gemalto
security to be free

Annual Report 2016

Trust in a connected world

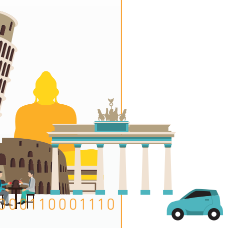
In this report

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 2016 published March 3, 2017.

For more information visit our website

www.gemalto.com



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

2016 demonstrates the strength of Gemalto's business model and ability to adapt. The structural transformation of the Company continued with Platforms & Services surpassing its annual revenue objective of €1 billion, a year ahead of the current multi-year development plan. The Company's gross margin exceeded 40% for the first time in its history.

Highlights

Revenue	Profit from operations	Cash generated from operations
€3,127m	**€453m**	**€533m**
+1% at constant exchange rates	2015: **€423m**	2015: **€425m**

Gross margin	Return on Capital Employed (ROCE)[1]	Net debt
40.5%	**11%**	**€67m**
2015: **39.0%**	2015: **12%**	2015: **€335m**

Profit margin from operations	IFRS basic earnings per share	Cash dividend per share
14.5%	**€2.09**	**€0.50**
2015: **13.5%**	2015: **€1.56**	**+6%**

[1] Adjusted financial information.

Chairman's statement

Aligning leadership, plans and expertise

"The diversity of our offers allows us to balance out our challenges with our successes."

Alex Mandl
Chairman

The Gemalto Board attaches particular importance to ensuring the quality of the Company's leadership, strategic planning, and business growth (both organic and non-organic). In 2016 we saw major developments in all three areas.

In August, Olivier Piou retired from his role as CEO – having led the Company since it was formed in 2006 and built a strong platform for continued growth. Profound thanks are due to him for his passion, vision, superior execution and leadership; and we are glad to have access to his experience through his continuing Board membership as a non-executive Director.

Since its inception, Gemalto has maintained a robust succession planning process. Having reviewed both internal and external options, we were pleased to ensure continuity of leadership by appointing Philippe Vallée – formerly COO – to the CEO role. There is great advantage in being able to appoint someone who already has deep understanding of the business, and Philippe's insight and experience will be crucial in staying ahead and serving our customers well in a fast-changing environment.

Defining – and meeting – our goals

The delivery of our current strategic development plan reflects the pace of change in our markets while the diversity of our offers allows us to balance out our challenges with our successes. As a result, we are on track to achieve many of the ambitions we set for ourselves. In particular, the anticipated "dematerialization" of our offer – with the focus shifting from manufactured products to platforms and services – has progressed even faster than we targeted.

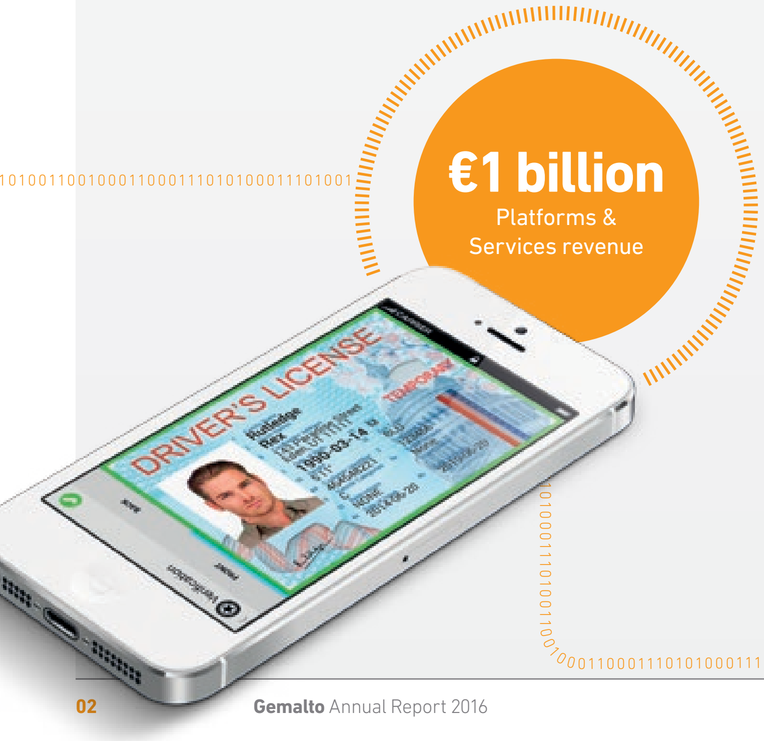
In 2016 we began preparing our next multi-year strategic development plan. Understanding and reading the markets is crucial, so that we can anticipate what our customers' needs will be and build our services around them. In our business, a lot can happen in the next four years, so flexibility and agility are key. We must plan not only to address anticipated demands, but also to respond quickly and effectively to those we cannot yet foresee.

Growing our expertise

M&A activity plays a part in this rapid-response strategy. In this environment it would be impossible to build all the capabilities we require organically: markets and technologies change too quickly. As gaps or opportunities emerge, we aim to move swiftly and incisively to build the necessary capability or capacity through acquisition. We did this in 2016 by entering into agreements to purchase 3M's Identity Management business. We have built significant expertise through strategic acquisitions, and remain alert to opportunities that will help us serve customers more completely and effectively.

Together, these developments give the Board continued confidence that Gemalto will have the right leadership, planning and capabilities to satisfy both customer and investor expectations in the years ahead.

Alex Mandl Chairman



Chief Executive's review

Growing with resilience and agility

"We have adapted well to fast-changing technologies and markets."

Philippe Vallée
Chief Executive Officer

Gemalto maintained growth in 2016, demonstrating resilience in very mixed market conditions. We advanced particularly strongly in Government Programs, and also in Enterprise Security and the Internet of Things (IoT). In Payment and Mobile Communications our progress was constrained by weakness in some key markets.

After a strong H1, our Payment business suffered from a slowdown in US migration to EMV card technology in the second half. Mobile markets were also generally weak, although we anticipate renewed potential for development as our customers move from traditional SIM-based authentication to new eSIM technology. Important groundwork for this transition was laid in 2016 with the publication of common industry standards and our participation in 18 eSIM deployments worldwide.

Regionally, our growth was led by Asia. In Europe we had significant wins in M2M, which will drive future growth, but conditions in Africa and Latin America were challenging due to the macro-economic situation.

Evolving with our customers

At the end of 2016 our business was better-balanced than ever across our different segments. We have adapted well to fast-changing technologies and markets, and in 2016 we continued to direct investment and resources towards the areas of greatest opportunity. By the year-end our Platforms and Services revenues reached the 2014-2017 multi-year plan target of €1 billion – one year early. This is a particularly welcome achievement, because Platforms and Services brings us into the heart of our customers' security architecture, deepening our understanding of their businesses so that we are better placed to meet their needs.

One increasing need is biometric expertise. In 2016 we set out to augment our biometric resources, and succeeded by announcing an agreement with 3M to acquire their Identity Management business[1]. Having this expertise in-house will strengthen our offer in government applications, where biometrics are becoming an indispensable way to enable authentication methods that are both strong and user-friendly. We also anticipate strong demand from commercial customers across all of our segments where biometrics can offer user-friendly authentication for a host of digital services.

Meeting change with agility

In developing our next multi-year strategic plan for 2018 onwards, it is clear that the Company must continue to evolve at least as fast as our markets do. While we maintain our focus on bringing trust to digital services, the balance of the business will continue to shift in favor of Platforms and Services as we develop end-to-end solutions for customers. So we are preparing our organization to adapt and evolve with agility and efficiency. We are also becoming more adept at cross-selling technologies across our different customer segments, leveraging common tools and processes.

In this, our people are key. I thank them for their part in bringing Gemalto this far, and for their continuing dedication in developing the way we partner with our customers.

Philippe Vallée Chief Executive Officer

[1] The closing of the transaction is expected in the first half of 2017, pending approval from relevant regulatory and anti-trust authorities and employee consultation where required.

What we do

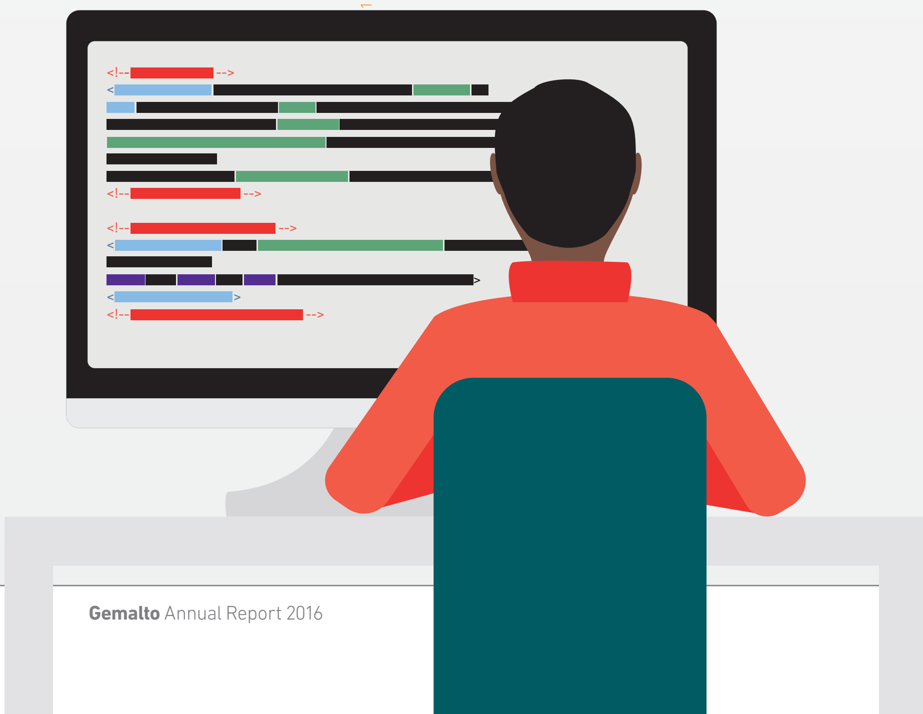
We deliver technologies that both authenticate identities and protect data to a wide range of organizations, thereby bringing trust to the digital economy.

As online and mobile interactions grow around the globe, so do data breaches and identity theft. Businesses, governments, individuals – and even things – all need to reduce their exposure to these types of risks.

Our technologies have unmatched, proven effectiveness in mitigating digital breaches and fraud. Combining cryptography with the management of digital credentials, they protect the contents of, and secure access to, digital services.

This is how we enable billions of trusted exchanges, every day.

See **page 8** for a look at how our technology creates value



Innovation

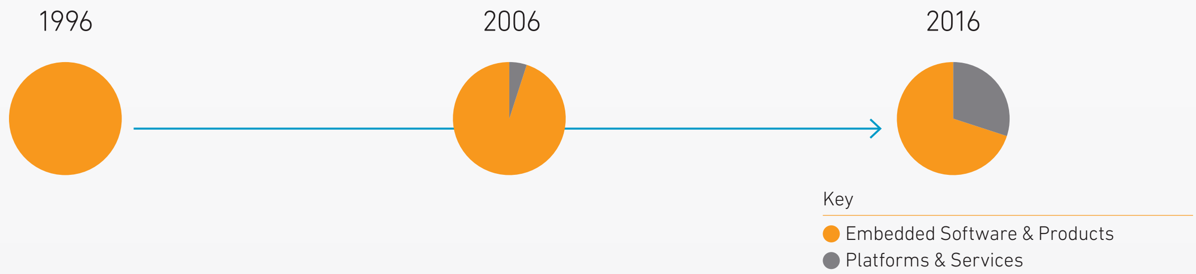
Everything we do is backed by innovation. Maintaining our leadership means constantly researching and innovating to serve our customers with technologies that improve digital security to meet changing demands and new legislation.

We have an international team of **over 3,000 digital scientists** based in our worldwide network of **30 research centers**, and in 2016 we **invested over €249 million** to maintain our market-leading position in digital security markets.

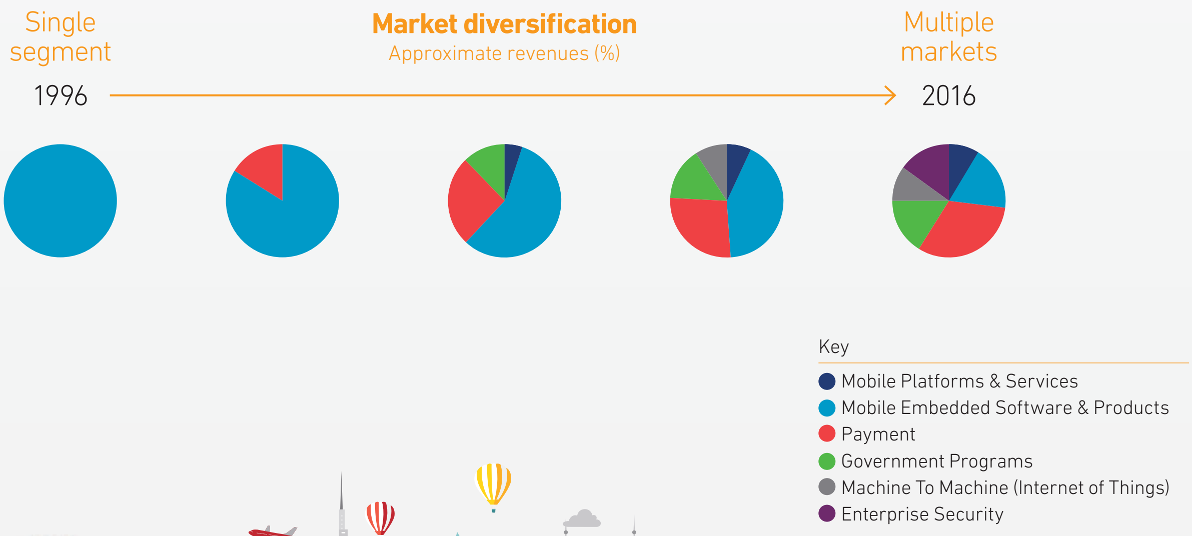
How our offer has diversified

Gemalto develops secure software. We embed it in devices or, increasingly, sell it as platforms or services. Our core technology has evolved over the years to serve new markets with better user experience while maintaining the right level of security.

The shift to Platforms & Services
Approximate revenues (%)



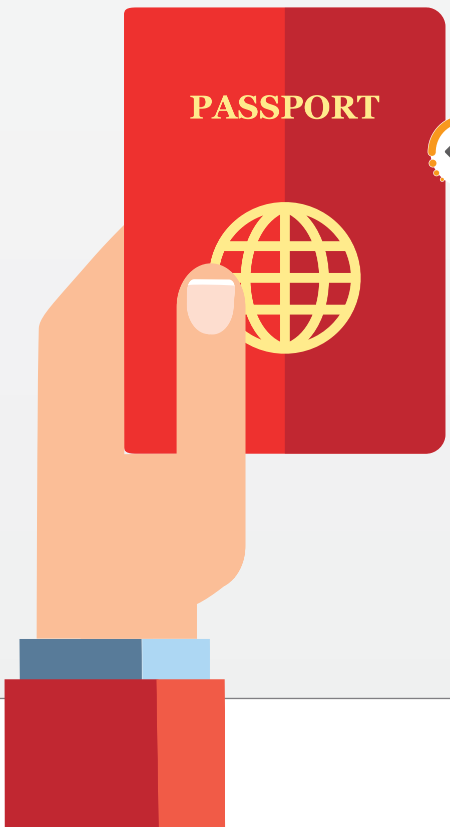
Market diversification
Approximate revenues (%)



What our offer provides

We enable our clients to deliver a vast range of **trusted digital services** for billions of individuals and things across the globe.

Securing access to mobile banking and encrypting trillions of dollars of inter-bank fund transfers

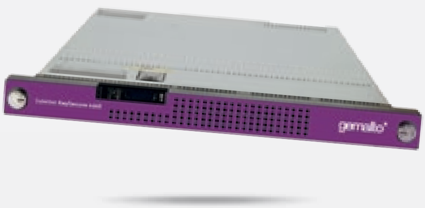


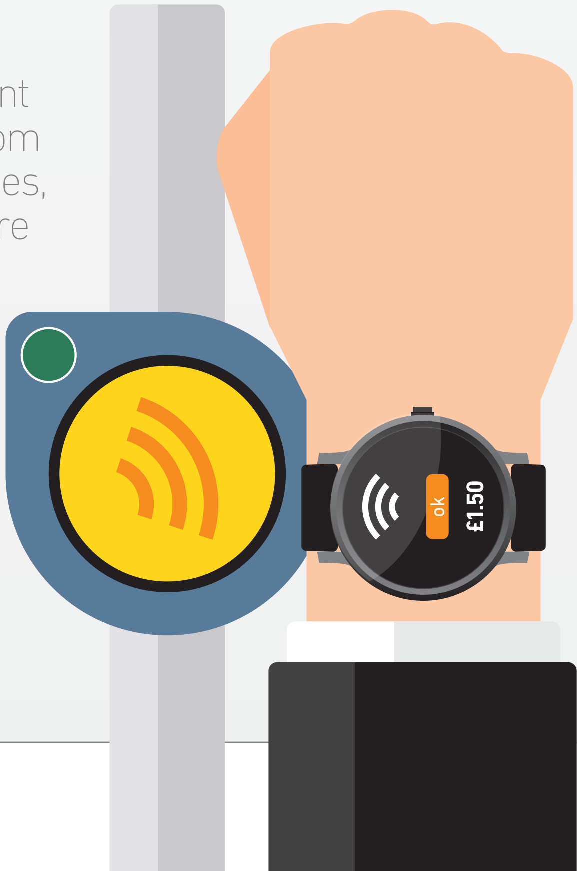
Cutting identity fraud by checking whether official ID documents are genuine or fake

Providing software companies with licensing and protection solutions for their Intellectual Property (IP)

Delivering the hardware and software to connect cars and turn mobile phones into keys

Powering the contactless payment user experience from cards, mobile phones, wearables and more





Protecting valuable data for enterprises so that it is unusable in the event of a breach

How our technology creates value

Our technologies are based on two essential, interlocking processes: authenticating people and things, and protecting data by encrypting it.

Our technology...

enables trusted exchanges

Billions of people and things with unique, protected IDs

Businesses and governments with digital assets

develops secure software

delivered as products, software and/or services

Trusted devices and documents
Embedding secure software in smart devices and identity documents used to identify people and things – e.g. ePassports, Payment Cards, eSIMs, etc.

Identity Enrollment and Issuance
Enrolling people and things to services and issuing strong identities and keys across multiple channels (hardware, devices, mobiles, etc.) – e.g. National Identity programs, payment, transport ticketing, etc.

Identity Authentication
Hardware and software authenticators that allow access to network resources. Combined with platforms to authenticate them and grant access – e.g. eBanking, eGovernment, Enterprise network services, etc.

Data Protection
Encrypting data to ensure privacy, as well as creating value, even in shared environments like the cloud – e.g. Enterprise Security, Inter-bank fund transfers, Software licensing, etc.

sold as multiple models

software and products

software licenses

services

Reducing digital fraud risk and creating value for shareholders and customers

Our strategy and objectives

Our strategy

Lead with innovation

We invest early and significantly in selected opportunities.

Replicate technologies worldwide

We use core technologies in different sectors that need security, replicating our experience over industries, geographies and time.

We build our offer around a common services infrastructure.

Retain our market neutrality

We offer and operate our solutions using a white label approach so that our clients can maintain a direct and trusted relationship with their customers.

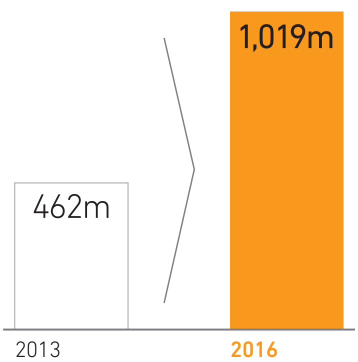
Maintain operational flexibility

We invest in acquisitions in order to accelerate access to complementary businesses, new geographies and adjacent markets.

We maintain a robust financial structure with low debt ratios.

We reached
€1 billion
in Platforms & Services revenue, one year ahead of the current multi-year development plan

Platforms & Services revenue €



Profit from operations

In October 2016, Gemalto announced that the 2017 profit from operations is expected to be between €500 million and €520 million. This outlook reflects a very adverse mobile environment and slower than anticipated migration of payment cards in 2017. It also takes into account plans for increased investments to capture growth beyond 2017.

Our main markets

Payment & Identity

The rapid proliferation of connected devices and online services is transforming the payment and identification landscape. New technologies, regulations and players are constantly emerging – increasing the need for more security to combat fraud and enable trusted, useful services between businesses, governments and the end-user.

Payment

Main market drivers

The payment ecosystem is undergoing a digital transformation, as new technologies, regulations and players lead to enhanced customer experiences and fresh customer expectations. A new generation of users are pushing service providers to develop multi-channel digital strategies that offer secure and seamless services in real-time.

At the same time, demand for EMV cards continues to grow, with 4.8 billion in circulation at the end of 2015[1]. Further growth will come from markets that have yet to migrate to smart payment cards (both contact and contactless).

Our 2016 strategy in practice

Re-use our existing offer and experience to serve banks in regions newly adopting EMV.

Make usage of eBanking security solutions widely available across mobile devices.

Accompany domestic schemes willing to adopt EMV standards for their mobile offering.

[1] Source: EMVCo.

Enterprise Security

Main market drivers

Since 2013, almost six billion personal and financial records have been compromised[1]. As more information is being created, stored and shared across the cloud, big data, IoT and mobile environments, enterprises will need more than perimeter security to protect sensitive data and identities. In addition, new government regulations such as the EU's General Data Protection Regulation are driving more stringent data privacy and security requirements.

More companies are therefore adopting encryption, key management and strong user authentication solutions in order to protect data wherever it is stored and verify the identities of the individuals who access it.

Our 2016 strategy in practice

Facilitate usage of strong authentication and data encryption to secure access to sensitive corporate resources in cloud environments.

Enable software-as-a-service providers to easily integrate license protection and advanced distribution models in their services.

[1] Source: Breach Level Index.

Government Programs

Main market drivers

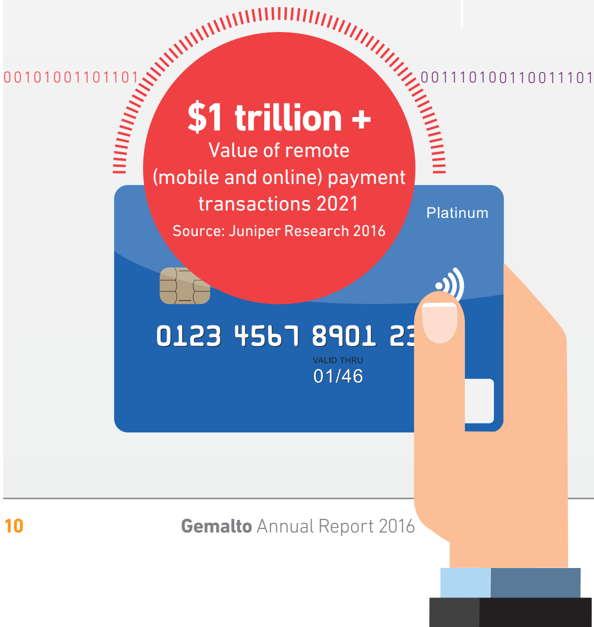
Citizens expect government transparency. They want a system that performs efficiently and protects people and their rights. It is up to governments to establish a digital framework of trust through which this modern day social bond can be maintained for the benefit of all citizens.

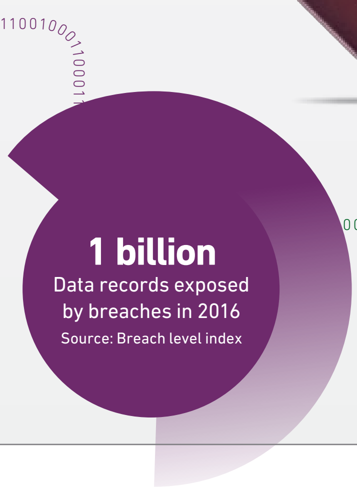
To meet these growing expectations and ensure the interoperability of the different activities they perform, governmental agencies must drastically reduce unnecessary bureaucracy, migrating from a paper-based culture to an electronic one. This essential evolution ensures that data, identities and frontiers are all secured.

Our 2016 strategy in practice

Leverage our existing offer in countries moving to secure ID documents and support the move to new types of identification such as mobile ID companion credentials.

Reinforce our presence in digital enrollment, border access control and eGovernment services.





Mobile

A growing variety of mobile devices give us access to more and more services, wherever we go. Machines, too, are increasingly connected by the Internet of Things (IoT). And a new kind of mobile connectivity is rapidly expanding in markets such as automotive, where personal and machine communications converge.

Mobile Communications

Main market drivers

As customer demands grow, mobile operators must prioritize their Customer Experience Management (CEM) strategies to differentiate themselves from their competitors. Customers expect a better, more personalized experience, and select their mobile operator accordingly. At the same time, operators must deliver a robust network that supports the increasing number of on-the-go services customers use.

Similarly, mobile threats are also evolving. As the apps in people's devices multiply – and reach into ever more sensitive areas of their lives – mobile software security technologies must adapt, to ensure every app and transaction can be trusted.

Our 2016 strategy in practice

Lead the development of a new generation of SIMs (eSIMs), pre-installed in consumer devices.

Establish leadership in subscription distribution services associated to eSIMs.

Renew security and SIM-related services on a large installed base of mobile handsets that require permanent updates to remain effective in managing fraud and optimizing network usage.

Machine-to-Machine (Internet of Things)

Industrial applications

Main market drivers

As the IoT continues its rapid expansion, new opportunities for things – such as medical devices or household appliances – to share and analyze data increases. In order to enhance the customer experience, improve operational excellence and generate new revenue streams, reliable connectivity, robust security and agile monetization are required. As the industry expands, the need to connect, monetize and secure IoT assets across a variety of wireless networks becomes more and more prominent.

It is believed that by 2026, there will be an an estimated 32.5 billion IoT connections[1], performing increasingly sophisticated roles.

Our 2016 strategy in practice

Leverage our security hardware and software expertise to bring packaged security solutions to the IoT market.

Differentiate in the market of connectivity modules with plug-&-play solutions specific to key industry sectors and tight integration of complete connectivity solutions.

Develop solutions for provisioning identities to IoT devices, regardless of the mode of connectivity.

[1] Source: Berg Insight.

Consumer electronics

Main market drivers

As mobile devices get smaller, lighter and more powerful, consumers tend to own more of them, and use them to access more and more services. All these devices need to be connected while the services they enable must be provisioned conveniently, on the move, and in complete security.

In turn, growing consumer trust and confidence are driving faster adoption and growing demand in areas such as contactless payments, authentication, ticketing and enterprise applications.

Our 2016 strategy in practice

Provide OEMs with ready-to-go technologies for securing and connecting consumer electronic devices to cellular networks.

501 million
wearable device shipments by 2021
Source: ABI Research

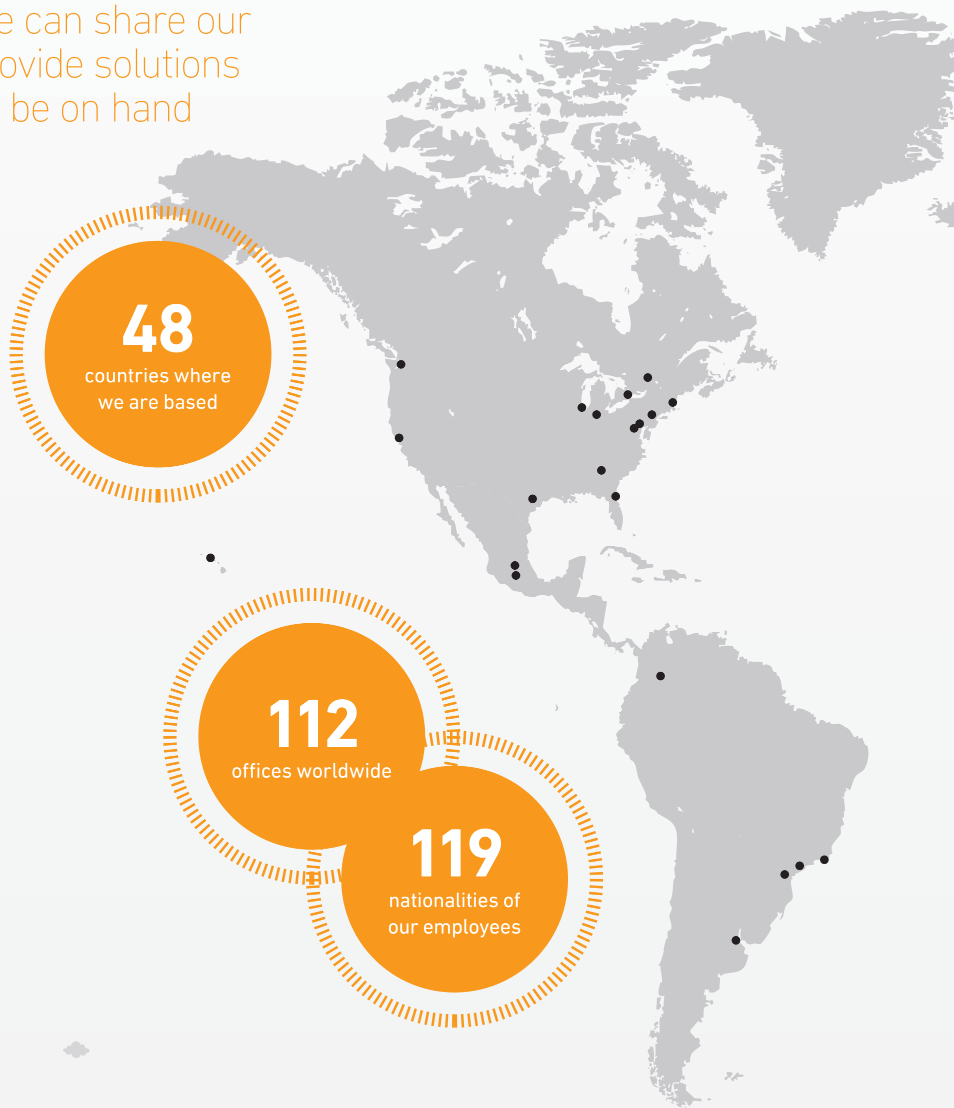
3.4
connected eSIM devices per customer in 2020
Source: Mücke Sturm 2016

32.5 billion
total number of IoT connections in 2026
Source: Berg Insight

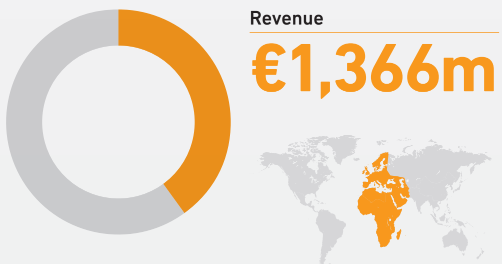
7 billion
in 2016

Our global presence

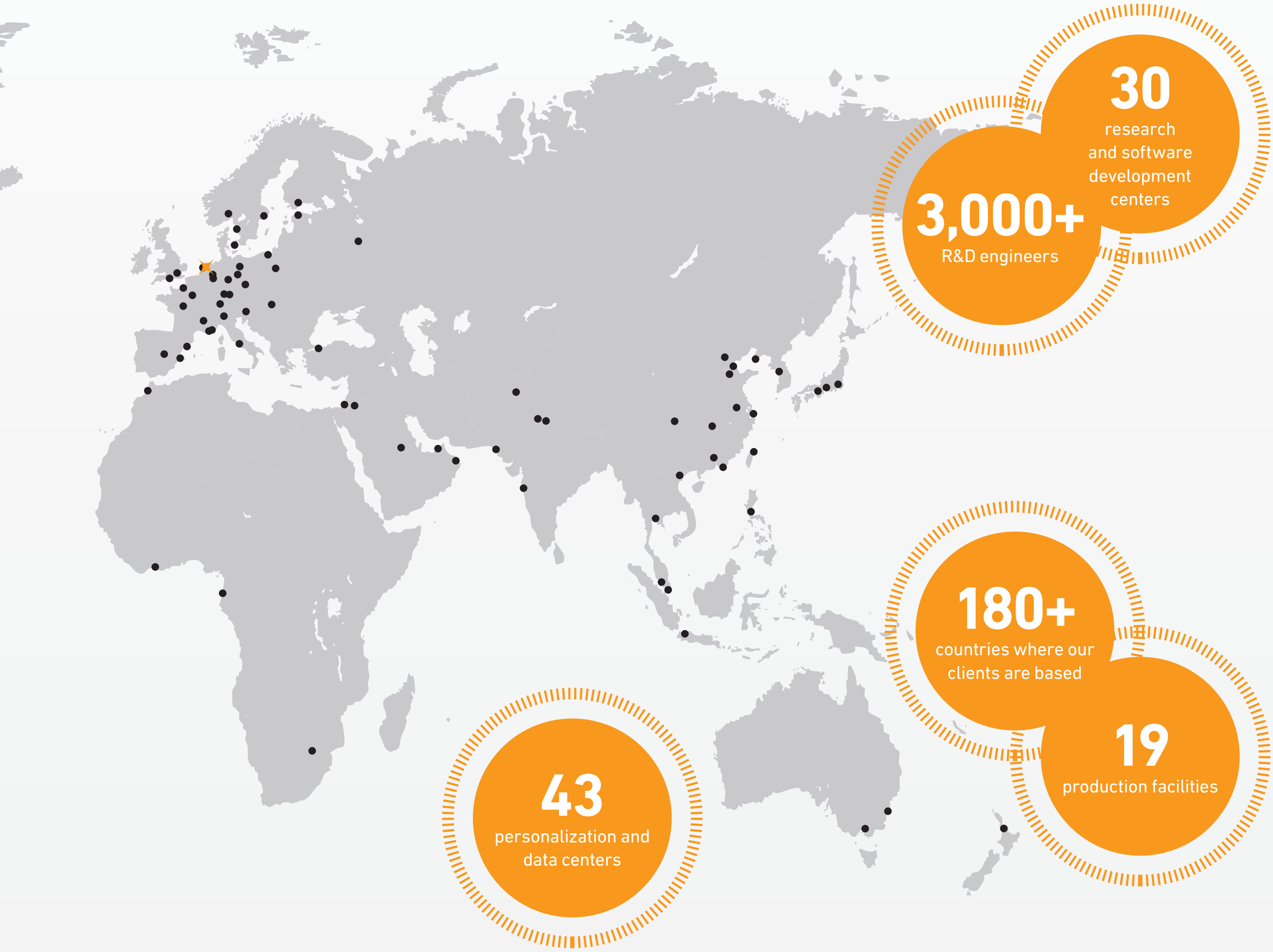
Our clients are based in over 180 countries – so our global presence is a vital asset. We can share our international experience locally, provide solutions adapted to specific conditions and be on hand to offer a personalized service.



Europe, CIS, Middle East and Africa



Gemalto N.V. is the parent company of the Gemalto Group. For more information, see Our governance structure, pages 51-57, and for a list of subsidiaries, see Note 34 Consolidated entities, pages 107-108.



Key
- Gemalto sites
- Head office

North and South America

Revenue

€1,178m

Asia Pacific

Revenue

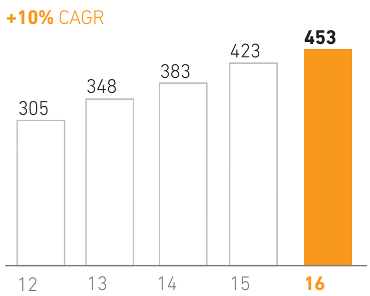
€583m

Financial review

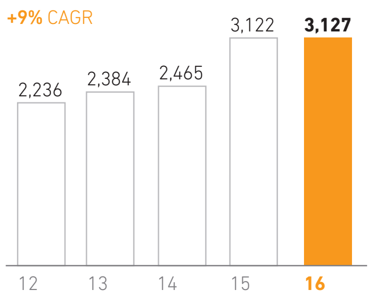
Group financial review

- Full year revenue of €3.13 billion with an acceleration in fourth quarter revenue growth
- Platforms & Services revenue exceeded €1 billion, a year ahead of the current multi-year development plan
- Company gross margin increased by +155 basis points, to 40.5%
- Profit from operations grew to €453 million with strong free cash flow of €318 million, leading to net debt of €67 million

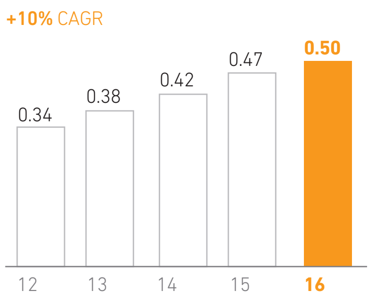
Profit from ongoing operations €m



Revenue €m



Dividend €



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 SafeNet acquisition in 2015 is part of the Enterprise 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 depreciation 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 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; (ii) the amortization of the fair value of share 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 cancelled 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, and Other income (expense) net.

EBITDA is defined as PFO plus depreciation and amortization expenses, excluding the above amortization and depreciation 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.

Group Financial Review continued

Adjusted financial information

	Full year 2016		Full year 2015		Year-on-year variations at	
Extract of the adjusted income statement	€ in millions	As a % of revenue	€ in millions	As a % of revenue	historical exchange rates	constant exchange rates
Revenue	**3,126.5**		3,121.6		=	+1.2%
Gross profit	**1,266.2**	**40.5%**	1,215.9	39.0%	+155 bp	
Operating expenses	**(813.5)**	**(26.0%)**	(793.3)	(25.4%)	(61 bp)	
EBITDA	**593.5**	**19.0%**	546.9	17.5%	+146 bp	
Profit from operations	**452.7**	**14.5%**	422.6	13.5%	+94 bp	
Net profit	**266.9**	**8.5%**	303.5	9.7%	(119 bp)	
Basic earnings per share (€)	**3.00**		3.45		(13%)	
Diluted earnings per share (€)	**2.97**		3.41		(13%)	

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.

Total revenue for 2016 came in at €3,127 million, up +1.2% at constant exchange rates and stable at historical exchange rates.

In 2016, currency translation effects generated a (1) percentage point effect on revenue generation. The hedging program which aims at partially neutralizing the impact of currency variations on the Company's profit from operations, produced a 0.3 percentage point difference in revenue in comparison to last year.

Gross profit was up by €50 million, to €1,266 million, representing a gross margin of 40.5%, up +155 basis points year-on-year. The two main segments recorded gross margin improvement that more than offset the decrease in the Patents & Others segment.

Operating expenses were up by 61 basis points to 26% of revenue, at (€814) million. This increase came mainly from the investments made in the Enterprise business as mentioned in the first semester.

As a result, profit from operations was €453 million, up €30 million year-on-year. Profit margin from operations increased +94 basis points to 14.5% compared to 13.5% in 2015.

Gemalto's financial income was (€34) million compared to (€38) million for 2015. Interest expense and amortized costs on the public bond, private placements and credit lines facilities were (€0.2) million lower, at (€12) million in 2016 while foreign exchange transactions and other financial items amounted to (€20) million versus (€24) million a year ago, mainly due to currency variation impacts.

Share of profit in associates was €2 million for the full year 2016, stable compared to 2015. Net impairment of associates recorded (€21) million in 2016, versus nil in 2015, mainly due to the change in market capitalization of an associate.

As a result, adjusted profit before income tax and net impairment of associates came in at €420 million compared to €387 million the previous year, an increase of +9%.

Adjusted income tax expense increased to (€133) million, compared to (€83) million the previous year. This (€49) million expense increase mainly reflects the estimated non-cash deferred tax asset reduction following Gemalto's 2017 profit from operations outlook.

Excluding this non-recurring impact, the effective tax rate for the Company would have been 20% this year. This 2016 exceptional charge has no impact on the expected normative effective tax rate going forward.

As a result, the 2016 adjusted net profit for the Company was €267 million, leading to adjusted basic earnings per share of €3.00, and adjusted diluted earnings per share of €2.97 compared to adjusted basic earnings per share of €3.45, and adjusted diluted earnings per share of €3.41 in 2015.

Platforms & Services

Revenue from Platforms & Services activity (€ in millions)	2016	2015	Year-on-year variations at constant exchange rates	Year-on-year variations at historical exchange rates
Mobile	**251**	248	+3%	+1%
Payment & Identity	**768**	650	+19%	+18%
Total	**1,019**	898	+15%	+13%

IFRS results

Amortization and depreciation of intangibles resulting from acquisitions came in at (€58) million versus (€61) million in 2015. Restructuring and acquisition-related expenses decreased by €13 million to (€36) million, and came mainly from IT and facilities integration costs, implementation of a new information system (ERP) to harmonize finance and reporting systems, and optimization of data centers. The Gemalto equity-based compensation charge was markedly lower to (€9) million versus (€39) million for the same period of last year. This reflects mainly the lower estimated number of restricted share units to be delivered upon vesting based on the expectation of 2017 profit from operations. Fair value adjustments related mainly to the non-cash amortization of the IFRS revaluation of SafeNet's pre-acquisition deferred revenue accounted for (€3) million in 2016 compared to (€71) million in 2015.

As a result, Gemalto recorded an increase of €144 million in its IFRS operating profit (EBIT), at €347 million in 2016 compared to €203 million a year ago. This performance mainly reflects the increase in operating profitability, the marginal effect of the non-cash IFRS fair-value adjustments related to SafeNet's pre-acquisition deferred revenue in 2016 and the decrease in restructuring & acquisition-related expenses.

The income tax charge increased to (€107) million compared to (€31) million the previous year. This increase in expense mainly reflects the estimated non-cash deferred tax asset reduction following Gemalto's 2017 profit from operations outlook.

Consequently, IFRS net profit increased by +36% at €186 million for 2016 versus €137 million in 2015.

Overall, IFRS basic earnings per share and diluted earnings per share came in at €2.09, up +34% and €2.07, up +34% in 2016, compared to €1.56 and €1.54 respectively in 2015.

Group Financial Review continued

Cash position variation schedule

€ in millions	Full year 2016	Full year 2015
Cash and bank overdrafts, beginning of period	**405**	**1,057**
Cash generated by operating activities, before changes in working capital	**468**	**443**
Net change in working capital	(23)	65
Cash used in restructuring actions and acquisition related expenses	(36)	(29)
Net cash generated by operating activities before Time de-correlated hedging effect/(Prepaid derivatives)	**409**	**479**
Time de-correlated hedging effect/(Prepaid derivatives)	49	(124)
Net cash generated by operating activities	**458**	**355**
Capital expenditure and acquisitions of intangibles	(140)	(185)
Free cash flow	**318**	**170**
Interest received	3	3
Cash used by acquisitions	(3)	(897)
Other cash provided by investing activities	4	–
Currency translation adjustments	3	5
Cash generated (used) by operating and investing activities	**325**	**(719)**
Cash generated (used) by the liquidity and share buy-back programs	1	(3)
Dividend paid to Gemalto shareholders	(42)	(37)
Net proceed (repayment) from/of financing activities	(14)	117
Interest paid	(15)	(13)
Other cash provided (used) by financing activities	3	2
Cash and bank overdrafts, end of period	**663**	**405**
Current and non-current borrowings excluding bank overdrafts, end of period	(730)	(740)
Net (debt), cash, end of period	**(67)**	**(335)**

Statement of financial position and cash position variation schedule

For the full year 2016, operating activities generated a cash flow of €468 million before changes in working capital, up +6%, compared to the €443 million generated in 2015. Change in working capital reduced the cash flow generation by (€23) million in 2016 compared to a positive €65 million impact in 2015. Net trade and other payables reduced due to advance payments received from customers in 2015. Net trade receivables increased towards the end of the year with the growth in Government Programs, Machine-to-Machine and Enterprise.

Capital expenditure and acquisition of intangibles amounted to (€140) million, i.e. 4.5% of revenue compared to 5.9% in 2015. Property, Plant, and Equipment accounted for (€63) million in 2016, lower by (€35) million compared to the high level of 2015 that was related to initial investments made to support the strong start in payment business in the United States. Acquisition and capitalization of development expenses represented (€77) million, with capitalization of development expenses representing 2.0% of revenue in 2016.

As a result, in 2016 Gemalto generated strong free cash flow of €318 million increasing by +87% compared to €170 million in 2015.

Acquisitions used (€3) million in 2016 versus (€897) million in 2015 which had seen the closing of both the SafeNet and Trüb acquisitions.

Gemalto's share buy-back and liquidity programs generated a €1 million net cash inflow in 2016. As at December 31, 2016, the Company held 717,835 shares i.e. 0.8% of its own shares in treasury. The total number of shares issued increased by +920,930 in 2016 to 89,928,639 and, net of the 717,835 shares held in treasury, 89,210,804 shares were outstanding as at December 31, 2016. The average acquisition price of the shares repurchased on the market by the Company and held in treasury as at December 31, 2016 was €40.46.

On May 26, 2016, Gemalto paid a cash dividend of €0.47 per share in respect of the fiscal year 2015, up +12% on the dividend paid in 2015. This distribution used €42 million in cash.

Net proceeds from financing activities generated a (€14) million cash outflow, mainly coming from commercial paper repayment.

Cash in hand, net of bank overdrafts amounted to €663 million versus €405 million at the end of 2015.

Considering the €730 million total amount of borrowings as at December 31, 2016, Gemalto's net debt position was reduced to €67 million compared to a net debt position of €335 million at the end of 2015. This significant (€268) million variation is due to the strong free cash flow generated by the Company over the last twelve months. The Company net debt currently represents 0.1 times its EBITDA.

Outlook

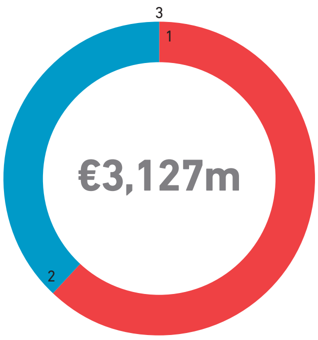
For 2017, Gemalto expects its profit from operations to be between €500 million and €520 million supported by positive trends in Government Programs, Machine-to-Machine, Enterprise and taking into account the adverse mobile environment and slower migration of payment cards in the United States.

The Company expects to finalize the acquisition of 3M Identity Management business in the first semester of 2017 and will update its 2017 outlook after the closing.

Segment financial review

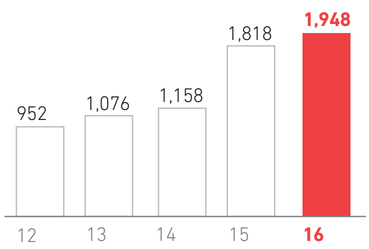
Revenue by segment

1. Payment & Identity	62%
2. Mobile	38%
3. Patents & Others	0%



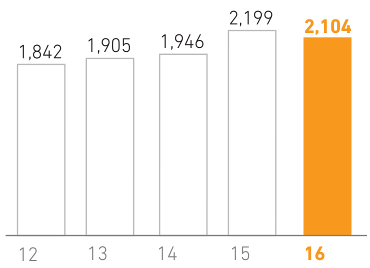
Revenue
Payment & Identity €m

+20% CAGR



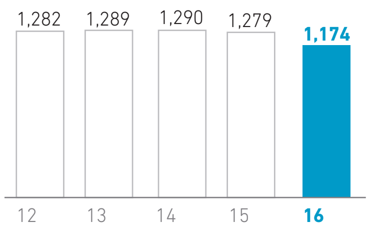
Revenue
Embedded software & Products €m

+3% CAGR



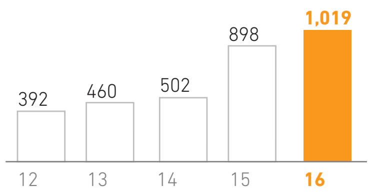
Revenue
Mobile €m

(2)% CAGR



Revenue
Platforms & Services €m

+27% CAGR



Full year 2016

	by segment			by activity	
(€ in millions)	Payment & Identity	Mobile	Total including Patents & Others	Embedded software & Products	Platforms & Services
Revenue	1,948	1,174	3,127	2,104	1,019
As a percentage of total revenue	62%	38%	100%	67%	33%
Gross profit	793	471	1266		
Profit from operations	290	171	453		

Segment information

Revenue variations are expressed at constant currency exchange rates unless otherwise noted.

During the fourth quarter, revenue expanded by +3% at constant exchange rates and historical exchange rates. The Payment & Identity segment grew by +8% in the fourth quarter. The strong performance of Enterprise and Government Programs during the fourth quarter more than offset lower sales in Payment. Mobile segment revenue was lower by (2%) in the fourth quarter compared to 2015. In that segment, the sales trend improved compared to the first nine months of 2016, with a slower decrease in SIM sales and +13% expansion in the Machine-to-Machine business as well as in the Mobile Platforms & Services activity.

Overall, the diversification of the Company has again been reinforced in 2016 with Payment & Identity now accounting for 62% of the Company revenue, compared to 58% last year.

In 2016, Embedded software & Products revenue decreased by (3%) mainly due to lower SIM sales to mobile network operators and payment cards revenue in China. Platforms & Services exceeded the €1 billion mark one year ahead of the current multi-year development plan, to represent 33% of total Gemalto revenue in 2016. The expansion in the Platforms & Services activity has been supported by a double-digit growth in each of the Payment & Identity segment's businesses while the Mobile Platforms & Services activity grew by +3% over the year.

Full year profit from operations increased by +7% year-on-year. In 2016, the Payment & Identity segment recorded a +22% increase in profit from operations and the Mobile segment profit from operations was lower by €1 million compared to 2015. This performance was driven by the gross margin improvement in the two main segments which largely offset the operating loss from the Patents & Others segment.

Segmental review

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	Gross margin
€1,948m	**40.7%**
2015: €1,818m	up +2.3 percentage points

Profit from operations	Profit margin operations
€290m	**14.9%**
2015: €239m	up +1.8 percentage points

Payment & Identity

Payment & Identity's full year revenue came in at €1,948 million, increasing by +9% at constant exchange rates compared to 2015. The segment's Embedded software & Products sales were up by +3% at €1,180 million and its Platforms & Services sales were up by +19% to €768 million.

The Payment business came in at €998 million, up by +2% in 2016 versus 2015 with moderate revenue growth in both the Americas and the Europe, Middle East & Africa regions. The lower sales in China were fully offset by an increase in revenue from the rest of Asia. In 2016, performance was contrasted between the semesters with second semester revenue lower year-on-year due to the high comparison basis in the United States related to the 2015 EMV liability shift deadline. Payment Embedded software & Products sales were lower by (4%) and Payment Platforms & Services revenue expanded by +24% compared to 2015.

Revenue from the Enterprise business came in at €462 million in 2016, up +10% when compared to 2015. The trend in revenue mix within the authentication business line continues to move towards a higher proportion of software and services. The Enterprise business increased its sales coverage expanding Gemalto's network of technology partners. It also accelerated investment in its R&D in order to strengthen the Company's offering to meet increasing market demand for cybersecurity solutions.

Revenue from the Government Programs business came in at €488 million, up +26% at constant exchange rates compared to 2015. Government Programs posted an outstanding fourth quarter revenue performance with the completion of a large scale project and increased deliveries from the finalized transformation of a production site. Government Programs Embedded software & Products revenue was up +21% and Government Programs Platforms & Services sales were up +39% in 2016 compared to 2015.

The Payment & Identity segment's gross margin improved to 40.7%, up +2.3 percentage points compared to 2015, with the optimization of the Payment business and the expansion of the Enterprise business.

Operating expenses grew to (€503) million in 2016, in large part due to investments made in the Enterprise business as well as the shift of internal resources to this segment in order to capture the market growth of Government Programs.

As a result, profit from operations in Payment & Identity came in at €290 million, up +22% from the €239 million recorded in 2015, leading to a 14.9% profit margin from operations, up +1.8 percentage points.

Government

Piloting digital drivers' licenses in the US

Through a grant awarded by the U.S. National Institute of Standards and Technology (NIST), Gemalto is partnering with Colorado, Idaho, Maryland and Washington D.C. to pilot digital drivers' licenses (DDL) in these jurisdictions. Building on a common need for trusted infrastructure, the pilot responds to the growing trend towards consumer mobility and digital dependence, especially among those aged 18–29. Serving as a companion to the physical ID card, this interoperable, smartphone-based solution will address enrollment, document updates, attribute sharing and law enforcement.

Enterprise Security

Helping YES BANK become a leader in India's next-generation online payments system

YES BANK is one of India's largest banks and a front runner in implementing the country's new Unified Payments Interface. This enables account holders to send and receive money from their smartphones without entering any bank account information. Our HSM platform (Hardware Security Module) provides the keys for digital signing with end-to-end security and encryption that make it a payment process people can trust.

Payment

How Norway's post office is getting instant ID verification all wrapped up

How do you counter identity fraud? Norway's national post and logistics service will soon be able to, using our ID verification technology. Specialized scanners will enable branch staff to detect if an ID document is genuine by instantly checking it against our global database. Using our secure solution Norway's national post will become a trusted third party, verifying customer identities for banks and other service providers in the country.

Payment

Cloud-based mobile payment supporting Apple Pay in Japan

Gemalto and Dai Nippon Printing (DNP) are providing a cloud-based payment service supporting Apple Pay. This service provides credit, debit and prepaid card companies with a cloud-based payment solution to deploy highly secure payment with smartphones thanks to a tokenization technology which replaces a credit card number with a surrogate number. Major credit card issuers have announced their participation in Apple Pay, so they can offer their customers this convenient and private way to pay.

Segmental review

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
€1,174m	**40.1%**
2015: €1,279m	up +1.4 percentage points

Profit from operations	Profit margin operations
€171m	**14.6%**
2015: €172m	up +1.1 percentage points

Mobile

The Mobile segment recorded annual revenue of €1,174 million, (8%) lower year-on-year at constant exchange rates and historical exchange rates.

Embedded software & Products revenue for the segment came in at €924 million, (11%) lower compared to 2015 at constant exchange rates. SIM sales decreased by (19%) at €605 million for 2016. This was mainly due to the tail-end effect of the closure of a mobile payment venture in the United States, coupled with lower demand in Latin America and Africa. Conversely, the Machine-to-Machine business continued to grow, by +11% year-on-year, at €319 million on the back of expanding global demand of connected devices and embedded secure elements for the Internet of Things (IoT).

Platforms & Services revenue for the segment came in at €251 million, up by +3%. In 2016, Gemalto's Mobile Subscriber Services business reached important milestones with more than 20 references on embedded SIMs remote activation and management. Gemalto is deeply involved in setting up the ecosystem, as device manufacturers and mobile network operators adopt the GSMA specifications for the consumer device market published in the fourth quarter of 2016.

Gross margin for the Mobile segment was 40.1% in 2016, up by +1.4 percentage points compared to 2015. Operating expenses decreased to (€300) million from (€322) million in line with the trend observed in the first semester of 2016 due to the shift of part of the segment's resources to the growing Payment & Identity segment.

As a result, profit from operations came in at €171 million, i.e. a 14.6% profit margin from operations, up +1.1 percentage points on 2015.

1st

device equipped with a built-in eSIM

Mobile Communications

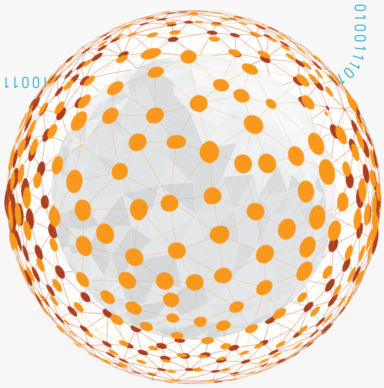
Orange teams up with Gemalto and Samsung to launch the first smartwatch that's also a phone

Now you can leave your smartphone at home. This Samsung smartwatch has a built-in eSIM that allows you to receive calls, messages and app notifications synchronized with your phone – wherever your phone may be. To launch the watch in France, Orange chose Gemalto to provide the secure solution that makes all this possible.

Mobile Communications

Creating a network of networks

With IoT-connected devices now in the billions, finding a solution that makes it easier to deploy innovative connected services across multiple countries would simplify design, manufacturing and deployment processes. Working with Bridge Alliance, a partnership of over 35 operators serving more than 750 million customers in Asia, the Middle East and Africa, we have developed an interoperable specification for instant connectivity that allows any IoT device to connect to any Bridge Alliance affiliate's network.



Internet of Things

Connecting cars throughout their life-cycle

Gemalto is fitting PSA Group's next generation of connected cars with its On-Demand Connectivity solution, giving the group, which includes Peugeot, Citroën and DS, complete flexibility over subscription management throughout the automotive life-cycle. The solution, which can be deployed across all models and regions, allows the automobile manufacturer to customize connectivity packages to different customer and market needs around the world, as well as manage their fleet and software updates remotely.

Internet of Things

Securing China's IoT market

Gemalto has teamed up with Alibaba to provide connectivity and security for YunOS, Alibaba's cloud-based data and services-oriented IoT operating system which connects cars, smart homes and mobile devices all across China and other regions. Our trusted solution allows easy provisioning of security sensitive applications throughout the identity life-cycle management, creating a uniform identity framework for disparate IoT applications.

Sustainability

Sustainability overview

As a leader in digital security, we help to provide the trust that underpins stable and sustainable communities. Our solutions help billions of people every day, and enable our customers to offer their services in trusted and sustainable ways. We also aim to make the most of our opportunities for contributing to society – from supporting health and welfare systems to promoting financial inclusion.

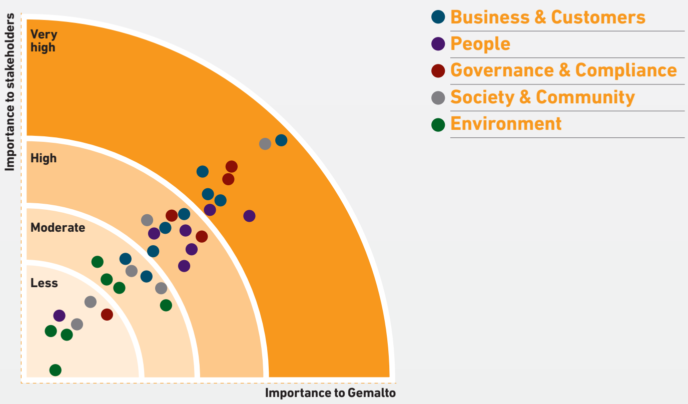
The issues that matter

In 2015, we carried out an extensive materiality analysis to identify and prioritize the issues that matter most to our stakeholders – including managers, employees, investors, customers and suppliers. We grouped these issues into five main reporting areas: Business and customers, People, Governance and compliance, Society and community, and Environment. Among all of the issues identified, these ten stood out 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.

Detailed information about our 2015 materiality analysis – including methodology, findings and outcomes – can be found in our 2015 Sustainability Report.

Materiality matrix



Managing sustainability

Everyone in Gemalto – from Boardroom to site level – plays a part 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 Sustainability Steering committee includes representatives from most business functions. They engage with site managers and employees around the world to identify and implement appropriate actions on sustainability.

We put strong governance and business ethics at the heart of our global development, and expect every employee to sign the Gemalto Code of Ethics. Our governance structure is covered in detail on pages 51-57 of this report.

Our focus areas

We will be covering each of the five main reporting areas, along with all the issues raised in our materiality analysis, in greater detail in our 2016 Sustainability Report, to be published in May 2017.

In the following pages of the Annual Report, we review the most material issues for each of the five main reporting areas, and how we addressed them in 2016.

Sustainability focus

Business & Customers

Our customers' needs evolve constantly, and we are continually developing our business in response. We aim to build trusting, long-term relationships with them, working together to develop 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 vitally important that we are trusted to manage the confidentiality and privacy of this data for all 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. We are constantly developing new ways to enhance our data protection. Initiatives in 2016 included the company-wide Cyber Excellence Program (CEP) based on three pillars: prevent, detect and react. With a specific focus on five key security areas including detection and reaction capabilities, server security, network access, end-to-end encryption and secure customer data exchanges, the program complements measures already in place and boosts our resilience against the threat from cyber-attacks.

Innovation

We are accelerating our digital transformation through the use of agile methodologies and cloud technologies in order to adapt to the rapidly changing business and technical environments. By focusing our corporate mindset on agility, we are able to better and more quickly adjust to our customers' evolving needs. We use this approach to target the cloud delivery model for all new projects we undertake.

At the same time, we are also building a DevOps software development culture, which includes the use of DevOps tooling to automate the delivery of our solutions. This not only improves our speed to deliver frequent value to end-users, but also reinforces our agility in the face of changing business needs. Our value delivery framework strengthens our ability to continuously and sustainably secure our end-to-end solutions, offering protection to our customers – and their customers – against data threats.

Ensuring business continuity

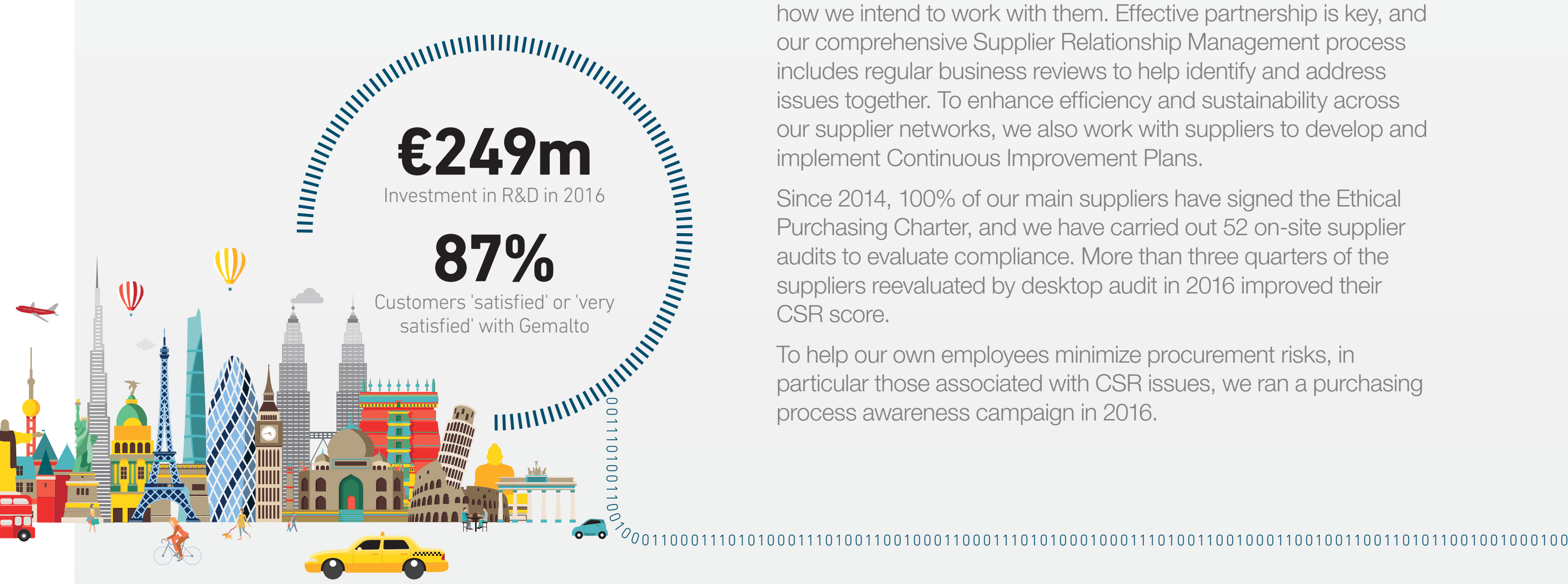
To ensure resilience in the face of unforeseen events, we have drawn up robust crisis management and business continuity response plans. For more on our approach to identifying, assessing and mitigating risks associated with our activities, see the Risk section on pages 30-38 of this report.

Managing our supply chain

Our commitment to social responsibility goes beyond our own operations. We want a responsible supply chain that supports our business objectives, meets high ethical standards and ensures we treat people fairly. Our responsible purchasing policies are based on United Nations Global Compact best practices, and our CSR Ethical Purchasing Charter sets out clearly what we expect of suppliers and how we intend to work with them. Effective partnership is key, and 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.

Since 2014, 100% of our main suppliers have signed the Ethical Purchasing Charter, and we have carried out 52 on-site supplier audits to evaluate compliance. More than three quarters of the suppliers reevaluated by desktop audit in 2016 improved their CSR score.

To help our own employees minimize procurement risks, in particular those associated with CSR issues, we ran a purchasing process awareness campaign in 2016.



People

Our success is built on the ingenuity and commitment of our people. We aim to 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 use our ambitious talent acquisition strategy, which includes an employee referral system, our University Relations Program, and a growing online and social media presence, to hire the best and most creative people in their respective fields. In 2016, we recruited over 2,300 people across 44 countries.

All new recruits undergo our Induction and Newcomer Orientation programs, and the Gemalto Connection and University Discovery programs are designed to develop exceptional leaders for the future. In 2016, over 9,000 employees received training, with 80% satisfaction.

Retaining talent and skill is a top priority, so we are regularly finding ways to recognize our employees' contributions. In 2016, we announced our new success-sharing program, offering free Gemalto shares to all employees worldwide. This reward scheme allows employees, whatever their position, to become Gemalto shareholders and profit from the Company's growth and performance.

Well-being and work-life balance

Ensuring employee well-being is an integral part of our culture and a key factor in the performance and competitiveness of our business. In 2016, our annual Human Resources open day focused specifically on this topic. We recognize the importance of providing an environment where employees can flourish, and are committed to best practices in key areas ranging from stress management to work-life balance.

Over the past two years we have launched remote working pilots in several countries, enabling employees to work from home one day a week. In 2016 we increased the number of days to two per week in some locations and opened the program up to more employees. The initiative, which fosters trust by offering greater flexibility and time management, has been well-received by participants and their managers, and we will explore the possibility of extending it to additional regions in the future.

Health and safety

Providing a safe environment for all our employees and visitors is essential. Our HR and Health & Safety management systems are designed to reduce risks and ensure continuous improvement across our operations. All our production areas and our two main administration sites 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.

Equal opportunities and diversity

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 2016, 44% of new recruits were women. Furthermore, two of our 14 Senior Management team members and two of our ten Board members are women.

Governance & Compliance

The topics identified under this heading in the 2015 materiality analysis are all covered in the Governance section on pages 40-65 of this report.

Sustainability focus continued

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 maintain a framework of controls that ensures the privacy and security of the data we hold.

To deliver the soundest possible foundation for processing personal data, we have developed practices that fully meet the strictest privacy standards set by the European Union data protection laws. We regularly assess, plan and act on appropriate safeguarding mechanisms for personal data, and ensure that employees and management are fully aware of, and instructed in, our privacy procedures.

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:

- Solutions that enable our customers to provide mobile banking to millions of people, improving communities' access to financial services.
- Tele-health solutions that help clients deliver health services efficiently.
- Smart card based technology that supports governments in improving road safety.
- A smart grid solution that promotes energy efficiency.
- M2M technology that helps curb vehicle emissions, optimize engine efficiency and improve driver safety.

Environment

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

Green IT and energy

Green IT is about measuring and reducing the environmental impact of IT products and services. We monitor Green IT metrics including electricity consumption, carbon footprint and printed paper – and all new procurement contracts with external data centers now include Green IT requirements on energy efficiency and carbon emissions.

We have long prioritized the reduction of energy consumption and costs: some of our sites have been ISO 14001 certified for a decade. Our target is a company-wide 5% year-on-year reduction in ratio, and we monitor energy usage in line with our corporate plans.

Developing eco-products

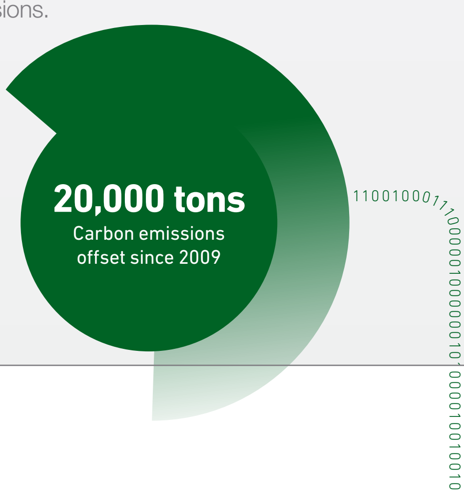
We use life-cycle assessment and carbon footprint analysis to guide the design and development of products that are more environmentally friendly, use fewer materials and make the most of sustainable technology. They include:

- 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.
- Card readers and packaging made from eco-friendly materials.

Addressing climate change

We launched our carbon footprint program in 2009 to help monitor and reduce the emissions from our operations. Our focus is on lowering our energy usage, 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 20,000 tons of CO_2eq through projects in developing countries that improve living conditions while reducing greenhouse gas emissions.



Risk management

Risk management and control

"Risk management is part of our culture across the Company. We accept the risks we can manage and where this gives us a competitive advantage. We seek to mitigate or avoid other risks. 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 review our principal risks regularly, because we work in a dynamic environment where new risks may arise or previously identified risks may have a different impact. 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.

What we focused on during the year

We strive for a simple and practical approach while constantly improving our risk management process and the quality of information it produces. Our key focus areas during the year were:

- Further improved the Company's level of preparation for crisis management. Maturity assessment performed on all the plans submitted by our crisis management leaders.
- Expanded risk assessment on key activities with a focus on our Platforms & Services businesses.
- Fraud risk assessment performed.
- Concentrated support provided to Manufacturing and Information Solutions and Services (ISS) in terms of Business Continuity management.

What we plan to do in the future

- Support our key suppliers to improve their business continuity responses.
- Continue to enhance our business continuity planning with a focus on our IT recovery.
- Ongoing development of our holistic control view through synergies, exchanges and reviews between Risk management, Internal control, Internal Audit, Quality and Corporate Strategy teams.

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 and allocates 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 maintain strategic planning and detailed annual budgeting and forecasting processes with complementary reporting systems.

Our 2014-2017 Development Plan, prepared in line with Group objectives and strategy, covers the whole Group. The planning process includes analysis of our own business and its competition across all our activities, assessing strengths, weaknesses, opportunities and threats.

Operating and financial results and forecast are reviewed monthly. Operating results and forecast are reviewed first by our CEO and Group Controller and the Executive Vice-President and/or Controller of each segment and geographic area. They are then consolidated for review by the Corporate Treasurer, Group Tax Director and the CFO.

Our business review process covers all operational entities and corporate departments at least quarterly. The budget process begins in September and delivers an annual Group budget for the following year. This is approved by the Board in December. Whenever justified by changes in activity, current quarter and current year forecasts are reviewed and consolidated into updated forecasts for the Group.

The Group Treasurer prepares a monthly review of financial results, 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 and CFO prepare an operating dashboard and report for review by the CEO and circulation to the Board quarterly. A review of activity is also presented by the CEO and the CFO at each Board meeting.

In addition to the monthly result calls, the Head of Consolidation holds quarterly 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

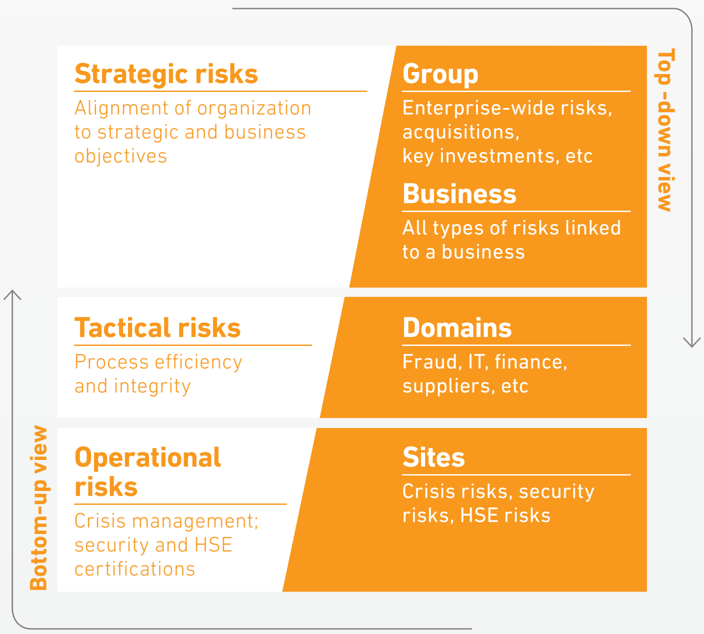
↓

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 ERA* Steering Committee chaired by the CEO.

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

*Enterprise Risk Assessment.



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. Close to 140 Crisis Management Leaders are in place worldwide and trained through simulation exercises.

In 2016, we continued to update and refine our crisis management framework and improved the Company's preparation level. In particular, the Corporate Risk Management department assessed the maturity of all the crisis management plans submitted by the crisis management leaders, and provided guidelines on the improvement areas.

Our business continuity responses aim to avoid or minimize disruption to customers and our business in the event of a crisis. They include increasing the standardization of production tools and processes for greater flexibility between sites; multi-sourcing strategies to avoid dependence on a single supplier; creating redundancies in our infrastructure; and storing key information in back-up sites. Developments of specific technical capacities in these sites have significantly reduced the number of products still depending on a single point of manufacturing. In 2016 we further reinforced our business continuity framework with improved tools and templates as well as educational support across the Company, with particular attention and focus on Manufacturing, IT and Purchasing. Continued governance and oversight of business continuity development is provided by our Business Continuity Leadership team.

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 Compliance Officer.

All managers must report any suspicion of fraud to the Commission, and our whistle-blowing hotline enables employees to raise suspected irregularities 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 2016, we performed a fraud risk assessment and trained some 267 key people in anti-fraud, anti-bribery, anti-trust and ethics. In addition, some 1585 employees were trained in CFIUS and trade compliance topics. We also sent out internal newsletters on Internal Control and trade compliance.

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 2016 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

91%
set a good example

89%
provide adequate information about ethical practices

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

We have a strong framework of internal control across all business areas and functions, based on a clear statement of ethical business principles, established procedures, and effective training of the key personnel who implement and oversee it. It aims to check that we are meeting our objectives (including sustainability goals), reporting financial performance reliably, and complying with relevant laws and regulations.

We apply a risk-based approach. The internal control framework is updated yearly, so that it continuously evolves in line with the Company's structure, objectives, commitments and risks.

Our internal control team develops awareness across the Company and uses yearly risk-based self-assessment campaigns to ensure that the proper level of control is maintained and enhanced. For our most critical processes and entities, these self-evaluations are tested by internal auditors. This helps us to define plans for remedying deficiencies and to monitor their implementation, with particular focus on newly acquired companies.

Our dedicated Security, Quality, Health, Safety and Environment department, with representatives throughout the Group, promotes the appropriate culture and performs regular audits.

The Audit committee regularly reviews internal control reporting and internal audit activity. An annual report to the Audit committee is prepared by the Internal Audit Director and agreed with the CFO and CEO.

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. They participate in the budget and quarterly business reviews, and oversee the monthly financial results of segments, regions and the Group. They also play an active role in operational and performance improvement projects, and in cost control and cost-effectiveness initiatives.

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 reviews of acquisitions.
- The Institut Français de l'Audit et du Contrôle Internes renewed the team's professional certification in December 2016.

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 independent external auditor provides an independent opinion on the financial results of the Group: its report is available on page 120. The auditor has unrestricted access to Gemalto sites and documentation, and communicates 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 businesses 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 81-85.

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 National Identity 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.

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.
- 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 security technologies.
- Integrate our security solutions into a large number of devices and cloud platforms.
- Invest early in the dematerialization of smart card technology, applied to our existing markets.
- 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 cyber security, 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 cyber security 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.

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, complaints and lawsuits.
- Investigation by governmental privacy authorities.
- Replacement of products or remediation costs.
- Loss of business or market share.
- Adverse impact on reputation.
- Drop in stock prices due to negative publicity.

Mitigating actions
- Security and cryptography expertise, tools and systems.
- Standardized tools and policies for all devices on the Gemalto network 'Cyber Excellence Program' with regular training sessions.
- Awareness program and compliance action plan on Data privacy led by the Director of Global Data Privacy.
- 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).
- Corporate Security Incident Response team.
- Internal security audits (extended to IT subcontractors).
- Anti-Fraud Commission.
- 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.

Key: Main potential impacts expected when unforeseen circumstances occur:

- Financial
- Organizational
- Reputational
- Legal

Principal risks continued

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; Compliance Officer reporting directly to the CEO.
- Policies and procedures, Code of Ethics, Agents Policy, whistle-blowing tool, employee survey.
- Sustainability structure and framework in place.
- Security certifications and organization.
- Training/e-learning: 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.).

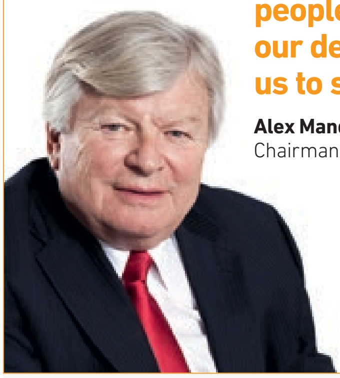
Relevance/materiality
- Potential excessive liabilities arising from contracts.
- Numerous factors including cost variation; delivery delays; changes to customer requirements, budgets, strategies, or businesses; supplier performance; our ability to negotiate back-to back clauses for purchasing or partnership 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 (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.
- Revenue recognition policy, contractual guidelines, business and geographical legal teams...

Governance

Chairman's letter



"Our succession planning ensures we have the right people in place to guide our development and lead us to success."

Alex Mandl
Chairman

Supporting a new phase in Gemalto's development

In 2016 the Board oversaw the transition to a new CEO, the first of its kind in Gemalto's ten-year history. The CEO succession was carefully planned and smoothly implemented. Having evaluated both internal and external candidates, the Board could be confident that it had made the right choice. Philippe Vallée's time as COO allowed him to gain valuable experience and for us to closely follow his performance. We had ample time for discussion with him ahead of the handover, to explore the business and its options, ensure that new directions were consistent with the Board's expectations, and provide support throughout the transition.

The process of business development continued without interruption: crucial in a fast-moving environment, where new players and new ways of serving customers are emerging and industry consolidation is changing the competitive landscape. One of Gemalto's strengths is that managers and Board discuss risks and opportunities openly, with trust and candor – and this will continue under our new CEO.

Non-executive Board member succession is another priority, which should also be well planned and managed. This will be a focus for 2017 as two Board members will reach the end of their mandates in 2018. We have put in place processes to continually identify the right people to join the Board. So that future members can effectively support Gemalto's development, candidates must have the necessary technological expertise and understanding of our markets. Once identified and chosen, we help them move up the learning curve through an onboarding program which could entail attending Board meetings as a guest before they take office. This is then supported by ongoing training to keep members up to speed.

Having started work on the next strategic development plan in late-2016 under the new CEO, our focus in 2017 will be on helping management finalize and communicate the strategy which will serve as a roadmap to guide the whole organization to success in the coming years.

Alex Mandl Chairman

A word from Philippe Vallée

Gemalto's new CEO shares his thoughts

"I believe strongly in teamwork and giving responsibility to people."

Bio

- Philippe Vallée has been with the Company for 24 years.
- Before being appointed CEO, he was serving as the Company's Chief Operating Officer.
- He has held various management positions in Asia and Europe, including Vice President of Marketing, Chief Technology Officer and Executive Vice President of Telecommunications.
- He holds degrees in Engineering and Business.

Q Your career has evolved with Gemalto over the years. What was the transition to CEO like?

A Overall, the transition to CEO was smooth. As COO, I was primarily concerned with two stakeholder groups: employees and customers. Becoming CEO means I'm giving more time and attention to the Board and investors. Good communication with these key stakeholders is essential – but I don't intend to lose my focus on employees and customers at all.

Q As CEO, how do you plan to lead Gemalto? What is your leadership style?

A I believe strongly in teamwork and giving responsibility to people. If they perform, the company performs. You can't do it all on your own, so trust people and expect them to play their part and contribute to the collective success. And ensure that this is replicated across the organization.

Q How were your first four months as CEO?

A We're working in a high-technology industry that changes fast. I like that. I'm comfortable with change. My first four months were pretty eventful – from starting work on a new development plan to announcing a successful bid for 3M's Identity Management business – and I don't expect the pace to let up any time soon.

Q Gemalto's values focus on customers, innovation and people. How do your personal values align with these?

A My values fit nicely with Gemalto's. As I mentioned, I believe in teamwork. And curiosity. Because our industry changes so fast, we need to learn from others, travel, meet people, ask questions, be curious about what's going on. It's the only way to keep up. Another vital attribute is agility. To keep improving things for customers, we have to work closely with them. Over my career the most successful solutions were developed with our customers, not in a void. And don't plan too rigidly: be ready to adjust as you go, as you see what works and what doesn't.

Q How can Gemalto build a sustainable business for the years ahead?

A Our customers look to us to help them serve their own customers effectively – to make security easy and convenient for users. The pace of technological change is even faster now than when Gemalto was born in 2006. At any time, new technologies can make your solutions obsolete. So you have to be as close as possible to your customers – because that's where you learn.

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: 2015-2017 (third term)

Other current appointments: member of the Board of Directors of Arise Virtual Solutions Inc. and of Genpact Limited, as well as Board member of Accretive Health and of Levant Power Corporation.

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 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 was previously a principal in ASM Investments focusing on the technology sector (2001-2002), and 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: September 1, 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 BCD Group, Chairman of the supervisory Board of Royal Wagenborg.

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 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: 2015-2017 (fourth 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: 2013-2017 (first 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: 2013-2017 (second 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 sofware, 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

Initial appointment: 2004

Current term: Reappointed on May 19, 2016 as executive Board member and CEO up to and including August 31, 2016. Appointed on May 19, 2016 as non-executive Board member as of September 1, 2016 for a period ending at the close of the 2020 AGM (first term)

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 and a member of the Board of Directors since then. 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 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.

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's experienced Senior Management team, under the direction of the CEO, has primary responsibility for running the Company's day-to-day business.

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

Frédéric Vasnier
EVP Mobile Services & IoT

Jacques Tierny
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

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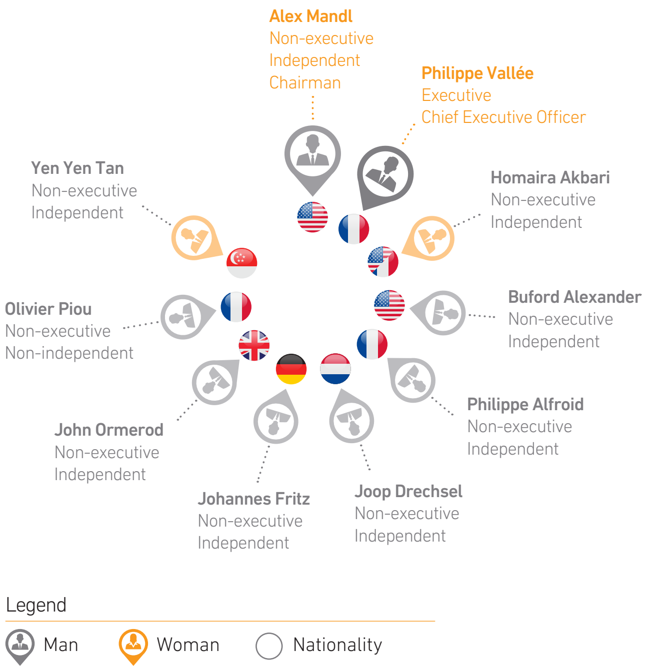
For full biographies of our Senior Management team visit our website
http://gemal.to/GTOmanagement

Our Board during 2016

Board composition

as at December 31, 2016



(RE)APPOINTMENTS

- Philippe Vallée was appointed as executive Board member and Chief Executive Officer as of September 1, 2016 until 2020.
- Olivier Piou was appointed as non-executive Board member as from September 1, 2016 until 2020.
- Johannes Fritz was reappointed as non-executive Board member until 2018.
- Yen Yen Tan was reappointed as non-executive Board member until 2020.

EXPIRATION OF MANDATE/RESIGNATION

- Olivier Piou resigned as executive Board member and Chief Executive Officer on August 31, 2016.
- Drina Yue did not stand for reappointment as non-executive Board member.

COMMITTEE COMPOSITION CHANGES

- Philippe Alfroid was appointed Chairman of the Compensation committee as of January 1, 2016.
- Johannes Fritz was appointed member of the Nomination and Governance committee, instead of member of the Audit committee as of January 1, 2016.

The Board's focus during the year

The Board held 13 meetings: five in person and eight by conference call. Two Board resolutions were taken without holding a meeting. The overall attendance rate at Board meetings during 2016 was in excess of 90%.

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.
- Corporate strategy: 2014–2017 multi-year development plan and preparation of the next plan.
- Design and effectiveness of risk management and internal control systems and any significant changes to them.
- Development of business activities, investment and M&A opportunities, as well as the competitive environment.
- Financing requirements for the Group.
- Grants to employees under the Global Equity Incentive Plan including to all employees worldwide (2016 "All-Stars" Plan).
- Group financial performance and disclosures.
- 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.

Independence

Until August 31, 2016, all eight non-executive Board members met the independence requirements of the Dutch corporate governance code's best practice provision III.2.2.

As of September 1, 2016, out of nine non-executive Board members, one is considered not independent, as he is the former CEO. The Company is compliant with best practice provision III.8.4.

Board reappointment schedule as at December 31, 2016

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	2016 – 2020
Alex Mandl	June 2006	3rd term
Philippe Vallée*	September 2016	1st term
Homaira Akbari	May 2013	1st term
Buford Alexander	May 2009	2nd term
Philippe Alfroid	May 2010	2nd term
Joop Drechsel	May 2015	1st term
Johannes Fritz	June 2006	4th term
John Ormerod	June 2006	4th term
Olivier Piou*	Feb 2004	1st term as non-executive Board member
Yen Yen Tan	May 2012	2nd term

* Appointed in May as of September 1, 2016.

Our training and induction program

Our Board members are regularly trained on Gemalto's products and services. In 2016, the training of the Board focused on M2M and Software Monetization.

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.

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, including the Chairman and the CEO. The self-assessment of the Board and its committees relating to the year 2015 was performed during the first quarter of 2016. The evaluation process comprises written questionnaires and one-on-one interviews with all Board members. These usually cover 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. In 2016, the Board also reviewed the progress of the actions following the previous year's assessment, which is well on track. The Chairman reports on the conclusions to the Board.

From time to time the assessment of the Board and its committees is performed by an external expert.

The self-assessment of the Board and its committees relating to the year 2016 is performed during the first quarter of 2017, the outcome of which will be reported in the 2017 Annual Report.

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

Board committee reports

Report of the Audit committee

Committee members on December 31, 2016 (all being independent)	
John Ormerod (Chairman)	
Homaira Akbari	
Joop Drechsel	
Number of committee meetings in 2016	8

The Audit 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 auditors, the Internal Audit Director, EVP General Counsel, the Compliance, Governance and Central 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 auditors, the Internal Audit Director, the EVP General Counsel and the Compliance, Governance and Central 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 auditors 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 approve the Company's internal audit plans; and to receive reports of internal audit work performed. The full Audit committee charter is posted on the Company's website at: http://www.gemalto.com/companyinfo-site/about-site/download-site/Documents/Audit_commitee_charter_Nov_29_2007.pdf. 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 2016 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 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 2016 audit. 2016 was the first year of appointment of KPMG. The committee reviewed the external auditor's approach, their 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. A review of KPMG's work will be undertaken in 2017 following completion of their first audit. Following the recommendation of the Audit committee, endorsed by the Board, KPMG Accountants N.V. was appointed external auditor for the financial year 2017 at the 2016 AGM. The committee recommended to the Board their reappointment for 2018 at the 2017 AGM.

- Outlook statements and forecasts and the underlying documents. A particular focus in 2016 was the review of the outlook statement for 2017 announced on October 28, 2016.
- 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 Assessment process, focusing on confidential data management and cyber risks, and on risks related to Machine-to-Machine (M2M), and reviewed the results of the internal control self-assessment process. 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 cyber risk. As in 2015, the technology risk review was extended to cover a presentation on the further development of the Company's Business Data centers and operations to support certain of our Platform & Services customer solutions.
- A new major 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 and the committee reviewed the scope, governance, and risk management of the project
- Business ethics policies and procedures around bribery and corruption.
- 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 Audit committee and the Chairman of the Board, assisted by independent outside counsel.
- Significant claims and disputes – including those resulting in litigation.
- The internal audit charter, the internal audit plan for 2017–2019 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.

Report of the Nomination and Governance committee

Committee members on December 31, 2016 (all being independent)	
Alex Mandl (Chairman)	
Buford Alexander	
Johannes Fritz	
Yen Yen Tan	
Number of committee meetings in 2016	4

During the year, the Nomination and Governance committee continued to focus on the future nature, shape and composition of the Board and committees in order to maintain the current high level of effectiveness and made recommendations to the Board for Board (re)appointments and committee memberships.

Based on the committee's advice, the Board recommended the reappointment of the Board members who stood for reappointment at the 2016 AGM. Ms. Drina Yue opted not to seek reappointment when her mandate expired at the close of the 2016 AGM.

The committee dedicated a substantial amount of time to the CEO succession. Based on the committee's advice, the Board recommended the reappointment of Mr. Olivier Piou as Executive Board member, CEO until August 31, 2016, and appointment of Mr. Olivier Piou as Non-executive Board member as of September 1, 2016 until the close of the 2020 AGM, and the appointment of Mr. Philippe Vallée as Executive Board member, CEO as of September 1, 2016 until the close of the 2020 AGM.

The committee started a thorough selection process supported by a leading executive search firm for a new non-executive Board member to be proposed at the 2017 AGM. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and CEO. As a result of this process, the committee recommended to the Board the appointment of Ms. Jill Smith as independent Non-executive Board member until the close of the 2021 AGM.

The committee advised, through the Board, the CEO on the management organization.

The committee prepared and coordinated with the Chairman of the Board the self-assessment of the Board and the 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, including the European Market Abuse Regulation and the new Dutch Corporate Governance Code. Following the implementation of the European Market Abuse Regulation, the committee reviewed and recommended changes to Gemalto's Insider Trading Policy that were adopted by the Board.

Board committee reports continued

Report of the M&A committee

Committee members on December 31, 2016 (all being independent)	
Johannes Fritz (Chairman)	
Homaira Akbari	
Buford Alexander	
Philippe Alfroid	
Yen Yen Tan	
Number of committee meetings in 2016	10

The committee advises the Board in respect of the Company's merger, acquisition and divestiture activities. During 2016, the committee dedicated significant time to reviewing and advising the Board with respect to material acquisitions, including the acquisition of 3M's Identity Management Business.

The committee reviewed the post-acquisition performance of several previously acquired businesses. Drawing on resources provided by Internal Audit, the committee reviewed M&A effectiveness reports of the past acquisitions.

Report of the Compensation committee

Committee members on December 31, 2016 (all being independent)	
Philippe Alfroid (Chairman)	
Joop Drechsel	
John Ormerod	
Number of committee meetings in 2016	5

As in previous years, the Chairman of the Compensation 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 2015 and the resultant variable compensation payments for the CEO and Senior Management. The committee proposed to the Board the appropriate 2016 and the 2017 targets.

In light of the CEO succession, the committee dedicated a substantial amount of time to defining the retirement package of Mr. Olivier Piou and the remuneration package of Mr. Philippe Vallée, as adopted by the Board within the limits of the Remuneration Policy.

The 2016 Remuneration report is set out on pages 58-64.

Working with the advisor from Mercer, the committee designed the terms of the 2016 Long Term Incentive (LTI) grant. The committee recommended the Board to grant restricted share units to eligible employees in 2016. This included granting restricted share units to all Gemalto employees worldwide, employed on June 2, 2016, (the '2016 All Stars Plan'), celebrating Gemalto's ten year anniversary. 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 2017, which included holding a preparatory meeting between the Chairman of the committee, the EVP Human Resources and Mercer, as in previous years.

The committee recommended that Gemalto employees in more than 35 countries should 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).

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2016 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 Act on Financial Supervision 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.commissiecorporategovernance.nl), which sets out principles and best practices for Dutch listed companies.

The Board agrees with the code's general approach and the majority of its principles and best practice provisions. In accordance with the 2008 code's "apply or explain" principle, we explain the departures from its provisions:

- **Provision II.1.7:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities of a general, operational and financial nature to a confidential advisor. 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 are taking into account the laws of different countries where we are located. We are monitoring the evolution of such laws and, if feasible, we will reconsider the scope of the complaints-related procedure.
- **Provision II.2.7:** this provision recommends that the conditions of granted restricted share units may not be modified during its term. However, the Board has decided:
  - – that Mr. Piou's maximum number of restricted share units eligible to vest when his employment with Gemalto will end (135,000 restricted share units from grants made in 2014 and 2015) will be reduced pro rata temporis to his employment period by Gemalto and the respective awards performance periods (i.e. down to a maximum of 96,250 restricted share units);
  - – that the financial performance criteria which these restricted share units are subject to will continue to be applied and the service condition is deemed fulfilled; and
  - – that the vesting dates remain unchanged.
- **Provision II.2.8:** 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 deviations as follows:
  - – for Mr. O. Piou, CEO, until August 31, 2016, the severance payment is one year of reference salary, being fixed and variable compensation, and reflects his accrued seniority with Gemalto; and
  - – for Mr. P. Vallée, CEO as from September 1, 2016,
    - a. Up to August 31, 2019: up to a max of 18 months of reference salary, 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 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. As from September 1, 2016, up to August 31, 2019, a max of 18 months of reference salary, to be decided by the Board. As from September 1, 2019: 12 months of reference salary.

Our governance structure continued

- **Provision III.3.5:** this provision recommends that non-executive Board members are appointed to the Board for a maximum of three four-year terms. We depart from the code, as non-executive Board members can be appointed for more than three terms. However, in practice we apply a stricter rule. At Gemalto, a term is a maximum of four years. Length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 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.
- **Provision III.8.1:** this provision recommends that the Chairman of the Board may not have been an executive Board member. We depart from the code, as our Chairman, Alex Mandl, was executive Chairman of Gemalto from June 2006 to December 2007. However, the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders.

Board of Directors

One-tier Board

The Company has 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. The CEO is supported by the Senior Management team. 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. These are published on our website.

Composition

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 October 2009 and is published on our website. We seek to achieve diversity of age, gender, expertise, social background and nationality on the Board. As at December 31, 2016, there are two women out of ten Board members. In view of the proposed appointment of Ms. Jill Smith as non-executive Board member to the 2017 AGM, Gemalto considers there is no substantive deviation from the Dutch Bill on Management and Supervision regarding gender diversity.

At least one of the non-executive Board members can be regarded as a financial expert under the code's best practice III.3.2.

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 2016, the composition of the Board was as follows:

- Until August 31, 2016: one executive Board member (the CEO) and eight non-executive Board members.
- As from September 1, 2016: one executive Board member (the CEO) and nine 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 General Counsel.

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 never 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. Length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 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 Dutch listed or large Dutch companies; 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.

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, and may not chair the board of any such company.

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. 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. 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 II.3.2-4 and III.6.1-3 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 Director 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 2016, no transactions were reported where a Board member had a conflict of interest that was material to the Company. There were, however, related party transactions: for an overview, please see note 30 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.

Our governance structure continued

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2016

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]		140,100[3]	17,737[3]	20,545.28[4]
Homaira Akbari		4,500[5]			
Olivier Piou	368,999[6]		96,250[7]	111,500[7]	39,447.77[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 for the RSU and 2005 for the employee options.

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 within the meaning of best practice III.3.2 of the Dutch corporate governance code.

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 65.

Considering the strong growth of Gemalto and the constantly changing tax regulations in many countries where we operate, Gemalto's tax policy mainly focuses on ensuring that all affiliates comply to 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 team are notified to the Autoriteit Financiële Markten (Netherlands Authority for Financial Markets) in accordance with Dutch law.

These policies are published on our website.

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 in the insider trading policy.

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. 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, 2016, the Company's issued and paid-up share capital amounted to €89,928,639. This consisted of 89,928,639 ordinary shares, of which 717,835 were held in treasury and 89,210,804 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 2015 AGM gave the Board authorization, renewed by the 2016 AGM, to repurchase Company shares. This allowed us to buy shares in 2016 to provide liquidity, to grant shares to employees and to fund external growth. On December 31, 717,835 shares with a market value of €39,423,498 were held in treasury, acquired at an average price of €40.46 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 shareholder 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.

2016 AGM

The AGM was held on May 19, 2016. 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:

- 2015 Annual Report (discussion item).
- Application of the remuneration policy in 2015 (discussion item).
- Adoption of the 2015 financial statements (voting item).
- Dividend policy and proposed cash dividend of €0.47 per share for 2015 (voting item).
- Discharge of the CEO and non-executive Board members for the fulfillment of their respective duties during 2015 (voting item).
- Reappointment of two non-executive Board members (voting item).
- Appointment of a new executive Board member and CEO (voting item).
- Renewal of the Board's authorization to repurchase Company shares (voting item).
- Extension of the Board's authorization to issue shares and to grant rights to acquire shares in the share capital of the Company and to limit or exclude pre-emption rights (voting item).
- (Re)appointment of the external auditor for 2017 (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 act on Financial Supervision (*Wet op het Financieel Toezicht*) were published in English.

Voting rights

Shareholders holding Company shares on the record date, which under Dutch law is 28 days 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, 2016

December 9,2016:	Aviva plc	3.20% capital interest and voting rights
November 14, 2016:	Capital Research and Management Company	3.01% voting rights
November 14, 2016:	Capital Group International Inc.	3.01% voting rights
June 16, 2016:	S.N. Quandt	5.67% capital interest and voting rights
January 13, 2016:	BlackRock, Inc.	2.99% capital interest and 3.75% voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
November 17, 2014:	OppenheimerFunds, Inc.	3.05% 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, 2016 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 pre-emptive 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 19, 2016, for a period of 18 months, starting on May 19, 2016, 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 19, 2016, for a period of 18 months, starting on May 19, 2016, with 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 for the purpose of M&A and/or (strategic) alliances for a period of 18 months, starting on May 19, 2016.

e. To acquire 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 18, 2017. On December 31, 2016, the Company's issued share capital consisted of 89,928,639 shares, of which 717,835 were held in treasury: on that basis the authorization covered up to 8,275,028 shares.

f. To cancel up to 9,101,584 shares, in one or more tranches, as the Board sees fit.

Distribution of profits

Our dividend policy was addressed as a separate agenda item for the first time at the 2005 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 2016, we paid a cash dividend of €0.47 per share for 2015.

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, 2016, 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.

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2016 AGM approved the appointment of KPMG Accountants N.V. as the external auditor for 2017.

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 52-55 and “Shareholders and General Meetings” on pages 55-56 – 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 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.

Global Employee Share Purchase Plan – FCPE: system of control

In 2016, 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 436,728 shares of Gemalto on December 31, 2016. It exercises its voting rights on these shares independently, without instructions from participating employees.

Remuneration report

This report describes:

- Gemalto's remuneration policy for the CEO
- Compensation paid to Olivier Piou as CEO until August 31, 2016
- Compensation paid to Philippe Vallée as CEO as from September 1, 2016
- Compensation paid to non-executive Board members in 2016.

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 a few exceptions which are 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.

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 II.2.1, 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	Logitech
Capgemini	Essilor	NXP
Capita Group	Infineon Technologies	Oberthur
Computacenter	Ingenico	VMware
Criteo		

French peer companies

Altran Technologies	Iliad	Oberthur
AtoS	Imerys	STMicroelectronics
Bic	Ingenico	Technicolor
Capgemini	Legrand	Thalès
Dassault Systèmes	Nexans	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).

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. The base salary will not be changed in 2017.

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 two linear interpolation scales from threshold to target and from target to stretch. In exceptional cases, the Board may use its discretionary power to increase or reduce an amount.

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 those of shareholders. 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 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.

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 2016, and none were outstanding on December 31, 2016.

Remuneration report continued

Compensation for Olivier Piou for 2016 as CEO until August 31, 2016

(including until his employment contract ended on December 31, 2016)

Base salary	€850,000	The CEO's annual salary is €850,000, including a fixed fee for his position as executive Board member of Gemalto N.V. The CEO's salary will be paid for the full year 2016.
Variable incentive	€544,544	For 2016, the targets were: Financial targets, accounting for 2/3 of the variable incentive: • Revenue: 4/15 of the variable incentive. Achievement 25.2% • Profit from operations: 4/15 of the variable incentive. Achievement 0% • Free cash flow: 2/15 of the variable incentive. Achievement 100% Personal targets, accounting for 1/3 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 satisfaction. Achievement 100% 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 2016 led to a score of 53.4% against the CEO's variable incentive targets. The variable incentive payment to Olivier Piou was €544,544 for the full year 2016, representing 64.06% of his base salary. The Board did not use its discretionary power to modify the variable incentive.
Conditional multi-year share-based plan	Not applicable	The CEO was not granted RSUs in 2016.
Benefits and pension contributions	€119,006	The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided. In 2016, 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 2016.

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

Termination of employment contract

Olivier Piou retired as executive Board member and CEO on August 31, 2016, and his employment contract ended at the end of December 2016. He was appointed as non-executive Board member as of September 1, 2016. His Board member and CEO compensation for 2016, including the full and final settlement of his employment with Gemalto, comprised:

- Annual salary, including Board member fee, of €850,000. In addition, any remaining accrued vacation and possible remaining rights under his employment contract as per French regulations – the amount of which was not material.
- Performance-based annual variable compensation of €544,544 related to achievement of his 2016 financial and personal objectives.
- Restricted share units (RSUs). The maximum number of RSUs eligible to vest when Olivier Piou's employment with Gemalto ended would have been 135,000, from grants made in 2014 and 2015. These have been reduced pro rata to his employment period with Gemalto and the respective awards performance periods (i.e. down to a maximum of 96,250 units). The financial performance criteria governing these RSUs will continue to be applied and the service condition is deemed fulfilled. The vesting dates remain unchanged.

  The number of shares resulting from the pro rata performance criteria, and applicable social charge and tax computations, will be delivered to Olivier Piou in 2018.
- The Company does not provide for any supplemental pension plan to the CEO during or after his employment period. Olivier Piou will therefore not benefit from any exceptional Company contribution for his pension related to or triggered by his retirement, nor from any additional payments relating to his retirement.

Long-term incentive plan awards granted to Olivier Piou

Valuation of the long-term incentive plan awards made to the CEO:
Overview of awards over which he did not have unrestricted control at the start of 2016.

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Value at end of lock-up
March 2012	50,000	€1,908,000	Conditional	December 2014 Performance vesting condition was met in 2013 so number of RSUs is defined: 50,000	€3,395,000	January 2017	€2,769,000
May 2013	May vary from 0 to 50,000	€3,050,500	Conditional	AGM 2016 Performance vesting condition was partially met in 2016 so number of RSUs is defined: 42,999	€2,293,567	N/A	N/A
March 2014	May vary from 0 to 75,000. Forfeiture of 18,750 RSUs. Number of RSUs remaining is 56,250	€5,700,750	Conditional	AGM 2018	N/A	N/A	N/A
August 2015	May vary from 0 to 60,000. Forfeiture of 20,000 RSUs. Number of RSUs remaining is 40,000	€3,493,800	Conditional	August 31, 2018	N/A	N/A	N/A

The above information complies with best practice provision II.2.13 (d) of the Dutch corporate governance code.

Business overview | Financial review | Sustainability | Risk management | Governance | Financial statements | Other information

Remuneration report continued

Compensation for Philippe Vallée as CEO as from September 1, 2016
(excluding COO position until August 31, 2016)

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. The CEO's salary will be paid pro rata for 2016, from September 1, 2016 until December 31, 2016 (€250,000).
Variable incentive	€160,160	For 2016, the targets were: Financial targets, accounting for 2/3 of the variable incentive: • Revenue: 4/15 of the variable incentive. Achievement 25.2% • Profit from operations: 4/15 of the variable incentive. Achievement 0% • Free cash flow: 2/15 of the variable incentive. Achievement 100% Personal targets, accounting for 1/3 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 satisfaction. Achievement 100% 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 2016 led to a score of 53.4% against the CEO's variable incentive targets. The variable incentive payment to Philippe Vallée was €160,160 for the period as from September 1, 2016 until December 31, 2016, representing 64.06% of his base salary. The Board did not use its discretionary power to modify the variable incentive.
Conditional multi-year share-based plan	100 RSUs (2016 "All-Stars Plan")	100 RSUs granted as part of the Company-wide 2016 "All-Stars Plan". The RSUs will only vest if Philippe Vallée is still an employee of Gemalto on June 2, 2019.
	Max. 50,000 RSUs	Depending on performance, the number of RSUs granted may vary on a sliding scale from 0 to 50,000. The RSUs will only vest if the following conditions are met: 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. The grant is accounted for as equity-based compensation at a charge that may vary from €0 to €2,731,000, which will be expensed over 36 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 36 months.
Benefits and pension contributions	€17,742	The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided. In 2016, 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 2016.

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

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.

Long-term incentive plan awards granted to Philippe Vallée

Valuation of the long-term incentive plan awards made to the CEO:
Overview of awards over which he did not have unrestricted control at the start of 2016.

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Value at end of lock-up
March 2012	12,000	€457,920	Conditional	December 2014 Performance vesting condition was met in 2013 so number of RSUs is defined: 12,000	€814,800	January 2017	€664,560
May 2013	May vary from 0 to 15,000	€915,150	Conditional	AGM 2016 Performance vesting condition was partially met in 2016 so number of RSUs is defined: 12,700	€677,418	N/A	N/A
April 2014	May vary from 0 to 50,000	€3,800,500	Conditional	AGM 2018	N/A	N/A	N/A
August 2015	May vary from 0 to 40,000	€2,329,200	Conditional	August 31, 2018	N/A	N/A	N/A
June 2016	100	€5,353	Conditional	June 2, 2019	N/A	N/A	N/A
October 2016	May vary from 0 to 50,000	€2,731,000	Conditional	October 3, 2019	N/A	N/A	N/A

The above information complies with best practice provision II.2.13 (d) of the Dutch corporate governance code.

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 2016, and none were outstanding on December 31, 2016.

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, 2016, for the year 2016 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, 2016

	2016 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	M&A committee (€)
Alex Mandl	265,000	250,000	–	15,000	–	–
Philippe Vallée*	100,000	100,000	–	–	–	–
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	94,000	70,000	16,000	–	8,000	–
Johannes Fritz	93,000	70,000	–	8,000	–	15,000
John Ormerod	108,000	70,000	30,000	–	8,000	–
Olivier Piou	35,000	35,000	–	–	–	–
Yen Yen Tan	86,000	70,000	–	8,000	–	8,000
Total	**1,054,000**	**875,000**	**62,000**	**39,000**	**31,000**	**47,000**

* Joined 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 reviewing our internal risk management and controls and assessing their effectiveness. Its Audit committee has worked with management and Internal Audit to review the relevant 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 committee's findings.

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, 2016, 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 2016 financial year of Gemalto and its affiliated companies of which the data has 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 II.1.5 of the Dutch corporate governance code on the risks relating to financial reporting, the Board believes that, to the best of its knowledge:

- Gemalto's internal risk management and control systems provide reasonable assurance that its financial reporting does not contain any error of material importance.
- Gemalto's internal risk management and control systems in relation to financial reporting have worked properly in 2016.

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

Amsterdam, March 2, 2017

Financial statements

Consolidated financial statements and notes

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2016	2015
Assets			
Non-current assets			
Property, plant and equipment	8	329,448	347,994
Goodwill	9	1,561,666	1,524,933
Intangible assets	9	564,588	592,597
Investments in associates	10	48,011	64,897
Deferred tax assets	28	111,467	197,212
Other non-current assets	11	64,554	45,585
Derivative financial instruments	7	–	276
Total non-current assets		**2,679,734**	**2,773,494**
Current assets			
Inventories, net	12	244,962	273,564
Trade and other receivables, net	13	1,027,215	949,690
Derivative financial instruments	7	11,404	18,048
Cash and cash equivalents	14	663,517	407,659
Total current assets		**1,947,098**	**1,648,961**
Total assets		**4,626,832**	**4,422,455**
Equity			
Share capital		89,929	89,008
Share premium		1,291,795	1,240,241
Treasury shares		(29,042)	(36,329)
Fair value and other reserves		(59,872)	(8,135)
Cumulative translation adjustments		74,265	39,505
Retained earnings		1,303,176	1,158,525
Capital and reserves attributable to the owners of the Company		**2,670,251**	**2,482,815**
Non-controlling interests		**5,196**	**6,716**
Total equity		**2,675,447**	**2,489,531**
Liabilities			
Non-current liabilities			
Borrowings	15	557,518	549,758
Deferred tax liabilities	28	120,109	122,817
Employee benefit obligations	16	133,136	121,958
Provisions and other liabilities	17	121,480	145,335
Derivative financial instruments	7	12,604	5,966
Total non-current liabilities		**944,847**	**945,834**
Current liabilities			
Borrowings	15	173,088	192,579
Trade and other payables	18	715,767	718,585
Current income tax liabilities		31,383	33,799
Provisions and other liabilities	20	17,332	19,366
Derivative financial instruments	7	68,968	22,761
Total current liabilities		**1,006,538**	**987,090**
Total liabilities		**1,951,385**	**1,932,924**
Total equity and liabilities		**4,626,832**	**4,422,455**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31, 2016	2015
Continuing operations			
Revenue	21	**3,126,531**	**3,121,560**
Cost of sales*		(1,939,966)	(2,052,479)
Gross profit		**1,186,565**	**1,069,081**
Operating expenses			
Research and engineering		(188,551)	(188,383)
Sales and marketing*		(481,140)	(467,966)
General and administrative*		(165,086)	(197,226)
Other income (expense), net*	25	(4,842)	(12,159)
Operating profit		**346,946**	**203,347**
Financial income (expense), net	26	(34,268)	(37,963)
Share of profit of associates	10	2,059	2,058
Impairment of associates, net	10	(21,042)	–
Profit before income tax		**293,695**	**167,442**
Income tax (expense)	28	(107,497)	(30,571)
Profit from continuing operations		**186,198**	**136,871**
Discontinued operation			
Profit (loss) from discontinued operation		–	(2,662)
Profit for the period		**186,198**	**134,209**
Attributable to:			
Owners of the Company		185,726	134,107
Non-controlling interests		472	102
Earnings per share			
Basic earnings per share	29	2.09	1.53
Diluted earnings per share	29	2.07	1.51
Earnings per share – continuing operations			
Basic earnings per share	29	2.09	1.56
Diluted earnings per share	29	2.07	1.54
Weighted average number of shares outstanding (in thousands)	29	88,703	87,812
Weighted average number of shares outstanding assuming dilution (in thousands)	29	89,649	89,077

* This consolidated income statement has been restated to take into consideration the ESMA's latest recommendations (see Note 2.1).

Consolidated statement of comprehensive income

		Year ended December 31,	
In thousands of Euro	Notes	2016	2015
Profit for the period		**186,198**	**134,209**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		36,731	42,996
Currency translation adjustments: transfer to financial income (expense), net		(2,690)	3
Effective portion of gains and losses on cash flow hedging		29,369	(140,976)
Deferred tax on cash flow hedging gains and losses		(24,617)	43,764
Currency translation differences on other comprehensive income items		1,682	(2,132)
Other comprehensive income that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	16	(12,489)	8,929
Deferred tax on actuarial gains and losses		(248)	(2,805)
Total other comprehensive income for the period, net of tax		**27,738**	**(50,221)**
Total comprehensive income for the period, net of tax		**213,936**	**83,988**
Attributable to:			
Owners of the Company		214,183	84,349
Non-controlling interests		(247)	(361)

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, 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[2]								(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**
Balance as at January 1, 2015	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**(55,482)**	**84,603**	**(3,957)**	**1,070,653**	**5,454**	**2,396,164**
Profit for the period								134,107	102	134,209
Other comprehensive income (loss)						(93,220)	43,462		(463)	(50,221)
Total comprehensive income						**(93,220)**	**43,462**	**134,107**	**(361)**	**83,988**
Issuance of ordinary shares to fund up long-term employee incentive plans	991,865	991,865	992	33,358		(34,350)				–
Equity-based compensation charge, equity-settled						36,090				36,090
Other net assets change from associates								653		653
Employee share option plans		344,588			20,434	(10,512)				9,922
Purchase of Treasury shares, net		(45,378)			(1,281)	(1,819)				(3,100)
Dividend paid/payable to owners of the Company[2]								(36,955)		(36,955)
Non-controlling interests upon Trüb acquisition									1,635	1,635
Excess of purchase price on subsequent acquisition of non-controlling interests				6					(12)	(6)
First adoption of IFRIC21								1,140		1,140
Reclass of the actuarial gain/losses						11,073		(11,073)		–
Balance as at December 31, 2015	**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**

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, 2016, the number of treasury shares was 717,835 (903,717 as at December 31, 2015).

2 See Note 32.

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2016	2015
Profit for the period including non-controlling interests		**186,198**	**134,209**
Adjustment for:			
Tax	28	107,497	30,571
Research tax credit		(17,743)	(16,520)
Depreciation, amortization and impairment	8, 9	198,439	185,091
Equity-based compensation charge, equity-settled		7,356	36,090
Gains and losses on sale of fixed assets and write-offs		3,030	13,234
Gains and losses on sale of assets held for sale		–	(37)
Fair value adjustment upon business acquisitions		3,242	70,722
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		(2,690)	3
Net movement in provisions and other liabilities		(12,914)	14,377
Employee benefit obligations		(276)	4,236
Interest income	26	(3,501)	(3,654)
Interest expense and other financial expense	26	19,138	17,286
Share of profit from associates	10	(2,059)	(2,058)
Impairment of associates, net	10	21,042	-
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		31,500	(4,184)
Trade and other receivables		(46,338)	76,810
Derivative financial instruments		63,966	(140,823)
Trade and other payables		(22,700)	9,952
Cash generated from operations		**533,187**	**425,305**
Income tax paid		(75,213)	(70,194)
Net cash provided by operating activities		**457,974**	**355,111**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, business, net of cash acquired		–	(888,433)
Purchase of property, plant and equipment		(63,281)	(98,468)
Proceeds from sale of property, plant and equipment		351	806
Acquisition and capitalization of intangible assets		(77,207)	(87,745)
Proceeds from, (increase in) other non-current assets		(1,272)	(537)
Loan to associates		–	(1,500)
Purchase of, contribution to, investments in associates	10	(2,500)	(8,201)
Interest received		2,540	2,740
Dividends received from investments in associates	10	5,448	2,320
Net cash used in investing activities		**(135,921)**	**(1,079,018)**
Cash flows provided by (used in) financing activities			
Issuance of ordinary shares to fund up employee share purchase plans		1,419	–
Proceeds from exercise of share options	24	4,296	9,922
Purchase of Treasury shares (net)		1,257	(3,100)
Proceed from issuance of private placements	15	–	149,074
Proceed from drawdown of, (repayment of) credit lines and commercial paper	15	(17,500)	26,500
Payment of FV hedge Mark-to-Market		3,012	(58,477)
Repayments of borrowings		(1,594)	(7,884)
Interest paid		(15,309)	(12,823)
Dividends paid to owners of the Company	32	(41,528)	(36,955)
Dividends paid to non-controlling interests		(1,273)	–
Net cash used in financing activities		**(67,220)**	**66,257**
Cash and bank overdrafts, beginning of period	14	**404,893**	**1,057,404**
Net increase (decrease) in cash and bank overdrafts		**254,833**	**(657,650)**
Currency translation effect on cash and bank overdrafts		3,290	5,139
Cash and bank overdrafts, end of period	14	**663,016**	**404,893**

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.

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 89,928,639 ordinary shares as at December 31, 2016 and of 89,007,709 ordinary shares as at December 31, 2015 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, 2016 have been authorized for issue by the Board on 2 March, 2017 and will be submitted to the AGM of May 18, 2017 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, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm) 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 take into consideration ESMA's latest recommendations. This new presentation resulted in a reclassification of the "restructuring and acquisition related expenses" and "amortization and depreciation of intangibles resulting from acquisitions", into expenses by function. Accordingly, the comparative figures of the 2016 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, 2016

- *IAS 19 Employee Benefits (Amended) – Employee contributions*;
- *Amendments to IFRS 11 Accounting of Acquisitions of Interests in Joint Operations. The amendments clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11;*
- *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption;*
- *Annual Improvements to IFRSs 2012–2014 Cycle;*
- *Amendments to IAS 1: Disclosure Initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports;*
- *Investment entities: Applying the Consolidation Exception (Amendments to IFRS10, IFRS12 and IAS28). The amendments state that intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher parent (and when other relevant criteria are met). This exemption is permitted also to an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate;*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*

These amendments to the standard did not have any impact on the Group's financial statements as at December 31, 2016.

(b) New standards, amendments to existing standards and interpretation issued by the IASB and not yet mandatory for financial statements as at December 31, 2016 (and not early adopted by the Group)

- *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. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted;
- *IFRS 9 Financial Instruments. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after 1 January 2018;*
- *IFRS 15 Revenue from Contracts with Customers.* IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted;
- *Amendments to IFRS 15: Clarifications to IFRS 15.* The amendments in Clarifications to IFRS 15 *Revenue from Contracts with Customers* address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts;
- *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;
- *Amendments to IAS 12: Recognition of Deferred tax Assets for Unrealised 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. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted.

The Group is currently assessing the impact of these amendments.

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.

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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

(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 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 cost of an acquisition 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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

(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.

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 16).

(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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

(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 24). 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.

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, 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.

Notes to the consolidated financial statements continued

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.

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, Sterling Pound, Japanese Yen, Chinese Renminbi, Malaysian Ringgit, Brazilian Real, Singapore Dollar and Polish Zloty. 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 2016 (€0.4 million in 2015) and €1.2 million on the statement of financial position as at December 31, 2016 (€3.1 million in 2015).

	Year ended December 31,			
	2016			2015
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect on profit before tax				
– Underlying[3]	(11,934)	12,546	(12,682)	13,332
– Hedges[4]	10,446	(11,029)	10,501	(12,067)
Net	**(1,488)**	**1,517**	**(2,181)**	**1,265**
Gain/(loss)				
Effect on equity				
– Hedges[5]	22,583	(23,835)	28,742	(30,210)

[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, 2016, the fair value of the equity swaps cash-settled amounted to €(0.2) million (€(0.3) million in 2015).

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

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,			
	2016		2015	
	Change in Gemalto share value			
	+10%	-10%	+10%	-10%
Income/(expense)				
Effect of profit before tax				
– Underlying[6]	(276)	276	(1,099)	1,099
– Hedges[7]	190	(190)	227	(227)
Net	**(86)**	**86**	**(872)**	**872**
Gain/(loss)				
Effect on equity				
– Hedges[8]	84	(84)	215	(215)

[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, 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)	**2016**		2015	
Variation in interest rate (in basis points)	+50	-50	+50	-50
Borrowings	(987)	987	(1,317)	1,317
Short-term deposits and investment funds	1,667	(1,667)	1,201	(1,201)

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 €580 million bilateral credit facilities referred to in note 15, 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 €32.9 million as of December 31, 2016 and €24 million as of December 31, 2015 (see note 31).

				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
	975,767	**494,787**	**143,217**	**1,613,771**

				2015
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	169	128	–	297
Bond	8,500	34,000	408,500	451,000
Private placements	2,993	26,740	145,918	175,651
Commercial paper	186,500	–	–	186,500
Other liabilities	2,766	4,440	–	7,206
Derivative financial instruments	26,667	23,953	–	50,620
Trade and other payables	718,585			718,585
	946,180	**89,261**	**554,418**	**1,589,859**

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 €580 million, arranged with international banks of strong credit rating referred to in note 15. The maturities of these facilities fall between September 17, 2017 and July 23, 2023.

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

	Year ended December 31, 2016	2015
Borrowings		
in % of total borrowing risk for Gemalto	23%	19%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	16%	18%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	10%	10%
Total risk for any single counterparty[9]		
in % of total counterparty risk for Gemalto	**15%**	**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, 2016 and December 31, 2015, 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 2016 and 2015. 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.

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

As of December 31, 2016, trade receivables of €154,967 were past due but not impaired (€149,115 in 2015). 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, 2016		
Overdue by	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**

	Year ended December 31, 2015		
Overdue by	Carrying amount	Bad debt reserve	Overdue but not impaired
Up to 1 month	63,396	(89)	63,307
2 to 3 months	46,841	(358)	46,483
4 to 6 months	29,531	(694)	28,837
Later than 6 months	27,439	(16,951)	10,488
	167,207	**–**	**149,115**
Provision for impairment of receivables	–	(18,092)	–
Trade receivables overdue but not impaired			**149,115**

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

	Year ended December 31,	
	2016	2015
As at January 1	**(18,092)**	**(10,062)**
Acquisition of subsidiaries	–	(1,040)
Provision for impairment of receivables	(5,315)	(8,675)
Receivables written off over the year as uncollectible	4,515	1,147
Unused amounts reversed	1,268	629
Currency translation adjustment	(421)	(91)
As at December 31	**(18,045)**	**(18,092)**

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, 2016, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in six different currencies namely US Dollar, Sterling Pound, Mexican Peso, Japanese Yen, Singapore Dollar and Polish Zloty. It also held forward contracts not qualified in hedge accounting and evaluated at fair value, denominated in the same currencies and in South African Rand, Brazilian Real, Swiss Franc, Australian 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, 2016							Year ended December 31, 2015						
	USD	**GBP**	**MXN**	**SGD**	**ZAR**	**JPY**	**Other**	USD	GBP	MXN	SGD	ZAR	CNY	Other
Cash flow hedges														
Forward contracts	(45,315)	4,496	(2,488)	603	–	2,115	126	(11,776)	(6,135)	(2,979)	4,098	–	–	151
Derivative at fair value														
Forward contracts	(29,090)	40	–	33	(242)	14	(256)	4,818	150	–	(135)	321	645	737
Total	**(74,405)**	**4,536**	**(2,488)**	**636**	**(242)**	**2,129**	**(130)**	**(6,958)**	**(5,985)**	**(2,979)**	**3,963**	**321**	**645**	**888**

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

			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)

			2015
	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)
Effective portion	(135,084)	(57,116)	(77,968)

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

Note 5. Business combinations

In 2016, the consideration for the acquisition of Trüb and the opening balance of Buzzinbees have been adjusted by €8.3 million and €1.4 million respectively. These adjustments, recognized during the 12 month allocation period, are shown as an increase in Goodwill for €9.7 million (see Note 9).

Notes to the consolidated financial statements continued

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.

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, 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 (expense), net	(224)	(76)	158	(142)	–	(4,700)	–	–	(4,842)
Profit from operations	**290,219**	**171,465**	**(9,026)**	**452,658**					
Operating profit					**(57,576)**	**(35,656)**	**(9,238)**	**(3,242)**	**346,946**

Year ended December 31, 2015	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	**1,818,410**	**1,278,520**	**24,630**	**3,121,560**	**–**	**–**	**–**	**–**	**3,121,560**
Cost of sales	(1,120,121)	(783,980)	(1,576)	(1,905,677)	(60,843)	(10,901)	(4,336)	(70,722)	(2,052,479)
Gross profit	**698,289**	**494,540**	**23,054**	**1,215,883**	**(60,843)**	**(10,901)**	**(4,336)**	**(70,722)**	**1,069,081**
Operating expenses									
Research and engineering	(92,654)	(82,894)	(9,265)	(184,813)	–	–	(3,570)	–	(188,383)
Sales and marketing	(279,402)	(171,698)	(1,061)	(452,161)	–	(1,100)	(14,705)	–	(467,966)
General and administrative	(83,945)	(68,371)	(468)	(152,784)	–	(28,415)	(16,027)	–	(197,226)
Other income (expense), net	(3,567)	795	(724)	(3,496)	–	(8,663)	–	–	(12,159)
Profit from operations	**238,721**	**172,372**	**11,536**	**422,629**					
Operating profit					**(60,843)**	**(49,079)**	**(38,638)**	**(70,722)**	**203,347**

* This segment information has been restated to take into consideration the ESMA's latest recommendations (see Note 2.1).

Notes to the consolidated financial statements continued

Note 6. Segment information continued

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, 2016	2015
Revenue		
Europe, Middle East and Africa	1,365,608	1,378,454
United States of America	823,517	792,614
Asia Pacific	583,086	553,661
North and South America excluding the United States of America	354,320	396,831
Total	**3,126,531**	**3,121,560**

	Year ended December 31, 2016	2015
Non-current assets		
United States of America	352,480	373,246
France	201,861	201,121
Europe, Middle East and Africa excluding France	299,857	302,122
Asia Pacific	100,842	131,353
North and South America excluding the United States of America	51,561	43,231
Total	**1,006,601**	**1,051,073**

Note 7. Financial assets/liabilities by category

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

December 31, 2016	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Total
Assets				
Other non-current assets	64,554	–	–	**64,554**
Trade and other receivables, net*	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, net excluding "advance to supplier" and "prepayments expenses".

	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".

December 31, 2015	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Total
Assets				
Other non-current assets	45,585	–	–	**45,585**
Trade and other receivables, net*	896,060	–	–	**896,060**
Derivative financial instruments	–	–	18,324	**18,324**
Cash and cash equivalents	244,907	162,752	–	**407,659**
Total	**1,186,552**	**162,752**	**18,324**	**1,367,628**

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

	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Liabilities			
Bond	–	398,363	**398,363**
Borrowings	–	343,974	**343,974**
Trade and other payables*	–	519,578	**519,578**
Derivative financial instruments	28,727	–	**28,727**
Total	**28,727**	**1,261,915**	**1,290,642**

* 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, 2016 (see note 2.24):

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	11,404	–	**11,404**
Investment funds	407,367	–	–	**407,367**
Total Assets	**407,367**	**11,404**	**–**	**418,771**
Liabilities				
Derivatives used for hedging	–	81,572	–	**81,572**
Total Liabilities	**–**	**81,572**	**–**	**81,572**

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2015:

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	18,324	–	**18,324**
Investment funds	162,752	–	–	**162,752**
Total Assets	**162,752**	**18,324**	**–**	**181,076**
Liabilities				
Derivatives used for hedging	–	28,727	–	**28,727**
Total Liabilities	**–**	**28,727**	**–**	**28,727**

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, 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**

Notes to the consolidated financial statements continued

Note 8. Property, plant and equipment continued

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2015	**7,948**	**238,298**	**604,537**	**850,783**
Acquisition of subsidiary and business	9,351	41,726	81,420	**132,497**
Additions	–	17,529	81,564	**99,093**
Disposals and write-offs	–	(2,782)	(42,021)	**(44,803)**
Currency translation adjustment	(19)	2,944	13,188	**16,113**
Gross book value as of December 31, 2015	**17,280**	**297,715**	**738,688**	**1,053,683**
Accumulated depreciation as of January 1, 2015	**(39)**	**(154,598)**	**(416,405)**	**(571,042)**
Acquisition of subsidiary and business	(340)	(24,596)	(56,102)	**(81,038)**
Depreciation charge	(3)	(17,773)	(63,316)	**(81,092)**
Disposals and write-offs	–	2,251	36,683	**38,934**
Currency translation adjustment	12	(2,354)	(9,109)	**(11,451)**
Accumulated depreciation as of December 31, 2015	**(370)**	**(197,070)**	**(508,249)**	**(705,689)**
Net book value as of December 31, 2015	**16,910**	**100,645**	**230,439**	**347,994**

Capitalized leases included in property, plant and equipment:

	Year ended December 31,	
	2016	2015
Gross book value	656	2,017
Accumulated depreciation	(257)	(1,601)
Net book value	**399**	**416**

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

	Year ended December 31,	
	2016	2015
Cost of sales	66,587	63,049
Research and engineering expenses	5,426	5,180
Sales and marketing expenses	1,221	1,215
General and administrative expenses	12,487	11,648
Total depreciation expenses by destination	**85,721**	**81,092**

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, 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**

	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	Total
Gross book value as of January 1, 2015	**914,767**	**353,961**	**217,808**	**96,207**	**120,107**	**1,702,850**
Acquisition of subsidiary and business	551,660	131,059	5,476	182,846	31,973	**903,014**
Additions	–	15,012	53,851	–	35,212	**104,075**
Write-offs	–	(4,115)	(22,404)	–	(1,259)	**(27,778)**
Currency translation adjustment	73,401	10,461	165	20,138	4,907	**109,072**
Gross book value as of December 31, 2015	**1,539,828**	**506,378**	**254,896**	**299,191**	**190,940**	**2,791,233**
Accumulated amortization as of January 1, 2015	**(13,941)**	**(314,045)**	**(111,284)**	**(57,561)**	**(87,057)**	**(583,888)**
Acquisition of subsidiary and business	–	–	(906)	–	79	**(827)**
Amortization charge	–	(33,621)	(30,734)	(25,862)	(13,782)	**(103,999)**
Write-offs	–	480	18,199	–	1,256	**19,935**
Currency translation adjustment	(954)	(1,206)	(129)	(1,343)	(1,292)	**(4,924)**
Accumulated amortization as of December 31, 2015	**(14,895)**	**(348,392)**	**(124,854)**	**(84,766)**	**(100,796)**	**(673,703)**
Net book value as of December 31, 2015	**1,524,933**	**157,986**	**130,042**	**214,425**	**90,144**	**2,117,530**

Other intangibles mainly consist of:

	Year ended December 31,	
	2016	2015
Licensing rights to use and distribute licensed technology	12,736	19,601
Acquired brand names	46,585	45,639
Miscellaneous software and other intangibles	20,983	24,904
Total	**80,304**	**90,144**

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

	Year ended December 31,	
	2016	2015
Cost of sales	111,349	102,285
Research and engineering expenses	852	889
Sales and marketing expenses	67	94
General and administrative expenses	450	731
Total	**112,718**	**103,999**

Goodwill impairment test

The Company has organized its operations and reporting structure into three operating segments and six CGUs: Mobile Communication, Machine-to-Machine, Secure Transactions, Government program, Identity Data & Software Service and Patents. Long-range planning, operating performance measurement and resource allocation are carried out by management on the basis of this structure (see note 6).

Goodwill is allocated to these CGUs on the basis of their expected contribution to the operating profits of the Group, pursuant to management business plan.

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations use projected cash flows after tax derived from management plans as of the date the review was carried out.

The following is a summary of goodwill included in the carrying value of each CGUs:

	Year ended December 31,	
In millions of Euro CGU	**2016**	2015
Mobile Communication	425	420
Machine-to-Machine	116	116
Secure Transactions	181	181
Government program	105	98
IDSS	735	710
Total	**1,562**	**1,525**

Cash flow generations for the years 2017 to 2020 are based on management's expectations for the future. Revenue growth beyond management plans horizon is extrapolated using progressively declining growth rate toward a maximum of 2% infinite growth rate used in the computation of the terminal value, for each CGU. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 9.5% in 2016 (8.8% in 2015), the before-tax weighted average cost of capital was estimated at 11.2% in 2016 (10.5% in 2015). The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2016 nor in 2015.

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 impairment charge would be recognized in 2016 if discounted projected cash flows were 20% lower, or the weighted average cost of capital before-tax used would have been 300 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, 2016	2015
Investments as of beginning of period	**64,897**	**51,686**
Acquisition of associates	2,500	8,201
Waiver of loan in favor of associates	2,692	–
Other net changes in equity	453	653
Dividends paid by associates	(5,448)	(2,320)
Impairment of associates, net	(21,042)	–
Share of profit	2,059	2,058
Currency translation adjustment	1,900	4,619
Investments as of end of period	**48,011**	**64,897**

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2016, the net book value of goodwill in associates amounted to €5.9 million (€6.1 million in 2015).

With 18.34% shareholding in Goldpac Group Limited, Gemalto remains a substantial shareholder with one non-executive Board member.

As at December 31, 2016 the carrying value of our investment in Goldpac Group Limited which was based on Goldpac Group Limited 2016 half year results, was €61.2 million (€57 million in 2015).

The market value of our shareholding in Goldpac Group Limited, on the Hong Kong stock exchange, was €38.8 million as at December 31, 2016 (€61.4 million in 2015). Since the beginning of the 2016, the stock price of Goldpac Group has decreased significantly leading an impairment of €22.4 million. Thus the net book value in our investment equals the fair market value.

Summarized financial information of significant associates:

	Year ended December 31, 2016	2015
	Goldpac Group	Goldpac Group
Current assets	265,004	300,006
Non-current assets	60,705	44,732
Current liabilities	75,574	108,289
Non-current liabilities	2,930	2,464
Net assets as of end of period	**247,205**	**233,985**

Summarized income statement:

	Year ended December 31, 2016	2015
	Goldpac Group	Goldpac Group
Revenue	92,807	124,681
Pre-tax (loss)/profit from continuing operations	15,576	22,022
Post-tax (loss)/profit from continuing operations	12,994	17,964
Total comprehensive (expense)/income	13,002	17,965

The Group also has interests in a number of individually immaterial associates. As at December 31, 2016 the carrying value of these associates in the Group financial statement was €9.2 million (€7.9 million for 2015) and the related share of profit for the period was negative for €3.4 million (negative for €3.7 million in 2015).

Note 11. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31, 2016	2015
Research tax credit	20,874	9,698
Long-term deposits, net[11]	4,757	4,655
Tax receivable	14,116	11,996
Other	24,807	19,236
Total	**64,554**	**45,585**

[11] The €4,757 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 12. Inventories

Inventories consist of the following:

	Year ended December 31, 2016	2015
Gross book value		
Raw materials and spares	91,520	100,751
Work in progress	106,907	117,864
Finished goods	65,233	73,563
Total	**263,660**	**292,178**
Obsolescence reserve		
Raw materials and spares	(4,028)	(5,188)
Work in progress	(10,761)	(9,494)
Finished goods	(3,909)	(3,932)
Total	**(18,698)**	**(18,614)**
Net book value	**244,962**	**273,564**

Note 13. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31, 2016	2015
Trade receivables	697,419	622,039
Provision for impairment of receivables	(18,045)	(18,092)
Trade receivables, net	**679,374**	**603,947**
Prepaid expenses	44,403	42,106
VAT recoverable and tax receivable	92,404	93,910
Advances to suppliers and related parties	12,774	11,524
Unbilled customers	141,544	143,218
Other	56,716	54,985
Total	**1,027,215**	**949,690**

Note 14. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2016	2015
Cash at bank and in hand	156,075	198,147
Short-term bank deposits and investment funds	507,442	209,512
Total	**663,517**	**407,659**

The average effective interest rate on short-term deposits was 1.05% in 2016 (1.53% in 2015). 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, 2016	2015
Cash and cash equivalents	663,517	407,659
Banks overdrafts	(501)	(2,766)
Total	**663,016**	**404,893**

Note 15. Borrowings

Borrowings consist of the following:

	Year ended December 31, 2016	2015
Non-current portion		
Bond	400,000	400,000
Deferred costs and premium on bond	(3,247)	(3,935)
Private placement	149,211	149,133
Other financial liabilities	11,270	4,440
Finance lease liabilities	284	120
Total non-current portion	**557,518**	**549,758**
Current portion		
Commercial paper and credit lines	169,000	186,500
Short-term loans	3,461	3,158
Bank overdrafts	501	2,766
Finance lease liabilities	126	155
Total current portion	**173,088**	**192,579**
Total	**730,606**	**742,337**

As at December 31, 2016, 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, 2016, is €419.9 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;

Notes to the consolidated financial statements continued

Note 15. Borrowings continued

- €580 million committed bilateral facilities arranged with first rank banks maturing between September 17, 2017 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, 2016, and December 31, 2015 the credit lines were not drawn; and
- €400 million of French commercial paper program. As at December 31, 2016, the outstanding amount reaches €169.0 million (€186.5 million as at December 31, 2015).

Movements on borrowings

	Year ended December 31,	
	2016	2015
Balance as at January 1	**742,337**	**566,182**
Net proceed from bond issue	–	–
Release of deferred costs and premium on bond and private placement	766	745
Accruals of interests on bond, private placement and credit lines	17	796
Net proceed from private placements	–	149,074
Proceed from credit lines drawdown	–	140,000
Repayments of credit lines	–	(300,000)
Proceed from commercial paper	521,000	200,000
Repayment of commercial paper	(538,500)	(13,500)
Repayments of financial lease liabilities	131	(1,468)
Repayments in other financial liabilities	(184)	(407)
Net change in bank overdraft	(2,360)	(9,322)
Net change in short-term loan	(1,563)	(5,845)
Acquisition of subsidiaries	8,773	15,672
Currency translation adjustment	189	410
Balance as at December 31	**730,606**	**742,337**

The carrying amounts of Gemalto's borrowings are denominated in the following currencies:

	Year ended December 31,	
	2016	2015
Euro (EUR)	722,051	739,845
Swiss Franc (CHF)	7,701	–
US Dollar (USD)	108	1,895
Polish Zloty (PLN)	330	70
Arab Emirates Dirham (AED)	397	503
Canadian Dollar (CAD)	19	24
Total	**730,606**	**742,337**

The nominal interest rates as at December 31, 2016 and 2015 were as follows:

								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**						

								2015
		Amount	EUR	USD	PLN	AED	CAD
Bond	Fixed rate	396,065	2.13%	–	–	–	–
Private placements	Fixed rate	149,133	2.00%	–	–	–	–
Commercial paper	Floating rate	186,500	0.14%	–	–	–	–
Other financial liabilities	Floating rate	4,440	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	2,823	n/s	n/s	–	n/a	–
Accrued interests	n/a	3,101	n/a	–	–	–	–
Finance lease liabilities	Fixed rate	275	3.63%	7.40%	5.39%	–	7.40%
Total		**742,337**					

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, 2016				Year ended December 31, 2015			
	Bond	**Commercial papers and private placements**	**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	171,993	126	135	8,500	189,493	155	169
Later than 1 year and not later than 5 years	434,000	26,449	284	290	34,000	26,740	120	128
Later than 5 years	–	143,217	–	–	408,500	145,918	–	–
Total	**442,500**	**341,659**	**410**	**425**	**451,000**	**362,151**	**275**	**297**
Future finance charges on finance leases				(15)				(22)
Present value of finance lease liabilities				**410**				**275**

Note 16. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31, 2016	2015
Present value of obligations	239,929	228,242
Fair value of plan assets	(106,793)	(106,284)
Net defined benefit liability	**133,136**	**121,958**

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 16. 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, 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**

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2015	**167,099**	**(59,738)**	**107,361**
Current service costs	12,632	–	12,632
Interest expense	4,358	(2,445)	1,913
Curtailment	(576)	374	(202)
Amount recognized in the income statement	**16,414**	**(2,071)**	**14,343**
Return on plan assets	–	797	797
Actuarial (gain) and loss arising from changes in demographic assumptions	436	–	436
Actuarial (gain) and loss arising from changes in financial assumptions	(9,284)	–	(9,284)
Actuarial (gain) and loss due to experience	(878)	–	(878)
Amounts recognized in other comprehensive income	**(9,726)**	**797**	**(8,929)**
Contributions to the plan by the employer	–	(5,824)	(5,824)
Contributions to the plan by the employee	1,020	(1,020)	–
Payments	(9,280)	5,012	(4,268)
Acquisition of subsidiaries	59,605	(41,023)	18,582
Currency translation adjustment	3,110	(2,417)	693
Balance as at December 31, 2015	**228,242**	**(106,284)**	**121,958**

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 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**

	Year ended December 2015					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	71,751	55,354	21,365	54,368	25,404	228,242
Plan assets at fair value	–	(45,202)	(10,728)	(37,241)	(13,113)	(106,284)
Net defined benefit obligation	**71,751**	**10,152**	**10,637**	**17,127**	**12,291**	**121,958**

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 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**

	Year ended December 2015				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	–	37,241	13,003	50,244
Equity securities	22,655	–	–	–	22,655
Debt instruments (Government and corporate bonds)	15,719	453	–	–	16,172
Other investments	6,828	10,275	–	110	17,213
Total plan asset fair value	**45,202**	**10,728**	**37,241**	**13,113**	**106,284**

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 over 9.5 years 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, 2016 and 2015:

	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**

	Year ended December 2015			
	Level 1	Level 2	Level 3	Total
Insurance contracts	–	37,241	–	37,241
Equity securities	22,655	–	–	22,655
Debt instruments (Government and corporate bonds)	16,172	–	–	16,172
Other investments	17,103	–	–	17,103
Total plan asset fair value	**55,930**	**37,241**	**–**	**93,171**

Notes to the consolidated financial statements continued

Note 16. Employee benefit obligations continued

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31, 2016	2015
Eurozone		
Discounting rate	1.55%	2.15%
Future salary increase	2.25%–3%	2.25%–2.5%
Inflation rate	2.00%	2.00%
UK		
Discounting rate	2.70%	3.80%
Future salary increase	n/a	n/a
Inflation rate	3.45%	3.25%
Expected rate of return on plan assets	2.70%	3.80%
Switzerland		
Discounting rate	0.55%	0.65%
Future salary increase	0.50%	0.50%
Inflation rate	0.50%	0.50%
Expected rate of return on plan assets	0.55%	0.65%

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, 2016 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	(14,889)	16,939		
Inflation rate	4,952	(4,539)		
Salary growth	4,030	(4,015)		
Mortality			4,421	(4,386)

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 S1PxA tables with a 1% 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, 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

	Year ended December 31, 2015			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	18.86	23	18.99	21.49
Women	22.84	25	23.06	23.96
Longevity at age 65 for current members aged 45 (years)				
Men	18.86	24.4	21.64	23.24
Women	22.84	26.6	25.58	25.67

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2017 is €12,899. The weighted average duration of the defined benefit obligation is 15 years (15.1 years as at December 31, 2015).

Duration of the plans by geographical area:

	Year ended December 2016				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.54	20	15.97	14.1	14.05

	Year ended December 2015				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.52	20	15.67	15.2	14.26

The expected maturity of the future cash outflow is detailed as follows:

	Cash outflow		
	2017	2018	2019
Net defined benefit obligation	6,576	6,036	7,757

Note 17. Non-current provisions and other liabilities

Non-current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2016	2015
Non-current provisions	39,649	68,211
Other non-current liabilities[12]	81,831	77,124
Total	**121,480**	**145,335**

[12] The €81,831 carrying value of other non-current liabilities is assessed to be equivalent to their fair value (€77,124 in 2015).

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, 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**

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2015	**6,576**	**1,745**	**2,315**	**9,039**	**4,309**	**23,984**
Acquisition of subsidiaries	1,490	–	1,608	20,389	19,650	**43,137**
Additional provisions	902	–	857	4,417	2,131	**8,307**
Unused amount reversed	(874)	–	(12)	(1,687)	(174)	**(2,747)**
Used during the period	(151)	(253)	(312)	(38)	(227)	**(981)**
Reclassifications	(1,543)	(8)	(311)	94	(6,245)	**(8,013)**
Cumulative translation adjustment	9	1	(10)	1,324	3,200	**4,524**
As of December 31, 2015	**6,409**	**1,485**	**4,135**	**33,538**	**22,644**	**68,211**

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 18. Trade and other payables

Trade and other payables for the years ended December 31, 2016 and 2015 consist of the following:

	Year ended December 31, 2016	2015
Trade payables	227,194	225,256
Employee related payables	175,823	171,981
Accrued expenses	142,404	165,748
Accrued VAT	28,597	33,861
Deferred revenue	138,847	119,693
Other	2,902	2,046
Total trade and other payables	**715,767**	**718,585**

Note 19. Restructuring and acquisition-related expenses by nature

The restructuring and acquisition-related expenses by nature are detailed as follows:

	Year ended December 31, 2016	2015
Severance and associated costs	18,167	8,884
Transaction costs on acquisition	4,618	4,952
Write-offs and impairments	5,166	12,823
Legal and professional fees	1,495	17,894
Other costs (income), net	6,210	4,526
Total restructuring and acquisition-related expenses	**35,656**	**49,079**

The main portion of the €36 million Restructuring and acquisition-related expenses reflects expenses incurred in connection with (i) the IT and facilities integration of the recent M&A activities for €16 million and (ii) the implementation of a new information system (ERP) to harmonize finance and reporting system for €7 million. The restructuring and transformation of the Group Mobile Platforms & Services business and data centers also contributed for €9 million, other restructuring contributed for €4 million.

Note 20. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31, 2016	2015
Warranty	4,207	4,794
Provisions for loss on contracts	6,162	8,449
Restructuring and reorganization	3,428	2,931
Other	3,535	3,192
Total current provisions and other liabilities	**17,332**	**19,366**

	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**

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2015	**1,921**	**1,646**	**6,739**	**2,662**	**12,968**
Acquisition of a subsidiary	905	7,859	574	2,231	**11,569**
Additional provisions	2,164	1,429	372	927	**4,892**
Unused amount reversed	(1,145)	(200)	(384)	(694)	**(2,423)**
Used during the year	(710)	(9,487)	(4,469)	(2,371)	**(17,037)**
Reclassifications	1,572	6,327	8	462	**8,369**
Cumulative translation adjustment	87	875	91	(25)	**1,028**
As of December 31, 2015	**4,794**	**8,449**	**2,931**	**3,192**	**19,366**

Note 21. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2016	2015
Embedded software & Products, excluding hedge effect	2,130,353	2,239,405
Platforms & Services, excluding hedge effect	1,041,757	916,838
Others	(45,579)	(34,683)
Total	**3,126,531**	**3,121,560**

"Others" includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments (see note 27).

Note 22. Costs of sales and operating expenses by nature

The costs of sales and operating expenses by nature are as follows:

	Year ended December 31,	
	2016	2015
Depreciation, amortization, impairment, write-offs and other provisions	151,279	142,006
Amortization and depreciation of intangibles resulting from acquisitions	57,576	60,843
Employee compensation and benefit expense (see note 23)	1,039,973	1,049,399
Change in inventories (finished goods and work in progress)	21,678	56,835
Raw materials used and consumables	1,008,153	1,050,557
Freight and transportation costs	107,387	117,282
Travel costs	56,649	62,821
Buildings and office leases	115,314	114,800
Royalties, legal and professional fees	170,752	193,866
Subcontracting and temporary workforce	95,241	94,572
Others	(44,417)	(24,768)
Total expenses	**2,779,585**	**2,918,213**

Note 23. Employee compensation and benefit expense

	Year ended December 31,	
	2016	2015
Wages and salaries (including severance costs recorded in restructuring and acquisition-related expenses)	905,375	884,908
Pension – Defined benefit plans	8,245	12,430
Pension – Defined contribution plans	36,594	34,616
Share-based compensation expense	9,238	38,638
Others	80,521	78,807
Employee compensation and benefit expense	**1,039,973**	**1,049,399**

Note 24. 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.

Notes to the consolidated financial statements continued

Note 24. Equity-based compensation plans continued

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, 2016	Number of options outstanding as of December 31, 2015
Jun-06	1,600,000	23.10	–	22,750
Sep-07	872,000	20.83	25,475	64,760
Sep-08	1,399,000	26.44	344,980	422,746
Total	**3,871,000**		**370,455**	**510,256**

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 2016	Weighted average exercise price (Euro)	Number of options outstanding as of 2015
Beginning of the period	**25.58**	**510,256**	**25.08**	**787,049**
Forfeited	24.77	(4,000)	24.10	(3,000)
Exercised	24.31	(135,801)	24.15	(273,793)
End of the period	**26.05**	**370,455**	**25.58**	**510,256**

As of December 31, 2016, the average remaining life of the 370,455 outstanding options is 1.7 years. It was 2.5 years as of December 31, 2015 for the 510,256 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 2016	Weighted average exercise price (Euro)	Number of options outstanding as of 2015
2016	–	–	23.10	22,750
2017	20.83	25,475	20.83	64,760
2018	26.44	344,980	26.44	422,746
Total	**26.05**	**370,455**	**25.58**	**510,256**

The above outstanding options are all vested as of December 31, 2016.

Gemalto Restricted Share Units (RSUs)

In 2016, 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-16	90,000	Dec-17	Vesting conditions are service-based. RSU will vest if the employee is employed by the Company as at December 31, 2017.	Share price of €53.21 in May. Risk-free rate from Year 1 being (0.38)%. Share price discount for no dividend eligibility of €0.47 per share.	none
Jun-16	790,585	Jun-19	Vesting conditions are service-based. RSU will vest if the employee is employed by the Company as at June 2, 2019.	Share price of €55.05 in June. Risk-free rate from Year 1 to Year 3 being (0.38)% to (0.35)%. Share price discount for no dividend eligibility of €1.52 per share.	none
Oct-16	960,000	Oct-19	Vesting conditions are both performance and service-based. RSU will vest if the Group results for 2017 will reach certain Board-approved targets and the employee is employed by the Company as at October 3, 2019.	Share price of €56.14 in October. Risk-free rate from Year 1 to Year 3 being (0.48)% to (0.56)%. Share price discount for no dividend eligibility of €1.52 per share.	none

The above table includes some Gemalto employees in China who were granted RSUs in 2016 under the GEIP.

Year ended December 31, 2016, 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-14	949,500	(592,800)	356,700	performance and service	Dec-17
Jan-15	80,000	(74,374)	5,626	performance and service	Dec-17
Aug-15	789,950	(646,350)	143,600	performance and service	Aug-18
May-16	90,000	–	90,000	service	Dec-17
Jun-16	790,585	(39,560)	751,025	service	Jun-19
Oct-16	960,000	(247,269)	712,731	performance and service	Oct-19
Total	**3,660,035**	**(1,600,353)**	**2,059,682**		

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 24, 2016 or November 4, 2016. 59,103 Treasury shares were subscribed by the employees at a price, net of discount, of €40.83 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, 2016	2015
Cost of sales	4,553	4,336
Research and engineering	791	3,570
Sales and marketing	496	14,705
General and administrative	3,398	16,027
Total	**9,238**	**38,638**

The equity-based compensation charge was markedly lower to (€9) million versus (€39) million for the same period of last year. This reflects mainly the lower estimated number of restricted share units to be delivered upon vesting based on the expectation of 2017 profit from operations.

The associated costs amounted to (€2) million (€3 in 2015) 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 2016 was €4,296 (€9,922 in 2015).

Note 25. Other income (expense), net

	Year ended December 31, 2016	2015
Fixed assets write-offs and net gains/losses on sales	(4,553)	(8,551)
Compensation from customers and suppliers, net	288	(433)
Other	(577)	(3,175)
Total	**(4,842)**	**(12,159)**

Notes to the consolidated financial statements continued

Note 26. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31, 2016	2015
Interest expense	(5,888)	(5,481)
Interest expense and amortized costs on public bond, private placements, credit line facilities and commercial paper	(12,280)	(12,516)
Interest income	3,501	3,654
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	452	(2,439)
Swap points of derivative instruments	(19,207)	(20,013)
Other financial income (expense), net	(846)	(1,168)
Financial income (expense), net	**(34,268)**	**(37,963)**

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 2016; and

iii) commitment and arrangement fees related to the unused credit lines.

Note 27. Net foreign exchange gains (losses)

The foreign exchange differences charged/credited to the income statement detail as follows:

	Year ended December 31, 2016	2015
Net sales	(49,394)	(59,313)
Cost of sales	1,490	5,109
Financial income (expense), net	(18,755)	(22,452)
Net foreign exchange gains (losses)	**(66,659)**	**(76,656)**

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 28. 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, 2016	2015
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	84,802	112,282
Deferred tax asset to be recovered within 12 months	26,665	84,930
Total	**111,467**	**197,212**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(119,709)	(122,062)
Deferred tax liabilities due within 12 months	(400)	(755)
Total	**(120,109)**	**(122,817)**
Deferred tax assets (liabilities), net	**(8,642)**	**74,395**

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31, 2016	2015
Beginning of the period	**74,395**	**98,545**
Acquisition of subsidiary and business	–	(93,636)
Credited to income statement	(55,465)	40,044
Tax credit (debit) recognized in other comprehensive income	(24,865)	40,959
Cumulative translation adjustment	(2,707)	(11,517)
End of the period	**(8,642)**	**74,395**

Deferred tax assets and liabilities for the years ended December 31, 2016 and 2015 detail as follows:

	Year ended December 31, 2016	2015
Assets		
Loss carry-forwards	55,629	89,318
Excess book over tax depreciation and amortization	20,571	33,533
Employee and retirement benefits	17,542	23,009
Warranty reserves and accruals	1,502	3,263
Other temporary differences	83,346	112,695
Total assets	**178,590**	**261,818**
Liabilities		
Excess tax over book depreciation and amortization	(174,692)	(174,020)
Other temporary differences	(12,540)	(13,403)
Total liabilities	**(187,232)**	**(187,423)**
Deferred tax assets (liabilities), net	**(8,642)**	**74,395**

The income tax credit (expense) is as follows:

	Year ended December 31, 2016	2015
Current tax	(52,032)	(70,615)
Deferred tax	(55,465)	40,044
	(107,497)	**(30,571)**

The income tax charge increased to (€107) million compared to (€31) million the previous year. This increase in expense mainly reflects the estimated non-cash deferred tax asset reduction following Gemalto's 2017 profit from operations outlook.

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, 2016 €	2016 %	2015 €	2015 %
Profit (loss) before income tax	293,695		167,442	
Tax calculated at the rate of the Holding Company	(73,424)	(25.0)	(41,861)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	8,877		27,652	
Effect of the reassessment of the recognition of deferred tax assets	(45,881)		2,602	
Effect of utilization of tax assets not recognized in prior years	376		(93)	
Effect of unrecognized deferred tax assets arising in the year	(2,928)		(8,355)	
Other permanent differences	5,483		(10,516)	
Income tax credit (expense)	**(107,497)**	**(36.6)**	**(30,571)**	**(18.3)**

In 2016, the Company recorded an income tax charge of (€107) million on a pretax profit of €294 million. 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, 2016, Gemalto did not recognize tax assets amounting to €297.3 million (€378.4 million as of December 31, 2015) relating to tax losses and other future tax deductions. Of this amount, €258.9 million[13] related to tax loss carry-forwards amounting to €966.2 million[14] of which €877.9 million can be used indefinitely. In 2015 those amounts were €292.7 million, €1,036.1 million and €950.2 million respectively. 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 €208.7 million (€225.3 million in 2015) related to Gemplus International S.A. (Luxembourg) tax loss carry-forwards.

[14] Including €769.1 million (€771.1 million in 2015) for Gemplus International S.A. (Luxembourg).

Note 29. Earnings per share

	Year ended December 31, 2016	2015
Profit attributable to Owners of the Company	**185,726**	**134,107**
Weighted average number of ordinary shares – basic	88,703	87,812
Effect of dilution from share options	946	1,265
Weighted average number of ordinary shares – diluted	**89,649**	**89,077**
Basic earnings per share	**2.09**	**1.53**
Diluted earnings per share	**2.07**	**1.51**
Basic earnings per share for continuing operations	**2.09**	**1.56**
Diluted earnings per share for continuing operations	**2.07**	**1.54**

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.

Note 30. 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 2016 and 2015 is summarized as follows:

	Year ended December 31, 2016	2015
Salaries and other short-term employee benefits	5,953	6,177
Share-based compensation charge	(153)	8,335
Total expenses	**5,800**	**14,512**

The decrease in the share-based compensation charge reflects the revised estimate of the number of restricted share units to be delivered upon vesting based on the expectation of 2017 profit from operations.

b) Purchases of goods and services

In 2016, the Company purchased €11,033 worth of equipment and services (€21,367 in 2015) 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 2016, total purchases from associated companies was €3,604 (€3,933 in 2015).

Notes to the consolidated financial statements continued

Note 30. Related party transactions continued

c) Sales of goods and services

In 2016, total sales to related parties amounted to €3,263 (€3,116 in 2015). In 2016, total sales to associated companies amounted to €35,224 (€82,073 in 2015).

d) Year-end balances arising from sales/purchases of goods and services:

	Year ended December 31, 2016	2015
Receivables from:		
Associates	17,321	26,560
Related parties	973	47
Total receivables	**18,294**	**26,607**
Payables to:		
Associates	283	401
Related parties	286	1,009
Total payables	**569**	**1,410**

All outstanding balances with these related parties are priced on an arm's-length basis.

Note 31. 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, 2016, are as follows:

	Year ended December 31, 2016	2015
Not later than 1 year	28,234	30,632
Later than 1 year and not later than 5 years	79,871	77,824
Later than 5 years	25,344	35,964
Total	**133,449**	**144,420**

Bank guarantees

As at December 31, 2016, bank guarantees, mainly performance and bid bonds, amounted to €170 million (€161 million in 2015). 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, 2016, the commitments to purchase these safety stocks valued at the average purchase price amounted to €25 million (€47 million in 2015).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (£17.7 million in 2015) equivalent to €32.9 million (€24 million in 2015), granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Other commitments

On December 9, 2016 Gemalto entered into agreements to acquire 3M's Identity Management Business for $850 million. 3M's Identity Management Business is comprised of 3M Cogent Inc., 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 Identity Management Business 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 Identity Management experienced and highly-skilled team of approximately 450 experts has developed proven biometrics algorithms (finger, face, iris, etc.) and is at the forefront of innovation with the latest multi-modal biometric solutions.

The closing of the transaction is expected to occur in the first half of 2017, subject to approval from the relevant regulatory and anti-trust authorities and employee consultation where required.

Note 32. Dividends

The AGM of May 19, 2016 has approved the distribution of a €41,528 dividend in respect of the financial year 2015.

This represents a dividend of €0.47 per share.

Note 33. Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2016 which would materially impact the consolidated financial statements of the Company.

Note 34. 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
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	Axalto Cards & Terminals Ltd	100%
	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%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Gemplus International Trade (Shanghai) Co. Ltd	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	83%
	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%
	Valimo Wireless 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	60%
	SFNT Germany GmbH	100%
	Trüb Technology GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Asia Holding Limited	100%
	SafeNet Asia Ltd	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
	Netsize KFT	100%
India	Cinterion Wireless Modules 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 Cards Srl	100%
	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%
Portugal	Ezybill – Comunicaçoes Eletronicas LDA	100%
Russian Federation	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Singapore	SafeNet Pte. Ltd	100%
	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

Country of incorporation	Company name	Gemalto's interest
South Africa	Gemalto Pty Ltd	100%
	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	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%
	Gemplus Ltd	100%
	Maosco Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	SafeNet UK Ltd	100%
	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Source One Direct Inc	100%
	Gemalto Inc.	100%
	RNBO DE, Inc.	100%
	SafeNet Assured Technologies, LLC	100%
	SafeNet Holding Corporation	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%
Hong Kong	Goldpac Group Ltd	18%
Japan	TGS Co. Ltd	50%
Jordan	Joint–Venture of Gemalto and Offtec Office and Banking Systems	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletech Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%
Taiwan	SmartDisplayer Technology Co.,Ltd	15%
United Kingdom	Trustonic Ltd	50%

Financial statements

Statutory financial statements and notes of the Holding Company

Statement of financial position of the Holding Company

In thousands of Euro and before appropriation of result	Notes	Year ended December 31, 2016	2015
Assets			
Non-current assets			
Goodwill	2	746,605	741,734
Property, plant and equipment	3	36	46
Investments in subsidiaries and associates	4	2,013,360	2,237,256
Long-term loans to subsidiaries	4, 8	495,702	475,801
Other non-current assets	5	6,944	–
Total non-current assets		**3,262,647**	**3,454,837**
Current assets			
Short-term loans to subsidiaries	8	5,694	18,126
Receivables due from subsidiaries and associates		122,097	2,186
Other receivables		470	719
Cash and cash equivalents	6	13,557	10,891
Total current assets		**141,818**	**31,922**
Total assets		**3,404,465**	**3,486,759**
Equity			
Issued and paid in share capital	7	89,929	89,008
Share premium	7	1,291,795	1,240,241
Legal reserves	7	(20,402)	(61,596)
Other reserves	7	5,753	56,637
Retained earnings	7	1,117,450	1,024,418
Net income for the period	7	185,726	134,107
Capital and reserves attributable to the owners of the Holding Company		**2,670,251**	**2,482,815**
Liabilities			
Non-current liabilities			
Borrowings	9	545,964	545,198
Borrowings from subsidiaries	9	–	2,030
Other long-term liabilities	10	9,904	3,224
Total non-current liabilities		**555,868**	**550,452**
Current liabilities			
Short-term borrowing from subsidiaries	9	2,116	–
Payables to subsidiaries		51	261,315
Short-term debt	9	169,000	186,500
Other payables		7,179	5,677
Total current liabilities		**178,346**	**453,492**
Total liabilities		**734,214**	**1,003,944**
Total equity and liabilities		**3,404,465**	**3,486,759**

Income statement of the Holding Company

In thousands of Euro	Notes	Year ended December 31, 2016	2015
Revenue		–	–
Cost of sales		(4,436)	(4,091)
Gross result		**(4,436)**	**(4,091)**
Sales and marketing expenses		(1,580)	(14,692)
General and administrative expenses		(13,179)	(30,307)
Total costs		**(14,759)**	**(44,999)**
Operating profit/(loss)		**(19,195)**	**(49,090)**
Other operating income		699	2,988
Financial income	12	21,882	21,163
Financial expense	12	(22,358)	(19,581)
Result from ordinary activities before tax		**(18,972)**	**(44,520)**
Tax on result on ordinary activities	13	63	(558)
Share in results of subsidiaries and associates	4	204,635	179,185
Net result for the period after tax		**185,726**	**134,107**

Statements of changes in shareholders' equity of the Holding Company

	Number of shares		Attributable to equity holders of the Holding Company					
In thousands of Euro	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
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:								
– Actuarial gains and losses on benefit obligations, 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)**	**185,926**	**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**
Shareholders' equity as of January 1, 2015	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**1,095**	**24,069**	**1,070,653**	**2,390,710**
Movements in fair value and other reserves:								
Currency translation adjustments						43,462		43,462
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						6,124		6,124
– Cash flow hedges, net of deferred tax					(97,212)			(97,212)
– Currency translation adjustments on fair value gains/(losses)						(2,132)		(2,132)
Transfer from Other reserves to Legal reserves					34,521	(34,521)		–
Net income recognized directly in equity					**(62,691)**	**12,933**	**–**	**(49,758)**
Net profit for the period							134,107	134,107
Total recognized income for 2015					**(62,691)**	**12,933**	**134,107**	**84,349**
Issuance of new shares	991,865	991,865	992	33,358		(34,350)		–
Equity-based compensation charge, equity-settled						36,090		36,090
Employee share option plans		344,588				9,922		9,922
Purchase of Treasury shares, net		(45,378)				(3,100)		(3,100)
Other net asset changes from associates							653	653
Excess of purchase price on subsequent acquisition of non-controlling interests				6				6
First adoption of IFRIC 21							1,140	1,140
Reclass of the actuarial gains/losses						11,073	(11,073)	
Dividends paid/payable to shareholders							(36,955)	(36,955)
Balance as of December 31, 2015	**89,007,709**	**88,103,992**	**89,008**	**1,240,241**	**(61,596)**	**56,637**	**1,158,525**	**2,482,815**

Notes to the statutory financial statements of the Holding Company

The Company financial statements are part of the 2016 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, 2016	**741,734**
Change in the identifiable assets of 2015 acquisitions	9,701
Currency translation adjustment	(872)
Transfer of goodwill related to transfers of subsidiaries	(3,958)
December 31, 2016	**746,605**

Notes to the statutory financial statements of the Holding Company continued

Note 3. Property, plant and equipment

January 1, 2016	Leasehold improvements and office furniture and equipment
Gross book value	81
Accumulated depreciation	(35)
Net book value	**46**
2016 movements	
Additions	3
Depreciation	(13)
December 31, 2016	
Gross book value	84
Accumulated depreciation	(48)
Net book value	**36**

Note 4. Investments and loans

	Year ended December 31,	
	2016	2015
Investments in subsidiaries and associates	2,013,360	2,237,256
Net investments in subsidiaries and associates	**2,013,360**	**2,237,256**

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, 2016	**2,232,939**	**4,317**	**475,801**	**2,713,057**
2016 movements				
Adjustment on 2015 acquisitions	(2,777)			(2,777)
Contributions to subsidiaries and associates	205	4,692		4,897
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	(5,637)	1,849		(3,788)
Changes between direct and indirect goodwill of subsidiaries related to internal transfers	3,958			3,958
Fair value gains and losses	(6,303)			(6,303)
Other changes in net assets of indirect associates	453			453
Dividends and capital reductions	(460,608)			(460,608)
Other	5			5
Net result from subsidiaries and associates	208,566	(3,931)		204,635
Transfer from short-term loans and deposits			(961)	(961)
Revaluation through Profit and Loss			20,862	20,862
Currency translation adjustment	35,632			35,632
December 31, 2016	**2,006,433**	**6,927**	**495,702**	**2,509,062**

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 consist of long-term receivable (non-interest bearing) on Trustonic Ltd.

Note 6. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2016	2015
Cash at bank and in hand	13,557	10,891
Total	**13,557**	**10,891**

Note 7. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2016 and consisted of 150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €89,929 as at December 31, 2016 and to €89,008 as at December 31, 2015. The share capital consisted of 89,928,639 ordinary shares as at December 31, 2016 and of 89,007,709 ordinary shares as at December 31, 2015 with a nominal value of €1 with no specific rights attached thereto.

The Holding Company issued 886,199 new shares during 2016 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. Furthermore, the Holding Company issued 34,731 shares in relation to the Gemalto Employee Share Purchase Plan for a cash consideration.

Share premium

As at December 31, 2016, the share premium amounted to €1,291,795 (€1,240,241 as at December 31, 2015). 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 and cash flow hedges (if their balances are positive) are legal reserves.

As at December 31, 2016, Income recognized directly in equity consisted of:

	2016
Reserve for cash flow hedge	(91,365)
Cumulative translation adjustment	70,963
Total	**(20,402)**

Other reserves

As at December 31, 2016, Other reserves consisted of:

	2016
Treasury shares	(29,042)
Share option reserve	64,480
Net gains on Treasury shares in connection with the liquidity program	9,381
Reserve for actuarial gains and losses on benefit obligations	(20,802)
Treasury shares canceled	(18,923)
Other	659
Total	**5,753**

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, 2016	
Subsidiaries	Long-term loans	Short-term loans
Gemalto Inc.	477,555	–
Source One Direct Inc.	18,147	–
PT Gemalto Smart Cards Indonesia	–	1,003
Gemalto B.V.	–	1,298
Gemalto AG	–	3,393
Total	**495,702**	**5,694**

The Holding Company financed its subsidiaries with the following terms:

	Gemalto Inc.	Source One Direct Inc.	PT Gemalto Smart Cards Indonesia	Gemalto B.V.	Gemalto AG
Effective date	December 29, 2015	December 21, 2015	July 28, 2009	July 14, 2016	June 25, 2015
Interest	4.5%	4.5%	3M US LIBOR +0.75%	2%	1%
Maximum facility	USD 500 million	USD 30 million	USD 1.05 million	AED 12 million	CHF 18 million
Maturity	December 28, 2025	December 20, 2025	July 31, 2017	July 13, 2017	April 22, 2017

Note 9. Borrowings

Borrowings from subsidiaries

Borrowings from subsidiaries and associates consist of the following:

	Year ended December 31, 2016
	Short-term borrowings
Gemalto (Thailand) Ltd	2,116
Total	**2,116**

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, 2017

Borrowings

The non-current borrowings include an amount of €396,753 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. 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.

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 and the carrying value as of December 31, 2016 amounts to €149,211. The interest rates are 1.94% and 2.05% respectively for the two private placements.

The short-term borrowings consist of the implemented French commercial paper program for a total capacity of €400 million with the aim of both diversifying and optimizing the Company's sources of financing. As at December 31, 2016, the outstanding amount reaches €169 million. The average interest percentage is (0.05)% p.a.

Further information about the current and non-current borrowings is included in note 15 of the consolidated financial statements.

Note 10. Other long-term liabilities

The other long-term liabilities have an expected remaining lifetime of between two and four years.

Note 11. Wages and salaries

	Year ended December 31, 2016	2015
Wages and salaries	2,344	2,212
Costs with respect to share (option) plans	7,356	36,090
Social security charges	154	143
Pension contributions	81	79
Other employee costs	296	239
Total	**10,231**	**38,763**

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 24 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 2016 was 15 (15 in 2015) based on full time equivalents excluding the Non-executive Board members. None of these employees were employed abroad (none in 2015).

Note 12. Financial income and expense

	Year ended December 31, 2016	2015
Interest and similar income	21,882	21,163
Interest and similar expenses	(16,571)	(14,802)
Exchange differences	(5,787)	(4,779)
Total	**(476)**	**1,582**

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 €79.7 million for the years starting from year 2008; (2015: €85.9 million for the years starting 2007) accordingly no corporate income tax payable is due; no current income tax payable and no income tax charge is included in these financial statements with the exception of incurred withholding tax on dividends received from subsidiaries.

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	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2016							
Alex Mandl	Non-executive Chairman	265,000	–	–	–	–	**265,000**
Philippe Vallée[1]	Executive Board member and Chief Executive Officer	100,000	150,000	17,742	160,160	71,397	**499,299**
Olivier Piou	(Non)-Executive Board member and Chief Executive Officer	35,000	815,000	119,006	544,544	(113,686)	**1,399,864**
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	–	–	–	–	**93,000**
Yen Yen Tan	Non-executive Board member	86,000	–	–	–	–	**86,000**
Joop Drechsel	Non-executive Board member	94,000	–	–	–	–	**94,000**
Total		**1,089,956**	**965,000**	**136,748**	**704,704**	**(42,289)**	**2,854,119**

[1] The CEO's remuneration will be paid pro rata for 2016, from September 1, 2016 until December 31, 2016.

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	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2015							
Alex Mandl	Non-executive Chairman	265,000	–	–	–	–	**265,000**
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	815,000	69,782	697,000	2,623,049	**4,239,831**
Arthur van der Poel	Non-executive Board member	93,000	–	–	–	–	**93,000**
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	94,000	–	–	–	–	**94,000**
Johannes Fritz	Non-executive Board member	101,000	–	–	–	–	**101,000**
John Ormerod	Non-executive Board member	108,000	–	–	–	–	**108,000**
Michel Soublin	Non-executive Board member	33,222	–	–	–	–	**33,222**
Philippe Alfroid	Non-executive Board member	89,160	–	–	–	–	**89,160**
Yen Yen Tan	Non-executive Board member	86,000	–	–	–	–	**86,000**
Joop Drechsel	Non-executive Board member	57,646	–	–	–	–	**57,646**
Total		**1,142,028**	**815,000**	**69,782**	**697,000**	**2,623,049**	**5,346,859**

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 2016 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 2016.

Gemalto shares and rights to acquire Gemalto shares held by Board members

	Gemalto shares	American Depository Receipts	FCPE units[2]	RSUs[3]	Gemalto share options
As at December 31, 2016	Number of shares held	Number of ADRs held	Number of units purchased	Maximum number of RSUs held	Number of shares options held
Philippe Vallée	144,700	–	20,545	140,100	17,737
Olivier Piou	368,999	–	39,448	96,250	111,500
Alex Mandl	10,000	–	–	–	–
Homaira Akbari	–	4,500	–	–	–
Total	**523,699**	**4,500**	**59,993**	**236,350**	**129,237**

[2] FCPE (Fonds commun de Placement d'Entreprise), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

[3] 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 and PricewaterhouseCoopers, for professional services rendered for the fiscal years 2016 and 2015 respectively were as follows:

2016	Fee KPMG Accountants N.V.	Fee other KPMG offices	Total fee KPMG
Audit of the financial statements	129	2,804	**2,932**
Other audit procedures	28	496	**524**
Fees relating to tax advice	–	–	**–**
All other non-audit fees	–	10	**10**
Total	**157**	**3,310**	**3,466**

2015	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	111	2,708	**2,819**
Other audit procedures	2	729	**731**
Fees relating to tax advice	–	73	**73**
All other non-audit fees	–	–	–
Total	**113**	**3,510**	**3,623**

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 €32.9 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, 2016, are as follows:

	2016
Not later than 1 year	273
Later than 1 year and not later than 5 years	159
Later than 5 years	–
Total	**432**

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

Amsterdam, March 2, 2017
(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 accompanying financial statements 2016

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 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Gemalto N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following consolidated statements for 2016: the income statement, the statement of other comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2016;
- the following company statements for 2016: 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

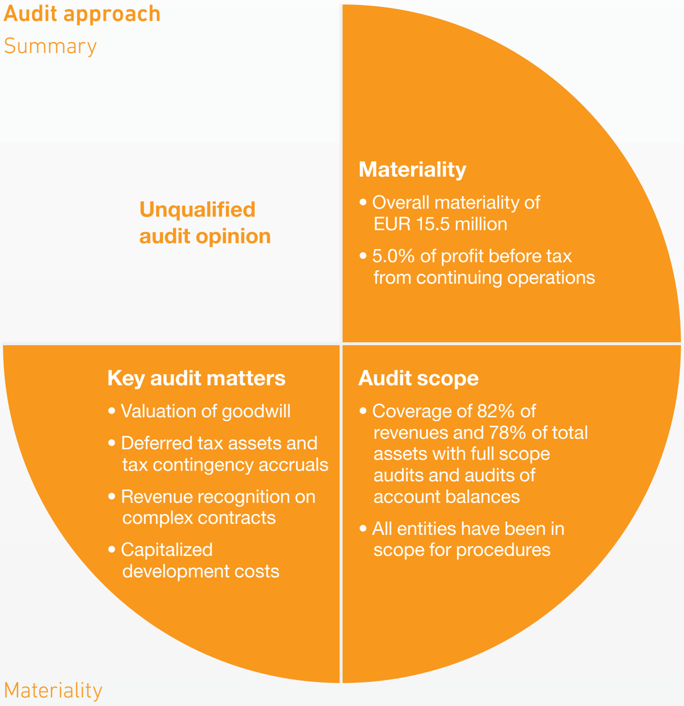
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Gemalto N.V. in accordance with the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary



Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 15.5 million. The materiality is determined with reference to profit before tax from continuing operations, of which it represents 5%. We consider profit before tax from continuing operations as the most appropriate benchmark as the main stakeholders are primarily focussed on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Audit Committee that misstatements in excess of EUR 1.0 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 head of a group of entities. The financial information of this group is included in the financial statements of Gemalto N.V.

Our group audit mainly focused on significant group entities 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. Our group audit covered all Gemalto's business segments.

We have selected 28 group entities where we performed procedures (full scope procedures for 18 group entities and specific procedures on significant account balances for 10 group entities).

We have:

- performed audit procedures ourselves at group entities in respect of areas such as the annual goodwill impairment tests, other (in)tangible asset impairment tests, valuation of deferred tax assets, acquisitions and disposals and shared service centers;
- used the work of local KPMG auditors when auditing local entities. These entities are located in France, Germany, Netherlands, Russia, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, Brazil, Canada, Colombia, Mexico, the United States of America, China, Japan, Singapore, and the United Arab Emirates.
- performed audit of account balances or central procedures at other group entities.

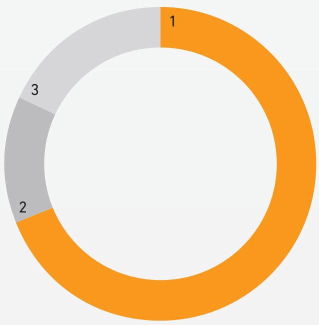
By performing the procedures mentioned above at group and local entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Coverage

The depth of our audit procedures and our actual coverage varies per account balance depending on our risk assessment. This resulted in a coverage of 82% of revenues and 78% of total assets through full scope audits and audit of account balances.

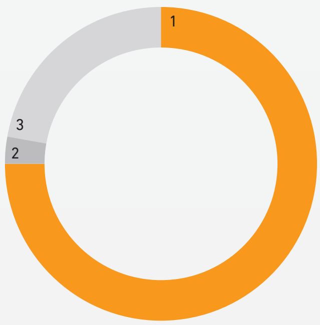
Revenues

1. Full scope audits	**69%**
2. Audit of acccount balance	**13%**
3.Central procedures remaining components	**18%**



Total assets

1. Full scope audits	**75%**
2. Audit of acccount balance	**3%**
3.Central procedures remaining components	**22%**



Initial audit

Initial audit engagements involve considerations in addition to those applied in recurring audits. During initial audit engagements we need to gain sufficient knowledge about the Company, its business, control environment and application of accounting principles in order to perform our initial audit risk assessment and planning of audit activities.

A detailed transition plan, including independence clearance, was prepared prior to the start of the audit. We started our transitional procedures during 2015 to gain an understanding of Gemalto and its business including its control environment and accounting policies. We have been in close contact with the predecessor auditor and have performed reviews on their audit files at all levels throughout the group. During 2016 we had regular meetings with management, performed limited half-year procedures and assessed key matters at an early stage.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, 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
Goodwill amounts to a net book value of €1.562 million as at 31 December 2016 in the financial statements. Under EU-IFRS, the Company is required to test the amount of goodwill for impairment at least annually. The impairment tests were significant to our audit due to the complexity of the assessment process and judgments and assumptions involved which are affected by expected future market and economic developments.

Our response
We challenged the cash flow projections included in the annual goodwill impairment tests by considering the historical accuracy of forecasts. For our audit we furthermore critically assessed and tested management's key assumptions, methodologies, the weighted average cost of capital and other data 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 included valuation specialists in our team to assist us with these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units, 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. We also assessed the adequacy of the Company's disclosures included in note 9 in the financial statements.

Our observation
Based on our procedures performed we consider management's key assumptions to be within a reasonable range and determined that the Company's disclosures meet the requirements of EU-IFRS.

Deferred tax assets and tax contingencies accruals

Description
The group has a significant amount of deferred tax assets of €111 million, mainly resulting from net operating losses and tax contingency accruals in relation to tax exposures in various countries.

For the deferred tax assets the risk exists that future (fiscal) profits will not be sufficient to fully recover the amount recognized. Management supports the recoverability of the deferred tax assets mainly with fiscal profit projections which contain estimates of and tax strategies for future taxable income. For example, changes in the business and its markets and changes in regulations may affect these projections.

In the context of political pressure on national budgets and the Company's dispersed geographical presence and transfer pricing policies are increasingly challenged by local tax authorities. Management exercises judgment in determining its tax position. The future actual outcome of decisions concerning the tax exposures may result in significantly higher or lower amounts than currently recognized in the financial statements.

Our response
We have assessed the appropriateness of management's assumptions and estimates in relation to the deferred tax assets and the tax contingency accruals, by challenging those assumptions and considering management's position that is supported by external tax advisors. In this area, our audit procedures included, among others, using our own tax specialists to assist us in assessing the appropriateness of the level of deferred tax asset balances and tax contingency accruals recognized in the balance sheet. We mainly focused on the long-term forecasts and critically assessed the assumptions and judgments included in these forecasts by considering the historical accuracy of forecasts and the sensitivities of the profit forecasts. Furthermore we critically assessed the assumptions and judgments included in the tax contingency. We also assessed the adequacy of the tax disclosures included in note 28 in the financial statements.

Our observation
Based on our procedures performed we consider management's key assumptions and judgments to be within a reasonable range and determined that the tax disclosures meet the requirements of EU-IFRS.

Revenue recognition on complex contracts

Description
The group ambition is to further transform its operating model towards providing highly technological service solutions. Such services may imply complex development arrangements, including multi-components and specific clauses (such as contingency clauses), which could lead to exceptions to the group revenue and billing policies. An increasing portion of the group's revenue is generated from large and complex contracts in which judgment is applied on clients' acceptance criteria and whether the transfer of risk and rewards to the buyer has taken place to determine whether revenue and costs should be recognized in the current period. Also 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.

Our response
Our procedures included amongst other, assessment of the revenue recognition method for complex contracts. With involvement of our component auditors, we have tested the design and the effectiveness of the controls set up by management surrounding the analysis of 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 accurate and complete revenue recognition. We have assessed the appropriateness of management's estimates in relation to the unbilled balances.

Our observation
Based on our procedures performed we consider that management has appropriate procedures in place to ensure appropriate accounting of revenues in accordance with EU-IFRS.

Capitalized development costs

Description
Capitalized development costs of €155 million are deemed significant to our audit, given the rapid technological developments in the industry, as well as the specific criteria that need to be met for capitalization. This involves management judgment, such as 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 reliable. In addition, determining whether there is any indication of impairment of the carrying value of assets, requires management judgment and assumptions which are affected by future market or economic developments.

Our response
We have performed audit procedures over the accuracy and valuation of amounts recognized. Our audit procedures included, among other things, assessing the recognition criteria for intangible assets, challenging the key assumptions used or estimates made in capitalizing development costs, including the authorization 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 projects. We also assessed the adequacy of the Company's disclosure in note 9 of the financial statements.

Our observation
Based on our procedures performed we consider management's judgments and outcome of their procedures to be appropriate 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:

- board report;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

Based on the below 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 Netherlands 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 Netherlands 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.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed as auditor of Gemalto N.V. by the Annual General Meeting of Shareholders on 22 May 2015. The audit of the 2016 financial statements was our first year's audit.

Description of the responsibilities for the financial statements

Responsibilities of the Board for the financial statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board is responsible for such internal control as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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 framework 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 financial statements

Our objective is to plan and perform the audit 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 have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the Appendix.

Amstelveen, 2 March 2017
KPMG Accountants N.V.

T. van der Heijden RA

Independent auditor's report continued

Appendix

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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 for one 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 the Company'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 the Company'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 entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities 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 Comittee 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.

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 safegards.

From the matters communicated with the Audit Committee, we determine 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 with due observance of the Holding Company's policy on additions to reserves and on distributions of profits to propose to the 2017 AGM to distribute a dividend in cash of €0.50 per share in respect of the 2016 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2016 which would materially impact the statutory financial statements of the Holding Company.

Reconciliation from IFRS to adjusted financial information

		12 months ended December 31, 2016			
			Excluding non-controlling interest	Basic EPS	Diluted EPS
Weighted average number of shares outstanding (in thousands)				88,703	89,649
IFRS financial information					
Operating profit		346,946			
Financial income		(34,268)			
Share of profit of associates		2,059			
Impairment of associates, net		(21,042)			
Income tax		(107,497)			
IFRS	**Profit for the period**	**186,198**	**185,726**	**2.09**	**2.07**
Reconciliation to adjusted financial information					
Share-based compensation expense and associated costs		9,238			
Fair value adjustment upon business acquisition		3,242			
Restructuring and acquisition-related expenses		35,656			
Amortization and depreciation of intangibles resulting from acquisitions		57,576			
Income tax		(25,028)			
Adjusted	**Profit for the period**	**266,882**	**266,410**	**3.00**	**2.97**

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**

				Basic EPS	Diluted EPS
			12 months ended December 31, 2015		
			Excluding non-controlling interest	Basic EPS	Diluted EPS
Weighted average number of shares outstanding (in thousands)				87,812	89,077
IFRS financial information					
Operating profit		203,347			
Financial income		(37,963)			
Share of profit of associates		2,058			
Income tax		(30,571)			
IFRS	**Profit for the period**	**136,871**	**136,769**	**1.56**	**1.54**
Reconciliation to adjusted financial information					
Share-based compensation expense and associated costs		38,638			
Fair value adjustment upon business acquisition		70,722			
Restructuring and acquisition-related expenses		49,079			
Amortization and depreciation of intangibles resulting from acquisitions		60,843			
Income tax		(52,665)			
Adjusted	**Profit for the period**	**303,488**	**303,386**	**3.45**	**3.41**

Adjusted income statement by business segment

In thousands of Euro	Payment & Identity	Mobile	Patents	Full year 2015
Revenue	**1,818,410**	**1,278,520**	**24,630**	**3,121,560**
Gross profit	**698,289**	**494,540**	**23,054**	**1,215,883**
Operating expenses	(459,568)	(322,168)	(11,518)	(793,254)
Profit from operations	**238,721**	**172,372**	**11,536**	**422,629**

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, 2016 the Company's issued and paid-up share capital amounted to €89,928,639, consisting of 89,928,639 ordinary shares with a nominal value of €1 per share, of which 717,835 shares were held in treasury. Hence, 89,210,804 shares were outstanding as at December 31, 2016.

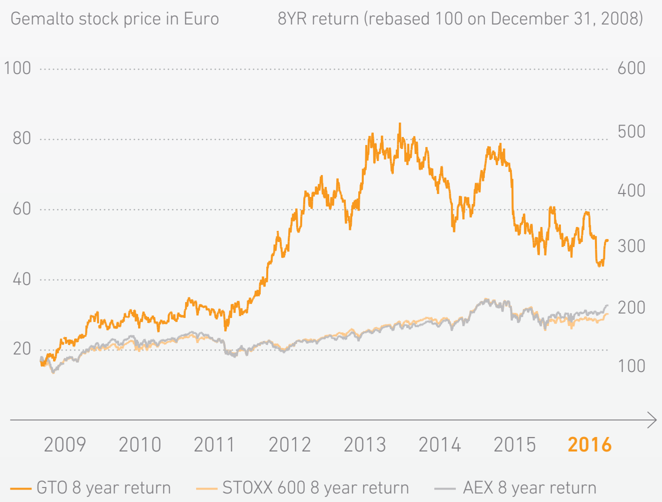
Stock exchange listing – 2016 stock market data

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.AM, GTO.PA
Bloomberg: GTO:NA, GTO:FP
Among other stock indices, Gemalto is part of the: AEX (NL0000000107), SBF 120 (FR0003999481), MSCI Standard Europe 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 2016: 434,905.
- Market capitalization as at December 31, 2016: €4,938,880,854.

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, 2016

The following shareholding threshold disclosures were applicable as at December 31, 2016. For further information, please refer to Shareholders' disclosures, page 56.

December 9, 2016:	Aviva plc	3.20% capital interest and voting rights
November 14, 2016:	Capital Research and Management Company	3.01% voting rights
November 14, 2016:	Capital Group International Inc.	3.01% voting rights
June 16, 2016:	S.N. Quandt	5.67% capital interest and voting rights
January 13, 2016:	BlackRock, Inc.	2.99% capital interest and 3.75% voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
November 17, 2014:	OppenheimerFunds, Inc.	3.05% 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, 2016 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 2016

	% of outstanding capital
North America	23%
UK and Ireland	12%
Continental Europe	54%
Other	11%

Financial calendar 2017

Important dates of financial calendar

March 3, 2017	Publication of 2016 Fourth Quarter Revenue and Full Year Results
April 28, 2017	Publication of 2017 First Quarter Revenue
May 18, 2017	2017 Annual General Meeting of shareholders
September 1, 2017	Publication of 2017 Second Quarter Revenue and First Semester Results
October 27, 2017	Publication of 2017 Third Quarter Revenue

2017 Annual General Meeting of shareholders

Gemalto N.V. will hold its 2017 AGM at the Sheraton Amsterdam Airport Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG, Schiphol Airport, the Netherlands on Thursday, May 18, 2017 at 2 p.m. CET.

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, 2017 (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 and 2016 it paid a cash dividend of €0.28, €0.31, €0.34, €0.38, €0.42 and €0.47 for the financial years of 2010, 2011, 2012, 2013, 2014 and 2015 respectively. With due observance of the Company's dividend policy, the Board will propose a cash dividend of €0.50 per share in respect of the 2016 financial year at the 2017 AGM. For more information on the dividend policy, please refer to Distribution of profits, page 56.

Share buy-back program

As authorized by the 2016 AGM, the Company has renewed its share buy-back program up to and including October 31, 2017. Gemalto's share buy-back program had no impact on the cash position in 2016. As at December 31, 2016 the Company held 717,835 shares in treasury, which were repurchased on the market at an average acquisition price of €40.46. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 56.

Investor Relations contact:
Gemalto shareholders service
Tel: +33 1 5501 5509
Fax: +33 1 5501 5120
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 (Third Generation): The broadband telecommunications systems that combine high-speed voice, data and multimedia.

4G: The 4th generation of wireless standards offering a comprehensive, secure all-IP based mobile broadband solution to smartphones, laptop computer wireless modems and other mobile devices.

Authentication: The process or action of verifying the identity of a user or process.

Back-end: Here, describing a remote platform or server that stores and processes data without direct access by the user; whereas 'front-end' refers to an application or interface accessed directly by the user.

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.

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 (see 'thin client').

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 signature: An electronic signature created with a public-key algorithm that can be used by the recipient to authenticate the identity of the sender.

eBanking: Accessing banking services via the Internet.

eCommerce: Buying and selling goods and services via the Internet.

eDocument: Any of a range of electronic documents, including electronic ID cards, Drivers' Licenses, Health cards, etc.

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.

Thin client: A software application designed to be especially small so that the bulk of the data processing occurs on a central server. By contrast, a fat client does as much local processing as possible.

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.

UMTS (Universal Mobile Telecommunications System): One of the 3G mobile telecommunications technologies which is also being developed into a 4G technology.

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.

Produced and designed by Radley Yeldar
www.ry.com

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Inspired to know more?

Gemalto N.V.
Barbara Strozzilaan 382
1083 HN Amsterdam
The Netherlands

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