. We have made an assessment of the impact of the adoption of IFRS 15 on our reported revenue based on which we conclude there is no material impact to be expected;
- *IFRS 9 Financial Instruments. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities.* When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to continue to apply the requirements of IAS 39. During the adoption of IFRS 9 the Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in Retained earnings and reserves as at 1 January 2018. We have made an assessment of the impact of the adoption of IFRS 9 based on which we conclude there is no material impact.

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred in consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.7).

The Group recognizes non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amount of acquiree's identifiable net assets. For further acquisitions of non-controlling interest, the excess of the cost of acquisition over the carrying value of the Group's additional share of the identifiable net assets acquired is recorded against the share premium in the equity. If control is achieved by stages, the fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Adjustments to the fair value of the assets acquired and liabilities and contingent liabilities assumed can occur during a period of 12 months following the date of acquisition. When the Group ceases to have control, any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognized in the income statement.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Associates

Associates are all entities over which Gemalto has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. Gemalto's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Gemalto's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of other post-acquisition movements in reserves is recognized in the Group's reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Gemalto's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Gemalto does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between Gemalto and its associates are eliminated to the extent of Gemalto's interest in the associates. Unrealized losses are similarly eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses in associates are recognized in the income statement.

2.4 Segment reporting

An operating segment is a component of the entity that engages in business activities from which it may earn revenues and incur expenses and for which the operating results are regularly reviewed by the CODM to take decisions about resources to be allocated to the segment and assess its performance (see note 6).

2.5 Foreign currency translation

(a) Functional and reporting currency

Items included in the financial statements of each of Gemalto's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euro, which is the Company's reporting currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity where they are recorded using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or when related to an intra-Group advance as part of a hedge on net investment in a foreign entity.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates on a monthly basis; and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognized in the shareholders' equity. When a foreign operation is partially disposed of, sold, or liquidated, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost, less depreciation and, if any, impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Gemalto and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Building	**20–30 years**
Leasehold improvement	**5–12 years**
Machinery and equipment	**3–10 years**

Leasehold improvements are amortized on a straight-line basis over their estimated useful lives, which cannot exceed the lease term.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are reflected in the operating profit.

Leases of property, plant and equipment where Gemalto has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge part so as to achieve a constant rate of interest on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other borrowings (and classified as current or non-current items depending on the maturity of expected cash outflows). The property, plant and equipment acquired under finance lease are depreciated over the shorter of the useful life of the asset and the lease term.

2.7 Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the balance sheet. Goodwill on acquisitions of associates is included in Investments in associates in the balance sheet. Separately recognized goodwill is tested annually for impairment or more frequently when there is an indication that it might be impaired, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to Cash-Generating Units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

(b) Brand names

Brand names acquired in a business combination are recognized at fair value at the acquisition date and may have an indefinite useful life.

(c) Customer relationships

Customer relationships arise from both separate purchases and business combinations. The fair value of Customer relationships, when acquired upon business combinations, is determined by discounting estimated future net cash flows generated by the asset. The use of different assumptions for the expected future cash flows and the discounting rate used would materially change the valuation of the asset.

(d) Intangible assets, other than goodwill, brand names and customer relationships

Other intangible assets have a definite useful life and are carried at cost less accumulated amortization, except for intangible assets acquired through a business combination. The fair value of these assets, when acquired upon business combinations, is determined by discounting estimated future net cash flows generated by the asset. The use of different assumptions for the expected future cash flows and the discounting rate used would materially change the valuation of the asset.

Amortization is calculated using the straight-line method to allocate the cost of other intangible assets over their estimated useful lives as follows:

Software	**3–5 years**
Patents and technologies	**1–13 years**
Customer relationships	**2–15 years**
Capitalized development costs	**2–7 years**
Other	**1–15 years**

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently when there is an indication that they might be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognized for the amount by which the asset carrying amount exceeds its recoverable amount. The recoverable amount is the higher between the asset fair value less costs to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments and financial assets

Gemalto classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Gemalto provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets in Trade and other receivables, net in the balance sheet, except for maturities greater than 12 months after the balance sheet date, which are classified as Other non-current assets in the balance sheet. Loans and receivables are initially recognized at fair value and subsequently recorded at amortized cost using the effective interest method, less provision for impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets, as management does not intend to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value but if fair value cannot be reliably measured, these items are accounted for using the cost method. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first in/first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Gemalto also provides inventory allowances for excess and obsolete inventories.

2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Gemalto will not be able to collect all amounts due according to the original terms of the receivables and appraisal of market conditions. The amount of the provision is recognized in the income statement within sales and marketing expenses.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Gemalto company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are canceled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

Borrowings are classified as current liabilities unless Gemalto has a right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Taxes on income

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is calculated on the basis of the temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax liabilities are provided in full on taxable temporary differences. Deferred tax assets on deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax is measured using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related asset is realized or the liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Research tax credits and government grants

Research tax credits are provided by various governments to give incentives for companies to perform technical and scientific research. These research tax credits are presented as a reduction of research and development expenses in the income statement when companies that have qualifying expenses can receive such grants in the form of a tax credit irrespective of taxes ever paid or ever to be paid. These tax credits are included in Trade and other receivables, net and Other non-current assets in the balance sheet depending on the timing of expected cash inflows. The Company records the benefit of this credit only when all qualifying research has been performed and the Company has obtained sufficient evidence from the relevant government authority that the credit will be granted.

In addition, grants may be available to companies that perform technical and scientific research. Such grants are typically subject to performance conditions over an extended period of time. The Company recognizes in the income statement these grants when the performance conditions are met and any risk of repayment is assessed as remote.

2.17 Research and development costs

Research and development costs mainly comprise software development. Gemalto capitalizes eligible software and products development costs upon achievement of commercial and technological feasibility, reliability of measurement costs and subject to net realizable value considerations. Based on Gemalto's development process, technological feasibility is generally established upon completion of a working model. Research and development costs prior to a determination of technological feasibility are expensed as incurred. Amortization of capitalized software development costs begins when the products are available for general release over their estimated useful life on a straight-line basis. Unamortized capitalized software development costs determined to be in excess of the net realizable value of the product are expensed immediately.

2.18 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution plans (see note 17).

(a) Pension and similar obligations

A defined contribution plan is a post-employment benefit plan under which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is recognized.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the balance sheet in respect of defined benefit plan is the present value of the benefit obligation as at balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions on post-benefit employment plans are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognized immediately in the income statement.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Profit-sharing and bonus plans

Gemalto recognizes liabilities and expenses for bonuses and profit-sharing. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Equity-based payment

(a) Equity-based compensation

Gemalto operates equity-settled equity-based compensation plans (see note 25). The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(b) Equity-based transaction

The fair value of the amount payable in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date.

Any changes in fair value of the liability are recognized as other financial expenses in the consolidated income statement.

2.20 Provisions

Provisions for environmental restoration, restructuring and reorganization costs, legal claims and warranty are recognized when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

2.21 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within Gemalto. Revenue is recognized as follows:

(a) Product and service revenue

Gemalto's products and services are generally sold based upon contracts or purchase orders with the customer that include fixed and determinable prices and that do not include right of return, other similar provisions or other significant post-delivery obligations but for customary warranty terms. Revenue is recognized for products upon delivery when title and risk pass, the price is fixed and determinable and collectibility is reasonably assured. Revenue for services is recognized over the period when services are rendered and collectibility is reasonably assured. Revenue for royalties is recognized when income is earned and collectibility is reasonably assured.

Certain revenues are recognized using the percentage of completion method as services are provided (according to criteria applied on a consistent basis). These services include the development of specific software platforms. Under the percentage of completion method, the extent of progress towards completion is measured based on actual costs incurred to total estimated costs. Losses on contracts are recognized during the period in which the loss first becomes probable and can be reasonably estimated.

(b) Multiple-element arrangements

Revenue from contracts with multiple elements, such as those including services, is recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements.

(c) Collectibility

As part of the revenue recognition process, Gemalto determines whether trade receivables and notes receivable are reasonably assured of collection based on various factors, and whether there has been deterioration in the credit quality of customers that could result in the inability to collect those receivables.

(d) Deferred revenue

Deferred revenue includes amounts that have been billed per contractual terms but have not been recognized as income.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently regularly remeasured at their fair value. These instruments, which are expected to mature within two years after the balance sheet date, are presented under Derivative financial instruments in current or non-current assets or liabilities depending on their maturity. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument for accounting purposes and, if so, on the nature of the item being hedged. Some of the derivative financial instruments used to hedge the Company's foreign exchange exposure qualify as cash flow hedges since they reduce the variability in future cash flows attributable to the Company's forecasted transactions.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

For derivatives qualified as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of the derivative instruments used for hedging purposes are disclosed in note 4.7. Movements on the hedging reserve are shown in the consolidated statement of comprehensive income.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within the foreign exchange gains and losses. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, being recognized in the income statement when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement as foreign exchange gain or loss in the financial income.

For fair value hedges of existing assets and liabilities, in the balance sheet, the change in fair value of the derivative is recognized in the income statement under the same heading as the change in fair value of the hedged item for the portion attributable to the hedged risk.

For hedges related to foreign exchange risk that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instruments are recorded immediately as foreign exchange gains and losses in the consolidated income statement of the period.

2.24 Estimation of financial instrument fair value

The fair value of financial instruments traded in active markets such as investment funds is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from a foreign exchange dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques requiring financial inputs observable on the markets. The fair value of derivative financial instruments is calculated at inception and over the life of the derivative. These instruments are classified in Level 2.

The fair value of forward and exchange contracts at inception is zero. Over the life of the contract, the fair value is derived from the following parameters communicated by the Company's banks or official financial information providers: (i) spot foreign exchange rate and (ii) interest rate differential between the two currencies. Fair value is then obtained by discounting, for the remaining life of each contract, its expected gain or loss calculated by difference between the contract rate and the market forward rate, applied to the notional amount of the contract. At maturity, the fair value is calculated by the difference between the contract rate and the prevailing closing rate, applied to the notional amount of the contract.

An option contract value at inception is the initial premium paid or received. Over the life of the contract, fair value is determined using standard option pricing models (such as Cox Ross & Rubinstein option pricing model or Monte Carlo), based on market parameters obtained from the Company's banks or official financial information providers, and using the following variables: (i) spot foreign exchange rate, (ii) volatility and (iii) risk-free interest rate, applied to the terms of the contract (notional amount, strike rate and expiration date). At maturity, the fair value is either zero if the option is not exercised or, when exercised, calculated by the difference between the strike rate and the prevailing closing rate, applied to the notional amount of the contract.

For the available-for-sale financial assets (equity security), they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy.

2.25 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Note 3. Critical judgments and estimates

The Group prepares the consolidated financial statements in accordance with IFRS as issued by the IASB and adopted by the European Union. Gemalto's significant accounting policies, as described in Note 2 – Summary of significant accounting policies, is essential to understand the Group's result, financial position and cash flows. The application of these accounting policies requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and disclosure of contingent liabilities at the end of the reporting period. The evaluations of the estimates and judgments are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Management considers the following accounting estimates and assumptions discussed below to be its critical accounting estimates and, accordingly, provides the following explanations below.

3.1 Revenue recognition

A portion of the Company's revenue is generated from large and complex contracts. Judgment is applied on clients' acceptance criteria and if the transfer of risk and rewards to the buyer has taken place when determining whether revenue and costs should be recognized in the current period. The extent of contract completion and the customer credit standing is also taken into consideration to ascertain whether the settlement of the service justifies revenue recognition. When a transaction contains multiple elements, the identification of each separately identifiable component and the related allocation of the relative fair value requires management judgment.

3.2 Goodwill

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. The determination of the fair value of the assets and liabilities is based on management judgment.

3.3 Intangible assets

Intangible assets include the Group's investment on the acquisition of licenses, customer relationships and development costs. These assets arise from both separate purchases and business combinations.

Upon business combination, the identifiable intangible assets may include licenses, customer relationships and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. The use of different assumptions for the expected future cash flows and the discount rate used would materially change the valuation of the asset.

3.4 Impairment tests

IFRS requires management to undertake an annual test for impairment of assets with indefinite useful lives and a test for impairment on other assets when events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable.

The methods used involve management judgment and require the assessment to determine if the carrying value of assets can be supported by the net present value of the future cash flows. Cash flow projections are discounted and they are based on the assumption that such assets will continue to generate cash inflow to the Group. Therefore, when calculating the net present value of the future cash flow, certain assumptions are required to be taken with respect to operating income, timing of cash flows, long-term growth rates and discounting rate. Altering these parameters could significantly affect the Group's impairment tests' outcome.

3.5 Equity-based payments

Equity-based compensation plans are recognized as an expense based on their fair value at date of grant. These plans do not have a direct cash cost to the Company other than administrative and social levies, as these plans' costs are borne by shareholders through dilution. The fair value of equity-based compensation plans is estimated through the use of valuation models which require certain parameters such as the risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Such parameters are disclosed in note 24. The valuation of share options and restricted shares units issued by the Group are based on data available at the date of the grant. Using different input estimates or models could produce different values, which would result in the recognition of a higher or lower expense.

Notes to the consolidated financial statements continued

Note 3. Critical judgments and estimates continued

3.6 Employee benefit obligations

Actuarial valuations are used to determine the liability on employee benefit obligations. These valuations rely on key assumptions including discounting rates, expected salary increase, mortality rates and employee turnover. The discounting rate is based on high-quality corporate bonds at the end of the reporting period. Due to the prevailing market and economic conditions, these assumptions may differ from the actual market developments and as a result may have a material effect on the estimation of the liability. Note 16 – Employee benefit obligations discloses a sensitivity analysis and presents the effects on the liability if the discounting rate, inflation rate, salary growth and mortality are altered. The impacts on the reported liability would be, however, recognized against other comprehensive income.

3.7 Income taxes

The Group operates in various tax jurisdictions resulting in different subjective and complex interpretation of local tax laws. Management exercises judgment in assessing the level of provision required for taxation when such taxes are based on the interpretation of complex tax laws. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasts, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future developments may be uncertain, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it is probable that all or a portion of a deferred tax asset cannot be realized, the deferred tax asset is not recognized.

3.8 Development costs

The Group capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discounting rates to be applied and the expected period of benefits.

Note 4. Financial risk management

The Company is exposed to a variety of financial risks, including foreign exchange risk, market risk, interest rate risk, liquidity risk, financial counterparty risk and credit risk.

Gemalto's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Gemalto has developed risk management guidelines that set forth its tolerance for risk and its overall risk management policies.

4.1 Foreign exchange risk

Significant portions of Gemalto revenue, cost of sales and expenses are generated in currencies other than the Euro, including the US Dollar, Swiss Franc, Canadian Dollar, Swedish Krona, Sterling Pound, Chinese Renminbi, UAE Dirham, Mexican Peso, and Brazilian Real. Revenue and gross profit are therefore significantly exposed to exchange rate fluctuations.

The Company attempts at a first stage to match the currencies of its revenue and expenses in order to naturally hedge its exposure to foreign currency fluctuations, and then enters into derivative financial instruments to hedge part of its residual exposure. The decision to hedge or not a given currency depends on the level of forecast net exposure for that currency and on a cost-and-risk analysis using several market parameters such as volatility, hedge costs, forecasts, etc.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions.

Foreign exchange forward contracts that hedge a portion of subsidiaries' known or forecasted commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in the income statement. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred in the settlement of balance sheet items not denominated in the relevant subsidiary's functional currency, are not qualified in hedge accounting (see 4.7).

The following table shows the sensitivity of the Group's results as at December 31, to some reasonably possible changes in the US Dollar exchange rate against the Euro, all other variables being held constant, split between:

- Effect on profit or loss due to changes in the fair value of financial assets and liabilities (including those denominated in US Dollar-linked currencies); and
- Effect on equity due to changes in the fair value of cash flow hedges held at the balance sheet date.

The impacts of other currencies to similar fluctuations for any given currency do not exceed €0.3 million on the profit or loss for 2017 (€0.3 million in 2016) and €0.6 million on the statement of financial position as at December 31, 2017 (€1.2 million in 2016).

	Year ended December 31,			
	2017		2016	
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect on profit before tax				
– Underlying[3]	(14,809)	15,568	(11,934)	12,546
– Hedges[4]	14,568	(15,285)	10,446	(11,029)
Net	**(241)**	**283**	**(1,488)**	**1,517**
Gain/(loss)				
Effect on equity				
– Hedges[5]	9,254	(9,639)	22,583	(23,835)

[3] Effect of revaluation of financial assets and liabilities, excluding hedges.

[4] Effect on mark-to-market valuation of fair value hedges.

[5] Effect on intrinsic value of cash flow hedges.

The impacts of translation of foreign currency financial statements from their functional currency to the Company's reporting currency are not included in the above computation.

4.2 Market risk

Gemalto had contracted equity swaps cash-settled covering the share performance risks over their life time against the payment of financial interests.

As at December 31, 2017, the fair value of the equity swaps cash-settled amounted to €(0.5) million (€(0.2) million in 2016).

The following table shows the sensitivity of the Group's results linked to some reasonably possible changes in the Gemalto stock share value, all other variables being held constant and excluding the impact on the margin call mechanism:

	Year ended December 31,			
	2017		2016	
	Change in Gemalto share value			
	+10%	-10%	+10%	-10%
Income/(expense)				
Effect of profit before tax				
– Underlying[6]	(320)	320	(276)	276
– Hedges[7]	248	(248)	190	(190)
Net	**(72)**	**72**	**(86)**	**86**
Gain/(loss)				
Effect on equity				
– Hedges[8]	–	–	84	(84)

[6] Effect of revaluation of social levies excluding hedges.
[7] Effect on mark-to-market valuation of fair value hedges.
[8] Effect on intrinsic value of cash flow hedges.

4.3 Interest rate risk

Financial assets are invested in bank deposits and money market funds with maturities no longer than three months and are readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value, classified as cash and cash equivalents. The main components of the financial liabilities, Public Bond and private placements, are based on fixed interest rates. Other sources of financing are floating rate debt which provide short-term funding. Financial income (expense) can therefore be sensitive to interest rates fluctuations. The Company, however, considers that this risk may not have a significant impact on its financial situation in the short term and does not use derivative financial instruments to hedge interest rates risk. The following table shows the sensitivity of the Group's results to some reasonably possible changes in the interest rates, all other variables being held constant. There is no effect on the Group's equity.

Effect on profit before tax Income/(expense)	**2017**		2016	
Variation in interest rate (in basis points)	+50	-50	+50	-50
Borrowings	(483)	483	(987)	987
Short-term deposits and investment funds	1,288	(1,288)	1,667	(1,667)

4.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €600 million bilateral credit facilities referred to in note 16, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. With the exception of finance lease liabilities and derivative financial instruments, the balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

In addition to the below liabilities, Gemalto N.V. has issued a guarantee which amounted to €31.8 million as of December 31, 2017 and €32.9 million as of December 31, 2016 (see note 32).

				2017
	Not later than 1 year	**Later than 1 year and not later than 5 years**	**Later than 5 years**	**Total**
Finance lease liabilities	138	296	–	434
Bond	8,500	425,500	–	434,000
Private placements	6,622	40,676	239,945	287,243
Commercial paper	260,000	–	–	260,000
Term loan	284	80,354	–	80,638
Other liabilities	19,593	7,623	–	27,216
Derivative financial instruments	7,436	–	–	7,436
Trade and other payables	682,248	–	–	682,248
Total	**984,821**	**554,449**	**239,945**	**1,779,215**

				2016
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	135	290	–	425
Bond	8,500	434,000	–	442,500
Private placements	2,993	26,449	143,217	172,659
Commercial paper	169,000	–	–	169,000
Other liabilities	501	11,270	–	11,771
Derivative financial instruments	78,871	22,778	–	101,649
Trade and other payables	715,767	–	–	715,767
Total	**975,767**	**494,787**	**143,217**	**1,613,771**

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Note 4. Financial risk management continued

4.5 Financial counterparty risk

Derivative financial instruments and cash and cash equivalents are exclusively held with major counterparties rated investment grade with the objective that no counterparty represents more than 15% of the total at any time. In addition, the Company has temporary exposure to non-investment grade financial institutions on payments made by customers in certain countries, until the Company transfers such amounts to investment grade institutions. This exposure is not significant.

Short-term deposits and investment funds are invested in fixed-term deposits with banks and money market mutual funds with a maturity of less than three months. Money market mutual funds consist of open-ended investment companies (SICAV) authorized by the French AMF or money market funds registered either in Ireland or Luxembourg and rated AAA. Funds are selected based on (i) the low level of risk with a diversified portfolio of short-term fixed income securities and money market instruments (bonds, treasury bills and notes, commercial paper, certificates of deposit, etc.), (ii) the quality of the funds management company and (iii) a daily liquidity.

The Company also maintains credit lines with various banks. It includes facilities for derivative financial instruments, uncommitted short-term facilities, short-term bonds and guarantee lines, and also a series of committed bank bilateral credit facilities totaling €600 million, arranged with international banks of strong credit rating referred to in note 16. The maturities of these facilities fall between December 19, 2019 and July 23, 2023.

The maximum risk with any single counterparty expressed as a percentage is as follows:

	Year ended December 31, 2017	2016
Borrowings		
in % of total borrowing risk for Gemalto	20%	23%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	16%	16%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	19%	10%
Total risk for any single counterparty[9]		
in % of total counterparty risk for Gemalto	**17%**	**15%**

[9] Including bilateral credit facilities, financial leases, bond and guarantee lines, uncommitted short-term facilities.

In accordance with IFRS 13, the counterparty's credit risk has been measured when valuing uncollateralized derivative assets. The probability of default has been determined based on both historical default rates issued by credit rating agencies and a recovery ratio estimated to 40%.

As at December 31, 2017 and December 31, 2016, the credit and debit value adjustment (CVA and DVA) are not material and do not modify the global fair valuation of financial instruments.

4.6 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities. The carrying amount of financial assets represents the maximum credit exposure.

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2017 and 2016. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of countries and customers' financial condition.

As of December 31, 2017, trade receivables of €158,246 were past due but not impaired (€154,967 in 2016). These relate to a number of independent customers for whom there is no recent history of default and whose credit standing is regularly assessed. The aging analysis of these trade receivables is as follows:

	Year ended December 31, 2017		
Overdue by	Carrying amount	Bad debt reserve	Overdue but not impaired
Up to 1 month	71,443	(548)	70,895
2 to 3 months	43,892	(1,143)	42,749
4 to 6 months	19,655	(890)	18,765
Later than 6 months	48,796	(22,959)	25,837
	183,786		**158,246**
Provision for impairment of receivables		(25,540)	
Trade receivables overdue but not impaired			**158,246**

Overdue by	Year ended December 31, 2016 Carrying amount	Bad debt reserve	Overdue but not impaired
Up to 1 month	83,561	(73)	83,488
2 to 3 months	34,589	(296)	34,293
4 to 6 months	13,761	(487)	13,274
Later than 6 months	41,101	(17,189)	23,912
	173,012		**154,967**
Provision for impairment of receivables	–	(18,045)	–
Trade receivables overdue but not impaired			**154,967**

The change in the provision for impairment of receivables details as follows:

	Year ended December 31, 2017	2016
As at January 1	**(18,045)**	**(18,092)**
Acquisition of subsidiaries	(1,497)	–
Provision for impairment of receivables	(11,598)	(5,315)
Receivables written off over the year as uncollectible	1,792	4,515
Unused amounts reversed	2,073	1,268
Currency translation adjustment	1,735	(421)
As at December 31	**(25,540)**	**(18,045)**

4.7 Foreign exchange derivative financial instruments

Gemalto enters into foreign exchange contracts as cash flow hedges and fair value hedges in order to manage its foreign currency exposure incurred in the normal course of business.

As at December 31, 2017, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in two different currencies namely US Dollar and Sterling Pound. It also held forward contracts not qualified in hedge accounting and evaluated at fair value, denominated in the same currencies and in Japanese Yen, Norwegian Krone, Swedish Krona, Singapore Dollar, Polish Zloty, South African Rand, Swiss Franc, Australian Dollar, Canadian Dollar, Czech Koruna, Chinese Yuan and Russian Ruble.

The fair value of the Group's financial instruments is recorded in current or non-current assets and liabilities, as Derivative financial instruments and details as follows (mark-to-market valuations):

	Year ended December 31, 2017							Year ended December 31, 2016						
	USD	GBP	MXN	SGD	ZAR	JPY	Other	USD	GBP	MXN	SGD	ZAR	JPY	Other
Cash flow hedges														
Forward contracts	27,892	(24)	–	–	–	–	–	(45,315)	4,496	(2,488)	603	–	2,115	126
Derivative at fair value														
Forward contracts	25,335	(25)	–	103	(360)	76	(302)	(29,090)	40	–	33	(242)	14	(256)
Total	**53,227**	**(49)**	–	**103**	**(360)**	**76**	**(302)**	**(74,405)**	**4,536**	**(2,488)**	**636**	**(242)**	**2,129**	**(130)**

At the balance sheet date, the effective portion of the above cash flow hedging contracts can be split as follows under constant market conditions:

2017	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2)[10]
Effective portion	(8,468)	(8,468)	–

2016	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2)[10]
Effective portion	(104,389)	(60,228)	(44,161)

[10] Amount to be reclassified as debits or credits to sales or cost of sales over the next year.

Notes to the consolidated financial statements continued

Note 5. Business combination

3M's Identity Management Business:

On May 1, 2017, Gemalto concluded the acquisition of 3M's Identity Management Business (3M's IMB) which provides a full spectrum of biometric solutions with a focus in civil identification, border control and law enforcement, and 3M's Document Reader and Secure Materials Businesses.

Headquartered in the United States and present on three continents, 3M's IMB is a trusted partner to governments, law enforcement, border control and civil identification bodies worldwide. It offers world-class biometric based end-to-end solutions enabling identity verification and user-friendly authentication. 3M's IMB experienced and highly-skilled team of experts has developed proven biometrics algorithms (finger, face, iris, etc.) and is at the forefront of innovation with the latest biometric solutions. The 3M's IMB has approximately 450 employees, with a large population of engineering and sales functions. Had the acquisition of 3M's IMB occurred on January 1, 2017, the Group estimates that its revenue and PFO would have been €183 million and €58 million.

This strategic acquisition completes the Government Business Unit offering by adding biometric technologies to our four underlying core technologies and it also ideally positions Gemalto to provide solutions for the promising commercial biometrics market.

IFRS 3R "Business Combination" requires most of the identifiable assets acquired and the liabilities assumed as part of a business combination are measured at the acquisition date at their fair values. The fair value (FV) of most of the identifiable assets acquired and liabilities assumed in a business combination is different from their carrying amounts in the acquired statement of financial position, this gives rise to fair value adjustments in accounting for the business combination.

In thousands of Euro	3M's IMB
Assets	
Non-current assets	28,623
Current assets	29,943
Cash and cash equivalents	21,882
Total assets	**80,448**
Liabilities	
Non-current liabilities	10,689
Current liabilities	16,213
Borrowings (current)	
Total liabilities	**26,902**
Non-controlling interests upon acquisition	(40)
Identified fixed assets re-measured at Fair value	316,330
Associated deferred tax liabilities	(44,325)
Total fair value of identifiable net assets acquired (A)	**325,511**
Purchase consideration (B)	**(764,135)**
Hedging effect **(B)**	(15,325)
Goodwill (B-A)	**(453,949)**
Analysis of cash flows on acquisitions:	
Purchase consideration settled in cash	779,460
Net cash acquired	(21,882)
Net cash flows used for the acquisition of 3M's IMB	757,578
Price adjustment on previous acquisitions	(1,516)
Net cash flows used in acquisitions	756,062

The provisional goodwill arising from the acquisition of 3M's Identity Management Business amounted to €453.9 million and may be subject to significant changes over the purchase price allocation period. This goodwill represented the complementary technological expertise, the skills and know-how of the workforce acquired and the synergies expected to be achieved through the integration of this business. The goodwill is not deductible for tax purpose.

Tax effects on the fair value of the intangible assets recognized amounted to €44.3 million.

The following table summarizes the estimated fair value of the fixed assets acquired and their remaining useful life at the date of the acquisitions:

	3M's IMB acquisitions	
In thousands of Euro	Fair Value	Remaining useful life
Existing technologies	110,642	5-9 years
Customer relationships	150,459	5-9 years
Brand name	28,440	10-12 years
Patents	13,945	6-8 years
Other	12,844	6 years

Note 6. Segment information

In accordance with IFRS 8 Operating Segments, the information by operating segment is derived from the business organization and activities of Gemalto.

Gemalto's activities are reported in two main operating segments: Payment & Identity and Mobile. In each of these operating segments, the Group sells a range of offerings that can be categorized, based on the nature of the activity, as either Embedded software & Products or Platforms & Services.

Embedded software & Products (E&P) refers to client-side software and devices that, among other functions, protect the identity of a user and secure access to a digital network. There are various usages of this secure embedded software: in SIM cards, in electronic payment cards, in electronic passports as well as in network and physical access badges.

The Platforms & Services (P&S) activity complements the client-side with back-office systems and solutions that run in Gemalto's secure facilities or the facilities of customers. Gemalto has developed a variety of server-based platforms tailored to the needs of different market verticals but the core functionalities are the enrollment, issuance, life-cycle management, and verification of electronic identities to enable end-to-end security in authentication and transaction processes. The services offer is an extension of this activity that includes the personalization of objects, consulting, training, software customization, system installation and optimization, infrastructure maintenance, and operations management from Gemalto data centers.

Payment & Identity customers are financial institutions, retailers, mass transit authorities, government agencies, government service providers as well as enterprises of all sizes. Payment offerings include chip cards, mobile financial services and contactless payment solutions. The segment also sells subscriber authentication and rights management solutions to Pay TV service providers. For governments, the solutions comprise secure electronic identity documents, including ePassports and badges, strong multi-factor online authentication and transaction solutions, as well as a range of support services. For enterprise, the solutions comprise data encryption systems, online authentication as well as software monetization solutions.

The Mobile operating segment encompasses businesses associated with mobile cellular technologies. For mobile network operators, our solutions comprise SIM/UICC cards and back-office platforms and services including roaming optimization, mobile payment, mobile marketing, personal data management and trusted service management (TSM). For industrial organizations, our solutions address the needs of a broad-range of market verticals such as utilities, health and automotive. These industrial solutions enable Machine-to-Machine (M2M) data exchange through hardware modules and operating software that connect machines to digital networks. Cloud-based M2M application enablement and late-stage personalization (LSP) platforms give industrial customers the ability to harness the power of the "Internet of Things" (IoT) to improve operations, productivity and efficiency.

In addition, the Company also licenses its intellectual property and provides security and other technology advisory services in an operating segment called "Patents & Others".

To supplement the financial statements presented on an IFRS basis, and to better assess its past and future performance, the Group also prepares an additional income statement where the key metric used to understand, evaluate the business and take operating decisions over the period 2010 to 2017 is the Profit From Operations (PFO). PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses; (iii) all equity-based compensation charges and associated costs; and (iv) fair value adjustments upon business acquisitions.

This supplemental non-GAAP measure is used internally to understand, manage and evaluate business and take operating decisions. It is among the primary factors management used in planning and forecasting future periods, and part of the compensation of executives is based on the performance of business measured in accordance with this non-GAAP metric. These items are further explained as follows:

- Amortization and depreciation of intangibles resulting from acquisitions are defined as the amortization and depreciation expenses related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses, which are the costs incurred in connection with a restructuring, as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio, and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of the acquisition process).
- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Share Purchase Plans; and (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of Directors to employees, and the related costs.
- Fair value adjustments over net assets acquired are defined as the reversal, in the income statement, of the fair value adjustments recognized as a result of a business combination, as prescribed by IFRS 3R. Those adjustments are mainly associated with (i) the amortization expense related to the step-up of the acquired work-in-progress and finished goods assumed at their realizable value and (ii) the amortization of the canceled commercial margin related to deferred revenue balance acquired.

Notes to the consolidated financial statements continued

Note 6. Segment information continued

The information reported for each operating segment is the same as reported and reviewed internally on a monthly basis in order to assess performance and allocate resources to the operating segments. Gemalto's operating segments have been determined based on these internal reports.

Financial income and expenses are not included in the result for each operating segment that is reviewed internally. Nor is asset or liability information on a segmented basis reviewed in order to assess performance and allocate resources.

The information by operating segment reported in the following tables applies the same accounting policies as those used and described in these consolidated financial statements.

Year ended December 31, 2017	Payment & Identity	Mobile	Patents	Adjusted financial information	Amortization and depreciation of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	**1,889,302**	**1,077,678**	**4,737**	**2,971,717**					**2,971,717**
Cost of sales	(1,153,655)	(711,592)	(1,695)	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	**735,647**	**366,086**	**3,042**	**1,104,775**	**(89,006)**	**(38,727)**	**(8,910)**	**(9,542)**	**958,590**
Operating expenses									
Research and engineering	(96,766)	(73,425)	(10,627)	(180,818)		(13,186)	(3,978)		(197,982)
Sales and marketing	(319,495)	(149,796)	(820)	(470,111)		(29,372)	(12,071)		(511,554)
General and administrative	(91,343)	(61,280)	(514)	(153,137)		(32,681)	(12,052)		(197,870)
Other income	5,142	5,048	92	10,282		103			10,385
Other expenses	(494)	(937)	–	(1,431)	(424,671)	(391)			(426,493)
Profit from operations	**232,691**	**85,696**	**(8,827)**	**309,560**					
Operating profit (loss)					**(513,677)**	**(114,254)**	**(37,011)**	**(9,542)**	**(364,924)**

Year ended December 31, 2016	Payment & Identity	Mobile	Patents	Adjusted financial information	Amortization and depreciation of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	**1,948,277**	**1,174,439**	**3,815**	**3,126,531**	**–**	**–**	**–**	**–**	**3,126,531**
Cost of sales	(1,154,786)	(703,274)	(2,266)	(1,860,326)	(57,576)	(14,269)	(4,553)	(3,242)	(1,939,966)
Gross profit	**793,491**	**471,165**	**1,549**	**1,266,205**	**(57,576)**	**(14,269)**	**(4,553)**	**(3,242)**	**1,186,565**
Operating expenses									
Research and engineering	(100,487)	(77,707)	(9,566)	(187,760)	–	–	(791)	–	(188,551)
Sales and marketing	(317,028)	(162,787)	(829)	(480,644)	–	–	(496)	–	(481,140)
General and administrative	(85,533)	(59,130)	(338)	(145,001)	–	(16,687)	(3,398)	–	(165,086)
Other income	1,415	1,472	305	3,192	–	–	–	–	3,192
Other expenses	(1,639)	(1,548)	(147)	(3,334)	–	(4,700)	–	–	(8,034)
Profit from operations	**290,219**	**171,465**	**(9,026)**	**452,658**					
Operating profit (loss)					**(57,576)**	**(35,656)**	**(9,238)**	**(3,242)**	**346,946**

Geographical information

The tables below show revenue and non-current assets (excluding deferred tax assets, financial instruments and goodwill) attributed to geographic areas, on the basis of the location of the customers and the location of the assets, respectively:

	Year ended December 31, 2017	2016
Revenue		
Europe, Middle East and Africa	1,373,379	1,365,608
United States of America	685,509	823,517
Asia Pacific	588,977	583,086
North and South America excluding the United States of America	323,852	354,320
Total	**2,971,717**	**3,126,531**

	Year ended December 31, 2017	2016
Non-current assets		
United States of America	407,349	352,480
France	365,110	201,861
Europe, Middle East and Africa excluding France	274,581	299,857
Asia Pacific	101,226	100,842
North and South America excluding the United States of America	53,283	51,561
Total	**1,201,549**	**1,006,601**

Note 7. Financial assets/liabilities by category

In accordance with IFRS 7 provisions, financial assets and liabilities would be allocated as follows:

December 31, 2017	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale (equity security)	Total
Assets					
Available-for-sale (equity security)	–	–	–	39,183	**39,183**
Other non-current assets	79,584	–	–	–	**79,584**
Trade and other receivables*	942,254	–	–	–	**942,254**
Derivative financial instruments	–	–	55,633	–	**55,633**
Cash and cash equivalents	220,819	99,856	–	–	**320,675**
Total	**1,242,657**	**99,856**	**55,633**	**39,183**	**1,437,329**

* Trade and other receivables excluding "advance to supplier" and "prepayments expenses".

	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Liabilities			
Bond	–	399,744	**399,744**
Borrowings	–	605,030	**605,030**
Trade and other payables*	–	496,911	**496,911**
Derivative financial instruments	3,412	–	**3,412**
Total	**3,412**	**1,501,685**	**1,505,097**

* Trade and other payables excluding "deferred revenue" and "advance from customers".

December 31, 2016	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale (equity security)	Total
Assets					
Available-for-sale (equity security)	–	–	–	–	**–**
Other non-current assets	64,554	–	–	–	**64,554**
Trade and other receivables*	970,038	–	–	–	**970,038**
Derivative financial instruments	–	–	11,404	–	**11,404**
Cash and cash equivalents	256,150	407,367	–	–	**663,517**
Total	**1,290,742**	**407,367**	**11,404**	**–**	**1,709,513**

* Trade and other receivables excluding "advance to supplier" and "prepayments expenses".

Notes to the consolidated financial statements continued

Note 7. Financial assets/liabilities by category continued

	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Liabilities			
Bond	–	399,058	**399,058**
Borrowings	–	331,548	**331,548**
Trade and other payables*	–	516,103	**516,103**
Derivative financial instruments	81,572	–	**81,572**
Total	**81,572**	**1,246,709**	**1,328,281**

* Trade and other payables excluding "deferred revenue" and "advance from customers".

Fair value estimation

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2017 (see note 2.24):

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	55,633	–	**55,633**
Available-for-sale (equity security)	39,183	–	–	**39,183**
Investment funds	99,856	–	–	**99,856**
Total	**139,039**	**55,633**	**–**	**194,672**
Liabilities				
Derivatives used for hedging	–	3,412	–	**3,412**
Total	**–**	**3,412**	**–**	**3,412**

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2016:

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	11,404	–	**11,404**
Available-for-sale (equity security)	–	–	–	**–**
Investment funds	407,367	–	–	**407,367**
Total	**407,367**	**11,404**	**–**	**418,771**
Liabilities				
Derivatives used for hedging	–	81,572	–	**81,572**
Total	**–**	**81,572**	**–**	**81,572**

Note 8. Property, plant and equipment

Property, plant and equipment, net consist of the following:

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2017	**17,600**	**307,887**	**785,266**	**1,110,753**
Acquisition of subsidiary and business	12,596	9,685	7,931	**30,212**
Additions	–	8,341	59,073	**67,414**
Disposals and write-offs	(441)	(14,893)	(38,296)	**(53,630)**
Currency translation adjustment	(2,247)	(7,927)	(45,375)	**(55,549)**
Gross book value as of December 31, 2017	**27,508**	**303,093**	**768,599**	**1,099,200**
Accumulated depreciation as of January 1, 2017	**(381)**	**(216,135)**	**(564,789)**	**(781,305)**
Acquisition of subsidiary and business	–	(4,489)	(6,116)	**(10,605)**
Depreciation charge	(7)	(19,312)	(61,419)	**(80,738)**
Disposals and write-offs	310	14,587	37,540	**52,437**
Currency translation adjustment	22	6,978	30,437	**37,437**
Accumulated depreciation as of December 31, 2017	**(56)**	**(218,371)**	**(564,347)**	**(782,774)**
Net book value as of December 31, 2017	**27,452**	**84,722**	**204,252**	**316,426**

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2016	**17,280**	**297,715**	**738,688**	**1,053,683**
Acquisition of subsidiary and business	–	36	120	**156**
Additions	36	10,711	53,496	**64,243**
Disposals and write-offs	–	(2,574)	(21,713)	**(24,287)**
Currency translation adjustment	284	1,999	14,675	**16,958**
Gross book value as of December 31, 2016	**17,600**	**307,887**	**785,266**	**1,110,753**
Accumulated depreciation as of January 1, 2016	**(370)**	**(197,070)**	**(508,249)**	**(705,689)**
Acquisition of subsidiary and business	–	(8)	(93)	**(101)**
Depreciation charge	(6)	(19,430)	(66,285)	**(85,721)**
Disposals and write-offs	–	1,989	18,990	**20,979**
Currency translation adjustment	(5)	(1,616)	(9,152)	**(10,773)**
Accumulated depreciation as of December 31, 2016	**(381)**	**(216,135)**	**(564,789)**	**(781,305)**
Net book value as of December 31, 2016	**17,219**	**91,752**	**220,477**	**329,448**

Capitalized financial leases included in property, plant and equipment:

	Year ended December 31,	
	2017	2016
Gross book value	779	656
Accumulated depreciation	(403)	(257)
Net book value	**376**	**399**

In the consolidated income statement, depreciation expenses were recorded as follows:

	Year ended December 31,	
	2017	2016
Cost of sales	63,033	66,587
Research and engineering expenses	6,311	5,426
Sales and marketing expenses	1,114	1,221
General and administrative expenses	10,280	12,487
Total depreciation expenses by destination	**80,738**	**85,721**

Notes to the consolidated financial statements continued

Note 9. Goodwill and intangible assets

Goodwill and intangible assets, net consist of the following:

	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	Total
Gross book value as of January 1, 2017	**1,576,973**	**516,632**	**294,857**	**306,405**	**185,056**	**2,879,923**
Acquisition of subsidiary and business	453,949	124,587	–	150,465	42,249	**771,250**
Additions	–	3	75,284	–	6,184	**81,471**
Write-offs	–	(6,716)	(11,358)	–	(26,852)	**(44,926)**
Currency translation adjustment	(126,897)	(18,246)	(3,721)	(36,565)	(8,928)	**(194,357)**
Gross book value as of December 31, 2017	**1,904,025**	**616,260**	**355,062**	**420,305**	**197,709**	**3,493,361**
Accumulated amortization as of January 1, 2017	**(15,307)**	**(382,422)**	**(140,218)**	**(110,970)**	**(104,752)**	**(753,669)**
Acquisition of subsidiary and business	–	–	–	–	(351)	**(351)**
Amortization charge	–	(42,554)	(50,680)	(35,157)	(18,073)	**(146,464)**
Impairment charge	(424,671)	(5,377)	(589)	(1,496)	(1,500)	**(433,633)**
Write-offs	–	6,716	11,358	–	26,717	**44,791**
Currency translation adjustment	4,167	9,374	1,451	6,504	497	**21,993**
Accumulated amortization as of December 31, 2017	**(435,811)**	**(414,263)**	**(178,678)**	**(141,119)**	**(97,462)**	**(1,267,333)**
Net book value as of December 31, 2017	**1,468,214**	**201,997**	**176,384**	**279,186**	**100,247**	**2,226,028**

	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	**Total**
Gross book value as of January 1, 2016	**1,539,828**	**506,378**	**254,896**	**299,191**	**190,940**	**2,791,233**
Acquisition of subsidiary and business	9,701	–	–	–	134	**9,835**
Additions	–	706	61,052	–	10,193	**71,951**
Write-offs	–	(19)	(24,588)	–	(9,776)	**(34,383)**
Currency translation adjustment	27,444	9,567	3,497	7,214	(6,435)	**41,287**
Gross book value as of December 31, 2016	**1,576,973**	**516,632**	**294,857**	**306,405**	**185,056**	**2,879,923**
Accumulated amortization as of January 1, 2016	**(14,895)**	**(348,392)**	**(124,854)**	**(84,766)**	**(100,796)**	**(673,703)**
Acquisition of subsidiary and business	–	–	–	–	(133)	**(133)**
Amortization charge	–	(33,098)	(39,661)	(25,209)	(14,750)	**(112,718)**
Write-offs	–	19	24,588	–	9,770	**34,377**
Currency translation adjustment	(412)	(951)	(291)	(995)	1,157	**(1,492)**
Accumulated amortization as of December 31, 2016	**(15,307)**	**(382,422)**	**(140,218)**	**(110,970)**	**(104,752)**	**(753,669)**
Net book value as of December 31, 2016	**1,561,666**	**134,210**	**154,639**	**195,435**	**80,304**	**2,126,254**

Other intangibles mainly consist of:

	Year ended December 31,	
	2017	2016
Licensing rights to use and distribute licensed technology	5,947	12,736
Acquired brand names	64,186	46,585
Miscellaneous software and other intangibles	30,114	20,983
Total	**100,247**	**80,304**

In the consolidated income statement, amortization expenses were recorded as follows:

	Year ended December 31,	
	2017	2016
Cost of sales	153,618	111,349
Research and engineering expenses	864	852
Sales and marketing expenses	55	67
General and administrative expenses	889	450
Other expenses	424,671	–
Total	**580,097**	**112,718**

Goodwill impairment test

In addition to the annual goodwill impairment tests that occur each year (in December), impairment tests are carried out as soon as the Group has indications of a potential reduction in the value of its goodwill.

As announced on July 21, 2017, Gemalto made a downward revision in the expected future profitability of the Group, notably attributable to the SIM business which was considered as a triggering event. Therefore impairment tests were performed for all cash generating units (CGU) at June 30, 2017. In assessing whether goodwill should be subject to impairment, the carrying value of each CGU was compared to its recoverable value. Recoverable value is the greater of the value in use and the fair value less costs of disposal. The value in use of each CGU is calculated using a five-year discounted cash flow analysis plus a discounted residual value, corresponding to the capitalization to perpetuity of the normalized cash flows of year 5 (also called the Gordon Shapiro approach).

Cash flow projections were based on the actual operating results adjusted for non-cash items (mainly depreciation and amortization) and the expected future performance, which in turn is based on (i) historical performance, (ii) management's estimates and assumptions of revenue growth, as well as on (iii) developments of operating margins. Those assumptions are based on external sources when available, past experience and current initiatives.

Cash flow generations for the years 2018 to 2022, were based on management's expectations for the future. For each of our CGUs, the key assumptions in the cash flow projections relate to (i) the revenue growth, (ii) the development of the profit-from-operation margin, and (iii) the rates used for discounting cash flows. The terminal value growth rate for our CGUs revenue was at maximum +2%, same as last year. For Mobile Communication a 0% infinite growth rate was used. The consolidated growth rate to perpetuity was 1.7%, slightly lower than analysts' consensus.

The discount rate used in this calculation is the after-tax weighted average cost of capital estimated at 9.5% (9.5% in 2016), the before-tax weighted average cost of capital was estimated at 11.2% (11.2% in 2016). The fair value less costs of disposal of each CGU is determined based upon the above mentioned methodology adjusted with assumptions that market participant would make such as cash inflows and outflows relating to restructuring plans or enhancing the CGUs performance.

Further to the impairment tests performed in accordance with the fair value less costs of disposal method, it was determined that the entire amount of goodwill, €424.7 million, of the Mobile Communication cash generating unit was impaired and an operating loss was recorded and presented in the line item Other expenses. The recoverable value of the Mobile Communication CGU at the date of impairment amounted to €136 million.

The amount of goodwill as at December 31, 2017 and December 31, 2016 were as follows:

In millions of Euro CGU	Management approach	Period of cash flow projection	Revenue growth rate to perpetuity	Profit from operation, margin evolution over the projected period	Pre-tax discount rate	Goodwill in millions of Euro 2017	2016
Mobile Communication	External sources and past experience	5 years	0%	Improvement	11.20%	–	425
Machine-to-Machine	External sources and past experience	5 years	2%	Improvement	11.20%	116	116
Secure Transactions	External sources and past experience	5 years	2%	Improvement	11.20%	198	181
Government program	External sources and past experience	5 years	2%	Improvement	11.20%	521	105
IDSS	External sources and past experience	5 years	2%	Improvement	11.20%	633	735
Total						**1,468**	**1,562**

A sensitivity analysis regrouping key parameters, namely the projected cash flows, the discounting rate and the infinite growth rate, has shown that, under all reasonable changes in assumptions, there is no probable scenario in which the recoverable amount of a CGU would be less than its carrying amount. All other variables being held constant, no other impairment charge would be recognized in 2017 if discounted projected cash flows were 20% lower, or the weighted average cost of capital before-tax used would have been 200 basis-point higher or the infinite growth rate for the revenue would have been 100 basis-point lower.

Notes to the consolidated financial statements continued

Note 10. Investments in associates

Investments in associates consist of the following:

	Year ended December 31, 2017	2016
Investments as of beginning of period	**48,011**	**64,897**
Capital contribution to associate	4,505	2,500
Waiver of loan in favor of associates	–	2,692
Other net assets changes in equity	42	453
Dividends paid by associates	(3,186)	(5,448)
Reclassification to other investments	(47,968)	–
Impairment of associates	10,105	(21,042)
Share of profit	(1,243)	2,059
Currency translation adjustment	(1,724)	1,900
Investments as of end of period	**8,542**	**48,011**

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2017, the net book value of goodwill in associates amounted to €5.6 million (€5.9 million in 2016).

The stock price of Goldpac Group Limited on May 18, 2017, was significantly higher compared to end of 2016 leading to a partial reversal of the impairment recognized last year by €10 million.

On May 18, 2017, the Annual General Meeting of Goldpac Group Limited adopted several changes in the composition of its board of director, including the retirement as a non-executive Director of a former Gemalto N.V. executive. As a consequence, Gemalto considered it no more had significant influence and has consequently classified this investment as equity security designated as at fair value through other comprehensive income (see note 11). The carrying value of our investment in Goldpac Group Limited was €48 million at the date significant influence was lost.

Summarized financial information of significant associates:

	Year ended December 31, 2017	2016
	Trustonic	Trustonic
Current assets	6,453	7,347
Non-current assets	9,870	10,454
Current liabilities	16,401	15,726
Non-current liabilities	125	1,665
Net assets as of end of period	**(203)**	**410**

Summarized income statement:

	Year ended December 31, 2017	2016
	Trustonic	Trustonic
Revenue	10,159	12,414
Pre-tax (loss)/profit from continuing operations	(9,098)	(8,234)
Post-tax (loss)/profit from continuing operations	(9,112)	(7,988)
Total comprehensive (expense)/income	(11)	11

The Group also has interests in a number of individually immaterial associates. As at December 31, 2017 the carrying value of these associates in the Group financial statement was €4 million (€9.2 million for 2016) and the related share of profit for the period was positive for €0.8 million (negative for €3.4 million in 2016).

Note 11. Other investment

Other investments regards the 18.34% stake in the share capital of Goldpac Group Limited, a company listed on Hong Kong Stock exchange (HK: 3315) that is principally engaged in delivering embedded software and secure payment products for global customers and leveraging innovative Fintech to provide personalization service, system platforms and other total solutions for customers in a wide business range including finance, government, healthcare, transportation and retails. Subsequently to the loss of significant influence and in accordance with IAS 39, the investment is initially recognized at its fair value in line with the official quoted share price on the Hong Kong Stock exchange as at May 18, 2017 for an amount equal to €48 million (Level I of the fair value hierarchy). The subsequent changes in the share price of those equity securities gave rise to a €(8.8) million loss recognized in a specific equity reserve as presented in the statement of other comprehensive income.

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31, 2017	2016
Research tax credit	41,414	20,874
Long-term deposits, net[11]	4,650	4,757
Tax receivable	10,191	14,116
Other	23,329	24,807
Total	**79,584**	**64,554**

[11] The €4,650 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31, 2017	2016
Gross book value		
Raw materials and spares	84,044	91,520
Work in progress	107,761	106,907
Finished goods	62,616	65,233
Total	**254,421**	**263,660**
Obsolescence reserve		
Raw materials and spares	(7,245)	(4,028)
Work in progress	(6,200)	(10,761)
Finished goods	(14,637)	(3,909)
Total	**(28,082)**	**(18,698)**
Net book value	**226,339**	**244,962**

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31, 2017	2016
Trade receivables	689,394	697,419
Provision for impairment of receivables	(25,540)	(18,045)
Trade receivables	**663,854**	**679,374**
Prepaid expenses	44,223	44,403
VAT recoverable and tax receivable	75,124	92,404
Advances to suppliers and related parties	12,023	12,774
Unbilled customers	161,914	141,544
Other	41,362	56,716
Total	**998,500**	**1,027,215**

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2017	2016
Cash at bank and in hand	186,824	156,075
Short-term bank deposits and investment funds	133,851	507,442
Total	**320,675**	**663,517**

The average effective interest rate on short-term deposits was 1.16% in 2017 (1.05% in 2016). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds, with maturities of less than three months.

The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	Year ended December 31, 2017	2016
Cash and cash equivalents	320,675	663,517
Banks overdrafts	(18,310)	(501)
Total	**302,365**	**663,016**

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31, 2017	2016
Non-current portion		
Bond	400,000	400,000
Deferred costs and premium on bond	(2,561)	(3,247)
Private placement	232,632	149,211
Term loan	80,000	–
Other financial liabilities	7,623	11,270
Finance lease liabilities	292	284
Total non-current portion	**717,986**	**557,518**
Current portion		
Commercial paper	260,000	169,000
Short-term loans	7,064	3,461
Bank overdrafts	18,310	501
Other financial liabilities	1,283	–
Finance lease liabilities	131	126
Total current portion	**286,788**	**173,088**
Total	**1,004,774**	**730,606**

As at December 31, 2017, Gemalto's main sources of financing are made of:

- A €400 million public bond listed in the Luxembourg stock exchange issued in September 2014 at 2.125%, ahead of the SafeNet acquisition, and maturing in September 23, 2021. The bond is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables. For information the fair value of the bond as at December 31, 2017, is €421.7 million, while its carrying amount is equal to €400 million;
- Two private placements issued in March and April 2015 for a total of €150 million and maturing between 2020 and 2030. They were booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;
- One private placement issued in April 2017 for USD 100 million and maturing in 2028. The private placement is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;
- One term loan issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;

Notes to the consolidated financial statements continued

Note 16. Borrowings continued

- €600 million committed bilateral facilities arranged with first rank banks maturing between December 19, 2019 and July 23, 2023. There are no financial covenants (financial ratios) concerning Gemalto's financial structure in the documentation of these facilities. As at December 31, 2017 and December 31, 2016 the credit lines were not drawn; and
- €500 million of French commercial paper program. As at December 31, 2017, the outstanding amount reaches €260 million (€169 million as at December 31, 2016).

Movements on borrowings

	Year ended December 31, 2017	2016
Balance as at January 1	**730,606**	**742,337**
Net proceed from private placement	83,318	–
Release of deferred costs and premium on bond and private placement	789	766
Accruals of interests on bond, private placement and other borrowings	1,536	17
Proceed from term loan	80,000	–
Proceed from commercial paper	660,000	521,000
Repayment of commercial paper	(569,000)	(538,500)
Net change in financial lease liabilities	21	131
Repayments in other financial liabilities	(2,350)	(184)
Net change in bank overdraft	18,078	(2,360)
Net change in short-term loan	2,128	(1,563)
Acquisition of subsidiaries	–	8,773
Currency translation adjustment	(352)	189
Balance as at December 31	**1,004,774**	**730,606**

The carrying amounts of Gemalto's borrowings are denominated in the following currencies:

	Year ended December 31, 2017	2016
Euro (EUR)	909,271	722,051
Polish Zloty (PLN)	379	330
Swiss Franc (CHF)	7,043	7,701
Arab Emirates Dirham (AED)	–	397
South Africa Rand (ZAR)	1,261	–
Turkish Lira (TRY)	2,077	–
Canadian Dollar (CAD)	10	19
US Dollar (USD)	84,733	108
Total	**1,004,774**	**730,606**

The nominal interest rates as at December 31, 2017 and 2016 were as follows:

									2017
		Amount	EUR	CHF	USD	PLN	ZAR	CAD	TRY
Bond	Fixed rate	397,439	2.13%	–	–	–	–	–	–
Private placement	Fixed rate	232,632	2.00%	–	4.33%	–	–	–	–
Term loan	Fixed rate	80,000	0.35%	–	–	–	–	–	–
Commercial paper	Fixed rate	260,000	(0.15)%	–	–	–	–	–	–
Other financial liabilities	n/a	8,906	n/a	n/a	–	–	n/a	–	–
Short-term loans and bank overdrafts	Floating rate	20,728	n/a	–	n/a	–	–	–	15.25%
Accrued interests	n/a	4,646	n/a	–	n/a	–	–	–	–
Finance lease liabilities	Fixed rate	423	–	–	7.40%	1.69%	–	7.40%	–
Total		1,004,774							

								2016
		Amount	EUR	CHF	USD	PLN	AED	CAD
Bond	Fixed rate	396,753	2.13%	–	–	–	–	–
Private placements	Fixed rate	149,211	2.00%	–	–	–	–	–
Commercial paper	Floating rate	169,000	(0.05)%	–	–	–	–	–
Other financial liabilities	Floating rate	11,270	n/a	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	843	n/s	–	n/a	–	n/a	–
Accrued interests	n/a	3,119	n/a	–	–	–	–	–
Finance lease liabilities	Fixed rate	410	–	–	7.40%	1.93%	–	7.40%
Total		**730,606**						

Other financial liabilities have no specific interest rate as it relates to the liabilities for additional compensation/guaranteed dividend payable to non-controlling interests. n/a: not applicable. n/s: not significant.

These funding sources do not require Gemalto to comply with any financial ratios.

Bond, commercial papers, private placements and finance lease liabilities are split by maturity as follows:

					Year ended December 31,				Year ended December 31,
					2017				2016
	Bond	**Commercial papers and private placements**	**Term loan**	**Present value of finance lease liabilities**	**Financial lease (minimum lease payments)**	Bond	Commercial papers and private placements	Present value of finance lease liabilities	Financial lease (minimum lease payments)
Not later than 1 year	8,500	266,622	284	131	138	8,500	171,993	126	135
Later than 1 year and not later than 5 years	425,500	40,676	80,354	292	296	434,000	26,449	284	290
Later than 5 years	–	239,945	–	–	–	–	143,217	–	–
Total	**434,000**	**547,243**	**80,638**	**423**	**434**	**442,500**	**341,659**	**410**	**425**
Future finance charges on finance leases					(11)				(15)
Present value of finance lease liabilities					**423**				**410**

Note 17. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31,	
	2017	2016
Present value of obligations	232,561	239,929
Fair value of plan assets	(105,845)	(106,793)
Net defined benefit liability	**126,716**	**133,136**

The Group is subject to national mandatory pension systems and other compulsory plans, or makes contributions to social pension funds based on local regulations. When the obligation of the Group is limited to the payment of the contribution into these plans or funds, the recognition of such liability is not required.

In addition, the Group has, in some countries, defined benefit plans consisting of final retirement salary, committed pension payments, long service awards (jubilees) and other schemes.

In France, the labor law and specific industry labor agreements require that a final retirement salary is paid to all French employees upon retirement, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service are also eligible for a jubilee award.

In the UK, the arrangement consisted of a funded defined benefit scheme under which retired employees draw their benefits principally as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme based on defined contributions was put in place. The plan asset held in trust is governed by local regulations and practice. Responsibility for governance of the plan, including investment decisions and contributions schedules, lies with the board of trustees. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

In Germany, labor agreements and specific company agreements require for the employees the payment of a fixed monthly lifelong pension, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service (fixed one time premium after 25, 40 or 50 years of seniority) are also eligible for a jubilee award other than some specific plans in case of the death of an employee.

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

In Switzerland, the Group's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. The plan asset is held in a life-insurance company.

Other less significant defined benefit plans exist in other countries including Finland, Israel, Italy, Mexico, United Arab Emirates and South Korea.

Movements in the net defined benefit obligation

The movements in the net defined benefit obligation over the periods ended are as follows:

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2017	**239,929**	**(106,793)**	**133,136**
Current service costs	11,846	–	11,846
Interest expense	4,189	(1,829)	2,360
Curtailment	(11,940)	3,356	(8,584)
Amount recognized in the income statement	**4,095**	**1,527**	**5,622**
Return on plan assets	–	(1,375)	(1,375)
Actuarial (gain) and loss arising from changes in demographic assumptions	(668)	–	(668)
Actuarial (gain) and loss arising from changes in financial assumptions	1,594	–	1,594
Actuarial (gain) and loss due to experience	1,228	–	1,228
Amounts recognized in other comprehensive income	**2,154**	**(1,375)**	**779**
Contributions to the plan by the employer	–	(5,897)	(5,897)
Contributions to the plan by the employee	1,195	(1,195)	–
Payments	(8,080)	2,879	(5,201)
Reclassification from other liabilities	595	–	595
Acquisition of subsidiaries	–	–	–
Currency translation adjustment	(7,327)	5,009	(2,318)
Balance as at December 31, 2017	**232,561**	**(105,845)**	**126,716**

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2016	**228,242**	**(106,284)**	**121,958**
Current service costs	12,722	–	12,722
Interest expense	4,894	(2,328)	2,566
Curtailment	(4,477)	–	(4,477)
Amount recognized in the income statement	**13,139**	**(2,328)**	**10,811**
Return on plan assets	–	(3,320)	(3,320)
Actuarial (gain) and loss arising from changes in demographic assumptions	(2,362)	–	(2,362)
Actuarial (gain) and loss arising from changes in financial assumptions	21,449	–	21,449
Actuarial (gain) and loss due to experience	(3,278)	–	(3,278)
Amounts recognized in other comprehensive income	**15,809**	**(3,320)**	**12,489**
Contributions to the plan by the employer	–	(5,844)	(5,844)
Contributions to the plan by the employee	1,264	(1,264)	–
Payments	(11,910)	6,747	(5,163)
Acquisition of subsidiaries	133	–	133
Currency translation adjustment	(6,748)	5,500	(1,248)
Balance as at December 31, 2016	**239,929**	**(106,793)**	**133,136**

Net defined benefit obligation by geographical situation

The following table sets forth the funded status of the net defined benefit obligation by geographical situation:

	Year ended December 2017					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	72,561	61,541	26,680	44,122	27,657	232,561
Plan assets at fair value	–	(44,751)	(14,121)	(32,185)	(14,788)	(105,845)
Net defined benefit obligation	**72,561**	**16,790**	**12,559**	**11,937**	**12,869**	**126,716**

	Year ended December 2016					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	76,956	60,408	24,768	49,995	27,802	239,929
Plan assets at fair value	–	(43,995)	(12,303)	(35,806)	(14,689)	(106,793)
Net defined benefit obligation	**76,956**	**16,413**	**12,465**	**14,189**	**13,113**	**133,136**

Plan assets

In France, the regulations do not provide for any obligation to fund the liability arising from the lump-sum payments made to employees upon their retirement. In the UK, Germany, Switzerland, Israel and Finland, plan assets are comprised of insurance contracts, equity securities, debt instruments and other investments. The plan assets are composed of the following:

	Year ended December 2017				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	488	32,185	10,235	42,908
Equity securities	14,450	–	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–	–
Other investments	30,301	13,633	–	4,553	48,487
Total plan asset fair value	**44,751**	**14,121**	**32,185**	**14,788**	**105,845**

	Year ended December 2016				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	–	35,806	14,576	50,382
Equity securities	14,342	–	–	–	14,342
Debt instruments (Government and corporate bonds)	10,058	480	–	–	10,538
Other investments	19,595	11,823	–	113	31,531
Total plan asset fair value	**43,995**	**12,303**	**35,806**	**14,689**	**106,793**

In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees in the UK agree and submit a funding plan to the Pension Regulator within 15 months of the valuation date for all schemes showing an asset deficit, Gemalto N.V. and the trustees of the Gemplus Limited Staff Pension Scheme reached an agreement on the ongoing funding of the scheme, which consisted of a plan to fund the deficit up to 2022 on a going concern basis and a parental guarantee put in place by Gemalto N.V. in the event that Gemalto UK Ltd was unable to fulfill its funding obligations.

Fair value estimation of plan assets

The following table shows the fair value estimation of the plan assets in UK, Germany and Switzerland for the years ended December 31, 2017 and 2016:

	Year ended December 2017			
	Level 1	Level 2	Level 3	Total
Insurance contracts	488	32,185	–	32,673
Equity securities	14,450	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–
Other investments	43,934	–	–	43,934
Total plan asset fair value	**58,872**	**32,185**	–	**91,057**

	Year ended December 2016			
	Level 1	Level 2	Level 3	Total
Insurance contracts	–	35,806	–	35,806
Equity securities	14,342	–	–	14,342
Debt instruments (Government and corporate bonds)	10,538	–	–	10,538
Other investments	31,418	–	–	31,418
Total plan asset fair value	**56,298**	**35,806**	**–**	**92,104**

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31, 2017	2016
Eurozone		
Discounting rate	1.60%	1.55%
Future salary increase	2.25% – 3%	2.25% – 3%
Inflation rate	1.50% – 2%	2.00%
UK		
Discounting rate	2.50%	2.70%
Future salary increase	n/a	n/a
Inflation rate	3.40%	3.45%
Expected rate of return on plan assets	2.50%	2.70%
Switzerland		
Discounting rate	0.65%	0.55%
Future salary increase	0.50%	0.50%
Inflation rate	0.50%	0.50%
Expected rate of return on plan assets	0.65%	0.55%

Discounting rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discounting rate to be applied for the liability calculation. Both indexes refer to Euro denominated and Sterling corporate bonds with AA rating maturing over ten years respectively. For duration exceeding ten years in the Eurozone, the discounting rate used is an extrapolation of the zero-coupon bond rate adjusted with the spread on iBoxx. In Switzerland, the Group uses Swiss high quality corporate bonds index for the liability calculation.

The assumptions in respect of discounting rate and inflation rate have a significant effect on the liability valuation. Changes to these assumptions in the light of prevailing market conditions may have a significant impact on future valuations.

Sensitivity analysis

The following table shows the sensitivity of the France, UK, Germany and Switzerland liabilities for the year ended December 31, 2017 to reasonable changes in main assumptions used, all other variables being held constant:

Increase/(Decrease) in the liability	0.5 percentage point increase	0.5 percentage point decrease	+1 Year	-1 Year
Discounting rate	(13,848)	15,644		
Inflation rate	5,695	(5,173)		
Salary growth	4,054	(3,764)		
Mortality			4,264	(4,423)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2012–2014 for France, (ii) SAPS S2PxA tables with a 1.25% long-term trend-rate for the UK, (iii) Richttafeln 2005G for Germany and (iv) BGV 2015 GT for Switzerland.

The following table sets forth the expected life of participants by geographical situation:

Year ended December 31, 2017	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	22.70	19.26	22.38
Women	22.94	24.30	23.32	24.43
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.10	21.90	24.26
Women	22.94	25.90	25.82	26.29

Year ended December 31, 2016	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	23.10	19.13	22.14
Women	22.94	25.10	23.19	24.22
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.50	21.77	24.11
Women	22.94	26.60	25.70	26.14

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2018 is €11,722. The weighted average duration of the defined benefit obligation is 15.4 years (15 years as at December 31, 2016).

Duration of the plans by geographical area:

	Year ended December 2017				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.2	20.0	14.4	18.2	12.3

	Year ended December 2016				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.54	20.0	15.97	14.1	14.05

The expected maturity of the future cash outflow is detailed as follows:

	Cash outflow		
	2018	2019	2020
Net defined benefit obligation	7,652	7,780	8,218

Note 18. Non-current provisions and other liabilities

Non-current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2017	2016
Non-current provisions	54,706	39,649
Other non-current liabilities[12]	75,266	81,831
Total	**129,972**	**121,480**

[12] The €75,266 carrying value of other non-current liabilities is assessed to be equivalent to their fair value (€81,831 in 2016).

Variation analysis of the non-current provisions is as follows:

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2017	**1,875**	**1,935**	**4,655**	**22,392**	**8,792**	**39,649**
Acquisition of a subsidiary	–	–	–	2,816	40	**2,856**
Additional provisions	2,061	24,502	180	2,442	547	**29,732**
Unused amount reversed	(439)	(762)	(1,116)	(4,638)	(106)	**(7,061)**
Used during the period	(7)	(914)	(680)	(2,420)	(53)	**(4,074)**
Reclassifications	366	(68)	–	(507)	(3,532)	**(3,741)**
Cumulative translation adjustment	(64)	–	(29)	(2,111)	(451)	**(2,655)**
As of December 31, 2017	**3,792**	**24,693**	**3,010**	**17,974**	**5,237**	**54,706**

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2016	**6,409**	**1,485**	**4,135**	**33,538**	**22,644**	**68,211**
Additional provisions	987	901	2,168	980	2,632	**7,668**
Unused amount reversed	(3,878)	(68)	(477)	(3,878)	(29)	**(8,330)**
Used during the period	(296)	(921)	(1,225)	(8,917)	(648)	**(12,007)**
Reclassifications	(1,381)	538	(9)	(3)	(15,844)	**(16,699)**
Cumulative translation adjustment	34	–	63	672	37	**806**
As of December 31, 2016	**1,875**	**1,935**	**4,655**	**22,392**	**8,792**	**39,649**

The assessment of these risks has been performed with the assistance of external counsels when needed and provisions booked when necessary as described in note 2.20.

Notes to the consolidated financial statements continued

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2017 and 2016 consist of the following:

	Year ended December 31, 2017	2016
Trade payables	205,386	227,194
Employee related payables	169,950	175,823
Accrued expenses	122,963	142,404
Accrued VAT	33,311	28,597
Deferred revenue	145,559	138,847
Other	5,079	2,902
Total trade and other payables	**682,248**	**715,767**

Note 20. Restructuring and acquisition-related expenses by nature

The restructuring and acquisition-related expenses by nature are detailed as follows:

	Year ended December 31, 2017	2016
Severance and associated costs	92,988	18,167
Transaction costs on acquisition	2,108	4,618
Write-offs and impairments	3,118	5,166
Legal and professional fees	5,478	1,495
Other costs (income), net	10,562	6,210
Total restructuring and acquisition-related expenses	**114,254**	**35,656**

The main portion of the €114 million Restructuring and acquisition-related expenses reflects expenses incurred in connection with (i) the 2017 transition plan represented €81 million (ii) the IT and facilities integration of the recent M&A activities for €10 million and (iii) the implementation of a new information system (ERP) to harmonize finance and reporting system for €15 million. The restructuring and transformation of the Group Mobile Platforms & Services business and data centers also contributed for €8 million.

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31, 2017	2016
Warranty	6,802	4,207
Provisions for loss on contracts	1,542	6,162
Restructuring and reorganization	37,022	3,428
Other	6,895	3,535
Total current provisions and other liabilities	**52,261**	**17,332**

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2017	**4,207**	**6,162**	**3,428**	**3,535**	**17,332**
Acquisition of a subsidiary	–	441	–	–	**441**
Additional provisions	4,589	1,401	36,720	4,780	**47,490**
Unused amount reversed	(957)	–	(226)	(437)	**(1,620)**
Used during the year	(501)	(9,834)	(2,293)	(1,234)	**(13,862)**
Reclassifications	(366)	3,916	(147)	249	**3,652**
Cumulative translation adjustment	(170)	(544)	(460)	2	**(1,172)**
As of December 31, 2017	**6,802**	**1,542**	**37,022**	**6,895**	**52,261**

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2016	**4,794**	**8,449**	**2,931**	**3,192**	**19,366**
Additional provisions	726	508	2,476	1,679	**5,389**
Unused amount reversed	(1,614)	(7,340)	(826)	(80)	**(9,860)**
Used during the year	(1,142)	(11,504)	(741)	(1,022)	**(14,409)**
Reclassifications	1,381	15,759	(405)	(249)	**16,486**
Cumulative translation adjustment	62	290	(7)	15	**360**
As of December 31, 2016	**4,207**	**6,162**	**3,428**	**3,535**	**17,332**

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31, 2017	2016
Embedded software & Products, excluding hedge effect	1,950,801	2,130,353
Platforms & Services, excluding hedge effect	1,035,588	1,041,757
Others	(14,672)	(45,579)
Total	**2,971,717**	**3,126,531**

"Others" includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments (see note 28).

Note 23. Costs of sales and operating expenses by nature

The costs of sales and operating expenses by nature are as follows:

	Year ended December 31, 2017	2016
Depreciation, amortization, impairment, write-offs and other provisions	161,460	151,279
Amortization and depreciation of intangibles resulting from acquisitions	513,677	57,576
Employee compensation and benefit expense (see note 24)	1,155,286	1,039,973
Change in inventories (finished goods and work in progress)	2,773	21,678
Raw materials used and consumables	1,019,430	1,008,153
Freight and transportation costs	98,853	107,387
Travel costs	56,246	56,649
Buildings and office leases	109,678	115,314
Royalties, legal and professional fees	163,283	170,752
Subcontracting and temporary workforce	101,135	95,241
Others	(45,180)	(44,417)
Total costs of sales and operating expenses	**3,336,641**	**2,779,585**

Note 24. Employee compensation and benefit expense

	Year ended December 31, 2017	2016
Wages and salaries (including severance costs recorded in restructuring and acquisition-related expenses)	1,008,166	905,375
Pension – Defined benefit plans	3,262	8,245
Pension – Defined contribution plans	36,855	36,594
Share-based compensation expense	37,011	9,238
Others	69,992	80,521
Total employee compensation and benefit expense	**1,155,286**	**1,039,973**

Note 25. Equity-based compensation plans

All share and exercise prices are expressed in Euro.

Gemalto has established a Global Equity Incentive Plan (GEIP) for its employees.

Gemalto share option and Restricted Share Unit plans (excluding Gemplus share option plans)

The GEIP authorizes the Company to grant eligible employees over the duration of the plan ending December 31, 2024 the right to acquire a maximum 14 million ordinary shares of Gemalto N.V. when vesting conditions are met.

Gemalto share options

The following table summarizes the outstanding share option plans granted by the Board of Gemalto N.V. since the creation of the Company in 2004.

	Year ended December 31,			
Grant date	Share options granted	Exercise price (Euro)	Number of options outstanding as of December 31, 2017	Number of options outstanding as of December 31, 2016
Sep-07	872,000	20.83	–	25,475
Sep-08	1,399,000	26.44	57,138	344,980
Total	**2,271,000**		**57,138**	**370,455**

Notes to the consolidated financial statements continued

Note 25. Equity-based compensation plans continued

Gemplus S.A. and Gemplus International S.A. share options

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on December 6, 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the combination public exchange offer (i.e. 25 Gemplus shares for two Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

Movements in the number of share options outstanding (Gemalto and Gemplus) and their related weighted average exercise price are as follows:

	Year ended December 31,			
	Weighted average exercise price (Euro)	Number of options outstanding as of 2017	Weighted average exercise price (Euro)	Number of options outstanding as of 2016
Beginning of the period	**26.05**	**370,455**	**25.58**	**510,256**
Forfeited	–	–	24.77	(4,000)
Exercised	25.98	(313,317)	24.31	(135,801)
End of the period	**26.44**	**57,138**	**26.05**	**370,455**

As of December 31, 2017, the average remaining life of the 57,138 outstanding options is 0.8 year. It was 1.7 years as of December 31, 2016 for the 370,455 options.

Share options outstanding (Gemalto and Gemplus) at the end of the period have the following expiry dates and weighted average exercise prices:

	Year ended December 31,			
Expiry date	Weighted average exercise price (Euro)	Number of options outstanding as of 2017	Weighted average exercise price (Euro)	Number of options outstanding as of 2016
2017	–	–	20.83	25,475
2018	26.44	57,138	26.44	344,980
Total	**26.44**	**57,138**	**26.05**	**370,455**

The above outstanding options are all vested as of December 31, 2017.

Gemalto Restricted Share Units (RSUs)

In 2017, the Board of Gemalto N.V. granted performance and/or service-based RSUs to eligible employees worldwide. The following are the characteristics of the plans:

Grant date	RSU granted	End of service period	Vesting conditions	Valuation assumptions used	RSU vested
May-17	25,830	Dec-19	Vesting conditions are service-based. RSU will vest if the employee is employed by the Company as at December 31, 2019.	Share price of €49.25. Risk free rate from Year 1 to Year 3 being minus 0.40% to minus 0.32%. Share price discount for no dividend eligibility of €1.51 per share.	none
May-17	124,000	Dec-19	Vesting conditions are both performance and service based. RSU will vest if the revenue of the acquired business for the period July 2017 to December 2018 will reach a certain target and employee is employed by the Company as at December 31, 2019. The maximum number of RSUs to be delivered may be 124,000.	Share price of €49.25. Risk free rate from Year 1 to Year 3 being minus 0.40% to minus 0.32%. Share price discount for no dividend eligibility of €1.51 per share.	none
Sep-17	416,000	Sep-20	Service based condition. The service vesting conditions is being an employee of the Company as at September 30, 2020.	Share price of €38.37. Risk free rate from Year 1 to Year 3 being minus 0.48% to minus 0.47%. Share discount for no dividend eligibility of €1.51 per share.	none
Sep-17	581,000	Sep-20	Market based conditions: RSU will vest if the Group TSR ("Total Shareholder's Return) will reach certain Board-approved targets compared to the market index STOXX Europe 600 Technology during the performance period (from October 2017 to September 2020).	Share price of €38.37 Risk-free rate of minus 0.5% Expected volatility 34.5% Monte Carlo simulation model used	none

The above table includes some Gemalto employees in China who were granted RSUs in 2017 under the GEIP.

Year ended December 31, 2017, the following RSUs granted by the Company were outstanding:

Grant date	Maximum amount granted based on performance variability	Amount forfeited	Outstanding	Remaining vesting conditions	End of service period
Mar/Apr 2014	949,500	(599,200)	350,300	performance and service	n/a
Jan-15	80,000	(76,967)	3,033	performance and service	n/a
Aug-15	789,950	(652,330)	137,620	performance and service	Aug-18
May-16	90,000	–	90,000	service	n/a
Jun-16	790,585	(125,920)	664,665	service	Jun-19
Oct-16	960,000	(509,570)	450,430	performance and service	Oct-19
May-17	25,830	–	25,830	service	Dec-19
May-17	124,000	(18,120)	105,880	performance and service	Dec-19
Sep-17	416,000	(2,500)	413,500	service	Sep-20
Sep-17	581,000	(2,500)	578,500	performance	Sep-20
Total	**4,806,865**	**(1,987,107)**	**2,819,758**		

Gemalto Employee Share Purchase Plans

Gemalto has established a Global Employee Share Purchase Plan (GESPP) for its employees.

Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing share price of October 30, 2017 or November 10, 2017. 93,147 Treasury shares were subscribed by the employees at a price, net of discount, of €27.77 per share. In China, the share purchase price paid by the employees was held by the local employer and the finalization of the transaction with the local employees was subject to approval of the State Administration of the Foreign Exchange.

Equity-based compensation expense in the income statement

The compensation expense corresponding to the amortization of the IFRS 2 value of the share options and RSUs, the GESPP and associated costs was recorded as follows:

	Year ended December 31,	
	2017	2016
Cost of sales	8,910	4,553
Research and engineering	3,978	791
Sales and marketing	12,071	496
General and administrative	12,052	3,398
Total	**37,011**	**9,238**

The associated costs amounted to €3 million (€2 million in 2016) and mainly include the accrual of French Social levies associated with the RSU.

Equity-based compensation cash inflow in the consolidated cash flow statement

Cash proceeds received from employees having exercised share options in 2017 was €10,716 (€4,296 in 2016).

Note 26. Other income and Other expenses

Other income

	Year ended December 31,	
	2017	2016
Gains on sales of non-core business	3,178	–
Compensation from customers and suppliers	2,296	288
Gains on sales of fixed assets	1,774	623
Other	3,137	2,281
Total	**10,385**	**3,192**

Other expenses

	Year ended December 31,	
	2017	2016
Impairment charge	(424,671)	–
Fixed assets write-off	(1,360)	(4,947)
Other	(462)	(3,087)
Total	**(426,493)**	**(8,034)**

Notes to the consolidated financial statements continued

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2017	2016
Interest expense	(3,867)	(5,888)
Interest expense and amortized costs on public bond, private placements, credit line facilities and commercial paper	(14,576)	(12,280)
Interest income	3,010	3,501
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(7,739)	452
Swap points of derivative instruments	(25,703)	(19,207)
Other financial income (expense), net	16,069	(846)
Financial income (expense), net	**(32,806)**	**(34,268)**

Other financial income (expense) is mainly composed of:

(i) reassessment to fair value of several financial liabilities;

(ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries in 2017; and

(iii) commitment and arrangement fees related to the unused credit lines.

Note 28. Net foreign exchange gains (losses)

The foreign exchange differences charged/credited to the income statement detail as follows:

	Year ended December 31,	
	2017	2016
Net sales	(19,409)	(49,394)
Cost of sales	(2,305)	1,490
Financial income (expense), net	(33,442)	(18,755)
Net foreign exchange gains (losses)	**(55,156)**	**(66,659)**

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 (see note 4) are recorded in sales if the underlying net exposure is a revenue (net selling position) and in cost of sales if the underlying net exposure is a cost (net buying position).

Note 29. Taxes

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

	Year ended December 31,	
	2017	2016
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	12,659	84,802
Deferred tax asset to be recovered within 12 months	25,159	26,665
Total	**37,818**	**111,467**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(99,596)	(119,709)
Deferred tax liabilities due within 12 months	(2,485)	(400)
Total	**(102,081)**	**(120,109)**
Deferred tax assets (liabilities), net	**(64,263)**	**(8,642)**

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31,	
	2017	2016
Beginning of the period	**(8,642)**	**74,395**
Acquisition of subsidiary and business	(42,508)	–
Credited to income statement	(7,922)	(55,465)
Tax credit (debit) recognized in other comprehensive income	(18,218)	(24,865)
Cumulative translation adjustment	13,027	(2,707)
End of the period	**(64,263)**	**(8,642)**

Deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 detail as follows:

	Year ended December 31,	
	2017	2016
Assets		
Loss carry-forwards	17,871	55,629
Excess book over tax depreciation and amortization	10,160	20,571
Employee and retirement benefits	12,091	17,542
Warranty reserves and accruals	377	1,502
Other temporary differences	42,938	83,346
Total assets	**83,437**	**178,590**
Liabilities		
Excess tax over book depreciation and amortization	(130,899)	(174,692)
Other temporary differences	(16,801)	(12,540)
Total liabilities	**(147,700)**	**(187,232)**
Deferred tax assets (liabilities), net	**(64,263)**	**(8,642)**

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2017	2016
Current tax	(27,765)	(52,032)
Deferred tax	(7,923)	(55,465)
Total	**(35,688)**	**(107,497)**

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the tax rate applicable in the country of incorporation of the Holding Company, i.e. the Netherlands, is as follows:

	Year ended December 31,			
	2017		2016	
	€	**%**	€	%
Profit (loss) before income tax	(388,868)		293,695	
Tax calculated at the rate of the Holding Company	97,217	(25.0)	(73,424)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	43,356		8,877	
Effect of the reassessment of the recognition of deferred tax assets	(832)		(45,881)	
Effect of utilization of tax assets not recognized in prior years	–		376	
Effect of unrecognized deferred tax assets arising in the year	(68,937)		(2,928)	
Other permanent differences	(106,492)		5,483	
Income tax credit (expense)	**(35,688)**	**9.2**	**(107,497)**	**(36.6)**

In 2017, the Company recorded an income tax charge of €(36) million on a pretax loss of €(388.9) million. This pretax loss includes a goodwill impairment of €425 million which resulted in a €118 million permanent differences in the tax proof. Deferred income tax assets are recognized for tax loss carry-forwards and other future deductions to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of December 31, 2017, Gemalto did not recognize tax assets amounting to €324.6 million (€297.3 million as of December 31, 2016) relating to tax losses and other future tax deductions. Of this amount, €282.2 million[13] related to tax loss carry-forwards amounting to €1,251.7 million[14] of which €1,163.8 million can be used indefinitely. In 2016 those amounts were €258.9 million[13], €966.2[14] million and €877.9 million respectively. Further to the US tax reform, DT positions relating to US entities have been reassessed at the new enacted tax rate. No other significant impact at December 31, 2017 have been identified. Deferred income tax liabilities have been recognized for withholding taxes and other tax payables according to applicable laws on the unremitted earnings of subsidiaries when Gemalto does not intend to reinvest its earnings and when such taxes cannot be recovered. Deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

[13] Including €200.6 million (€208.7 million in 2016) related to Gemplus International S.A. (Luxembourg) tax loss carry-forwards.

[14] Including €771.1 million (€769.1 million in 2016) for Gemplus International S.A. (Luxembourg).

Note 30. Earnings per share

	Year ended December 31,	
	2017	2016
Profit attributable to Owners of the Company	**(423,907)**	**185,726**
Weighted average number of ordinary shares – basic	89,883	88,703
Effect of dilution from share options	–	946
Weighted average number of ordinary shares – diluted	89,883	**89,649**
Basic earnings per share	**(4.72)**	**2.09**
Diluted earnings per share	**(4.72)**	**2.07**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period. However, their conversion to ordinary shares would not decrease earnings per share or increase loss per share and as such they have not been treated as dilutive.

Note 31. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2017 and 2016 is summarized as follows:

	Year ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	8,885	7,571
Share-based compensation charge	9,726	(153)
Total expenses	**18,611**	**7,418**

b) Purchases of goods and services

In 2017, the Company purchased €8,463 worth of equipment and services (€11,033 in 2016) under existing agreements from Entrust Datacard Corporation. Mr. Johannes Fritz heads the Quandt/Klatten Family office, and certain members of the Quandt/Klatten Family own the majority of Entrust Datacard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2017, total purchases from associated companies was €4,201 (€3,604 in 2016).

Notes to the consolidated financial statements continued

Note 31. Related party transactions continued

c) Sales of goods and services

In 2017, total sales to related parties amounted to €1,963 (€3,263 in 2016). In 2017, total sales to associated companies amounted to €1,075 (€35,224 in 2016).

d) Year-end balances arising from sales/purchases of goods and services:

	Year ended December 31,	
	2017	2016
Receivables from:		
Associates	394	17,321
Related parties	550	973
Total receivables	**944**	**18,294**
Payables to:		
Associates	298	283
Related parties	189	286
Total payables	**487**	**569**

All outstanding balances with these related parties are priced on an arm's-length basis.

Note 32. Commitments and contingencies

Legal proceedings

The Company is subject to legal and tax proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2017, are as follows:

	Year ended December 31,	
	2017	2016
Not later than 1 year	28,131	28,234
Later than 1 year and not later than 5 years	78,109	79,871
Later than 5 years	21,182	25,344
Total	**127,422**	**133,449**

Bank guarantees

As at December 31, 2017, bank guarantees, mainly performance and bid bonds, amounted to €167 million (€170 million in 2016). These guarantees have been issued as part of the Group's normal operations in order to secure the Group's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Group.

Microprocessor chip purchase commitments

Gemalto is committed by contracts with its suppliers of chips to purchase the whole quantity of products in safety stocks within a period of time of one year from the availability date of the safety stocks. As at December 31, 2017, the commitments to purchase these safety stocks valued at the average purchase price amounted to €16 million (€25 million in 2016).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (£28 million in 2016) equivalent to €31.8 million (€32.9 million in 2016), granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Note 33. Dividends

The AGM of May 18, 2017 has approved the distribution of a €44,964 dividend in respect of the financial year 2016.

This represents a dividend of €0.50 per share.

Note 34. Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2017 which would materially impact the consolidated financial statements of the Company.

Note 35. Consolidated entities

The companies over which Gemalto N.V. has direct or indirect control are fully consolidated in the consolidated financial statements and are listed in the following table:

Country of incorporation	Company name	Gemalto's interest
Algeria	Cogent Systems Maghreb Sarl	49%
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
	Multos International Pty Ltd	100%
	SafeNet Australia Pty Ltd	100%
	Netsize Pty Ltd	100%
Belgium	Gemventures1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
	SafeNet Tecnologia em Informatica, Ltda	100%
	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	SafeNet (BVI) Co. Ltd	100%
Canada	Gemalto Canada Inc.	100%
	SafeNet Canada, Inc	100%
Chile	Gemalto Chile Limitada	100%
China	Gemalto Smart Cards Technology Co. Ltd	100%
	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
	Cogent Systems (Shenzhen) Inc	100%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	100%
	Information Security Co Ltd Shenzen Nan	100%
	SafeNet China Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Estonia	Trüb Baltic AS	100%
Finland	Gemalto Oy	100%
France	Gemalto International S.A.S.	100%
	Gemalto S.A.	100%
	BuzzinBees S.A.S	100%
	Gemalto Treasury Services S.A.	100%
	SafeNet France S.A.R.L.	100%
	ISSM S.A.S.	100%
	Netsize S.A.	100%
	Netsize Payment S.A.S.	100%
	Newcard S.A.S.	100%
	Trusted Labs S.A.S.	100%
	TV-Card S.A.S.	100%
Gabon	Gemalto Gabon S.A.S.	100%

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Cardag Deutschland GmbH	100%
	SFNT Germany GmbH	100%
	Trüb Technology GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Cogent Systems Inc. HK Limited	100%
	SafeNet Asia Ltd	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
India	Cinterion Wireless Modules India Private Limited	100%
	Cogent Systems India private limited	100%
	Gemalto Digital Security Private Ltd	100%
	SafeNet India Private Ltd	100%
	SafeNet Infotech Private Ltd	100%
	Gemalto Smart Cards Private Limited	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Smart Cards	100%
Israel	Gemalto Israel Ltd	100%
	SafeNet Data Security (Israel) Ltd.	100%
Italy	Gemalto SPA	100%
	SafeNet Italy Srl	100%
	Netsize Srl	100%
Ivory Coast	Gemalto Côte d'Ivoire Sarl	100%
Japan	Gemalto KK	100%
	Nihon SafeNet KK	100%
Luxembourg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	Gemalto Mexico S.A. de CV	100%
	SafeNet Mexico S de RL de CV	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc sarl	100%
New Zealand	Gemalto (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Pakistan	Gemalto Pakistan (Private) Ltd	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Romania	Gemalto Services srl	100%
Russian Federation	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
	Gemalto Cogent LLC	100%
Senegal	Gemalto Senegal SA	83%
Singapore	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%

Notes to the consolidated financial statements continued

Note 35. Consolidated entities continued

Country of incorporation	Company name	Gemalto's interest
South Africa	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
South Korea	Gemalto Korea Limited	100%
Spain	Gemalto SP S.A.	100%
	SafeNet Spain SL	100%
	Netsize Espana SL	100%
Sweden	AB Svenska Pass	100%
	Netsize Internet Payment Exchange AB	100%
	SafeNet Sweden AB	100%
	Gemalto AB	100%
Switzerland	Gemalto AG	100%
	Gemplus Management & Trading S.A.	100%
	Trüb International AG	100%
	SafeNet Technologies Schweiz AG	100%
	SFNT Switzerland GmbH	100%
	Swiss Mobility Solutions S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
	Gemalto International B.V.	100%
	HAFALAD BV	100%
	SafeNet Europe B.V.	100%
	SafeNet Technologies B.V.	100%
	SFNT BV – One BV	100%
	Gemalto Finance B.V.	100%
	SFNT Netherlands Cooperatief B.A.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
	Plastkart	66%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Gemalto UK Ltd	100%
	Maosco Ltd	100%
	Gemplus Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	SafeNet UK Ltd	100%
United States of America	Gemalto IoT LLC	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Gemalto Cogent Inc	100%
	Source One Direct Inc	100%
	Cogent System Exchange, LLC	100%
	Gemalto SSD Inc	100%
	Gemalto Inc.	100%
	SafeNet Assured Technologies, LLC	100%
	SafeNet, Inc.	100%

For the aforementioned listed entities, the percentage of voting rights equals the percentage of ownership interest, with the exception of Gemalto Southern Africa Pty Ltd and Plastkart for which the percentage of voting rights are 70% and 91% respectively.

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Bulgaria	Trüb Demax Plc	50%
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	23%
	Wizway Solutions S.A.S.	25%
Japan	TGS Co. Ltd	50%
Jordan	Joint–Venture of Gemalto and Offtec Office and Banking Systems	50%
Singapore	V3 Teletech Pte Ltd	21%
Taiwan	SmartDisplayer Technology Co.,Ltd	15%
United Kingdom	Trustonic Ltd	50%

Statutory financial statements and notes of the Holding Company

Statutory financial statements of the Holding Company

Notes to the statutory financial statements of the Holding Company

Other information

Statement of financial position of the Holding Company

In thousands of Euro and before appropriation of result	Notes	Year ended December 31, 2017	2016
Assets			
Non-current assets			
Goodwill	2	345,687	746,605
Property, plant and equipment	3	25	36
Investments in subsidiaries and associates	4	2,365,975	2,013,360
Long-term loans to subsidiaries	4, 8	435,038	495,702
Other non-current assets	5	–	6,944
Total non-current assets		**3,146,725**	**3,262,647**
Current assets			
Short-term loans to subsidiaries	8	2,120	5,694
Receivables due from subsidiaries and associates		15,878	122,097
Other receivables		2,265	470
Cash and cash equivalents	6	12,185	13,557
Total current assets		**32,448**	**141,818**
Total assets		**3,179,173**	**3,404,465**
Equity			
Issued and paid in share capital	7	90,424	89,929
Share premium	7	1,303,799	1,291,795
Legal reserves	7	(71,926)	(20,402)
Other reserves	7	19,294	5,753
Retained earnings	7	1,258,275	1,117,450
Net income for the period	7	(423,907)	185,726
Capital and reserves attributable to the owners of the Holding Company		**2,175,959**	**2,670,251**
Liabilities			
Non-current liabilities			
Borrowings	9	710,071	545,964
Borrowings from subsidiaries	9	2,067	–
Other long-term liabilities	10	7,043	9,904
Total non-current liabilities		**719,181**	**555,868**
Current liabilities			
Short-term borrowing from subsidiaries	9	–	2,116
Payables to subsidiaries		15,807	51
Short-term debt	9	260,000	169,000
Other payables		8,226	7,179
Total current liabilities		**284,033**	**178,346**
Total liabilities		**1,003,214**	**734,214**
Total equity and liabilities		**3,179,173**	**3,404,465**

Income statement of the Holding Company

In thousands of Euro	Notes	Year ended December 31, 2017	2016
Revenue		–	–
Cost of sales		(8,246)	(4,436)
Gross profit		**(8,246)**	**(4,436)**
Sales and marketing expenses		(11,845)	(1,580)
General and administrative expenses		(24,588)	(13,179)
Total costs		**(36,433)**	**(14,759)**
Operating profit/(loss)		**(44,679)**	**(19,195)**
Other income		2,074	699
Changes in value of fixed assets investments		(392,617)	–
Financial income	12	21,256	21,882
Financial expense	12	(25,017)	(22,358)
Result from ordinary activities before tax		**(438,983)**	**(18,972)**
Tax on result on ordinary activities	13	35	63
Share in results of subsidiaries and associates	4	15,041	204,635
Net result for the period after tax		**(423,907)**	**185,726**

Statements of changes in shareholders' equity of the Holding Company

In thousands of Euro	Number of shares: Issued	Number of shares: Outstanding	Attributable to equity holders of the Holding Company: Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
Shareholders' equity as of January 1, 2017	**89,928,639**	**89,210,804**	**89,929**	**1,291,795**	**(20,402)**	**5,753**	**1,303,176**	**2,670,251**
Movements in fair value and other reserves:								
Currency translation adjustments					(148,745)			(148,745)
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						(2,815)		(2,815)
– Cash flow hedges, net of deferred tax					96,192			96,192
– Currency translation adjustments on fair value gains/(losses)					1,029			1,029
Equity securities – net changes in fair value						**(8,785)**		**(8,785)**
Net income recognized directly in equity					**(51,524)**	**(11,600)**	**–**	**(63,124)**
Net profit for the period							(423,907)	(423,907)
Total recognized income for 2017					**(51,524)**	**(11,600)**	**(423,907)**	**(487,031)**
Issuance of new shares	495,175	495,175	495	18,024		(18,519)		–
Equity-based compensation charge, equity-settled						33,537		33,537
Employee share option plans		421,044				10,716		10,716
Purchase of Treasury shares, net		(42,252)				(572)		(572)
Other net asset changes from associates							42	42
Acquisition of non-controlling interests				(6,020)				(6,020)
Dividends paid/payable to shareholders							(44,964)	(44,964)
Reclass actuarial gains/losses						(21)	21	–
Balance as of December 31, 2017	**90,423,814**	**90,084,771**	**90,424**	**1,303,799**	**(71,926)**	**19,294**	**834,368**	**2,175,959**
Shareholders' equity as of January 1, 2016	**89,007,709**	**88,103,992**	**89,008**	**1,240,241**	**(61,596)**	**56,637**	**1,158,525**	**2,482,815**
Movements in fair value and other reserves:								
Currency translation adjustments					34,760			34,760
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						(12,737)		(12,737)
– Cash flow hedges, net of deferred tax					4,752			4,752
– Currency translation adjustments on fair value gains/(losses)					1,682			1,682
Net income recognized directly in equity					**41,194**	**(12,737)**	**–**	**28,457**
Net profit for the period							185,726	185,726
Total recognized income for 2016					**41,194**	**(12,737)**	**185,726**	**214,183**
Issuance of new shares	920,930	920,930	921	51,554		(51,056)		1,419
Equity-based compensation charge, equity-settled						7,356		7,356
Employee share option plans		165,568				4,296		4,296
Purchase of Treasury shares, net		20,314				1,257		1,257
Other net asset changes from associates							453	453
Dividends paid/payable to shareholders							(41,528)	(41,528)
Balance as of December 31, 2016	**89,928,639**	**89,210,804**	**89,929**	**1,291,795**	**(20,402)**	**5,753**	**1,303,176**	**2,670,251**

Notes to the statutory financial statements of the Holding Company

The Company financial statements are part of the 2017 financial statements of Gemalto N.V.

All amounts are stated in thousands of Euro, except per share amounts which are stated in Euro, number of employees and unless otherwise mentioned.

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ("the Holding Company" or "Gemalto"), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements for a description of these principles).

1.2 Investments

Subsidiaries are all entities over which the Holding Company has control. The Holding Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are recognized from the date on which control is transferred to the Holding Company and derecognized from the date that control ceases. Associates are all entities over which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Holding Company calculates the net asset value using the accounting policies as described in note 2.3 of the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

When the Holding Company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement. When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognized in equity.

The Holding Company determines at each reporting date whether there is any objective evidence that investments in the associates are impaired. If this is the case, the Holding Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates in the income statement. As goodwill is included in the carrying amount of the investments in associates, it is not separately tested for impairment.

The Holding Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Holding Company only if the Holding Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the Holding Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Holding Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Holding Company will recognize a provision.

Amounts due from investments are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate.

1.3 Goodwill

Presentation of goodwill depends on the structuring of the acquisition. Goodwill is presented separately in the statutory financial statements if this relates to an acquisition performed by the Holding Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher between value in use and fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Note 2. Goodwill

	Goodwill
January 1, 2017	**746,605**
Impairment charge	(392,617)
Currency translation adjustment	(8,301)
December 31, 2017	345,687

The triggering events resulting in the impairment charge in 2017 are disclosed in note 9 of the consolidated financial statements. The impairment charge recorded in the company financial statements is lower compared to the charge recognised in the consolidated financial statements as it only reflects the impairment charge recognized on direct subsidiaries.

Notes to the statutory financial statements of the Holding Company continued

Note 3. Property, plant and equipment

January 1, 2017	Leasehold improvements and office furniture and equipment
Gross book value	84
Accumulated depreciation	(48)
Net book value	**36**
2017 movements	
Additions	2
Depreciation	(13)
December 31, 2017	
Gross book value	86
Accumulated depreciation	(61)
Net book value	**25**

Note 4. Investments and loans

	Year ended December 31,	
	2017	2016
Investments in subsidiaries and associates	2,365,975	2,013,360
Net investments in subsidiaries and associates	**2,365,975**	**2,013,360**

An overview of the movements in investments and loans is presented below:

	Net investments in subsidiaries	Investments in associates	Long-term loans to subsidiaries	Total
January 1, 2017	**2,006,433**	**6,927**	**495,702**	**2,509,062**
2017 movements				
Acquisitions	46,456			46,456
Contributions to subsidiaries and associates	415,595	4,255		419,850
Disposal of non core business	(395)			(395)
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	4,157			4,157
Liquidation of subsidiaries and associates	(375)			(375)
Fair value gains and losses	85,621			85,621
Other changes in net assets of indirect associates	42			42
Dividends and capital reductions	(77,313)			(77,313)
Other	(25)			(25)
Net result from subsidiaries and associates	19,701	(4,660)		15,041
Revaluation through Profit and Loss			(60,664)	(60,664)
Currency translation adjustment	(140,444)			(140,444)
December 31, 2017	**2,359,453**	**6,522**	**435,038**	**2,801,013**

The terms of the long-term loans to subsidiaries are disclosed in note 8. In the carrying value of the investments and loans there are no accumulated depreciation or impairment charges.

Note 5. Other non-current assets

The other non-current assets consisted of a long-term receivable (non-interest bearing) from Trustonic Ltd.

Note 6. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2017	2016
Cash at bank and in hand	12,185	13,557
Total	**12,185**	**13,557**

Note 7. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2017 and consisted of €150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €90,424 as at December 31, 2017 and to €89,829 as at December 31, 2016. The share capital consisted of 90,423,814 ordinary shares as at December 31, 2017 and of 89,928,639 ordinary shares as at December 31, 2016 with a nominal value of €1 with no specific rights attached thereto.

The Holding Company issued 495,175 new shares during 2017 for the delivery in relation to the Global Equity Incentive Plan. The amounts recorded in the share capital and the share premium were transferred from the other reserves where the "Equity based compensation charge, equity settled" was accumulated over the vesting period of the underlying Restricted Share Units.

Share premium

As at December 31, 2017, the share premium amounted to €1,303,799 (€1,291,795 as at December 31, 2016). The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

Legal reserves

Pursuant to section 373, Book 2 of the Netherlands Civil Code, the part of retained earnings in relation to non-distributable results of Group companies and associates, pension reserves, currency translation adjustments and cash flow hedges (if their balances are positive) are legal reserves.

As at December 31, 2017, Income recognized directly in equity consisted of:

	2017
Reserve for cash flow hedge	4,826
Cumulative translation adjustment	(76,752)
Total	**(71,926)**

Other reserves

As at December 31, 2017, Other reserves consisted of:

	2017
Treasury shares	(10,721)
Share option reserve	73,868
Net gains on Treasury shares in connection with the liquidity program	6,834
Net changes in fair value of equity securities	(8,785)
Reserve for actuarial gains and losses on benefit obligations	(23,638)
Treasury shares canceled	(18,923)
Other	659
Total	**19,294**

Notes to the statutory financial statements of the Holding Company continued

Note 8. Loans

Loans to subsidiaries and associates

Loans to subsidiaries and associates consist of the following:

	Year ended December 31, 2017	
Subsidiaries	Long-term loans	Short-term loans
Gemalto Inc.	419,111	
Source One Direct Inc.	15,927	
Gemalto B.V.		1,370
Associate		
Trustonic Ltd.		750
Total	**435,038**	**2,120**

The Holding Company financed its subsidiaries and associate with the following terms:

	Gemalto Inc.	Source One Direct Inc.	Gemalto B.V.	Trustonic Ltd.
Effective date	December 29, 2015	December 21, 2015	July 14, 2016	December 11, 2017
Interest	4.5%	4.5%	2%	6M EURIBOR +3%
Maximum facility	USD 500 million	USD 30 million	AED 12 million	EUR 0.75 million
Maturity	December 28, 2025	December 20, 2025	July 13, 2018	June 30, 2018

Note 9. Borrowings

Borrowings from subsidiaries

Borrowings from subsidiaries and associates consist of the following:

	Year ended December 31, 2017
	Long-term borrowings
Gemalto (Thailand) Ltd	2,067
Total	**2,067**

The Holding Company borrowed from its subsidiary with the following terms:

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010 and July 16, 2015
Interest	12M BIBOR +0.4%
Maximum facility	THB 80 million
Maturity	August 3, 2019

Borrowings

The non-current borrowings include an amount of €397,439 related to the €400 million public bond listed on the Luxembourg stock exchange issued in September 2014 at 2.125%, ahead of the SafeNet acquisition, and maturing in September 23, 2021. At December 31, 2017 the bond was booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables.

Two private placements were issued in March and April 2015 for a total amount of €150 million and maturing between 2020 and 2030. They were recorded based on the amortized cost method. The interest rates are 1.94% and 2.05% respectively for the two private placements.

One private placement is issued in April 2017 for USD 100 million which matures in 2028. The private placement is booked based on the amortized cost method and the interest rate is 4.33%. The three private placements have a carrying value of €232,632 as of 31 December 2017.

One term loan is issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on the amortized cost method and the interest rate is 0.35%.

The short-term borrowings consist of the implemented French commercial paper program for a total capacity of €500 million with the aim of both diversifying and optimizing the Company's sources of financing. As at December 31, 2017, the outstanding amount reaches €260 million. The average interest percentage is (0.15)% per annum.

Further information about the current and non-current borrowings is included in note 16 of the consolidated financial statements.

Note 10. Other long-term liabilities

The other long-term liabilities have an expected remaining lifetime of 3 years.

Note 11. Wages and salaries

	Year ended December 31, 2017	2016
Wages and salaries	2,732	2,344
Costs with respect to share (option) plans	33,537	7,356
Social security charges	183	154
Pension contributions	75	81
Other employee costs	356	296
Total	**36,883**	**10,231**

The wages and salaries include the remuneration of the Board members as further detailed in note 14. Further information about the cost with respect to the share (option) plans are included in note 25 of the consolidated financial statements. These costs contain the cost for all worldwide employees and are included in the different functional income statement categories (Cost of Sales, Sales and marketing expenses and General and administrative expenses).

The average number of staff employed by the Holding Company during 2017 was 16 (15 in 2016) based on full time equivalents excluding the Non-executive Board members. None of these employees were employed abroad (none in 2016).

Note 12. Financial income and expense

	Year ended December 31, 2017	2016
Interest and similar income	21,256	21,882
Interest and similar expenses	(16,119)	(16,571)
Exchange differences	(8,898)	(5,787)
Total	**(3,761)**	**(476)**

Note 13. Tax on result from ordinary (business) activities

The Holding Company is head of a Dutch fiscal income tax unity. The other companies included in the fiscal unity are Gemalto B.V. and Gemalto Finance B.V. The fiscal unity regime provides for a tax consolidation of Dutch resident entities within a group by filing one consolidated tax return. The Holding Company is liable for the tax activities of the entire tax fiscal unity. The Company has cumulative tax losses amounting to € 75.5 million for the years starting from year 2009; (2016: €79.7 million for the years starting 2008) accordingly no corporate income tax payable is due; no current income tax payable and no income tax charge is included in these company only financial statements with the exception of incurred withholding tax on dividends received from subsidiaries. The tax losses have not been recognized as deferred tax asset as management expects no utilization in the foreseeable future.

Note 14. Information relating to the Board

Amounts in this note are stated in Euro.

The cost incurred for the remuneration of the Board amounts to:

Remuneration of the Board

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer social charges[1]	Total
Fiscal year 2017							
Alex Mandl	Non-executive Chairman	265,000					**265,000**
Philippe Vallée	Executive Board member and Chief Executive Officer	300,000	450,000	409,424	1,074,629	550,889	**2,784,942**
Olivier Piou	Non-executive Board member	90,055				(6,295)	**83,760**
Buford Alexander	Non-executive Board member	86,000					**86,000**
Homaira Akbari	Non-executive Board member	94,000					**94,000**
Jill Smith	Non-executive Board member	58,718					**58,718**
Johannes Fritz	Non-executive Board member	93,000					**93,000**
John Ormerod	Non-executive Board member	104,433					**104,433**
Philippe Alfroid	Non-executive Board member	93,000				3,571	**96,571**
Yen Yen Tan	Non-executive Board member	86,000					**86,000**
Joop Drechsel	Non-executive Board member	97,567				3,571	**101,138**
Total		**1,367,773**	**450,000**	**409,424**	**1,074,629**	**551,736**	**3,853,562**

[1] The amount includes the employer part of the pension costs.

Notes to the statutory financial statements of the Holding Company continued

Note 14. Information relating to the Board continued

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer Social charges[3]	Total
Fiscal year 2016							
Alex Mandl	Non-executive Chairman	265,000					**265,000**
Philippe Vallée[2]	Executive Board member and Chief Executive Officer	100,000	150,000	160,160	71,397	261,104	**742,661**
Olivier Piou	(Non)-Executive Board member and Chief Executive Officer	35,000	815,000	544,544	(113,686)	454,675	**1,735,533**
Buford Alexander	Non-executive Board member	86,000					**86,000**
Homaira Akbari	Non-executive Board member	94,000					**94,000**
Drina Yue	Non-executive Board member	35,956					**35,956**
Johannes Fritz	Non-executive Board member	93,000					**93,000**
John Ormerod	Non-executive Board member	108,000					**108,000**
Philippe Alfroid	Non-executive Board member	93,000				3,562	**96,562**
Yen Yen Tan	Non-executive Board member	86,000					**86,000**
Joop Drechsel	Non-executive Board member	94,000				3,562	**97,562**
Total		**1,089,956**	**965,000**	**704,704**	**(42,289)**	**722,903**	**3,440,274**

[2] The CEO's remuneration has been paid pro rata for 2016, from September 1, 2016 until December 31, 2016.
[3] The amount includes the employer part of the pension costs.

Mr. Philippe Vallée was appointed as CEO at the 2016 AGM and his service period started as of September 1, 2016.

Mr. Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM and resigned as CEO as of September 1, 2016. As of September 1, 2016, Mr. Olivier Piou became a Non-executive Board member.

For more details on the bonus, profit sharing and grants of restricted share units of the CEO, reference is made to the remuneration report included in this Annual Report.

The cost of restricted share units recorded by the Company is based on accounting standards and does not reflect the value of the restricted share units at the grant date, nor the value at the vesting date and nor the value at the end of the blocking periods if these performance-conditioned and/or service-conditioned restricted share units vest and become available.

Remuneration of Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees, is approved by the shareholders. The remuneration is reviewed periodically by the Compensation committee. The current annual remuneration for Non-executive Board members as approved by the 2017 AGM is:

- €250,000 for the Non-executive Chairman of the Board;
- €70,000 for each other Non-executive Board member;
- An additional €16,000 for each member of the Audit committee and €30,000 for the committee Chairman; and
- An additional €8,000 for each member of every other Board committee and €15,000 for the committee Chairman.

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €3,850 in 2017.

Gemalto shares and rights to acquire Gemalto shares held by Board members

	Gemalto shares	FCPE units[4]	RSUs[5]	Gemalto share options
As at December 31, 2017	Number of shares held	Number of units purchased	Maximum number of RSUs held	Number of shares options held
Philippe Vallée	144,700	20,545	205,100	8,600
Olivier Piou	443,499	72,659	96,250	
Alex Mandl	10,000			
Total	**598,199**	**93,204**	**301,350**	**8,600**

[4] FCPE (Fonds commun de Placement d'Entreprise), which units were purchased by his contribution to the Global Employee Share Purchase Plans.
[5] Subject to performance and/or service conditions or delivery of shares.

Note 15. Auditor's fees

The aggregate fees billed by the external auditor, KPMG, for professional services rendered for the fiscal years 2017 and 2016 respectively were as follows:

2017	Fee KPMG Accountants N.V.	Fee other KPMG offices	Total fee KPMG
Audit of the financial statements	156	3,099	**3,255**
Other audit procedures		543	**543**
Fees relating to tax advice	–	–	**–**
All other non-audit fees		35	**35**
Total	**156**	**3,677**	**3,833**

2016	Fee KPMG Accountants N.V.	Fee other KPMG offices	Total fee KPMG
Audit of the financial statements	129	2,804	**2,933**
Other audit procedures	28	496	**524**
Fees relating to tax advice	–	–	**–**
All other non-audit fees	–	10	**10**
Total	**157**	**3,310**	**3,467**

Note 16. Guarantees, tax and lease commitments of the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (equivalent to €31.8 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan. The Company issued a bank guarantee of €61 thousand.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2017, are as follows:

	2017
Not later than 1 year	239
Later than 1 year and not later than 5 years	782
Later than 5 years	95
Total	**1,116**

The Board

Alex Mandl
Non-executive Chairman of the Board

Philippe Vallée
Executive Board member and Chief Executive Officer

Homaira Akbari
Non-executive Board member

Buford Alexander
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Joop Drechsel
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Olivier Piou
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Jill Smith
Non-executive Board member

Amsterdam, March 1, 2018 (A signed copy of the Annual Report is available at the Holding Company's office).

Independent auditor's report

To: the General Meeting of Shareholders and the Board of Gemalto N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2017 and of its result and its cash flows for 2017 then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying statutory financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2017 and of its result for 2017 then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2017 of Gemalto N.V. based in Amsterdam. The financial statements include the consolidated financial statements and the statutory financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following consolidated statements for 2017: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The statutory financial statements comprise:

- the statement of financial position as 31 December 2017;
- the following statements for 2017: the income statement, the statement of changes in shareholders' equity; and
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Gemalto N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

MATERIALITY

- Materiality of EUR 9.0 million
- 5.6% of adjusted profit before tax from continuing operations

GROUP AUDIT

- Coverage of 81% of revenues and 84% of total assets
- All components have been in scope for procedures

KEY AUDIT MATTERS

- Valuation of goodwill
- Acquisition of 3M's Identity Management Business
- Revenue recognition on complex contracts
- Capitalised development costs

UNQUALIFIED OPINION

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 9.0 million (2016: EUR 15.5 million). The materiality is determined with reference to adjusted profit before tax from continuing operations (5.6%), which excludes the effect of impairments on intangible and tangible fixed assets as disclosed in note 26 and excludes restructuring costs as disclosed in note 20. During 2017 the adjusted profit before tax from continuing operations decreased significantly resulting in a lower materiality. We consider adjusted profit before tax from continuing operations as the most appropriate benchmark because the main stakeholders are primarily focused on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of EUR 0.7 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Gemalto N.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of Gemalto N.V.

Our group audit is mainly focused on significant component that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect Gemalto's business volatility and dispersed geographical presence, including many emerging countries.

We have selected 27 significant components where we performed procedures. For these significant components we have:

- performed audit procedures ourselves at group level in respect of some areas in the reporting packages, such as the goodwill impairment tests, other (in)tangible asset impairments, accounting for associates and joint ventures, valuation of deferred tax assets, acquisitions and restructurings;
- and made use of the work of other KPMG auditors for 18 components for which an audit of the complete reporting package was performed and 9 components for which an audit of specific items was performed.

For some non-significant components we centrally performed specified audit procedures in relation to revenues. For the remaining non-significant components we performed desktop and analytical procedures.

The group audit team provided detailed instructions to all significant component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. We have discussed with our component auditors the audit approach, the findings and observations reported to the group audit team. File reviews were performed for the entities in the United States of America, Singapore, France, Germany, UK, Canada and in the United Arab Emirates. The group audit team visited locations in the United States of America and Germany.

By performing the procedures mentioned above at all components, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

The audit coverage as stated in the section summary can be further specified as follows:

Revenue

68%	10%	3%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures

Total assets

68%	16%	0%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Valuation of goodwill

Description
The carrying value of Goodwill as at December 31, 2017 is € 1,468 million. In 2017, the Company tested the goodwill at year end and also following a downward revision of the expected future profitability of the group at half-year, which was considered a triggering event. The impairment tests were considered to be significant to our audit due to the complexity of the assessment process and judgements and assumptions involved which are affected by expected future market and economic developments.

Our response
We challenged the cash flow projections included in the goodwill impairment tests by considering the historical trends and reasonableness of forecasts made by the management. Additionally, we critically assessed and tested management's key assumptions, methodologies, the weighted average cost of capital and information used, for example by comparing them to external and historical data, such as external market growth expectations and by analysing sensitivities in the group's valuation model. We also involved KPMG valuation specialists to assist us in these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units which included evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates. Furthermore, we focused on the impairment loss for Mobile communication recognised in the year. We also assessed the adequacy of the Company's disclosures included in note 9 in the financial statements.

Our observation
Based on the procedures performed, we consider management's key assumptions for the valuation of goodwill to be within a reasonable range and determined that the Company's disclosures meet the requirements of EU-IFRS.

Acquisition of 3M's Identity Management Business

Description
The acquisition of 3M's Identity Management Business (further referred to as Cogent) was significant to our audit due to the complexity of and the key assumptions involved in the purchase price allocation for Cogent. Pursuant to the preliminary purchase price allocation being carried out, management recognised goodwill and other intangible assets amounting to € 454 million and € 316 million, respectively.

Our response
With respect to the accounting for the Cogent acquisition, we have, amongst others:

- read the purchase agreement and verified if the appropriate accounting treatment has been applied;
- assessed the accounting of the purchase price paid and traced payments to bank statements;
- verified the identification and fair valuation of the assets and liabilities the Group acquired including any fair value adjustments; and
- assessed the valuation assumptions such as discount, tax and royalty rates by recalculating these, evaluating and challenging the assumptions used by management.

In doing so we have also involved KPMG valuation specialists to assist us in the audit of the identification and valuation of the assets and liabilities acquired. We also assessed the adequacy of the Company's disclosures included in note 5 in the financial statements.

Our observation
Based on the procedures performed, we consider management's key assumptions for the purchase price allocation for Cogent to be within a reasonable range and determined that the Company's disclosures meet the requirements of EU-IFRS.

Revenue recognition on complex contracts

Description
An increasing portion of the group's revenue is generated from large and complex contracts, including multiple components and specific clauses (such as contingency clauses). Relating to these specific clauses judgement is applied on fulfilment of contract acceptance criteria and whether the transfer of risk and rewards to the buyer has taken place to determine whether revenue and costs should be recognised in the current period. When a transaction contains multiple components, the identification of each separately identifiable component and the related allocation of the relative fair value requires management judgement.

Our response
Our procedures included amongst others, an assessment of the revenue recognition method adopted by management for complex contracts. We have tested the effectiveness of the controls instituted by management with respect to the monthly review of revenue recognition and the identification of any unusual contractual terms.

We performed detailed procedures, including testing on a sample basis underlying evidence of delivery of products or services, including contracts and third party correspondence to determine appropriate revenue recognition, through which we have also assessed the appropriateness of management's estimates in relation to the unbilled balances.

Our observation
The results of our test of management's controls and procedures to ensure appropriate recognition of revenues in accordance with EU-IFRS were satisfactory.

Capitalised development costs

Description
Capitalised development costs of €176 million are deemed significant to our audit, given the rapid technological developments in the industry which impacts technical feasibility and potential impairment triggers, as well as the specific criteria that need to be met for capitalisation. This involves management judgement, in relation of establishing technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the carrying value of assets, requires management judgement which is affected by future market or economic developments.

Our response
We have performed audit procedures to verify the accuracy and valuation of the amounts recognised. Our audit procedures included, among other things, evaluating the internal controls on capitalisation of development costs, assessing the recognition criteria for intangible assets, challenging the judgements made in capitalising development costs, including the authorisation of the stage of the project in the development phase and the accuracy of costs included and assessing the useful economic life attributed to the asset. In addition, we considered whether any indicators of impairment were present by understanding the business rationale for existing projects mainly based on technological developments. We also assessed the adequacy of the Company's disclosures in note 9 of the financial statements.

Our observation
The results of our test of management's controls and procedures to ensure appropriate recognition and valuation of capitalised development costs in accordance with EU-IFRS were satisfactory and determined that the Company's disclosures meet the requirements of EU-IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the board report which includes business overview, financial review, sustainability, risk management and governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of Shareholders as auditor of Gemalto N.V. on 22 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Board and the Audit Committee for the financial statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board should prepare the financial statements using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 1 March 2018
KPMG Accountants N.V.

T. van der Heijden RA
Appendix: Description of our responsibilities for the audit of the annual accounts

Independent auditor's report continued

Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gemalto N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board;
- concluding on the appropriateness of the Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Gemalto N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation according to the Articles of Association

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

The Board has determined to propose at the 2018 AGM, to deduct the result of the 2017 financial year from the retained earnings. In view of Thales's recommended offer for Gemalto the Board has decided not to pay a final dividend for 2017. Any final dividend paid would reduce the purchase price per ordinary share payable by Thales.

Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2017 which would materially impact the statutory financial statements of the Holding Company.

Reconciliation from adjusted financial information to IFRS

Full year period ended December 31, 2017 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	**2,971,717**					**2,971,717**
Cost of sales	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	**1,104,775**	**(89,006)**	**(38,727)**	**(8,910)**	**(9,542)**	**958,590**
Operating expenses	(795,215)	(424,671)	(75,527)	(28,101)		(1,323,514)
Profit from operations	**309,560**					
Operating profit		**(513,677)**	**(114,254)**	**(37,011)**	**(9,542)**	**(364,924)**
Financial income	(32,806)					(32,806)
Share of profit/(loss) from associates	(1,243)					(1,243)
Non-recurring profit/(loss) relating to associates	10,105					10,105
Income Tax	(109,759)					(35,688)
Net profit adjusted	**175,857**					**(424,556)**
Non-controlling interests	(649)					(649)
Net profit excluding non-controlling interests	**176,505**					**(423,907)**
Number of shares Basic	89,883					89,883
Number of shares Diluted	91,062					89,883
EPS Basic (€)	**1.96**					**(4.72)**
EPS Diluted (€)	**1.94**					**(4.72)**

Adjusted income statement by business segment

In thousands of Euro	Payment & Identity	Mobile	Patents	Full year 2017
Revenue	**1,889,302**	**1,077,678**	**4,737**	**2,971,717**
Gross profit	**735,647**	**366,086**	**3,042**	**1,104,775**
Operating expenses	(502,956)	(280,390)	(11,869)	(795,215)
Profit from operations	**232,691**	**85,696**	**(8,827)**	**309,560**

Full year period ended December 31, 2016 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	**3,126,531**	**–**	**–**	**–**	**–**	**3,126,531**
Cost of sales	(1,860,326)	(57,576)	(14,269)	(4,553)	(3,242)	(1,939,966)
Gross profit	**1,266,205**	**(57,576)**	**(14,269)**	**(4,553)**	**(3,242)**	**1,186,565**
Operating expenses	(813,547)		(21,387)	(4,685)		(839,619)
Profit from operations	**452,658**					
Operating profit		**(57,576)**	**(35,656)**	**(9,238)**	**(3,242)**	**346,946**
Financial income	(34,268)					(34,268)
Share of profit/(loss) from associates	2,059					2,059
Non-recurring profit/(loss) relating to associates	(21,042)					(21,042)
Income Tax	(132,525)					(107,497)
Net profit adjusted	**266,882**					**186,198**
Non-controlling interests	472					472
Net profit excluding non-controlling interests	**266,410**					**185,726**
Number of shares Basic	88,703					88,703
Number of shares Diluted	89,649					89,649
EPS Basic (€)	**3.00**					**2.09**
EPS Diluted (€)	**2.97**					**2.07**

Adjusted income statement by business segment

In thousands of Euro	Payment & Identity	Mobile	Patents	Full year 2016
Revenue	**1,948,277**	**1,174,439**	**3,815**	**3,126,531**
Gross profit	**793,491**	**471,165**	**1,549**	**1,266,205**
Operating expenses	(503,272)	(299,700)	(10,575)	(813,547)
Profit from operations	**290,219**	**171,465**	**(9,026)**	**452,658**

Investor information

Investor Relations policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's Investor Relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price-sensitive information is disseminated without delay through press releases and website updates.

In addition to the General Meetings, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, sustainability reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls or investor meetings. In addition, Gemalto regularly performs roadshows and participates in conferences for institutional investors. These activities further Gemalto's understanding of investor and analyst opinions. Relevant information for potential and current shareholders may be found on the Gemalto website under the link "Investor Relations" **www.gemalto.com/investors**.

Gemalto also observes quiet periods during which investor meetings of any kind are discouraged and financial aspects of the business are not discussed externally. For interim and annual publications, this covers at least 15 days prior to the publication date.

Corporate seat

Gemalto N.V. is the Holding Company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. On December 31, 2017 the Company's issued and paid-up share capital amounted to €90,423,814, consisting of 90,423,814 ordinary shares with a nominal value of €1 per share, of which 339,043 shares were held in treasury. Hence, 90,084,771 shares were outstanding as at December 31, 2017.

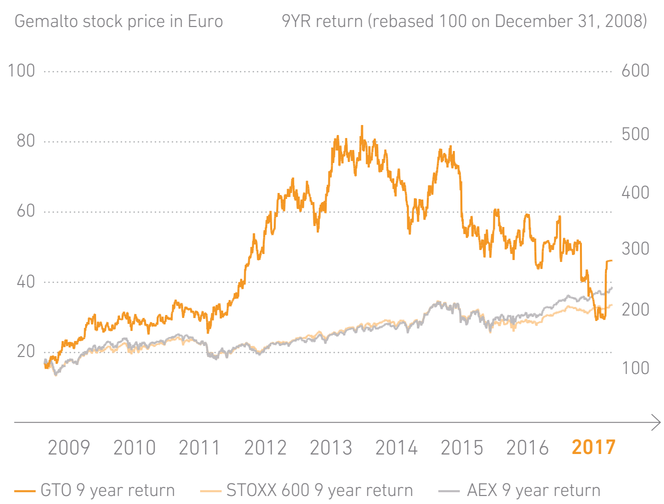
Stock exchange listing – 2016 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Amsterdam and Euronext Paris in Compartment A (Large Caps). Gemalto changed its market of reference to Euronext Amsterdam effective April 30, 2013. As a result of the change of market of reference, Gemalto's shares are no longer eligible for the French "Service à Réglements Différés" (SRD), a deferred settlement service for individual shareholders residing in France, as of April 25, 2013. SRD trades were possible until April 24, 2013.

Mnemonic: GTO
Exchange: Euronext Amsterdam, Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.AS
Bloomberg: GTO:NA, GTO:FP
Among other stock indices, Gemalto is part of the: AEX (NL0000000107), SBF 120 (FR0003999481), MSCI EMU Small Cap. and STOXX 600 Index (EU0009658202).

Gemalto is a part of the "Application Software" sub-industry within the "Information technology" industry of Morgan Stanley's Global Industry Classification Standard (GICS). Gemalto is also part of the "Software" sub-sector within the "Technology" industry of the Industry Classification Benchmark (ICB).

Share price evolution



- Average daily trading volume on Euronext exchanges in 2017: 1,171,431.
- Market capitalization as at December 31, 2017: €4,459,196,165.

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depository Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US Dollars and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in US Dollars, after being converted into US Dollars by the depository bank at the prevailing rate.

Structure: Sponsored Level I ADR
Mnemonic: GTOMY
Exchange: OTC
Ratio (ORD:DR): 1:2
DR ISIN: US36863N2080
DR CUSIP: 36863N 208

Shareholders' disclosures made to the AFM and published on the AFM website as at December 31, 2017

The following shareholding threshold disclosures were applicable as at December 31, 2017. For further information, please refer to Shareholders' disclosures, page 54.

December 19, 2017:	DNCA Finance	3.40% capital interest and voting rights
June 16, 2016:	S.N. Quandt	5.67% capital interest and voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2017 due to the following:

- Once a shareholder has disclosed a substantial shareholding to the AFM, additional disclosures are only required in case of exceeding or falling below a threshold;
- Shareholders who disclosed a substantial shareholding to the AFM above 3% and below 5% prior to July 1, 2013 and (i) held less than 3% on July 1, 2013, or (ii) held between 3% and 5% after July 1, 2013, were not required to make an additional disclosure to the AFM.

Capital interests and/or voting rights may require several disclosures by companies belonging to the same group.

Geographic spread of shareholdings

Geographical spread of identified shareholding as of December 2017

	% of outstanding capital
North America	19%
UK and Ireland	12%
Continental Europe	51%
Other	18%

Financial calendar 2018

Important dates of financial calendar

March 2, 2018	Publication of 2017 Fourth Quarter Revenue and Full Year Results
April 27, 2018	Publication of 2018 First Quarter Revenue
May 18, 2018	2018 Annual General Meeting of shareholders
August 31, 2018	Publication of 2018 Second Quarter Revenue and First Semester Results

2018 Annual General Meeting of shareholders

Gemalto N.V. will hold its 2018 Annual General Meeting of Shareholders (AGM) on Friday, May 18, 2018. This general meeting of shareholders will also be the general meeting where the Board of Directors explains the recommended cash offer from Thales S.A. as required pursuant to the Dutch Decree on Public Takeover Bids. The Annual General Meeting of Shareholders will be held at the Hilton Amsterdam Airport Schiphol, Schiphol Boulevard 701, 1118 BN Schiphol, the Netherlands.

The persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights after the close of trading on the relevant Euronext stock exchange on April 20, 2018 (the "Record Date") in Gemalto's shareholders register, or in a register of a financial institution affiliated to Euroclear France S.A., regardless of whether they are shareholders at the time of the AGM.

Dividend

In 2010 the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, 2012, 2013, 2014, 2015, 2016 and 2017 it paid a cash dividend of €0.28, €0.31, €0.34, €0.38, €0.42, €0.47 and €0.50 for the financial years of 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively. In view of Thales's recommended offer for Gemalto the Board has decided not to pay a final dividend for 2017. Any final dividend paid would reduce the purchase price per ordinary share payable by Thales. For more information on the dividend policy, please refer to Distribution of profits, page 54.

Share buy-back program

As authorized by the 2017 AGM, the Company has renewed its share buy-back program up to and including October 31, 2018. Gemalto's share buy-back program had no impact on the cash position in 2017. As at December 31, 2017 the Company held 339,043 shares in treasury, which were repurchased on the market at an average acquisition price of €31.62. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 54.

Investor Relations contact:
Gemalto shareholders service
Email: investorrelations@gemalto.com
Investor Center: www.gemalto.com/investors
Contact us at: http://www.gemalto.com/php/contactus.php

Glossary of digital security terms

3G: The third generation of wireless standards which, for the first time, combined high-speed voice, data and multimedia.

4G: The fourth generation of wireless standards offering a comprehensive, secure all-IP based mobile broadband solution to smartphones, laptop computer wireless modems and other mobile devices.

5G: The fifth generation of wireless standards (under construction) will provide increased data communication speeds as well as better data management for the Internet of Things.

Authentication: The process or action of verifying the identity of a user or process.

Big data: A collection of data sets so large and complex that they are difficult to process with traditional applications.

Biometrics: The science of analyzing physical or behavioral characteristics specific to each individual (e.g. fingerprint, iris, voice, etc.) in order to be able to authenticate their identity.

Blockchain: A continuously growing chain of blocks (records) which are secured using cryptography and cannot be deleted or modified.

Cell/cellular: Indicates the way any mobile network covers a geography, by cells, each cell being covered by a tower. A mobile phone keeps hopping on and off each contiguous cell, as it moves.

Client: A software application that runs on a personal device and relies on a server to perform some operations.

The Cloud/Cloud computing: Computing by using servers, storage and applications that are accessed via the Internet.

Contactless: A device that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

Cryptography: The creation of written or generated codes that allows information to be kept secret.

DDA (Dynamic Data Authentication): An authentication technology that allows banks to approve transactions at the terminal in a highly secure way.

DevOps: This term is a compound of 'software **DEV**elopment' and 'information technology **OP**eration**S**'. It refers to a set of practices that emphasizes the collaboration and communication of both software developers and IT professionals while automating the process of software delivery and infrastructure changes.

DI (Dual-Interface): A device that is both contact and contactless.

Digital banking: Accessing banking services via the Internet.

Digital document: Any of a range of electronic documents, including electronic ID cards, Drivers' Licenses, Health cards, etc.

Digital driver's license: A highly secure version of a physical driver's license or ID card that is stored on a smartphone.

Digital signature: An electronic signature created with a public-key algorithm that can be used by the recipient to authenticate the identity of the sender.

eCommerce: Buying and selling goods and services via the Internet.

eGovernment: The use of digital technologies (often via the Internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: Personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: The industry standard for international debit/credit cards established by Europay, MasterCard and Visa.

Encryption: The process of encoding messages or information in such a way that only authorized parties can access it.

ePassport: An electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

eSIM: The embedded SIM (also called eSIM or eUICC) is a new secure element designed to remotely manage multiple mobile network operator subscriptions and be compliant with GSMA specifications.

General Data Protection Regulation (GDPR): Is a regulation by which the European Parliament, the European Council and the European Commission intend to strengthen and unify data protection for individuals within the European Union (EU).

GSM (Global System for Mobile communications): A European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): The global association for mobile phone operators.

HSM (hardware security module): A physical computing device that safeguards and manages digital keys for strong authentication and provides cryptoprocessing.

IoT (Internet of Things): The network of connected objects and devices that are embedded with software so they can collect and exchange data.

IP (Internet Protocol): A protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

Keys: In cryptography, a key is a variable value that is applied using an algorithm to a string or block of unencrypted text to produce encrypted text, or to decrypt encrypted text. The length of the key is a factor in considering how difficult it will be to decrypt the text in a given message.

LTE (Long Term Evolution): The standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): Technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

mBanking (mobile banking): Conducting various banking and financial transactions through a mobile device connected to the Internet.

MFS (Mobile Financial Services): Banking services such as transfer and payment available via a mobile device.

MIM (Machine Identification Module): The equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MNO (Mobile Network Operator): A company that provides services for mobile phone subscribers.

mPayment (mobile payment): Using a mobile handset to pay for goods and services.

NFC (Near-Field Communication): A wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OEM (Original Equipment Manufacturer): A company that builds products using components from other companies.

OS (Operating System): Software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): A method of distributing new software updates to cellphones which are already in use.

PIN (Personal Identification Number): A secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): The software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

Platform: A system's underlying software that enables a service.

Server: A networked computer.

SIM (Subscriber Identity Module): A smart card for GSM systems.

Tokenization: In mobile payment services tokenization consists of replacing card credentials with a token. It is only the token data which is then stored in the mobile device – protecting the real card number from misuse.

TSM (Trusted Service Manager): A third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): A high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

USB (Universal Serial Bus): A standard input/output bus that supports very high transmission rates.

VPN (Virtual Private Network): A private network often used within a company or group of companies to communicate confidentially over a public network.

Wearables: The terms 'wearable technology', 'wearable devices', and 'wearables' all refer to electronic technologies or computers that are incorporated into items of clothing and accessories which can comfortably be worn on the body.

Wireless module: An industrial-grade radio chip that enables communication on cellular networks as part of the IoT.

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