

The Offer expires at 6 June 2018, unless extended

OFFER DOCUMENT

Dated 27 March 2018

RECOMMENDED CASH OFFER

by

THALES S.A.

THALES

(a public limited liability company incorporated under the laws of France)

**for all issued and outstanding ordinary shares including ordinary shares represented by
American depositary shares of**

GEMALTO N.V.

gemalto 
security to be free

(a public limited liability company (*naamloze vennootschap*)
incorporated under the laws of The Netherlands)

This offer document (the **Offer Document**) contains the details of the recommended public offer by Thales S.A. (**Thales**), to all holders of issued and outstanding ordinary shares with a nominal value of EUR 1.00 (one euro) in the share capital of Gemalto N.V. (**Gemalto**) (each, an **Ordinary Share**), including all American depositary shares (each, an **ADS**) representing Ordinary Shares, with every two ADSs representing one Ordinary Share (Ordinary Shares and ADSs are collectively referred to herein as the **Shares**, and each, a **Share**, and the holders of such Shares are collectively referred to herein as the **Shareholders**, and each, a **Shareholder**), to purchase for cash their Shares on the terms and subject to the conditions and restrictions set forth in this Offer Document (the **Offer**).

As at the date of this Offer Document, Thales does not hold, directly or indirectly, any Shares in the share capital of Gemalto.

This Offer Document contains the information required by article 5:76 of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*, **DFSA**) in conjunction with article 8, paragraph 1 of the Dutch Decree on public offers (*Besluit openbare biedingen Wft*, the **Decree**) and has been reviewed and approved by The Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*, the **AFM**).

Capitalised terms used in this Offer Document have the meaning set out in Section 4 (*Definitions*) or elsewhere in this Offer Document. Capitalised terms used in the Dutch summary included in Section 13 (*Nederlandse samenvatting (Dutch language summary)*) have the meaning set out in Section 13 (*Nederlandse samenvatting (Dutch language summary)*).

Shareholders that have tendered their Ordinary Shares pursuant to the Offer and not validly withdrawn such tender will be paid, on the terms and subject to the conditions and restrictions contained in this Offer Document, in consideration of each Ordinary Share validly tendered (or defectively tendered, provided that such defect has been waived by Thales) for acceptance prior to or at the Acceptance Closing Time and not validly withdrawn (each, a **Tendered Ordinary Share**), a cash amount of EUR 51.00 (fifty-one euros) (the **Offer Price**).

Shareholders that have tendered their ADSs pursuant to the Offer and not validly withdrawn such tender will be paid, on the terms and subject to the conditions and restrictions contained in this Offer Document, in consideration for each ADS validly tendered (or defectively tendered, provided that such defect has been waived by Thales) for acceptance prior to or at the Acceptance Closing Time and not validly withdrawn (each, a **Tendered ADS**) 50% (fifty per cent) of the Offer Price, or EUR 25.50 (twenty-five euros and fifty cents) (the **ADS Offer Price**), paid in cash in an equivalent amount of U.S. dollars, with the U.S. dollar equivalent being calculated by Thales using the spot market exchange rate for the U.S. dollar against the euro published on Bloomberg at 12:00 p.m., New York

time on the day immediately prior to the date on which funds are received by American Stock Transfer & Trust Co., LLC (the **ADS Tender Agent**), in its capacity as ADS Tender Agent, to pay the ADS Offer Price for all Tendered ADSs following the Unconditional Date (such exchange rate, the **Applicable Exchange Rate**).

The Offer Price and ADS Offer Price are *cum* dividend and as such include any distribution with respect to the Shares that is or may be declared by Gemalto after 17 December 2017 on or prior to the Settlement Date and in respect of which the record date occurs on or prior to the Settlement Date. Consequently, if on or prior to the Settlement Date any distribution is declared in respect of the Shares and the record date for such distribution occurs on or prior to the Settlement Date, then (i) the Offer Price will be decreased by an amount per Tendered Ordinary Share equal to the amount of such distribution allocable to each Ordinary Share and (ii) the ADS Offer Price will be decreased by an amount per Tendered ADS equal to 50% (fifty per cent) of the amount of the distribution allocable to each Ordinary Share.

Any adjustment to the Offer Price, and consequently the ADS Offer Price, resulting from a distribution by Gemalto, will be communicated by press release in accordance with Section 5.12 (*Announcements*) of this Offer Document. In addition, if the Offer Price, and consequently the ADS Offer Price, are adjusted within 10 (ten) U.S. Business Days before the expiration of the Acceptance Period, Thales will extend the Acceptance Period or, if applicable request dispensation from the AFM for a further extension of a previously extended Acceptance Period in accordance with Article 5:81 paragraph 3 DFSA, such that the Offer remains open for at least 10 (ten) U.S. Business Days following such adjustment.

The Acceptance Period under the Offer begins at 9:00 hours CET (3:00 am New York time), on 28 March 2018 and, unless extended in accordance with Section 5.4 (*The Acceptance Period and extension of the Acceptance Period*), ends at 17:40 hours CET (11.40 am New York time), on 6 June 2018. Acceptance under the Offer must be made in the manner specified in this Offer Document. Thales has agreed that it will accept valid book-entry tenders of ADSs (including pursuant to the guaranteed delivery procedures set forth herein) until 5:00 pm, New York time, on the Acceptance Closing Date.

Any Shares tendered on or prior to the Acceptance Closing Time may be withdrawn at or prior to the Withdrawal Deadline but may not be withdrawn thereafter, subject to the rights of withdrawal set forth in Section 5.3.7 (*Withdrawal Rights*), in particular the right of withdrawal of any tender during an extension of the Acceptance Period in accordance with the provisions of article 15, paragraph 3 of the Decree.

Thales reserves the right to extend the Offer past the Acceptance Closing Date. If the Offer is extended past the Acceptance Closing Date, Thales will make an announcement to that effect in accordance with the Decree. The provisions of article 15, paragraph 2 of the Decree, require that such an announcement is made within 3 (three) Dutch Business Days following the Acceptance Closing Date.

Unless the Acceptance Period is extended, Thales will, in accordance with article 16, paragraph 1 of the Decree, announce whether the Offer is declared unconditional (*gestand wordt gedaan*) within 3 (three) Dutch Business Days following the Acceptance Closing Date (the **Unconditional Date**). See Section 5.5 (*Declaring the Offer unconditional*). Thales reserves the right to waive certain Offer Conditions, in whole or in part, if relevant and to the extent permitted by Applicable Laws. See Section 6.6 (*Offer Conditions, waiver and satisfaction*).

All announcements in relation to the Offer will be made by a press release and placed on the website of Thales. See Section 5.12 (*Announcements*).

In the event that Thales announces that the Offer is declared unconditional, Shareholders of Tendered Ordinary Shares and Tendered ADSs will receive the Offer Price in respect of each Tendered Ordinary Share and the ADS Offer Price in respect of each Tendered ADS, respectively, and Thales shall acquire each Tendered Ordinary Share and each Tendered ADS, respectively, within 5 (five) Business Days following the Unconditional Date (the **Settlement**, and the day on which the Settlement occurs, the **Settlement Date**).

Distribution of this Offer Document may be subject to specific regulations or restrictions in certain jurisdictions. Persons in possession of this Offer Document are urged to inform themselves of any such restrictions which may apply to them and observe them. Any failure to comply with these restrictions may constitute a violation of the securities laws of that jurisdiction. Thales disclaims all responsibility for any violation of such restrictions by any person. See Section 2 (*Restrictions*).

Gemalto has convened a shareholders meeting of Gemalto to discuss the Offer. This shareholders meeting will be combined with Gemalto's annual general meeting of Shareholders and shall be held at 10:00 hours CET on 18 May 2018 at the hotel Hilton Amsterdam Airport Schiphol, Schiphol Boulevard 701, 1118 BN Schiphol, The Netherlands. Separate convocation materials are available on Gemalto's website.

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2. RESTRICTIONS

2.1 General

This Offer Document is not an offer to sell securities and it is not a solicitation of an offer to buy securities, nor shall there be any sale or purchase of securities pursuant hereto, in any jurisdiction in which such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the laws of any such jurisdiction. If you are in any doubt as to your eligibility to participate in the Offer, you should contact a professional adviser immediately.

The Offer applies to all the Shares and is made with due observance of such statements, conditions and restrictions as are included in this Offer Document. Thales reserves the right to accept any tender pursuant to the Offer, which is made by or on behalf of a Shareholder, even if it has not been effected in the manner set out in this Offer Document. The Offer is not being made, and the Shares will not be accepted for purchase from or on behalf of any Shareholder, in any jurisdiction in which the making or acceptance thereof would not be in compliance with the securities or other laws or regulations of such jurisdiction or would require any registration, approval or filing with any regulatory authority not expressly contemplated by the terms of this Offer Document. Notwithstanding the foregoing, acceptances of the Offer by Shareholders not residing in The Netherlands, France and/or the United States of America will be accepted by Thales if such acceptances comply with (i) the acceptance procedure set out in this Offer Document and (ii) the applicable laws and regulations of the jurisdiction from which such acceptance has been made. Persons obtaining the Offer Document are required to take due note and observe all such restrictions under the applicable laws and regulations and obtain any necessary authorisations, approvals or consents. Neither Thales or any of its affiliates, board members, employees nor any of their respective advisers accepts any liability for any violation by any person of any such restriction. Any person (including, without limitation, custodians, nominees and trustees) who would or otherwise intend to forward this Offer Document or any related document to any jurisdiction other than The Netherlands or France should carefully read this Section 2 (*Restrictions*) and Section 3 (*Important Information*) before taking any action. The distribution of this Offer Document in jurisdictions other than The Netherlands or France may be restricted by law and therefore persons into whose possession of this Offer Document comes should inform themselves about and observe such restrictions. Any failure to comply with any such restrictions may constitute a violation of the law of any such jurisdiction.

2.2 United States of America

The Offer is being made for the securities of Gemalto, a public limited liability company incorporated under Dutch law, and is subject to Dutch disclosure and procedural requirements, which differ from

those of the United States of America. The financial information of Gemalto included or referred to herein has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, accordingly, may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. The Offer will be made in the United States of America in compliance with Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the **U.S. Exchange Act**), and the rules and regulations promulgated thereunder, including Regulation 14E, and is subject to the exemptions from regulation under Regulation 14D and certain provisions of Regulation 14E provided by Rule 14d-1(d) under the U.S. Exchange Act and otherwise in accordance with the requirements of Dutch law. Accordingly, the Offer will be subject to certain disclosure and other procedural requirements, including with respect to the Offer timetable, settlement procedures, withdrawal, waiver of conditions and timing of payments, that are different from those applicable under U.S. tender offer procedures and laws.

The receipt of cash pursuant to the Offer by a U.S. Shareholder may be a taxable transaction for U.S. federal income tax purposes and may be a taxable transaction under applicable state and local, as well as foreign and other tax laws. See also Section 11 (*Tax aspects of the Offer*). Each Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of accepting the Offer.

It may be difficult for U.S. Shareholders to enforce their rights and claims arising out of the U.S. federal securities laws because Gemalto and Thales are located in a country other than the United States of America, and some or all of their respective officers and directors may be residents of a country other than the United States of America. U.S. Shareholders may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of U.S. securities laws. Further, it may be difficult to compel a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

To the extent permissible under applicable law or regulations, including Rule 14e-5 of the U.S. Exchange Act, and in accordance with normal Dutch practice, Thales and its affiliates or broker(s) (acting as agents or on behalf of Thales or its affiliates, as applicable) and Gemalto and its affiliates or broker(s) (acting as agents or on behalf of Gemalto or its affiliates, as applicable) may from time to time both prior to and after the date hereof, and other than pursuant to the Offer, directly or indirectly purchase, or arrange to purchase, Shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. In no event will any such purchases be made for a price per Ordinary Share that is greater than the Offer Price or a price per ADS that is greater than the ADS Offer Price. To the extent information about such purchases or arrangements to purchase is made public in The Netherlands, such information will be disclosed by means of a press

release or other means reasonably calculated to inform U.S. Shareholders of such information and on the website of Thales at www.thalesgroup.com/en/investors. No purchases will be made outside of the Offer in the United States of America by or on behalf of Thales, Gemalto and/or their respective affiliates. Affiliates of the financial advisers of Thales and Gemalto may engage in ordinary course trading activities in securities of Gemalto, which may include purchases or arrangements to purchase such securities. To the extent required in The Netherlands, any information about such purchases will be announced by press release in accordance with Article 13 of the Decree.

This Offer Document has not been filed with or reviewed by any federal or state securities commission or regulatory authority of any jurisdiction in the United States of America, nor has any such commission or authority passed upon the accuracy or adequacy of this Offer Document. Any representation to the contrary is unlawful and may be a criminal offense.

3. IMPORTANT INFORMATION

3.1 Introduction

This Offer Document contains important information that should be carefully read before a decision is made to tender Shares under the Offer. Shareholders are advised to study this Offer Document carefully and to seek independent advice where deemed appropriate in order to reach a balanced judgement of the Offer itself and the contents of the Offer Document. In addition, Shareholders should consult with their tax advisers regarding the tax consequences of tendering their Shares under the Offer.

3.2 Responsibility for information

The information contained in Section 1 through Section 6 (excluding Sections 6.7, 6.8, 6.9 and 6.10), 9, 10 (paragraphs (ii), (iii), (v), (vii) and (ix)), 11, 13 and 16 of this Offer Document has been provided solely by Thales. The information contained in Sections 6.7, 6.9, 7, 8, 10 (paragraphs (iv), (vi), (viii) and (x)) and 15 of this Offer Document has been provided solely by Gemalto. The information contained in pages 1 through 4, Sections 6.8, 6.10, 10 (opening and paragraph (i)), 12 and 14 of this Offer Document has been provided by Thales and Gemalto together.

Thales is exclusively responsible for the accuracy and completeness of the information contained in this Offer Document solely with respect to the information provided by Thales. Gemalto is exclusively responsible for the accuracy and completeness of the information contained in this Offer Document solely with respect to the information provided by Gemalto. Thales and Gemalto are jointly responsible for the accuracy and completeness of the information contained in this Offer Document provided by Thales and Gemalto together.

The auditor's reports included in Section 15.7 and Section 15.8 of this Offer Document have been provided by KPMG to Gemalto and the auditor's report included in Section 15.6 of this Offer Document have been provided by PricewaterhouseCoopers to Gemalto. No person other than Thales and Gemalto, and without prejudice to the auditors reports issued by KPMG and PricewaterhouseCoopers respectively as included in this Offer Document, and without prejudice to the Fairness Opinions rendered by Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc to the Board of Directors of Gemalto (the full text of each Fairness Opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with each Fairness Opinion, is included in the Position Statement), is authorized to provide any information or to make any statements on behalf of Thales or Gemalto in connection with the Offer or the information contained in the Offer Document. If any such information or statement is

provided or made by parties other than Thales or Gemalto, such information or statements should not be relied upon as having been provided by or made by or on behalf of Thales or Gemalto. The information included on pages 1 through 4 and in Section 13 (*Nederlandse samenvatting (Dutch language summary)*) regards summarized and/or translated information, and as the case may be, has been derived from the information included in the other Sections of this Offer Document.

3.3 Accuracy and date of information and presentation of financial information

Both Thales and Gemalto confirm, each with respect to the information it has provided and jointly with respect to the information they have provided jointly, that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this Offer Document is in accordance with the facts and that the Offer Document makes no omission likely to affect its substance.

The information set out in this Offer Document reflects the situation as at the date of this Offer Document, unless specified otherwise. The issue and distribution of the Offer Document does not imply in any respect that the information contained herein will continue to be correct and complete after the date of publication of the Offer Document. The foregoing does not affect the obligation of Thales and Gemalto to make a public announcement pursuant to the MAR, article 4 paragraph 1 and paragraph 3 of the Decree or as required by any other Applicable Law.

It should be noted that certain financial and statistical information in this Offer Document may have been rounded up or down to the nearest whole number or the nearest decimal and should therefore not be regarded as exact. In addition, the rounding also means that the totals of the data in this Offer Document may vary slightly from the actual arithmetic totals of such information.

3.4 Applicable law and jurisdiction

This Offer Document and the Offer are, and any tender, purchase, acceptance or transfer (*levering*) of Shares will be, governed by and construed in accordance with the laws of The Netherlands. The District Court of Amsterdam (*Rechtbank Amsterdam*) and its appellate courts have exclusive jurisdiction to settle any disputes which might arise out of or in connection with this Offer Document, the Offer and/or any tender, purchase, acceptance or transfer of Shares. Accordingly, any legal action or proceedings arising out of or in connection with the Offer Document, the Offer and/or any tender, purchase, acceptance or transfer of Shares must be brought exclusively before such courts.

For the purpose of the Offer in France, a summary of the Offer Document, in the French language, has been prepared and is available on the website of Thales at www.thalesgroup.com/en/investors and on

the website of Gemalto at www.gemalto.com/investors.

3.5 Contact details

Thales:

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Address: Tour Carpe Diem, Place des Corolles, Esplanade Nord, 92400 Courbevoie, France

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E-mail: ir@thalesgroup.com

Gemalto:

GEMALTO N.V.

Address: Barbara Strozilaan 382, 1083 HN Amsterdam, The Netherlands

Telephone: + 33 (0) 1 55 01 52 63 (Jean-Claude Deturche) / +33 (0)1 55 01 62 19 (Sebastien Liagre)

E-mail: investorrelations@gemalto.com

The Settlement Agent for Ordinary Shares:

ING BANK N.V.

Address: Bijlmerplein 888, 1102 MG Amsterdam, The Netherlands

Telephone: +31 20 56 36 619

E-mail: iss.pas@ing.nl

The ADS Tender Agent:

AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC

Address: 6201 15th Avenue, Brooklyn, New York, 11219, United States

Telephone: +1 (877) 248 6417

E-mail: dapisa@astfinancial.com

The Information Agent for Ordinary Shares:

IPREO

Address: 10, rue du Colisée, 75008 Paris, France

Telephone: +33 (0) 1 79 73 12 12

E-mail: Thales-Gemalto@ipreo.com

The U.S. Information Agent for ADSs:

D.F. KING & CO., INC

Address: 48 Wall Street, 22nd Floor, New York, New York, 10005, United States

Telephone: +1 (877) 536 1556

Email: GTO@dfking.com

3.6 Language

This Offer Document has been published in English and includes a Dutch summary in Section 13 (*Nederlandse Samenvatting (Dutch Language Summary)*). In the event of differences, whether or not in interpretation, between the English text of the Offer Document on the one hand and the Dutch summary on the other hand, the English text shall prevail.

3.7 Availability of copies of Offer Document

Digital copies of this Offer Document are available on the website of Thales at www.thalesgroup.com/en/investors and on the website of Gemalto at www.gemalto.com/investors. Such websites do not constitute a part of, and are not included or referred to in, this Offer Document. Copies of this Offer Document are also available free of charge from the Settlement Agent, the ADS Tender Agent, the Information Agent for Ordinary Shares and the U.S. Information Agent for ADSs at the addresses mentioned above.

3.8 Documentation incorporated by reference

Copies of the Articles of Association and Gemalto's annual reports for the Financial Years 2014, 2015 and 2016, respectively, all of which are incorporated by reference in this Offer Document, are also available free of charge at the abovementioned offices of Gemalto, the Settlement Agent, the ADS Tender Agent, the Information Agent for Ordinary Shares, the U.S. Information Agent for ADSs, and on the website of Gemalto at www.gemalto.com/investors.

3.9 Forward-looking statements

Certain statements in this Offer Document may be considered forward-looking statements, such as statements relating to the impact of the Offer on Thales and Gemalto and the expected timing and completion of the Offer. Forward-looking statements include those preceded by, followed by or that include the words may, anticipated, expected or similar expressions. These forward-looking statements speak only as of the date of this Offer Document. Thales and any of their respective Affiliates, each with respect to the statements it has provided, believes the expectations reflected in such forward-looking statements are based on reasonable assumptions. Nevertheless, no assurance can

be given that such statements will be fulfilled or prove to be correct, and no representations are made as to the future accuracy and completeness of such statements. The forward-looking statements are subject to risks, uncertainties and other factors, many of which are beyond Thales's control, that could cause actual results to differ materially from historical experience or those results expressed or implied in these forward-looking statements. Potential risks and uncertainties include, but are not limited to, (i) the risk that the Offer Conditions may not be satisfied, (ii) risks relating to Thales's ability to successfully operate Gemalto without disruption to its other business activities, which may result in the proposed combined entity not operating as effectively and efficiently as expected, (iii) the possibility that the Offer may involve unexpected costs, unexpected liabilities or unexpected delays, (iv) the risk that the businesses of Gemalto and Thales may suffer as a result of uncertainty surrounding the Offer, (v) the effects of competition (in particular the response to the Offer in the marketplace) and competitive developments or risks inherent to Thales's business plans, (vi) the risk that disruptions from the Offer will harm relationships with customers, employees and suppliers, (vii) political, economic or legal changes in the markets and environments in which Thales and Gemalto do business, (viii) economic conditions in the global markets in which Thales and Gemalto operate, (ix) uncertainties, risks and volatility in financial markets affecting Thales and Gemalto, and (x) other factors that can be found in Thales's and its subsidiaries' and Gemalto's press releases and public filings.

None of Thales nor Gemalto or any of their respective Affiliates and advisers, accepts any responsibility for any financial information contained in this Offer Document relating to the business, results of operations or financial condition of the other or their respective groups. Each of Thales and Gemalto expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required by Applicable Law or by any Governmental Entity.

3.10 Financial Advisers

3.10.1 Advisers to Thales

Lazard, Messier Marris & Associés and Société Générale are acting as financial advisers exclusively to Thales and to no one else in connection with the Offer and will not regard any other person (whether or not a recipient of this Offer Document) as a client in relation to the Offer and will not be responsible to anyone other than Thales for providing the protections afforded to the clients of Lazard, Messier Marris & Associés and Société Générale or for providing advice in relation to the Offer.

3.10.2 Advisers to Gemalto

Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc are acting as financial advisers exclusively to Gemalto in connection with the Offer and to no other person in connection with the Offer and will not regard any other person (whether or not a recipient of this Offer Document) as a client in relation to the Offer and will not be responsible to any person other than Gemalto (i) for providing the protections afforded to the clients of Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc or (ii) for providing advice in relation to the Offer or any other matter referred to in this Offer Document.

Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc have given and have not withdrawn their written consent to the references to their names in the form and context in which they appear in this Offer Document.

Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc have issued their respective Fairness Opinions to the Board of Directors of Gemalto. The full text of the Fairness Opinions is included in the Position Statement. The Fairness Opinions are not a recommendation as to whether or not a Shareholder should tender its Shares in connection with the Offer or any other matter.

3.11 Responsibility of the advisers

None of the advisers listed in Section 3.10 or their respective partners or employees shall have any responsibility, duty of care or liability whatsoever to any party other than, to the extent any such responsibility, duty of care or liability exists, their respective clients, as identified in such Section, in connection with this Offer Document or the Offer.

4. DEFINITIONS

Acceptance Closing Date	means the date on which the Offer expires, being 6 June 2018, or, where appropriate, as extended in accordance with article 15, paragraph 2 of the Decree, or further extended after Thales having received dispensation from the AFM for a further extension in accordance with Article 5:81 paragraph 3 DFSA and the provisions of this Offer Document
Acceptance Closing Time	means the time at which the Offer expires, being at 17:40 hours CET, (11.40 am New York time) on the Acceptance Closing Date
Acceptance Level	has the meaning attributed to it in Section 6.6 (<i>Offer Conditions, waiver and satisfaction</i>)
Acceptance Period	means the period during which Shareholders can tender their Shares to Thales, which begins at 9:00 hours CET, (3:00 am New York time) on 28 March 2018 and ends on the Acceptance Closing Time
Admitted Institutions	means those institutions admitted to Euronext Amsterdam (<i>aangesloten instellingen</i>) and Euronext Paris
ADS	means an American depositary share, with every two ADSs representing one Ordinary Share
ADS Offer Price	has the meaning attributed to it on page 2
ADS Letter of Transmittal	means the letter of transmittal that ADS holders receive from the ADS Tender Agent and/or U.S. Information Agent for ADSs pursuant to which a holder of ADSs may tender such ADSs pursuant to the Offer
ADS Tender Agent	means American Stock Transfer & Trust Co., LLC
Affiliate	means, in respect of Thales or Gemalto as applicable, any corporation, partnership, co-operative, or other business or legal

entity or other person directly or indirectly, solely or jointly controlling or controlled by Thales or Gemalto as applicable, including any of its subsidiaries and group companies within the meaning of articles 2:24a and 2:24b of the DCC, respectively

Agent's Message

means a message, transmitted by DTC to, and received by, the ADS Tender Agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the tendering ADS holder that the ADS holder has received and agrees to be bound by the terms of the ADS Letter of Transmittal

AFM

means the Dutch Authority for the Financial Markets (*de Stichting Autoriteit Financiële Markten*)

AMF

means the French Regulatory Authority in charge of Financial Markets (*Autorité des Marchés Financiers*)

Alternative Proposal

has the meaning attributed to it in Section 6.23 (*Alternative Proposal*)

Applicable Exchange Rate

has the meaning attributed to it on page 3

Applicable Laws

means any and all applicable laws (whether civil, criminal or administrative) including common law, statutes, subordinate legislation, treaties, regulations, rules, directives, decisions, by laws, circulars, codes (including corporate governance codes), orders, notices, demands, decrees, injunctions, guidance, judgments or resolutions of a parliamentary government, quasigovernment, federal, state or local government, statutory, administrative or regulatory body, securities exchange, court or agency in any part of the world which are in force or enacted and are, in each case, legally binding as at the relevant time, and the term Applicable Law will be construed accordingly

Articles of Association

means the articles of association of Gemalto

Board of Directors of Gemalto	means the board of directors (<i>raad van bestuur</i>) of Gemalto
Board of Directors of Thales	means the board of directors of Thales
Business Day	means a day (other than a Saturday or Sunday) on which banks and Euronext Amsterdam are generally open for normal business in The Netherlands, except where (i) it is specified to refer to a “ Dutch Business Day ”, in which case it means any day (other than a Saturday or Sunday) on which banks in The Netherlands are open for normal business according to the collective agreement for the banking sector (the <i>CAO Banken</i>), or (ii) where it is specified to refer to a “ U.S. Business Day ”, in which case it will mean a day (other than a Saturday or Sunday) on which banks and the NYSE are generally open for normal business in the United States of America
Buy-Out	has the meaning attributed to it in Section 6.15.2 (<i>Buy-out</i>)
Calculation Time	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
CET	means Central European Time or Central European Summer Time, as applicable in The Netherlands
CFIUS Approval	means that, following a voluntary notification of the Offer (and other transactions contemplated by the Merger Agreement) to the Committee on Foreign Investment in the United States (CFIUS), CFIUS shall have reviewed or investigated the Offer and other transactions contemplated by the Merger Agreement under Section 721 of Title VII of the United States Defense Production Act of 1950 (the Exon-Florio Amendment) and (a) the parties shall have received written confirmation by CFIUS of the completion of the review, and if applicable, investigation; (b) (1) CFIUS shall have provided a written determination that the Offer and other transactions contemplated by the Merger Agreement are

not a “covered transaction” under the Exon-Florio Amendment, (2) CFIUS shall have provided a written determination that there are no unresolved national security concerns with respect to the Offer and other transactions contemplated by the Merger Agreement, or (3) (A) the period of time for any applicable review under the Exon-Florio Amendment shall have expired and the President of the United States shall not have taken action to block or prevent the consummation of the Offer or other transactions contemplated by the Merger Agreement, or (B) the President of the United States of America shall have provided written notice of his decision not to take such action; and (c) no requirements or conditions to mitigate any national security concerns shall have been imposed or agreed to as a result of such review or investigation, other than such requirements or conditions as would, individually or in the aggregate, constitute “reasonable best efforts” for purposes of Section 6.6B (*Regulatory Clearances*)

Combination	means the combination between Gemalto and Thales
Commencement Date	means the date on which the Offer is made
Competing Offer	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
Contingent Right	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
Conversion Date	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
CR Percentage	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
DCC	means the Dutch Civil Code (<i>Burgerlijk Wetboek</i>)

Decree	means the Dutch Decree on Public Offers (<i>Besluit openbare biedingen Wft</i>)
DEPO	means the Dutch Exemption Decree Public Offers (<i>Vrijstellingsbesluit overnamebiedingen Wft</i>)
Deposit Agreement Termination Date	has the meaning attributed to it in Section 6.14 (<i>Termination of the ADS Deposit Agreement</i>)
DFSA	means the Dutch Financial Supervision Act (<i>Wet op het financieel toezicht</i>)
DIS GBU	means the “Digital Security” global business unit of Thales that is to be created by Thales
Dutch Corporate Governance Code	means the Dutch corporate governance code, dated 8 December 2016 as established under article 2:391 paragraph 5 of the DCC
DTC	means the Depository Trust Company
Eligible Institution	means a financial institution that is a member in good standing of a recognized Medallion Program approved by the Securities Transfer Association, Inc., including the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program and the Stock Exchanges Medallion Program, or an “Eligible Guarantor Institution” within the meaning of Rule 17Ad-15(a)(2) under the U.S. Exchange Act.
Enterprise Chamber	means the Enterprise Chamber of the Amsterdam Court of Appeal (<i>Ondernemingskamer</i>)
EU Merger Control Clearance	means that the transaction contemplated by the Merger Agreement is declared by the European Commission to be compatible with the common market, pursuant to Article 6(1)(a), 6(1)(b) or 6(2) of the EC Council regulation on the control of concentrations between undertakings, no. 139/2004 (the EC Merger Regulation) or pursuant to Article 8(1) or 8(2) of the EC

	Merger Regulation or deemed to have been declared compatible with the common market pursuant to Article 10(6) of the EC Merger Regulation, allowing Thales to acquire and vote on the Shares tendered under the Offer as per the Settlement Date
EUR, euro or €	means Euro, the legal European currency of the European Monetary Union
Euronext Amsterdam	means the official market of the regulated market of Euronext Amsterdam, The Netherlands
Euronext Paris	means the official market of the regulated market of Euronext Paris, France
Fairness Opinion	has the meaning attributed to it in Section 6.7 (<i>Decision making and Recommendation by the Board of Directors of Gemalto</i>)
Financial Year 2014	means the financial year of Gemalto ending on 31 December 2014
Financial Year 2015	means the financial year of Gemalto ending on 31 December 2015
Financial Year 2016	means the financial year of Gemalto ending on 31 December 2016
FIRB Approval	means that, following notification of the Offer (and other transactions contemplated by the Merger Agreement) (the Action) to the Treasurer in accordance with Foreign Acquisitions and Takeovers Act 1975 (Cth) (FATA) in Australia, one of the following occurs: (i) the day that is 10 (ten) days after the end of the decision period mentioned in section 77 of FATA passes without an order prohibiting the Action having been made under section 67 or 68 of FATA; (ii) if an interim order is made under section 68 of FATA, the end of the period specified in the order passes without an order prohibiting the Action under section 67 having been made; or (iii) Thales receives a no objection notice

(within the meaning of FATA) in respect of the Action

First Announcement

means the joint press release by which Thales and Gemalto announced the execution of the Merger Agreement published on 17 December 2017

FSIL Approval

means that, following the required notification of the Offer (and other transactions contemplated by the Merger Agreement) to the Federal Antimonopoly Service of Russia (the **FAS**), the FAS (as the body administering the process of notification) and the Governmental Commission on Foreign Investments in the Russian Federation (as the body taking the final decision on the notification) (the **Commission**) shall have reviewed the Offer and other transactions contemplated by the Merger Agreement under Russian Federal Law № 57-FZ “On the Procedure of Making Foreign Investments in Companies of Strategic Importance for National Defense and State Security” of 29 April 2008 (the **FSIL**) and (1) the Commission shall have provided a written approval to contemplate the Offer (and other transactions contemplated by the Merger Agreement) meaning that it does not raise concerns relating to national defense and state security, or (2) the Commission shall have provided a written approval to contemplate the Offer (and other transactions contemplated by the Merger Agreement) subject to certain conditions relating to national defense and state security stated in a separate agreement with the applicant

Gemalto

means Gemalto N.V., a public limited liability company (*naamloze vennootschap*) incorporated under the laws of The Netherlands, with its registered office at Barbara Strozzi 382, 1083 HN Amsterdam, The Netherlands, registered with the trade register in Amsterdam, The Netherlands under No. 27.25.50.26

Gemalto AGM

has the meaning attributed to it in Section 7.1 (*Gemalto AGM Convocation*)

Gemalto Resolutions	has the meaning attributed to it in Section 7.2 (<i>Gemalto Resolutions</i>)
Governmental Entity	means any government authority, court of competent jurisdiction, administrative agency or commission or other governmental or regulatory authority or instrumentality, in each case, whether domestic or foreign
Governmental or Court Order	has the meaning set out in Section 6.6 I (<i>No Governmental or Court Order</i>)
Group	means Thales or Gemalto, as applicable, such Party and its respective Group Companies immediately prior to Settlement Date
Group Companies	means, in respect of Thales or Gemalto as applicable, any corporation, partnership, cooperative, or other business or legal entity or other person directly or indirectly, solely or jointly controlled by Thales or Gemalto as applicable, and Group Company means any of them
Information Agent for Ordinary Shares	means IPREO
Independent Members	has the meaning set out in Section 6.18.1 (<i>Independent members of the Board of Directors of Gemalto</i>)
Investment Canada Approval	means that, following the filing of a notification of the Offer under Part III the Investment Canada Act (the ICA) the Canadian Government shall not have taken any steps under Part IV.1 of the ICA within the prescribed time, or if a notice under s. 25.2 of the ICA has been issued or an order for review under s. 25.3 of the ICA has been made the resulting statutory prohibition on the implementation of the Offer shall have been terminated without any requirement being made of or imposed on the parties or it shall have been terminated on the basis of required terms,

conditions or undertakings directed at protecting the national security of Canada

IRS

means Internal Revenue Service

Integration Committee

has the meaning attributed to it in Section 6.20.8 (*Integration Committee*)

Long Stop Date

means 31 March 2019

MAR

means Regulation (EU) N° 596/2014 of the European Parliament of 16 April 2014 on market abuse

Matched Offer

has the meaning attributed to it in Section 6.25.5 (*Matched Offer*)

Matching Offer Period

has the meaning attributed to it in Section 6.25.4 (*Matching Offer Period*)

Material Adverse Effect

means any change, event, circumstance or effect (any such items an **Effect**) either individually or when taken together with all other Effects, that occurred after the date of the Merger Agreement and is continuing on the Acceptance Closing Date (and, for the avoidance of doubt, any such Effect occurring before the Commencement Date may be taken into account in the determination at the Acceptance Closing Date of whether a Material Adverse Effect has occurred) that:

- A. is or would reasonably likely to be materially adverse to the business, the assets, the liabilities, the financial condition or position or capitalisation of the Gemalto Group taken as a whole, or
- B. would or would reasonably be expected to prevent the closing of the Offer before the Long Stop Date

such that Thales cannot reasonably be expected to declare the Offer unconditional, provided, however, that only for the purpose of determining whether there has been, or will be, a Material

Adverse Effect under paragraph A. above, the following Effects will not be taken into account:

- (a) changes or conditions generally affecting the industries in which the Gemalto's Group operates, except in the case of a breakdown of the financial markets or fundamental negative developments in the global digital industry;
- (b) changes in economic, political, or market conditions (including member states leaving such union) and the Eurozone (including one or more member states leaving or forced to leave such zone);
- (c) any natural disaster, pandemic, act of terrorism, sabotage, armed hostility, military action (including in Syria, North Korea, Turkey, South Korea and Israel), or act of God, or any escalation or worsening thereof;
- (d) any failure, in and of itself, by Gemalto or the Gemalto Group to meet any internal projections or projections published by third parties, forecasts or revenue or earnings predictions (provided, however, that, in the case of this paragraph (d), the underlying cause for such failure may be considered in determining whether there may be a Material Adverse Effect);
- (e) the credit, financial strength or other ratings (provided, however, that, in the case of this paragraph (e), the underlying cause for such change, event, circumstance or effect relating to credit, financial strength or other ratings may be considered in determining whether there may be a Material Adverse Effect) of Gemalto or the Gemalto Group;
- (f) any Effect resulting from any act or omission of Thales, whether before or after the date of the Merger Agreement, including any action taken by Gemalto or

any member of the Gemalto Group with Thales's written consent or at with Thales's direction (or not taken where such consent has been withheld) or compliance by Gemalto with the terms of, or the taking of any action required by, the Merger Agreement, except for any Effect resulting from any act or omission of Thales that is a response to a breach of the Merger Agreement by Gemalto;

- (g) any Effect resulting from (i) the entry into of the Merger Agreement, or (ii) the announcement, making or implementation of the Offer;
- (h) a breach of the Merger Agreement or applicable law by Thales;
- (i) any change or prospective change of law or regulation, or the interpretation thereof, including any change to generally accepted accounting principles; or
- (j) any Effect (including but not limited to litigation) which is known to Thales as at the date of the Merger Agreement,

except, in the cases of paragraphs (a) and (b), to the extent that the Gemalto Group, taken as a whole, is materially disproportionately affected thereby as compared with other participants in the industries in which the Gemalto Group primarily operates (in which case the incremental materially disproportionate impact or impacts may be taken into account in determining whether there has been, or is reasonably expected to be, a Material Adverse Effect)

Merger Agreement

means the merger agreement entered into by Thales and Gemalto on 17 December 2017 in relation to the Offer

Merger Control Clearances

means the EU Merger Control Clearance and the Other Merger Control Clearances

Merger Rules	means all Applicable Laws regarding the transactions, and each of them, including without limitation, the applicable provisions of the DFSA, the Decree, the DEPO, any rules and regulations promulgated pursuant to the DFSA, Decree and DEPO, the policy guidelines, instructions and opinions of the AFM, the Dutch Merger Code 2015 (<i>SER-besluit Fusiegedragsregels 2015</i>), the Dutch European Works Councils Act (<i>Wet op de Europese Ondernemingsraden</i>), the rules and regulations of Euronext Amsterdam, Euronext Paris and, in as far as applicable, the DCC, the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (subject to any exemptions or relief therefrom, if applicable), the relevant securities and employee consultation rules and regulations in other applicable jurisdictions and the relevant Applicable Laws to the Offer
Non-Financial Covenants	has the meaning attributed to it in Section 6.20 (<i>Non-Financial Covenants</i>)
Non-Financial Covenants Duration	has the meaning attributed to it in Section 6.20.10 (<i>Duration</i>)
NYSE	means the New York Stock Exchange
Offer	has the meaning attributed to it on page 2
Offer Conditions	has the meaning attributed to it in Section 6.6 (<i>Offer Conditions, waiver and satisfaction</i>)
Offer Document	means this offer document describing the terms and conditions of and restrictions applicable to the Offer, of which, for the avoidance of doubt, the Position Statement does not form a part
Offer Price	has the meaning attributed to it on page 2
Other Merger Control	one of the following events having occurred in respect of

Clearances	Australia, China, Israel, Mexico, New Zealand, Russia, South Africa, Turkey, and the United States of America : (i) the antitrust Regulatory Authorities issuing a decision in respect of the transaction contemplated by the Merger Agreement constituting clearance of the proposed concentration, or stating that no clearance is required, or (ii) the expiry, lapse or termination of all applicable waiting and other time periods (including extensions thereof) under any applicable legislation or regulation in respect of the transaction contemplated by the Merger Agreement provided that, upon such expiry, lapse or termination the transaction contemplated by the Merger Agreement is by operation of law and effective immediately deemed to be cleared
Other Regulatory Clearances	means CFIUS Approval, FIRB Approval, FSIL Approval and Investment Canada Approval
Ordinary Shares	means the issued and outstanding ordinary shares in the capital of Gemalto with a nominal value of EUR 1.00 each
Position Statement	means a position statement pursuant to article 18 of the Decree, which sets out among other things the Recommendation
Post-Closing Acceptance Period	has the meaning attributed to it in Section 5.7 (<i>Post-Closing Acceptance Period</i>)
Post-Settlement Restructuring	has the meaning attributed to it in Section 6.15.3 (<i>Other Post-Settlement Restructurings</i>)
Potential Superior Offer	has the meaning attributed to it in Section 6.24 (<i>Potential Superior Offer</i>)
Recommendation	has the meaning attributed to it in Section 6.7 (<i>Decision making and Recommendation by the Board of Directors of Gemalto</i>)
Reference Date	8 December 2017, the last Trading Day before the announcement of Atos' proposal

Registered Holders	has the meaning attributed to it in Section 5.3.3 (<i>Acceptance by Holders of Ordinary Shares individually recorded in Gemalto's shareholder register</i>)
Regulatory Authority	means any competent governmental, administrative, supervisory, regulatory, judicial, disciplinary, enforcement or tax raising body, authority, agency, commission, board, organization, court or tribunal of any jurisdiction, whether supranational, national or regional or local and any subdivision, department or branch of any of the foregoing
Regulatory Clearances	means the Merger Control Clearances and the Other Regulatory Clearances
Relevant Person	has the meaning attributed to it in Section 6.22 (<i>Exclusivity</i>)
Relevant Shareholders	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
Section	means any section of this Offer Document
Shares	means Ordinary Shares and ADSs
Shareholder	has the meaning attributed to it in page 2
Settlement Agent	means ING Bank N.V.
Settlement Date	means the date on which Settlement occurs, in any event within 5 (five) Business Days after the Unconditional Date
Settlement	means transfer (<i>levering</i>) of the Shares validly tendered under the Offer and not withdrawn (or defectively tendered, provided that such defect has been waived by Thales) against payment of the Offer Price
Superior Offer	has the meaning attributed to it in Section 6.25 (<i>Superior Offer</i>)

Thales	means Thales S.A., a limited liability company (<i>société anonyme</i>) incorporated under the laws of France, having its registered seat in Courbevoie, France and its office address at Tour Carpe Diem, 31 Place des Corolles – CS 20001, 92098 Paris La Defense, registered with the trade register of Nanterre under number 552 059 024
Tendered Ordinary Share	means each Ordinary Share validly tendered (or defectively tendered, provided that such defect has been waived by Thales) for acceptance pursuant to the Offer prior to or at the Acceptance Closing Time and not validly withdrawn
Tendered Share	means each Tendered Ordinary Share and Tendered ADS
Tendered ADS	means each ADS validly tendered (or defectively tendered, provided that such defect has been waived by Thales) for acceptance pursuant to the Offer prior to or at the Acceptance Closing Time and not validly withdrawn
Trade Period	has the meaning attributed to it in Section 6.27 (<i>Contingent Rights</i>)
Trading Day	means any day on which each of Euronext Amsterdam and Euronext Paris is open for trading
Unconditional Date	means the day on which Thales publicly announces whether the Offer is declared unconditional (<i>gestand wordt gedaan</i>), being no later than on the third Dutch Business Day following the Acceptance Closing Date
SEC	means United States Securities and Exchange Commission
U.S. Depositary	means Deutsche Bank Trust Company Americas
U.S. Information Agent for ADSs	means D.F. King & Co., Inc.

U.S. Shareholder has the meaning set out in Section 11.2 (*Material U.S. Federal Income Tax Considerations*)

Withdrawal Deadline means the Acceptance Closing Time or such earlier deadline set by Admitted Institutions or financial intermediaries in respect of Ordinary Shares, or set by DTC or the ADS Tender Agent in respect of ADSs, as the case may be

5. INVITATION TO THE SHAREHOLDERS

5.1 Invitation to the Shareholders

Thales hereby makes a recommended public cash offer to purchase all Shares on the terms and subject to the conditions set forth in this Offer Document. Shareholders are advised to review the Offer Document (including all documents incorporated by reference herein), and in particular Section 2 (*Restrictions*) and Section 3 (*Important Information*), thoroughly and completely and to seek independent advice where appropriate in order to reach a balanced judgement in respect of the Offer itself and the contents of the Offer Document. Shareholders who are considering not tendering their Shares are advised to review Section 5.13 (*Indicative timetable*) and Section 6.12 (*Intentions following the Offer being declared unconditional*) in particular.

With reference to all terms, conditions, restrictions and statements included in this Offer Document, Shareholders are hereby invited to tender their Shares under the Offer in the manner and on the terms and subject to the conditions and the restrictions set out in this Offer Document.

5.2 Offer Price and ADS Offer Price

For each Tendered Ordinary Share, Thales offers the Offer Price, being a consideration of EUR 51.00 (fifty-one euros), to the tendering Shareholder in cash, *cum* dividend, without interest and less mandatory withholding tax payable under Applicable Law (if any).

For each Tendered ADS, Thales offers the ADS Offer Price, being 50% (fifty per cent) of EUR 51.00 (fifty-one euros), or EUR 25.50 (twenty-five euros and fifty cents), *cum* dividend, paid in cash in an equivalent amount of U.S. dollars determined in accordance with this Section 5.2 (*Offer Price and ADS Offer Price*), without interest and withholding tax payable under Applicable Law (if any).

Such equivalent amount of U.S. dollars will be determined based on the conversion of EUR 25.50 (twenty-five euros and fifty cents) per ADS into U.S. dollars, calculated by Thales using the spot market exchange rate for the U.S. dollar against the Euro published on Bloomberg at 12:00 p.m., New York time, on the day immediately prior to the date on which funds are received by the ADS Tender Agent to pay for the Tendered ADSs following the Unconditional Date. Holders of ADSs should be aware that the Euro to U.S. dollar exchange rate prevailing on the date on which such ADS holder tenders its, his or her ADSs and on the dates of dispatch and receipt of payment may be different from the Applicable Exchange Rate. In all cases, fluctuations in the Euro to U.S. dollar exchange rate are at the risk of holders of ADSs tendered pursuant to the Offer.

The Offer Price, and consequently the ADS Offer Price, are *cum* dividend. If after 17 December 2017 and on or prior to the Settlement Date any distribution is declared in respect of the Shares and the record date for such distribution occurs on or prior to the Settlement Date, then (i) the Offer Price will be decreased by an amount per Tendered Ordinary Share equal to the amount of such distribution allocable to each Ordinary Share and (ii) the ADS Offer Price will be decreased by an amount per Tendered ADS equal to 50% (fifty per cent) of the amount of such distribution allocable to each Ordinary Share.

Any adjustment to the Offer Price, and consequently the ADS Offer Price, will be communicated by press release in accordance with Section 5.12 (*Announcements*) of this Offer Document. In addition, if the Offer Price, and consequently the ADS Offer Price, are adjusted within 10 (ten) U.S. Business Days before the expiration of the Acceptance Period, Thales will extend the Acceptance Period, or if applicable request dispensation from the AFM for a further extension of a previously extended Acceptance Period in accordance with Article 5:81 paragraph 3 DFSA, such that the Offer remains open for at least 10 (ten) U.S. Business Days following such adjustment.

5.3 Acceptance of the Offer by Shareholders and tender procedures

5.3.1 General

The tender of any Share by a Shareholder constitutes an acceptance of the Offer by the Shareholder. Before taking any action, holders of Ordinary Shares should carefully verify how they hold their Ordinary Shares: through an Admitted Institution or directly (*e.g.*, individually recorded in Gemalto's Shareholders register). Holders of ADSs should carefully verify how they hold their ADSs: through a DTC participant or directly (*i.e.*, individually recorded in the U.S. Depositary's register of ADS holders). If in doubt, holders of Ordinary Shares should contact the Information Agent for Ordinary Shares or the Settlement Agent, and holders of ADSs should contact the U.S. Information Agent for ADSs or the ADS Tender Agent, in each case at the contact details included in Section 3.5 (*Contact details*).

5.3.2 Acceptance by holders of Ordinary Shares through Admitted Institutions

Shareholders who hold their Ordinary Shares through an Admitted Institution must make their acceptance known via their custodian, bank or stockbroker prior to the Acceptance Closing Time, unless the Acceptance Period is extended in accordance with Section 5.4 (*The Acceptance Period and extension of the Acceptance Period*). Custodians, banks or stockbrokers may set an earlier deadline for communication by Shareholders in order to permit the custodian, bank or stockbroker to communicate acceptances to the Settlement Agent in a timely manner. Accordingly, Shareholders

holding Ordinary Shares through a financial intermediary should contact such financial intermediary to obtain information about the deadline by which such Shareholders must send instructions to the financial intermediary to accept the Offer and should comply with the dates set by such financial intermediary, as such dates may differ from the dates and times noted in this Offer Document.

Admitted Institutions may tender Ordinary Shares for acceptance only to the Settlement Agent and only in writing. In submitting the acceptance, the Admitted Institutions are required to declare that (i) they have the Tendered Ordinary Shares in their administration, (ii) each Shareholder who accepts the Offer irrevocably represents and warrants that the Tendered Ordinary Shares are being tendered in compliance with the restrictions as set out in Section 2 (*Restrictions*) and Section 3 (*Important Information*) and the securities and other applicable laws and/or regulations of the jurisdiction(s) to which such Shareholder is subject, and no registration, approval or filing with any regulatory authority of such jurisdiction is required in connection with the Tendered Ordinary Shares, and (iii) they undertake to transfer (*leveren*) these Tendered Ordinary Shares to Thales prior to or on the Settlement Date, provided Thales declares the Offer unconditional (*gestand wordt gedaan*).

Subject to the valid withdrawal of any tender of Ordinary Shares, the tendering of Ordinary Shares in acceptance of the Offer shall constitute irrevocable instructions (i) to block any attempt to transfer the Ordinary Shares tendered, so that, on or prior to the Settlement Date, no transfer of such Ordinary Shares may be effected (other than to the Settlement Agent on or prior to the Settlement Date if Thales declares the Offer unconditional and the Ordinary Shares have been accepted for purchase) and (ii) to debit the securities account in which such Ordinary Shares are held on the Settlement Date in respect of all of the Tendered Ordinary Shares, against payment by the Settlement Agent on behalf of Thales of the Offer Price per Tendered Ordinary Share.

5.3.3 Acceptance by holders of Ordinary Shares individually recorded in Gemalto's shareholders' register

Shareholders individually recorded in Gemalto's shareholders' register (**Registered Holders**) wishing to accept the Offer in respect of such Shares must deliver a completed and signed acceptance form to the Settlement Agent in accordance with the terms and conditions of the Offer, no later than the Acceptance Closing Time. The acceptance forms are available upon request from the Settlement Agent. The acceptance form will also serve as a deed of transfer (*akte van levering*) with respect to the Shares referenced therein.

5.3.4 Acceptance by holders of ADSs

Holders of ADSs in registered form, either in American depositary receipt (**ADR**) form or in

uncertificated form through the Direct Registration System (a system administered by the DTC pursuant to which Deutsche Bank Trust Company Americas, as the depositary for the ADSs (the **U.S. Depositary**), may register the ownership of uncertificated ADSs in its books), may accept the Offer and tender ADSs to the ADS Tender Agent by delivering to the ADS Tender Agent a properly completed and duly executed ADS Letter of Transmittal, with any applicable signature guarantees from an Eligible Institution, together with the American depositary receipts representing the ADSs specified on the face of the ADS Letter of Transmittal, if applicable, prior to the Acceptance Closing Time. The ADS Letter of Transmittal and other associated forms are available upon request from the ADS Tender Agent and/or the U.S. Information Agent for ADSs. Properly completed and duly executed ADS Letters of Transmittal, together with the corresponding ADRs, if applicable, should only be sent to the ADS Tender Agent and should not be sent to Thales, the U.S. Depositary, the U.S. Information Agent for ADSs or the Settlement Agent. Properly completed and duly executed ADS Letters of Transmittal, together with the corresponding ADRs, if applicable, (or, if a Shareholder is tendering pursuant to the guaranteed delivery procedures set forth herein, the properly-completed notice of guaranteed delivery) must be received by the ADS Tender Agent prior to the Acceptance Closing Time.

The method of delivery of ADS Letters of Transmittal and, if applicable, ADRs, and all other required documents (including delivery through DTC), is at the ADS holder's option and risk, and the risk of loss of such ADSs and, if applicable, ADRs and other documents shall pass only after the ADS Tender Agent has actually received the ADSs or, if applicable, ADRs and other documents (including, in the case of a book-entry transfer, by book-entry confirmation). If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, an ADS holder should allow sufficient time to ensure timely delivery. No acknowledgement of receipt of documents will be given by or on behalf of Thales, or the ADS Tender Agent.

Shareholders holding ADSs in book-entry form, all of which are held through the facilities of DTC, must instruct the financial intermediary through which such Shareholder owns its, his or her ADSs to arrange for the DTC participant holding the ADSs in its DTC account to tender such ADSs to the DTC account of the ADS Tender Agent through the book-entry transfer facilities of DTC and DTC will then edit and verify the acceptance and send an Agent's Message to the ADS Tender Agent for its acceptance. DTC has informed Thales that it can only cut off book-entry tenders of ADSs at the end of a business day, New York time, and Thales has agreed that it will accept valid book-entry tenders of ADSs up until 5:00 pm, New York time, on the Acceptance Closing Date, and the Agent's Message and any other required documents must be transmitted to, and received by, the ADS Tender Agent before such time. By tendering its ADSs in book-entry form and not withdrawing such tender, a Shareholder will be deemed to have delivered a binding letter of transmittal making the

representations, warranties and undertakings specified in Section 5.3.6 (*Undertakings, representations and warranties by tendering Shareholders*). Financial intermediaries may set an earlier deadline for communication by holders of ADSs in order to permit the financial intermediary to communicate acceptances to the ADS Tender Agent in a timely manner. Accordingly, Shareholders holding ADSs through a financial intermediary should contact such financial intermediary to obtain information about the deadline by which such Shareholders must send instructions to the financial institution to accept the Offer and should comply with the dates set by such financial intermediary, as such dates may differ from the dates and times noted in this Offer Document.

If the procedure for registered or book-entry tenders cannot be completed on a timely basis, holders of ADSs in book-entry form may follow the guaranteed delivery procedures described below.

Tendered ADSs will be held in an account controlled by the ADS Tender Agent, and consequently, a holder of ADSs that has tendered its ADSs will not be able to sell, assign, transfer or otherwise dispose of Tendered ADSs until such time as (i) the holder of ADSs withdraws the Tendered ADSs from the Offer pursuant to any of the withdrawal rights set forth in Section 5.3.7 (*Withdrawal Rights*), including during an extension of the Acceptance Period in accordance with Section 5.4 (*The Acceptance Period and extension of the Acceptance Period*), (ii) the Tendered ADSs have been accepted for purchase by Thales (subject to the terms and conditions of the Offer), or (iii) the Tendered ADSs have been returned to the holder of ADSs if the Offer is not completed or if the Tendered ADSs were not accepted for purchase.

ADSs tendered on or prior to the Acceptance Closing Date may be withdrawn prior to the Acceptance Closing Time but not thereafter, except as otherwise described in in Section 5.3.7 (*Withdrawal Rights*).

Guaranteed Delivery Procedure

If a holder of ADSs wishes to tender ADSs during the Acceptance Period and its ADSs are not immediately available or time will not permit all required documents to reach the ADS Tender Agent before the Acceptance Closing Time or the procedure for book-entry transfer cannot be completed on a timely basis, a holder of ADSs may nevertheless properly tender ADSs if all the following conditions are satisfied:

- the tender is made by or through an Eligible Institution;
- a properly completed and duly executed notice of guaranteed delivery, substantially in the form available from the ADS Tender Agent, is received by the ADS Tender Agent as provided below before the Acceptance Closing Time; and

- American depositary receipts representing all tendered ADSs, in proper form for transfer or, in the case of a book-entry transfer, a book-entry confirmation along with an Agent's Message, any applicable letter of transmittal or a facsimile thereof (or, in the case of a book-entry transfer, an Agent's message and any other required documents to effectuate the tender under the terms and conditions of the Offer), are received by the ADS Tender Agent within 2 (two) NASDAQ Global Select Market trading days after the date of the execution of the notice of guaranteed delivery, without prejudice to the obligation of Thales pursuant to article 16, paragraph 1 of the Decree to publicly announce whether the Offer is declared unconditional no later than on the 3rd (third) Dutch Business Day following the Acceptance Closing Date.

Any notice of guaranteed delivery may be delivered by hand, mail or facsimile to the ADS Tender Agent and must include a medallion guarantee by an Eligible Institution in the form set forth in the notice of guaranteed delivery (please refer to your bank, or a brokerage firm, for more information on the medallion guarantee program). In the case of ADSs held through the book-entry transfer system of DTC, the notice of guaranteed delivery must be delivered to the ADS Tender Agent by a DTC participant by means of the DTC book-entry transfer confirmation system.

A notice of guaranteed delivery will not be an effective means of tendering ADSs during the Post-Closing Acceptance Period and no notice of guaranteed delivery will be accepted following the Acceptance Closing Time.

5.3.5 Validity of the Tendered Shares; waiver of defects; return of Tendered Shares

Thales will determine questions as to the validity, form, eligibility, including time of receipt, and acceptance for purchase of any tender of Shares, in its sole reasonable discretion and Thales's determination will be final and binding. Thales reserves the right to reject any and all tenders of Shares that it reasonably determines are not in proper form or the acceptance for purchase of which may be unlawful. No tender of Shares will be deemed to have been validly made until all defects and irregularities have been cured or waived. Thales's interpretation of the terms and conditions of the Offer, including the acceptance forms and instructions thereto, will be final and binding. There shall be no obligation on Thales, the Settlement Agent, the Information Agent for Ordinary Shares, the U.S. Information Agent for ADSs and the ADS Tender Agent or any person acting on its or their behalf to give notice of any defects or irregularities in any acceptance or notice of withdrawal and no liability shall be incurred by any of them for failure to give any such notification. Thales reserves the right to accept any tender of Shares pursuant to the Offer, even if such tender has not been made in compliance with the procedures set forth in this Section 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*). The acceptance of, and payment for, any Share pursuant to the Offer that has

not been tendered in accordance with the terms set forth in this Offer Document shall be deemed a waiver on behalf of Thales of the relevant defect in the tender of such Shares.

Any Shares that are tendered pursuant to the Offer (whether or not validly tendered in accordance with the terms set forth herein) and not accepted for any reason will be promptly returned to the relevant Shareholder. If any Shares tendered in accordance with the instructions set forth in this Offer Document are not accepted for purchase pursuant to the terms and conditions of this Offer, Thales will cause these Shares to be returned promptly following the announcement of the lapse or withdrawal of the Offer, as the case may be.

5.3.6 Undertakings, representations and warranties by tendering Shareholders

Each Shareholder tendering Shares pursuant to the Offer, by such tender, both on the date that such Shares are tendered and up to and including the Settlement Date or, with respect to Shares tendered in the Post-Closing Acceptance Period, the settlement date for such Shares, subject to the proper withdrawal of any tender:

- (a) acknowledges that the tender of any of its, his or her Shares constitutes an acceptance by the Shareholder of the Offer with respect to the Shares so tendered, on and subject to the terms and conditions of the Offer as set out in this Offer Document;
- (b) represents and warrants to Thales that such Shareholder has full power and authority to tender, sell and transfer its, his or her Shares, and has not entered into any other agreement to tender, sell or transfer such Shares stated to have been tendered to any party other than Thales (together with all rights attaching to such Shares) and, at the time such Shares are transferred (*geleverd*) to Thales, such Shareholder will have sole legal and beneficial title to such Shares and such Shares are free of any third-party rights and restrictions of any kind, unless such third-party rights and restrictions arise solely and result directly from such Shares being held in book entry form in Euroclear France or DTC or in the shareholders register of Gemalto;
- (c) represents and warrants to Thales that its, his or her Shares are tendered in compliance with the restrictions as set out in Sections 2 (*Restrictions*) and 3 (*Important information*) and the securities and other applicable laws or regulations of the jurisdiction in which the Shareholder is located or of which it is a resident, and no registration, approval or filing with any regulatory authority of that jurisdiction is required in connection with the tendering of those Shares and the Shareholder is not a person to whom it is unlawful to make the Offer under applicable securities laws;

- (d) acknowledges towards and agrees with Thales, as of the date on which its, his or her Shares are transferred to Thales, to have waived any and all rights or entitlements that such Shareholder may have in its, his or her capacity as Shareholder or otherwise in connection with its his or her shareholding vis-à-vis any member of the Gemalto Group and any and all past and current members of the Board of Directors of Gemalto;
- (e) acknowledges and agrees that it has received the Offer Document, and has reviewed and accepted the offer and distribution restrictions, terms, conditions, risk factors and other considerations of the Offer, all as described in this Offer Document, and has undertaken an appropriate analysis of the implications of the Offer without reliance on Thales, the ADS Tender Agent, the Settlement Agent or any other representative of Thales, except as set forth in this Offer Document;
- (f) acknowledges and agrees that it is not the subject or target, directly or indirectly, of any economic or financial sanctions administered or enforced by any agency of the US government, the European Union, any member state thereof, or the United Nations, other than solely by virtue of its inclusion in, or ownership by a person included in, the US “Sectoral Sanctions Identifications (SSI) List” or Annex III, IV, V or VI of Council Regulation (EU) No. 833/2014 of 31 July 2014, as amended;
- (g) with respect to any tender of ADSs in registered form, subject to and effective upon acceptance for purchase of, and payment for, the Tendered ADSs, irrevocably constitutes and appoints the ADS Tender Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the ADS Tender Agent also acts as the agent of Thales) with respect to such Tendered ADSs, with full powers of substitution, re-substitution and revocation (such power of attorney being deemed to be an irrevocable power coupled with an interest) to (a) transfer ownership of such Tendered ADSs on the account books maintained by DTC, together with all accompanying evidences of transfer and authenticity, to, or upon the order of Thales, (b) present such Tendered ADSs for transfer of ownership on the relevant security register, and (c) receive all benefits or otherwise exercise all rights of beneficial ownership of such Tendered ADSs (except that the ADS Tender Agent will have no rights to, or control over, funds from Thales except as agent of each Shareholder tendering ADSs for the ADS Offer Price, on Tendered ADSs accepted pursuant to the Offer, as determined pursuant to the terms of this Offer Document); and
- (h) with respect to any tender of ADSs in book-entry form, acknowledges that the receipt of an Agent’s Message by DTC will constitute instructions to debit the securities account of the relevant direct participant on the applicable settlement date in respect of all of such Tendered

ADSs that the relevant Shareholder has tendered in the Offer and that are accepted for purchase by Thales, upon receipt by DTC or of an instruction from the ADS Tender Agent to receive such ADSs for the account of Thales and against credit of the relevant amount in cash from Thales equal to the ADS Offer Price for each such Tendered ADS, subject to the automatic revocation of those instructions on the date of any termination of the Offer (including where such Tendered ADSs are not accepted for purchase by Thales) or the valid withdrawal of such tenders in the circumstances in which such withdrawal is permitted as set out in this Offer Document.

5.3.7 Withdrawal Rights

Shares tendered on or prior to the Acceptance Closing Date may be withdrawn in accordance with the procedures set forth below ultimately on the latest of:

- (a) the Withdrawal Deadline;
- (b) the last day of any extension of the Acceptance Period in accordance with the provisions of article 15, paragraph 3 of the Decree;
- (c) the 7th (seventh) Dutch Business Day following an announcement of a mandatory public offer in accordance with the provisions of Article 5b Paragraph 5 of the Decree, provided that such Shares were already tendered prior to such announcement;
- (d) the 7th (seventh) Dutch Business Day following the date on which the judgment of the Enterprise Chamber (*Ondernemingskamer*) to set a reasonable price for a mandatory public offer in accordance with the provisions of article 15, paragraph 8 of the Decree was declared provisionally enforceable or became final and conclusive, provided that such Shares were already tendered prior to the filing of the request referred to in Article 5:80b DFSA; and
- (e) the 7th (seventh) Dutch Business Day following the date on which a document is made generally available pursuant to Article 15a Paragraph 3 of the Decree in connection with an increase of the Offer Price (including a commensurate increase of the ADS Offer Price) as a result of which the Offer Price and ADS Offer Price no longer only consist of a cash component and, provided that such Shares were already tendered before such document was made generally available,

provided that, in the case of clauses (c) through (e) above, Thales will ensure that it has either extended the Acceptance Period or, if applicable, requested dispensation from the AFM for a further extension of a previously extended Acceptance Period in accordance with Article 5:81 paragraph 3

DFSA, to the extent required pursuant to U.S. tender offer rules and subject to Article 15 of the Decree, following the occurrence of the events described in such clauses.

To withdraw previously tendered Ordinary Shares, holders of Ordinary Shares held through Admitted Institutions must instruct the Admitted Institution they initially instructed to tender the Ordinary Shares to arrange for the withdrawal of such Ordinary Shares by the timely deliverance of a written or facsimile transmission notice of withdrawal to the Settlement Agent at the address set out in Section 3.5 (*Contact details*), and Registered Holders must timely deliver a written or facsimile transmission notice of withdrawal to the Settlement Agent at the address set out in Section 3.5 (*Contact details*) and in the form as attached to the acceptance form.

Any notice of withdrawal for Ordinary Shares must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from that of the person who tendered such Shares. The signature(s) on the notice of withdrawal of Ordinary Shares must be guaranteed by an Admitted Institution, unless such Ordinary Shares have been tendered for the account of any financial intermediary.

To withdraw previously tendered ADSs, held and tendered through DTC, the applicable DTC participant must follow the procedures of the DTC system to instruct the withdrawal of the ADSs previously tendered. To withdraw previously tendered ADSs, held and tendered outside DTC, the tendering holder must deliver a written notice of withdrawal to the ADS Tender Agent at the address set out in Section 3.5 (*Contact details*). Any notice of withdrawal for ADSs must specify the name of the person who tendered the ADSs, the number of ADSs to be withdrawn and the name of the registered holder of the ADSs. If certificates for ADSs to be withdrawn have been delivered or otherwise identified to the ADS Tender Agent, then, before the release of the certificates, the tendering holder must also submit the serial numbers shown on the particular certificates for ADSs to be withdrawn and the signature(s) on the notice of withdrawal must be medallion guaranteed by an Eligible Institution.

Holders of Ordinary Shares and holders of ADSs are urged to inform themselves of the Withdrawal Deadline and the relevant procedures to exercise their withdrawal rights that may apply to them.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by Thales, in its sole discretion, which determination will be final and binding. Shareholders withdrawing shares that were held through a financial intermediary should contact such financial intermediary to obtain information about the deadline by which such Shareholders must send instructions to the financial intermediary to withdraw their acceptance of the Offer and should comply

with the dates set by such financial intermediary, as such dates may differ from the dates and times noted in this Offer Document. Withdrawals of tenders of Shares may not be rescinded, and any Shares properly withdrawn will be deemed not to have been validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by the procedure for tendering Shares described in Section 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*). During the Post-Closing Acceptance Period, no withdrawal rights will apply to Shares tendered during such Post-Closing Acceptance Period or to Shares tendered under the Offer and accepted by Thales on or prior to the Acceptance Closing Date.

5.4 The Acceptance Period and extension of the Acceptance Period

The Acceptance Period begins at 9:00 hours CET (3:00 am New York time) on 28 March 2018 and ends, subject to possible extensions, at 17:40 hours CET (11:40 am New York time) on 6 June 2018. Thales has agreed that it will accept valid book entry tenders of ADSs up until 5:00 pm, New York time, on the Acceptance Closing Date.

If any Offer Conditions set out in Section 6.6 (*Offer Conditions*) is not satisfied or waived in accordance with Section 6.6.2 (*Waiver*) before the end of the initial Acceptance Period, Thales shall extend the initial Acceptance Period by no less than 2 (two) weeks and no more than 10 (ten) weeks, provided that if the Offer Condition relating to Regulatory Clearances set out in Section 6.6 B (*Regulatory Clearances*) is not satisfied or waived before the end of the Acceptance Period, Thales shall extend the initial Acceptance Period for 10 (ten) weeks after the initial Acceptance Closing Date (or such shorter period as Thales, in consultation with Gemalto, sees fit in light of the reasonably expected period required to satisfy the Regulatory Clearance Offer Condition set out in Section 6.6 B (*Regulatory Clearances*), but in any case for a minimum of 2 (two) weeks).

Pursuant to the Decree, Thales may extend the initial Acceptance Period once. In addition, the Acceptance Period may be further extended if the events referred to in article 15, paragraph 5 of the Decree occur. Further extensions are subject to clearance of the AFM. Thales expects to have obtained all Regulatory Clearances set out in Section 6.6 B (*Regulatory Clearances*) in the course of the second half of 2018 which means that Thales will timely request an exemption from the AFM. Subject to receipt of such exemption, Thales will extend the Acceptance Period until such time as Thales, in consultation with Gemalto, reasonably believes is necessary to cause such Offer Condition to be satisfied. If no exemption is granted by the AFM and if such Offer Condition has not been satisfied before the end of the extended Acceptance Period (and if such Offer Condition has not been waived to the extent legally permitted in accordance with Section 6.6.2 (*Waiver*)), the Offer will be terminated as a consequence of such Offer Condition not having been satisfied or waived before the Acceptance Closing Date.

If Thales extends the Offer past the initial Acceptance Closing Time, all references in this Offer Document to the "Acceptance Closing Time", "Acceptance Closing Date", "17:40 hours CET, on 6 June 2018" or "11:40 am New York Time, on 6 June 2018" shall, unless the context requires otherwise, be changed, as applicable, to the latest time and date to which the Offer has been so extended.

As noted in Section 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*), Admitted Institutions and participants in DTC may set an earlier deadline for Shareholders to communicate acceptances of the Offer in order to permit the financial intermediary to communicate such acceptances to the Settlement Agent, as applicable, in a timely manner.

In case Thales announces an increase of the Offer Price, the Acceptance Period may need to be extended (or an exemption from the AFM will be requested by Thales to further extend the extended Acceptance Period) to the extent necessary pursuant to applicable U.S. tender offer rules and subject to Article 15 of the Decree.

If Thales extends the initial Acceptance Period, Thales will make a public announcement to that effect within 3 (three) Dutch Business Days following the initial Acceptance Closing Date (see Section 5.12 (*Announcements*)). If the Acceptance Period is extended, Thales will provide notice to holders of ADSs of their right to withdraw ADSs previously tendered, including instructions on how to effect a withdrawal of such ADSs. If the Acceptance Period is extended, any Shares previously tendered and not withdrawn in accordance with Section 5.3.7 (*Withdrawal Rights*) will remain subject to the Offer.

If all Offer Conditions are satisfied or, to the extent legally permitted, waived, Thales will accept all Tendered Ordinary Shares and Tendered ADSs not previously withdrawn in accordance with the procedures set forth in Section 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*).

5.5 Declaring the Offer unconditional

The Offer is subject to the satisfaction or waiver (either in whole or in part and at any time) of the Offer Conditions in accordance with Section 6.6 (*Offer Conditions, waiver and satisfaction*). Thales reserves the right to (either in whole or in part at any time) waive certain Offer Conditions to the extent permitted by Applicable Laws and as set out in Section 6.6 (*Offer Conditions, waiver and satisfaction*). If Thales (either in whole or in part at any time) waives one or more Offer Conditions, Thales will inform the Shareholders as required by Applicable Laws.

No later than on the 3rd (third) Dutch Business Day following the Acceptance Closing Date, such date being the Unconditional Date, Thales will determine whether the Offer Conditions have been satisfied or waived. On that date Thales will announce, in accordance with article 16, paragraph 1 of the

Decree, whether the Offer (i) has been declared unconditional, (ii) will be extended in accordance with article 15 of the Decree, or (iii) is terminated as a result of the Offer Conditions not having been satisfied or waived. In the event that the Offer is not declared unconditional, Thales will explain such decision.

5.6 Settlement

In the event that Thales announces that the Offer is declared unconditional, Thales will accept transfer of all Tendered Ordinary Shares and Tendered ADSs on the terms of the Offer and will, as soon as reasonably possible but in any event on the Settlement Date, transfer the Offer Price in respect of each transferred Tendered Ordinary Share and the ADS Offer Price in respect of each transferred Tendered ADS, respectively. The Settlement Date shall be no later than 5 (five) Business Days after the Unconditional Date.

After transfer of the Shares, revocation, dissolution (*ontbinding*) or annulment (*vernietiging*) of a tender or transfer of Shares is not permitted.

5.7 Post-Closing Acceptance Period

If and when the Offer is declared unconditional, Thales will announce, in accordance with article 17 of the Decree, a post-closing acceptance period (*na-aanmeldingstermijn*) to enable Shareholders that did not tender their Shares during the Acceptance Period to tender their Shares under the same terms and conditions applicable to the Offer. The Post-Closing Acceptance Period will commence on the 1st (first) Dutch Business Day following the date on which the Post-Closing Acceptance Period is announced, will last no less than 5 (five) U.S. Business Days and may be up to 2 (two) weeks in length (the **Post-Closing Acceptance Period**).

A notice of guaranteed delivery will not be an effective means of tendering ADSs during the Post-Closing Acceptance Period and no notice of guaranteed delivery will be accepted following the Acceptance Closing Time. The Offer Price paid to ADS holders in the Post-Closing Acceptance Period shall be converted to U.S. dollars using the Applicable Exchange Rate. In all cases, fluctuations in the euro to the U.S. dollar exchange rate are at the risk of holders of Tendered ADSs.

Thales will publicly announce the results of the Post-Closing Acceptance Period and the total amount and total percentage of Shares held by it in accordance with Article 17, paragraph 4 of the Decree ultimately on the 3rd (third) Dutch Business Day following the last day of the Post-Closing Acceptance Period. Thales shall continue to accept for payment all Shares validly tendered (or defectively tendered, provided that such defect has been waived by Thales) during such Post-Closing

Acceptance Period and shall pay for such Shares within 5 (five) Business Days after the last day of the Post-Closing Acceptance Period.

During the Post-Closing Acceptance Period, Shareholders have no right to withdraw Shares from the Offer, regardless whether their Shares have been validly tendered (or defectively tendered, provided that such defect has been waived by Thales) during the Acceptance Period or the Post-Closing Acceptance Period.

5.8 Commission

No costs will be charged to Shareholders by Thales for the transfer and payment of each Tendered Share if an Admitted Institution is involved. However, Shareholders may be charged certain fees by their banks or stockbrokers. Costs may also be charged to Shareholders by or on behalf of a foreign institution involved in the transfer and payment of the Tendered Shares. Shareholders should consult their banks and stockbrokers regarding any such fees.

No costs will be charged to Shareholders by Thales or Gemalto for the transfer of, any payment for, Tendered ADSs if the Shareholder holds ADSs in registered form and tenders them directly to the ADS Tender Agent. If a financial intermediary tenders ADSs on behalf of a Shareholder, such financial intermediary may charge the Shareholder a fee for doing so. Shareholders should consult with their financial intermediary to determine whether any charges will apply.

5.9 Dividends

Following the Settlement Date, the current dividend policy of Gemalto may be discontinued. Any dividend or distribution made in respect of Shares after the Settlement Date will be taken into consideration for the purpose of establishing the value per Share in any restructuring contemplated by Section 6.15 (*Possible post-Settlement Restructuring and future legal structure*).

5.10 Withholding

Thales is entitled to deduct and withhold from the Offer Price and/or ADS Offer Price, as applicable, such amounts that Thales is required to deduct and withhold with respect to the making of such payment under any provision of applicable tax or social security law. To the extent that amounts are so withheld by Thales, such amounts shall be treated for all purposes as having been paid to the Shareholders, on behalf of which such deduction and withholding was made by Thales.

5.11 Restrictions

The Offer is being made with due observance of the statements, terms conditions and restrictions included in the Offer Document.

5.12 Announcements

Any further announcements declaring whether the Offer is declared unconditional and announcements in relation to an extension of the Acceptance Period will be issued by press release. Subject to any applicable requirements of the Decree and other Applicable Laws, and without limiting the manner in which Thales may choose to make any public announcement, Thales will have no obligation to communicate any public announcement other than as described above.

5.13 Indicative timetable

Expected date and time	Event
27 March 2018	Press release announcing the availability of this Offer Document and Position Statement
9:00 hours CET (3:00 am New York time), 28 March 2018	Commencement of the Acceptance Period
10:00 hours CET (4:00 am New York time), 18 May 2018	Gemalto AGM
17:40 hours CET (11:40 am New York time), 6 June 2018	Acceptance Closing Date and Time, subject to extensions as further described in Section 5.4 (<i>The Acceptance Period and extension of the Acceptance Period</i>)
No later than on the 3 rd (third) Dutch Business Day following the Acceptance Closing Date	Unconditional Date

Expected date and time	Event
No later than on the 3 rd (third) Dutch Business Day following the Unconditional Date	Commencement of Post-Closing Acceptance Period
No later than on the 5 th (fifth) Business Day following the Unconditional Date	Settlement Date

6. EXPLANATION AND BACKGROUND OF THE OFFER

6.1 Background and public announcements

6.1.1 Background

This Section 6.1.1 (*Background*) contains a non-exhaustive description of material contacts between representatives of Thales and Gemalto and certain other developments that resulted in the signing of the Merger Agreement.

On 4 October 2017 and 15 November 2017, preliminary and exploratory discussions were held between Mr. Patrice Caine (Chairman and Chief Executive Officer of Thales) and Mr. Philippe Vallée (Chief Executive Officer of Gemalto) in respect of a possible transaction involving Thales and Gemalto.

On 28 November 2017, Gemalto received an unsolicited and conditional proposal from Atos SE (**Atos**) for a combination of Atos and Gemalto by means of a public cash offer by Atos for all outstanding shares in Gemalto, which proposal valued Gemalto at EUR 46.00 per share. Atos in this proposal requested an answer by the Board of Directors by 15 December 2017. The Board of Directors of Gemalto started to review Atos' proposal in accordance with its fiduciary responsibilities. Additional letters from Atos followed on 8 and 11 December 2017.

On 7 December 2017, Mr. Philippe Vallée contacted Mr. Patrice Caine to deepen their earlier discussions and explore the possibility of a transaction by which Thales would acquire Gemalto.

On 11 December 2017, while the Board of Directors of Gemalto was still in the process of reviewing Atos' proposal in accordance with its fiduciary responsibilities and the timetable offered by Atos, Atos issued a press release announcing its intended offer without having had discussions with Gemalto. Atos' announcement (i) indicated that Atos would proceed with filing an offer memorandum with the AFM, irrespective of whether or not Atos had reached an agreement with Gemalto and (ii) triggered the statutory timetable for public offers as set forth in the Decree.

On 12 December 2017, a meeting was held in Paris between Mr. Philippe Vallée, Mr. Patrice Caine as well as members of the senior management teams of Gemalto and Thales to discuss the feasibility of a possible combination of Thales and Gemalto (the **Combination**) by means of a public cash offer by Thales for all outstanding shares in Gemalto.

On 13 December 2017, the Board of Directors of Gemalto resolved to reject Atos' unsolicited and conditional proposal. After careful review, with the support of its financial and legal advisers, the Board of Directors of Gemalto determined that Atos' proposal (i) failed to provide a compelling

strategy versus Gemalto's standalone prospects; (ii) significantly undervalued Gemalto; (iii) failed to adequately address the interests of Gemalto's various stakeholders; and (iv) did not offer sufficient deal certainty. On the same day Gemalto announced such rejection in a press release, in which it elaborated further on the reasons thereto.

On 14 December 2017, Thales and Gemalto entered into an agreement on confidentiality, standstill and limited exclusivity, and Mr. Philippe Vallée, Mr. Patrice Caine, together with members of the senior management teams of Thales and Gemalto engaged in discussions about a Combination.

On 14 December 2017, Mr. Philippe Vallée, Mr. Patrice Caine and members of the senior management teams of Thales and Gemalto, as well as their respective legal and financial advisers, convened in Paris and engaged in a series of meetings to discuss all aspects of the Combination and negotiate the terms of a potential Merger Agreement. This discussion continued the following days. Various drafts of the Merger Agreement were exchanged and several experts of the respective companies exchanged views.

The Board of Directors of Thales, the Board of Directors of Gemalto and the respective senior management teams, together with their legal and financial advisers, each held extensive discussions concerning the potential Combination. The Board of Directors of Gemalto accordingly thoroughly analysed and discussed the potential benefits of the Combination and strategic alternatives, including a stand-alone future.

The negotiations with Thales resulted in an offer price of EUR 51.00 per Ordinary Share (*cum* dividend) and commitment of Thales on important non-financial elements, including deal certainty and Non-Financial Covenants (as defined below). On 16 December 2017, upon request by the Board of Directors of Gemalto, Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc delivered their respective fairness opinions to the Board of Directors of Gemalto indicating that, as of such date and based upon and subject to the factors, qualifications and assumptions set forth in the fairness opinions, the Offer Price to be paid to the Shareholders pursuant to the Offer was fair from a financial point of view to such Shareholders.

Consistent with its fiduciary duties, the Board of Directors of Gemalto, with the support of its financial and legal advisers, has carefully reviewed and unanimously concluded that the Offer was in the best interests of Gemalto, the sustainable success of its business and clients, employees, Shareholders and other stakeholders.

On 17 December 2017, the Board of Directors of Thales approved the Offer and the terms of the Merger Agreement. On the same date, the Board of Directors of Gemalto approved the same, including the Offer Price, the terms of the Merger Agreement, and agreed to (i) fully support the

Combination and the Offer; (ii) unanimously recommend to the Shareholders to accept the Offer and to tender their Shares under the Offer; and (iii) unanimously recommend to the Shareholders to adopt the Gemalto Resolutions.

6.1.2 Public Announcements

On 17 December 2017, Thales and Gemalto jointly announced that a Merger Agreement had been entered into on a recommended all-cash offer for all Shares of Gemalto, for a price of EUR 51.00 (fifty-one euros) per Ordinary Share and EUR 25.50 (twenty-five euros and fifty cents) per ADS, including the confirmation that Thales would be able to finance the aggregate consideration of the Offer through available cash resources and through new debt arrangements (which were reviewed by Gemalto's advisers).

On 12 January 2018, Thales and Gemalto jointly announced that good progress was made on the preparations for the Offer. Thales and Gemalto further confirmed that the process to obtain the required regulatory approvals clearances for the Offer was proceeding and that the transaction is expected to close in the second half of 2018.

All of the foregoing press releases are included in Section 12 (*Press releases*).

6.2 The Offer

Thales is making an offer to purchase from the Shareholders all the Shares on the terms and subject to the conditions and restrictions contained in this Offer Document. Subject to the Offer being declared unconditional, Shareholders who have tendered and transferred their Shares under the Offer will receive the Offer Price in respect of each Tendered Ordinary Share and the ADS Offer Price in respect of each Tendered ADS, respectively.

6.3 Substantiation of the Offer Price and the ADS Offer Price

In establishing the Offer Price, Thales carefully considered the history and prospects of Gemalto, analyses of historical financial information derived from Gemalto financial statements, market reports and press releases as well as possible long-term developments in profitability, cash flows and balance sheet. Thales also took into account historical market values of the Shares, as set forth below, as well as Atos' indicative offer for a price of EUR 46 per Share and the rejection of that indicative offer by the Board of Directors of Gemalto.

6.3.1 Analysis

Furthermore, in establishing the Offer Price, the following was taken into consideration by Thales:

- an analysis of the closing price of the Shares for the 12 months prior to and including the Reference Date. During this period, the closing price of the Shares ranged from EUR 31.2 to EUR 63.4 and the volume-weighted average closing price of the Shares for the one, three, six and twelve month period prior to and including the Reference Date were EUR 32.6, EUR 34.4, EUR 39.6 and EUR 44.6, respectively;
- an analysis of selected target prices for the Shares, issued following 27 October 2017 (when Gemalto reported its 2017 Q3 earnings) and prior to the Reference Date by 17 research analysts who follow Gemalto's developments and regularly issue research reports on Gemalto. The target prices range from EUR 30.0 to EUR 49.0 (with a median of EUR 39.0);
- a trading multiple analysis based on the financial performance of Gemalto and the closing prices of the Shares compared with those of selected publicly-traded companies¹ and their securities. Such trading multiple analysis has been made for reference purposes only as Gemalto does not have fully comparable peers. Companies selected for comparison with Gemalto are CPI Card and Valid for smart cards & EMV cards players, and CA, De La Rue, Fortinet, Qualys, Symantec, and Vasco Data Security for security/eID players. For this analysis, EBIT estimates were based on Thomson Eikon average estimates on the Reference Date. For this group of selected companies the average ratio of enterprise value to estimated EBIT for the years ending 31 December 2018 and 31 December 2019 were approximately 13.5x and 13.2x, respectively on the Reference Date;
- an analysis of selected precedent transactions multiples. The average ratio of enterprise value, as implied by the purchase price paid, to last reported 12 month EBIT is 16.2x for the selected, relevant industry transactions. Selected transactions included for reference purposes were:
 - Advent International/Oberthur, for the smart cards/EMV cards segment,
 - Gemalto/3M Identity Management, Advent International/Morpho, Gemalto/SafeNet, 3M/Cogent, and Morpho/Sdu-I, for the Security/eID segment,
- a standalone discounted cash flow analysis for Gemalto based on a 9.0% to 10.0% discount rate and 1.50% to 2.50% perpetuity growth rate.

¹ Financial statements have been calendarized as of 31 December, for companies having another reporting period.

In addition, financial information, as derived from annual and interim accounts, analysts' presentations and reports, market reports and press releases, has been reviewed.

The ratio of the adjusted enterprise value² of Gemalto, as implied by the Offer Price, to estimated EBIT³ for the years ending 31 December 2018 and 31 December 2019 were approximately 16.8x and 14.4x, respectively on the Reference Date and based on underlying EBIT of EUR 331 million and EUR 385 million.

6.3.2 Premia

The Offer Price of EUR 51.00 (*cum* dividend) represents a premium of:

- 57% to the closing price of the Shares on the Reference Date⁴;
- 56% to the volume-weighted average closing price of the Shares for the one month period prior to and including the Reference Date;
- 48% to the volume-weighted average closing price of the Shares for the three months period prior to and including the Reference Date;
- 29% to the volume-weighted average closing price of the Shares for the six months period prior to and including the Reference Date;
- 14% to the volume-weighted average closing price of the Shares for the twelve months period prior to and including the Reference Date;
- 31% to the median of selected analyst target prices for the Ordinary Shares issued following 27 October 2017 (when Gemalto reported its Q3 2017 earnings) and prior to the Reference Date by 17 research analysts⁵ who follow Gemalto developments and regularly issue research reports on Gemalto (median of EUR 39.00).

² As per 31 December 2017, with adjusted net debt defined as (i) Thomson Eikon net financial debt consensus as at 31 December 2017 plus (ii) other net debt adjustments as reported by Gemalto in June 2017 (including: non-controlling interests, investments in associates, unfunded employee benefit obligations post-tax, restructuring & reorganization provision, provision for litigations, tax claim provision and provision for other risks).

³ As calculated by Thomson Eikon consensus as at 8 December 2017.

⁴ The closing price of the Shares on the Reference Date is EUR 32.5, as per Bloomberg.

⁵ Selected research analysts include: Goldman Sachs, Credit Suisse, Deutsche Bank, Morgan Stanley, UBS, Kepler Cheuvreux, Société Générale, Alpha Value, Equita SM, Barclays, HSBC, Invest Securities, MainFirst Bank, JP Morgan, Oddo BHF, Bryan Garnier, and Exane BNP Paribas.

6.4 Rationale for the Offer

By combining their businesses, Gemalto and Thales have the intention to create a leading global player in digital security.

Key elements of the strategic rationale for, and the strength of, the Combination are as follows:

- a. **Acceleration of Thales's digital strategy.** Over the past three years, Thales has significantly increased its focus on digital technologies, investing over EUR 1 billion in connectivity, cybersecurity, data analytics and artificial intelligence, in particular with the acquisition of Sysgo, Vormetric and Guavus. The integration of Gemalto strongly accelerates this strategy, reinforcing Thales's digital offering, across its five vertical markets (aeronautics, space, ground transportation, defence and security). Altogether, this new business unit will represent c. 20% of pro forma Thales Group revenues and rank among the top-three players worldwide, with EUR 3.5 billion revenues in the fast growing digital security market.
- b. **Unique and innovative technology portfolio in an internet-of-things, mobile and cloud world.** Combined with Gemalto's unique leading digital security portfolio, Thales will be ideally positioned to offer end-to-end solutions, to secure the full critical digital decision chains, from data creation in sensors to real-time decision making. This unrivalled and innovative technology portfolio will put Thales in a highly differentiated position to provide enterprises and governmental agencies with a seamless response to the data security challenges that lie at the heart of their digital transformation.
- c. **Creation of a global leader in digital security and cybersecurity.** By acquiring Gemalto, Thales adds over EUR 3 billion of revenue to its digital business sales and acquires a set of technologies and competencies that have applications across Thales's five vertical markets. The Combination creates a powerhouse with a solution portfolio including security software, expertise in biometric expertise and multifactor authentication and the issuance of secure digital and physical credentials. These technologies, which combine diverse and constantly evolving use cases, are expected to yield significant commercial opportunities and revenue synergies in the years ahead. Both Thales and Gemalto are experts at addressing the needs of the most demanding clients who are facing data security challenges. These include all operators of critical infrastructures including banks, telecom operators, governmental agencies, utilities, and general industries. The Combination will reinforce and further globalize Thales's footprint.
- d. **Capacity to address all customer digital security needs.** Thales will combine its digital businesses with Gemalto, which will continue to operate under its own brand as one of seven

Thales global business units. Both Thales and Gemalto management teams share a common industrial vision and endorse the growth project of this newly created digital security global business. The Gemalto CEO, Mr. Philippe Vallée, will lead the DIS GBU (as defined below).

- e. **R&D: the common DNA of Thales's and Gemalto's digital businesses.** Gemalto and Thales are technology-driven companies with world-class Research & Development (R&D) capabilities and an extensive patent portfolio. R&D is at the core of Thales's and Gemalto's digital security businesses, and will remain so. The Combination will result in a combined group of more than 28,000 engineers, 3,000 researchers, which will invest more than EUR 1 billion annually in self-funded R&D.

6.5 Financing of the Offer

With reference to article 7, paragraph 4 of the Decree, Thales announced on 17 December 2017 that it has sufficient funds to complete the Offer. Thales will be able to pay the Offer Price from its own available resources, including its existing revolving credit facility and a committed bridge credit facility entered into by Thales on 16 December 2017 in connection with the Offer. This latter bridge credit facility originally amounted to EUR 4.0 billion and has been reduced to EUR 3.0 billion on 17 January 2018, taking into account (i) the successful bond refinancing of Thales's EUR 500 million bond issue due 20 March 2018, (ii) the fact that Gemalto's EUR 400 million bond issue due 23 September 2021 is no longer expected to be refinanced and (iii) the level of Thales's available cash at year end. Reference is made to Section 12 (*Press Releases*).

6.6 Offer Conditions, waiver and satisfaction

6.6.1 Offer Conditions

The obligation of Thales to declare the Offer unconditional (*gestand te doen*) is subject to the satisfaction or waiver (either in whole or in part and at any time) by Thales and/or Gemalto, as the case may be, of each of the conditions set forth below (the **Offer Conditions**) on or before the Unconditional Date:

Acceptance Level

- A. the number of Shares that have been tendered for acceptance under the Offer, together with (i) the Shares directly or indirectly held by Thales or any of its Affiliates, (ii) any Shares irrevocably committed to Thales or any of its Affiliates in writing, and (iii) any Shares to which Thales or any of its Affiliates is entitled (*gekocht maar nog niet geleverd*), represent at least the Acceptance Level at the Closing Date;

where **Acceptance Level** means 67% (sixty-seven per cent) of Gemalto's aggregate issued and outstanding ordinary share capital (*geplaatst en uitstaand gewoon kapitaal*) on a fully diluted basis as at the Acceptance Closing Date, subject to Thales's right to lower the Acceptance Level to 50% (fifty per cent) plus one Ordinary Share as described in Section 6.6.2 (*Waiver*).

Regulatory Clearances

B. the Regulatory Clearances have been obtained;

No Material Adverse Effect

C. no Material Adverse Effect having occurred which is continuing on the Acceptance Closing Date;

No breach by Gemalto

D. Gemalto has not breached the terms of the Merger Agreement (including a breach of Gemalto's warranties pursuant thereto) to the extent that any such breach (i) has or could reasonably be expected to have a Material Adverse Effect on Gemalto, Thales, or the Offer, and (ii) is either incapable of being remedied within 10 (ten) Business Days after receipt by Gemalto of a written notice from Thales or has not been remedied by Gemalto within 10 (ten) Business Days after receipt by Gemalto of a written notice from Thales;

No breach by Thales

E. Thales has not breached the terms of the Merger Agreement (including a breach of Thales's warranties pursuant thereto) to the extent that any such breach (i) has or could reasonably be expected to have a Material Adverse Effect on Gemalto, Thales or the Offer, and (ii) is either incapable of being remedied within 10 (ten) Business Days after receipt by Thales of a written notice from Gemalto or has not been remedied by Thales within 10 (ten) Business Days after receipt by Thales of a written notice from Gemalto;

Recommendation not revoked or changed

F. the Board of Directors of Gemalto has not revoked or modified, amended or qualified the Recommendation other than as permitted under the Merger Agreement;

No Superior Offer for Gemalto

G. no Superior Offer for Gemalto is either (i) agreed upon by a third party offeror and Gemalto, or (ii) launched;

No mandatory third party offer for Gemalto

- H. no third party, unrelated to Thales, either (i) is obliged and has announced, within the meaning of article 5 paragraph 3 of the Decree, to make, or (ii) has made a mandatory offer pursuant to article 5:70 DFSA for all Shares which has a consideration that is at least equal to the Offer Price;

No Governmental or Court Order

- I. (i) no order, stay, injunction, judgment or decree has been issued by any Regulatory Authority that remains in force and effect, and (ii) no statute, rule, regulation, governmental order or injunction has been enacted or clearance process remains effective or enforced, all such other than as a result of Thales's own condition, acts or omissions, which in each case (i) and (ii) prohibits (whether or not without prior approval from a competent Regulatory Authority) the consummation of the Offer in any material respect (any of the foregoing listed in (i) and (ii), a **Governmental or Court Order**);

No notification by AFM of DFSA violation

- J. no notification has been received from the AFM stating that the preparation of the Offer has been made in violation of chapter 5.5 of the DFSA, and that, pursuant to article 5:80 paragraph 2 of the DFSA, the investment firms concerned (*beleggingsondernemingen*, as defined in the DFSA) would not be allowed to cooperate with the Settlement; and

No suspension of trading

- K. trading in the Shares on Euronext Amsterdam or Euronext Paris has not been suspended or ended as a result of a listing measure (*noteringsmaatregel*) taken by Euronext Amsterdam or Euronext Paris in accordance with article 6901/2 or any other relevant provision of the Euronext Rulebook I (Harmonised Rules).

6.6.2 Waiver

Benefit

The Offer Condition set forth in Section 6.6 A (*Acceptance Level*), Section 6.6 B (*Regulatory Clearances*), Section 6.6 C (*No Material Adverse Effect*), Section 6.6 D (*No breach by Gemalto*), Section 6.6 F (*Recommendation not revoked or changed*), Section 6.6 G (*No Superior Offer for Gemalto*) and Section 6.6 H (*No mandatory third party offer for Gemalto*) are for the sole benefit of Thales and any of them may be waived (either in whole or in part) by Thales at any time by written notice to Gemalto, provided that Section 6.6 A (*Acceptance Level*) may only be waived by Thales for

an Acceptance Level equal to or in excess of 50% plus one Ordinary Share provided further that if in such case the Acceptance Level is still below 67%, Thales and Gemalto will reasonably discuss whether additional governance arrangements need to be taken in light of the then prevailing circumstances.

The Offer Conditions set forth in Section 6.6 E (*No breach by Thales*) is for the sole benefit of Gemalto and may be waived (either in whole or in part) by Gemalto at any time by written notice to Thales.

The Offer Conditions set forth in Section 6.6 A (*Acceptance Level*) (for an Acceptance Level of less than 50% (fifty per cent) plus one Ordinary Share), Section 6.6 I (*No Governmental or Court Order*) and Section 6.6 K (*No Suspension of Trading*) are for the benefit of both Gemalto and Thales and any of them may be waived (either in whole or in part) by Thales and Gemalto jointly by written agreement.

Unwaivable condition

The Offer Condition set forth in Section 6.6 J (*No notification by AFM of DFSA violation*) may not be waived.

No invocation in case of breach

Thales may not invoke any of the Offer Conditions if the non-satisfaction of such condition(s) is caused by a breach of any of its obligations under the Merger Agreement.

6.6.3 Satisfaction

The satisfaction of each of the Offer Conditions does not solely depend on the will of Thales as prohibited by Article 12, paragraph 2 of the Decree.

Each of Thales and Gemalto shall use its best efforts to procure the satisfaction of each Offer Condition as soon as reasonably possible. If at any time either Thales or Gemalto becomes aware of any event or circumstance which would be likely to have material adverse effects on the Offer or the other transactions contemplated in the Merger Agreement, including a significant impact on the satisfaction of the Offer Conditions, it shall promptly notify the other party.

With respect to Regulatory Clearances, Thales shall use its reasonable best efforts to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable under Applicable Laws or otherwise to obtain and make effective as soon as practicable the Regulatory Clearances, including (i) making all necessary filings and pre-notification contacts to obtain those

Regulatory Clearances as soon as permitted and reasonably feasible, (ii) supply promptly any additional information and documentary material that may be requested by any Regulatory Authority and (iii) answer promptly to any questions or requests raised by any Regulatory Authority.

As also described in Section 5.4 (*The Acceptance Period and extension of the Acceptance Period*), Thales expects to have obtained all Regulatory Clearances in the course of the second half of 2018. Thales will timely request an exemption from the AFM and subject to receipt of such exemption extend the Acceptance Period until such time as Thales, in consultation with Gemalto, reasonably believes is necessary to cause the Offer Condition relating to Regulatory Clearances set out in Section 6.6 B (*Regulatory Clearances*) to be satisfied.

If a Regulatory Authority is not willing to grant unconditional approval or an unconditional statement of no objection in respect of the Offer or any other transactions contemplated in the Merger Agreement, then Thales shall use its reasonable best efforts to offer any commitment that may be required to obtain such Regulatory Clearances or statement of no objection.

Regarding the Offer Condition set out in Section 6.6 C (*No Material Adverse Effect*), in the event that either of Thales or Gemalto considers this Offer Condition not satisfied and the other disagrees, Thales and Gemalto will submit such disagreement to a binding advice procedure (*bindend advies*) under Sections 7:900 et seq. of the DCC. The President of the Enterprise Chamber will be binding adviser, or if this person is not able (for whatever reason) to timely provide the binding advice, the binding adviser shall be another independent lawyer appointed by the President of the District Court of Amsterdam upon request of either Thales or Gemalto. The binding advice will be rendered within 10 (ten) Business Days after the dispute having been referred to the binding adviser or such shorter period as Thales and Gemalto may agree, it being understood that the binding adviser shall be instructed to render its binding advice no later than noon CET on the Business Day before the Unconditional Date. The binding advice will be final and binding on Thales and Gemalto and each of them shall fully comply with the binding advice and the content thereof.

With respect to the Offer Condition set out in Section 6.6 I (*No Governmental or Court Order*), Thales and Gemalto shall cooperate and use their reasonable best efforts to defend, contest, clear and resist such Governmental or Court Order and to have vacated, lifted, cleared, reversed or overturned such Governmental or Court Order, including by making filings to, and notifying a relevant Governmental Entity.

6.7 Decision making and Recommendation by the Board of Directors of Gemalto

After reviewing the terms and conditions of the Combination and the Offer and any other actions as contemplated in the Merger Agreement, including in particular the Offer Price and the arrangements

and agreements set out in, Section 6.4 (*Rationale of the Offer*), Section 6.5 (*Financing of the Offer*), Section 6.19 (*Corporate governance post-Settlement*), and the Non-Financial Covenants, the Board of Directors of Gemalto, with the support of its financial and legal advisers, in a careful decision-making process, has duly considered and unanimously approved the Combination and the Offer and any other actions contemplated in the Merger Agreement, came to the conclusion that they are in the best interest of Gemalto, the sustainable success of Gemalto's business and its clients, employees, shareholders and other stakeholders, and has agreed, subject to the provisions of the Merger Agreement:

- a. to fully support the Combination and the Offer;
- b. to unanimously recommend to the Shareholders to accept the Offer and to tender their Shares under the Offer; and
- c. to unanimously recommend to the Shareholders to adopt the Gemalto Resolutions

(the above together, the **Recommendation**).

The Board of Directors of Gemalto has received extensive financial and legal advice. In addition, Deutsche Bank AG, Paris Branch and J.P. Morgan Securities plc delivered their respective fairness opinions to the Board of Directors of Gemalto dated 16 December 2017 indicating that - as of such date and based upon and subject to the factors, qualifications and assumptions set forth in the fairness opinions - the Offer Price to be paid to the Shareholders pursuant to the Offer was fair from a financial point of view to such Shareholders (the **Fairness Opinions**).

Gemalto has prepared a Position Statement pursuant to article 18 of the Decree. The full text of each Fairness Opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with each Fairness Opinion, is included in the Position Statement.

6.8 Irrevocable undertakings of Gemalto shareholders

As described in more detail in Section 6.9 (*Shareholdings of the members of the Board of Directors of Gemalto*), Mr. Mandl holds 10,000 Shares through a company controlled by him, Mr. Vallée holds 153,300 Shares, Mr. Piou holds 443,499 Shares, and Ms. Akbari holds 4,500 ADSs through a company controlled by her, together representing approximately 0,7% of Gemalto's issued share capital. Each of Mr. Mandl, Mr. Vallée, Mr Piou and Ms. Akbari has irrevocably undertaken to tender their respective Shares and/or ADSs under the Offer, as well as any additional Shares and/or ADSs acquired up to and including the Unconditional Date (subject to the liquidity arrangements that may be entered into with Thales, as further detailed in Section 8.9 (*Incentive Plans*)), under the same terms

and conditions as the other Shareholders, and to vote in favor of the Gemalto Resolutions in the Gemalto AGM, in each case subject to the conditions that the Offer is launched, that the Board of Directors of Gemalto continue to support and recommend the Offer and that the Merger Agreement has not been terminated in accordance with its terms.

If and when the Offer is declared unconditional, it is expected that Mr. Mandl will receive a cash amount of EUR 510,000, Mr. Vallée EUR 7,818,300, Mr Piou EUR 22,618,449 and Ms. Akbari EUR 114,750 in consideration for their respective Shares and/or ADS (held as of the date hereof by each of them) tendered under the Offer. None of Mr. Mandl, Mr. Vallée, Mr Piou and Ms. Akbari received any information from Thales or Gemalto relevant for a shareholder in connection with the Offer that is not included in this Offer Document.

6.9 Shareholdings of the members of the Board of Directors of Gemalto

The table below lists the Shares and other financial instruments held in Gemalto by members of the Board of Directors of Gemalto, either directly or indirectly through a company controlled by the board member, as at the date of this Offer Document.

Name	Shares	American Depository Shares	Maximum (unvested) restricted shares units	Units in a <i>Fonds Commun de Placement d'Entreprise</i> ⁶
Alex Mandl	10,000 ⁷			
Philippe Vallée	153,300		205,100	20,545.28
Homaira Akbari		4,500 ⁸		
Olivier Piou	443,499		96,250	72,658.96

6.10 Respective cross-shareholdings of Thales - Gemalto

As at the date of this Offer Document, Thales does not hold, directly or indirectly, any Shares in the share capital of Gemalto and Gemalto does not hold, directly or indirectly, any shares in the share capital of Thales.

⁶ Amounts approximately equivalent to amounts in Gemalto shares.

⁷ Purchased through a company controlled by the board member.

⁸ Purchased through a company controlled by the board member.

6.11 Implications of the Offer being declared unconditional

It is likely that the Offer, if and when it is declared unconditional, has implications for the Shareholders who did not tender their Shares. Therefore, Shareholders considering not tendering their Shares under the Offer should carefully review the sections of this Offer Document that further explain the intentions of Thales, such as (but not limited to) Sections 6.12 (*Intentions following the Offer being declared unconditional*) up to and including Section 6.15 (*Possible post-Settlement Restructuring and future legal structure*), which describe certain implications to which such Shareholders will be subject if the Offer is declared unconditional and settled. These risks are in addition to the exposure of such Shareholders to the risks inherent to the business of Gemalto, as such business and the structure of Gemalto may change from time to time after the Settlement Date.

6.12 Intentions following the Offer being declared unconditional

If the Offer is declared unconditional, Thales intends to as soon as possible:

- a. procure delisting of the Shares from Euronext Amsterdam and Euronext Paris and terminate the listing agreement between Gemalto and Euronext Amsterdam and Euronext Paris in relation to the listing of the Shares (Gemalto having committed to cooperate in this respect);
- b. cause Gemalto to terminate the Deposit Agreement effective as per the delisting of the Shares from Euronext Amsterdam and Euronext Paris; and
- c. convert Gemalto into a Dutch private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) in accordance with article 2:18 of the Dutch Civil Code (see Section 6.13 (*Liquidity and delisting*)).

6.13 Liquidity and Delisting

The purchase of Shares by Thales pursuant to the Offer will reduce the number of Shareholders, as well as the number of Shares that might otherwise be traded publicly. As a result the liquidity and market value of the Shares that were not tendered under the Offer, or were tendered and validly withdrawn, may be adversely affected. Thales does not intend to compensate for such adverse effect by, for example, setting up a liquidity mechanism for the Shares that are not tendered following the Settlement Date and the Post-Closing Acceptance Period.

Should the Offer be declared unconditional, Thales and Gemalto intend to procure the delisting of the Shares on Euronext Amsterdam and Euronext Paris as soon as possible under Applicable Laws. This may further adversely affect the liquidity and market value of any Shares not tendered. In addition,

Thales may initiate any of the procedures set out in Section 6.12 (*Intentions following the Offer being declared unconditional*).

If Thales and/or its Affiliates acquire 95% (ninety-five per cent) or more of the Shares, Thales will be able to procure delisting of the Shares from Euronext Amsterdam and Euronext Paris in accordance with applicable (policy) rules. However, the listing of the Shares on Euronext Amsterdam and Euronext Paris can also be terminated after a successful Statutory Merger (see Section 6.15.4 (*Statutory Merger*)).

In the event that Gemalto or its successor will no longer be listed and its shares will no longer be publicly traded, the provisions applicable to the governance of listed companies will no longer apply and the rights of remaining minority Shareholders may be limited to the statutory minimum.

Certain considerations with respect to liquidity of the Shares that are relevant for the holders of Gemalto RSUs are explained in Section 8.9.d (*Settlement of Incentive Plans*).

6.14 Termination of the ADS Deposit Agreement

If Thales has declared the Offer unconditional (*gestand gedaan*) and the number of Shares having been tendered and accepted pursuant to the Offer, together with any Shares directly or indirectly held by Thales or any of its Affiliates, represent a sufficient portion of the share capital of Gemalto, Thales intends to cause Gemalto to promptly terminate the deposit agreement among Gemalto, the U.S. Depositary and the holders and beneficial holders of ADSs dated 19 November 2009 (the **Deposit Agreement**). Under the Deposit Agreement, the U.S. Depositary will mail notice of such termination to the persons and entities registered as holders of the ADSs in the books maintained by the U.S. Depositary within 10 (ten) U.S. Business Days of receipt of the notice of termination from Gemalto, and such notice will be sent to holders no less than 30 (thirty) days prior to the date that the Deposit Agreement will be terminated (the **Deposit Agreement Termination Date**).

Holders of ADSs will have the right under the Deposit Agreement to receive the Ordinary Shares represented by their untendered ADSs until 6 (six) months after the Deposit Agreement Termination Date upon (i) presentation of their ADSs to the U.S. Depositary for cancellation and receipt of the underlying Ordinary Shares, and (ii) payment of the U.S. Depositary's fees (up to USD 0.05 per ADS presented for cancellation) and charges, and all applicable taxes and governmental charges payable in connection with the cancellation of the ADSs and retrieval of the corresponding Ordinary Shares. In order to withdraw the Ordinary Shares represented by ADSs that are presented for cancellation, a holder of ADSs will need to establish and maintain an account in The Netherlands with an Admitted Institution into which the Ordinary Shares can be delivered.

The U.S. Depositary may sell the Ordinary Shares held in respect of ADSs not previously surrendered for cancellation following the expiration of six (6) months after the Deposit Agreement Termination Date. After such date, the U.S. Depositary shall be entitled to sell any remaining underlying Ordinary Shares that have not been tendered or claimed by the relevant holders, and shall hold the net proceeds of any such sale uninvested, together with any other cash then held by it hereunder, in an unsegregated account, without liability for interest, for the pro rata benefit of the holders of ADSs whose ADSs have not been tendered or exchanged for the underlying Ordinary Shares. After making such sale, the U.S. Depositary will be discharged from all obligations under the Deposit Agreement with respect to the Ordinary Shares and the ADSs, except to account for the net proceeds and other cash so held (after deducting, or charging, as the case may be, the U.S. Depositary's fees and charges for the surrender and cancellation of ADSs and any related expenses for the account of the ADS holders in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes, governmental charges and assessments). Holders of ADSs who do not wish to have the Ordinary Shares represented by their ADSs sold should make the necessary and timely arrangements for the cancellation of their ADSs and the retrieval of the corresponding Ordinary Shares.

6.15 Possible post-Settlement Restructuring and future legal structure

6.15.1 General

Following Settlement, Thales may choose to implement (or cause to be implemented) certain restructuring measures, including but not limited to the Post-Settlement Restructurings mentioned in Section 6.15.2 (*Buy-Out*) and Section 6.15.3 (*Other Post-Settlement Restructurings*).

Furthermore, Thales reserves the right to use any legally permitted method to acquire all of the Shares (or full ownership of Gemalto's business) and/or to optimize the corporate, financing and tax structure of Gemalto once it is part of the Thales Group. No decision in respect of pursuing any restructuring measures as set out in this Section 6.15 (*Possible post-Settlement Restructuring and future legal structure*) has been taken by Thales and no such decision is envisaged to be taken prior to the Offer being declared unconditional.

6.15.2 Buy-Out

If, following the Settlement Date or the settlement of the Shares tendered during the Post-Closing Acceptance Period, Thales and its Affiliates hold at least 95% (ninety-five per cent) of the issued ordinary share capital (*geplaatst gewoon aandelenkapitaal*) of Gemalto, Thales intends to commence a compulsory acquisition procedure (*uitkoopprocedure*) in accordance with (i) article 2:92a or 2:201a of the DCC to buy out the Shareholders that have not tendered their Shares, and/or (ii) a takeover buy-

out procedure in accordance with article 2:359c of the DCC to buy out the Shareholders that have not tendered their Shares under the Offer (the **Buy-Out**).

6.15.3 Other Post-Settlement Restructurings

Without prejudice to the foregoing in this Section 6.15 (*Possible post-Settlement Restructuring and future legal structure*) and subject to the Offer being declared unconditional, Thales may effect or cause to effect any restructuring of the Gemalto Group for the purpose of acquiring 100% of the Shares, delisting Gemalto, and fully integrating the respective businesses of Thales and Gemalto and realise the operational, commercial, organisational, financial and tax benefits of the Combination in accordance with the Merger Rules and the Applicable Laws, even though some of which may have the (side) effect of diluting the interest of any remaining minority Shareholders (a **Post-Settlement Restructuring**), including without limitations:

- a. a statutory cross-border merger (*grensoverschrijdende fusie*) between Thales (or an Affiliate of Thales) and Gemalto in accordance with the EU Directive 2005/56/EC of 26 October 2005 on cross-border mergers of limited liability companies, as implemented in Dutch law and French law, with Gemalto being the disappearing entity and Thales (or an Affiliate of Thales) being the surviving entity;
- b. a statutory legal (cross-border or domestic) (triangular) merger (*juridische (driehoeks-)fusie*) in accordance with article 2:309 et seq of the DCC between Gemalto, Thales or any other Affiliate of Thales (See further Section 6.15.4 (*Statutory Merger*));
- c. a statutory legal demerger (*juridische splitsing*) of Gemalto in accordance with article 2:334a et seq of the DCC;
- d. a contribution of cash and/or assets by Thales or by any Affiliate of Thales in exchange for ordinary shares in Gemalto's share capital, in which circumstances the pre-emptive rights (*voorkeursrechten*), if any, of minority Shareholders of Gemalto could be excluded;
- e. a sale and transfer of assets and liabilities (i) by any member of the Gemalto Group to Thales, or an Affiliate of Thales, or (ii) by Thales or an Affiliate of Thales to any member of the Gemalto Group;
- f. a distribution of proceeds, cash and/or assets to the Shareholders of Gemalto or share buybacks;
- g. a liquidation of Gemalto;

- h. a subsequent public offer for any Shares held by minority Shareholders;
- i. a conversion of Gemalto into a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*);
- j. any transaction between Gemalto and Thales or their respective Affiliates at terms that are not at arm's length;
- k. any transaction, including a sale and/or transfer of any material asset, between Gemalto and its Affiliates or between Gemalto and Thales or their respective Affiliates with the objective of utilising any carry forward tax losses available to Gemalto, Thales or any of their respective Affiliates;
- l. any transactions, restructurings, share issues, procedures and/or proceedings in relation to Gemalto and/or one or more of its Affiliates required to effect the aforementioned objectives; and
- m. any combination of the foregoing.

Any or all of the measures and processes described in this Section 6.15.3 (*Other Post-Settlement Restructurings*) may be applied cumulatively, alternatively, or not at all, subject to applicable provisions of Dutch law. The measures, actions, procedures, proceedings and processes described in this Section 6.15.3 (*Other Post-Settlement Restructurings*) do not prevent Thales from seeking a termination of Gemalto's listing on Euronext Amsterdam and Euronext Paris when it is entitled to do so under the applicable Euronext listing rules.

Any Post-Settlement Restructuring will be structured and implemented while taking into account relevant circumstances and Applicable Laws.

6.15.4 Statutory Merger

Thales may decide to effectuate a statutory merger, whether cross-border or otherwise, between Gemalto (as disappearing entity) and Thales or one of Thales's Affiliates that is not listed on a stock exchange (as surviving entity). For the latter, Shareholders who have not tendered their Shares under the Offer will become, by operation of law, shareholders in the surviving entity (subject to exit rights under Dutch law in case of a cross-border statutory merger), which surviving entity's shares may have limited to no liquidity and disposing of which may prove to be difficult.

6.15.5 Other measures

Thales reserves the right to submit proposals to the Shareholders in order to change the corporate structure and the capital structure of Gemalto and/or to achieve an optimal financial or other structuring.

Following Settlement, Thales intends to transfer the shares of Gemalto S.A. from Gemalto to Thales, subject to Applicable Laws and Gemalto's relevant corporate decisions.

6.16 Role and veto right of Independent Members

6.16.1 Role of Independent Members

Following Settlement, the Board of Directors of Gemalto will include 2 (two) Independent Members (as defined in Section 6.18.1 (*Board of Directors of Gemalto*)) for at least the Non-Financial Covenants Duration. Following Settlement, all members of the Board of Directors of Gemalto, including the Independent Members, shall monitor and protect the interests of Gemalto and its stakeholders in accordance with their obligations under Dutch law. The Independent Members shall be particularly tasked with monitoring the compliance with the Non-Financial Covenants and, when material transactions between Gemalto and Thales or an Affiliate of Thales are considered, with monitoring the fair treatment of minority Shareholders of Gemalto.

In the implementation of any Post-Settlement Restructuring, due consideration will be given to requirements of Applicable Laws, including the fiduciary duties of the members of the Board of Directors of Gemalto at that time to consider the interests of minority Shareholders and all other stakeholders, and any relevant employee representation bodies' information and/or consultation requirements.

6.16.2 Veto rights of Independent Members

If any proposed Post-Settlement Restructuring could reasonably be expected to lead to a dilution of the shareholdings of the remaining minority Shareholders, or any other form of unequal treatment which prejudices or could prejudice or negatively affect the value of the Shares or voting rights attached to the Shares held by the remaining minority Shareholders or their reasonable interests then the affirmative vote of at least one Independent Member will be required for approving any such Post-Settlement Restructuring, provided that no such affirmative vote will be required for:

- a. a rights issue by Gemalto or any other share issue where the remaining minority Shareholders have been offered an opportunity to subscribe pro rata to their then existing shareholding in

Gemalto (*voorkeursrecht*);

- b. a share issuance to a third party not being an Affiliate of Thales or Gemalto at the time of such issuance; or
- c. the Buy-Out.

6.16.3 Advisers to Independent Members

The Independent Members will have the opportunity to engage, for the account of Gemalto, their own financial and legal advisers, if and to the extent they reasonably believe that the advice of such advisers is necessary to assist them in reviewing and assessing the matters that come before the Board of Directors of Gemalto.

6.17 Amendments of the Articles of Association

Thales intends to have the Articles of Association amended in the following instances: (i) following Settlement, and (ii) following termination of the listing of the Shares on Euronext Amsterdam and Euronext Paris, and pursuant to the subsequent conversion of Gemalto into a Dutch limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*).

Following Settlement

It is proposed that at the Gemalto AGM it will be resolved to amend the Articles of Association as from Settlement, subject to the Offer being declared unconditional and Settlement having taken place, which amendment will mainly relate to:

- a. deletion of all references to a proposal of the Board of Directors of Gemalto being required before the general meeting of shareholders is able to resolve upon certain matters related to the issuance of shares, exclusion of pre-emptive rights, the composition of the Board of Directors of Gemalto and the adoption of a remuneration policy (and approval of amendments thereto);
- b. deletion of the Board of Directors of Gemalto's right to make a binding or non-binding nomination for the appointment of a director;
- c. the ability of any shareholder representing at least fifty per cent of the issued share capital to convene an extraordinary general meeting; and
- d. the ability of the general meeting of shareholders to resolve with an absolute majority of the votes cast representing at least one-third of the issued share capital to amend the articles of

association, wind up the company or to enter into a legal merger or demerger subject to sections 2:330(l), 2:334cc(l)(d) and 2:334ee(l) of the DCC.

The text of the proposed amended Articles of Association is set out in Section 16.1 and will be part of the materials that Gemalto will publish for the purpose of convening the Gemalto AGM.

Following delisting and pursuant to the conversion

It is proposed that at the Gemalto AGM it will be resolved to amend the Articles of Association following termination of the listing of the Shares on Euronext Amsterdam and Euronext Paris, subject to the Offer being declared unconditional and Settlement having taken place, which amendment will mainly relate to:

- a. the inclusion of non-listed registered shares;
- b. provisions that either mandatorily apply to non-listed entities or provisions that are more suitable for Gemalto's new status; and
- c. the conversion of Gemalto into a Dutch private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*).

This proposed amendment of the Articles of Association will only be subject to delisting of the Shares from Euronext Amsterdam and Euronext Paris.

The text of the proposed amended Articles of Association is set out Section 16.2 and will be part of the materials that Gemalto will publish for the purpose of convening the Gemalto AGM.

6.18 Future composition of the Board of Directors of Gemalto

6.18.1 Board of Directors of Gemalto

After the successful completion of the Offer, the Board of Directors of Gemalto will be composed of 3 (three) non-executive directors selected by Thales, being Mr. Pascal Bouchiat, Mr. Pierre-Eric Pommellet and Ms. Isabelle Simon, and 2 (two) non-executive directors as **Independent Members**, being Mr. Philippe Alfroid who is currently a member of the Board of Directors of Gemalto, and Ms. Marie-Hélène Sartorius. In addition, Mr. Philippe Vallée shall maintain his position as executive director and Chief Executive Officer of Gemalto (and will become head of the DIS GBU).

6.18.2 Independent members of the Board of Directors of Gemalto

The Independent Members are considered independent members within the definition of the Dutch Corporate Governance Code, and they are not representatives of Thales. The Independent Members

(or after their replacement, their successors) will continue to serve on the Board of Directors of Gemalto for at least the Non-Financial Covenants Duration.

6.19 Corporate governance post Settlement

As long as Gemalto remains listed on Euronext Amsterdam, Gemalto continues to adhere to the Dutch Corporate Governance Code, except for (i) current deviations from the Dutch Corporate Governance Code, and (ii) deviations from the Dutch Corporate Governance Code that find their basis in the Merger Agreement. Reference is made to Gemalto's annual report for the financial year 2017 on page 50 (Compliance with the Dutch Corporate Governance Code) for information regarding the current deviations from the Dutch Corporate Governance Code. No other future deviations are currently expected, other than deviations with respect to the contemplated composition of the Board of Directors of Gemalto arising from the Merger Agreement as set forth in Section 6.18.1 (*Board of Directors of Gemalto*), which deviates from best practice provisions 5.1.1 (Composition of the management board) and 5.1.3 (Independence of the chairman of the management board) of the Dutch Corporate Governance Code.

6.20 Non-Financial Covenants

6.20.1 Introduction

Thales shall, in accordance with the terms and subject to the conditions of the Merger Agreement, comply with the principles and agreements set out in Sections 6.4 (*Rationale for the Offer*), Section 6.15.3 (*Other Post-Settlement Restructurings*), Section 6.16 (*Role and veto right of Independent Members*), Section 6.17 (*Amendments of the Articles of Association*), Section 6.19 (*Corporate governance post Settlement*), 6.18 (*Future composition of the Board of Directors of Gemalto*), Section 6.20.2 (*Strategy*) through Section 6.20.9 (*CSR Policy*) (collectively the **Non-Financial Covenants**).

6.20.2 Strategy

- a. Thales shall create a "Digital Security" global business unit (**DIS GBU**) by bringing its world class digital-security business to Gemalto. The DIS GBU will be one of the world leaders in the digital security industry. It will benefit from the contribution of, among other businesses:
 - i. Guavus, a leader in real-time big data processing and analytics,
 - ii. Thales e-Security (including Vormetric), a leading provider of data protection solutions in physical, virtual and cloud infrastructures,
 - iii. Sysgo, a recognized non-US operating system for safety and security applications

(aerospace, defense, automotive) and

- iv. Thales Digital Factory, the internal and external accelerator of digital transformation.
- b. The “new Gemalto”, through the DIS GBU, will be considerably expanded and strengthened and will be in a stronger position to implement its transition plan from its traditional banking and telecom smart cards to the rapidly growing government, enterprise, cyber-security and secured internet-of-things businesses. Thales in particular recognizes the transverse synergies within the Gemalto businesses and will continue to reinforce the DIS GBU perimeter.
- c. The DIS GBU will be the enabler of its clients’ digital transformation through a larger set of world-class connectivity, big data, artificial intelligence and cyber-security technologies.
- d. This will allow the DIS GBU to become one of the world leaders in the fast growing secured internet-of-things market.
- e. Thales shall maintain the integrity of DIS GBU.

6.20.3 Research & Development

Research & Development is at the core of Thales’s and Gemalto’s digital-security businesses and will remain so. Research & Development expenditures in the coming years will be in excess of the current combined expenditures of Thales and Gemalto. The current Gemalto Research & Development activity will remain within the DIS GBU.

Gemalto’s business will benefit from :

- i. Access to the entirety of Thales technology portfolio including 16.500 patents;
- ii. Access to a pool of 22.500 world-class researchers and engineers located in 50 countries, leading Thales to be recognized by Clarivate Analytics as one of the top 100 innovators in the world;
- iii. Access to 5 corporate research and technology centers including several joint labs with leading institutions such as MIT, Cambridge University, CNRS, Delft University, etc.

6.20.4 Employees

Thales will ensure that the individuals currently holding management and staff positions within Gemalto will be given fair opportunities in the DIS GBU or the Thales Group (without prejudice to Thales’s and Gemalto’s rights as employers under Applicable Laws in individual cases) pursuant to

the “best fit for the job” principle.

The Gemalto CEO, Mr. Philippe Vallée, will become the head of the DIS GBU and a member of the Thales Executive Committee. He will report to the Thales CEO and appoint the management team for the DIS GBU, which will report to him.

After the Settlement Date, Thales will take steps, subject to Applicable Laws, in order to onboard the Gemalto employees under Thales’s current European works council and Thales will continue the current employee representation structure at Gemalto SA level, i.e., the French works council.

For 18 months after the Settlement Date, the employment level in the French Gemalto business will be maintained at the same level as on the date of the Merger Agreement (after taking into account the plan announced by Gemalto on 30 November 2017 as well as redundancies having occurred prior to the Merger Agreement).

Employees that are included in the proposed Gemalto redundancy plan (*plan de sauvegarde de l’emploi*) announced on 30 November 2017 will be offered an access to the Thales Group’s internal job boards (and potentially to the job boards of its affiliates) and to the internal mobility mechanism of the Thales Group, on the same conditions as available to Thales Group’s employees; it being specified that such access may be open, should Gemalto wish so, as from the date of the Merger Agreement.

During 4 (four) years after the Settlement Date, Thales will respect existing employment rights and not amend or terminate collective employment statuses applicable to enterprises or establishments (including collective bargaining agreements, unilateral commitments and usages) of Gemalto and its subsidiaries, in all countries, as they apply on the Settlement Date; provided that this commitment shall (x) not prohibit amendments of such statuses resulting from the integration of Gemalto into the Thales Group provided such amendments would not result in reducing, globally, the entitlements of relevant employees, (y) require Gemalto and its subsidiaries to renew fixed-term collective bargaining agreements or unilateral commitments that may terminate during this period due to the lapse of their term provided that this would not result in reducing, globally, the entitlements of relevant employees.

During 4 (four) years after the Settlement Date, if collective employment statuses are impacted by an intra-group transaction or a restructuring within the Thales Group, Thales will maintain similar collective employment statuses in the aggregate.

If any company or business of the Gemalto group is sold or transferred to a third party during the validity period of the commitments above, Thales will make its reasonable best commercial efforts to obtain the same commitments from the relevant purchaser or transferee or to obtain that such

purchaser or transferee takes over the relevant commitments.

Thales will extend its Long Term Incentive plans to the companies of the Gemalto Group, it being specified that the conditions and volumes of such extension will be discussed with Gemalto's management or the management of the DIS GBU in due course.

Gemalto employees will have access to Thales internal learning capabilities, Thales having put in place the finest internal network of learning hubs.

6.20.5 Location

The headquarters of the DIS GBU will be located in the Paris region. As also described in Section 6.20.2 (*Strategy*), it is the intention of Thales to integrate the Gemalto Group businesses in the DIS GBU. Thales expects to have further discussions with Gemalto on the organizational structure of the DIS GBU following Settlement, including with respect to the locations of the Gemalto Group and staff functions. Currently, however, no definitive decision has been taken in this respect. See also Section 6.20.8 (*Integration Committee*).

6.20.6 Brand

Thales genuinely values the Gemalto brand and therefore will maintain and develop it as a key asset.

6.20.7 Finance

Thales will continue to remain disciplined from a financing standpoint. Thales is confident that it will maintain a solid investment grade rating.

6.20.8 Integration Committee

In order to facilitate the integration of Gemalto and Thales, an integration committee will be established as of the Settlement Date consisting of 4 (four) members, 2 (two) of which will be current senior executives of Gemalto (and if any such senior executive resigns, he or she will be replaced by another current senior executive of Gemalto) and the other 2 (two) will be Thales representatives (and if any representative resigns, he or she will be replaced by another representative of Thales) (the **Integration Committee**) for a minimum period of at least 2 (two) years after the Settlement Date. One of Thales's representatives will be chairman of the Integration Committee and will have a casting vote. The Integration Committee will determine an integration plan, monitor its implementation and do all things necessary to assist and optimise the integration of the Combination.

6.20.9 CSR Policy

Corporate Social Responsibility has been a core value of the Thales Group for more than 15 years. Thales will integrate Gemalto in its CSR policies supporting the Group ability to meet tomorrow's challenges of protecting people, property and data. Recognizing Thales continuing engagement, the Dow Jones sustainability index ranked it in 2017 as the company with the most advanced corporate responsibility policy in the aerospace and defense sector globally; the Carbon Disclosure Project awarded Thales a rating of A- for its climate change performance; and for the 5th (fifth) consecutive year Thales achieved advanced level under the United Nations Global Compact.

Thales will associate Gemalto to the Thales Foundation, whose purpose is to foster education and knowledge transfer and the prevention of major technological risks.

6.20.10 Duration

The Non-Financial Covenants set out in Section 6.15.3 (*Other Post-Settlement Restructurings*) and Section 6.16 (*Role and veto right of Independent Members in Board of Directors of Gemalto*) will cease to apply on the earliest of (i) the date on which none of the Shares are held by any third party other than Thales or one or more of its Affiliates and employees or former employees of Gemalto benefitting from Shares in the context of incentive schemes, (ii) the date on which the Buy-Out is irrevocably initiated and the Offer Price is deemed to be the fair price (*billijke prijs*) pursuant to section 2:359c(6) of the DCC, (iii) the date on which the Enterprise Chamber has determined the price payable by Thales to the other Shareholders pursuant to the Buy-Out, and (iv) 2 (two) years after the Settlement Date.

All other Non-Financial Covenants will cease to apply 2 (two) years after the Settlement Date (except as specifically provided otherwise in Section 6.20.4 (*Employees*) (the **Non-Financial Covenants Duration**)).

6.20.11 Benefit and Enforcement

Any material deviation from the Non-Financial Covenants requires the prior written approval of the non-executive directors on the Board of Directors of Gemalto, including the affirmative vote of the 2 (two) Independent Members.

The Non-Financial Covenants are made to Gemalto as well as, by way of irrevocable third party undertaking for no consideration (*onherroepelijk derdenbeding om niet*), to each of the 2 (two) Independent Members and regardless of whether he or she is in office or dismissed, provided that after dismissal, the dismissed Independent Member(s) must assign the benefit of such undertaking to a

new Independent Member in function, unless such dismissal is successfully challenged by such Independent Member. New Independent Members will be appointed based on the recommendation of a majority of the non-executive directors on the Board of Directors of Gemalto, subject to the approval of the outgoing and/or the remaining Independent Member who was originally a member of the Board of Directors of Gemalto or who replaced the Independent Member who was originally a member of the Board of Directors of Gemalto. Thales hereby agrees in advance to the assignment of the benefit of this undertaking by any Independent Member to his or her successor. Thales will bear all reasonable costs and expenses relating to the enforcement by an Independent Member pursuant to this Section 6.20.11 (*Benefit and Enforcement*).

6.21 Gemalto work force

As stated in the First Announcement, Thales does not anticipate any reduction in Gemalto's workforce as a consequence of the Offer.

6.22 Exclusivity

Below is a summary of the key arrangements set forth in the Merger Agreement that are relevant to the Offer and not otherwise described in this Offer Document.

6.22.1 Exclusivity Period

During the period commencing on the date of the Merger Agreement and ending on the earlier of (i) the date of termination of the Merger Agreement, and (ii) 23:59 hours CET on the Settlement Date, Gemalto shall not, and shall ensure that none of its Group Companies and their respective directors, officers, employees, and advisers acting on its behalf (together the **Relevant Persons**):

- a. initiate, solicit, knowingly encourage (including by way of furnishing non-public information), facilitate, or induce any inquiries or the making, submission or announcement of, any proposal, request or offer that constitutes, or could reasonably be expected to lead to or result in, an Alternative Proposal (as defined below), or
- b. subject to Section 6.24 (*Potential Superior Offer*), have or pursue any discussion (including any discussion that might have existed on or prior to the date of the Merger Agreement) with any person relating to an Alternative Proposal, engage or otherwise participate in any negotiations concerning an Alternative Proposal, or
- c. subject to Section 6.24 (*Potential Superior Offer*), provide any non-public or confidential information or data or grant access to its books or records or its Relevant

Persons to any person in relation to an Alternative Proposal, or

- d. subject to Section 6.23 (*Alternative proposal*), approve or recommend, or propose publicly to approve or recommend, any Alternative Proposal, or
- e. subject to Section 6.23 (*Alternative proposal*), approve or recommend, or propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, acquisition agreement, business combination agreement, joint-venture agreement, option agreement or other similar agreement (any of the preceding in this Section 6.22.1e, an **Alternative Proposal Agreement**) or propose publicly or agree to do any of the foregoing related to any Alternative Proposal.

6.23 Alternative Proposal

Alternative Proposal shall mean, any offer or proposal for, or any indication of interest in, which through one or several transactions may result in:

- a. any direct or indirect acquisition or purchase (x) of Shares equalling at least 5% (five per cent) or more of Gemalto's registered share capital or (y) leading to a holding of at least 5% (five per cent) of the voting rights in Gemalto's shareholders meeting, or
- b. any direct or indirect acquisition or purchase of Shares as may trigger a mandatory offer (*verplicht bod*) for Gemalto under Applicable Laws, or
- c. any public offer relating to Shares, or
- d. any direct or indirect acquisition or purchase of assets of Gemalto or any of its Group Companies or of any joint venture in which Gemalto, directly or indirectly, holds as at the date of the Merger Agreement, at least 20% (twenty per cent) of shares or any class of securities or voting power in the shareholders' meeting of the joint venture concerned, as applicable (only to the extent that, in connection with the joint venture concerned, as at the date of the Merger Agreement, Gemalto has, directly or indirectly, the right to oppose to such sale under the relevant constitutional documents, joint venture agreement or shareholders' agreement governing the joint venture concerned), that represent 10% (ten per cent) or more of the consolidated gross revenue, consolidated operating profits, or consolidated gross assets of Gemalto as presented in the audited consolidated financial statements of Gemalto or in its financial communication for the fiscal year period ended 31 December 2016, including by way of the acquisition or purchase of, or subscription to, any class of

equity securities or voting power of any of its subsidiaries,

- e. in each case, whether by direct or indirect acquisition or purchase, subscription, merger, demerger, reorganization, contribution, joint-venture, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Gemalto or any of its Group Companies, with a person other than Thales or any of its Affiliates.

6.23.1 Alternative Proposal Notice to Thales

From and after the date of the Merger Agreement until the earlier of (i) the date of termination of the Merger Agreement and (ii) 23:59 hours CET on the Settlement Date, Gemalto shall promptly (and in any event within 24 (twenty-four) hours after receipt, by it or any of its Group Companies or their respective Relevant Persons of an Alternative Proposal or of any request for non-public information or inquiry potentially leading to an Alternative Proposal, provide Thales with a written notice informing it of the receipt of such Alternative Proposal, request or inquiry, it being agreed that Gemalto's notification to Thales shall include (i) the main terms and conditions of such Alternative Proposal, request or inquiry (including any subsequent developments or modifications thereof), and (ii) the identity of the person making any such Alternative Proposal, request or inquiry. Thereafter, Gemalto shall provide Thales, as promptly as practicable, with written notice setting forth all such information as is reasonably necessary to keep Thales informed in all material respects promptly (and in any event within 24 (twenty-four) hours following any new development, of the status and details (including amendments or proposed amendments) of any such Alternative Proposal, request or inquiry (including any actions or discussions that may take place in accordance with Section 6.24 (*Potential Superior Offer*)). Following receipt of an Alternative Proposal, Gemalto shall continue to cooperate with and support the Offer and the Post-Settlement Restructurings in accordance with the terms and conditions of the Merger Agreement.

6.24 Potential Superior Offer

A **Potential Superior Offer** is an unsolicited written Alternative Proposal to make a (public) offer for all Shares or for all or substantially all of the business or assets of Gemalto or a legal merger or reverse takeover involving Gemalto, made by a party who, in the reasonable opinion of the Board of Directors of Gemalto, taking into account their fiduciary duties and taking into account the terms of the Merger Agreement, is a bona fide third party, and which proposal, in the reasonable opinion of the Board of Directors of Gemalto, could reasonably be expected to qualify as or evolve into a Superior Offer.

6.24.1 Procedure in case of a Potential Superior Offer

In the event that a Potential Superior Offer is received by Gemalto, Gemalto shall promptly (and in any event within 36 (thirty-six) hours) notify Thales of the name of the relevant third party with a copy of the proposal to the extent permitted and full details including the proposed consideration, the conditions to (the making of) the Potential Superior Offer, the contemplated governance and matters contemplated by the Non-Financial Covenants, the Antitrust Laws and other regulatory requirements that need to be complied with prior to closing of the Potential Superior Offer and all other material terms thereof to the extent available to Gemalto.

In the event that a Potential Superior Offer is received by Gemalto, subject to the terms and conditions of the Merger Agreement, Gemalto and the Relevant Persons may:

- a. consider such Potential Superior Offer;
- b. engage in clarifying discussions regarding such Potential Superior Offer for a reasonable period which will in any event not exceed 10 (ten) Business Days starting on the date of Thales's receipt of the notice referred to above in this Section 6.24.1;
- c. provide non-public, confidential information to the third party making the Potential Superior Offer, provided that such third party will receive no more than the same information as provided to Thales, except if and to the extent the Board of Directors of Gemalto determines, taking into account their fiduciary duties and having consulted their financial and legal advisers, that the third party reasonably requires additional information to be able to make a Superior Offer. In that case, Gemalto will inform Thales of such determination, and will provide to Thales the motivation thereof. In such case, Thales will simultaneously receive the same additional information provided to such third party. Gemalto shall not provide any information or data to any person in connection with such Potential Superior Offer, before the proposing party has first signed a confidentiality agreement on terms no less stringent than those of the confidentiality and standstill agreement entered into by Thales and Gemalto on 14 December 2017; and
- d. make any public announcement in relation to a Potential Superior Offer to the extent required under the Merger Rules.

6.25 Superior Offer

Superior Offer shall mean a *bona fide* written Alternative Proposal that did not result from a breach of Section 6.24 (*Potential Superior Offer*) and as to which Gemalto complied with Section 6.24 (*Potential Superior Offer*), for or in respect to:

- a. any offer (*volledig bod*) or proposal as may trigger a mandatory offer for Gemalto under Applicable Laws, a legal merger or legal demerger resulting in the control over all or substantially all the Shares or
- b. any Alternative Proposal which, if consummated, would result in (A) any person other than Thales or one of its Affiliates beneficially owning more than 50% (fifty per cent) of any class of equity securities or voting power of Gemalto, or (B) the current Gemalto Shareholders, as applicable, directly or indirectly beneficially owning (x) less than 50% (fifty per cent) of the successor's share capital or (y) less than 50% (fifty per cent) of the successor's consolidated assets, or assets of the successor to which 50% (fifty per cent) or more of the consolidated gross revenues or earnings of the successor are attributable, but with the exception of intra-group reorganizations, or
- c. any Alternative Proposal relating to any direct or indirect acquisition or purchase of assets of Gemalto, of its Group Companies or of any joint venture in which Gemalto, directly or indirectly, holds as at the date of the Merger Agreement, at least 20% (twenty per cent) of shares or any class of securities or voting power in the shareholders' meeting of the joint venture concerned, as applicable (only to the extent that, in connection with the joint venture concerned, as at the date hereof, Gemalto has, directly or indirectly, the right to oppose to such sale under the relevant constitutional documents, joint venture agreement or shareholders' agreement governing the joint venture concerned), that represent more than 50% (fifty per cent) or more of the consolidated gross revenue, consolidated operating profit, or consolidated gross assets of Gemalto as presented in the audited consolidated financial statements of Gemalto in its financial communication for the Financial Year 2016, including by way of the acquisition or purchase of, or subscription to, any class of equity securities or voting power of any of its Group Companies, and

that the Board of Directors of Gemalto:

- d. in good faith determines (following receipt of the advice of its financial advisers and outside legal counsel, in each case of international repute), taking into account, among other things, all legal (including the break fee), financial, regulatory, timing, certainty of

financing, the complementarity and integration of the businesses, the position of the employees, other matters contemplated by the Non-Financial Covenants, and compliance with Applicable Laws and regulatory requests and the transaction structure of the Alternative Proposal and the Offer on the terms described in the Merger Agreement, and taking into account any improved terms that Thales may have offered pursuant to this Section 6.22 (*Exclusivity*) that the terms of the Alternative Proposal are substantially more beneficial to Gemalto, the sustainable success of Gemalto's business and its Shareholders, clients, employees and other stakeholders than the Offer (after taking into account any such improved terms), provided that (i) the total consideration payable to the Shareholders in connection with such Alternative Proposal exceeds the Offer Price by at least 9% (nine per cent), and (ii) the Alternative Proposal is legally binding on the third party such that the third party has conditionally committed itself to Gemalto to announce the Superior Offer within a week, and in the event of a full public offer make the Alternative Proposal within 8 (eight) weeks in accordance with the Decree and in any event within the timeframes applicable as set in the Decree and the DFSA; and

- e. determines in good faith that failure to pursue such Alternative Proposal would be inconsistent with its fiduciary duties under Applicable Laws.

6.25.1 No Superior Offer

As soon as an Alternative Proposal has been determined by the Board of Directors of Gemalto to not constitute a Superior Offer, Gemalto shall, to the extent permitted under the Merger Rules, inform Thales promptly thereof and shall confirm to Thales that the Board of Directors of Gemalto continue to unanimously recommend and support the Offer and the Post-Settlement Restructurings as contemplated in the Merger Agreement and that Gemalto has discontinued considering the Alternative Proposal from such third party. If the relevant Alternative Proposal has been communicated in public, the Company shall make the confirmations referred to in this Section 6.25.1 (*No Superior Offer*) by way of public announcement.

6.25.2 Notice of a Superior Offer

If a Potential Superior Offer has been determined by the Board of Directors of Gemalto to constitute a Superior Offer, Gemalto shall notify Thales in writing promptly (but in any event within 24 (twenty-four) hours) of the contents of such a Superior Offer.

The notice referred to above in this Section 6.25.1 shall be sent by Gemalto to Thales prior to

Gemalto making a decision to take any of the actions with respect to a Superior Offer, and shall inform Thales that Gemalto intends, in compliance with Applicable Laws, to take such action, which notice shall include a complete copy of the Superior Offer that is the basis for such action (including the identity of the third party, the proposed transaction structure and financing, if any, and other principal and ancillary terms) as well as the specification of the terms of the Alternative Proposal which led the Board of Directors of Gemalto to determine that the Alternative Proposal is a Superior Offer.

6.25.3 Rights of Gemalto in case of Superior Offer

Gemalto, in response to a *bona fide* Superior Offer from a third party that was not received or obtain in violation of Section 6.22 (*Exclusivity*), may, subject to compliance with the obligations pursuant to this Section 6.25 in relation to such Superior Offer, engage in any of the actions referred to in Section 6.22.1b and Section 6.22.1 c, provided that (x) the third party has signed a confidentiality agreement with Gemalto on terms not less restrictive on the third party than the Confidentiality Agreement and containing no provision that could be inconsistent with the terms of this Section 6.24 (*Rights of Gemalto in case of Superior Offer*), (y) information provided to the third party shall be limited to information that the Board of Directors of Gemalto have in their reasonable opinion determined is reasonably necessary to assess such Superior Offer, and (z) all information which is provided to the third party is simultaneously provided to Thales.

6.25.4 Matching Offer Right

Upon receipt by Thales of the notice referred to in Section 6.25.1, Gemalto and Thales shall negotiate in good faith during a ten (10) Business Day period (the **Matching Offer Period**) with a view to finding agreement on such adjustments to the terms and conditions of the Offer as would be necessary so that the considered Alternative Proposal ceases to constitute a Superior Offer. For the avoidance of doubt, Thales shall be under no obligation to accept any adjustments as described in the preceding sentence. If the Board of Directors of Gemalto determines that such Alternative Proposal no longer constitutes a Superior Offer, then Gemalto shall, with respect to such Alternative Proposal, be subject to the provisions of Section 6.22 (*Exclusivity*) and Section 6.23.1 (*Alternative Proposal Notice to Thales*) in all respects. During the Matching Offer Period, Gemalto shall continue to cooperate with and support the Offer and the Post-Settlement Restructurings in accordance with the terms and conditions of the Merger Agreement.

6.25.5 Matched Offer

- a. A **Matched Offer** is an offer which is, and on terms and conditions which are, determined by the Board of Directors of Gemalto, taking into account their fiduciary duties and having consulted their financial and legal advisers, to be, on balance, at least equally beneficial to Gemalto and the Shareholders, employees and other stakeholders as the Superior Offer, taking into account, among other things, all legal (including the break fee), financial, regulatory, timing, certainty of financing, the complementarity and integration of the businesses, the position of the employees, other matters contemplated by the Non-Financial Covenants, and compliance with Applicable Laws and regulatory requests and the transaction structure of the Superior Offer and the Matched Offer and the Transaction on the terms described in the Merger Agreement.
- b. If Thales has made a Matched Offer within the Matching Offer Period, Gemalto shall not accept the Superior Offer or terminate the Merger Agreement and Gemalto and the members of the Board of Directors of Gemalto will remain bound to the terms and conditions of the Merger Agreement, including with respect to future Superior Offers.
- c. Should Gemalto and Thales fail, in accordance with the terms of Section 6.25.4 (*Matching Offer Period*), to reach, through good faith negotiations, an agreement on such adjustments to the terms and conditions of the Offer as would be necessary so that the considered Alternative Proposal ceases to constitute a Superior Offer, Gemalto will formally notify (immediately after the Matching Period) Thales that the concerned Alternative Proposal constitutes a Superior Offer and that the Board of Directors of Gemalto will approve or recommend, or propose to approve or recommend, or execute or enter into the relevant Alternative Proposal Agreement for such Superior Offer. If Gemalto accepts the Superior Offer as set forth above, Thales and Gemalto may terminate the Merger Agreement.

6.26 Consecutive (Potential) Superior Offers

Section 6.24.1 (*Procedure in case of a Superior Offer*) shall apply mutatis mutandis to any consecutive Superior Offer, including a new Superior Offer, which must exceed the consideration per Share of the Matched Offer by at least 6% (six per cent) and meet the other requirements set out in the definition of Superior Offer to qualify as a (new) Superior Offer in accordance with Section 6.24 (*Potential Superior Offer*) by the initial party making the initial Superior Offer following a Matched Offer or following another Potential Superior Offer or Superior Offer by another *bona fide* third party.

6.26.1 Other Considerations relating to Potential Superior Offer and Superior Offer

To the extent that the Superior Offer is an offer for all or substantially all of the assets of Gemalto and its Group, the calculation will be made on the basis of the net proceeds (excluding dividend withholding tax) to be distributed to the Shareholders resulting from such a transaction calculated on a per Share basis.

If the consideration payable to the Shareholders in connection with a Potential Superior Offer or Superior Offer comprises solely or partly of securities, the securities component of such consideration is to be valued by the Board of Directors of Gemalto in their calculation of whether the 9% threshold referred to in Section 6.25 d. is exceeded, at prevailing market prices and practices, as at the date that the comparison is made, after obtaining advice from its financial advisers.

6.27 Contingent Rights

Given that Gemalto considers the Offer made by Thales to be in the best interests of Gemalto, the sustainable success of its business, its clients, employees, shareholders and other stakeholders, and taking into account in particular the arrangements set forth in Section 6.22 (*Exclusivity*), and in furtherance of the Recommendation as set forth in Section 6.7 (*Decision making and Recommendation by the Board of Directors of Gemalto*), Thales and Gemalto have agreed that Gemalto shall issue contingent rights to acquire additional Shares (**Contingent Rights**) as follows:

- a. the Board of Directors of Gemalto has irrevocably resolved, on 17 December 2017, subject to execution of the Merger Agreement, (A) to issue the Contingent Rights as set forth in the provisions of this Section 6.27 subject only to the condition precedent (*opschortende voorwaarde*) of the occurrence of the earlier of (i) a Competing Offer (as defined below) being declared unconditional, and (ii) the moment when the Board of Directors of Gemalto's existing authorisation from the Gemalto General Meeting to issue Shares and to exclude preemption rights in relation thereto expires (and is not sufficiently renewed) or otherwise terminates and (B) to the extent necessary or desirable (as determined by the Board of Directors of Gemalto), to exclude preemption rights of Shareholders in connection with the issue of the Contingent Rights;
- b. the Contingent Rights shall be non-dilutive and to the extent possible stapled to the existing Shares held by the Relevant Shareholders (as defined below), shall be issued on the day following the day on which the condition described in Section 6.27(a) above is fulfilled for no consideration to all Shareholders that are located in jurisdictions where the offering of the Contingent Rights without a prospectus or other actions is allowed under applicable

regulatory provisions, as of the close of the Trading Day on Euronext Amsterdam immediately preceding the date on which the Competing Offer is declared unconditional (such Shareholders, the **Relevant Shareholders** and such date and time, the **Calculation Time**), and shall be tradable for a period of 3 (three) months from the 3rd (third) Business Day after the Calculation Time (the **Trade Period**);

- c. with each such Relevant Shareholder receiving one Contingent Right for each Share held by such Relevant Shareholder at the Calculation Time;
- d. the Contingent Rights will entitle a Relevant Shareholder that holds Contingent Rights as of the close of the last Trading Day on Euronext Amsterdam within the Trade Period (the **Conversion Date**) to a number of new Shares, rounded up to the nearest integer, equal to the product of (x) the number of Shares such Shareholder holds as of the Calculation Time and (y) the CR Percentage (as defined below), for a subscription price equal to the par value per Share by charging the nominal payment obligation against the share premium reserve of Gemalto;
- e. on the Conversion Date, the Contingent Rights will convert into the number of shares set out in Section 6.27 (d) above automatically, and be credited to the securities account on which the Contingent Rights are then held;
- f. the Contingent Rights will not convert, will lapse and shall be forfeited by operation of law and without further action being required upon the earlier of (i) the termination of the Merger Agreement for any reason except for a material breach by Gemalto pursuant to Section 6.28.1c (*Termination grounds*); (ii) Settlement; or (iii) the Long Stop Date; and
- g. for purposes hereof, the following terms shall have the following meanings:

Competing Offer means an Alternative Proposal offering an amount of consideration per Share exceeding the Offer Price but being less than 109% of the Offer Price; and

CR Percentage means an amount, expressed as a percentage, equal to $(X / Y) - 1$, where X equals the Offer Price multiplied by 109% and Y equals the per share price offered in the Competing Offer.

6.28 Termination

6.28.1 Termination grounds

The Merger Agreement may be terminated immediately:

Mutual consent

- a. if Thales and Gemalto explicitly so agree in writing;

Offer Conditions

- b. by notice in writing given by Thales to Gemalto if any of the Offer Conditions have not been satisfied or waived by Thales in accordance with the terms and conditions of the Merger Agreement before the Long Stop Date, provided, the non-satisfaction of the relevant Offer Condition(s) is not due to a breach by Thales of any of its obligations under the Merger Agreement or any agreement resulting therefrom;

Material breach

- c. by notice in writing given by Thales or Gemalto to the other party in the event that the other party has breached the terms of the Merger Agreement to the extent that any such breach:
 - i. has or could reasonably be expected to have material adverse consequences for Thales or Gemalto, as the case may be, the Offer or other material Post-Settlement Restructurings; and
 - ii. is incapable of being remedied within 10 (ten) Business Days after receipt by the other Party of a written notice from Thales or Gemalto, as the case may be, or has not been remedied by the other party within 10 (ten) Business Days after receipt by the other party of a written notice from Thales or Gemalto, as the case may be;

Superior Offer

- d. by notice in writing by (i) Gemalto or Thales to the other Party in accordance with the terms and subject to the conditions set forth in Section 6.25.5 c., or (ii) by Thales in the case a third party full offer has been announced for the Shares with a consideration per Share that is in excess of the Offer Price; or

No Settlement

- e. by notice in writing by Gemalto to Thales if all Offer Conditions have been satisfied or waived and Settlement has not taken place on the Settlement Date.

6.28.2 Break fee

As an inducement to Thales to enter into the Merger Agreement and to compensate Thales for loss of management time and other damages, costs and expenses incurred by Thales in connection with the Offer and the preparation of the Offer, Gemalto agreed to pay to Thales a gross amount of 60 million euro in cash, immediately upon first written request thereto from Thales and without defences or set-off of any kind, if:

- a. the Merger Agreement is terminated by Thales pursuant to Section 6.28.1c. in case of a material breach by Gemalto; or
- b. the Merger Agreement is terminated by either Gemalto or Thales pursuant to Section 6.28.1d.

Any payment obligation of Gemalto under this Section 6.28.2 (*Break fee*) shall exist regardless of whether there is an attributable failure (*toerekenbare tekortkoming*) by Gemalto and shall be without prejudice to other remedies that may be claimed by Thales.

7. ANNUAL GENERAL MEETING OF GEMALTO SHAREHOLDERS

7.1 Gemalto AGM convocation

In accordance with article 18, paragraph 1 of the Decree, Gemalto has convened a shareholders meeting of Gemalto to discuss the Offer and, subject to the terms of the Merger Agreement, recommend the Offer to the Shareholders for acceptance and recommend the Shareholders to vote in favour of the Gemalto Resolutions (as defined below). This shareholders meeting will be combined with Gemalto's annual general meeting of Shareholders and shall be held at 10:00 hours CET on 18 May 2018 at the hotel Hilton Amsterdam Airport Schiphol, Schiphol Boulevard 701, 1118 BN Schiphol, The Netherlands (the **Gemalto AGM**). Separate convocation materials are available on Gemalto's website.

7.2 Gemalto Resolutions

At the Gemalto AGM, the Shareholders will be requested to, subject to the Offer being declared unconditional and Settlement having taken place, and effective as per the Settlement Date:

- a. resolve on the amendments of the Articles of Association as described in Section 6.17 (*Amendments of the Articles of Association*);

- b. grant full and final discharge from liability to each member of the Board of Directors of Gemalto with respect to his/her duties and obligations performed and incurred in his/her respective capacity as a member of the Board of Directors of Gemalto; and
- c. appoint the members designated by Thales in accordance with Section 6.18 (*Future Composition of the Board of Directors of Gemalto*) to the Board of Directors of Gemalto as non-executive directors

(collectively the **Gemalto Resolutions**).

7.3 Subsequent Gemalto shareholders meeting and voting

Each of Gemalto and Thales shall, in accordance with the Merger Agreement, reasonably do, and procure to be done, all those things necessary to ensure that the Gemalto Resolutions are passed. If, however, one or more of the Gemalto Resolutions are not approved at the Gemalto AGM, Gemalto shall at Thales's request after Settlement forthwith convene a subsequent (extraordinary) meeting of shareholders of Gemalto, to take place after and subject to Settlement, at which the relevant Gemalto Resolution(s) will be put to a vote.

If the Gemalto Resolutions set forth in Section 7.2 are not approved at the Gemalto AGM, the interim covenants set forth in the Merger Agreement continue to apply from Settlement until the appointment to the Board of Directors of Gemalto of the individuals referred to in Section 7.2 c. and d. becomes effective. In addition, any of the matters reserved to the whole Board of Directors of Gemalto as set out in the Articles of Association and the bylaws of the Board of Directors of Gemalto as in force at the date of the Merger Agreement require the prior written approval of Thales.

Thales shall and shall procure that any Affiliate of Thales owning Shares at the Gemalto AGM record date shall vote in favour of the Gemalto Resolutions on all of those Shares.

8. INFORMATION REGARDING GEMALTO

8.1 Introduction

Gemalto is a public limited liability company incorporated under Dutch law. It is headquartered in Amsterdam, and has subsidiaries and group companies around the world. Its registered office address is Barbara Strozziilaan 382, 1083 HN Amsterdam, The Netherlands. Gemalto is registered with the trade register in Amsterdam, The Netherlands under No. 27.25.50.26.

8.2 History

Gemalto was formed in June 2006 through the combination of Axalto Holding N.V. (**Axalto**) and Gemplus International S.A. (**Gemplus**)

Axalto was an IPO spin-off of Schlumberger in 2004. Schlumberger began its chip card activities in February 1979 when it licensed and marketed certain chip card technologies developed and patented by Roland Moreno, who is generally credited with the invention of the chip card. Schlumberger developed the first telephone chip cards for France Telecom and the Swedish telecommunications operator Telia in the early 1980s. The company developed ties with telecommunications operators around the world and, as a result, played a role in industry-wide efforts to develop new digital mobile communication standards, particularly the GSM (Global System for Mobile Communication) system. Schlumberger designed its first SIM (Subscriber Identity Module) card in the early 1990s for the launch of GSM in Europe, and this led to the use of microprocessor card technology as an access and security solution for mobile telephony worldwide. By the end of 2012 SIMs had been installed in over 3 billion handsets; more than 5 billion SIMs were sold during the year.

In the early 1980s, the French banking sector decided to migrate from the magnetic stripe card-based payment system to a more secure microprocessor card-based system. The company received its first contract in June 1981 to provide GIE Cartes Bancaires, the French credit/debit card issuers' association, with 5,000 microprocessor cards and 200 associated point-of-sale terminals. The microprocessor card-based payment system subsequently became standard in France and eventually led to a global standard known as EMV, set up by Europay, MasterCard and Visa. Today there are over 1 billion EMV cards in circulation.

Since the launch of its chip card operations in the early 1980s, Schlumberger experienced strong internal and external growth both in terms of revenue and product portfolio, particularly with the substantial growth in GSM-based mobile telecommunications. Initially, Schlumberger's card and POS terminal activities were managed by several subsidiaries and joint ventures. In 2003, Schlumberger created Axalto as a division to consolidate these into one company. Axalto was successfully listed on Euronext Paris market on 18 May 2004.

Gemplus started its operations in 1988 as a supplier of prepaid phonecards and subsequently developed ties with the telecommunications industry similarly to Schlumberger. The business was initially conducted through Gemplus S.C.A., a French limited partnership. In 1999, Gemplus Associates, the general partner of Gemplus S.C.A., merged into Gemplus S.C.A., which became a joint stock company, Gemplus S.A. In February 2000, the corporate structure was reorganized and a new holding company, Gemplus International S.A., a Luxembourg corporation, was created.

In December 2000, the company completed an initial public offering of its capital stock, in the form of ordinary shares traded on Euronext Paris, and American depository shares (ADSs) traded on the US NASDAQ exchange. In 2004, the company completed the planned reorganization of its corporate structure by transferring most of the subsidiaries of Gemplus S.A. to Gemplus International S.A.

In June 2006, Axalto and Gemplus combined to become Gemalto, with the objective of becoming a leading company in digital security. Following the combination, Axalto Holding N.V. changed its name to Gemalto N.V. Security has a key role to play in the digital revolution – a major trend bringing significant benefits to countries and citizens, in particular through the use of internet and wireless networks. Trust and convenience are at the core of Gemalto's vision of digital security. Gemalto's mission is to make personal digital interactions secure and easy. As a result of the combination, skills and scale were assembled to serve three important sectors: mobile telecommunications, secure transactions, in particular for financial institutions and commerce, and security, in particular for administrations and networks ("cloud computing").

8.3 Business overview

Gemalto designs digital security solutions that help organizations bring trust to a wide range of services. Gemalto's solutions manage digital identities and protect assets. Gemalto's technologies provide two essential, interlocking functions: authenticating people and things, and protecting data by encrypting it. Gemalto's operations can be divided in two market segments:

- a) The Identity, IoT & Cybersecurity segment reports on businesses associated with Government Programs, Internet-of-things and Enterprise.
- b) The Smartcards & Issuance segment reports on businesses associated with mobile secure elements (SIM, embedded secure element), mobile Platforms & Services, secure personal interactions including Payment. Patents & Others is also included in this segment.

a) Identity, IoT & Cybersecurity

Gemalto designs security solutions that help governments, industrial companies and enterprises to bring trust to a wide range of services.

Gemalto supports over 200 programs worldwide supporting government agencies in areas such as ePassports, border and visa management, biometrics, ID and health cards, voter and vehicle registration, drivers' licenses, and eGovernment services. Gemalto works constantly with clients on innovative ways to increase efficiency and meet citizens' expectations. For example, Gemalto is currently working with five US states to pilot a secure solution for smartphone-based digital drivers'

licenses. Gemalto's growing capability in biometrics is creating new opportunities in areas such as ID verification, border controls, and law enforcement, where Gemalto has some 80 active projects. Gemalto also offers best-in-class biometric solutions in the growing forensics market.

With the largest portfolio of machine-to-machine and internet-of-things solutions and services, Gemalto allows industrial companies to accelerate the introduction of new connected objects and services. Gemalto's solutions ensure security throughout an object's lifecycle, cut costs and increase revenue. Gemalto's internet-of-things portfolio is made of M2M modules and software solutions. These enable advanced solutions in industries such as healthcare, retail services, smart energy, transportation, logistics and automotive. Gemalto helps them to bring new connected services to market quickly, add value and open up new revenue streams with secure devices, identities and data.

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

b) Smartcards & Issuance

Gemalto offers smart card products and solutions to financial institutions, retail, transport and mobile network operators.

Gemalto's wide range of solutions enable more than 3,000 financial institutions to deploy physical and digital payment solutions including cards, mobiles and wearables. Payment services can also be connected to transport and loyalty programs. Gemalto's white label offering enables local customization of the broad EMV standards for local authorities to brand and control national payment networks. Gemalto also secures digital banking and payment apps and services as well as protects sensitive company and customer data through encryption. Gemalto's ID verification solutions enable banks to verify new customers' identity documents when enrolling them in-branch or online. Through Gemalto's mobile and Assurance Hub technologies they can provide personalized authentication steps according to the risk level and the context of usage. Gemalto's Trusted Services Hub helps both banks and retailers to offer consumers easier ways to pay with their smartphones and other devices. And Gemalto's security solutions protect and secure their data at every level of their infrastructure. For mobile network operators, Gemalto's technologies and innovations are focused on enabling richer services and growth throughout the ecosystem, while managing and protecting identities. Gemalto

aims to bring trust to this expanding environment, by securing data and authenticating users and devices. Gemalto supports mobile network operators by streamlining business processes such as consumer acquisition with its multi-channel ID verification or seamless connectivity. This is done by enabling over-the-air service activation and management through its GSMA compliant On-Demand-Connectivity suite. And Gemalto continues exploring opportunities to create new revenue streams as the world transitions to new technologies such as eSIMs and 5G.

In addition, Gemalto also licenses its intellectual property and provides security and other technology advisory services.

8.4 Business strategy

Gemalto helps people to trust one another in an increasingly connected world, by developing secure software that runs on trusted devices which Gemalto designs and personalizes. Gemalto manages these devices, the confidential data they contain and the services they make possible, throughout their life cycle.

8.5 Board of Directors of Gemalto

8.5.1 General

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

8.5.2 Members of the Board of Directors of Gemalto

The table below lists the members of the Board of Directors as at the date of this Offer Document.

Name	Position	Member since
Alex Mandl	Non-executive board member, Chairman	2006
Philippe Vallée	Executive board member, CEO	2016
Homaira Akbari	Non-executive board member	2013
Buford Alexander	Non-executive board member	2009
Philippe Alfroid	Non-executive board member	2010
Joop Drechsel	Non-executive board member	2015
Johannes Fritz	Non-executive board member	2006
John Ormerod	Non-executive board member	2006
Olivier Piou	Non-executive board member	2004
Jill Smith	Non-executive board member	2017

Name	Position	Member since
Yen Yen Tan	Non-executive board member	2012

8.5.3 Information on shares and other financial instruments in Gemalto held by the members of the Board of Directors

See Section 6.9 (*Shareholdings of the members of the Board of Directors of Gemalto*).

8.6 Major Shareholders

The table below sets out the holders of notifiable interest (*substantiële deelneming*), being a holding of at least 3% (three per cent) in the share capital of - or voting rights in - Gemalto, according to the AFM register as at 23 March 2018.

Date	Name	Interest
15 March 2018	Boussard & Gavaudan Partners Limited	3.05% capital interest and voting rights
15 January 2018	Magnetar Financial LLC	3.01% capital interest and voting rights
19 December 2017	DNCA Finance	3.40% capital interest and voting rights
16 June 2016	S.N. Quandt	5.67% capital interest and voting rights
2 December 2015	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
12 July 2013	BPI Groupe ⁹	8.51% capital interest and voting rights
13 August 2012	FMR LLC	4.77% capital interest and 4.48% voting rights
16 June 2010	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as at the date of this Offer Document due to the following:

- The substantial holdings are presented as they were notified to the AFM at the relevant date. Therefore the notifications may contain out-dated information, such as the number of shares,

⁹ The AFM register also includes a historic notification from Caisse des Dépôts et Consignations (CDC) dated 28 May 2009. This notification is out-dated, and Gemalto considers it to be replaced by the notification from BPI Groupe dated 12 July 2013.

due to past changes to the share capital of Gemalto.

- 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 1 July 2013 and (i) held less than 3% on 1 July 2013, or (ii) held between 3% and 5% after 1 July 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. Other notifications of investors such as gross and net short positions, can be found at the website of the AFM: www.afm.nl.

8.7 Capital and Shares

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

Gemalto (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 30 April 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 25 April 2013. SRD trades were possible until 24 April 2013.

Mnemonic	GTO
Exchange	Euronext Amsterdam, Euronext Paris
ISIN Code	NL0000400653
Reuters	GTO.AS
Bloomberg	GTO:NA, GTO:FP

Among other stock indices, Gemalto is part of the: AEX (NL0000000107), SBF 120 (FR0003999481), MSCI EMU SMALL CAP INDEX 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**). Gemalto has established a sponsored Level I ADR Program in the United States 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

8.8 Share price development

This graph sets out the Share price development for Gemalto from 23 March 2017 to 23 March 2018.



8.9 Incentive Plans

a. Stock options

To the best knowledge of Gemalto, as of 23 March 2018, a number of 15,650 share options granted by the Board of Directors of Gemalto in September 2008 were still outstanding and fully vested, allowing their beneficiaries to acquire, at a price of EUR 26.44 per share, the same number of Ordinary Shares. The exercise of these share options can occur until 25 September 2018 at the latest.

Once exercised, the Ordinary Shares issued with respect to these share options can be tendered to the Offer.

b. Global Employee Share Purchase Plan

Gemalto has established a Global Employee Share Purchase Plan (GESPP) for its employees,

whereby Gemalto employees are offered the opportunity to buy Gemalto shares at 15% discount to the market price. Employees of its 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 Supervisory Board and owned 479,142 shares of Gemalto on 31 December 2017. It exercises its voting rights on these shares independently, without instructions from participating employees. Under the Merger Agreement, Gemalto has undertaken to use its reasonable best efforts to amend the rules of the FCPE and the rules of the Plan d'épargne groupe (company saving plan) to provide for the ability of the Supervisory Board of the FCPE to tender the Gemalto shares to the Offer prior to the Settlement Date. It is envisaged that the Supervisory Board of the FCPE will be invited to proceed to such clarification of the rules of the FCPE and the Plan d'épargne groupe by the end of the first semester 2018.

In November 2017, employees purchased, under Gemalto's Employee Share Purchase Plan, a number of 93,147 Ordinary Shares at a price of EUR 27.77 per share. These Ordinary Shares were delivered to their beneficiaries in December 2017. These Ordinary Shares are subject to a 1-year lock up period. If necessary, Gemalto will shorten this lock up period in order for the beneficiaries to tender these Gemalto shares to the Offer.

Ordinary Shares previously purchased by employees under Gemalto's Employee Share Purchase Plan can be tendered to the Offer.

c. Global Equity Incentive Plan

Gemalto has established a Global Equity Incentive Plan (**GEIP**) for its employees. The GEIP authorizes Gemalto to grant eligible employees Restricted Share Units (**RSUs**) over the duration of the plan (ending 31 December 2024), allowing them to receive a maximum 14 million ordinary shares of Gemalto when vesting conditions, relating to performance and/or presence, are met.

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

These RSUs are governed by Gemalto's Global Equity Incentive Plan and certain of them granted to French tax residents are also governed by the French Sub-Plan.

The chart below reflects the number of RSUs which, to the best knowledge of Gemalto, are still outstanding as of the date of this Offer Document:

Date of Grant	Name	Outstanding RSU			Vesting		
		Total	French Sub-Plan	Others	Perf. Cond.	Pres. Cond.	Vesting date
06/03/2014	RSU 2014	56 250	56 250	0	x	x	AGM 2018 (May 2018)*
25/04/2014	RSU 2014	803 500	478 000	325 500	x	x	AGM 2018 (May 2018)*
08/01/2015	RSU 2015 SafeNet	36 000	7 000	29 000	x	x	AGM 2018 (May 2018)*
28/08/2015	RSU 2015 WW	679 850	314 900	364 950	x	x	Aug 31, 2018
02/06/2016	RSU 2016 All-Stars	653 310	188 845	464 465		x	June 2, 2019
03/10/2016	RSU 2016	920 500	500 000	420 500	x	x	Oct 3, 2019
02/05/2017	RSU 2017 Cogent equity	25 830	0	25 830		x	Dec 31, 2019
02/05/2017	RSU 2017 Cogent retention	119 250	0	119 250	x	x	Dec 31, 2019
04/09/2017	RSU 2017 (tranche I)	65 000	65 000	0	x	x	Sept 30, 2020
04/09/2017	RSU 2017 (tranche II)	300 000	230 000	70 000	x	x	Sept 30, 2020
04/09/2017	RSU 2017 (tranche III)	625 000	237 500	387 500	x	x	Sept 30, 2020
01/01/2018	RSU 2017 (tranche IV)	10 000	10 000	0			Dec 31, 2018
	Total RSU	4 294 490	2 087 495	2 206 995			

*Performance and service condition being frozen in December 31, 2017

d. Settlement of Incentive Plans

The Offer, if successfully completed, will result in a change of control in respect of Gemalto. This may impact the future strategy of Gemalto Group and its performance with regards to the performance criteria set in relation to certain awards, and will not easily permit the replacement of existing awards for equivalent instruments.

As a result of the change of control, each RSU that would, according to their terms, be outstanding on the Settlement Date shall fully vest on such Settlement Date (disregarding any performance and/or presence conditions relating thereto).

For each RSU (except those governed by the French Sub-Plan) that would vest on the Settlement Date, the underlying Shares shall be delivered to the beneficiaries on such Settlement Date and such beneficiaries may decide to tender such Shares to the Offer during the Post-Closing Acceptance Period, in accordance with the terms and subject to the conditions set forth in this Offer Document.

Subject to and in accordance with Applicable Laws, Thales will propose to certain French employees of the Gemalto Group to enter into an arrangement with respect to certain outstanding RSUs governed by the French Sub-Plan or Shares held by those employees, which are customary in French market practice and pursuant to which Thales will acquire the relevant Shares (including any Shares

underlying such outstanding RSUs) at the expiration of a certain period following the Settlement Date.

8.10 Transactions by Gemalto relating to the Shares

The table below sets out the delivery of Shares out of Gemalto's treasury shares to eligible employees who, since the announcement of the Offer, exercised their stock option rights granted under the GEIP or who have subscribed to Shares under the GESPP.¹⁰

Date	Total number of shares	Type of instrument	Price per share (EUR)
12 December 2017	2,700	Shares	26.44
13 December 2017	12,700	Shares	26.44
14 December 2017	1,150	Shares	26.44
19 December 2017	5,000	Shares	26.44
21 December 2017	5,796	Shares	26.44
22 December 2017	93,147	Shares	27.7
28 December 2017	500	Shares	26.44
3 January 2018	1,000	Shares	26.44
12 January 2018	1,000	Shares	26.44
12 January 2018	80,000	Shares	0
22 January 2018	600	Shares	26.44
23 January 2018	760	Shares	26.44
16 February 2018	1,000	Shares	26.44
19 February 2018	2,000	Shares	26.44
20 February 2018	2,000	Shares	26.44
5 March 2018	600	Shares	26.44
6 March 2018	1,500	Shares	26.44
9 March 2018	8,600	Shares	26.44
12 March 2018	350	Shares	26.44
20 March 2018	12,668	Shares	26.44

In addition, on 22 December 2017 Gemalto has reallocated:

¹⁰ On 8 March 2018, Gemalto publicly announced that from 12 December 2017 until 5 March 2018 (included) 409 eligible employees have accepted a total number of 623,000 RSUs for no consideration previously granted under the GEIP. Between 6 March 2018 and the date of this Offer Document, an additional number of 3 eligible employees have accepted a total number of 3,000 RSUs for no consideration previously granted under the GEIP. Such acceptances do not change the amount of issued and outstanding Ordinary Shares.

- 155,000 Shares as treasury shares held for the purpose of settling employee incentive plans, previously held for the purpose of external growth; and
- 217,316 Shares as treasury shares held for the purpose of settling employee incentive plans, previously held for the purpose of the liquidity program managed by Exane BNP Paribas.

Further details in respect of the transactions included in the table above can be found on Gemalto's website (www.gemalto.com/investors) . On the day of this Offer Document, 90,423,814 Shares were issued and outstanding.

8.11 Recent developments

Gemalto makes all price-sensitive information generally available in accordance with applicable laws. Publication of such price-sensitive information is also available in the public register on the website of the AFM. In relation to the Offer, Gemalto together with Thales has published the press releases included in Section 12 (*Press Releases*) of this Offer Document. In addition, the website of Gemalto provides an up to date overview of recent developments, such as trading updates and annual reports, notably including the annual report relating to 2017. These recent developments have been published on Gemalto's website (media and investors sections).

9. INFORMATION REGARDING THALES

9.1 Information regarding Thales

9.1.1 Introduction and Business description

Thales is a global technology leader for the Aerospace, Transport, Defence & Security markets. Thanks to its 64,000 employees in 56 countries, Thales recorded sales of €14.9 billion in 2016. With over 23,000 engineers and researchers, Thales has a unique capability to design and deploy equipment, systems and services to meet the most complex security requirements. Its unique international footprint allows it to work closely with its customers all over the world.

Thales Group innovates, develops and builds end-to-end solutions, at the heart of which are infrastructure operators, controllers, pilots, armed forces and crews, the people whose role it is to make critical decisions every day. Thales places at their disposal sensors and cyber secured data communications, decision support systems, services, and automated response systems. With solutions embedded into critical operating environments, Thales ensures that decision-makers are better equipped to assess and respond to the operational challenges they face, whilst maintaining the safety and security of the people and assets they protect.

Thales is a public limited company incorporated under the laws of France, with corporate seat in Courbevoie, France, and registered with the registry of commerce and companies of Nanterre under number 552 059 024. Thales has its registered address at Tour Carpe Diem – Place des Corolles – Esplanade Nord – 92400 Courbevoie – France.

At the date of this Offer Document, Thales's share capital is at EUR 637,976,175 and is divided into 212,658,725 shares with a nominal value of EUR 3 (three euros) each. The share capital is fully paid up. It includes a golden share resulting from the conversion of an ordinary share belonging to the French State, as decided by decree no. 97-190 of 4 March 1997, implementing the law on privatization of 6 August 1986.

Thales's shares are listed on Euronext Paris regulated market in compartment A. It is eligible for the *Service de Réglements Différés*.

Mnemonic	HO
Exchange	Euronext Paris
ISIN Code	FR0000121329
Reuters	TCFP.PA
Bloomberg	HO FP

At the date of this Offer Document, Thales is included into the CAC Next 20, SBF 120, SBF 250, CAC Large60, CAC All-Shares, DJ Euro Stoxx and FTSEurofirst 300.

9.1.2 Board of Directors of Thales

The table below lists the members of the Board of Directors of Thales as at the date of this Offer Document. Mr. Caine is the sole executive director on the Board of Directors of Thales; all other members are non-executive directors.

Name	Position	Member since
Patrice Caine	Chairman and CEO	2014
Laurence Broseta	Board member	2014
Charles Edelstenne	Board member	2009
Yannick d'Escatha	Board member	2009
Bernard Fontana	Board member	2018
Anne-Marie Hunot-Schmit	Board member (employees representative)	2016
Philippe Lépinay	Board member	2007
Armelle de Madre	Board member	2017
Odile Renaud-Basso ¹¹	Board member	2017
Frédérique Saint	Board member (employees representative)	2016
Loïc Segalen	Board member	2009
Anne-Claire Taittinger	Board member	2012
Ann Taylor	Board member	2012
Eric Trappier	Board member	2009
Marie-Françoise Walbaum	Board member	2013

9.1.3 Executive Officers of Thales

The table below lists the members of Thales's executive committee comprising the main operational and functional managers responsible for the general management of Thales and Thales Group, under the authority of the chairman and CEO as at the date of this Offer Document.

Name	Position
Patrice Caine	Chairman and CEO
Pascal Bouchiat	Senior Executive Vice President, Finance and Information Systems
Philippe Keryer	Executive Vice President, Strategy, Research and Technology

¹¹ On 30 January 2018, Odile Renaud-Basso has been replaced as board member (as natural person) by the French State, which remains represented by Odile Renaud-Basso.

Name	Position
Pierre-Eric Pommellet	Senior Executive Vice President, Operations and Performance
Isabelle Simon	Company Secretary
Pascale Sourisse	Senior Executive Vice president, International Development
David Tournadre	Senior Executive Vice President, Human Resources
Millar Crawford	Executive Vice President, Ground Transportation Systems
Alex Cresswell	Executive Vice President, Land & Air Systems
Marc Darmon	Executive Vice president, Secure Communications and Information Systems
Philippe Duhamel	Executive Vice President, Defence Mission Systems
Jean-Loïc Galle	Executive Vice President, Space
Gil Michielin	Executive Vice President, Avionics

9.1.4 Main shareholders of Thales

As at 31 December 2017, the following table lists the main shareholders of Thales.

Name	Interest
TSA (holding company owned by EPIC Bpifrance, a Public Establishment with an Industrial and Commercial Nature (99.99% capital interest in TSA), and the French State (one P1 share in TSA, with specific rights))	25.76% capital interest and 35.75% voting rights
French State	0.001% capital interest and voting rights including a golden share
Dassault Aviation	24.70% capital interest and 28,44% voting rights
Employees Stock Ownership Plan	2.91% capital interest and 3.50% voting rights
Thales	0.27% capital interest and 0% voting rights

The golden share held by the French State in Thales entitles it to the following rights:

- any increase in the direct or indirect holding of securities, irrespective of the nature or legal form, beyond a threshold of one-tenth, or a multiple thereof, of the capital or voting rights of Thales, by any natural person or legal entity, whether acting alone or in concert, must be approved in advance by the French minister of the economy;

- upon the proposal of the French minister of defense, a representative of the French State, appointed by decree, sits on the Board of Directors of Thales as a non-voting director; and
- decisions to dispose of or assign by way of guarantee the assets specified in the appendix to this decree n°97-190 of March, 1997 may be opposed. These assets include the capital of the following companies: Thales DMS France SAS, Thales (Wigmore Street) Ltd, Thales Communications & Security SAS, Thales LAS France SAS, Thales Nederland BV, Thales AVS France SAS and Thales Underwater Systems NV.

The Chairman of TSA shall obtain the prior approval of the French State, as holder of the P1 share, before any transfer of Thales shares, to exercise the rights and obligations of TSA under the shareholder agreement with Dassault Aviation in respect of Thales, to propose the appointment of a new director to the Board of Directors of Thales and to vote at the general meetings of shareholders of Thales.

In addition, Thales and the French State entered into a specific agreement pursuant to which the French State may object to certain transactions involving certain assets, including Thales Alenia Space SAS, a joint-venture between Thales (67%) and Leonardo S.p.A. (33%).

For a detailed description of the shareholder agreement between Dassault Aviation and TSA, the specific agreement between Thales and the French State, the rights attached to the golden share held by the French State, as well as the agreement on the protection of strategic national interests between Dassault Aviation and the French State dated 19 May 2009, please refer to the 2016 Registration Document of Thales, Section 4.3.3.3 (Shareholders' agreement, agreement on the protection of strategic national interests and specific agreement) on www.thalesgroup.com/en/investors.

10. FURTHER STATEMENTS REQUIRED BY THE DECREE

In addition to the other statements set out in this Offer Document, Thales with regard to subjects (ii), (iii), (vii) and (ix); Thales and the Board of Directors of Thales with regard to subject (v); Thales, the Board of Directors of Thales, Gemalto and the Board of Directors of Gemalto with regard to subjects (i); and Gemalto and the Board of Directors of Gemalto with regard to subjects (iv), (vi) (viii), and (x), each individually, hereby declare as follows:

- i. There have been consultations between Thales and Gemalto regarding the Offer, which have resulted in a Merger Agreement as publicly announced on 17 December 2017. Discussions with respect to the Offer, including, but not limited to, the Offer Price, the Offer Conditions and the future strategy of the Combination, took place between Thales and Gemalto and their respective advisers. Reference is made to Section 6.1 (*Background and public announcements*).
- ii. With due observance of and without prejudice to the restrictions referred to in Section 2 (*Restrictions*) and Section 3 (*Important Information*), the Offer concerns all Shares in the capital of Gemalto and applies on an equal basis to all Shares and Shareholders.
- iii. At the date of this Offer Document, Thales does not hold any Shares, either directly or indirectly.
- iv. At the date of this Offer Document, Gemalto has no interest in the share capital of Thales, either directly or indirectly.
- v. (a) No securities issued by Gemalto are held, no transactions or agreements in respect of securities issued by Gemalto have been effected or have been concluded and no similar transactions have been effected in respect of securities issued by Gemalto during the twelve months preceding the date hereof, by any member of the Board of Directors of Thales (including Ms. Renaud-Basso as representative of the French State but excluding the French State itself), nor by any of their spouses (*echtgenoten*), registered partners (*geregistreeerde partners*), under-aged children (*minderjarige kinderen*) and any entities over which these members or other persons referred to have control (*zeggenschap hebben in*) within the meaning of Annex A, paragraph 2, sub-paragraph 5 and 6 of the Decree, and

(b) to the best knowledge of Thales, no securities issued by Gemalto are held, no transactions or agreements in respect of securities issued by Gemalto have been effected or have been

concluded and no similar transactions have been effected in respect of securities issued by Gemalto during the twelve months preceding the date hereof, by the French State nor any entities¹² over which the French State has control (*zeggenschap hebben in*) within the meaning of Annex A, paragraph 2, sub-paragraph 5 and 6 of the Decree.

(c) No transactions or agreements in respect of securities in Gemalto similar to the transactions and agreements referred to in Annex A, paragraph 2, sub-paragraph 6 of the Decree have been concluded by legal entities with which Thales are affiliated within a group.

- vi. No securities issued by Gemalto are held, no transactions or agreements in respect of securities issued by Gemalto have been effected or have been concluded and no similar transactions have been effected in respect of securities issued by Gemalto during the twelve months preceding the date hereof by any member of the Board of Directors of Gemalto, nor by any of their spouses (*echtgenoten*), registered partners (*geregistreerde partners*), under-aged children (*minderjarige kinderen*) and any entities over which these members or other persons referred to have control (*zeggenschap hebben in*), within the meaning of Annex A, paragraph 2, sub-paragraph 5 and 6 of the Decree, other than the irrevocable undertakings described in Section 6.8 (*Irrevocable undertakings of Gemalto shareholders*), the shareholdings referred to in Section 6.9 (*Shareholdings of the members of the Board of Directors of Gemalto*) and the transactions, in each case relating to the exercise of stock option rights by members of the Board of Directors of Gemalto, set out in the table below.¹³ No transactions or agreements in respect of securities in Gemalto similar to the transactions and agreements referred to in Annex A, paragraph 2, sub-paragraph 6 of the Decree have been concluded by legal entities with which Gemalto are affiliated within a group.

Name	Date	Type of transaction	Type of securities	Amount	Price per share (EUR)
Philippe Vallée	9 March 2018	Purchase	Ordinary Shares	8,600	26.44
Philippe Vallée	4 September 2017	Sale	Ordinary Shares	9,137	42.00
Philippe Vallée	4 September 2017	Purchase	Ordinary Shares	9,137	26.44
Olivier Piou	28 March 2017	Purchase	Ordinary Shares	74,500	26.44

¹² This statement does not cover any Gemalto shareholdings or transactions in Gemalto shares by any public entities which have autonomy of management vis-à-vis the French State and over which the French State has no control (*zeggenschap hebben in*) within the meaning of Annex A, paragraph 2, sub-paragraph 5 and 6 of the Decree.

¹³ As disclosed in the so-called “art. 19” AFM-register on 13 November 2017 in accordance with applicable law, Ms. H. Akbari has transferred her shareholding from one entity controlled by her to another entity controlled by her (the latter named AKnowledge Partners LLC DB). This transaction did not change the actual shareholdings Ms H. Akbari as such held.

- vii. The costs Thales has incurred and expects to incur in relation to the Offer amount to approximately EUR 42 million and relate to fees of legal advisers, financial advisers, strategic advisers, exchange agent fees, broker commissions, public relations and communication advisers. These costs will be borne by Thales.
- viii. The costs Gemalto has incurred and expects to incur in relation to the Offer amount to approximately EUR 40 million and relate to fees of legal advisers, financial advisers, tax advisers, strategic advisers, auditor and communication advisers. These costs will be borne by Gemalto.
- ix. No remunerations will be paid to Thales's directors and executive officers in connection with the Offer being declared unconditional.
- x. Other than (i) as described in Section 6.8 (*Irrevocable undertakings of Gemalto shareholders*), Section 8.5 (*Board of Directors of Gemalto*) and Section 8.9 (*Incentive Plans*), and (ii) the one-time completion incentive gross amount of EUR 1.0 million (which is the total cost to be borne by Gemalto and leads to a gross salary amount of c. EUR 800,000 after deductions of employer social expenses) awarded to Mr. Vallée, no remunerations will be paid to members of the Board of Directors of Gemalto in connection with the Offer being declared unconditional.

11. TAX ASPECTS OF THE OFFER

11.1 Material Dutch Tax Aspects of the Offer

The following is a general summary of certain material Dutch tax consequences of the disposal of the Shares in connection with the Offer for the Shareholders. This summary does not purport to be a comprehensive description of all possible tax considerations or consequences that may be relevant to all categories of investors, some of which may be subject to special rules. For purposes of Dutch tax law, a holder of Shares may include an individual or entity who does not have the legal title of these Shares, but to whom nevertheless the Shares or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having an interest in the Shares or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of the disposal of the Shares.

This summary is based on tax legislation of The Netherlands, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Offer Document, and it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

Shareholders are expressly urged to consult with their own tax advisers with regard to the tax consequences of the disposal of the Shares pursuant to the Offer.

This summary does not describe the Dutch tax considerations for:

- (a) Shareholders if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest (*aanmerkelijk belang*) or are deemed to have a substantial interest (*fictief aanmerkelijk belang*) in Gemalto under the Dutch Income Tax Act (*Wet inkomstenbelasting 2001*). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company if such holder alone or, in the case of individuals, together with his/her partner (statutorily defined term), directly or indirectly, holds (i) an interest of 5% (five per cent) or more of the total issued and outstanding capital of that company or of 5% (five per cent) or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) holds rights to acquire, directly or indirectly, such interest; or (iii) holds certain profit sharing rights in that company that relate to 5% (five per cent) or more of the company's annual profits and/or to 5% (five per cent) or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis;

- (b) corporate holders of Shares, if the Shares qualify or qualified as a participation (*deelneming*) for the purposes of the Dutch Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*). Generally speaking, a shareholding is considered to qualify as a participation if it represents an interest of 5% (five per cent) or more of the nominal paid-up share capital. A holder may also have a participation if such holder does not have a shareholding of 5% or more but a related entity (statutorily defined term) has a participation or if the company in which the shares are held is a related entity (statutorily defined term);
- (c) Shareholders who are individuals for whom the Shares or any benefit derived from the Shares are a remuneration or deemed to be a remuneration for activities performed by such holders or certain individuals related to such holders, as defined in the Dutch Income Tax Act;
- (d) pension funds, and other entities that are exempt from corporate income tax in The Netherlands, in another state of the European Economic Area or any other state with which The Netherlands can exchange information in line with the international standards for the exchange of information, if such entities would not be subject to Dutch corporate income tax if these entities would have been tax resident in The Netherlands for corporate income tax purposes and these entities are not comparable to fiscal investment institutions (*fiscale beleggingsinstellingen*) or exempt investment institutions (*vrijgestelde beleggingsinstellingen*) as defined in the Dutch Corporate Income Tax Act;
- (e) persons to whom the Shares and the income from the Shares are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Dutch Income Tax Act 2001 and the Dutch Gift and Inheritance Tax Act 1956 (*Successiewet 1956*);
- (f) fiscal investment institutions and exempt investment institutions that are subject to 0% (zero per cent) corporate income tax or are exempt from corporate income tax in The Netherlands or comparable investment institutions resident in any other state and which are subject to 0% (zero per cent) corporate income tax or exempt from corporate income tax;
- (g) entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba and the Shares are attributable to such permanent establishment or permanent representative;
- (h) holders of Shares which are not considered the beneficial owner (*uiteindelijk gerechtigde*) of these Shares or the benefits derived from or realized in respect of these Shares; and

- (i) individuals to whom Shares or the income there from are attributable to employment activities which are taxed as employment income in The Netherlands.

Where this summary refers to The Netherlands, such reference is restricted to the part of the Kingdom of The Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

11.1.1 Withholding Tax

A gain realized upon the disposal of the Shares in connection with the Offer, including disposal of the Shares by means of the Buy-Out, will not be subject to any withholding or deduction for any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

11.1.2 Taxes on Income and Capital Gains in connection with the acceptance of the Offer

Netherlands Resident Individuals

If a Shareholder is an individual who is resident or deemed to be resident in The Netherlands for Dutch individual income tax purposes, any benefit derived or deemed to be derived from the Shares including any capital gains realized on the redemption or disposal of the Shares are taxable at the regular (progressive) Dutch individual income tax rates (up to a maximum rate of 51.95% in 2018) if:

- (i) the Shares are attributable to an enterprise from which the individual who is resident or deemed to be resident in The Netherlands for Dutch tax purposes derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth of such enterprise, without being an entrepreneur or a shareholder, as defined in the Dutch Income Tax Act; or
- (ii) the holder of the Shares is considered to perform activities with respect to the Shares that go beyond regular, active asset management (*normaal, actief vermogensbeheer*) or derives benefits from the Shares that are (otherwise) taxable as benefits from other activities (*resultaat uit overige werkzaamheden*).

If the above-mentioned conditions (i) and (ii) do not apply to the individual holder of Shares, such holder will be taxed annually on a deemed, variable return (with a maximum of 5.38% in 2018) of his or her net investment assets for the year (*rendementsgrondslag*) at an income tax rate of 30%. The net investment assets for the year are the fair market value of the investment assets less the allowable liabilities on 1 January of the relevant calendar year. The Shares are included as investment assets. A

tax free allowance may be available. Actual income, gains or losses in respect of the Shares are as such not subject to Netherlands income tax.

For the net investment assets on 1 January 2018, the deemed return ranges from 2.02% up to 5.38% (depending on the aggregate amount of the net investment assets on 1 January 2018). The deemed, variable return will be adjusted annually on the basis of historic market yields.

Netherlands Resident Corporate Legal Entities

If a holder of Shares is a resident of The Netherlands or deemed to be a resident of The Netherlands for Dutch corporate income tax purposes and is fully subject to Dutch corporate income tax or is only subject to Dutch corporate income tax in respect of an enterprise to which the Shares are attributable, income derived from the Shares and gains realised upon the redemption or disposal of the Shares are subject to Dutch corporate income tax at a rate of 20% with respect to taxable profits up to €200,000 and 25% with respect to taxable profits in excess of that amount (rates and brackets for 2018).

Non-residents of The Netherlands

If a holder of the Shares is neither a resident of The Netherlands nor deemed to be a resident of The Netherlands for Dutch corporate or individual income tax purposes, such person is not liable to Dutch income tax in respect of any benefit derived from the Shares, including gains realised upon the disposal of the Shares, provided that:

- (i) such holder is not an individual and (a) does not have an enterprise that is, in whole or in part, carried on through a permanent establishment or permanent representative in The Netherlands to which permanent establishment or a permanent representative the Shares are attributable, or (b) is not (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in The Netherlands and to which enterprise the Shares are attributable; and
- (ii) in the event such holder is an individual, such individual (a) does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which permanent establishment or permanent representative the Shares are attributable; or (b) does not realise income or gains with respect to the Shares that qualify as income from miscellaneous activities in The Netherlands which includes activities with respect to the Shares that exceed regular, active asset management; or (c) is not (other than by way of securities) entitled to a share in the profits of an

enterprise that is effectively managed in The Netherlands and to which enterprise the Shares are attributable.

11.1.3 Gift and inheritance tax

In general, no gift tax (*schenkbelasting*) or inheritance tax (*erfbelasting*) will be due as a result of the disposal of the Shares in connection with the Offer.

11.1.4 Value Added Tax

In general, no Dutch value added tax will arise in respect of payments in consideration for the disposal of the Shares in connection with the Offer.

11.1.5 Other Taxes and Duties

No registration tax, stamp duty, capital tax or any other similar documentary tax or duty will be payable in The Netherlands by a holder of Shares in respect of the disposal of the Shares in connection with the Offer.

11.1.6 Post-Settlement Restructurings

Following Settlement, Thales may propose (where applicable) to implement (or cause to be implemented) restructuring measures, including, but not limited to:

- (i) a Buy-Out (see Section 6.15.2 (*Buy-Out*)); and
- (ii) Other Post-Settlement Restructurings (see Section 6.16.4 (*Other Post-Settlement Restructurings*))

11.1.7 Buy-Out

For a general summary of certain material Dutch tax consequences of the disposal of the Shares by means of the Buy-Out, see Section 11.1 (*Material Dutch Tax Aspects of the Offer*).

11.1.8 Other Post-Settlement Restructurings

The Dutch tax consequences of any other possible Post-Settlement Restructurings as described in Section 6.15.4 (*Other Post-Settlement Restructurings*) above will depend on the exact manner in which the transaction is carried out, which has not yet been determined. Because the terms of such a

transaction are not yet determined, however, Shareholders should consult their own tax advisers for advice with respect to the potential tax consequences of any Post-Settlement Restructuring.

11.2 Material U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that are likely to be relevant to U.S. Shareholders (as defined below) whose Shares or ADSs are properly tendered and accepted for payment pursuant to the Offer.

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial interpretations thereof, in force as of the date hereof. Those authorities may be changed at any time, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular U.S. Shareholder’s decision to tender its Shares or ADSs in the Offer. In particular, this summary is directed only to U.S. Shareholders that hold Shares or ADSs as capital assets. This discussion does not apply to Shares or ADSs received pursuant to the exercise of employee stock options or otherwise as compensation. This discussion also does not apply to U.S. Shareholders that exercise any dissent rights that may be available to them under non-U.S. law.

In addition, this discussion does not address tax consequences to U.S. Shareholders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax exempt entities, entities that are treated as partnerships for U.S. federal income tax purposes (or partners therein), holders that own or are treated as owning 10% or more of the Shares, persons holding Shares or ADSs as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Moreover, this summary does not address state, local or foreign taxes, the U.S. federal estate and gift taxes, or the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Shareholders, or alternative minimum tax consequences of tendering Shares or ADSs. This discussion assumes that the Company is not a passive foreign investment company for the year in which Settlement takes place and has not been a passive foreign investment company at any time during the U.S. Shareholder’s holding period for the Shares or ADSs.

For purposes of this summary, a “**U.S. Shareholder**” is a beneficial owner of Shares or ADSs that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such Shares or ADSs.

U.S. Shareholders should consult their own tax advisers about the consequences of participating in the Offer, including the relevance to their particular situation of the considerations discussed below and any consequences arising under foreign, state, local or other tax laws.

ADSs

In general, a U.S. Shareholder of ADSs should be treated for U.S. federal income tax purposes as the beneficial owner of the underlying Shares that are represented by those ADSs.

Sale of the Shares

Sales Pursuant to the Offer

Sales of Shares or ADSs pursuant to the Offer by U.S. Shareholders generally will be taxable transactions for U.S. federal income tax purposes. A U.S. Shareholder selling Shares or ADSs pursuant to the Offer generally should recognise gain or loss in an amount equal to the difference between the amount of cash received and the U.S. Shareholder's adjusted tax basis in the Shares or ADSs sold at the time of sale. For this purpose, a U.S. Shareholder's adjusted tax basis in a Share or ADS generally will equal its cost of such Share or ADS in U.S. dollars. Any gain or loss so realised by a U.S. Shareholder generally will be treated as a capital gain or loss, generally will be long-term capital gain or loss if such U.S. Shareholder's holding period for the Shares or ADSs is more than one year at the time of sale and generally will be treated as U.S.-source income for foreign tax credit purposes. In the case of a Share or ADS that has been held for one year or less, such capital gains generally will be subject to tax at ordinary income tax rates. Certain limitations apply to the use of a U.S. Shareholder's capital losses.

If a U.S. Shareholder sells Shares in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate on the date of sale (or, assuming the shares are traded on an established securities market at that time, in the case of cash basis and electing accrual basis U.S. Shareholders, the settlement date). An accrual basis U.S. Shareholder that does not elect to determine the amount realized using the spot rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale and the settlement date. A U.S. Shareholder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received at the spot rate on the settlement date. Any currency gain or loss realized on the settlement date or the subsequent sale, conversion, or other disposition of the non-U.S. currency received for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, and will not be eligible for the reduced tax rate applicable to long-term capital gains. If an accrual basis U.S. Shareholder makes the election described in the first sentence of this paragraph, it

must be applied consistently from year to year and cannot be revoked without the consent of the U.S. Internal Revenue Service (the **IRS**). A U.S. Shareholder should consult its own tax advisers regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale of the Shares.

Buy-Out

The U.S. federal income tax consequences of a Buy-Out (as described in Section 6.15.2 (*Buy-Out*) above) will depend on the exact manner in which the transaction is carried out. In general, however, if a U.S. Shareholder receives cash in exchange for transferring its Shares or ADSs to Thales and/or its Affiliates in a Buy-Out, the transaction should be taxable in the same manner as described above under “*Sales Pursuant to the Offer*”.

U.S. Shareholders should consult their own tax advisers for advice with respect to the potential tax consequences of a Buy-Out.

Other Possible Post-Settlement Restructurings

The U.S. federal income tax consequences of any other possible Post-Settlement Restructurings as described in Section 6.15.3 (*Other Post-Settlement Restructurings*) and Section 6.15.4 (*Statutory Merger*) above will depend on the exact manner in which the transaction is carried out, which has not yet been determined. Because the terms of such a transaction are not yet determined, U.S. Shareholders should consult their own tax advisers for advice with respect to the potential tax consequences of any Post-Settlement Restructuring.

Backup Withholding and Information Reporting

A U.S. Shareholder that tenders its Shares or ADSs in the Offer may be subject to backup withholding on the payments that such U.S. Shareholder receives unless such U.S. Shareholder: (i) (a) comes within certain exempt categories and demonstrates this fact if required or (b) provides a correct taxpayer identification number on an IRS Form W-9 (a copy of which is available at www.irs.gov), (ii) certifies as to no loss of exemption from backup withholding and (iii) otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Shareholder will be allowed as a refund or credit against the U.S. Shareholder’s U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

A holder that is a foreign corporation or a non-resident alien individual may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

11.3 Material French Tax Aspects of the Offer

The statements relating to French tax laws set forth below are based on French tax laws and regulations, the practice of the French tax authorities, all as currently in force as of the date hereof and all subject to change, possibly with retroactive effect.

The following generally summarizes certain French tax consequences that are likely to be applied to French tax resident Shareholders participating in the Offer.

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant for French tax resident Shareholders participating in the Offer. French tax residents Shareholders should also take into account the impact of Dutch tax rules described in Section 11.1 (*Material Dutch Tax Aspects of the Offer*). In particular, French tax resident individual shareholders who holds a substantial interest in Gemalto as described in Section 11.1 (*Material Dutch Tax Aspects of the Offer*) are urged to consult with their usual tax adviser concerning the tax regime applicable to their particular situation.

Please also note that this summary does not describe the French tax consequences for (i) French tax resident individual Shareholders (x) who own the shares as business assets, (y) who conduct stock market transactions under conditions similar to those which define an activity carried out by a person conducting such operations on a professional basis or (z) who acquired their shares under an employee stock purchase plan, a company savings plan, a stock option, free share or RSU plan or any other incentive scheme or who hold their shares through a company mutual fund (*FCPE*) and (ii) Shareholders who are legal entities which hold the shares of Gemalto qualify as equity investment (*titres de participation*) or assimilated securities for the purposes of the provisions of article 219 I-a *quinquies* of the French Tax Code (**FTC**). Such Shareholders should seek professional advice from their usual tax adviser as to the tax treatment that will apply to their own situation.

This summary does not describe the French tax consequences applicable to French tax residents Shareholders that would hold directly or indirectly ADSs. Such Shareholders are urged to consult with their usual tax adviser concerning the tax regime applicable to their particular situation.

Furthermore, this outline does not describe the tax consequences attached to the allocation, holding, exercise and disposition of contingent rights that would be issued by Gemalto. The attention of Shareholders who are French tax resident individuals and who would receive contingent rights is drawn to the fact that contingent rights are not eligible to share savings plan (*plan d'épargne en actions "PEA"*) and such rights received in connection with shares held through a share savings plan would not be registered in such plan but in an ordinary account. Shareholders should consult their own tax advisers in determining the tax consequences applicable to the allocation, sale or exercise of the contingent rights and in determining the tax consequences of acquiring, holding and disposing the

new shares received upon exercise of the contingent rights.

11.3.1 Sales pursuant to the Offer

French tax resident individual shareholders holding shares as part of their private estate and (x) who do not own the shares as business assets, (y) who do not conduct stock market transactions under conditions similar to those which define an activity carried out by a person conducting such operations on a professional basis or (z) who did not acquire their shares under an employee stock purchase plan, a company savings plan, stock option, free share or RSU plan or any other incentive scheme or who do not hold their shares through a FCPE.

Standard tax regime

(i) Personal income tax

As from 1 January 2018, pursuant to Article 200 A and Article 150-0 A et seq., of the FTC net capital gains resulting from the sale of securities and assimilated rights by individuals who are French tax residents are subject to a 12.8 % flat tax without application of any rebate.

Notwithstanding the above, taxpayers will have the option to elect that such net capital gains be taken into account for the purposes of the determination of the net global income subject to the progressive income tax rate scale. The election applies on a yearly basis to all their investment income and capital gains which fall normally in the scope of the 12.8% flat tax and earned during the given year.

If such an election is filed, the net capital gains derived from the sale of shares, acquired or subscribed before 1 January 2018, is taken into account for the purposes of the determination of the net global income subject to the progressive income tax rate scale, after application of a rebate in accordance with Article 150-0 D of the FTC, which is equal to:

- 50% of their amount where the shares have been held for at least two years and less than eight years, at the date of the disposal;
- 65% of their amount where the shares have been held for at least eight years, at the date of the disposal.

Subject to exceptions, this holding period is computed as from the share subscription date or acquisition date.

No such rebate would apply to shares acquired or subscribed on or after 1 January 2018.

Shareholders recognizing capital losses or with reportable net capital losses are urged to consult their usual tax adviser to analyze the rules governing the use of such capital losses.

The sale of Gemalto's shares would trigger the termination of any tax deferral or rollover relief from which the holders of these shares could have benefited with respect to prior transactions.

Shareholders who are French tax resident individuals are invited to refer to the Dutch tax consequences of the Offer (as described in Section 11.1 (*Material Dutch Tax Aspects of the Offer – Taxes on Income and Capital gains in connection with the acceptance of the Offer*, notably paragraph *Non-residents of the Netherlands*) above and to consult with their usual tax adviser concerning the tax regime applicable to their own situation.

(ii) Social levies

Net capital gains resulting from the sale of securities are also subject to social levies, without the application of any rebate, at a total rate of 17.2%, broken down as follows:

- the general social contribution (*contribution sociale généralisée*, “CSG”), at a rate of 9.9%;
- the contribution for social debt repayment (*contribution pour le remboursement de la dette sociale*, “CRDS”), at a rate of 0.5%;
- the social levy, at a rate of 4.5%;
- an additional contribution to the social levy, at a rate of 0.3%; and
- a solidarity levy, at a rate of 2%.

If the net capital gains are subject to the 12.8% flat tax, none of the abovementioned social contributions are deductible from the taxable income. In the case where the taxpayer files an election for the taxation based on the progressive income tax rate scale, apart from the CSG, which would be deductible to the extent of 6.8% from the taxable income of the year during which it is paid, such social contributions would not be deductible from the taxable income.

(iii) Exceptional contribution on high income earners

Article 223 *sexies* of the FTC provides that taxpayers subject to personal income tax are also subject to an exceptional contribution on high income applicable when their reference income for tax purposes exceeds certain thresholds.

This contribution is calculated by applying a rate of:

- 3% for the portion of reference income which is comprised between (x) €250,001 and €500,000 for taxpayers who are single, widowed, separated, divorced or married but taxed separately (y) between €500,001 and €1,000,000 for taxpayers subject to joint taxation.
- 4% for the portion of reference income exceeding (x) €500,000 for taxpayers who are single, widowed, separated, divorced or married but taxed separately and (y) €1,000,000 for taxpayers subject to the joint taxation.

For the purposes of such rules, the reference income of a tax household, is defined in accordance with

Article 1417-IV 1 of the FTC, without application of the “*quotient*” rules defined under Article 163-0 A of the FTC. The reference income includes the net capital gains resulting from the transfer of shares realized by the relevant taxpayers, before the application of the rebate if any, in case the taxpayer files the election for the taxation at the progressive income tax rate scale, mentioned in paragraph (i) (*Personal income tax*) above.

Shares held through a share savings plan (“PEA”)

Persons holding Gemalto’s shares as part of a PEA can participate in the Offer.

Subject to certain conditions, the PEA allows (i) during the life-time of the PEA, an exemption of capital gains and subject to certain conditions, dividends and other income, generated by the investment made through the PEA from personal income tax and social levies provided, in particular, that such income and capital gains are maintained within the PEA and (ii) at the time of the closing of the PEA (if it occurs more than five years after the opening date of the PEA, including as a result of a partial withdrawal occurring after five years and before eight years) or at the time of a partial withdrawal of funds from the PEA (if such withdrawal occurs more than eight years after the opening date of the PEA), an exemption of the net gain earned since the opening of the plan.

In addition, such net gain is not taken into account for the calculation of the exceptional contribution on high incomes described above, but remains subject to social levies described in paragraph (ii) (*Social levies*) above at a rate of 17.2% for the gain realized as from 1 January 2018 (provided, however, that the effective rate of these social contributions may vary depending on the date of realization for (i) gains acquired or recorded before 1 January 2018 and (ii) gains realized within the first five years following the opening of the plan where such plan has been opened before 1 January 2018.

Specific provisions, not described in this Offer Document, are applicable in case of realization of capital losses, closing of the plan before the end of the fifth year following the opening of the PEA, or withdrawal from the PEA in the form of an annuity. The relevant persons are urged to consult their usual tax adviser.

French tax resident companies subject to corporate income tax under standard conditions and for which Gemalto’s shares do not qualify as equity investment (titres de participation) or assimilated securities for the purposes of the provisions of article 219 I-a quinquies of the FTC

Net capital gains realized upon the sale of shares in the Offer shall be included in the taxable income subject to corporate income tax (“CIT”) at the relevant applicable tax rate increased (i) by the social contribution of 3.3% (Article 235 *ter* ZC of the FTC), which is assessed on the portion of corporate income tax exceeding an amount of €763,000 per twelve-month period, (ii) for companies with revenues exceeding €1 billion subject to certain limitations, an exceptional contribution to CIT

applicable to fiscal years closed between 31 December 2017 (included) and 30 December 2018 (included) assessed at a rate of 15% on the CIT as determined before taking into account any reductions, tax credits and tax receivables of any nature (Article 1 of the Amending Finance Law for 2017 of 1 December 2017 no 2017-1640) and (iii) for companies with a turnover representing €3 billion or more, subject to certain limitations, an additional contribution to the exceptional contribution mentioned above applicable to the same fiscal years and assessed at the same rate of 15% on the CIT as determined before taking into account any reductions, tax credits and tax receivables of any nature resulting in a global exceptional surtax of 30% on CIT for companies with a turnover representing €3 billion or more.

Capital losses incurred on the sale of shares in the Offer are deductible from the taxable income of the legal entity.

Furthermore, it should be noted that the sale of Gemalto's shares in the Offer would result in the termination of any potential tax deferral or rollover relief from which the holders of these shares could have benefited with respect to prior transactions.

The applicable CIT rate will depend on the turnover of the company and the timing of the sale, as a result of the scheduled progressive reduction of the CIT rate as follows:

Companies' turnover (T)	Portion of taxable income (€)	FY opened on or after 1/1/2018	FY opened on or after 1/1/2019**
T < €7,63 M	0 to 38,120	15 %* or 28%	15 %* or 28%
	38,120 to 500,000	28 %	28 %
	> 500 000	33.1/3 %	31 %
T > €7,63 M	0 to 500,000	28 %	28 %
	> 500,000	33.1/3 %	31 %
<p>(*) <i>If the conditions set forth in Article 219, I-b of the FTC are met.</i></p> <p>(**) <i>It being specified that the progressive reduction of the CIT rate shall continue until 2022 to achieve a rate of 25%.</i></p>			

Shareholders are urged to consult with their usual tax adviser in order to determine the tax rate applicable to them in light of their personal situation.

Shareholders who are legal entities are also invited to refer to the Dutch tax consequences of the Offer (as described in Section 11.1 (*Material Dutch Tax Aspects of the Offer – Taxes on Income and Capital gains in connection with the acceptance of the Offer*, notably paragraph *Non-residents of the Netherlands*) above and to consult with their usual tax adviser concerning the tax regime applicable to their own situation.

French Financial transactions tax

Transactions on the shares of Gemalto will not fall within the scope of the French financial transactions tax set out under Article 235 *ter* ZD of the FTC.

Registration tax (droit d'enregistrement)

No French registration tax will be payable by a Shareholder upon the sale of Gemalto's shares unless the sale is recorded in a deed signed in France. In the latter case, the sale of shares is subject to a transfer tax at the proportional rate of 0.1% based on the higher of sale price or fair market value of the shares, subject to certain exceptions provided for by II of Article 726 of the FTC. Pursuant to Article 1712 of the FTC, the registration taxes that would be due if the sale were recorded in a deed signed in France will be borne by the transferee (unless otherwise agreed by the parties). However, by virtue of Articles 1705 et seq. of the FTC, all parties to the deed will be jointly and severally liable to the French tax authorities for the payment of the taxes.

11.3.2 Buy-Out

The French tax consequences of a Buy-Out (as described in Section 6.15.2 (*Buy-Out*) above) will depend on the exact manner in which the transaction is carried out. However, if a Shareholder receives cash in a Buy-Out, the transaction generally should be taxable in the same manner as described above under "*Sales Pursuant to the Offer*".

Shareholders should consult their own tax advisers for advice with respect to the potential French tax consequences of a Buy-Out.

11.3.3 Other Possible Post-Settlement Restructurings

The French tax consequences of any other possible Post-Settlement Restructurings as described in Section 6.15.3 (*Other Post-Settlement Restructurings*) and Section 6.15.4 (*Statutory Merger*) above will depend on the exact manner in which the transaction is carried out, which has not yet been determined. Because the terms of such a transaction are not yet determined, however, Shareholders should consult their own tax advisers for advice with respect to the potential tax consequences of any Post-Settlement Restructuring.

12. PRESS RELEASES

12.1 First Announcement, dated 17 December 2017

Paris La Défense, Amsterdam, 17 December 2017 – 8h00

Thales and Gemalto create a world leader in digital security

- €51 offer price, representing a premium of 57% over the closing price as of 8 December 2017
- All-cash offer unanimously recommended by Gemalto's Board of Directors and unanimously approved by Thales's Board of Directors
- Creation of a global market leader in the fast-growing digital security market, supporting the most demanding clients in their digital transformation
- Thales to combine its digital assets with Gemalto, within a new Global Business Unit

Thales (Euronext Paris: HO) and Gemalto (Euronext Amsterdam and Paris: GTO) announce today that they have reached an agreement (the "Merger Agreement") on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per share cum dividend.

Patrice Caine, Thales's Chairman and Chief Executive Officer, commented: *"The acquisition of Gemalto marks a key milestone in the implementation of Thales's strategy. Together with Gemalto's management, we have big ambitions based on a shared vision of the digital transformation of our industries and customers. Our project will be beneficial to innovation and employment, whilst respecting sovereign strategic technologies. We have a tremendous respect for Gemalto's technological achievements, and our two Groups share the same culture and DNA. I would like to personally thank Gemalto's management and Board of Directors for their unanimous support and I welcome warmly Gemalto's 15,000 employees to our Group. By combining our talents, Thales and Gemalto are creating a global leader in digital security."*

Philippe Vallée, Gemalto's Chief Executive Officer, added: *"I am convinced that the combination with Thales is the best and the most promising option for Gemalto and the most positive outcome for our Company, employees, clients, shareholders and other stakeholders. We share the same values and Gemalto will be able to pursue its strategy, accelerate its development and deliver its digital security vision, as part of Thales."*

Alex Mandl, Chairman of Gemalto's Board of Directors, stated: *"The Board of Directors, after full and careful review, together with its financial and legal advisors, of the various options available to the Company, has established unanimously that the Thales offer is in the best interests of Gemalto and all its stakeholders. As a result, the Gemalto Board of Directors unanimously recommends the Thales offer to its shareholders."*

Creation of a global digital security leader

Acceleration of Thales's digital strategy

Over the past three years, Thales has significantly increased its focus on digital technologies, investing over €1 billion in connectivity, cybersecurity, data analytics and artificial intelligence, in particular with the acquisition of Sysgo, Vormetric and Guavus. The integration of Gemalto strongly accelerates this strategy, reinforcing Thales's digital offering, across its five vertical markets (aeronautics, space, ground transportation, defence and security). Altogether, this new business unit will represent c. 20% of pro forma Group revenues and rank among the top three players worldwide, with €3.5bn revenues in the fast growing digital security market.

Unique and innovative technology portfolio in an IoT, Mobile and Cloud World

Combined with Gemalto's unique leading digital security portfolio, Thales will be ideally positioned to offer an end-to-end solution, to secure the full critical digital decision chains, from data creation in sensors to real-time decision making. This unrivalled and innovative technology portfolio will put Thales in a highly differentiated position to provide enterprises and governments with a seamless response to the data security challenges that lie at the heart of their digital transformation.

Creation of a global leader in digital security and cybersecurity

By acquiring a global leader in trusted identities and data security, Thales adds over €3bn of revenue to its digital business sales and acquires a set of technologies and competencies that have applications in all of Thales's five vertical markets. The combination creates a powerhouse with a solution portfolio including security software, expertise in biometrics and multifactor authentication and the issuance of secure digital and physical credentials. These technologies, which combine diverse and constantly evolving use cases, are expected to yield significant commercial opportunities and revenue synergies in the years ahead.

Both Thales and Gemalto are experts at addressing the needs of the most demanding clients who are facing data security challenges. These include all operators of critical infrastructures including banks, telcos, governments, utilities, and general industries. This combination will reinforce and further globalise Thales's footprint.

Capacity to address all customer digital security needs

Thales will combine its digital businesses into Gemalto, which will continue to operate under its own brand as one of the seven Thales global business units. Both the Thales and Gemalto management teams share a common industrial vision and endorse the growth project of this newly created digital security global business. Philippe Vallée will lead the combined digital security business.

R&D: the common DNA of Thales and Gemalto digital businesses

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

A combination providing enhanced opportunities to Gemalto's employees and management

Thales does not anticipate any reduction in Gemalto's workforce as a consequence of this transaction.

Employees who are included in the current Gemalto efficiency program are immediately offered access to Thales's internal job boards and to the Thales internal mobility mechanism under the same conditions as Thales's employees. Furthermore, Thales has committed to preserve employment in Gemalto's French activities until at least the end of 2019. Thales recruited 6,000 people worldwide in 2017, and will actively pursue its human capital investments in the future.

An attractive offer to Gemalto shareholders

Thales offers €51 in cash per Gemalto share cum dividend. The offer price represents a premium of:

- 57% over the closing price as of 8 December 2017¹
- 56% over the 1-month volume weighted average price¹
- 48% of the 3-month volume weighted average price¹
- Implied EV/2018E EBIT² of 17x

Significant value creation for Thales shareholders

Gemalto is well advanced in its transition from its historical markets to the fast-growing Government, Enterprise security, and Industrial IoT markets, with significant growth potential both in revenue and margin terms.

In addition, Thales estimates that the combination will generate run-rate pre-tax cost synergies of €100m to €150m by 2021, as well as meaningful revenue synergies.

The transaction will generate mid to high teens adjusted EPS accretion, pre synergies, as of the first year post closing. The acquisition's return on capital employed (including synergies) will exceed Thales's cost of capital within 3 years following the closing of the acquisition.

An offer unanimously recommended by Gemalto's Board of Directors

Consistent with its fiduciary duties, Gemalto's Board of Directors, with the support of its financial and legal advisors, has carefully reviewed and unanimously concluded that the offer is in the best interests of the Company, the sustainable success of its business and clients, employees, shareholders and other stakeholders.

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

¹ Closing 8 December 2017 share price: €32.5, 1-month VWAP of €32.6, 3-month VWAP of €34.35

² Based on 2018 IBES consensus EBIT of €326m

On 16 December 2017, Deutsche Bank and J.P. Morgan Securities plc issued fairness opinions relating to the offer to Gemalto's Board of Directors.

Fully secured transaction financing

Thales will be able to finance the offer through its available cash resources and through new debt arrangements. In connection with the offer, Thales has secured a €4.0 billion fully committed credit agreement.

Solid combined balance sheet

Following the transaction, Thales will maintain a solid investment grade rating, based on continued disciplined capital allocation.

In this context, Thales's dividend policy will remain unchanged.

Other non-financial covenants

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

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

Offer Conditions

The commencement of the offer, and if and when made, the consummation of the offer is subject to the satisfaction or waiver of conditions that are customary for transactions of this kind, including:

- a. minimum acceptance level of at least 67% of Gemalto shares;
- b. no material adverse effect having occurred and is continuing;
- c. no material breach of the Merger Agreement having occurred; and
- d. no Superior Offer having been made or agreed upon.

Thales and Gemalto may terminate the Merger Agreement if a third-party offeror makes an offer which, in the opinion of the Gemalto Board, taking into account certainty, timing, financing, strategic fit, consequences for employees and other non-financial aspects of Thales's offer, is substantially more

beneficial than Thales's offer and exceeds the offer price by 9% at least (a "Superior Offer").

In the event of a Superior Offer, Gemalto shall give Thales the opportunity to match such offer, in which case the Merger Agreement may not be terminated by Gemalto. Gemalto has agreed in the Merger Agreement to customary non-solicitation undertakings.

On termination of the Merger Agreement by Thales on account of a material breach by Gemalto or in the event of a third-party offer at a higher price, Gemalto will pay a termination fee of €60m to Thales.

In addition, taking into account the interests of Gemalto, the sustainable success of its business and clients, employees, shareholders and other stakeholders, in order to secure the benefits of the transaction, Gemalto has agreed to issue contingent rights. In the event that a competing offer at a price that is less than 109% of the offer price is declared unconditional, these contingent rights will be issued for no consideration to all Gemalto shareholders and will entitle them to receive additional Gemalto shares.

On the date such a competing offer is declared unconditional, all Gemalto shareholders will acquire contingent rights which will entitle them to receive additional shares within three months after that date. The value of all the shares issued pursuant to the contingent rights will be equal to the difference between (i) the value of an offer made at a price of 109% of the offer price and (ii) the consideration offered in the competing offer.

In the event that a competing offer exceeds 109% of the offer price, the contingent rights will be automatically cancelled.

Indicative timetable

The transaction is expected to close shortly after Thales has secured all customary regulatory approvals and clearances, which is expected for the second half of 2018. Thales's and Gemalto's works councils will be informed shortly.

Offer memorandum and general meeting of shareholders

Thales intends to submit a request for approval of its offer memorandum to the AFM within four weeks and to publish the offer memorandum shortly after approval by the AFM.

Gemalto will hold an Extraordinary General Meeting prior to the closing of the offer period to inform its shareholders about the offer and to adopt certain technical resolutions that are conditional on the consummation of the offer.

Transaction advisors

In connection with the transaction, Thales's financial advisors are Lazard, Messier Maris & Associés and Société Générale, and its legal counsel are Cleary Gottlieb Steen & Hamilton LLP and NautaDutilh N.V.

On behalf of Gemalto, Deutsche Bank and J.P. Morgan are acting as financial advisors and Allen & Overy LLP and Darrois Villey Maillot Brochier are acting as legal counsel.

Conference call

Thales and Gemalto will hold separate conference calls in English on **Monday, 18 December 2017 at 8:30 am (CET)**, in order to comment on the proposed transaction and answer questions from the financial community.

It will be also possible to follow these conference calls through a webcast. A digital replay will be available a few hours after the end of the conference calls.

The dial-in numbers and webcast links will be communicated later.

This press release may contain forward-looking statements. Such forward-looking statements represent trends or objectives, and cannot be construed as constituting forecasts regarding the Company's results or any other performance indicator. Actual results may differ significantly from the forward-looking statements due to various risks and uncertainties, as described in the Company's Registration Document, which has been filed with the French financial markets authority (*Autorité des marchés financiers* — AMF).

This is a joint press release by Thales and Gemalto, pursuant to the provisions of Section 5 Paragraph 1 and 7 paragraph 4 of the Decree on Public Takeover Bids (Besluit openbare biedingen Wft) in connection with the intended public offer by Thales for all the issued and outstanding ordinary shares in the capital of Gemalto. This announcement does not constitute an offer, or any solicitation of any offer, to buy or subscribe for any securities in Gemalto. Any offer will be made only by means of an offer memorandum.

About Thales

Thales is a global technology leader for the Aerospace, Transport, Defence & Security markets. Thanks to its 64,000 employees in 56 countries, Thales recorded sales of €14.9 billion in 2016. With over 23,000 engineers and researchers, Thales has a unique capability to design and deploy equipment, systems and services to meet the most complex security requirements. Its unique international footprint allows it to work closely with its customers all over the world.

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Gemalto is the global leader in digital security, with 2016 annual revenues of €3.1 billion and customers in over 180 countries. We bring trust to an increasingly connected world.

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

Gemalto's solutions are at the heart of modern life, from payment to enterprise security and the internet of things. We authenticate people, transactions and objects, encrypt data and create value for software – enabling our clients to deliver secure digital services for billions of individuals and things.

Our 15,000 employees operate out of 112 offices, 43 personalization and data centers, and 30 research and software development centers located in 48 countries.

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Notice to U.S. holders of Gemalto Shares

The Offer will be made for the securities of Gemalto, a public limited liability company incorporated under Dutch Law, and is subject to Dutch disclosure and procedural requirements, which are different from those of the United States of America. The Offer will be made in the United States of America in compliance with Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), and the applicable rules and regulations promulgated thereunder, including Regulation 14E (subject to any exemptions or relief therefrom, if applicable) and otherwise in accordance with the requirements of Dutch law. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to the Offer timetable, settlement procedures, withdrawal, waiver of conditions and timing of payments that are different from those applicable under U.S. domestic tender offer procedures and laws.

The receipt of cash pursuant to the Offer by a U.S. holder of Gemalto Shares may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Gemalto shares is urged to consult his independent professional advisor immediately regarding the tax consequences of accepting the Offer.

To the extent permissible under applicable laws and regulations, including Rule 14e-5 under the U.S. Exchange Act, and in accordance with normal Dutch practice, Thales and its affiliates or its broker and its broker's affiliates (acting as agents or on behalf of Thales or its affiliates, as applicable) may from time to time after the date hereof, and other than pursuant to the Offer, directly or indirectly purchase, or arrange to purchase Shares or any securities that are convertible into, exchangeable for or exercisable for such Shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. In no event will any such purchases be made for a price per Share that is greater than the Offer Price. To the extent information about such purchases or arrangements to purchase is made public in The Netherlands, such information will be disclosed by means of a press release or other means reasonably calculated to inform U.S. shareholders of Gemalto of such information. No purchases will be made outside of the Offer in the United States of America by or on behalf of the Thales or its affiliates. In addition, the financial advisors to Thales may also engage in ordinary course trading activities in securities of Gemalto, which may include purchases or arrangements to purchase such securities. To the extent required in The Netherlands, any information about such purchases will be announced by press release in accordance with Article 13 of the Decree and posted on the website of the Offeror at www.thalesgroup.com.

Restrictions

The distribution of this press release may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this document should inform themselves of and observe these restrictions. To the fullest extent permitted by applicable law, Thales and Gemalto disclaim any responsibility or liability for the violation of any such restrictions by any person. Any failure to comply with these restrictions may constitute a violation of the securities laws of that jurisdiction. Neither Thales, nor Gemalto, nor any of their advisors assumes any responsibility for any violation by any of these restrictions. Any Gemalto shareholder who is in any doubt as to his position should consult an appropriate professional advisor without delay. This announcement is not to be published or distributed in or to Australia, Canada or Japan.

Forward Looking Statements

This press release may include "forward-looking statements" and language indicating trends, such as the words "anticipate", "expect", "approximate", "believe", "could", "should", "will", "intend", "may", "potential" and other similar expressions. These forward-looking statements are only based upon currently available information and speak only as of the date of this press release. Such forward-looking statements are based upon management's current expectations and are subject to a significant business, economic and competitive risks, uncertainties and contingencies, many of which are unknown and many of which Thales and Gemalto are unable to predict or control. Such factors may cause Thales and/or Gemalto's actual results, performance or plans with respect to the transaction between Thales and Gemalto to differ materially from any future results, performance or plans expressed or implied by such forward-looking statements. Neither Thales nor Gemalto, nor any of their advisors accepts any responsibility for any financial information contained in this press release relating to the business or operations or results or financial condition of the other or their respective groups. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Additional information and where to find it

This press release does not constitute or form a part of any offer to sell or exchange or the solicitation of an offer to buy or exchange any securities. SHAREHOLDERS OF GEMALTO AND OTHER INVESTORS ARE URGED TO READ THE OFFER MEMORANDUM (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS THERETO) REGARDING THE PROPOSED TRANSACTION WHEN THEY BECOME AVAILABLE BECAUSE THIS WILL CONTAIN IMPORTANT INFORMATION. Gemalto shareholders will be able to obtain a free copy of the offer memorandum, as well as other filings containing information about Thales, without charge, at the website of Thales (www.thalesgroup.com). Copies of the offer memorandum and the filings that will be incorporated by reference therein can also be obtained, without charge, by directing a request to Thales's Investor Relations Department.

12.2 4 Weeks Announcement, dated 12 January 2018

Paris La Défense, Amsterdam, 12 January 2018

Update on the intended offer by Thales for Gemalto

Reference is made to the joint press release by Thales (Euronext Paris: HO) and Gemalto (Euronext Amsterdam and Paris: GTO) dated 17 December 2017 in respect of the intended recommended all-cash offer by Thales for all the issued and outstanding ordinary shares in the capital of Gemalto at an offer price of €51.00 per share cum dividend (the "Offer").

Pursuant to the provisions of Section 7, paragraph 1 sub a of the Decree, requiring a public announcement including a status update regarding an intended public offer within four weeks following its announcement, Thales and Gemalto hereby provide this joint update on the Offer.

Thales and Gemalto confirm that they are making good progress on the preparation for the Offer. Thales expects to submit a request for review and approval of the offer document in relation to the Offer with the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) during the week beginning 29 January 2018, which is before the applicable deadline under Dutch law.

In addition, Thales and Gemalto confirm that the process to obtain the required regulatory approvals and clearances for the Offer is proceeding. The transaction is expected to close shortly after Thales has secured all customary regulatory approvals and clearances, which is anticipated in the second half of 2018.

This is a joint press release by Thales and Gemalto pursuant to Section 7 paragraph 1 sub a of the Dutch Decree on Public Takeover Bids (Besluit openbare biedingen Wft, the "Decree") in connection with the intended public offer by Thales for all the issued and outstanding shares in the capital of Gemalto. This announcement does not constitute an offer, or any solicitation of any offer, to buy or subscribe for any securities in Gemalto. Any offer will be made only by means of an offer memorandum.

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13. NEDERLANDSE SAMENVATTING (DUTCH LANGUAGE SUMMARY)

13.1 Restricties

In dit Hoofdstuk 13 wordt een samenvatting gegeven van een aantal onderdelen van het Biedingsbericht. Deze Nederlandse samenvatting maakt deel uit van het Biedingsbericht, maar vervangt dit niet. De gedefinieerde termen in dit Hoofdstuk 13 van het Biedingsbericht hebben de betekenis die daaraan wordt gegeven in paragraaf 13.3 (*Definitions*). Deze Nederlandse samenvatting is niet volledig en bevat niet alle informatie die voor de Aandeelhouders van belang kan zijn om een afgewogen oordeel te kunnen vormen over het Bod. Het bestuderen van deze Nederlandse samenvatting mag derhalve niet worden beschouwd als een alternatief voor het bestuderen van het volledige Biedingsbericht. De Aandeelhouders wordt geadviseerd het volledige Biedingsbericht (inclusief alle documenten die daarin door middel van verwijzing (*incorporation by reference*) zijn opgenomen) zorgvuldig te bestuderen en zo nodig onafhankelijk advies in te winnen teneinde zich een afgewogen oordeel te kunnen vormen over het Bod en de beschrijving daarvan in het Biedingsbericht. In geval van verschillen tussen deze Nederlandse samenvatting en de Engelse tekst van het Biedingsbericht prevaleert de Engelse tekst van het Biedingsbericht (inclusief alle documenten die daarin door middel van verwijzing zijn opgenomen).

Het uitbrengen van het Bod, de verkrijgbaarstelling van het Biedingsbericht en deze Nederlandse samenvatting, alsmede verspreiding van andere informatie met betrekking tot het Bod, kunnen in bepaalde jurisdicties aan bepaalde restricties onderhevig zijn. Dit Bod wordt niet, direct of indirect, gedaan in enige jurisdictie waarin het doen van het Bod of het accepteren daarvan niet in overeenstemming is met de in die jurisdictie geldende wet- en regelgeving of waarvoor enige registratie, goedkeuring of neerlegging bij enige toezichthoudende instantie vereist is die niet uitdrukkelijk in dit Biedingsbericht is voorzien. Aanmeldingen onder het Bod door Aandeelhouders die niet in Nederland woonachtig zijn, zullen worden aanvaard door Thales indien zulke aanmeldingen in overeenstemming zijn met de aanmeldingsprocedures zoals omschreven in dit Biedingsbericht. Thales en diens respectievelijke bij de vennootschap betrokken ondernemingen, bestuurders, werknemers en adviseurs sluiten iedere aansprakelijkheid uit ter zake van overtredingen door enig persoon van (enige restricties uit) enige wet- en regelgeving met betrekking tot de acceptatie van het Bod door Aandeelhouders die niet in Nederland woonachtig zijn. De Aandeelhouders dienen zo nodig onverwijld onafhankelijk advies in te winnen over hun positie. Voor de restricties van het Bod wordt tevens verwezen naar Hoofdstuk 2 (*Restrictions*) en Hoofdstuk 3 (*Important Information*) van het Biedingsbericht. Ieder persoon (inclusief maar niet beperkt tot bewaarders, gevolmachtigden en beheerders) die dit Biedingsbericht of enig verwant document naar enige jurisdictie buiten Nederland wenst door te zenden of van plan zou zijn dit te doen dient zorgvuldig Hoofdstuk 2 (*Restrictions*) en Hoofdstuk 3 (*Important Information*) te lezen voordat enige

actie wordt ondernomen. Het verspreiden van dit Biedingsbericht in jurisdicties buiten Nederland kan wettelijk verboden zijn en personen die de beschikking krijgen over dit Biedingsbericht dienen zichzelf te informeren over, en te voldoen aan, dergelijke beperkingen. Het niet voldoen aan dergelijke restricties kan een overtreding van de effectenwet- en regelgeving van de betreffende jurisdictie opleveren.

13.2 Belangrijke informatie

De informatie opgenomen in Hoofdstuk 1 tot en met Hoofdstuk 6 (met uitzondering van Hoofdstukken 6.7, 6.8, 6.9 en 6.10), 9, 10 (paragraaf (ii), (iii), (v), (vii) en (ix)), 11, 13 en 16 van het Biedingsbericht is enkel verstrekt door Thales. De informatie opgenomen in Hoofdstukken 6.7, 6.9, 7, 8, 10 (paragrafen (iv), (vi), (viii) en (x)) en Hoofdstuk 15 van dit Biedingsbericht is enkel verstrekt door Gemalto. De informatie opgenomen in pagina 1 tot en met 4, Hoofdstuk 6.8, 6.10, 10 (inleiding en paragraaf (i)), 12 en 14 van dit Biedingsbericht is verstrekt door Thales en Gemalto gezamenlijk.

Thales is exclusief verantwoordelijk voor de juistheid en volledigheid van de informatie die is opgenomen in dit Biedingsbericht en enkel door Thales is verstrekt. Gemalto is exclusief verantwoordelijk voor de juistheid en volledigheid van de informatie die is opgenomen in dit Biedingsbericht en enkel door Gemalto is verstrekt. Thales en Gemalto zijn gezamenlijk verantwoordelijk voor de juistheid en volledigheid van de informatie die is opgenomen in dit Biedingsbericht en is verstrekt door Thales en Gemalto gezamenlijk.

De controleverklaring opgenomen in Hoofdstuk 15.7 en de controleverklaring opgenomen in Hoofdstuk 15.8 zijn aangeleverd door KPMG aan Gemalto en de controleverklaring opgenomen in Hoofdstuk 15.6 is aangeleverd door PricewaterhouseCoopers aan Gemalto. Geen andere persoon dan Thales en Gemalto, en zonder enige afbreuk te doen aan de controleverklaringen afgegeven door KPMG respectievelijk PricewaterhouseCoopers als opgenomen in dit Biedingsbericht en de Fairness Opinions afgegeven door Deutsche Bank AG, Paris Branch en J.P. Morgan Securities Plc aan het Bestuur van Gemalto (waarvan de volledige tekst, inclusief de aannames, de gevolgde procedures, de in acht genomen zaken en de beperkingen op de review die is gedaan in verband met elke Fairness Opinie, is opgenomen in de Standpuntbepaling), heeft toestemming om enige informatie te verstrekken of enige mededeling te doen namens Thales of Gemalto in verband met het Bod of de informatie opgenomen in dit Biedingsbericht. Indien dergelijke informatie is verstrekt of mededeling is gedaan door andere partijen dan Thales of Gemalto, dient er niet te worden afgegaan op zulke informatie of mededelingen als ware die zouden zijn afgegeven door of namens Thales of Gemalto.

Thales en Gemalto verklaren elk dat de informatie in dit Biedingsbericht waarvoor zij verantwoordelijk zijn, voor zover hen redelijkerwijs bekend kan zijn, na het treffen van alle redelijke

maatregelen om ervoor zorg te dragen dat zulks het geval is, in overeenstemming is met de werkelijkheid en dat geen gegevens zijn weggelaten waarvan vermelding de strekking van het Biedingsbericht zou wijzigen. Bepaalde financiële en statistische informatie in dit Biedingsbericht kan naar boven of beneden afgerond zijn en kan derhalve niet als accuraat worden aangemerkt.

De informatie uiteengezet in dit Biedingsbericht geeft de situatie weer ten tijde van de datum van dit Biedingsbericht, tenzij anders vermeld. De uitgave en verspreiding van dit Biedingsbericht impliceert geenszins dat de hierin opgenomen informatie juist en compleet zal blijven na de datum van uitgave van het Biedingsbericht. Het voorgaande is niet van invloed op de verplichtingen van Thales en Gemalto om een openbare mededeling te doen uit hoofde van de MAR of artikel 4 lid 1 en lid 3 van het Bob, of indien vereist uit hoofde van enig ander Toepasselijke Wet- en regelgeving.

Dit Biedingsbericht bevat de informatie inzake het Bod zoals vereist uit hoofde van artikel 5:76 Wft en artikel 8 Bob en is goedgekeurd door de AFM. De Standpuntbepaling van het Bestuur ingevolge artikel 18 Bob kan beschikbaar gesteld worden of verstuurd worden aan Aandeelhouders in hetzelfde pakket als dit Biedingsbericht, maar vormt geen onderdeel van dit Biedingsbericht, zoals beschreven in het Bob en is niet onderworpen aan voorafgaande beoordeling door - en goedkeuring van de AFM.

13.3 Definities

Aanbeveling	de aanbeveling van het Bestuur met betrekking tot het Bod en de Transacties zoals weergegeven in Hoofdstuk 6.7 (<i>Decision making and Recommendation by the Board of Directors of Gemalto</i>).
Aandeelhouder(s)	houder(s) van één of meer Aandelen
Aandelen	Gewone Aandelen en ADSs
Aangesloten Instellingen	instellingen aangesloten bij Euronext Amsterdam en Euronext Parijs
Aanmeldingstermijn	de periode, gedurende welke de Aandeelhouders hun Aandelen bij Thales kunnen aanmelden, beginnend om 9:00 uur CET, 3:00 am New York tijd op 28 maart 2018 en eindigend op het Uiterste Tijdstip van Aanmelding

Acceptatie Voorwaarde	heeft de betekenis die daaraan is gegeven in Hoofdstuk 13.9.1
ADS	American depositary share, waarbij twee ADSs één Gewoon Aandeel vertegenwoordigen
ADS Betaal- en Wisselkantoor	American Stock Transfer & trust Co., LLC
ADS Biedprijs	heeft de betekenis die daaraan is gegeven op pagina 146 van dit Biedingsbericht
AFM	Stichting Autoriteit Financiële Markten
Bestuur van Gemalto	De raad van bestuur van Gemalto
Betaal- en Wisselkantoor	ING Bank N.V.
Biedingsbericht	dit biedingsbericht dat de voorwaarden en beperkingen beschrijft die van toepassing zijn op het Bod, waarvan de Standpuntbepaling geen deel uitmaakt
Biedprijs	heeft de betekenis die daaraan is gegeven op pagina 145 van dit Biedingsbericht
Bob	Besluit openbare biedingen Wft
Bod	het bod dat door Thales is gedaan om alle uitstaande Aandelen te kopen onder de voorwaarden uiteengezet in dit Biedingsbericht
BW	het Burgerlijk Wetboek
CET	Central European Time, of, indien van toepassing Central European Summer Time
CFIUS Goedkeuring	na vrijwillige notificatie van het Bod (en de overige transacties voorzien in de Fusieovereenkomst) aan de <i>Committee on Foreign Investments in the United States</i>

(CFIUS), dat CFIUS het Bod en de overige transacties voorzien in de Fusieovereenkomst heeft beoordeeld en onderzocht overeenkomstig Artikel 721 van Titel VII van de *United States Defense Production Act* van 1950 (de **Exon-Florio Amendment**) en (a) partijen schriftelijke bevestiging hebben ontvangen van CFIUS over de voltooiing van de beoordeling, en indien van toepassing, het onderzoek; (b) (1) CFIUS schriftelijk heeft vastgesteld dat het Bod en de overige transacties voorzien in de Fusieovereenkomst niet een “*covered transaction*” zijn in de zin van de Exon-Florio Amendment, (2) CFIUS schriftelijk heeft vastgesteld dat er geen niet-geadresseerde zorgen van nationale veiligheid ten aanzien van het Bod en de overige transacties voorzien in de Fusieovereenkomst bestaan, of (3) (A) de toepasselijke periode voor een beoordeling onder de Exon-Florio Amendment is verstreken en de President van de Verenigde Staten van Amerika geen actie heeft ondernomen om voltooiing van het Bod of overige transacties voorzien in de Fusieovereenkomst te blokkeren of voorkomen, of (B) de President van de Verenigde Staten van Amerika schriftelijk heeft bevestigd dergelijke actie niet te zullen ondernemen; en (c) als gevolg van een dergelijke beoordeling of een dergelijk onderzoek geen vereisten of voorwaarden zijn opgelegd of overeengekomen om zorgen van nationale veiligheid te mitigeren, anders dan vereisten en voorwaarden die, individueel of tezamen, begrepen zijn onder het “uiterste best doen” voor de toepassing van Hoofdstuk 13.9.1B (*Toezichtrechtelijke Goedkeuringen*)

Combinatie

de combinatie van Gemalto en Thales

Dag van Gestanddoening

de datum waarop Thales publiekelijk aankondigt of het Bod gestand wordt gedaan; zijnde niet later dan de 3de (derde) Nederlandse Werkdag na de Uiterste Dag van Aanmelding

EU Mededingingsrechtelijke

dat de door de Fusieovereenkomst voorziene transactie door de Europese Commissie verenigbaar is verklaard met de

Goedkeuring	gemeenschappelijke markt, op grond van artikel 6(1)(a), 6(1)(b) or 6(2) van de EG Verordening betreffende controle op concentraties van ondernemingen, nr. 139/2004 (de EG Concentratieverordening), of op grond van artikel 8(1) of 8(2) van de EG Concentratieverordening, of geacht wordt verenigbaar met de gemeenschappelijke markt te zijn op grond van artikel 10(6) van de EG Concentratieverordening, waardoor het Thales is toegestaan de Aandelen die zijn aangemeld onder het Bod te verkrijgen, en daarop het stemrecht uit te oefenen na de Overdracht
EUR, euro of €	euro, het wettig betaalmiddel van de Europese Monetaire Unie
Euronext Amsterdam	de effectenbeurs van de gereguleerde markt van Euronext Amsterdam, Nederland
Euronext Parijs	de effectenbeurs van de gereguleerde markt van Euronext Parijs, Frankrijk
Fairness Opinie(s)	heeft de betekenis die aan "Fairness Opinion" is gegeven in Hoofdstuk 6.7 (<i>Decision making and Recommendation by the Board of Directors of Gemalto</i>)
FIRB Goedkeuring	na de notificatie van het Bod (en de overige transacties die zijn voorzien in de Fusieovereenkomst) (de Actie) aan de <i>Treasurer</i> in overeenstemming met de <i>Foreign Acquisitions and Takeovers Act 1975 (Cth)</i> (FATA) in Australië, dat één van de volgende gebeurtenissen zich voordoet: (i) de tiende dag na het einde van de beslistermijn genoemd in artikel 77 van de FATA verstrijkt zonder dat de Actie is verboden op grond van artikel 67 of 68 van de FATA; (ii) indien een tussentijdse maatregel is genomen op grond van artikel 68 van de FATA, het verstrijken van de in die maatregel genoemde periode zonder dat de Actie is verboden op grond van artikel 67; of (iii) Thales ontvangt een verklaring van geen bezwaar zoals bedoeld in de FATA ten aanzien van de Actie

FSIL Goedkeuring

na de vereiste notificatie van het Bod (en de overige transacties die zijn voorzien in de Fusieovereenkomst) aan de Federale Antimonopolie Dienst van Rusland (de **FAS**), dat de FAS (als het orgaan dat de notificatie verwerkt) en de Overheidscommissie voor Buitenlandse Investerings in de Russische Federatie (als het orgaan dat het besluit op de notificatie neemt) (de **Commissie**) het Bod en de overige transacties die zijn voorzien in de Fusieovereenkomst hebben beoordeeld overeenkomstig Russische Federale Wet No. 57-FZ “Op de Procedure van het maken van Buitenlandse Investerings in Bedrijven van Strategisch Belang voor Nationale Defensie en Staatsveiligheid” van 29 april 2008 (de **FSIL**) en (1) de Commissie schriftelijke goedkeuring heeft verleend ten aanzien van het Bod (de overige transacties die zijn voorzien in de Fusieovereenkomst) inhoudende dat deze niet leidt tot zorgen van nationale defensie en staatsveiligheid, of (2) de Commissie schriftelijke goedkeuring heeft verleend ten aanzien van het Bod (de overige transacties die zijn voorzien in de Fusieovereenkomst) onder zekere voorwaarden ten aanzien van nationale defensie en staatsveiligheid in een separate overeenkomst met de aanvrager

Fusieovereenkomst

de fusieovereenkomst tussen Thales en Gemalto van 17 december 2017 ten aanzien van het Bod

Fusieregels

alle toepasselijke regelgeving ten aanzien van de transacties, inclusief, maar niet beperkt tot de toepasselijke artikelen van en alle nadere regelgeving en beleidsregels afgekondigd onder de Wft, het Bob, het Vrijstellingsbesluit overnamebiedingen Wft, het SER-Besluit Fusiegedragsregels 2000, de Wet op de Europese ondernemingsraden, de beleidsregels, interpretaties en aanwijzingen van de AFM, de regelgeving en beleidsregels van Euronext Amsterdam, Euronext Parijs, en, voor zover van toepassing, het BW, de U.S. Securities Exchange Act van 1934, zoals gewijzigd en alle regelgeving en beleidsregels afgekondigd daaronder (uitgezonderd van uitzonderingen of vrijstellingen daarvan, indien van toepassing), de relevante

wet- en regelgeving op het gebied van financieel toezicht en werknemersconsultatie in andere toepasselijke jurisdicties en de relevante Toepasselijke Wet- en Regelgeving ten aanzien van het Bod

Gelieerde Ondernemingen

iedere vennootschap, coöperatie of andere onderneming of juridische entiteit of persoon die direct of indirect controle heeft over of gecontroleerd wordt door Thales of Gemalto respectievelijk, inclusief elk van zijn dochterondernemingen en groepsentiteiten zoals bedoeld in respectievelijk artikel 2:24a en 2:24b van het Burgerlijk Wetboek

Gemalto AVA

heeft de betekenis die aan "Gemalto AGM" is gegeven in Hoofdstuk 7.1 (*Gemalto AGM convocation*)

Gemalto Besluiten

heeft de betekenis die aan "Gemalto Resolutions" is gegeven in Hoofdstuk 7.2 (*Gemalto Resolutions*)

Gewone Aandelen

alle geplaatste en uitstaande gewone aandelen in het kapitaal van Gemalto, elk met een nominale waarde van EUR 1,00 (één euro)

Investment Canada Goedkeuring

na indiening van een notificatie van het bod onder Deel II van de *Investment Canada Act* (de **ICA**), dat de Canadese overheid geen stappen heeft ondernomen onder Deel IV.1 van de ICA binnen de bepaalde periode, of als een notificatie onder artikel 25.2 van de ICA is gegeven of een besluit tot beoordeling onder artikel 25.3 van de ICA is genomen, dat de verbodsperiode voor implementatie van het Bod is geëindigd zonder dat er vereisten zijn gesteld op opgelegd aan partijen dan wel dat deze periode is geacht te zijn beëindigd op basis van vereiste bepalingen, voorwaarden of inspanningen gericht op het beschermen van de nationale veiligheid van Canada

Materieel Nadelig Effect

heeft de betekenis die aan "Material Adverse Effect" is gegeven in Hoofdstuk 4 (*Definitions*)

Mededingingsrechtelijke

EU Mededingingsrechtelijke Goedkeuring en de Overige

Goedkeuringen	Mededingingsrechtelijke Goedkeuringen
Na-aanmeldingstermijn	heeft de betekenis die daaraan is gegeven in Hoofdstuk 5.7 (<i>Post-Closing Acceptance Period</i>)
Overdracht	de afwikkeling van het Bod, inhoudende de levering van de Aandelen tegen betaling van de Biedprijs door Thales aan de Aandeelhouders die op geldige wijze hun Aandelen hebben aangemeld (of op ongeldige wijze, indien Thales zulke Aandelen desalniettemin aanvaardt) en geleverd onder het Bod en niet op een geldige wijze zijn ingetrokken
Overige Mededingingsrechtelijke Goedkeuringen	dat één van de volgende gebeurtenissen zich heeft voorgedaan ten aanzien van Australië, China, Israël, Mexico, Nieuw Zeeland, Rusland, Zuid Afrika, Turkije, en de Verenigde Staten van Amerika: (i) de bevoegde mededingingsrechtelijke autoriteit heeft een besluit genomen met betrekking tot de transactie voorzien in de Fusieovereenkomst op grond waarvan de voorgenomen concentratie is goedgekeurd, of waarin bevestigd wordt dat geen goedkeuring is vereist, of (ii) het verstrijken of beëindigen van alle toepasselijke wachtperiodes en andere periodes (inclusief verlengingen) onder elke toepasselijke wet of regeling met betrekking tot de transactie voorzien in de Fusieovereenkomst voor zover dat, bij het verstrijken of beëindigen van de betreffende periode de transactie voorzien in de Fusieovereenkomst van rechtswege en met onmiddellijke ingang geacht wordt goedgekeurd te zijn
Overige Toezichtrechtelijke Goedkeuringen	CFIUS Goedkeuring, FIRB Goedkeuring, FSIL Goedkeuring en Investment Canada Goedkeuring
Peildatum	8 december 2017, de laatste handelsdag vóór de aankondiging van het bod van Atos
Post-Settlement Herstructurering	elk(e) transactie, herstructurering, procedure of proces welk(e) geïmplementeerd zal worden om zo snel als praktisch uitvoerbaar na Overdracht mogelijk te maken dat (i) de

	notering van Gemalto beëindigd zal worden en (ii) Thales alle Aandelen en of de gehele Gemalto onderneming verwerft, inclusief, maar niet beperkt tot een uitkoop of een juridische fusie
Standpuntbepaling	de standpuntbepaling van Gemalto ingevolge artikel 18 van het Bob, waarin onder andere de Aanbeveling is opgenomen
Superieur Bod	heeft de betekenis die aan "Superior Offer" is gegeven in Hoofdstuk 6.24 (<i>Potential Superior Offer</i>)
Toepasselijke Wet - en regelgeving	heeft de betekenis die aan "Applicable Laws" is gegeven in Hoofdstuk 4 (<i>Definitions</i>)
Toezichtrechtelijke Goedkeuringen	Mededingingsrechtelijke Goedkeuringen en Overige Toezichtrechtelijke Goedkeuringen
Uiterste Dag van Aanmelding	de datum waarop het Bod vervalt, te weten op 6 juni 2018 of, indien van toepassing, verlengd overeenkomstig artikel 15 lid 2 van het Bob of, indien van toepassing, verder verlengd nadat Thales ontheffing heeft gekregen van de AFM voor een verdere verlenging in overeenstemming met artikel 5:81 lid 3 Wft en de bepalingen van dit Biedingsbericht
Uiterste Tijdstip van Aanmelding	het tijdstip waarop het Bod vervalt, te weten om 9:00 uur CET, 3:00 am New York tijd op de Uiterste Dag van Aanmelding
Uitkoopprocedure	de wettelijke uitkoopprocedure in overeenstemming met artikel 2:92a, artikel 2:201a of artikel 2:359c BW
USD	U.S. dollars, de wettelijke betaaleenheid van de Verenigde Staten van Amerika
Voorwaarde(n)	de voorwaarde(n) om het Bod gestand te doen als nader beschreven in Hoofdstuk 13.9 (Voorwaarden, afstand en vervulling)

Werkdag(en)	(een) dag, anders dan een zaterdag of zondag, waarop de banken en Euronext Amsterdam normaal gesproken open zijn in Nederland, behalve (i) waar er specifiek wordt verwezen naar een "Nederlandse Werkdag", in welk geval het betekent een dag (anders dan een zaterdag of zondag) waarop banken in Nederland normaal gesproken open zijn volgens de collectieve arbeidsovereenkomst voor banken (de CAO Banken), of (ii) waar er specifiek wordt verwezen naar een U.S. Werkdag, in welk geval het betekent een dag (anders dan een zaterdag of een zondag) waarop banken en de NYSE normaal gesproken open zijn
Wft	Wet op het financieel toezicht

13.4 Het Bod en uitnodiging aan Aandeelhouders

Thales brengt hierbij een aanbevolen openbaar bod in contanten uit om alle geplaatste en uitstaande Aandelen te verwerven onder de voorwaarden en conform de restricties zoals beschreven in dit Biedingsbericht. Aandeelhouders wordt geadviseerd om dit Biedingsbericht (inclusief alle documenten die zijn opgenomen door middel van verwijzing) grondig en compleet door te lezen en indien van toepassing onafhankelijk advies in te winnen om zo tot een evenwichtig oordeel te komen ten aanzien van het Bod en de inhoud van dit Biedingsbericht. Aandeelhouders die overwegen hun Aandelen niet aan te melden, worden geadviseerd in het bijzonder Hoofdstuk 13.13 (*Gevolgen van het Bod met betrekking tot liquiditeit en beëindiging beursnotering*) en Hoofdstuk 13.14 (*Mogelijke Herstructureringsmaatregelen na Overdacht*) door te nemen.

De Aandeelhouders worden hierbij uitgenodigd om hun Aandelen onder het Bod aan te melden op de wijze, onder de voorwaarden, conform de bepalingen en onder de restricties zoals beschreven in dit Biedingsbericht.

13.5 Biedprijs

Onder de voorwaarde dat het Bod gestand zal worden gedaan en met inachtneming van de voorwaarden die zijn opgenomen in het Biedingsbericht, zullen Aandeelhouders die hun Gewone Aandelen aanmelden onder het Bod een bedrag in contanten van EUR 51,00 (eenenvijftig euro) per Gewoon Aandeel ontvangen (de **Biedprijs**) en Aandeelhouders die hun ADSs aanmelden onder het Bod een bedrag gelijk aan het equivalent van de helft van de Biedprijs, of EUR 25,50 (vijfentwintig

euro en vijftig cent) (de **ADS Biedprijs**), in USD ontvangen, zonder betaling van rente en onder aftrek van enige toepasselijke (bron)belasting, welke zal worden berekend door gebruik te maken van de wisselkoers van de USD tegen de euro zoals gepubliceerd op Bloomberg om 12:00 uur New York tijd op de dag onmiddellijk voorafgaand aan de datum waarop American Stock Transfer & trust Co., LLC (het **ADS Betaal- en Wisselkantoor**) de middelen ontvangt om te betalen voor de aangemelde ADSs bij de totstandbrenging van het Bod voor elk Aandeel dat op juiste wijze is aangemeld (of op onjuiste wijze, indien Thales de Aanmelding desalniettemin aanvaardt) en geleverd.

De Biedprijs is inclusief dividenden en uitkeringen. In het geval van een uitkering, indien de registratiedatum plaatsvindt voor de dag van Overdracht, zal (i) de Biedprijs dientengevolge verminderd worden met een bedrag gelijk aan het bedrag dat is uitgekeerd per Gewoon Aandeel en (ii) de ADS Biedprijs worden verminderd met een bedrag gelijk aan 50% van het bedrag van een dergelijke uitkering toe te rekenen aan elk Gewone Aandeel met uitkeringen geconverteerd in het equivalent in USD volgens de toepasselijke wisselkoers. Verwezen wordt naar Hoofdstuk 5.2 (*Offer Price and ADS Offer Price*) en Hoofdstuk 5.9 (*Dividends*).

De Biedprijs vertegenwoordigt:

- een premie van 57% ten opzichte van de slotkoers van de Aandelen op de Peildatum;
- een premie van 56% ten opzichte van de 1 (één) maandelijkse naar volume gewogen gemiddelde koers;
- een premie van 48% ten opzichte van de 3 (drie) maandelijkse naar volume gewogen gemiddelde koers;
- een premie van 29% ten opzichte van de 6 (zes) maandelijkse naar volume gewogen gemiddelde koers;
- een premie van 14% ten opzichte van de 12 (twaalf) maandelijkse naar volume gewogen gemiddelde koers;
- een premie van 31% van het gemiddelde van geselecteerde prijzen voor de Gewone Aandelen opgesteld naar aanleiding van Gemalto's Q3 2017 inkomsten door 17 onderzoeksanalisten die Gemalto's ontwikkelingen volgen en regelmatig onderzoeksrapporten over Gemalto naar buiten brengen (gemiddelde van EUR 39,00).

13.6 Rationale van het Bod

Door het combineren van de ondernemingen van Gemalto en Thales zal er een toonaangevende

wereldwijde speler ontstaan op het gebied van digitale beveiliging. Daarnaast zal de Combinatie leiden tot een versnelling van Thales' digitale strategie.

De Combinatie kan aan klanten een uniek en innovatief technologisch portfolio voor digitale beveiliging bieden in de huidige "*internet-of-things*", mobiele en cloud wereld en heeft (daarmee) de capaciteit om alle behoeftes van klanten op het gebied van digitale beveiliging te adresseren. Tot slot - Research & Development (R&D) behoort tot de huidige kernactiviteiten van zowel Thales als Gemalto. Dit zal in de Combinatie - met 28.000 ingenieurs, 3.000 onderzoekers en een jaarlijks budget voor R&D van EUR 1 miljard - ook een kernactiviteit blijven. Zie tevens Hoofdstuk 6.4 (*Rationale for the Offer*).

13.7 Toezeggingen door bestuurders van Gemalto

Zoals in meer detail beschreven in Hoofdstuk 6.9 (*Shareholdings of the members of the Board of Directors of Gemalto*), houdt dhr. Mandl 10.000 Aandelen via een door hem gecontroleerde entiteit, dhr. Vallée 153.300 Aandelen, dhr. Piou 443.499 Aandelen en houdt mevr. Akbari 4.500 ADSs via een door haar gecontroleerde entiteit, welke tezamen ongeveer 0,7% van het geplaatste kapitaal van Gemalto vertegenwoordigen. Dhr. Mandl, dhr. Vallée, dhr. Piou en mevr. Akbari hebben ieder onherroepelijk toegezegd de door hen gehouden Aandelen respectievelijke ADSs samen met enige andere Aandelen en/of ADSs die zij verkregen hebben in de periode tot en met de Dag van Gestanddoening (behoudens de in Hoofdstuk 8.9 (*Incentive Plans*) in meer detail beschreven liquiditeitsarrangementen welke Thales mogelijk met hen zal aangaan), aan te bieden onder het Bod op dezelfde voorwaarden als de andere Aandeelhouders, en om te stemmen voor de Gemalto Besluiten. Elke onherroepelijke toezegging bevat gebruikelijke bepalingen, waaronder de bepaling dat de onherroepelijke toezegging zal eindigen als het Gemalto Bestuur haar Aanbeveling intrekt of beëindigd in overeenstemming met de bepalingen van de Fusieovereenkomst of indien de Fusieovereenkomst wordt beëindigd overeenkomstig artikel 13 van die overeenkomst.

Dhr. Mandl, dhr. Vallée, dhr. Piou en mevr. Akbari hebben geen informatie die relevant is voor een aandeelhouder ontvangen van Thales of Gemalto ten aanzien van het Bod welke niet in het Biedingsbericht is opgenomen.

13.8 Financiering van het Bod

Onder verwijzing naar Artikel 7 lid 4 van het Bob, heeft Thales op 17 december 2017 aangekondigd over voldoende middelen te beschikken om het Bod te financieren. De Biedprijs zal door Thales worden gefinancierd uit haar beschikbare middelen, inclusief reeds bestaande kredietfaciliteiten. Daarnaast is Thales onder de gebruikelijke voorwaarden een kredietovereenkomst aangegaan met

gerenommeerde financiële instellingen voor een bedrag van oorspronkelijk EUR 4 miljard welke op 17 januari 2018 is verlaagd naar EUR 3 miljard, met het oog op (i) de succesvolle herfinanciering van door Thales uitgegeven obligaties ten bedrage EUR 500 miljoen die op 20 maart 2018 afgelost hadden moeten worden, (ii) het feit dat niet langer verwacht wordt dat de door Gemalto uitgegeven obligaties met aflossingstermijn 23 september 2021 geherfinancierd worden, en (iii) de door Thales gehouden contanten per jaareinde. Verwezen wordt naar Hoofdstuk 12 (*Press releases*).

13.9 Voorwaarden, afstand en vervulling

13.9.1 Voorwaarden

Onverminderd de andere bepalingen met betrekking tot het Bod, is de verplichting van Thales om het Bod gestand te doen afhankelijk van of wordt voldaan aan de volgende Voorwaarden of, voor zover van toepassing, daarvan (geheel of gedeeltelijk en te allen tijde) afstand is gedaan:

- A. dat op de, al dan niet verlengde, Uiterste Dag van Aanmelding een zodanig aantal Aandelen ter aanvaarding wordt aangemeld dat dit, tezamen met (i) de Aandelen die rechtstreeks of indirect door Thales of door aan Thales Gelieerde Ondernemingen op de Uiterste Dag van Aanmelding worden gehouden, (ii) de Aandelen die (onherroepelijk) zijn toegezegd aan Thales of aan een van haar groepsmaatschappijen en (iii) de Aandelen waartoe Thales gerechtigd is (gekocht, maar nog niet geleverd), ten minste de Acceptatie Voorwaarde vertegenwoordigen;

waarbij **Acceptatie Voorwaarde** 67% (zevenenzestig procent) van Gemalto's geplaatst en uitstaand gewoon kapitaal op basis van volledige verwatering op de Uiterste Dag van Aanmelding is, onder voorbehoud van het recht van Thales om de Acceptatie Voorwaarde te verlagen naar 50% (vijftig procent) plus één Gewoon Aandeel zoals beschreven in Hoofdstuk; 13.9.2 (*Afstand*).

- B. dat de Toezichtrechtelijke Goedkeuringen zijn verkregen;
- C. dat zich geen Materieel Negatief Effect heeft voorgedaan welke voortduurt op de Uiterste Dag van Aanmelding;
- D. dat Gemalto geen inbreuk heeft gemaakt op enige bepaling uit de Fusieovereenkomst, voor zover deze inbreuk naar verwachting (i) redelijkerwijs een Materieel Negatief Effect heeft of kan hebben op Thales, Gemalto of het Bod en (ii) ofwel niet kan worden hersteld binnen tien (10) Werkdagen na ontvangst door Gemalto van een schriftelijke aanmaning van Thales ofwel niet is hersteld binnen 10 (tien) Werkdagen na ontvangst door Gemalto van een schriftelijke

aanmaning van Thales;

- E. dat Thales geen inbreuk heeft gemaakt op enige bepaling uit de Fusieovereenkomst (inclusief een inbreuk op de garanties van Thales onder de Fusieovereenkomst), voor zover deze inbreuk naar verwachting (i) redelijkerwijs een Materieel Negatief Effect heeft of kan hebben op Gemalto, Thales of het Bod en (ii) ofwel niet kan worden hersteld binnen tien (10) Werkdagen na ontvangst door Thales van een schriftelijke aanmaning van Gemalto of niet is hersteld binnen 10 (tien) Werkdagen na ontvangst door Thales van een schriftelijke aanmaning van Gemalto;
- F. dat de Aanbeveling van het Bestuur van Gemalto niet is ingetrokken, aangepast, gewijzigd of gekwalificeerd is anders dan als toegestaan onder de Fusieovereenkomst;
- G. dat geen Superieur Bod op Gemalto ofwel (i) is overeengekomen tussen een derde partij en Gemalto, ofwel (ii) is uitgebracht;
- H. dat geen derde partij die niet aan Thales is gelieerd (i) verplicht is een verplicht bod te uit te brengen en dit heeft aangekondigd in overeenstemming met artikel 5 lid 3 Bob, of (ii) een verplicht bod heeft uitgebracht op grond van artikel 5:70 Wft voor alle Aandelen tegen een prijs per Gewoon Aandeel die minstens gelijk is aan de Biedprijs;
- I. (i) dat geen vonnis of beschikking is uitgesproken en geen maatregel of onderzoek is bevolen, en van kracht is, door enige rechtbank, arbitraal college, regering, overheidsinstantie of andere toezichthoudende of administratieve instantie, of (ii) enig statuut, regel, wetgeving, overheidsaanwijzing of maatregel van toepassing is verklaard op het Bod, anders dan als resultaat van Thales' eigen voorwaarde, handelingen of nalaten welke onder (i) en (ii) (al dan niet zonder voorafgaande goedkeuring van een bevoegde autoriteit) het afronden van het Bod op enige wezenlijke wijze verbiedt;
- J. dat geen mededeling is ontvangen van de AFM, waarin wordt gesteld dat het Bod is gedaan in strijd met hoofdstuk 5.5 van de Wft en dat, ingevolge artikel 5:80 lid 2 van de Wft, betrokken beleggingsondernemingen niet zouden mogen meewerken aan de uitvoering en voltooiing van het Bod; en
- K. dat op of voorafgaand aan de Dag van Gestanddoening, de handel in de Aandelen op Euronext Amsterdam of Euronext Parijs niet is opgeschort of beëindigd als gevolg van een noteringsmaatregel genomen door Euronext Amsterdam of Euronext Parijs overeenkomstig artikel 6901/2 of enige andere relevante bepaling van het Euronext Rulebook I (Geharmoniseerde Regels).

13.9.2 Afstand

Voorwaarden ten behoeve van Thales

De Voorwaarden uiteengezet in sub clausules A, B, C, D, F, G en H van Hoofdstuk 13.9.1 zijn uitsluitend opgenomen ten behoeve van Thales en hiervan mag, voor zover toegestaan op grond van de wet, te allen tijde (geheel of gedeeltelijk) afstand worden gedaan door Thales, door middel van een schriftelijke verklaring aan Gemalto, met dien verstande dat Thales alleen afstand mag doen bij een Acceptatie Voorwaarde gelijk aan of meer dan 50% (vijftig procent) plus één Gewoon Aandeel, en bovendien met dien verstande dat indien in dat geval de Acceptatie Voorwaarde minder dan 67% (zevenenzestig procent) is, Thales en Gemalto in redelijkheid zullen bespreken of aanvullende governance afspraken moeten worden gemaakt in het licht van de dan geldende omstandigheden.

Voorwaarde ten behoeve van Gemalto

De Voorwaarde uiteengezet in Hoofdstuk 13.9.1 E is uitsluitend opgenomen ten behoeve van Gemalto en hiervan mag, voor zover toegestaan op grond van de wet, te allen tijde (geheel of gedeeltelijk) afstand worden gedaan door Gemalto, door middel van een schriftelijke verklaring aan Thales.

Voorwaarden ten behoeve van Thales en Gemalto

De Voorwaarden uiteengezet in Hoofdstuk 13.9.1 A (ten aanzien van een Acceptatie Voorwaarde van minder dan 50% plus één Gewoon Aandeel), I en K zijn ten behoeve van Thales en Gemalto gezamenlijk en daarvan mag alleen (geheel of gedeeltelijk) afstand van worden gedaan door de Thales en Gemalto gezamenlijk door middel van een schriftelijke overeenkomst.

Geen afstand

Van de Voorwaarde in Hoofdstuk 13.9.1 J kan geen afstand worden gedaan.

Niet-inroepen in geval van een inbreuk

Thales mag zich er niet op beroepen dat een Voorwaarde niet is vervuld indien die niet-vervulling veroorzaakt is door een inbreuk van Thales op enige van haar verplichtingen uit de Fusieovereenkomst.

13.9.3 Vervulling

De vervulling van elk van de Voorwaarden hangt niet af van de wil van Thales, overeenkomstig de in artikel 12 lid 2 van het Bob opgenomen verbodsbepaling.

Zowel Thales als Gemalto zal zijn uiterste best doen om zo snel als redelijkerwijs mogelijk de vervulling van de Voorwaarden te bewerkstelligen. Wanneer op enig moment Thales of Gemalto kennis neemt van het feit dat een Voorwaarde is vervuld, zal Thales respectievelijk Gemalto daarvan onmiddellijk schriftelijk op de hoogte worden gesteld.

Ten aanzien van Voorwaarde 13.9.1 B (*de Toezichtrechtelijke Goedkeuringen*) zal Thales zich inspannen om deze zo snel als mogelijk in vervulling te doen gaan. Indien door een nationale of internationale autoriteit een vereiste (mededingings)goedkeuring of verklaring van geen bezwaar wordt gegeven onder bepaalde voorwaarden of verplichtingen, dan zal Thales zich redelijkerwijs inspannen om toezeggingen aan te bieden die nodig kunnen zijn om dergelijke Toezichtrechtelijke Goedkeuring of verklaring van geen bezwaar te verkrijgen.

Thales verwacht alle Toezichtrechtelijke Goedkeuringen te hebben verkregen in de loop van de tweede helft van 2018. Thales zal daarom tijdig de AFM om een vrijstelling verzoeken, en indien verkregen, de Aanmeldingstermijn verder verlengen voor zover Thales dat, in overleg met Gemalto, redelijk nodig acht om de Voorwaarde 13.9.1 B (*de Toezichtrechtelijke Goedkeuringen*) te doen vervullen, onder voorbehoud van het recht van Thales om, voor zover wettelijk is toegestaan, afstand te doen van die Voorwaarde.

Ten aanzien van Voorwaarde 13.9.1 C (*Geen Materieel Nadelig Effect*), zijn Thales en Gemalto een bindend advies procedure overeengekomen, voor het geval dat een van de partijen meent dat de Voorwaarde niet is vervuld en de andere partij het daar niet mee eens is.

Ten aanzien van Voorwaarde 13.9.1 I (*Geen vonnis of andere beperkende maatregel*) zijn Thales en Gemalto overeengekomen om samen te werken en zich in redelijke mate in te spannen om verweer te voeren tegen een dergelijk vonnis, beschikking, maatregel of onderzoek.

13.10 Aanmelding

13.10.1 Het Bod en uitnodiging aan Aandeelhouders

De Aanmeldingstermijn vangt aan om 9:00 uur CET, 3:00 am New York tijd op 28 maart 2018 en eindigt, tenzij de termijn verlengd wordt, om 17:40 uur CET, 11.40 am New York tijd op 6 juni 2018 (het **Uiterste Tijdstip van Aanmelding**).

Indien en voor zover één of meer van de Voorwaarden niet is vervuld of daarvan afstand is gedaan in overeenstemming met Hoofdstuk 13.9.2 (*Afstand*) kan Thales de Aanmeldingstermijn verlengen voor een minimale periode van 2 (twee) weken en een maximale periode van 10 (tien) weken, zodat in deze periode deze Voorwaarden kunnen worden vervuld of, voor zover wettelijk toegestaan, daarvan

afstand kan worden gedaan. In aanvulling daarop kan de Aanmeldingstermijn worden verlengd als een van de gebeurtenissen in artikel 15 lid 5 van het Bob plaatsvindt. Verdere verlengingen zijn afhankelijk van de goedkeuring van de AFM, welke alleen in uitzonderlijke omstandigheden zal worden gegeven. Thales zal, met het oog op het kunnen verkrijgen van de Voorwaarde 13.9.1 B (*de Toezichtrechtelijke Goedkeuringen*), tijdig de AFM verzoeken om de Aanmeldingstermijn verder te verlengen.

Als Thales het Bod verlengt tot na de initiële Aanmeldingstermijn, zullen alle verwijzingen in dit Biedingsbericht naar "Aanmeldingstermijn", "Uiterste Dag van Aanmelding" of "Uiterste Tijdstip van Aanmelding" verwijzen naar de laatste datum en tijd van de verlengde Aanmeldingstermijn, tenzij uit de context anders blijkt.

Zoals in Hoofdstuk 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*) is aangeven, kan een financiële tussenpersoon een eerdere deadline voor Aandeelhouders vaststellen, zodat de financiële tussenpersoon tijdig kan voldoen aan haar aanmeldingsverplichtingen.

Indien Thales de Aanmeldingstermijn verlengt, zal Thales binnen 3 (drie) Nederlandse Werkdagen na de initiële Uiterste Dag van Aanmelding een persbericht uitbrengen. Zie Hoofdstuk 5.12 (*Announcements*).

Indien aan alle Voorwaarden van het Bod is voldaan of, voor zover wettelijk toegestaan, daarvan afstand is gedaan in overeenstemming met Hoofdstuk 13.9.2 (*Afstand*) zal Thales alle Aandelen aanvaarden die op geldige wijze zijn aangemeld (of op ongeldige wijze, indien Thales deze Aandelen desalniettemin heeft aanvaard) en niet zijn ingetrokken als gevolg van de voorwaarden van het Bod, met inachtneming van de procedures zoals uiteengezet in Hoofdstuk 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*).

13.10.2 Gestanddoening

Het Bod wordt gedaan onder voorbehoud van de vervulling van de Voorwaarden zoals uiteengezet in Hoofdstuk 13.9.1 (*Voorwaarden*). Van de Voorwaarden kan te allen tijde (geheel of gedeeltelijk) afstand worden gedaan, voor zover wettelijk toegestaan, zoals uiteengezet in Hoofdstuk 13.9.2 (*Afstand*).

Thales zal niet later dan op de 3de (derde) Nederlandse Werkdag na de Uiterste Dag van Aanmelding, zijnde de Dag van Gestanddoening, vaststellen of aan de Voorwaarden is voldaan of dat daarvan afstand wordt gedaan. Thales zal op de Dag van Gestanddoening een openbare mededeling doen inhoudende dat ofwel (i) het Bod gestand wordt gedaan, ofwel (ii) het Bod wordt verlengd in overeenstemming met artikel 15 van het Bob ofwel (iii) het Bod wordt ingetrokken omdat niet is

voldaan aan de Voorwaarden en daarvan geen afstand is gedaan. Indien het Bod niet gestand wordt gedaan, zal Thales dit besluit motiveren.

13.10.3 Overdracht

Indien Thales het Bod gestand doet, zal aan de Aandeelhouders die het Bod accepteren en hun Aandelen hebben aangemeld voor het Uiterste Tijdstip van Aanmelding, onder de voorwaarden en conform de restricties zoals opgenomen in het Biedingsbericht, voor elk Aandeel dat op geldige wijze is aangemeld (of op ongeldige wijze, indien Thales die Aandelen desalniettemin aanvaardt) en geleverd en niet op een geldige wijze is ingetrokken, een betaling plaatsvinden ten bedrage van EUR 51,00 (eenenvijftig euro) per Aandeel. De dag van Overdracht zal niet later zijn dan 5 (vijf) Werkdagen na de Dag van Gestanddoening.

Na overdracht (levering) van de Aandelen is intrekking, ontbinding of nietigverklaring van de aanmelding of overdracht van Aandelen niet toegestaan.

13.10.4 Na-aanmeldingstermijn

Indien Thales het Bod gestand doet, kan Thales, in overeenstemming met artikel 17 van het Bob, een Na-aanmeldingstermijn aankondigen teneinde Aandeelhouders die hun Aandelen nog niet hadden aangemeld gedurende de Aanmeldingstermijn in staat te stellen hun Aandelen aan te melden onder dezelfde voorwaarden die van toepassing zijn op het Bod. De Na-aanmeldingstermijn zal aanvangen op de 1ste (eerste) Nederlandse Werkdag na de datum waarop de Na-aanmeldingstermijn is aangekondigd, zal minimaal 5 (vijf) U.S. Werkdagen duren en kan maximaal 2 (twee) weken duren.

Gedurende de Na-aanmeldingstermijn hebben Aandeelhouders die hun Aandelen gedurende de Aanmeldingstermijn hebben aangemeld en welke Aandelen zijn geaccepteerd en Aandeelhouders die hun Aandelen hebben aangemeld gedurende de Na-aanmeldingstermijn, niet het recht om hun Aandelen in te trekken.

13.11 Aanvaarding van het Bod en aanmeldingsprocedure

13.11.1 Algemeen

Thales behoudt zich het recht voor om Aandelen te aanvaarden die zijn aangemeld voor aanvaarding, zelfs indien dit niet geschiedt op de wijze zoals omschreven in Hoofdstuk 5.3 (*Acceptance of the Offer by Shareholders and tender procedures*).

13.11.2 Aanmelding via een Aangesloten Instelling

Aandeelhouders die hun Aandelen houden via een Aangesloten Instelling moeten hun Aanmelding via hun bewaarder, bank of effectenmakelaars niet later dan op het Uiterste Tijdstip van Aanmelding bekend maken, tenzij de Aanmeldingstermijn is verlengd overeenkomstig Hoofdstuk 5.4 (*The Acceptance Period and extension of the Acceptance Period*). Bewaarinstellingen, banken of effectenmakelaars kunnen een eerdere deadline vaststellen voor Aanmelding door Aandeelhouders zodat de bewaarinstelling, bank of effectenmakelaar voldoende tijd heeft om de Aanmelding door te geven aan het Betaal- en Wisselkantoor. Dienovereenkomstig dienen houders van Aandelen die direct of indirect gehouden worden via een Aangesloten Instelling contact op te nemen met hun bewaarinstelling, bank of effectenmakelaar om informatie te verkrijgen omtrent de uiterste datum waarop de Aandeelhouders het Bod dienen te aanvaarden en zich te houden aan de data gecommuniceerd door een dergelijke bewaarinstelling, bank of effectenmakelaar aangezien die data zouden kunnen verschillen met de data en tijden aangegeven in dit Biedingsbericht. Verwezen wordt naar Hoofdstuk 5.3.2 (*Acceptance by holders of Ordinary Shares through Admitted Institutions*).

13.11.3 Houders van Aandelen die individueel zijn geregistreerd in het aandeelhoudersregister van Gemalto

Aandeelhouders van Aandelen die individueel zijn geregistreerd in het aandeelhoudersregister van Gemalto die hun Aandelen willen aanmelden onder het Bod, dienen een compleet en getekend aanmeldingsformulier te overhandigen aan het Betaal- en Wisselkantoor in overeenstemming met de voorwaarden van het Bod, niet later dan het Uiterste Tijdstip van Aanmelding. De aanmeldingsformulieren zijn op verzoek verkrijgbaar bij het Betaal- en Wisselkantoor. Het aanmeldingsformulier zal tevens dienen als een akte van levering met betrekking tot de Aandelen waarnaar in het aanmeldingsformulier wordt verwezen. Verwezen wordt naar Hoofdstuk 5.3.3 (*Acceptance by holders of Ordinary Shares individually recorded in Gemalto's shareholders' register*).

13.12 Besluitvorming en Aanbeveling van het Bestuur van Gemalto

Na de voorwaarden van de Combinatie, het Bod en overige andere handelingen voorzien in de Fusieovereenkomst uitgebreid te hebben besproken, inclusief in het bijzonder de Biedprijs en de afspraken en overeenkomst die zijn beschreven in Hoofdstuk 6.4 (*Rationale for the Offer*), Hoofdstuk 6.5 (*Financing of the Offer*), Hoofdstuk 6.19 (*Corporate governance post Settlement*) en Hoofdstuk 6.20 (*Non-Financial Covenants*) heeft het Bestuur van Gemalto, met ondersteuning van financiële en juridische adviseurs, in een zorgvuldig besluitvormingsproces de Combinatie, het Bod en de overige handelingen voorzien in de Fusieovereenkomst unaniem goedgekeurd en is tot de conclusie gekomen

dat deze in het belang zijn van Gemalto, het duurzame succes van Gemalto's onderneming en haar cliënten, werknemers, aandeelhouders en andere stakeholders van Gemalto en heeft vervolgens ingestemd om, ingevolge het bepaalde in de Fusieovereenkomst:

- a. de Combinatie en het Bod volledig te steunen;
- b. unaniem aan de Aandeelhouders aan te bevelen om het Bod te accepteren en hun Aandelen onder het Bod aan te bieden; en
- c. unaniem aan de Aandeelhouders aan te bevelen om voor de Gemalto Besluiten te stemmen.

De leden van het Bestuur van Gemalto hebben uitgebreid financieel en juridisch advies ingewonnen. Daarnaast is door Deutsche Bank AG, Paris Branch en J.P. Morgan Securities plc een Fairness Opinie afgegeven aan het Bestuur van Gemalto op 16 december 2017 met de strekking dat de Biedprijs op die datum en gebaseerd op en afhankelijk van de factoren, kwalificaties en aannames gedaan in de opinies vanuit een financieel oogpunt fair was jegens de Aandeelhouders.

Gemalto heeft een Standpuntbepaling opgesteld in overeenstemming met artikel 18 van het Bob, waarvan de volledige tekst van de Fairness Opinie, met daarin de voorwaarden, de gevolgde procedures, de overwogen zaken en beperkingen, is opgenomen in de Standpuntbepaling.

Meer informatie is opgenomen in de Standpuntbepaling.

13.13 Gevolgen van het Bod met betrekking tot liquiditeit en beëindiging beursnotering

Door de aankoop van Aandelen door Thales als gevolg van het Bod zal het aantal Aandeelhouders en het aantal openbaar verhandelbare Aandelen afnemen. Als gevolg daarvan zal de liquiditeit en mogelijk de marktwaarde van de resterende niet aangemelde Aandelen of wel aangemelde en teruggetrokken Aandelen negatief worden beïnvloed. Thales heeft niet de intentie dit te compenseren, bijvoorbeeld door te voorzien in een liquiditeitsmechanisme voor de Aandelen die niet zijn aangemeld na Overdracht gedurende de Na-aanmeldingstermijn.

Indien het Bod gestand wordt gedaan is Thales voornemens om, voor zover toegestaan onder het toepasselijke recht, zo spoedig als redelijkerwijs mogelijk onder de geldende regels en voorschriften, de notering van de Aandelen aan Euronext Amsterdam en Euronext Parijs te beëindigen.

Als Thales en/of aan haar Gelieerde Ondernemingen 95% (vijfennegentig procent) of meer van de Gewone Aandelen heeft/hebben verworven kan de notering van de Gewone Aandelen aan Euronext Amsterdam en Euronext Parijs worden beëindigd in overeenstemming met de beleidsregels die daarvoor gelden. De notering van de Aandelen aan Euronext Amsterdam en Euronext Parijs kan ook

worden beëindigd door middel van een juridische fusie (zie Hoofdstuk 6.15.4 (*Statutory Merger*)).

In het geval dat Gemalto of de rechtsopvolger van Gemalto niet langer beursgenoteerd zal zijn en de aandelen daarvan diensgevolge niet meer publiek verhandelbaar zullen zijn, zullen bepalingen ten aanzien van de governance van beursgenoteerde ondernemingen niet meer van toepassing zijn en zullen de rechten van minderheidsaandeelhouders mogelijkserwijs gelimiteerd worden tot het wettelijke minimum.

13.14 Mogelijke Herstructureringsmaatregelen na Overdracht

Na overdracht van de Aandelen kan Thales Post-Settlement Herstructureringen voorstellen of implementeren, inclusief, maar niet beperkt tot, de Post-Settlement Herstructureringen genoemd in Hoofdstuk 13.14.1 (*Uitkoopprocedure*) en 13.14.2 (*Overige Herstructureringsmaatregelen na Overdracht*).

Daarnaast behoudt Thales zich iedere juridisch toegestane methode voor om alle Aandelen te verwerven (of de volledige eigendom van de onderneming van Gemalto) en/of om de juridische, financiële of fiscale structuur van Gemalto te optimaliseren als onderdeel van de groep van Thales.

13.14.1 Uitkoopprocedure

In het geval dat na de Dag van Gestanddoening of, voor zover van toepassing, na de Na-aanmeldingsperiode, Thales en/of aan haar Gelieerde Ondernemingen meer dan 95% (vijfennegentig procent) van het geplaatste gewone kapitaal van Gemalto houden in de zin van artikel 2:92a BW of 2:201a en/of 2:359c BW, is zij van plan resterende Aandelen die niet zijn aangemeld verwerven door middel van de wettelijke uitkoopprocedure overeenkomstig artikel 2:92a BW of 2:201a en/of 2:359c BW. Verwezen wordt naar Hoofdstuk 6.15.2 (*Buy-Out*).

13.14.2 Overige Herstructureringsmaatregelen na Overdracht

Op grond van het Fusieovereenkomst behoudt Thales zich het recht voor om van iedere toegestane mogelijkheid gebruik te maken om 100% (honderd procent) van de Aandelen (of volledig eigendom van de onderneming van Gemalto) te verkrijgen als een alternatief voor de Uitkoopprocedure. Verwezen wordt naar Hoofdstuk 6.15.3 (*Other Post-Settlement Restructurings*).

13.15 Aankondigingen

Iedere aankondiging met betrekking tot het gestand doen van het Bod en aankondigingen met betrekking tot het verlengen van de Aanmeldingstermijn zullen door middel van een persbericht worden gedaan. Onder voorbehoud van de wettelijke vereisten op grond van het Bob en andere Toepasselijke Regelgeving en zonder afbreuk te doen aan de manier waarop Thales een publieke aankondiging zou willen doen, zal op Thales geen enkele verplichting rusten om een publieke aankondiging te verrichten anders dan zoals hierboven uiteengezet.

13.16 Gemalto en Thales

De bestuursleden van Gemalto, hun respectievelijke posities en jaren van aantreden zijn opgenomen in onderstaande tabel:

Name	Position	Member since
Alex Mandl	Niet-uitvoerend bestuurder, voorzitter	2006
Philippe Vallée	Uitvoerend bestuurder, CEO	2016
Homaira Akbari	Niet-uitvoerend bestuurder	2013
Buford Alexander	Niet-uitvoerend bestuurder	2009
Philippe Alfroid	Niet-uitvoerend bestuurder	2010
Joop Drechsel	Niet-uitvoerend bestuurder	2015
Johannes Fritz	Niet-uitvoerend bestuurder	2006
John Ormerod	Niet-uitvoerend bestuurder	2006
Olivier Piou	Niet-uitvoerend bestuurder	2004
Jill Smith	Niet-uitvoerend bestuurder	2017
Yen Yen Tan	Niet-uitvoerend bestuurder	2012

De bestuursleden van Thales, hun respectievelijke posities en jaren van aantreden zijn opgenomen in onderstaande tabel:

Naam	Positie	Lid sinds
Patrice Caine	Voorzitter en CEO	2014
Laurence Broseta	Niet-uitvoerend bestuurder	2014
Charles Edelstenne	Niet-uitvoerend bestuurder	2009
Yannick d'Escatha	Niet-uitvoerend bestuurder	2009
Bernard Fontana	Niet-uitvoerend bestuurder	2018
Anne-Marie Hunot-	Niet-uitvoerend bestuurder	2016

Naam	Positie	Lid sinds
Schmit	(vertegenwoordiger werknemers)	
Philippe Lépinay	Niet-uitvoerend bestuurder	2007
Armelle de Madre	Niet-uitvoerend bestuurder	2017
Odile Renaud-Basso ¹⁴	Niet-uitvoerend bestuurder	2017
Frédérique Saint	Niet-uitvoerend bestuurder (vertegenwoordiger werknemers)	2016
Loïk Segalen	Niet-uitvoerend bestuurder	2009
Anne-Claire Taittinger	Niet-uitvoerend bestuurder	2012
Ann Taylor	Niet-uitvoerend bestuurder	2012
Eric Trappier	Niet-uitvoerend bestuurder	2009
Marie-Françoise Walbaum	Niet-uitvoerend bestuurder	2013

¹⁴ Op 30 januari 2018 is Odile Renaud-Basso in haar persoonlijke hoedanigheid als bestuurder vervangen door de Franse Staat, welke sindsdien door Odile Renaud-Basso vertegenwoordigd wordt.

14. ADVISERS

14.1 Advisers to Thales

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Allen & Overy

Apollolaan 15
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15. FINANCIAL INFORMATION

This Section 15 (*Financial Information*) contains certain consolidated financial information relating to Gemalto. The following financial information is made available:

- 15.1 Selected consolidated financial information of Gemalto
- 15.2 Basis of Preparation
- 15.3 Consolidated statement of financial position relating to the Financial Years 2016, 2015 and 2014
- 15.4 Consolidated income statement relating to the Financial Years 2016, 2015 and 2014
- 15.5 Consolidated cash flow statement relating to the Financial Years 2016, 2015 and 2014
- 15.6 Independent auditor's report of PricewaterhouseCoopers on the selected consolidated financial information of Gemalto for the financial years 2014 and 2015
- 15.7 Independent auditor's report of KMPG on the selected consolidated financial information of Gemalto for the financial year 2016
- 15.8 Financial statements for the Financial Year 2017 including the auditor's report related to the financial statements for the Financial Year 2017

15.1 Selected consolidated financial information of Gemalto

The selected consolidated financial information has been derived from the 2016, 2015 and 2014 financial statements. Reading the selected consolidated financial information is not a substitute for reading the audited financial statements of Gemalto which are included in Section 15.8 (*Financial statements for the Financial Year 2017 including the auditor's report related to the financial statements for the Financial Year 2017*).

15.2 Basis of preparation

The selected consolidated financial information of Gemalto has been prepared and included in this Section 15 (*Financial Information*), comprising summaries of the consolidated statements of financial position, consolidated income statements and the consolidated cash flow statements for the financial years 2014, 2015 and 2016. This selected consolidated financial information has been derived from:

- (a) the consolidated financial statements for the financial year 2014 as audited by PricewaterhouseCoopers, which issued an independent auditor's report thereon, without qualification,

on March 3, 2015; and

(b) the consolidated financial statements for the financial year 2015 as audited by PricewaterhouseCoopers, which issued an independent auditor's report thereon, without qualification, on March 3, 2016; and

(c) the consolidated financial statements for the financial year 2016 as audited by KPMG, which issued an independent auditor's report thereon, without qualification, on March 2, 2017.

The consolidated financial statements from which the selected consolidated financial information has been derived were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the European Commission, and Part 9 of Book 2 of the Dutch Civil Code. IFRS includes the application of International Financial Reporting Standards including International Accounting Standards (IAS), related Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Interpretations of the Standing Interpretations Committee (SIC). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments and assets held for disposal.

In 2016, Gemalto decided to modify its income statement 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.

The selected consolidated financial information set out below contains summaries only of the consolidated statements of financial position, the consolidated income statements, and the consolidated cash flow statements, excluding related note disclosures and a description of significant accounting policies. For a better understanding of Gemalto's financial position, income and cash flows, the selected consolidated financial information should be read in conjunction with the unabbreviated audited consolidated financial statements for the financial years 2014, 2015 and 2016, including the related note disclosures and a description of significant accounting policies applied for each of these years, which are available on the website of Gemalto (www.gemalto.com/investors) and on the AFM Register of financial reporting. A summary of the significant accounting policies of the Gemalto consolidated financial statements for the financial year 2017 is outlined in Section 15.8 (*Financial statements for the Financial Year 2017 including the auditor's report related to the financial statements for the Financial Year 2017*).

15.3 Consolidated statement of financial position relating to the Financial Years 2016, 2015 and 2014

In thousands of Euro	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Asset			
Property, plant and equipment	329,448	347,994	279,741
Goodwill	1,561,666	1,524,933	900,826
Intangible assets	564,588	592,597	218,137
Investments in associates	48,011	64,897	51,686
Deferred tax assets	111,467	197,212	144,710
Other investment	-	-	-
Other non-current assets	64,554	45,585	45,024
Derivative financial instruments	-	276	2,566
Total non-current assets	2,679,734	2,773,494	1,642,690
Current assets			
Inventories	244,962	273,564	223,579
Trade and other receivables	1,027,215	949,690	852,683
Derivative financial instruments	11,404	18,048	3,831
Cash and cash equivalents	663,517	407,659	1,059,572
Total current assets	1,947,098	1,648,961	2,139,665
Total assets	4,626,832	4,422,455	3,782,355
Equity			
Share capital	89,929	89,008	88,016
Share premium	1,291,795	1,240,241	1,206,877
Treasury shares	(29,042)	(36,329)	(55,482)
Fair value and other reserves	(59,872)	(8,135)	84,603
Cumulative translation adjustments	74,265	39,505	(3,957)
Retained earnings	1,303,176	1,158,525	1,070,653
Capital and reserves attributable to the owners of the Company	2,670,251	2,482,815	2,390,710
Non-controlling interests	5,196	6,716	5,454
Total equity	2,675,447	2,489,531	2,396,164
Liabilities			
Non-current liabilities			
Borrowings	557,518	549,758	398,027
Deferred tax liabilities	120,109	122,817	46,165
Employee benefit obligations	133,136	121,958	107,361
Provisions and other liabilities	121,480	145,335	46,871
Derivative financial instruments	12,604	5,966	2,714
Total non-current liabilities	944,847	945,834	601,138
Current liabilities			
Borrowings	173,088	192,579	168,155
Trade and other payables	715,767	718,585	539,911
Current income tax liabilities	31,383	33,799	30,838
Provisions and other liabilities	17,332	19,366	12,968
Derivative financial instruments	68,968	22,761	33,181
Total current liabilities	1,006,538	987,090	785,053
Total liabilities	1,951,385	1,932,924	1,386,191
Total equity and liabilities	4,626,832	4,422,455	3,782,355

15.4 Consolidated income statement relating to the Financial Years 2016, 2015 and 2014

In thousands of Euro	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Revenue	3,126,531	3,121,560	2,465,159
Cost of sales	(1,939,966)	(1,980,735)	(1,522,078)
Gross profit	1,186,565	1,140,825	943,081
Operating expenses			
Research and engineering	(188,551)	(188,383)	(143,713)
Sales and marketing	(481,140)	(466,866)	(335,189)
General and administrative	(165,086)	(168,811)	(149,527)
Other income (expenses), net	(4,842)	(3,496)	12,604
Restructuring and acquisition related expenses	-	(49,079)	(29,830)
Amortization and depreciation of intangibles resulting from acquisitions	-	(60,843)	(27,267)
Operating profit	346,946	203,347	270,159
Financial income (expense), net	(34,268)	(37,963)	(12,421)
Share of profit of associates	2,059	2,058	(628)
Impairment of associates, net	(21,042)	-	-
Profit before income tax	293,695	167,442	257,110
Income tax (expense)	(107,497)	(30,571)	(35,862)
Profit from continuing operations	186,198	136,871	221,248
Discontinued operation			
Profit (loss) from discontinued operation	-	(2,662)	-
Profit for the period	186,198	134,209	221,248
Attributable to:			
Owners of the Company	185,726	134,107	220,651
Non-controlling interests	472	102	597
Earnings per share			
Basic earnings per share	2.09	1.53	2.55
Diluted earnings per share	2.07	1.51	2.49
Weighted average number of shares outstanding (in thousands)	88,703	87,812	86,490
Weighted average number of shares outstanding assuming dilution (in thousands)	89,649	89,077	88,716

15.5 Consolidated cash flow statement relating to the Financial Years 2016, 2015 and 2014

In thousands of Euro	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Profit for the period including non-controlling interests	186,198	134,209	221,248
Adjustment for:			
Tax	107,497	30,571	35,862
Research tax credit	(17,743)	(16,520)	(16,698)
Depreciation, amortization and impairment	198,439	185,091	123,228
Equity-based compensation charge, equity-settled	7,356	36,090	50,466
Gains and losses on sale of fixed assets and write-offs	3,030	13,234	1,743
Gain and losses on sale of assets held for sale	-	(37)	(422)
Fair value adjustment upon business acquisition	3,242	70,722	-
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities	(2,690)	3	201
Net movement in provisions and other liabilities	(12,914)	14,377	5,929
Employee benefit obligations	(276)	4,236	5,751
Interest income	(3,501)	(3,654)	(4,314)
Interest expense and other financial expense	19,138	17,286	5,226
Share of profit from associates	(2,059)	(2,058)	628
Impairment of associates, net	21,042	-	-
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories	31,500	(4,184)	(10,500)
Trade and other receivables	(46,338)	76,810	(65,252)
Derivative financial instruments	63,966	(140,823)	36,812
Trade and other payables	(22,700)	9,952	(41,789)
Cash generated from operations	533,187	425,305	348,119
Income tax paid	(75,213)	(70,194)	(54,558)
Net cash provided by operating activities	457,974	355,111	293,561
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, business, net of cash acquired	-	(888,433)	(84,045)
Purchase of property, plant and equipment	(63,281)	(98,468)	(81,863)
Proceeds from sale of property, plant and equipment	351	806	960
Acquisition and capitalization of intangible assets	(77,207)	(87,745)	(43,800)
Proceeds from, (increase in) other non-current assets	(1,272)	(537)	418
Loan to associate	-	(1,500)	(1,140)
Purchase of, contribution to, investments in associate	(2,500)	(8,201)	(161)
Interest paid	-	(12,823)	(1,855)
Interest received	2,540	2,740	3,893
Dividends received from investments in associates	5,448	2,320	813
Net cash used in investing activities	(135,921)	(1,091,841)	(206,780)

In thousands of Euro

	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests in subsidiaries	-	-	(185)
Capital contribution from a non-controlling interest of a newly incorporated subsidiary	-	-	-
Issuance of ordinary shares to fund up employee share purchase plans	1,419	-	-
Proceeds from exercise of share options	4,296	9,922	14,177
Purchase of Treasury shares (net)	1,257	(3,100)	(17,426)
Proceed from issuance of Bond	-	-	395,192
Proceed from issuance of private placements	-	149,074	-
Proceed from drawdown of credit lines and commercial paper	521,000	26,500	160,000
Repayment of commercial paper	(538,500)	-	-
Payment of FV hedge Mark-to-Market	3,012	(58,477)	-
Interest paid	(15,309)	-	-
Repayments of borrowings	(1,594)	(7,884)	(4,173)
Dividends paid to owners of the Company	(41,528)	(36,955)	(32,865)
Dividends paid to non-controlling interests	(1,273)	-	(862)
Net cash provided (used in) by financing activities	(67,220)	79,080	513,858
Cash and bank overdrafts, beginning of period	404,893	1,057,404	456,098
Net increase (decrease) in cash and bank overdrafts	254,833	(657,650)	600,639
Currency translation effect on cash and bank overdrafts	3,290	5,139	667
Cash and bank overdrafts, end of period	663,016	404,893	1,057,404

15.6 Independent auditor's report of PricewaterhouseCoopers on the selected consolidated financial information of Gemalto for the financial years 2014 and 2015

Independent auditor's report from PwC on the selected consolidated financial information of Gemalto N.V. for the years 2014 and 2015

To: Management Board of Gemalto N.V.

Report on the selected consolidated financial information for the years 2014 and 2015

Our opinion

In our opinion, the selected consolidated financial information for the years 2014 and 2015, as included in Sections 15.3, 15.4 and 15.5 of this Offer Document dated 27 March 2018 and as derived from the audited financial statements of Gemalto N.V. for the years 2014 and 2015, is consistent, in all material aspects, with those financial statements in accordance with the criteria as set out in the Basis for preparation paragraph in the Offer Document.

The selected consolidated financial information

We refer to the selected consolidated financial information of Gemalto N.V., Amsterdam, as included in Sections 15.3, 15.4 and 15.5 of this Offer Document dated 27 March 2018. The financial information for the years 2014 and 2015 of this selected consolidated financial information, comprising summaries of the consolidated balance sheet as at 31 December 2014 and 2015 and the consolidated income statement and the consolidated statement of cash flows for the year then ended, are derived from the audited consolidated financial statements of Gemalto N.V. for the years 2014 and 2015.

The selected consolidated financial information as included in this Offer Document does not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and by Part 9 of Book 2 of the Dutch Civil Code. Reading the comparative overview, therefore, is not a substitute for reading the audited financial statements of Gemalto N.V. The audited financial statements and the summary financial statements do not reflect the events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our auditor's report thereon

We expressed unqualified audit opinions on those audited financial statements in our reports dated 3 March 2015 and 3 March 2016.

The reports also include the communication of key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the audited financial statements.

The key audit matters in our 2014 report referred to:

- capitalisation of developments costs as intangible assets and subsequent valuation
- the valuation of the amounts recorded for uncertain tax positions

The key audit matters in our 2015 report referred to:

- Business combination related to the Safenet Group and recognition and subsequent valuation of goodwill
- capitalisation of developments costs as intangible assets and subsequent valuation
- the valuation of the amounts recorded for uncertain tax positions

Financial information 2016 and 2017 not audited

The selected consolidated financial information for the years ended 31 December 2016 and 31 December 2017 of Gemalto N.V. have not been audited by us.

Responsibilities of management for the selected consolidated financial information

The Management Board of Gemalto N.V. is responsible for the preparation of the selected consolidated financial information, in accordance with the criteria as set out in the Basis for preparation paragraph in the Offer Document.

Auditor's responsibility

Our responsibility is to express an opinion on the selected consolidated financial information for the years 2014 and 2015 of Gemalto N.V., based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 "Engagements to report on summary financial statements".

Restriction on use

The selected consolidated financial information and our auditor's report thereon are intended solely for enclosure in the Offer Document in connection with the recommended cash offer by Thales S.A. and cannot be used for other purposes.

Rotterdam, 27 March 2018
PricewaterhouseCoopers Accountants N.V.

W.A. Schouten RA

15.7 Independent auditor's report of KPMG on the selected consolidated financial information of Gemalto for the financial year 2016

Independent auditor's report from KPMG on the selected consolidated financial information of Gemalto N.V. for the year 2016

To: the Management Board of Gemalto N.V.

Our opinion

In our opinion, the selected consolidated financial information for the year 2016, as included in Sections 15.3, 15.4 and 15.5 of this Offer Document dated 27 March 2018 and as derived from the audited financial statements of Gemalto N.V. for the year 2016, is consistent, in all material aspects, with those financial statements in accordance with the criteria as set out in the Basis for preparation paragraph in the Offer Document.

The selected consolidated financial information

We refer to the selected consolidated financial information of Gemalto N.V., Amsterdam, as included in Sections 15.3, 15.4 and 15.5 of the Offer Document dated 27 March 2018. The financial information for the year 2016 of this selected consolidated financial information, comprising summaries of the consolidated balance sheet as at 31 December 2016 and the consolidated income statement and the consolidated statement of cash flows for the year then ended, are derived from the audited consolidated financial statements of Gemalto N.V. for the year 2016.

The selected consolidated financial information as included in this Offer Document does not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and by Part 9 of Book 2 of the Dutch Civil Code. Reading the selected consolidated financial information, therefore, is not a substitute for reading the audited financial statements of Gemalto N.V.

The audited financial statements and the selected consolidated financial information do not reflect the events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unqualified audit opinion on the audited financial statements of Gemalto N.V. for 2016 in our report dated 2 March 2017.

The report also include the communication of key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the audited financial statements.

The key audit matters in our 2016 report referred to:

- Valuation of goodwill
- Deferred tax assets and tax contingency accruals
- Revenue recognition on complex contracts
- Capitalized development costs

Financial information 2014 and 2015 not audited

The selected consolidated financial information for the years ended 31 December 2014 and 31 December 2015 of Gemalto N.V. have not been audited by us.

Responsibilities of the Management Board for the selected consolidated financial information

The Management Board of Gemalto N.V. is responsible for the preparation of the selected consolidated financial information, in accordance with the criteria as set out in the Basis for preparation paragraph in the Offer Document.

Our responsibilities for the audit of the selected consolidated financial information

Our responsibility is to express an opinion on the selected consolidated financial information for the year 2016 of Gemalto N.V., based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 'Engagements to report on summary financial statements'.

Restriction on use

The selected consolidated financial information and our independent auditor's report thereon are intended solely for enclosure in the Offer Document in connection with the recommended cash offer by Thales S.A. and cannot be used for other purposes.

Amstelveen, 27 March 2018

KPMG Accountants N.V.

T. van der Heijden RA

15.8 Financial statements for the Financial Year 2017 including the auditor's report related to the financial statements for the Financial Year 2017

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Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31,	
		2017	2016
Assets			
Non-current assets			
Property, plant and equipment	8	316,426	329,448
Goodwill	9	1,468,214	1,561,666
Intangible assets	9	757,814	564,588
Investments in associates	10	8,542	48,011
Deferred tax assets	29	37,818	111,466
Other investment	11	39,183	–
Other non-current assets	12	79,584	64,554
Derivative financial instruments	7	–	–
Total non-current assets		2,707,581	2,679,734
Current assets			
Inventories	13	226,339	244,962
Trade and other receivables	14	998,500	1,027,215
Derivative financial instruments	7	55,633	11,404
Cash and cash equivalents	15	320,675	663,517
Total current assets		1,601,147	1,947,098
Total assets		4,308,728	4,626,832
Equity			
Share capital		90,424	89,929
Share premium		1,303,799	1,291,795
Treasury shares		(10,721)	(29,042)
Fair value and other reserves		32,574	(59,872)
Cumulative translation adjustments		(74,485)	74,265
Retained earnings		834,368	1,303,176
Capital and reserves attributable to the owners of the Company		2,175,959	2,670,251
Non-controlling interests		3,375	5,196
Total equity		2,179,334	2,675,447
Liabilities			
Non-current liabilities			
Borrowings	16	717,986	557,518
Deferred tax liabilities	29	102,081	120,109
Employee benefit obligations	17	126,716	133,136
Provisions and other liabilities	18	129,972	121,480
Derivative financial instruments	7	–	12,604
Total non-current liabilities		1,076,755	944,847
Current liabilities			
Borrowings	16	286,788	173,088
Trade and other payables	19	682,248	715,767
Current income tax liabilities		27,930	31,383
Provisions and other liabilities	21	52,261	17,332
Derivative financial instruments	7	3,412	68,968
Total current liabilities		1,052,639	1,006,538
Total liabilities		2,129,394	1,951,385
Total equity and liabilities		4,308,728	4,626,832

Consolidated income statement

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

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

Consolidated statement of comprehensive income

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

Consolidated statement of changes in equity

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

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

² See Note 33.

Consolidated cash flow statement

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

Notes to the consolidated financial statements

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

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

Note 1. General information

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

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

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

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

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

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with section 2:362(9) of the Netherlands Civil Code. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments used for hedging) at fair value through profit or loss. The preparation of consolidated financial statements in compliance with IAS/IFRS requires the use of certain critical accounting estimates.

It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the following change in the presentation of the income statement: the Company decided to modify its income statement presentation in order to split the line "Other income (expenses), net" in "Other income" and "Other expenses". Accordingly, the comparative figures of the 2017 consolidated financial statements have been restated to comply with IFRS requirements.

2.2 Changes in accounting policies and disclosures

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

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

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

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

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

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

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

The Group is currently assessing the impact of these amendments.

- *IFRS 15 Revenue from Contracts with Customers*. IFRS 15 establishes the accounting principles that an entity shall apply to recognize revenue from contracts with customers. It replaces the previous standards and interpretations related to revenue recognition, notably IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer Loyalty Programmes". The standard provides a single, principle-based, five-step model to be applied in order to define the timing and the amount of revenue arising from a contract with a customer. It provides a guide to applying the standard, notably regarding the licenses and specific provisions for how to recognize incremental costs of obtaining or fulfilling a contract, that are addressed by other standards. The standard requires the disclosure of new qualitative and quantitative information in the notes to the consolidated accounts. The Company will adopt IFRS 15 for the fiscal year beginning January 1, 2018 using the modified retrospective method. Under this method, the impact of the initial application of the standard is accounted for in shareholders' equity as of January 1, 2018, without restating comparative periods presented. We have made an assessment of the impact of the adoption of IFRS 15 on our reported revenue based on which we conclude there is no material impact to be expected;

- *IFRS 9 Financial Instruments*. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to continue to apply the requirements of IAS 39. During the adoption of IFRS 9 the Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in Retained earnings and reserves as at 1 January 2018. We have made an assessment of the impact of the adoption of IFRS 9 based on which we conclude there is no material impact.

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

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

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

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

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

(b) Associates

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates on a monthly basis; and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

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

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

outflows). The property, plant and equipment acquired under finance lease are depreciated over the shorter of the useful life of the asset and the lease term.

2.7 Goodwill and intangible assets

(a) Goodwill

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

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

(b) Brand names

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

(c) Customer relationships

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

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

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

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

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

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently when there is an indication that they might be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or

changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognized for the amount by which the asset carrying amount exceeds its recoverable amount. The recoverable amount is the higher between the asset fair value less costs to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments and financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

2.10 Inventories

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

2.11 Trade receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

2.15 Taxes on income

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

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

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

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

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

2.16 Research tax credits and government grants

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

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

2.17 Research and development costs

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

2.18 Employee benefits

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

(a) Pension and similar obligations

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

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

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

Past service costs are recognized immediately in the income statement.

(b) Termination benefits

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

(c) Profit-sharing and bonus plans

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

2.19 Equity-based payment

(a) Equity-based compensation

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

(b) Equity-based transaction

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

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

2.20 Provisions

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

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently regularly remeasured at their fair value. These instruments, which are expected to mature within two years after the balance sheet date, are presented under Derivative financial instruments in current or non-current assets or liabilities depending on their maturity. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and

qualifies as a hedging instrument for accounting purposes and, if so, on the nature of the item being hedged. Some of the derivative financial instruments used to hedge the Company's foreign exchange exposure qualify as cash flow hedges since they reduce the variability in future cash flows attributable to the Company's forecasted transactions.

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

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

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

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

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

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

2.24 Estimation of financial instrument fair value

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

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

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

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

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

2.25 Offsetting financial instruments

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

Note 3. Critical judgments and estimates

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

3.1 Revenue recognition

A portion of the Company's revenue is generated from large and complex contracts. Judgment is applied on clients' acceptance criteria and if the transfer of risk and rewards to the buyer has taken place when determining whether revenue and costs should be recognized in

the current period. The extent of contract completion and the customer credit standing is also taken into consideration to ascertain whether the settlement of the service justifies revenue recognition. When a transaction contains multiple elements, the identification of each separately identifiable component and the related allocation of the relative fair value requires management judgment.

3.2 Goodwill

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

3.3 Intangible assets

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

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

3.4 Impairment tests

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

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

3.5 Equity-based payments

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

Notes to the consolidated financial statements continued

Note 3. Critical judgments and estimates continued

3.6 Employee benefit obligations

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

3.7 Income taxes

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

3.8 Development costs

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

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

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

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

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

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

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

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

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

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

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

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

⁵ Effect on intrinsic value of cash flow hedges.

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

4.2 Market risk

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

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

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

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

⁶ Effect of revaluation of social levies excluding hedges.

⁷ Effect on mark-to-market valuation of fair value hedges.

⁸ Effect on intrinsic value of cash flow hedges.

4.3 Interest rate risk

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

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

4.4 Liquidity risk

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

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

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

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

	2017			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	138	296	–	434
Bond	8,500	425,500	–	434,000
Private placements	6,622	40,676	239,945	287,243
Commercial paper	260,000	–	–	260,000
Term loan	284	80,354	–	80,638
Other liabilities	19,593	7,623	–	27,216
Derivative financial instruments	7,436	–	–	7,436
Trade and other payables	682,248	–	–	682,248
Total	984,821	554,449	239,945	1,779,215
	2016			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	135	290	–	425
Bond	8,500	434,000	–	442,500
Private placements	2,993	26,449	143,217	172,659
Commercial paper	169,000	–	–	169,000
Other liabilities	501	11,270	–	11,771
Derivative financial instruments	78,871	22,778	–	101,649
Trade and other payables	715,767	–	–	715,767
Total	975,767	494,787	143,217	1,613,771

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

4.5 Financial counterparty risk

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

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

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

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

	Year ended December 31,	
	2017	2016
Borrowings		
in % of total borrowing risk for Gemalto	20%	23%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	16%	16%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	19%	10%
Total risk for any single counterparty⁹		
in % of total counterparty risk for Gemalto	17%	15%

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

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

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

4.6 Credit risk

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

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

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

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

	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

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

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

4.7 Foreign exchange derivative financial instruments

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

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

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

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

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

	2017		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2) ¹⁰
Effective portion	(8,468)	(8,468)	–
	2016		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2) ¹⁰
Effective portion	(104,389)	(60,228)	(44,161)

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

Notes to the consolidated financial statements continued

Note 5. Business combination

3M's Identity Management Business:

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

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

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

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

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

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

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

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

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

Note 6. Segment information

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

Note 6. Segment information continued

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

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

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

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

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

Geographical information

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

	Year ended December 31,	
	2017	2016
Revenue		
Europe, Middle East and Africa	1,373,379	1,365,608
United States of America	685,509	823,517
Asia Pacific	588,977	583,086
North and South America excluding the United States of America	323,852	354,320
Total	2,971,717	3,126,531
	Year ended December 31,	
	2017	2016
Non-current assets		
United States of America	407,349	352,480
France	365,110	201,861
Europe, Middle East and Africa excluding France	274,581	299,857
Asia Pacific	101,226	100,842
North and South America excluding the United States of America	53,283	51,561
Total	1,201,549	1,006,601

Note 7. Financial assets/liabilities by category

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

Note 7. Financial assets/liabilities by category continued

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

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

Fair value estimation

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

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

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

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

Note 8. Property, plant and equipment

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

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

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

Capitalized financial leases included in property, plant and equipment:

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

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

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

Notes to the consolidated financial statements continued

Note 9. Goodwill and intangible assets

Goodwill and intangible assets, net consist of the following:

	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	Total
Gross book value as of January 1, 2017	1,576,973	516,632	294,857	306,405	185,056	2,879,923
Acquisition of subsidiary and business	453,949	124,587	–	150,465	42,249	771,250
Additions	–	3	75,284	–	6,184	81,471
Write-offs	–	(6,716)	(11,358)	–	(26,852)	(44,926)
Currency translation adjustment	(126,897)	(18,246)	(3,721)	(36,565)	(8,928)	(194,357)
Gross book value as of December 31, 2017	1,904,025	616,260	355,062	420,305	197,709	3,493,361
Accumulated amortization as of January 1, 2017	(15,307)	(382,422)	(140,218)	(110,970)	(104,752)	(753,669)
Acquisition of subsidiary and business	–	–	–	–	(351)	(351)
Amortization charge	–	(42,554)	(50,680)	(35,157)	(18,073)	(146,464)
Impairment charge	(424,671)	(5,377)	(589)	(1,496)	(1,500)	(433,633)
Write-offs	–	6,716	11,358	–	26,717	44,791
Currency translation adjustment	4,167	9,374	1,451	6,504	497	21,993
Accumulated amortization as of December 31, 2017	(435,811)	(414,263)	(178,678)	(141,119)	(97,462)	(1,267,333)
Net book value as of December 31, 2017	1,468,214	201,997	176,384	279,186	100,247	2,226,028
	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	Total
Gross book value as of January 1, 2016	1,539,828	506,378	254,896	299,191	190,940	2,791,233
Acquisition of subsidiary and business	9,701	–	–	–	134	9,835
Additions	–	706	61,052	–	10,193	71,951
Write-offs	–	(19)	(24,588)	–	(9,776)	(34,383)
Currency translation adjustment	27,444	9,567	3,497	7,214	(6,435)	41,287
Gross book value as of December 31, 2016	1,576,973	516,632	294,857	306,405	185,056	2,879,923
Accumulated amortization as of January 1, 2016	(14,895)	(348,392)	(124,854)	(84,766)	(100,796)	(673,703)
Acquisition of subsidiary and business	–	–	–	–	(133)	(133)
Amortization charge	–	(33,098)	(39,661)	(25,209)	(14,750)	(112,718)
Write-offs	–	19	24,588	–	9,770	34,377
Currency translation adjustment	(412)	(951)	(291)	(995)	1,157	(1,492)
Accumulated amortization as of December 31, 2016	(15,307)	(382,422)	(140,218)	(110,970)	(104,752)	(753,669)
Net book value as of December 31, 2016	1,561,666	134,210	154,639	195,435	80,304	2,126,254

Other intangibles mainly consist of:

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

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

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

Goodwill impairment test

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

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

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

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

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

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

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

In millions of Euro CGU	Management approach	Period of cash flow projection	Revenue growth rate to perpetuity	Profit from operation, margin evolution over the projected period	Pre-tax discount rate	Goodwill in millions of Euro	
						2017	2016
Mobile Communication	External sources and past experience	5 years	0%	Improvement	11.20%	–	425
Machine-to-Machine	External sources and past experience	5 years	2%	Improvement	11.20%	116	116
Secure Transactions	External sources and past experience	5 years	2%	Improvement	11.20%	198	181
Government program	External sources and past experience	5 years	2%	Improvement	11.20%	521	105
IDSS	External sources and past experience	5 years	2%	Improvement	11.20%	633	735
Total						1,468	1,562

A sensitivity analysis regrouping key parameters, namely the projected cash flows, the discounting rate and the infinite growth rate, has shown that, under all reasonable changes in assumptions, there is no probable scenario in which the recoverable amount of a CGU would be less than its carrying amount. All other variables being held constant, no other impairment charge would be recognized in 2017 if discounted projected cash flows were 20% lower, or the weighted average cost of capital before-tax used would have been 200 basis-point higher or the infinite growth rate for the revenue would have been 100 basis-point lower.

Notes to the consolidated financial statements continued

Note 10. Investments in associates

Investments in associates consist of the following:

	Year ended December 31,	
	2017	2016
Investments as of beginning of period	48,011	64,897
Capital contribution to associate	4,505	2,500
Waiver of loan in favor of associates	–	2,692
Other net assets changes in equity	42	453
Dividends paid by associates	(3,186)	(5,448)
Reclassification to other investments	(47,968)	–
Impairment of associates	10,105	(21,042)
Share of profit	(1,243)	2,059
Currency translation adjustment	(1,724)	1,900
Investments as of end of period	8,542	48,011

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2017, the net book value of goodwill in associates amounted to €5.6 million (€5.9 million in 2016).

The stock price of Goldpac Group Limited on May 18, 2017, was significantly higher compared to end of 2016 leading to a partial reversal of the impairment recognized last year by €10 million.

On May 18, 2017, the Annual General Meeting of Goldpac Group Limited adopted several changes in the composition of its board of director, including the retirement as a non-executive Director of a former Gemalto N.V. executive. As a consequence, Gemalto considered it no more had significant influence and has consequently classified this investment as equity security designated as at fair value through other comprehensive income (see note 11). The carrying value of our investment in Goldpac Group Limited was €48 million at the date significant influence was lost.

Summarized financial information of significant associates:

	Year ended December 31,	
	2017	2016
	Trustonic	Trustonic
Current assets	6,453	7,347
Non-current assets	9,870	10,454
Current liabilities	16,401	15,726
Non-current liabilities	125	1,665
Net assets as of end of period	(203)	410

Summarized income statement:

	Year ended December 31,	
	2017	2016
	Trustonic	Trustonic
Revenue	10,159	12,414
Pre-tax (loss)/profit from continuing operations	(9,098)	(8,234)
Post-tax (loss)/profit from continuing operations	(9,112)	(7,988)
Total comprehensive (expense)/income	(11)	11

The Group also has interests in a number of individually immaterial associates. As at December 31, 2017 the carrying value of these associates in the Group financial statement was €4 million (€9.2 million for 2016) and the related share of profit for the period was positive for €0.8 million (negative for €3.4 million in 2016).

Note 11. Other investment

Other investments regards the 18.34% stake in the share capital of Goldpac Group Limited, a company listed on Hong Kong Stock exchange (HK: 3315) that is principally engaged in delivering embedded software and secure payment products for global customers and leveraging innovative Fintech to provide personalization service, system platforms and other total solutions for customers in a wide business range including finance, government, healthcare, transportation and retails. Subsequently to the loss of significant influence and in accordance with IAS 39, the investment is initially recognized at its fair value in line with the official quoted share price on the Hong Kong Stock exchange as at May 18, 2017 for an amount equal to €48 million (Level I of the fair value hierarchy). The subsequent changes in the share price of those equity securities gave rise to a €(8.8) million loss recognized in a specific equity reserve as presented in the statement of other comprehensive income.

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2017	2016
Research tax credit	41,414	20,874
Long-term deposits, net ¹¹	4,650	4,757
Tax receivable	10,191	14,116
Other	23,329	24,807
Total	79,584	64,554

¹¹ The €4,650 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2017	2016
Gross book value		
Raw materials and spares	84,044	91,520
Work in progress	107,761	106,907
Finished goods	62,616	65,233
Total	254,421	263,660
Obsolescence reserve		
Raw materials and spares	(7,245)	(4,028)
Work in progress	(6,200)	(10,761)
Finished goods	(14,637)	(3,909)
Total	(28,082)	(18,698)
Net book value	226,339	244,962

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2017	2016
Trade receivables	689,394	697,419
Provision for impairment of receivables	(25,540)	(18,045)
Trade receivables	663,854	679,374
Prepaid expenses	44,223	44,403
VAT recoverable and tax receivable	75,124	92,404
Advances to suppliers and related parties	12,023	12,774
Unbilled customers	161,914	141,544
Other	41,362	56,716
Total	998,500	1,027,215

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2017	2016
Cash at bank and in hand	186,824	156,075
Short-term bank deposits and investment funds	133,851	507,442
Total	320,675	663,517

The average effective interest rate on short-term deposits was 1.16% in 2017 (1.05% in 2016). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds, with maturities of less than three months.

The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	Year ended December 31,	
	2017	2016
Cash and cash equivalents	320,675	663,517
Banks overdrafts	(18,310)	(501)
Total	302,365	663,016

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2017	2016
Non-current portion		
Bond	400,000	400,000
Deferred costs and premium on bond	(2,561)	(3,247)
Private placement	232,632	149,211
Term loan	80,000	–
Other financial liabilities	7,623	11,270
Finance lease liabilities	292	284
Total non-current portion	717,986	557,518
Current portion		
Commercial paper	260,000	169,000
Short-term loans	7,064	3,461
Bank overdrafts	18,310	501
Other financial liabilities	1,283	–
Finance lease liabilities	131	126
Total current portion	286,788	173,088
Total	1,004,774	730,606

As at December 31, 2017, Gemalto's main sources of financing are made of:

- A €400 million public bond listed in the Luxembourg stock exchange issued in September 2014 at 2.125%, ahead of the SafeNet acquisition, and maturing in September 23, 2021. The bond is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables. For information the fair value of the bond as at December 31, 2017, is €421.7 million, while its carrying amount is equal to €400 million;
- Two private placements issued in March and April 2015 for a total of €150 million and maturing between 2020 and 2030. They were booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;
- One private placement issued in April 2017 for USD 100 million and maturing in 2028. The private placement is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;
- One term loan issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;

Notes to the consolidated financial statements continued

Note 16. Borrowings continued

- €600 million committed bilateral facilities arranged with first rank banks maturing between December 19, 2019 and July 23, 2023. There are no financial covenants (financial ratios) concerning Gemalto's financial structure in the documentation of these facilities. As at December 31, 2017 and December 31, 2016 the credit lines were not drawn; and
- €500 million of French commercial paper program. As at December 31, 2017, the outstanding amount reaches €260 million (€169 million as at December 31, 2016).

Movements on borrowings

	Year ended December 31,	
	2017	2016
Balance as at January 1	730,606	742,337
Net proceed from private placement	83,318	–
Release of deferred costs and premium on bond and private placement	789	766
Accruals of interests on bond, private placement and other borrowings	1,536	17
Proceed from term loan	80,000	–
Proceed from commercial paper	660,000	521,000
Repayment of commercial paper	(569,000)	(538,500)
Net change in financial lease liabilities	21	131
Repayments in other financial liabilities	(2,350)	(184)
Net change in bank overdraft	18,078	(2,360)
Net change in short-term loan	2,128	(1,563)
Acquisition of subsidiaries	–	8,773
Currency translation adjustment	(352)	189
Balance as at December 31	1,004,774	730,606

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

	Year ended December 31,	
	2017	2016
Euro (EUR)	909,271	722,051
Polish Zloty (PLN)	379	330
Swiss Franc (CHF)	7,043	7,701
Arab Emirates Dirham (AED)	–	397
South Africa Rand (ZAR)	1,261	–
Turkish Lira (TRY)	2,077	–
Canadian Dollar (CAD)	10	19
US Dollar (USD)	84,733	108
Total	1,004,774	730,606

The nominal interest rates as at December 31, 2017 and 2016 were as follows:

		2017							
		Amount	EUR	CHF	USD	PLN	ZAR	CAD	TRY
Bond	Fixed rate	397,439	2.13%	–	–	–	–	–	–
Private placement	Fixed rate	232,632	2.00%	–	4.33%	–	–	–	–
Term loan	Fixed rate	80,000	0.35%	–	–	–	–	–	–
Commercial paper	Fixed rate	260,000	(0.15)%	–	–	–	–	–	–
Other financial liabilities	n/a	8,906	n/a	n/a	–	–	n/a	–	–
Short-term loans and bank overdrafts	Floating rate	20,728	n/a	–	n/a	–	–	–	15.25%
Accrued interests	n/a	4,646	n/a	–	n/a	–	–	–	–
Finance lease liabilities	Fixed rate	423	–	–	7.40%	1.69%	–	7.40%	–
Total		1,004,774							

		2016						
		Amount	EUR	CHF	USD	PLN	AED	CAD
Bond	Fixed rate	396,753	2.13%	–	–	–	–	–
Private placements	Fixed rate	149,211	2.00%	–	–	–	–	–
Commercial paper	Floating rate	169,000	(0.05)%	–	–	–	–	–
Other financial liabilities	Floating rate	11,270	n/a	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	843	n/s	–	n/a	–	n/a	–
Accrued interests	n/a	3,119	n/a	–	–	–	–	–
Finance lease liabilities	Fixed rate	410	–	–	7.40%	1.93%	–	7.40%
Total		730,606						

Other financial liabilities have no specific interest rate as it relates to the liabilities for additional compensation/guaranteed dividend payable to non-controlling interests. n/a: not applicable. n/s: not significant.

These funding sources do not require Gemalto to comply with any financial ratios.

Bond, commercial papers, private placements and finance lease liabilities are split by maturity as follows:

Year ended December 31, 2017						Year ended December 31, 2016			
	Commercial papers and private placements	Term loan	Present value of finance lease liabilities	Financial lease (minimum lease payments)		Commercial papers and private placements	Present value of finance lease liabilities	Financial lease (minimum lease payments)	
	Bond					Bond			
Not later than 1 year	8,500	266,622	284	131	138	8,500	171,993	126	135
Later than 1 year and not later than 5 years	425,500	40,676	80,354	292	296	434,000	26,449	284	290
Later than 5 years	–	239,945	–	–	–	–	143,217	–	–
Total	434,000	547,243	80,638	423	434	442,500	341,659	410	425
Future finance charges on finance leases				(11)					(15)
Present value of finance lease liabilities				423					410

Note 17. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31,	
	2017	2016
Present value of obligations	232,561	239,929
Fair value of plan assets	(105,845)	(106,793)
Net defined benefit liability	126,716	133,136

The Group is subject to national mandatory pension systems and other compulsory plans, or makes contributions to social pension funds based on local regulations. When the obligation of the Group is limited to the payment of the contribution into these plans or funds, the recognition of such liability is not required.

In addition, the Group has, in some countries, defined benefit plans consisting of final retirement salary, committed pension payments, long service awards (jubilees) and other schemes.

In France, the labor law and specific industry labor agreements require that a final retirement salary is paid to all French employees upon retirement, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service are also eligible for a jubilee award.

In the UK, the arrangement consisted of a funded defined benefit scheme under which retired employees draw their benefits principally as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme based on defined contributions was put in place. The plan asset held in trust is governed by local regulations and practice. Responsibility for governance of the plan, including investment decisions and contributions schedules, lies with the board of trustees. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

In Germany, labor agreements and specific company agreements require for the employees the payment of a fixed monthly lifelong pension, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service (fixed one time premium after 25, 40 or 50 years of seniority) are also eligible for a jubilee award other than some specific plans in case of the death of an employee.

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

In Switzerland, the Group's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. The plan asset is held in a life-insurance company.

Other less significant defined benefit plans exist in other countries including Finland, Israel, Italy, Mexico, United Arab Emirates and South Korea.

Movements in the net defined benefit obligation

The movements in the net defined benefit obligation over the periods ended are as follows:

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2017	239,929	(106,793)	133,136
Current service costs	11,846	–	11,846
Interest expense	4,189	(1,829)	2,360
Curtailment	(11,940)	3,356	(8,584)
Amount recognized in the income statement	4,095	1,527	5,622
Return on plan assets	–	(1,375)	(1,375)
Actuarial (gain) and loss arising from changes in demographic assumptions	(668)	–	(668)
Actuarial (gain) and loss arising from changes in financial assumptions	1,594	–	1,594
Actuarial (gain) and loss due to experience	1,228	–	1,228
Amounts recognized in other comprehensive income	2,154	(1,375)	779
Contributions to the plan by the employer	–	(5,897)	(5,897)
Contributions to the plan by the employee	1,195	(1,195)	–
Payments	(8,080)	2,879	(5,201)
Reclassification from other liabilities	595	–	595
Acquisition of subsidiaries	–	–	–
Currency translation adjustment	(7,327)	5,009	(2,318)
Balance as at December 31, 2017	232,561	(105,845)	126,716

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2016	228,242	(106,284)	121,958
Current service costs	12,722	–	12,722
Interest expense	4,894	(2,328)	2,566
Curtailment	(4,477)	–	(4,477)
Amount recognized in the income statement	13,139	(2,328)	10,811
Return on plan assets	–	(3,320)	(3,320)
Actuarial (gain) and loss arising from changes in demographic assumptions	(2,362)	–	(2,362)
Actuarial (gain) and loss arising from changes in financial assumptions	21,449	–	21,449
Actuarial (gain) and loss due to experience	(3,278)	–	(3,278)
Amounts recognized in other comprehensive income	15,809	(3,320)	12,489
Contributions to the plan by the employer	–	(5,844)	(5,844)
Contributions to the plan by the employee	1,264	(1,264)	–
Payments	(11,910)	6,747	(5,163)
Acquisition of subsidiaries	133	–	133
Currency translation adjustment	(6,748)	5,500	(1,248)
Balance as at December 31, 2016	239,929	(106,793)	133,136

Net defined benefit obligation by geographical situation

The following table sets forth the funded status of the net defined benefit obligation by geographical situation:

	Year ended December 2017					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	72,561	61,541	26,680	44,122	27,657	232,561
Plan assets at fair value	–	(44,751)	(14,121)	(32,185)	(14,788)	(105,845)
Net defined benefit obligation	72,561	16,790	12,559	11,937	12,869	126,716

	Year ended December 2016					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	76,956	60,408	24,768	49,995	27,802	239,929
Plan assets at fair value	–	(43,995)	(12,303)	(35,806)	(14,689)	(106,793)
Net defined benefit obligation	76,956	16,413	12,465	14,189	13,113	133,136

Plan assets

In France, the regulations do not provide for any obligation to fund the liability arising from the lump-sum payments made to employees upon their retirement. In the UK, Germany, Switzerland, Israel and Finland, plan assets are comprised of insurance contracts, equity securities, debt instruments and other investments. The plan assets are composed of the following:

	Year ended December 2017				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	488	32,185	10,235	42,908
Equity securities	14,450	–	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–	–
Other investments	30,301	13,633	–	4,553	48,487
Total plan asset fair value	44,751	14,121	32,185	14,788	105,845

	Year ended December 2016				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	–	35,806	14,576	50,382
Equity securities	14,342	–	–	–	14,342
Debt instruments (Government and corporate bonds)	10,058	480	–	–	10,538
Other investments	19,595	11,823	–	113	31,531
Total plan asset fair value	43,995	12,303	35,806	14,689	106,793

In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees in the UK agree and submit a funding plan to the Pension Regulator within 15 months of the valuation date for all schemes showing an asset deficit, Gemalto N.V. and the trustees of the Gemplus Limited Staff Pension Scheme reached an agreement on the ongoing funding of the scheme, which consisted of a plan to fund the deficit up to 2022 on a going concern basis and a parental guarantee put in place by Gemalto N.V. in the event that Gemalto UK Ltd was unable to fulfill its funding obligations.

Fair value estimation of plan assets

The following table shows the fair value estimation of the plan assets in UK, Germany and Switzerland for the years ended December 31, 2017 and 2016:

	Year ended December 2017			
	Level 1	Level 2	Level 3	Total
Insurance contracts	488	32,185	–	32,673
Equity securities	14,450	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–
Other investments	43,934	–	–	43,934
Total plan asset fair value	58,872	32,185	–	91,057

	Year ended December 2016			
	Level 1	Level 2	Level 3	Total
Insurance contracts	–	35,806	–	35,806
Equity securities	14,342	–	–	14,342
Debt instruments (Government and corporate bonds)	10,538	–	–	10,538
Other investments	31,418	–	–	31,418
Total plan asset fair value	56,298	35,806	–	92,104

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2017	2016
Eurozone		
Discounting rate	1.60%	1.55%
Future salary increase	2.25% – 3%	2.25% – 3%
Inflation rate	1.50% – 2%	2.00%
UK		
Discounting rate	2.50%	2.70%
Future salary increase	n/a	n/a
Inflation rate	3.40%	3.45%
Expected rate of return on plan assets	2.50%	2.70%
Switzerland		
Discounting rate	0.65%	0.55%
Future salary increase	0.50%	0.50%
Inflation rate	0.50%	0.50%
Expected rate of return on plan assets	0.65%	0.55%

Discounting rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discounting rate to be applied for the liability calculation. Both indexes refer to Euro denominated and Sterling corporate bonds with AA rating maturing over ten years respectively. For duration exceeding ten years in the Eurozone, the discounting rate used is an extrapolation of the zero-coupon bond rate adjusted with the spread on iBoxx. In Switzerland, the Group uses Swiss high quality corporate bonds index for the liability calculation.

The assumptions in respect of discounting rate and inflation rate have a significant effect on the liability valuation. Changes to these assumptions in the light of prevailing market conditions may have a significant impact on future valuations.

Sensitivity analysis

The following table shows the sensitivity of the France, UK, Germany and Switzerland liabilities for the year ended December 31, 2017 to reasonable changes in main assumptions used, all other variables being held constant:

Increase/(Decrease) in the liability	0.5 percentage point increase	0.5 percentage point decrease	+1 Year	-1 Year
Discounting rate	(13,848)	15,644		
Inflation rate	5,695	(5,173)		
Salary growth	4,054	(3,764)		
Mortality			4,264	(4,423)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2012–2014 for France, (ii) SAPS S2Px tables with a 1.25% long-term trend-rate for the UK, (iii) Richttafeln 2005G for Germany and (iv) BGV 2015 GT for Switzerland.

The following table sets forth the expected life of participants by geographical situation:

	Year ended December 31, 2017			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	22.70	19.26	22.38
Women	22.94	24.30	23.32	24.43
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.10	21.90	24.26
Women	22.94	25.90	25.82	26.29
	Year ended December 31, 2016			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	23.10	19.13	22.14
Women	22.94	25.10	23.19	24.22
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.50	21.77	24.11
Women	22.94	26.60	25.70	26.14

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2018 is €11,722. The weighted average duration of the defined benefit obligation is 15.4 years (15 years as at December 31, 2016).

Duration of the plans by geographical area:

	Year ended December 2017				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.2	20.0	14.4	18.2	12.3
	Year ended December 2016				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.54	20.0	15.97	14.1	14.05

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

	Cash outflow		
	2018	2019	2020
Net defined benefit obligation	7,652	7,780	8,218

Note 18. Non-current provisions and other liabilities

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

	Year ended December 31,	
	2017	2016
Non-current provisions	54,706	39,649
Other non-current liabilities ¹²	75,266	81,831
Total	129,972	121,480

¹² The €75,266 carrying value of other non-current liabilities is assessed to be equivalent to their fair value (€81,831 in 2016).

Variation analysis of the non-current provisions is as follows:

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2017	1,875	1,935	4,655	22,392	8,792	39,649
Acquisition of a subsidiary	–	–	–	2,816	40	2,856
Additional provisions	2,061	24,502	180	2,442	547	29,732
Unused amount reversed	(439)	(762)	(1,116)	(4,638)	(106)	(7,061)
Used during the period	(7)	(914)	(680)	(2,420)	(53)	(4,074)
Reclassifications	366	(68)	–	(507)	(3,532)	(3,741)
Cumulative translation adjustment	(64)	–	(29)	(2,111)	(451)	(2,655)
As of December 31, 2017	3,792	24,693	3,010	17,974	5,237	54,706
	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2016	6,409	1,485	4,135	33,538	22,644	68,211
Additional provisions	987	901	2,168	980	2,632	7,668
Unused amount reversed	(3,878)	(68)	(477)	(3,878)	(29)	(8,330)
Used during the period	(296)	(921)	(1,225)	(8,917)	(648)	(12,007)
Reclassifications	(1,381)	538	(9)	(3)	(15,844)	(16,699)
Cumulative translation adjustment	34	–	63	672	37	806
As of December 31, 2016	1,875	1,935	4,655	22,392	8,792	39,649

The assessment of these risks has been performed with the assistance of external counsels when needed and provisions booked when necessary as described in note 2.20.

Notes to the consolidated financial statements continued

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2017 and 2016 consist of the following:

	Year ended December 31,	
	2017	2016
Trade payables	205,386	227,194
Employee related payables	169,950	175,823
Accrued expenses	122,963	142,404
Accrued VAT	33,311	28,597
Deferred revenue	145,559	138,847
Other	5,079	2,902
Total trade and other payables	682,248	715,767

Note 20. Restructuring and acquisition-related expenses by nature

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

	Year ended December 31,	
	2017	2016
Severance and associated costs	92,988	18,167
Transaction costs on acquisition	2,108	4,618
Write-offs and impairments	3,118	5,166
Legal and professional fees	5,478	1,495
Other costs (income), net	10,562	6,210
Total restructuring and acquisition-related expenses	114,254	35,656

The main portion of the €114 million Restructuring and acquisition-related expenses reflects expenses incurred in connection with (i) the 2017 transition plan represented €81 million (ii) the IT and facilities integration of the recent M&A activities for €10 million and (iii) the implementation of a new information system (ERP) to harmonize finance and reporting system for €15 million. The restructuring and transformation of the Group Mobile Platforms & Services business and data centers also contributed for €8 million.

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2017	2016
Warranty	6,802	4,207
Provisions for loss on contracts	1,542	6,162
Restructuring and reorganization	37,022	3,428
Other	6,895	3,535
Total current provisions and other liabilities	52,261	17,332

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2017	4,207	6,162	3,428	3,535	17,332
Acquisition of a subsidiary	–	441	–	–	441
Additional provisions	4,589	1,401	36,720	4,780	47,490
Unused amount reversed	(957)	–	(226)	(437)	(1,620)
Used during the year	(501)	(9,834)	(2,293)	(1,234)	(13,862)
Reclassifications	(366)	3,916	(147)	249	3,652
Cumulative translation adjustment	(170)	(544)	(460)	2	(1,172)
As of December 31, 2017	6,802	1,542	37,022	6,895	52,261

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2016	4,794	8,449	2,931	3,192	19,366
Additional provisions	726	508	2,476	1,679	5,389
Unused amount reversed	(1,614)	(7,340)	(826)	(80)	(9,860)
Used during the year	(1,142)	(11,504)	(741)	(1,022)	(14,409)
Reclassifications	1,381	15,759	(405)	(249)	16,486
Cumulative translation adjustment	62	290	(7)	15	360
As of December 31, 2016	4,207	6,162	3,428	3,535	17,332

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2017	2016
Embedded software & Products, excluding hedge effect	1,950,801	2,130,353
Platforms & Services, excluding hedge effect	1,035,588	1,041,757
Others	(14,672)	(45,579)
Total	2,971,717	3,126,531

"Others" includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments (see note 28).

Note 23. Costs of sales and operating expenses by nature

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

	Year ended December 31,	
	2017	2016
Depreciation, amortization, impairment, write-offs and other provisions	161,460	151,279
Amortization and depreciation of intangibles resulting from acquisitions	513,677	57,576
Employee compensation and benefit expense (see note 24)	1,155,286	1,039,973
Change in inventories (finished goods and work in progress)	2,773	21,678
Raw materials used and consumables	1,019,430	1,008,153
Freight and transportation costs	98,853	107,387
Travel costs	56,246	56,649
Buildings and office leases	109,678	115,314
Royalties, legal and professional fees	163,283	170,752
Subcontracting and temporary workforce	101,135	95,241
Others	(45,180)	(44,417)
Total costs of sales and operating expenses	3,336,641	2,779,585

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2017	2016
Wages and salaries (including severance costs recorded in restructuring and acquisition-related expenses)	1,008,166	905,375
Pension – Defined benefit plans	3,262	8,245
Pension – Defined contribution plans	36,855	36,594
Share-based compensation expense	37,011	9,238
Others	69,992	80,521
Total employee compensation and benefit expense	1,155,286	1,039,973

Note 25. Equity-based compensation plans

All share and exercise prices are expressed in Euro.

Gemalto has established a Global Equity Incentive Plan (GEIP) for its employees.

Gemalto share option and Restricted Share Unit plans (excluding Gemplus share option plans)

The GEIP authorizes the Company to grant eligible employees over the duration of the plan ending December 31, 2024 the right to acquire a maximum 14 million ordinary shares of Gemalto N.V. when vesting conditions are met.

Gemalto share options

The following table summarizes the outstanding share option plans granted by the Board of Gemalto N.V. since the creation of the Company in 2004.

Grant date	Year ended December 31,			
	Share options granted	Exercise price (Euro)	Number of options outstanding as of December 31, 2017	Number of options outstanding as of December 31, 2016
Sep-07	872,000	20.83	–	25,475
Sep-08	1,399,000	26.44	57,138	344,980
Total	2,271,000		57,138	370,455

Notes to the consolidated financial statements continued

Note 25. Equity-based compensation plans continued

Gemplus S.A. and Gemplus International S.A. share options

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on December 6, 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the combination public exchange offer (i.e. 25 Gemplus shares for two Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

Movements in the number of share options outstanding (Gemalto and Gemplus) and their related weighted average exercise price are as follows:

	Year ended December 31,			
	Weighted average exercise price (Euro)	Number of options outstanding as of 2017	Weighted average exercise price (Euro)	Number of options outstanding as of 2016
Beginning of the period	26.05	370,455	25.58	510,256
Forfeited	–	–	24.77	(4,000)
Exercised	25.98	(313,317)	24.31	(135,801)
End of the period	26.44	57,138	26.05	370,455

As of December 31, 2017, the average remaining life of the 57,138 outstanding options is 0.8 year. It was 1.7 years as of December 31, 2016 for the 370,455 options.

Share options outstanding (Gemalto and Gemplus) at the end of the period have the following expiry dates and weighted average exercise prices:

	Year ended December 31,			
	Weighted average exercise price (Euro)	Number of options outstanding as of 2017	Weighted average exercise price (Euro)	Number of options outstanding as of 2016
Expiry date				
2017	–	–	20.83	25,475
2018	26.44	57,138	26.44	344,980
Total	26.44	57,138	26.05	370,455

The above outstanding options are all vested as of December 31, 2017.

Gemalto Restricted Share Units (RSUs)

In 2017, the Board of Gemalto N.V. granted performance and/or service-based RSUs to eligible employees worldwide. The following are the characteristics of the plans:

Grant date	RSU granted	End of service period	Vesting conditions	Valuation assumptions used	RSU vested
May-17	25,830	Dec-19	Vesting conditions are service-based. RSU will vest if the employee is employed by the Company as at December 31, 2019.	Share price of €49.25. Risk free rate from Year 1 to Year 3 being minus 0.40% to minus 0.32%. Share price discount for no dividend eligibility of €1.51 per share.	none
May-17	124,000	Dec-19	Vesting conditions are both performance and service based. RSU will vest if the revenue of the acquired business for the period July 2017 to December 2018 will reach a certain target and employee is employed by the Company as at December 31, 2019. The maximum number of RSUs to be delivered may be 124,000.	Share price of €49.25. Risk free rate from Year 1 to Year 3 being minus 0.40% to minus 0.32%. Share price discount for no dividend eligibility of €1.51 per share.	none
Sep-17	416,000	Sep-20	Service based condition. The service vesting conditions is being an employee of the Company as at September 30, 2020.	Share price of €38.37. Risk free rate from Year 1 to Year 3 being minus 0.48% to minus 0.47%. Share discount for no dividend eligibility of €1.51 per share.	none
Sep-17	581,000	Sep-20	Market based conditions: RSU will vest if the Group TSR ("Total Shareholder's Return") will reach certain Board-approved targets compared to the market index STOXX Europe 600 Technology during the performance period (from October 2017 to September 2020).	Share price of €38.37 Risk-free rate of minus 0.5% Expected volatility 34.5% Monte Carlo simulation model used	none

The above table includes some Gemalto employees in China who were granted RSUs in 2017 under the GEIP.

Year ended December 31, 2017, the following RSUs granted by the Company were outstanding:

Grant date	Maximum amount granted based on performance variability	Amount forfeited	Outstanding	Remaining vesting conditions	End of service period
Mar/Apr 2014	949,500	(599,200)	350,300	performance and service	n/a
Jan-15	80,000	(76,967)	3,033	performance and service	n/a
Aug-15	789,950	(652,330)	137,620	performance and service	Aug-18
May-16	90,000	–	90,000	service	n/a
Jun-16	790,585	(125,920)	664,665	service	Jun-19
Oct-16	960,000	(509,570)	450,430	performance and service	Oct-19
May-17	25,830	–	25,830	service	Dec-19
May-17	124,000	(18,120)	105,880	performance and service	Dec-19
Sep-17	416,000	(2,500)	413,500	service	Sep-20
Sep-17	581,000	(2,500)	578,500	performance	Sep-20
Total	4,806,865	(1,987,107)	2,819,758		

Gemalto Employee Share Purchase Plans

Gemalto has established a Global Employee Share Purchase Plan (GESPP) for its employees.

Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing share price of October 30, 2017 or November 10, 2017. 93,147 Treasury shares were subscribed by the employees at a price, net of discount, of €27.77 per share. In China, the share purchase price paid by the employees was held by the local employer and the finalization of the transaction with the local employees was subject to approval of the State Administration of the Foreign Exchange.

Equity-based compensation expense in the income statement

The compensation expense corresponding to the amortization of the IFRS 2 value of the share options and RSUs, the GESPP and associated costs was recorded as follows:

	Year ended December 31,	
	2017	2016
Cost of sales	8,910	4,553
Research and engineering	3,978	791
Sales and marketing	12,071	496
General and administrative	12,052	3,398
Total	37,011	9,238

The associated costs amounted to €3 million (€2 million in 2016) and mainly include the accrual of French Social levies associated with the RSU.

Equity-based compensation cash inflow in the consolidated cash flow statement

Cash proceeds received from employees having exercised share options in 2017 was €10,716 (€4,296 in 2016).

Note 26. Other income and Other expenses

Other income

	Year ended December 31,	
	2017	2016
Gains on sales of non-core business	3,178	–
Compensation from customers and suppliers	2,296	288
Gains on sales of fixed assets	1,774	623
Other	3,137	2,281
Total	10,385	3,192

Other expenses

	Year ended December 31,	
	2017	2016
Impairment charge	(424,671)	–
Fixed assets write-off	(1,360)	(4,947)
Other	(462)	(3,087)
Total	(426,493)	(8,034)

Notes to the consolidated financial statements continued

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2017	2016
Interest expense	(3,867)	(5,888)
Interest expense and amortized costs on public bond, private placements, credit line facilities and commercial paper	(14,576)	(12,280)
Interest income	3,010	3,501
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(7,739)	452
Swap points of derivative instruments	(25,703)	(19,207)
Other financial income (expense), net	16,069	(846)
Financial income (expense), net	(32,806)	(34,268)

Other financial income (expense) is mainly composed of:

- (i) reassessment to fair value of several financial liabilities;
- (ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries in 2017; and
- (iii) commitment and arrangement fees related to the unused credit lines.

Note 28. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2017	2016
Net sales	(19,409)	(49,394)
Cost of sales	(2,305)	1,490
Financial income (expense), net	(33,442)	(18,755)
Net foreign exchange gains (losses)	(55,156)	(66,659)

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 (see note 4) are recorded in sales if the underlying net exposure is a revenue (net selling position) and in cost of sales if the underlying net exposure is a cost (net buying position).

Note 29. Taxes

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

	Year ended December 31,	
	2017	2016
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	12,659	84,802
Deferred tax asset to be recovered within 12 months	25,159	26,665
Total	37,818	111,467
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(99,596)	(119,709)
Deferred tax liabilities due within 12 months	(2,485)	(400)
Total	(102,081)	(120,109)
Deferred tax assets (liabilities), net	(64,263)	(8,642)

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

	Year ended December 31,	
	2017	2016
Beginning of the period	(8,642)	74,395
Acquisition of subsidiary and business	(42,508)	–
Credited to income statement	(7,922)	(55,465)
Tax credit (debit) recognized in other comprehensive income	(18,218)	(24,865)
Cumulative translation adjustment	13,027	(2,707)
End of the period	(64,263)	(8,642)

Deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 detail as follows:

	Year ended December 31,	
	2017	2016
Assets		
Loss carry-forwards	17,871	55,629
Excess book over tax depreciation and amortization	10,160	20,571
Employee and retirement benefits	12,091	17,542
Warranty reserves and accruals	377	1,502
Other temporary differences	42,938	83,346
Total assets	83,437	178,590
Liabilities		
Excess tax over book depreciation and amortization	(130,899)	(174,692)
Other temporary differences	(16,801)	(12,540)
Total liabilities	(147,700)	(187,232)
Deferred tax assets (liabilities), net	(64,263)	(8,642)

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2017	2016
Current tax	(27,765)	(52,032)
Deferred tax	(7,923)	(55,465)
Total	(35,688)	(107,497)

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the tax rate applicable in the country of incorporation of the Holding Company, i.e. the Netherlands, is as follows:

	Year ended December 31,			
	2017		2016	
	€	%	€	%
Profit (loss) before income tax	(388,868)		293,695	
Tax calculated at the rate of the Holding Company	97,217	(25.0)	(73,424)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	43,356		8,877	
Effect of the reassessment of the recognition of deferred tax assets	(832)		(45,881)	
Effect of utilization of tax assets not recognized in prior years	–		376	
Effect of unrecognized deferred tax assets arising in the year	(68,937)		(2,928)	
Other permanent differences	(106,492)		5,483	
Income tax credit (expense)	(35,688)	9.2	(107,497)	(36.6)

In 2017, the Company recorded an income tax charge of €(36) million on a pretax loss of €(388.9) million. This pretax loss includes a goodwill impairment of €425 million which resulted in a €118 million permanent differences in the tax proof. Deferred income tax assets are recognized for tax loss carry-forwards and other future deductions to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of December 31, 2017, Gemalto did not recognize tax assets amounting to €324.6 million (€297.3 million as of December 31, 2016) relating to tax losses and other future tax deductions. Of this amount, €282.2 million¹³ related to tax loss carry-forwards amounting to €1,251.7 million¹⁴ of which €1,163.8 million can be used indefinitely. In 2016 those amounts were €258.9 million¹³, €966.2¹⁴ million and €877.9 million respectively. Further to the US tax reform, DT positions relating to US entities have been reassessed at the new enacted tax rate. No other significant impact at December 31, 2017 have been identified. Deferred income tax liabilities have been recognized for withholding taxes and other tax payables according to applicable laws on the unremitted earnings of subsidiaries when Gemalto does not intend to reinvest its earnings and when such taxes cannot be recovered. Deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

¹³ Including €200.6 million (€208.7 million in 2016) related to Gemplus International S.A. (Luxembourg) tax loss carry-forwards.

¹⁴ Including €771.1 million (€769.1 million in 2016) for Gemplus International S.A. (Luxembourg).

Note 30. Earnings per share

	Year ended December 31,	
	2017	2016
Profit attributable to Owners of the Company	(423,907)	185,726
Weighted average number of ordinary shares – basic	89,883	88,703
Effect of dilution from share options	–	946
Weighted average number of ordinary shares – diluted	89,883	89,649
Basic earnings per share	(4.72)	2.09
Diluted earnings per share	(4.72)	2.07

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period. However, their conversion to ordinary shares would not decrease earnings per share or increase loss per share and as such they have not been treated as dilutive.

Note 31. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2017 and 2016 is summarized as follows:

	Year ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	8,885	7,571
Share-based compensation charge	9,726	(153)
Total expenses	18,611	7,418

b) Purchases of goods and services

In 2017, the Company purchased €8,463 worth of equipment and services (€11,033 in 2016) under existing agreements from Entrust Datacard Corporation. Mr. Johannes Fritz heads the Quandt/Klatten Family office, and certain members of the Quandt/Klatten Family own the majority of Entrust Datacard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2017, total purchases from associated companies was €4,201 (€3,604 in 2016).

Notes to the consolidated financial statements continued

Note 31. Related party transactions continued

c) Sales of goods and services

In 2017, total sales to related parties amounted to €1,963 (€3,263 in 2016). In 2017, total sales to associated companies amounted to €1,075 (€35,224 in 2016).

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

	Year ended December 31,	
	2017	2016
Receivables from:		
Associates	394	17,321
Related parties	550	973
Total receivables	944	18,294
Payables to:		
Associates	298	283
Related parties	189	286
Total payables	487	569

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

Note 32. Commitments and contingencies

Legal proceedings

The Company is subject to legal and tax proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2017, are as follows:

	Year ended December 31,	
	2017	2016
Not later than 1 year	28,131	28,234
Later than 1 year and not later than 5 years	78,109	79,871
Later than 5 years	21,182	25,344
Total	127,422	133,449

Bank guarantees

As at December 31, 2017, bank guarantees, mainly performance and bid bonds, amounted to €167 million (€170 million in 2016). These guarantees have been issued as part of the Group's normal operations in order to secure the Group's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Group.

Microprocessor chip purchase commitments

Gemalto is committed by contracts with its suppliers of chips to purchase the whole quantity of products in safety stocks within a period of time of one year from the availability date of the safety stocks. As at December 31, 2017, the commitments to purchase these safety stocks valued at the average purchase price amounted to €16 million (€25 million in 2016).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (£28 million in 2016) equivalent to €31.8 million (€32.9 million in 2016), granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Note 33. Dividends

The AGM of May 18, 2017 has approved the distribution of a €44,964 dividend in respect of the financial year 2016.

This represents a dividend of €0.50 per share.

Note 34. Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2017 which would materially impact the consolidated financial statements of the Company.

Note 35. Consolidated entities

The companies over which Gemalto N.V. has direct or indirect control are fully consolidated in the consolidated financial statements and are listed in the following table:

Country of incorporation	Company name	Gemalto's interest
Algeria	Cogent Systems Maghreb Sarl	49%
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
	Multos International Pty Ltd	100%
	SafeNet Australia Pty Ltd	100%
	Netsize Pty Ltd	100%
Belgium	Gemventures1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
	SafeNet Tecnologia em Informatica, Ltda	100%
	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	SafeNet (BVI) Co. Ltd	100%
Canada	Gemalto Canada Inc.	100%
	SafeNet Canada, Inc	100%
Chile	Gemalto Chile Limitada	100%
China	Gemalto Smart Cards Technology Co. Ltd	100%
	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
	Cogent Systems (Shenzhen) Inc	100%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	100%
	Information Security Co Ltd Shenzen Nan	100%
	SafeNet China Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Estonia	Trüb Baltic AS	100%
Finland	Gemalto Oy	100%
France	Gemalto International S.A.S.	100%
	Gemalto S.A.	100%
	BuzzinBees S.A.S	100%
	Gemalto Treasury Services S.A.	100%
	SafeNet France S.A.R.L.	100%
	ISSM S.A.S.	100%
	Netsize S.A.	100%
	Netsize Payment S.A.S.	100%
	Newcard S.A.S.	100%
	Trusted Labs S.A.S.	100%
	TV-Card S.A.S.	100%
Gabon	Gemalto Gabon S.A.S.	100%

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Cardag Deutschland GmbH	100%
	SFNT Germany GmbH	100%
	Trüb Technology GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Cogent Systems Inc. HK Limited	100%
	SafeNet Asia Ltd	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
India	Cinterion Wireless Modules India Private Limited	100%
	Cogent Systems India private limited	100%
	Gemalto Digital Security Private Ltd	100%
	SafeNet India Private Ltd	100%
	SafeNet Infotech Private Ltd	100%
	Gemalto Smart Cards Private Limited	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Smart Cards	100%
Israel	Gemalto Israel Ltd	100%
	SafeNet Data Security (Israel) Ltd.	100%
Italy	Gemalto SPA	100%
	SafeNet Italy Srl	100%
	Netsize Srl	100%
Ivory Coast	Gemalto Côte d'Ivoire Sarl	100%
Japan	Gemalto KK	100%
	Nihon SafeNet KK	100%
Luxembourg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	Gemalto Mexico S.A. de CV	100%
	SafeNet Mexico S de RL de CV	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc sarl	100%
New Zealand	Gemalto (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Pakistan	Gemalto Pakistan (Private) Ltd	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Romania	Gemalto Services srl	100%
Russian Federation	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
	Gemalto Cogent LLC	100%
Senegal	Gemalto Senegal SA	83%
Singapore	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%

Notes to the consolidated financial statements continued

Note 35. Consolidated entities continued

Country of incorporation	Company name	Gemalto's interest
South Africa	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
South Korea	Gemalto Korea Limited	100%
Spain	Gemalto SP S.A.	100%
	SafeNet Spain SL	100%
	Netsize Espana SL	100%
Sweden	AB Svenska Pass	100%
	Netsize Internet Payment Exchange AB	100%
	SafeNet Sweden AB	100%
	Gemalto AB	100%
Switzerland	Gemalto AG	100%
	Gemplus Management & Trading S.A.	100%
	Trüb International AG	100%
	SafeNet Technologies Schweiz AG	100%
	SFNT Switzerland GmbH	100%
	Swiss Mobility Solutions S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
	Gemalto International B.V.	100%
	HAFALAD BV	100%
	SafeNet Europe B.V.	100%
	SafeNet Technologies B.V.	100%
	SFNT BV – One BV	100%
	Gemalto Finance B.V.	100%
	SFNT Netherlands Cooperatief B.A.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
	Plastkart	66%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Gemalto UK Ltd	100%
	Maosco Ltd	100%
	Gemplus Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	SafeNet UK Ltd	100%
United States of America	Gemalto IoT LLC	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Gemalto Cogent Inc	100%
	Source One Direct Inc	100%
	Cogent System Exchange, LLC	100%
	Gemalto SSD Inc	100%
	Gemalto Inc.	100%
	SafeNet Assured Technologies, LLC	100%
	SafeNet, Inc.	100%

For the aforementioned listed entities, the percentage of voting rights equals the percentage of ownership interest, with the exception of Gemalto Southern Africa Pty Ltd and Plastkart for which the percentage of voting rights are 70% and 91% respectively.

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Bulgaria	Trüb Demax Plc	50%
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	23%
	Wizway Solutions S.A.S.	25%
Japan	TGS Co. Ltd	50%
Jordan	Joint-Venture of Gemalto and Offtec Office and Banking Systems	50%
Singapore	V3 Teletech Pte Ltd	21%
Taiwan	SmartDisplayer Technology Co.,Ltd	15%
United Kingdom	Trustonic Ltd	50%

Statutory financial statements and notes of the Holding Company

Statutory financial statements of the Holding Company

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Statement of financial position of the Holding Company

In thousands of Euro and before appropriation of result	Notes	Year ended December 31,	
		2017	2016
Assets			
Non-current assets			
Goodwill	2	345,687	746,605
Property, plant and equipment	3	25	36
Investments in subsidiaries and associates	4	2,365,975	2,013,360
Long-term loans to subsidiaries	4, 8	435,038	495,702
Other non-current assets	5	–	6,944
Total non-current assets		3,146,725	3,262,647
Current assets			
Short-term loans to subsidiaries	8	2,120	5,694
Receivables due from subsidiaries and associates		15,878	122,097
Other receivables		2,265	470
Cash and cash equivalents	6	12,185	13,557
Total current assets		32,448	141,818
Total assets		3,179,173	3,404,465
Equity			
Issued and paid in share capital	7	90,424	89,929
Share premium	7	1,303,799	1,291,795
Legal reserves	7	(71,926)	(20,402)
Other reserves	7	19,294	5,753
Retained earnings	7	1,258,275	1,117,450
Net income for the period	7	(423,907)	185,726
Capital and reserves attributable to the owners of the Holding Company		2,175,959	2,670,251
Liabilities			
Non-current liabilities			
Borrowings	9	710,071	545,964
Borrowings from subsidiaries	9	2,067	–
Other long-term liabilities	10	7,043	9,904
Total non-current liabilities		719,181	555,868
Current liabilities			
Short-term borrowing from subsidiaries	9	–	2,116
Payables to subsidiaries		15,807	51
Short-term debt	9	260,000	169,000
Other payables		8,226	7,179
Total current liabilities		284,033	178,346
Total liabilities		1,003,214	734,214
Total equity and liabilities		3,179,173	3,404,465

Income statement of the Holding Company

In thousands of Euro	Notes	Year ended December 31,	
		2017	2016
Revenue		–	–
Cost of sales		(8,246)	(4,436)
Gross profit		(8,246)	(4,436)
Sales and marketing expenses		(11,845)	(1,580)
General and administrative expenses		(24,588)	(13,179)
Total costs		(36,433)	(14,759)
Operating profit/(loss)		(44,679)	(19,195)
Other income		2,074	699
Changes in value of fixed assets investments		(392,617)	–
Financial income	12	21,256	21,882
Financial expense	12	(25,017)	(22,358)
Result from ordinary activities before tax		(438,983)	(18,972)
Tax on result on ordinary activities	13	35	63
Share in results of subsidiaries and associates	4	15,041	204,635
Net result for the period after tax		(423,907)	185,726

Statements of changes in shareholders' equity of the Holding Company

In thousands of Euro	Number of shares		Attributable to equity holders of the Holding Company					Total equity
	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	
Shareholders' equity as of January 1, 2017	89,928,639	89,210,804	89,929	1,291,795	(20,402)	5,753	1,303,176	2,670,251
Movements in fair value and other reserves:								
Currency translation adjustments					(148,745)			(148,745)
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						(2,815)		(2,815)
– Cash flow hedges, net of deferred tax					96,192			96,192
– Currency translation adjustments on fair value gains/(losses)					1,029			1,029
Equity securities – net changes in fair value						(8,785)		(8,785)
Net income recognized directly in equity					(51,524)	(11,600)	–	(63,124)
Net profit for the period							(423,907)	(423,907)
Total recognized income for 2017					(51,524)	(11,600)	(423,907)	(487,031)
Issuance of new shares	495,175	495,175	495	18,024		(18,519)		–
Equity-based compensation charge, equity-settled						33,537		33,537
Employee share option plans		421,044				10,716		10,716
Purchase of Treasury shares, net		(42,252)				(572)		(572)
Other net asset changes from associates							42	42
Acquisition of non-controlling interests				(6,020)				(6,020)
Dividends paid/payable to shareholders							(44,964)	(44,964)
Reclass actuarial gains/losses						(21)	21	–
Balance as of December 31, 2017	90,423,814	90,084,771	90,424	1,303,799	(71,926)	19,294	834,368	2,175,959
Shareholders' equity as of January 1, 2016	89,007,709	88,103,992	89,008	1,240,241	(61,596)	56,637	1,158,525	2,482,815
Movements in fair value and other reserves:								
Currency translation adjustments					34,760			34,760
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						(12,737)		(12,737)
– Cash flow hedges, net of deferred tax					4,752			4,752
– Currency translation adjustments on fair value gains/(losses)					1,682			1,682
Net income recognized directly in equity					41,194	(12,737)	–	28,457
Net profit for the period							185,726	185,726
Total recognized income for 2016					41,194	(12,737)	185,726	214,183
Issuance of new shares	920,930	920,930	921	51,554		(51,056)		1,419
Equity-based compensation charge, equity-settled						7,356		7,356
Employee share option plans		165,568				4,296		4,296
Purchase of Treasury shares, net		20,314				1,257		1,257
Other net asset changes from associates							453	453
Dividends paid/payable to shareholders							(41,528)	(41,528)
Balance as of December 31, 2016	89,928,639	89,210,804	89,929	1,291,795	(20,402)	5,753	1,303,176	2,670,251

Notes to the statutory financial statements of the Holding Company

The Company financial statements are part of the 2017 financial statements of Gemalto N.V.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ("the Holding Company" or "Gemalto"), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements for a description of these principles).

1.2 Investments

Subsidiaries are all entities over which the Holding Company has control. The Holding Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are recognized from the date on which control is transferred to the Holding Company and derecognized from the date that control ceases. Associates are all entities over which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Holding Company calculates the net asset value using the accounting policies as described in note 2.3 of the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

When the Holding Company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement. When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognized in equity.

The Holding Company determines at each reporting date whether there is any objective evidence that investments in the associates are impaired. If this is the case, the Holding Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates in the income statement. As goodwill is included in the carrying amount of the investments in associates, it is not separately tested for impairment.

The Holding Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Holding Company only if the Holding Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the Holding Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Holding Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Holding Company will recognize a provision.

Amounts due from investments are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate.

1.3 Goodwill

Presentation of goodwill depends on the structuring of the acquisition. Goodwill is presented separately in the statutory financial statements if this relates to an acquisition performed by the Holding Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher between value in use and fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Note 2. Goodwill

	Goodwill
January 1, 2017	746,605
Impairment charge	(392,617)
Currency translation adjustment	(8,301)
December 31, 2017	345,687

The triggering events resulting in the impairment charge in 2017 are disclosed in note 9 of the consolidated financial statements. The impairment charge recorded in the company financial statements is lower compared to the charge recognised in the consolidated financial statements as it only reflects the impairment charge recognized on direct subsidiaries.

Notes to the statutory financial statements of the Holding Company continued

Note 3. Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2017	
Gross book value	84
Accumulated depreciation	(48)
Net book value	36
2017 movements	
Additions	2
Depreciation	(13)
December 31, 2017	
Gross book value	86
Accumulated depreciation	(61)
Net book value	25

Note 4. Investments and loans

	Year ended December 31,	
	2017	2016
Investments in subsidiaries and associates	2,365,975	2,013,360
Net investments in subsidiaries and associates	2,365,975	2,013,360

An overview of the movements in investments and loans is presented below:

	Net investments in subsidiaries	Investments in associates	Long-term loans to subsidiaries	Total
January 1, 2017	2,006,433	6,927	495,702	2,509,062
2017 movements				
Acquisitions	46,456			46,456
Contributions to subsidiaries and associates	415,595	4,255		419,850
Disposal of non core business	(395)			(395)
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	4,157			4,157
Liquidation of subsidiaries and associates	(375)			(375)
Fair value gains and losses	85,621			85,621
Other changes in net assets of indirect associates	42			42
Dividends and capital reductions	(77,313)			(77,313)
Other	(25)			(25)
Net result from subsidiaries and associates	19,701	(4,660)		15,041
Revaluation through Profit and Loss			(60,664)	(60,664)
Currency translation adjustment	(140,444)			(140,444)
December 31, 2017	2,359,453	6,522	435,038	2,801,013

The terms of the long-term loans to subsidiaries are disclosed in note 8. In the carrying value of the investments and loans there are no accumulated depreciation or impairment charges.

Note 5. Other non-current assets

The other non-current assets consisted of a long-term receivable (non-interest bearing) from Trustonic Ltd.

Note 6. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2017	2016
Cash at bank and in hand	12,185	13,557
Total	12,185	13,557

Note 7. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2017 and consisted of €150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €90,424 as at December 31, 2017 and to €89,829 as at December 31, 2016. The share capital consisted of 90,423,814 ordinary shares as at December 31, 2017 and of 89,928,639 ordinary shares as at December 31, 2016 with a nominal value of €1 with no specific rights attached thereto.

The Holding Company issued 495,175 new shares during 2017 for the delivery in relation to the Global Equity Incentive Plan. The amounts recorded in the share capital and the share premium were transferred from the other reserves where the "Equity based compensation charge, equity settled" was accumulated over the vesting period of the underlying Restricted Share Units.

Share premium

As at December 31, 2017, the share premium amounted to €1,303,799 (€1,291,795 as at December 31, 2016). The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

Legal reserves

Pursuant to section 373, Book 2 of the Netherlands Civil Code, the part of retained earnings in relation to non-distributable results of Group companies and associates, pension reserves, currency translation adjustments and cash flow hedges (if their balances are positive) are legal reserves.

As at December 31, 2017, Income recognized directly in equity consisted of:

	2017
Reserve for cash flow hedge	4,826
Cumulative translation adjustment	(76,752)
Total	(71,926)

Other reserves

As at December 31, 2017, Other reserves consisted of:

	2017
Treasury shares	(10,721)
Share option reserve	73,868
Net gains on Treasury shares in connection with the liquidity program	6,834
Net changes in fair value of equity securities	(8,785)
Reserve for actuarial gains and losses on benefit obligations	(23,638)
Treasury shares canceled	(18,923)
Other	659
Total	19,294

Notes to the statutory financial statements of the Holding Company continued

Note 8. Loans

Loans to subsidiaries and associates

Loans to subsidiaries and associates consist of the following:

	Year ended December 31, 2017	
	Long-term loans	Short-term loans
Subsidiaries		
Gemalto Inc.	419,111	
Source One Direct Inc.	15,927	
Gemalto B.V.		1,370
Associate		
Trustonic Ltd.		750
Total	435,038	2,120

The Holding Company financed its subsidiaries and associate with the following terms:

	Gemalto Inc.	Source One Direct Inc.	Gemalto B.V.	Trustonic Ltd.
Effective date	December 29, 2015	December 21, 2015	July 14, 2016	December 11, 2017
Interest	4.5%	4.5%	2%	6M EURIBOR +3%
Maximum facility	USD 500 million	USD 30 million	AED 12 million	EUR 0.75 million
Maturity	December 28, 2025	December 20, 2025	July 13, 2018	June 30, 2018

Note 9. Borrowings

Borrowings from subsidiaries

Borrowings from subsidiaries and associates consist of the following:

	Year ended December 31, 2017	
	Long-term borrowings	
Gemalto (Thailand) Ltd		2,067
Total		2,067

The Holding Company borrowed from its subsidiary with the following terms:

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010 and July 16, 2015
Interest	12M BIBOR +0.4%
Maximum facility	THB 80 million
Maturity	August 3, 2019

Borrowings

The non-current borrowings include an amount of €397,439 related to the €400 million public bond listed on the Luxembourg stock exchange issued in September 2014 at 2.125%, ahead of the SafeNet acquisition, and maturing in September 23, 2021. At December 31, 2017 the bond was booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables.

Two private placements were issued in March and April 2015 for a total amount of €150 million and maturing between 2020 and 2030. They were recorded based on the amortized cost method. The interest rates are 1.94% and 2.05% respectively for the two private placements.

One private placement is issued in April 2017 for USD 100 million which matures in 2028. The private placement is booked based on the amortized cost method and the interest rate is 4.33%. The three private placements have a carrying value of €232,632 as of 31 December 2017.

One term loan is issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on the amortized cost method and the interest rate is 0.35%.

The short-term borrowings consist of the implemented French commercial paper program for a total capacity of €500 million with the aim of both diversifying and optimizing the Company's sources of financing. As at December 31, 2017, the outstanding amount reaches €260 million. The average interest percentage is (0.15)% per annum.

Further information about the current and non-current borrowings is included in note 16 of the consolidated financial statements.

Note 10. Other long-term liabilities

The other long-term liabilities have an expected remaining lifetime of 3 years.

Note 11. Wages and salaries

	Year ended December 31,	
	2017	2016
Wages and salaries	2,732	2,344
Costs with respect to share (option) plans	33,537	7,356
Social security charges	183	154
Pension contributions	75	81
Other employee costs	356	296
Total	36,883	10,231

The wages and salaries include the remuneration of the Board members as further detailed in note 14. Further information about the cost with respect to the share (option) plans are included in note 25 of the consolidated financial statements. These costs contain the cost for all worldwide employees and are included in the different functional income statement categories (Cost of Sales, Sales and marketing expenses and General and administrative expenses).

The average number of staff employed by the Holding Company during 2017 was 16 (15 in 2016) based on full time equivalents excluding the Non-executive Board members. None of these employees were employed abroad (none in 2016).

Note 12. Financial income and expense

	Year ended December 31,	
	2017	2016
Interest and similar income	21,256	21,882
Interest and similar expenses	(16,119)	(16,571)
Exchange differences	(8,898)	(5,787)
Total	(3,761)	(476)

Note 13. Tax on result from ordinary (business) activities

The Holding Company is head of a Dutch fiscal income tax unity. The other companies included in the fiscal unity are Gemalto B.V. and Gemalto Finance B.V. The fiscal unity regime provides for a tax consolidation of Dutch resident entities within a group by filing one consolidated tax return. The Holding Company is liable for the tax activities of the entire tax fiscal unity. The Company has cumulative tax losses amounting to € 75.5 million for the years starting from year 2009; (2016: €79.7 million for the years starting 2008) accordingly no corporate income tax payable is due; no current income tax payable and no income tax charge is included in these company only financial statements with the exception of incurred withholding tax on dividends received from subsidiaries. The tax losses have not been recognized as deferred tax asset as management expects no utilization in the foreseeable future.

Note 14. Information relating to the Board

Amounts in this note are stated in Euro.

The cost incurred for the remuneration of the Board amounts to:

Remuneration of the Board

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer social charges ¹	Total
Fiscal year 2017							
Alex Mandl	Non-executive Chairman	265,000					265,000
Philippe Vallée	Executive Board member and Chief Executive Officer	300,000	450,000	409,424	1,074,629	550,889	2,784,942
Olivier Piou	Non-executive Board member	90,055				(6,295)	83,760
Buford Alexander	Non-executive Board member	86,000					86,000
Homaira Akbari	Non-executive Board member	94,000					94,000
Jill Smith	Non-executive Board member	58,718					58,718
Johannes Fritz	Non-executive Board member	93,000					93,000
John Ormerod	Non-executive Board member	104,433					104,433
Philippe Alfroid	Non-executive Board member	93,000				3,571	96,571
Yen Yen Tan	Non-executive Board member	86,000					86,000
Joop Drechsel	Non-executive Board member	97,567				3,571	101,138
Total		1,367,773	450,000	409,424	1,074,629	551,736	3,853,562

¹ The amount includes the employer part of the pension costs.

Notes to the statutory financial statements of the Holding Company continued

Note 14. Information relating to the Board continued

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer Social charges ³	Total
Fiscal year 2016							
Alex Mandl	Non-executive Chairman	265,000					265,000
Philippe Vallée²	Executive Board member and Chief Executive Officer	100,000	150,000	160,160	71,397	261,104	742,661
Olivier Piou	(Non)-Executive Board member and Chief Executive Officer	35,000	815,000	544,544	(113,686)	454,675	1,735,533
Buford Alexander	Non-executive Board member	86,000					86,000
Homaira Akbari	Non-executive Board member	94,000					94,000
Drina Yue	Non-executive Board member	35,956					35,956
Johannes Fritz	Non-executive Board member	93,000					93,000
John Ormerod	Non-executive Board member	108,000					108,000
Philippe Alfroid	Non-executive Board member	93,000				3,562	96,562
Yen Yen Tan	Non-executive Board member	86,000					86,000
Joop Drechsel	Non-executive Board member	94,000				3,562	97,562
Total		1,089,956	965,000	704,704	(42,289)	722,903	3,440,274

² The CEO's remuneration has been paid pro rata for 2016, from September 1, 2016 until December 31, 2016.

³ The amount includes the employer part of the pension costs.

Mr. Philippe Vallée was appointed as CEO at the 2016 AGM and his service period started as of September 1, 2016.

Mr. Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM and resigned as CEO as of September 1, 2016. As of September 1, 2016, Mr. Olivier Piou became a Non-executive Board member.

For more details on the bonus, profit sharing and grants of restricted share units of the CEO, reference is made to the remuneration report included in this Annual Report.

The cost of restricted share units recorded by the Company is based on accounting standards and does not reflect the value of the restricted share units at the grant date, nor the value at the vesting date and nor the value at the end of the blocking periods if these performance-conditioned and/or service-conditioned restricted share units vest and become available.

Remuneration of Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees, is approved by the shareholders. The remuneration is reviewed periodically by the Compensation committee. The current annual remuneration for Non-executive Board members as approved by the 2017 AGM is:

- €250,000 for the Non-executive Chairman of the Board;
- €70,000 for each other Non-executive Board member;
- An additional €16,000 for each member of the Audit committee and €30,000 for the committee Chairman; and
- An additional €8,000 for each member of every other Board committee and €15,000 for the committee Chairman.

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €3,850 in 2017.

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

	Gemalto shares	FCPE units ⁴	RSUs ⁵	Gemalto share options
	Number of shares held	Number of units purchased	Maximum number of RSUs held	Number of shares options held
As at December 31, 2017				
Philippe Vallée	144,700	20,545	205,100	8,600
Olivier Piou	443,499	72,659	96,250	
Alex Mandl	10,000			
Total	598,199	93,204	301,350	8,600

⁴ FCPE (Fonds commun de Placement d'Entreprise), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

⁵ Subject to performance and/or service conditions or delivery of shares.

Note 15. Auditor's fees

The aggregate fees billed by the external auditor, KPMG, for professional services rendered for the fiscal years 2017 and 2016 respectively were as follows:

	Fee KPMG Accountants N.V.	Fee other KPMG offices	Total fee KPMG
2017			
Audit of the financial statements	156	3,099	3,255
Other audit procedures		543	543
Fees relating to tax advice	–	–	–
All other non-audit fees		35	35
Total	156	3,677	3,833
2016			
Audit of the financial statements	129	2,804	2,933
Other audit procedures	28	496	524
Fees relating to tax advice	–	–	–
All other non-audit fees	–	10	10
Total	157	3,310	3,467

Note 16. Guarantees, tax and lease commitments of the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (equivalent to €31.8 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan. The Company issued a bank guarantee of €61 thousand.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2017, are as follows:

	2017
Not later than 1 year	239
Later than 1 year and not later than 5 years	782
Later than 5 years	95
Total	1,116

The Board

Alex Mandl

Non-executive Chairman
of the Board

Philippe Vallée

Executive Board member
and Chief Executive Officer

Homaira Akbari

Non-executive Board member

Buford Alexander

Non-executive Board member

Philippe Alfroid

Non-executive Board member

Joop Drechsel

Non-executive Board member

Johannes Fritz

Non-executive Board member

John Ormerod

Non-executive Board member

Olivier Piou

Non-executive Board member

Yen Yen Tan

Non-executive Board member

Jill Smith

Non-executive Board member

Amsterdam, March 1, 2018 (A signed copy of the Annual Report is available at the Holding Company's office).

Independent auditor's report

To: the General Meeting of Shareholders and the Board of Gemalto N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2017 and of its result and its cash flows for 2017 then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying statutory financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2017 and of its result for 2017 then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2017 of Gemalto N.V. based in Amsterdam. The financial statements include the consolidated financial statements and the statutory financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following consolidated statements for 2017: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The statutory financial statements comprise:

- the statement of financial position as 31 December 2017;
- the following statements for 2017: the income statement, the statement of changes in shareholders' equity; and
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Gemalto N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

MATERIALITY

- Materiality of EUR 9.0 million
- 5.6% of adjusted profit before tax from continuing operations

GROUP AUDIT

- Coverage of 81% of revenues and 84% of total assets
- All components have been in scope for procedures

KEY AUDIT MATTERS

- Valuation of goodwill
- Acquisition of 3M's Identity Management Business
- Revenue recognition on complex contracts
- Capitalised development costs

UNQUALIFIED OPINION

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 9.0 million (2016: EUR 15.5 million). The materiality is determined with reference to adjusted profit before tax from continuing operations (5.6%), which excludes the effect of impairments on intangible and tangible fixed assets as disclosed in note 26 and excludes restructuring costs as disclosed in note 20. During 2017 the adjusted profit before tax from continuing operations decreased significantly resulting in a lower materiality. We consider adjusted profit before tax from continuing operations as the most appropriate benchmark because the main stakeholders are primarily focused on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of EUR 0.7 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Gemalto N.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of Gemalto N.V.

Our group audit is mainly focused on significant component that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect Gemalto's business volatility and dispersed geographical presence, including many emerging countries.

We have selected 27 significant components where we performed procedures. For these significant components we have:

- performed audit procedures ourselves at group level in respect of some areas in the reporting packages, such as the goodwill impairment tests, other (in) tangible asset impairments, accounting for associates and joint ventures, valuation of deferred tax assets, acquisitions and restructurings;
- and made use of the work of other KPMG auditors for 18 components for which an audit of the complete reporting package was performed and 9 components for which an audit of specific items was performed.

For some non-significant components we centrally performed specified audit procedures in relation to revenues. For the remaining non-significant components we performed desktop and analytical procedures.

The group audit team provided detailed instructions to all significant component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. We have discussed with our component auditors the audit approach, the findings and observations reported to the group audit team. File reviews were performed for the entities in the United States of America, Singapore, France, Germany, UK, Canada and in the United Arab Emirates. The group audit team visited locations in the United States of America and Germany.

By performing the procedures mentioned above at all components, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

The audit coverage as stated in the section summary can be further specified as follows:

Revenue		
68%	10%	3%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures
Total assets		
68%	16%	0%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Valuation of goodwill

Description

The carrying value of Goodwill as at December 31, 2017 is € 1,468 million. In 2017, the Company tested the goodwill at year end and also following a downward revision of the expected future profitability of the group at half-year, which was considered a triggering event. The impairment tests were considered to be significant to our audit due to the complexity of the assessment process and judgements and assumptions involved which are affected by expected future market and economic developments.

Our response

We challenged the cash flow projections included in the goodwill impairment tests by considering the historical trends and reasonableness of forecasts made by the management. Additionally, we critically assessed and tested management's key assumptions, methodologies, the weighted average cost of capital and information used, for example by comparing them to external and historical data, such as external market growth expectations and by analysing sensitivities in the group's valuation model. We also involved KPMG valuation specialists to assist us in these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units which included evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates. Furthermore, we focused on the impairment loss for Mobile communication recognised in the year. We also assessed the adequacy of the Company's disclosures included in note 9 in the financial statements.

Our observation

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

Acquisition of 3M's Identity Management Business

Description

The acquisition of 3M's Identity Management Business (further referred to as Cogent) was significant to our audit due to the complexity of and the key assumptions involved in the purchase price allocation for Cogent. Pursuant to the preliminary purchase price allocation being carried out, management recognised goodwill and other intangible assets amounting to € 454 million and € 316 million, respectively.

Our response

With respect to the accounting for the Cogent acquisition, we have, amongst others:

- read the purchase agreement and verified if the appropriate accounting treatment has been applied;
- assessed the accounting of the purchase price paid and traced payments to bank statements;
- verified the identification and fair valuation of the assets and liabilities the Group acquired including any fair value adjustments; and
- assessed the valuation assumptions such as discount, tax and royalty rates by recalculating these, evaluating and challenging the assumptions used by management.

In doing so we have also involved KPMG valuation specialists to assist us in the audit of the identification and valuation of the assets and liabilities acquired. We also assessed the adequacy of the Company's disclosures included in note 5 in the financial statements.

Our observation

Based on the procedures performed, we consider management's key assumptions for the purchase price allocation for Cogent to be within a reasonable range and determined that the Company's disclosures meet the requirements of EU-IFRS.

Revenue recognition on complex contracts

Description

An increasing portion of the group's revenue is generated from large and complex contracts, including multiple components and specific clauses (such as contingency clauses). Relating to these specific clauses judgement is applied on fulfilment of contract acceptance criteria and whether the transfer of risk and rewards to the buyer has taken place to determine whether revenue and costs should be recognised in the current period. When a transaction contains multiple components, the identification of each separately identifiable component and the related allocation of the relative fair value requires management judgement.

Our response

Our procedures included amongst others, an assessment of the revenue recognition method adopted by management for complex contracts. We have tested the effectiveness of the controls instituted by management with respect to the monthly review of revenue recognition and the identification of any unusual contractual terms.

We performed detailed procedures, including testing on a sample basis underlying evidence of delivery of products or services, including contracts and third party correspondence to determine appropriate revenue recognition, through which we have also assessed the appropriateness of management's estimates in relation to the unbilled balances.

Our observation

The results of our test of management's controls and procedures to ensure appropriate recognition of revenues in accordance with EU-IFRS were satisfactory.

Capitalised development costs

Description

Capitalised development costs of €176 million are deemed significant to our audit, given the rapid technological developments in the industry which impacts technical feasibility and potential impairment triggers, as well as the specific criteria that need to be met for capitalisation. This involves management judgement, in relation of establishing technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the carrying value of assets, requires management judgement which is affected by future market or economic developments.

Our response

We have performed audit procedures to verify the accuracy and valuation of the amounts recognised. Our audit procedures included, among other things, evaluating the internal controls on capitalisation of development costs, assessing the recognition criteria for intangible assets, challenging the judgements made in capitalising development costs, including the authorisation of the stage of the project in the development phase and the accuracy of costs included and assessing the useful economic life attributed to the asset. In addition, we considered whether any indicators of impairment were present by understanding the business rationale for existing projects mainly based on technological developments. We also assessed the adequacy of the Company's disclosures in note 9 of the financial statements.

Our observation

The results of our test of management's controls and procedures to ensure appropriate recognition and valuation of capitalised development costs in accordance with EU-IFRS were satisfactory and determined that the Company's disclosures meet the requirements of EU-IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the board report which includes business overview, financial review, sustainability, risk management and governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of Shareholders as auditor of Gemalto N.V. on 22 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Board and the Audit Committee for the financial statements

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

As part of the preparation of the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board should prepare the financial statements using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 1 March 2018
KPMG Accountants N.V.

T. van der Heijden RA

Appendix: Description of our responsibilities for the audit of the annual accounts

Independent auditor's report continued

Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gemalto N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board;
- concluding on the appropriateness of the Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Gemalto N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation according to the Articles of Association

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

The Board has determined to propose at the 2018 AGM, to deduct the result of the 2017 financial year from the retained earnings. In view of Thales's recommended offer for Gemalto the Board has decided not to pay a final dividend for 2017. Any final dividend paid would reduce the purchase price per ordinary share payable by Thales.

Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2017 which would materially impact the statutory financial statements of the Holding Company.

Reconciliation from adjusted financial information to IFRS

Full year period ended December 31, 2017 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition- related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,971,717					2,971,717
Cost of sales	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	1,104,775	(89,006)	(38,727)	(8,910)	(9,542)	958,590
Operating expenses	(795,215)	(424,671)	(75,527)	(28,101)		(1,323,514)
Profit from operations	309,560					
Operating profit		(513,677)	(114,254)	(37,011)	(9,542)	(364,924)
Financial income	(32,806)					(32,806)
Share of profit/(loss) from associates	(1,243)					(1,243)
Non-recurring profit/(loss) relating to associates	10,105					10,105
Income Tax	(109,759)					(35,688)
Net profit adjusted	175,857					(424,556)
Non-controlling interests	(649)					(649)
Net profit excluding non-controlling interests	176,505					(423,907)
Number of shares Basic	89,883					89,883
Number of shares Diluted	91,062					89,883
EPS Basic (€)	1.96					(4.72)
EPS Diluted (€)	1.94					(4.72)

Adjusted income statement by business segment

In thousands of Euro

	Payment & Identity	Mobile	Patents	Full year 2017
Revenue	1,889,302	1,077,678	4,737	2,971,717
Gross profit	735,647	366,086	3,042	1,104,775
Operating expenses	(502,956)	(280,390)	(11,869)	(795,215)
Profit from operations	232,691	85,696	(8,827)	309,560

Full year period ended December 31, 2016 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition- related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	3,126,531	–	–	–	–	3,126,531
Cost of sales	(1,860,326)	(57,576)	(14,269)	(4,553)	(3,242)	(1,939,966)
Gross profit	1,266,205	(57,576)	(14,269)	(4,553)	(3,242)	1,186,565
Operating expenses	(813,547)		(21,387)	(4,685)		(839,619)
Profit from operations	452,658					
Operating profit		(57,576)	(35,656)	(9,238)	(3,242)	346,946
Financial income	(34,268)					(34,268)
Share of profit/(loss) from associates	2,059					2,059
Non-recurring profit/(loss) relating to associates	(21,042)					(21,042)
Income Tax	(132,525)					(107,497)
Net profit adjusted	266,882					186,198
Non-controlling interests	472					472
Net profit excluding non-controlling interests	266,410					185,726
Number of shares Basic	88,703					88,703
Number of shares Diluted	89,649					89,649
EPS Basic (€)	3.00					2.09
EPS Diluted (€)	2.97					2.07

Adjusted income statement by business segment

In thousands of Euro

	Payment & Identity	Mobile	Patents	Full year 2016
Revenue	1,948,277	1,174,439	3,815	3,126,531
Gross profit	793,491	471,165	1,549	1,266,205
Operating expenses	(503,272)	(299,700)	(10,575)	(813,547)
Profit from operations	290,219	171,465	(9,026)	452,658

16. DRAFT AMENDMENTS OF THE ARTICLES OF ASSOCIATION OF GEMALTO

16.1 Proposed new articles of association of Gemalto after Settlement

This is a translation into English of the official Dutch text of the proposed new articles of association of a public limited liability company under Dutch law. In the event of a conflict between the English and Dutch texts, the Dutch text shall prevail.

NAME, SEAT.

Article 1.

- 1.1. The name of the company is: Gemalto N.V.
Its corporate seat is in Amsterdam.
- 1.2. The company shall have the power to establish offices and branches in as well as outside the Netherlands.

OBJECTS.

Article 2.

- 2.1. The objects of the company are:
 - a. to manufacture, import, export, sell, distribute, lease, trade, market, and to advise with respect to such products or services that are or may become of interest to the company;
 - b. to acquire, participate in, finance, manage and to have any other interest in other companies or enterprises in such areas that are or may become of interest to the company;
 - c. to raise funds by way of securities, bank loans, bond issues, notes and other debt instruments and to borrow in any other way, to lend, to provide guarantees and security rights, including guarantees and security rights for debts of other persons, and in general to render services in the fields of trade and finance;
 - d. to invest in securities, savings certificates and other financial instruments;
 - e. to acquire, develop, hold, turn to account, to create charges over, dispose of or in any other way utilise immovables and other registered properties;
 - f. to carry out factoring and invoicing of trade receivables, netting of payables and receivables as well as to conduct design, research and development activities;
 - g. to commercialise licences, copyrights, patents, designs, secret processes or formulas, trademarks and similar interests, to promote the sale and purchase of - and the trade in - these items, including allowing the use of these items and receiving royalties and other income connected with these activities; and
 - h. to perform all acts that are advisable, necessary, usual or related to the above mentioned objects.
- 2.2. The objects specified in the preceding paragraph shall be construed in the widest sense and include any activity or object which is incidental or may be conducive thereto.

- 2.3. In pursuing its objects, the company may enter into transactions which will benefit companies or enterprises with which it is affiliated.

SHARE CAPITAL.

Article 3.

The authorized capital of the company amounts to one hundred and fifty million euro (EUR 150,000,000), consisting of one hundred and fifty million (150,000,000) shares of one euro (EUR 1) each.

ISSUE OF SHARES.

Article 4.

- 4.1. The Board shall have the power to resolve upon the issue of shares and to determine the terms and conditions of such issue if and in so far as the Board has been designated by the general meeting (the corporate body constituting the general meeting as well the meeting of this corporate body hereinafter referred to as "General Meeting" or "General Meetings") as the authorized corporate body for this purpose. The resolution containing the designation as referred to above shall specify the maximum number of shares that may be issued and the duration of the designation, which shall be for a specific period not exceeding five years. The General Meeting may renew the designation from time to time for a period of up to five years for each renewal. The designation may not be withdrawn unless otherwise provided in the resolution containing the designation.
- 4.2. If a designation as referred to in article 4.1 is not in force, the General Meeting shall have the power to resolve upon the issue of shares.
- 4.3. In the event of an issue of shares, shareholders shall have a pre-emptive right in proportion to the number of shares which they own, notwithstanding the provisions of the law. In respect of the issue of shares there shall be no pre-emptive rights to shares issued against a contribution other than in cash or issued to employees of the company or of a group company. The Board shall have the power to limit or exclude pre-emptive rights accruing to shareholders, if and in so far as the Board has been granted such authority by the General Meeting, and provided that the Board can only exercise such authority if at that time it also has authority to resolve upon the issue of shares. The resolution containing the designation as referred to above shall specify the duration of the designation, which shall be for a specific period not exceeding five years. The provisions in the third and fourth sentence of article 4.1 shall equally apply.
- 4.4. If a designation as referred to in article 4.3 is not in force, the General Meeting shall have the power to limit or exclude the pre-emptive rights accruing to shareholders.
- 4.5. A resolution of the General Meeting to limit or exclude pre-emptive rights or to designate the Board as authorized to resolve upon limiting or excluding of pre-emptive rights requires a majority of at least two-thirds of the votes cast in a General Meeting if in such General Meeting less than one-half of the issued share capital is represented.
- 4.6. Without prejudice to what has been provided in section 80, subsection 2, Book 2,

Civil Code, shares shall at no time be issued below par.

4.7. Shares shall be issued only against an issue price of not less than one hundred percent of their par value.

4.8. Payment on shares must be made in cash to the extent that no other contribution has been agreed upon. If the company so allows, payment in cash can be made in a currency other than euro.

In the event of payment in a foreign currency the obligation to pay is for the amount which can be freely exchanged into an euro amount. The decisive factor is the rate of exchange on the day of payment, or as the case may be after application of the next sentence, on the day mentioned therein.

The company may require payment at the rate of exchange on a certain day within two months prior to the last day when payment shall have to be made provided that the shares or depositary receipts for shares after having been issued - shall immediately be incorporated in the price list of an exchange abroad.

4.9. The provisions of articles 4.1 up to and including 4.5 shall equally apply to the granting of rights to subscribe for shares, but shall not apply to the issue of shares to a person who exercises a previously acquired right to subscribe for shares.

REPURCHASE OF SHARES.

Article 5.

5.1. The company may acquire shares in its own share capital for no consideration. The company may also acquire shares in its own share capital for valuable consideration if and in so far as:

- a. its shareholders equity less the purchase price for these shares is not less than the aggregate amount of the paid up and called up capital and the reserves which must be maintained pursuant to the law;
- b. the aggregate par value of the shares in its capital which the company acquires, already holds or on which it holds a right of pledge, or which are held by a subsidiary company, amounts to no more than one-tenth of the aggregate par value of the issued share capital; and
- c. the General Meeting has authorized the Board to acquire such shares, which authorization may be given for no more than eighteen months on each occasion,

notwithstanding the further provisions of the law.

The acquisition of shares in the company's own capital which are not fully paid up, is void.

5.2. The company may, without being authorized thereto by the General Meeting and notwithstanding what is provided in article 5.1 under a and b, acquire shares in its own share capital in order to transfer those shares to the employees of the company or a group company under a scheme applicable to such employees.

5.3. Shares acquired by the company may again be disposed of.

If depositary receipts for shares (*certificaten van aandelen*) in the company have been issued, such depositary receipts shall for the application of the provisions of

this paragraph and the preceding paragraphs be treated as shares.

- 5.4. In the General Meeting no votes may be cast in respect of shares held by the company or a subsidiary company; no votes may be cast in respect of a share the depositary receipt for which is held by the company or a subsidiary company. However, the holders of a right of usufruct (*recht van vruchtgebruik*) and the holders of a right of pledge (*pandrecht*) on shares held by the company and its subsidiary companies, are nonetheless not excluded from the right to vote such shares, if the right of usufruct or the right of pledge was granted prior to the time such share was held by the company or a subsidiary company. Neither the company nor a subsidiary company may cast votes in respect of a share on which it holds a right of usufruct or a right of pledge.

Shares in respect of which voting rights may not be exercised by law or by these articles of association shall not be taken into account, when determining to what extent the shareholders cast votes, to what extent they are present or represented or to what extent the share capital is provided or represented.

- 5.5. Upon the proposal of the Board, the General Meeting shall have the power to resolve to cancel shares acquired by the company in its own share capital or depositary receipts of which were acquired by the company, subject however to the provisions of the law.

SHARES, SHARE REGISTER.

Article 6.

- 6.1. Shares shall be issued in registered form only.
- 6.2. Shares shall be available in the form of an entry in the share register without issue of a share certificate.

Article 7.

- 7.1. Notwithstanding the provisions of the law a share register shall be kept by or on behalf of the company, which register shall be regularly updated and, at the discretion of the Board, may, in whole or in part, be kept in more than one copy and at more than one address. The original share register shall be kept at the place where the company has its principal place of business.
- 7.2. Each shareholder's name, his address and such further data as the Board deems desirable, whether at the request of a shareholder or not, shall be recorded in the share register.
- 7.3. The form and the contents of the share register shall be determined by the Board with due regard to the provisions of articles 7.1 and 7.2.
- 7.4. Upon request a person shall be given free of charge a declaration of what is recorded in the register with regard to shares or limited rights to shares registered in his name, which declaration may be signed by one of the specially authorized persons to be appointed by the Board for this purpose.
- 7.5. The provisions of articles 7.1 up to and including 7.4 shall equally apply to those who hold a right of usufruct or a right of pledge on one or more shares, with the proviso that the other data required by law must be entered in the register.

- 7.6. The Board may request a central securities depository to inform in writing on the identity of investors who hold shares through such central securities depositories, on condition that the regulations applicable to such organizations provide therefore and furthermore insofar as permitted.

TRANSFER OF SHARES.

Article 8.

- 8.1. The transfer of shares shall be effected by a written instrument of transfer and in accordance with the provisions of section 86, Book 2, Civil Code, or, as the case may be, section 86c, Book 2, Civil Code. The rights attached to any share may be exercised if the company is a party to the transaction, or after:
- a. the company has acknowledged the transaction; or
 - b. the written instrument of transfer has been served on the company; or
 - c. in case of a transfer in accordance with section 86, Book 2, Civil Code, after the company has entered the transaction in its share register on its own initiative,
- in each case in accordance with the relevant provisions of the law.
- 8.2. The provisions of article 8.1 shall equally apply to (i) the allotment of shares in the event of a judicial partition of any community of property, (ii) the transfer of a share as a consequence of a foreclosure of a right of pledge and (iii) the creation of limited rights in rem on a share.

RIGHTS OF USUFRUCT, RIGHTS OF PLEDGE, DEPOSITARY RECEIPTS.

Article 9.

- 9.1. The holders of a right of usufruct on shares, who in conformity with the provisions of section 88, Book 2, Civil Code have no right to vote, and the holders of a right of pledge on shares, who in conformity with the provisions of section 89, Book 2, Civil Code have no right to vote, shall not be entitled to the rights which by law have been conferred on holders of depositary receipts for shares issued with the cooperation of the company.
- 9.2. Where these articles of association mention "Persons entitled to attend General Meetings" this shall mean all shareholders, holders of depositary receipts for shares issued with the cooperation of the company, holders of a right of usufruct on shares entitled to vote and holders of a right of pledge entitled to vote.

Article 10.

Deleted.

ONE TIER BOARD.

Article 11.

- 11.1. The company shall be managed by a one tier board (in these articles of association referred to as the "Board") (*bestuur*), consisting of one or more executive directors (*uitvoerende bestuurders*) and one or more non-executive directors (*niet-uitvoerende bestuurders*).
- 11.2. The Board shall be presided over by the Chairman of the Board (*bestuursvoorzitter*). The day to day business of the company shall be conducted by the Chief Executive

Officer, as per article 14.

- 11.3. The Board shall consist of a maximum number of directors to be determined by the General Meeting, provided that the majority of the number of directors consists of non-executive directors. Only natural persons can be appointed as directors. The non-executive directors shall supervise the management and the performance of duties of the executive director(s) as well as the day to day affairs of the company. Furthermore, each of the directors shall fulfil the duties allocated to him or her pursuant to these articles of association, any rules governing the Board's internal proceedings and Dutch law.
- 11.4. With due observance of these articles of association, the Board may adopt rules governing its internal proceedings and the allocation of responsibility for one or more specific matters of the Board to a certain director or certain directors, including but not limited to the authority to resolve on such matters.
- 11.5. The Board shall meet whenever the Chief Executive Officer, the Chairman of the Board or one-fifth of the directors in office so request. Unless otherwise stated in the law or these articles of association, a quorum of an absolute majority of the directors entitled to vote shall be required for the adoption of a resolution of the Board in any matter whatsoever.
- Unless otherwise stated in the law or these articles of association, a resolution of the absolute majority of the directors entitled to vote present, in person or by proxy, as hereinafter provided, at a meeting at which a quorum is so present, shall constitute a resolution of the Board. Each director has the right to cast one vote.
- In case of absence, a director may issue a proxy, however, only to another director with a maximum of two proxies per director. The directors may participate in the meetings of the Board and the meetings of the Board may also be held by telephone conference, videoconference or other audiovisual transmission systems and such participation shall count as these directors being present at the meeting, provided all participating can simultaneously hear one another. The Board meetings shall be held in the Netherlands, unless an absolute majority of the directors entitled to vote agrees otherwise.
- 11.6. The Board may also adopt resolutions without holding a meeting, provided such resolutions are adopted in writing, by telefax or by any other generally accepted means and all directors entitled to vote have expressed themselves in favour of the proposal concerned. Resolutions which have accordingly been adopted shall be recorded in the minute book of the Board; the documents evidencing the adoption of such resolution shall be kept together with the minute book.
- 11.7. The members of the Board shall act, while performing their duties, in accordance with the best interest of the company and the business connected thereto (*de vennootschap en de met haar verbonden onderneming*).
- 11.8. The Board shall set up an Audit Committee, a Compensation Committee and a Nomination and Governance Committee as well as such other committees as it may deem fit. The Board shall draw up a set of rules and regulations for the Audit

Committee, the Compensation Committee, the Nomination and Governance Committee as well as for such other committees as it may deem fit. The members of each committee shall be appointed from among the directors, provided that the Chief Executive Officer may not be appointed as a member of the Audit Committee nor as a member of the Compensation Committee or the Nomination and Governance Committee and provided that the Chairman of the Board and a former executive director may not be appointed as the chairman of the Audit Committee nor the Compensation Committee. The task of each committee shall be to prepare the resolutions of the Board and to make proposals to the Board. Each committee shall be authorized to retain the services of legal, accounting or other consultants at the company's expense.

No committee shall have any executive power.

11.9. The duties and powers of the Board shall in any event include the following duties and powers:

- a. - in so far as and as long as the Board has been designated by the General Meeting as authorised to resolve upon the issue of shares and to limit or exclude pre-emptive rights - to issue shares in the company as well as to grant rights to subscribe for shares, to limit or exclude pre-emptive rights with respect to an issue of shares, to acquire shares by the company in its own share capital as well as to dispose of such shares;
- b. to issue bonds or other debt instruments as well as to enter into medium- and long-term indebtedness;
- c. to apply for quotation or for withdrawal of the quotation of the securities mentioned under a. and b. in the price list of any stock exchange;
- d. to conclude or cancel any long-lasting cooperation by the company or a subsidiary of the company (*dochtermaatschappij*) with any other legal person or company or as a fully liable general partner of a limited partnership or a general partnership provided that such cooperation or the cancellation thereof is of essential importance to the company;
- e. to make any investment or to dispose of any assets involving an expenditure equal to at least ten million euro (EUR 10,000,000);
- f. to file a request for bankruptcy (*faillissement*) or a request for suspension of payment of debts (*surséance van betaling*);
- g. to acquire or dispose of any participating interest by the company or a subsidiary of the company in the capital of a company;
- h. to make capital contributions of any kind, whether in the form of cash, personal property or real property, to a corporation or other business entity (including newly formed entities);
- i. to adopt and approve capital expenditure budgets, the company's annual budget, any annual business plan and any multi year strategic plan;
- j. to enter into leases which are capitalized on the books of the company;
- k. to extend guarantees or indemnities to third parties other than those relating to

the obligations of subsidiaries and group companies (*groepsmaatschappijen*) of the company;

- l. to enter into any contract for the purchase or sale of real property for a material amount (i.e. equal to more than two percent of the company's annual revenues) or entering into a lease, as lessor or lessee, with a value of at least ten million euro (EUR 10,000,000) or with a term of five years or more;
 - m. to enter into any shareholders agreements or joint venture agreements;
 - n. to enter into a contract for the supply of goods or services for a material amount (i.e. equal to more than five percent of the company's annual revenues) or with a term of more than five years;
 - o. to transfer the enterprise of the company or almost the entire enterprise of the company to a third party; and
 - p. to make any proposal to the General Meeting.
- 11.10. For the avoidance of doubt, the list of matters described in article 11.9 is a non limitative list of matters always requiring a resolution of the Board and as such these matters fall outside the area of the day to day business of the company, in respect of which the Chief Executive Officer is responsible in accordance with article 14. The Board may delegate certain powers regarding matters that fall outside the area of the day to day business of the company to the Chief Executive Officer and consequently these matters do not require a resolution of the Board.
- 11.11. Without prejudice to what is provided for in these articles of association, resolutions of the Board regarding an important change in the identity or the character of the company or its enterprise, including in any case resolutions referred to in article 11.9 under subparagraphs d and g (provided that the value thereof equals at least one-third of the sum of the assets according to the balance sheet with explanatory notes thereto or, in case the company draws up a consolidated balance sheet, according to the consolidated balance sheet with explanatory notes thereto according to the last adopted annual accounts of the company) and subparagraph o shall require the approval of the General Meeting.

CONFLICT OF INTEREST.

Article 12.

- 12.1 A director shall immediately report any conflict of interest with the company or potential conflict of interest with the company to the Chairman of the Board and the other directors. The Board shall decide whether there is a conflict of interest.
- 12.2 A director 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 transaction in relation to which he has a direct or indirect personal interest which conflicts with the interest of the company.
- 12.3 A potential conflict of interest exists, in any event, if the company intends to enter into a transaction with a legal entity (i) in which a director of the company personally has a financial interest, or (ii) which has – in case of a two tier board – a

management board member or a supervisory board member, or – in case of a one tier board – an executive management board member or a non-executive management board member who has a relationship under family law with a director of the company.

THE CHAIRMAN OF THE BOARD.

Article 13.

The Board shall be presided over by the Chairman of the Board, to be appointed by the Board from among the non-executive directors. The Board may at any time revoke such appointment. The Board may define powers and duties of the Chairman of the Board in the Board charter.

THE CHIEF EXECUTIVE OFFICER.

Article 14.

- 14.1. The non-executive directors appoint one of the executive directors as Chief Executive Officer and can at any time revoke such appointment. Resolutions of the non-executive directors referred to in this paragraph can only be adopted with a two-third majority of the votes cast of the non-executive directors entitled to vote in a meeting at which all non-executive directors entitled to vote are present or represented.
- 14.2. The day to day business of the company shall be conducted by the Chief Executive Officer, as may be further described in the Board charter. Without prejudice to article 11, the Chief Executive Officer does not require the approval or consent of the Board for any decision in respect of any day to day business matter.
- 14.3. The Chief Executive Officer will prepare all matters which require a resolution of the Board and will furthermore be entrusted with such additional powers and duties as the Board may from time to time determine, subject always to the overall responsibility of the Board.
- 14.4. If the appointment as Chief Executive Officer of the executive director is revoked, the powers and duties of the Chief Executive Officer shall be carried out by the person that has been temporarily appointed by the non-executive directors, whether or not from among their midst. A person appointed by the non-executive directors referred to in the preceding sentence shall have the title Acting Chief Executive Officer. Resolutions of the non-executive directors referred to in this paragraph can only be adopted with a two-third majority of the votes cast of the non-executive directors entitled to vote in a meeting at which all non-executive directors entitled to vote are present or represented.

COMPANY SECRETARY.

ARTICLE 15.

The Board shall appoint a person to act as secretary of the company. The secretary so appointed shall have the title "Company Secretary". The minutes of meetings of the Board shall in evidence of their adoption be signed by the Chairman of the Board and the Company Secretary. The Board may define powers and duties of the Company Secretary in the Board charter.

APPOINTMENTS AND DISMISSALS, TERM OF OFFICE.

Article 16.

- 16.1. The executive director(s) and the non-executive directors are appointed by the General Meeting with due observance of this article 16 and article 27. Executive directors are appointed for a maximum term of four years, with the possibility of re-appointment. Non-executive directors are appointed for a maximum term of four years, with the possibility of one re-appointment for a maximum term of four years. Subsequently, non-executive directors can be re-appointed for a maximum term of two years, with the possibility of further re-appointments for a maximum term of two years each. The Board shall draw up a retirement schedule for the directors.
- 16.2. A resolution to appoint a director shall be adopted by an absolute majority of the votes cast, provided that at least one-third of the issued share capital is represented at the General Meeting.
- 16.3. The power to suspend or dismiss a director shall vest in the General Meeting. The executive director(s) may also be suspended by the Board. The executive director(s) shall not take part in any decision-making process (*beraadslaging en besluitvorming*) that involves his suspension. Resolutions of the Board referred to in this paragraph can only be adopted with a two-third majority of the votes cast of the directors entitled to vote in a meeting at which all directors entitled to vote are present or represented.
- 16.4. The resolution of the General Meeting to suspend or dismiss a director shall, unless the resolution is adopted at the proposal of the Board in which case no quorum requirement shall apply, be adopted by an absolute majority of the votes cast in a General Meeting where at least one-fourth of the issued share capital is represented. When the required share capital is not represented at a General Meeting the Board may convene a further General Meeting to be held within four weeks after the first General Meeting at which irrespective of the share capital represented the resolution may be adopted by an absolute majority of the votes cast.
- 16.5. The company has a policy in the area of remuneration of the Chief Executive Officer, including his function as executive director, and of other executive directors, if any. The policy is adopted by the General Meeting. Every material change in the policy shall be submitted to the General Meeting for adoption. The salary, the bonus, if any, and the other terms and conditions of employment of the executive director shall, with due observance of the provisions of the policy referred to in the first sentence of this paragraph be determined by the Board. Regarding remuneration of the executive director, whether or not designated as Chief Executive Officer, in the form of shares or rights to acquire shares as well as major changes thereto, the Board shall submit a proposal to the General Meeting for its approval. The proposal includes at least how many shares or rights to acquire shares may be awarded to the executive director and which criteria apply to an award or a modification. The remuneration, the bonus, if any, and the other compensation of non-executive directors shall be determined by the General Meeting.

The executive director(s) shall not participate in the decision-making process (*beraadslaging en besluitvorming*) that involves the remuneration of the executive director(s).

REPRESENTATION

Article 17.

- 17.1. Only all directors acting jointly or the Chief Executive Officer acting solely are authorized to represent the company.
- 17.2. The Board may grant powers of attorney to persons, whether or not in the service of the company, to represent the company and shall thereby determine the scope of such powers of attorney and the titles of such persons.
- 17.3. The Board shall have power to perform legal acts as specified in section 2:94, subsection 1, Book 2, Civil Code in so far as such power is not expressly excluded or limited by any provision of these articles of association.

Article 18.

- 18.1. In the event of the absence or inability to act of one or more directors the remaining directors or director shall temporarily be responsible for the entire management. In the event of the absence or inability to act of the Chief Executive Officer, the non-executive directors will appoint, whether or not from among their midst, a person with the title of Acting Chief Executive Officer, who for this purpose shall temporarily act as Chief Executive Officer. A resolution of the non-executive directors referred to in this paragraph can only be adopted with a two-third majority of the votes cast of the non-executive directors entitled to vote in a meeting at which all non-executive directors entitled to vote are present or represented. In the event of the absence or inability to act of all directors, one or more persons appointed by the General Meeting for this purpose at any time shall be temporarily responsible for the management.
- 18.2. Where in these articles of association reference is made to directors entitled to vote, this shall not include directors who are absent or unable to act within the meaning of the preceding paragraph.

INDEMNIFICATION.

Article 19.

- 19.1. The company shall, to the extent permitted by law, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action, suit or proceeding by or in the right of the company) by reason of the fact that he is or was a member of the Board, officer, employee or agent of the company, or was or is serving at the request of the company as a director, officer or agent of another company, a partnership, joint venture, trust or other enterprise, against all expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests

of the company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by a judgement, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and not in a manner which he reasonably could believe to be in or not opposed to the best interests of the company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

- 19.2. The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by or in the right of the company to procure a judgement in its favour, by reason of the fact that he is or was a member of the Board, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company, a partnership, joint venture, trust or other enterprise, against all expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defence or settlement of such action or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the company and except that no indemnification shall be made hereunder in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for gross negligence or wilful misconduct in the performance of his duty to the company, unless and only to the extent that the court in which such action or proceeding was brought or any other court having appropriate jurisdiction shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification against such expenses which the court in which such action or proceeding was brought or such other court having appropriate jurisdiction shall deem proper.
- 19.3. To the extent that a member of the Board, officer, employee or agent of the company has been successful on the merits or otherwise in defence of any action, suit or proceeding, referred to in paragraphs 1 and 2, or in defence of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.
- 19.4. Expenses incurred in defending a civil or criminal action, suit or proceeding will be paid by the company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the member of the Board, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the company as authorised in this article.
- 19.5. The indemnification and advancement of expenses provided for by this article shall not be deemed exclusive of any other right to which a person seeking indemnification may be entitled under any by-laws, agreement, resolution of the General Meeting or of the disinterested members of the Board or otherwise, both as

to actions in his official capacity and as to actions in another capacity while holding such position, and shall continue as to a person who has ceased to be a member of the Board, officer, employee or agent and shall also inure to the benefit of the heirs, executors and administrators of such a person.

- 19.6. The company shall have the power to purchase and maintain insurance on behalf of any person who is or was a member of the Board, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company, a partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity or arising out of his capacity as such, whether or not the company would have the power to indemnify him against such liability under the provisions of this article.
- 19.7. Whenever in this article reference is made to the company, this shall include, in addition to the resulting or surviving company also any constituent company (including any constituent company of a constituent company) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power to indemnify its members of the Board, officers, employees and agents, so that any person who is or was a member of the Board, officer, employee or agent of such constituent company, or is or was serving at the request of such constituent company as a director, officer or agent of another company, a partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this article with respect to the resulting or surviving company as he would have with respect to such constituent company if its separate existence had continued.

GENERAL MEETINGS.

Article 20.

- 20.1. The annual General Meeting shall be held each year within six months after the close of the financial year.
- 20.2. At this General Meeting shall be dealt with:
- a. the written report of the Board on the course of business of the company and the conduct of its affairs during the past financial year;
 - b. adoption of the annual accounts;
 - c. the policy of the company on additions to reserves and on distributions of profits (the level and purpose of the addition to reserves, the amount of the distributions of profits and the type of distributions of profits) as well as an explanation thereto;
 - d. any proposal to distribute profits;
 - e. if any, each substantial change in the corporate governance structure of the company and in the compliance of the company with the Dutch corporate governance code;
 - f. filling vacancies on the Board in accordance with the provisions of article 16; and

- g. the proposals placed on the agenda by the Board, including, but not limited to, a proposal to grant discharge to the directors for their management during the financial year, together with proposals made by shareholders in accordance with provisions of the law and the provisions of these articles of association.

Article 21.

- 21.1. Extraordinary General Meetings shall be held as often as deemed necessary by (i) the Board, (ii) the Chairman of the Board, (iii) when the Chairman of the Board is not able to call for an Extraordinary General Meeting, the Chief Executive Officer, or (iv) any shareholder representing at least fifty percent of the issued share capital, and shall furthermore be held if one or more Persons entitled to attend General Meetings jointly representing at least ten percent of the issued share capital make a written request to that effect to the Board, specifying in detail the business to be dealt with.
- 21.2. If the Board fails to comply with a request under article 21.1 in such manner that the General Meeting can be held within six weeks after the request, the persons making the request may be authorized by the interim provisions judge of the court within whose jurisdiction the company has its corporate seat to convene the General Meeting themselves.

Article 22.

- 22.1. General Meetings shall be held at Amsterdam, The Hague, Haarlemmermeer (Schiphol Airport), Utrecht or Rotterdam; the notice convening the meeting shall inform the Persons entitled to attend General Meetings accordingly.
Resolutions adopted at a General Meeting held elsewhere are valid only if the entire issued share capital is represented and all the holders of depository receipts for shares are present or represented.
- 22.2. The notice convening a General Meeting shall be publicly announced on the website of the company.
- 22.3. The notice convening the General Meeting shall be issued by (i) the Board, (ii) the Chairman of the Board, (iii) if the Chairman of the Board is absent or is not able to issue the notice convening the General Meeting, the Chief Executive Officer, or (iv) by those who are entitled to convene such General Meeting either by law, such with due observance of the provisions of section 111, book 2, Civil Code, or pursuant to article 21.1.

Article 23.

- 23.1. The notice convening the General Meeting referred to in article 22 shall be issued no later than on the forty-second calendar day prior to the day of the General Meeting. If the notice period was shorter or if no notice was sent, no valid resolutions may be adopted unless the resolution is adopted by unanimous votes at a General Meeting at which all Persons entitled to attend General Meetings are present or represented. The provision of the preceding sentence shall apply correspondingly to matters which have not been mentioned in the notice convening a General Meeting or in a supplementary notice sent with due observance of the notice period.

- 23.2. The agenda shall contain such business as may be placed thereon by the person(s) entitled to convene the General Meeting. Furthermore the agenda shall contain such business as one or more shareholders representing at least one percent of the issued share capital or, provided that the shares of the company are admitted to official quotation, representing a value of at least fifty million euro (EUR 50,000,000) or such higher or lower amount as laid down by order in council (algemene maatregel van bestuur) according to the official price list of the stock exchange where such shares are admitted to official quotation, shall be effected by the Board, if such a request has been made to the Board in writing or by means of electronic communication at least sixty days prior to the date of the General Meeting. The agenda of the General Meeting shall list which items are for discussion and which items are to be voted upon. No resolution shall be passed at the General Meeting in respect of matters not on the agenda. For the purpose of this article 23.2 holders of depository receipts for shares issued with the cooperation of the company shall have the same rights as shareholders.
- 23.3. Without prejudice to the relevant provisions of law, dealing with capital reduction and amendments to these articles of association, the notice convening the General Meeting shall either mention the business on the agenda or state that the agenda is open to inspection by the Persons entitled to attend General Meetings at the office of the company.

Article 24.

- 24.1. General Meetings shall be presided over by the Chairman of the Board. In case of absence of the Chairman of the Board the General Meeting shall be presided by the Chief Executive Officer, unless the Board determines otherwise. In case of absence of the Chief Executive Officer the General Meeting shall be presided by any other person to be nominated by the Board. The Company Secretary will act as secretary of that General Meeting. In case of absence of the Company Secretary, the chairman of the General Meeting shall appoint the secretary of that General Meeting.
- 24.2. Unless the chairman of the General Meeting has requested a civil law notary (*notaris*) to include the minutes of the General Meeting in a notarial report (*notarieel proces-verbaal*), the secretary of the General Meeting shall keep the minutes of the business transacted at the General Meeting, which shall be made available, on request, to shareholders no later than three months after the end of the General Meeting, after which the shareholders shall have the opportunity to react to the minutes in the following three months. The minutes shall then be adopted by the chairman of the General Meeting and the secretary of the General Meeting.

Article 25.

- 25.1. Each Person entitled to attend General Meetings shall be authorized to attend the General Meeting and, in as far as this person is entitled to the voting right, to exercise the voting right if the person has informed the company, or an external party designated by the company for that purpose, of his intention to attend the General Meeting no later than on the day and at the place and in accordance with

any instructions mentioned in the notice convening the General Meeting.

The day on which the company must have received the notification at the latest shall be mentioned in the notice convening the General Meeting.

- 25.2. The persons that are entitled to attend the General Meeting are only the persons who are, as at the twenty-eighth calendar day prior to the day of the respective General Meeting (record date):
- (i) a Person entitled to attend General Meetings, and
 - (ii) as such registered in a register (or one or more parts thereof) designated thereto by the Board, regardless whether they are a shareholder at the time of the General Meeting.
- 25.3. Shareholders entitled to vote and holders of a right of usufruct or a right of pledge entitled to vote or their proxies who wish to exercise the rights described in article 25.1 must sign the attendance list.
- 25.4. Directors shall have an advisory role (*raadgevende stem*) in the General Meeting.
- 25.5 Subject to a resolution of the Board, each person, as mentioned in article 25.3, is entitled to participate, address the meeting and vote in the respective General Meeting by means of an electronic means of communication, all this in accordance with section 117a, Book 2 of the Civil Code. This resolution of the Board shall describe the conditions and procedure of the use of such electronic communication channel.
- 25.6 The Board may determine that votes cast prior to the General Meeting by electronic means of communication or by mail, are equated with votes cast at the time of the general meeting. Such votes may not be cast before the record date referred to article 25.2. Without prejudice to the provisions of these articles of association relating to convening general meetings, the notice convening the general meeting must state how shareholders may exercise their rights prior to the meeting. The foregoing does, however, not restrict the authority of the chairman of the meeting to take such action as he deems fit in the interest of the meeting being conducted in an orderly fashion. Any non or malfunctioning of the electronic means of communication used is at the risk of the persons entitled to attend General Meetings using the same.

Article 26.

- 26.1. Persons entitled to attend General Meetings may be represented by proxies with written authority to be shown for admittance to a General Meeting. Any shareholder shall have the possibility to electronically submit such proxy to the company, under the method and conditions as defined by the Board.
- 26.2. Shareholders who are entitled to vote as well as holders of a right of usufruct and holders of a right of pledge on shares who are entitled to vote, may adopt any resolutions which they could adopt at a General Meeting, without holding a General Meeting, unless depositary receipts have been issued with the cooperation of the company and provided that the Board has prior knowledge of any such resolution to be adopted without a General Meeting being held.
- Such a resolution shall only be valid if all persons entitled to vote have cast their

votes in writing, by telefax or by any other generally accepted means in favour of the proposal concerned.

Those who have adopted a resolution without holding a General Meeting shall forthwith inform the Board of the resolution so adopted.

- 26.3. A resolution as referred to in article 26.2 shall be recorded in the minute book of the General Meeting by a director; at the next General Meeting the entry shall be read out by the chairman of that meeting. Moreover the documents evidencing the adoption of such a resolution shall be kept with the minute book of the General Meeting and as soon as the resolution has been adopted, all persons who have adopted such resolution shall be notified thereof.
- 26.4. All matters regarding the admittance to the General Meeting, the exercise of voting rights and the result of votings, as well as any other matters regarding the affairs at the General Meeting shall be decided upon by the chairman of that General Meeting, with due observance of the provisions of section 13, Book 2, Civil Code. The chairman may regulate the time for which Persons entitled to attend General Meetings may speak if he considers this to be desirable with a view to the orderly conduct of the General Meeting.
- 26.5. A certificate signed by the Chairman of the Board and the Company Secretary confirming that the General Meeting has adopted a particular resolution, shall constitute evidence of such resolution vis-à-vis third parties.

Article 27.

- 27.1. Unless otherwise stated in the law or these articles of association, resolutions shall be adopted by an absolute majority of votes cast in a General Meeting where at least one-tenth of the issued share capital is represented; when the required share capital is not represented at a General Meeting the Board may convene a further General Meeting to be held within eight weeks after the first General Meeting at which irrespective of the share capital represented the resolution may be adopted by an absolute majority of the votes cast. Blank and invalid votes shall not be counted. The chairman shall decide on the method of voting and on the possibility of voting by acclamation.
- 27.2. Without prejudice to the provisions of article 27.1, at an appointment of persons where more than one person is proposed, the person who receives the absolute majority of votes cast at the first ballot shall be appointed. If at the first ballot no-one has received the absolute majority of the votes cast, a second vote shall be taken between the two persons who received the largest number of votes at the first ballot. If at the first ballot more than two persons received the largest number of votes, an interim vote shall be taken first to decide which of those persons shall participate in the second ballot. If at the first ballot one person has received the largest number of votes and the second largest number of votes is equally divided between two or more persons, an interim vote shall be taken first to decide which of the latter persons shall participate in the second ballot. If the votes are equally divided at an interim ballot or second ballot, a drawing of lots shall decide.

- 27.3. Except as provided in article 27.2, in case of an equality of the votes cast the relevant proposal shall be deemed to have been rejected.

Article 28.

At the General Meeting each share shall confer the right to cast one (1) vote.

INFORMATION TO SHAREHOLDERS.

Article 29.

- 29.1. The Board shall provide the General Meeting with all requested information, unless this would be contrary to an overriding interest of the company. If the Board invokes an overriding interest, it must give reasons.
- 29.2. If a right of approval is granted to the General Meeting by law or under the articles of association, or the Board requests a delegation of powers, the Board shall inform the General Meeting by means of a shareholders circular of all facts and circumstances relevant to the approval, delegation or authorisation to be granted. The shareholders circular shall, in any event, be posted on the company's website.
- 29.3. The Board shall record all adopted resolutions of the General Meeting. These recorded resolutions shall, within fifteen (15) days after the date of the relevant General Meeting, remain (i) at the offices of the company for inspection by any Person entitled to attend General Meetings and (ii) published on the company's website. Each recorded adopted resolution of the General Meeting shall note (i) the number of shares for which valid votes have been cast, (ii) the percentage which that number represents of the total issued share capital of the company, (iii) the total number of validly cast votes and (iv) the number of votes cast in favour and against the proposed resolution as well as the number of votes abstained.

ANNUAL ACCOUNTS, REPORT OF THE BOARD AND DISTRIBUTIONS.

Article 30.

- 30.1. The financial year shall run from the first day of January up to and including the thirty-first day of December.
- 30.2. Each year within four (4) months after each financial year the Board shall cause annual accounts to be drawn up, consisting of a balance sheet as at the thirty-first day of December of the preceding year and a profit and loss account in respect of the preceding financial year with the explanatory notes thereto.
- 30.3. The Board shall be bound to draw up the aforesaid annual accounts in accordance with established principles of business management.

Article 31.

- 31.1. The company shall cause the annual accounts to be examined by one or more registered accountant(s) designated for the purpose by the General Meeting or other experts designated for the purpose in accordance with section 393, Book 2, Civil Code, and shall report to the General Meeting on the annual accounts, notwithstanding the provisions of the law.
- 31.2. Copies of the annual accounts which have been made up, of the report of the Board and of the information to be added pursuant to the law shall be deposited for inspection by shareholders and other Persons entitled to attend General Meetings, at

the office of the company as from the date of serving the notice convening the General Meeting at which meeting those items shall be discussed, until the close thereof.

PROFIT AND LOSS.

Article 32.

32.1. Distribution of profits pursuant to this article shall be made following adoption of the annual accounts which show that the distribution is permitted.

The 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.

A deficit may only be offset against the reserves prescribed by law in so far as permitted by law.

32.2. The Board shall with due observance of the policy of the 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.

32.3. The portion of the profit that remains after application of article 32.2, shall be at the disposal of the General Meeting, with due observance of the provisions of article 32.1.

32.4. The General Meeting is empowered either to distribute the portion of the profit referred to under article 32.3 or to withhold distribution of the said portion of the profit in whole or in part.

Article 33.

33.1. Upon the proposal of the Board, the General Meeting 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, with due observance of the provisions of article 32.1.

33.2. The Board may determine the terms and conditions of distributions to shareholders under article 32, article 33.1 or article 34 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 company (bonus shares, stock dividend). If, however, a designation as referred to in article 4.1 is not in force any distributions in the form of shares in the share capital of the company requires a resolution of the General Meeting upon the proposal of the Board.

Article 34.

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.

Article 35.

35.1. Distributions under articles 32, 33 or 34 shall be payable as from a date to be determined by the Board.

- 35.2. Distributions under articles 32, 33 or 34 shall be made payable at an address or addresses to be determined by the Board, provided that such distributions shall at all times be payable at least at one address in each country where the shares, on the application of the company, have been admitted to official quotation.
- 35.3. Cash distributions under articles 32, 33 or 34 shall, if such distributions are made payable only outside the Netherlands, be paid in the currency of a country where the shares of the company have been admitted to official quotation not being the Euro, converted at the rate of exchange determined by the European Central Bank at the close of business on a day to be fixed for that purpose by the Board. If and in so far as on the first day on which a distribution is payable, the company is unable, in consequence of any governmental action or other exceptional circumstances beyond its control, to make payment at the place designated outside the Netherlands or in the relevant currency, the Board may in that event designate one or more places in the Netherlands instead. In such event the provisions of the first sentence of this paragraph shall no longer apply.
- 35.4. The person entitled to a distribution under articles 32, 33 or 34 shall be the person in whose name the share is registered at the date to be fixed for that purpose by the Board.
- 35.5. Notice of distributions and of the dates and places referred to in the preceding paragraphs of this article shall at least be published on the company's website and further in such manner as the Board may deem desirable.
- 35.6. Distributions in cash under articles 32, 33 or 34 that have not been collected within five years after they have become due and payable shall revert to the company.
- 35.7. In the case of a distribution under article 33.2, any shares in the company not claimed within a period to be determined by the Board shall be sold for the account of the persons entitled to the distribution who failed to claim the shares. The period and manner of sale to be determined by the Board, as mentioned in the preceding sentence, shall be notified according to article 35.5. The net proceeds of such sale shall thereafter be held at the disposal of the above persons in proportion to their entitlement; distributions that have not been collected within five years after the initial distributions in shares have become due and payable shall revert to the company.
- 35.8. In the case of a distribution in the form of shares in the company under article 33.2, on shares, those shares shall be added to the share register.
- 35.9. The provisions of article 35.4 shall apply equally in respect of distributions - including pre-emptive subscription rights in the event of a share issue - made otherwise than under articles 32, 33 or 34.

AMENDMENTS TO ARTICLES OF ASSOCIATION, WINDING UP, LEGAL MERGER OR DIVISION, LIQUIDATION.

Article 36.

A resolution to amend these articles of association, to wind up the company, for a legal merger or a legal division of the company can be adopted by an absolute majority of the votes

cast at a General Meeting at which at least one-third of the issued share capital is represented, subject to sections 330(1), 334cc(1)(d) and 334ee(1), book 2, Civil Code.

Article 37.

- 37.1. If the company is wound up, the liquidation shall be carried out by the Board, or by any person designated for that purpose by the General Meeting.
- 37.2. In passing a resolution to wind up the company, the General Meeting shall upon the proposal of the Board fix the remuneration payable to the liquidators.
- 37.3. The liquidation shall take place with due observance of the provisions of the law. During the liquidation period these articles of association shall, to the extent possible, remain in full force and effect.
- 37.4. After settling the liquidation, the liquidators shall render account in accordance with the provisions of the law.
- 37.5. After the liquidation has ended, the books and records of the company shall remain in the custody of the person designated for that purpose by the liquidators during a seven-year period.

Article 38.

After all liabilities of the company have been settled, including those incidental to the liquidation, the balance shall be divided among the shareholders in proportion to their respective holdings of shares.

16.2 Proposed new articles of association of Gemalto after Delisting

This is a translation into English of the official Dutch text of the proposed new articles of association of a limited liability company under Dutch law. Definitions included in Article 1 below appear in the English alphabetical order, but will appear in the Dutch alphabetical order in the official Dutch version. In the event of a conflict between the English and Dutch texts, the Dutch text shall prevail.

DEFINITIONS AND INTERPRETATION

Article 1

1.1 In these articles of association the following definitions shall apply:

Board	The board of directors of the Company.
Board Rules	The internal rules applicable to the Board, as drawn up by the Board.
Chief Executive Officer	The Company's chief executive officer.
Company	The legal entity to which these articles of association relate.
DCC	The Dutch Civil Code (<i>Burgerlijk Wetboek</i>).
Director	A member of the Board.
Executive Director	An executive Director.
General Meeting	The body formed by Persons with Meeting Rights, or a meeting of Persons with Meeting Rights.
Group Company	A legal entity or partnership with which the Company forms an economic and organisational unit.
Meeting Rights	The right to attend and address a General Meeting, whether in person or represented by the holder of a written proxy.
Non-Executive Director	A Director other than an Executive Director.
Person with Meeting Rights	A Shareholder, a usufructuary (<i>vruchtgebruiker</i>) with voting rights and/or Meeting Rights, or a pledgee with voting rights and/or Meeting Rights.
Shareholder	A holder of shares in the capital of the Company.
Simple Majority	More than fifty percent (50%) of the votes cast.
Subsidiary	A legal entity in whose general meeting the Company or one or more of its subsidiaries can, whether by virtue of an agreement with other persons with voting rights or otherwise and whether acting alone or together, exercise more than fifty percent (50%) of the voting rights, and any other legal entities and partnerships that are designated as such by the DCC.

1.2 Terms that are defined in the singular shall have the corresponding meaning in the plural and vice versa.

1.3 The term "written" or "in writing" shall also include the use of electronic means of communication.

NAME AND SEAT

Article 2

2.1 The name of the Company is **Gemalto B.V.**

2.2 It has its corporate seat at Amsterdam.

OBJECTS

Article 3

The objects of the Company are to:

- a.** manufacture, import, export, sell, distribute, lease, trade, market, and to advise with respect to such products and/or services that are or may become of interest to the Company;
- b.** take an interest in, finance, and conduct the management of business enterprises which in particular are involved in pharmaceutical development and manufacturing of whatever nature as well as any other commercial activity;
- c.** raise funds by way of securities, bank loans, bond issues, notes and other debt instruments and to borrow in any other way, to lend, to provide guarantees, including guarantees for debts of other persons, and in general to render services in the fields of trade and finance;
- d.** invest in securities, savings certificates and other financial instruments;
- e.** render administrative, technical, financial, economic or managerial services to other companies, persons or enterprises;
- f.** provide services for its own account as well as for the account of third parties; and
- g.** to perform all acts in connection with the above or which may in the broadest sense be desirable or conducive to these objects.

SHARES - CAPITAL

Article 4

- 4.1** The nominal value of each share shall be one euro (EUR 1).
- 4.2** The shares shall be registered shares and shall be numbered consecutively, starting from 1.
- 4.3** At least one share must be held by a party other than, and not on behalf of, the Company or any of its Subsidiaries.

SHARES - REGISTER

Article 5

- 5.1** The Board shall keep a register setting out the names and addresses of all Shareholders, usufructuaries and pledgees.
- 5.2** Shareholders and others whose particulars must be set out in the register shall provide the Board with the necessary particulars in a timely manner.
- 5.3** All notifications and notices convening meetings shall be sent to Persons with Meeting Rights at the addresses set out in the register.

SHARES - ISSUE

Article 6

- 6.1** Shares may only be issued by the Company pursuant to a resolution of the General Meeting.
- 6.2** Article 6.1 shall apply mutatis mutandis where rights to subscribe for shares are granted, but shall not apply where shares are issued to a person exercising an existing right to subscribe for shares.

SHARES - PAYMENT

Article 7

- 7.1** The full nominal value of each share shall be paid up upon subscription for that share. It may be stipulated that all or part of the nominal value need not be paid up until after a certain period of time or until the Company has called for payment.
- 7.2** The Board may perform juristic acts (*rechtshandelingen*) in respect of non-cash contributions for shares without the prior approval of the General Meeting.

SHARES - OWN SHARES

Article 8

- 8.1** The acquisition by the Company of shares in its own capital shall be decided on by the Board. The acquisition by the Company of shares in its own capital which have not been fully paid up shall be null and void.
- 8.2** Except where it acquires such shares for no consideration, the Company may not acquire fully paid-up shares in its own capital if the shareholders' equity less the acquisition price is less than the reserves which must be maintained by law, or if the Board knows or should reasonably foresee that, following the acquisition, the Company will be unable to continue paying its due and payable debts.
- 8.3** The preceding provisions of Article 8 shall not be applicable to shares acquired by the Company by universal succession (*onder algemene titel*).

SHARES - TRANSFER

Article 9

- 9.1** The issue or transfer of a share or the creation of a limited right (*beperkt recht*) in respect of a share shall require a deed to that effect executed before a civil law notary practising in the Netherlands and to which the persons involved are parties.
- 9.2** The transfer of a share or the creation of a limited right in respect thereof in accordance with Article 9.1 shall also, by operation of law, have effect vis-à-vis the Company. Unless the Company itself is a party to the transaction, the rights attached to the relevant share may not be exercised until the Company has acknowledged the transaction or been served with the deed.

SHARES - TRANSFERABILITY

Article 10

- 10.1** The transfer of shares shall – in all cases and without exception – require the approval of the Board.
- 10.2** The transfer must take place within three months after the Board's approval has been granted or is deemed to have been granted.
- 10.3** The Board's approval will be deemed to have been granted:
- a.** if no decision has been taken within one month of a request to that effect; or
 - b.** if the decision in which the approval is denied does not contain the name(s) of one or more potential acquirers who are willing to purchase, in cash, the shares to which the request for approval related.
- 10.4** If the requesting party accepts the potential acquirer(s) referred to in Article 10.3(b), and the parties are unable, within two months after the acceptance, to agree on the price to be paid for the share(s), the price shall be determined by one or more independent experts to be designated by the requesting party and potential acquirer(s) by mutual agreement. If the parties have failed to reach agreement on the appointment of the expert(s) within one month of the end of the period referred to in the preceding sentence, any of the parties may apply to the president of the district court in whose district the Company has its corporate seat for the appointment of three independent experts.
- 10.5** Potential acquirers shall be free to withdraw at any time, provided they do so within fourteen days of being notified of the outcome of the price determination referred to in Article 10.4. If, following one or more such withdrawals, not all the shares are sold:
- a.** because all of the potential acquirers have withdrawn; or
 - b.** in the event that some of the potential acquirers have withdrawn, because the others have not, within six weeks of the notification referred to above, declared their

willingness to acquire the shares that have become available, in accordance with the allocation criteria indicated by the Board,

the requesting party shall be free to transfer all of the shares to which the request for approval related, provided the transfer takes place within three months after the above has been established.

- 10.6** The requesting party shall have the right to withdraw at any time, provided he does so within one month of being definitively informed of the identity of the potential acquirers to whom he can sell the shares to which the request for approval related, and of the selling price.
- 10.7** The Company may only be a potential acquirer under the provisions of Article 10 with the consent of the requesting party.

SHARES - USUFRUCT, PLEDGE AND DEPOSITARY RECEIPTS

Article 11

- 11.1** The voting rights attached to shares which are subject to a usufruct or pledge shall be vested in the relevant Shareholder.
- 11.2** Notwithstanding Article 11.1 and subject to what is provided in, respectively, Section 2:197 DCC and Section 2:198 DCC, a usufructuary or pledgee shall have voting rights if this has been stipulated when the relevant limited right was created or if this has been agreed at a subsequent time.
- 11.3** Usufructuaries and pledgees without voting rights shall not have Meeting Rights, unless the contrary is stipulated upon the creation or transfer of the relevant usufruct or, respectively, the creation or transmission (*overgang*) of the relevant pledge and this is approved by the Board.
- 11.4** No Meeting Rights shall be attached to depositary receipts for shares.

BOARD - APPOINTMENT, SUSPENSION AND REMOVAL

Article 12

- 12.1** The Company has a Board consisting of:
- a.** one or more Executive Directors, being primarily charged with the Company's day-to-day operations; and
 - b.** one or more Non-Executive Directors, being primarily charged with the supervision of the performance of the duties of the Directors.
- The Board shall be composed of individuals.
- 12.2** The Board shall determine the number of Executive Directors and the number of Non-Executive Directors with due observance of Article 12.1.
- 12.3** In case only one Executive Director has been appointed, that Executive Director shall automatically be the Chief Executive Officer. If more than one Executive Director has been appointed, the Board shall elect one Executive Director to be the Chief Executive Officer. An Executive Director shall cease to be the Chief Executive Officer:
- a.** automatically when he ceases to be an Executive Director; or
 - b.** upon his removal as Chief Executive Officer by the Board, provided that he shall subsequently continue his term of office as an Executive Director without having the title of Chief Executive Officer.
- 12.4** The Board may grant an Executive Director such additional titles as the Board deems appropriate.
- 12.5** The General Meeting shall appoint the Directors and may at any time suspend or remove any Director.
- 12.6** Where one or more Directors are no longer in office or are unable to act, the remaining Director(s) shall be provisionally charged with the entire management of the Company.

Where all Directors or the only Director are/is no longer in office or are/is unable to act, the management shall be provisionally conducted by the person designated for that purpose by the General Meeting.

BOARD - DUTIES, ORGANISATION AND DECISION MAKING

Article 13

- 13.1** The Board is charged with the management of the Company, subject to the restrictions contained in these articles of association. In performing their duties, Directors shall be guided by the interests of the Company and of the enterprise connected with it.
- 13.2** Where the Board consists of more than one Director, resolutions shall be passed – irrespective of whether this occurs at a meeting or otherwise – by a Simple Majority. Invalid votes and blank votes shall not be counted as votes cast.
- 13.3** In the event of a tie at a meeting of the Board, the General Meeting shall decide.
- 13.4** A Director may not participate in the deliberations and decision making of the Board on a matter in relation to which he has a direct or indirect personal interest which conflicts with the interests of the Company and of the enterprise connected with it. Where all Directors or the only Director have/has such a conflict of interest, the relevant decision shall nevertheless be taken by the Board.
- 13.5** Meetings of the Board can be held through audio or audiovisual communication facilities, unless a Director objects thereto.
- 13.6** Resolutions of the Board may, instead of at a meeting, be passed in writing, provided that all Directors are familiar with the resolution to be passed and none of them objects to this decision-making process.
- 13.7** The Board may draw up rules concerning its internal matters. The Directors may allocate their duties amongst themselves in or pursuant to the Board Rules or otherwise pursuant to resolutions adopted by the Board, provided that:
- a.** the Executive Director(s) shall be charged with the Company's day-to-day operations;
 - b.** the task of supervising the performance of the duties of the Directors cannot be taken away from the Non-Executive Directors;
 - c.** the chairman must be a Non-Executive Director; and
 - d.** the making of proposals for the appointment of a Director and the determination of the remuneration of the Executive Director(s) cannot be allocated to an Executive Director.
- 13.8** The Board may determine in writing, in or pursuant to the Board Rules or otherwise pursuant to resolutions adopted by the Board, in each case by a unanimous vote passed by all Directors, that one or more Directors can validly pass resolutions in respect of matters which fall under his/their duties.
- 13.9** The Board shall require the approval of the General Meeting for such Board resolutions as the General Meeting shall have specified in a resolution to that effect and notified to the Board.
- 13.10** Failure to obtain the approval required under Article 13.9 shall not affect the powers of representation of the Board or Directors.

BOARD - REPRESENTATION

Article 14

- 14.1** The Board is entitled to represent the Company.
- 14.2** The power to represent the Company also vests in the Chief Executive Officer and, where more than one Executive Director has been appointed, in each Executive Director individually.

- 14.3** The Company may also be represented by the holder of a power of attorney to that effect. If the Company grants a power of attorney to an individual, the Board may grant an appropriate title to such person.

BOARD - INDEMNIFICATION OF DIRECTORS.

Article 15

- 15.1** Unless law provides otherwise, the following will be reimbursed to current and former Directors:
- a.** the reasonable costs of conducting a defence against claims based on acts or failures to act in the exercise of their duties or any other duties currently or previously performed by them at the Company's request;
 - b.** any damages or fines payable by them as a result of an act or failure to act as referred to under a.; and
 - c.** the reasonable costs of appearing in other legal proceedings or investigations in which they are involved as current or former Directors, with the exception of proceedings primarily aimed at pursuing a claim on their own behalf.
- 15.2** There shall be no entitlement to reimbursement as referred to above if and to the extent that:
- a.** a Dutch court or, in the event of arbitration, an arbitrator has established in a final and conclusive decision that the act or failure to act of the person concerned can be characterised as wilful (*opzettelijk*) or grossly negligent (*grove schuld*) misconduct, unless law provides otherwise or this would, in view of the circumstances of the case, be unacceptable according to standards of reasonableness and fairness; or
 - b.** the costs or financial loss of the person concerned are covered by insurance and the insurer has paid out the costs or financial loss.
- 15.3** The reimbursements as referred to in Article 15.1 will be made immediately upon receipt of invoices or other documents evidencing the costs or other relevant payment obligations of the Director involved. If and to the extent that it has been established by a Dutch court or, in the event of arbitration, by an arbitrator in a final and conclusive decision that the person concerned is not entitled to reimbursement as referred to above, that person shall immediately repay the amount reimbursed by the Company.
- 15.4** The Company may by agreement or otherwise give further implementation to the above provisions of this Article 15.

GENERAL MEETINGS – CONVOCATION AND AGENDA

Article 16

- 16.1** During each financial year at least one General Meeting must be held or at least one resolution passed in accordance with Article 19.1.
- 16.2** General Meetings shall also be held whenever such a meeting is convened by the Board.
- 16.3** General Meetings must be held in Amsterdam, Haarlemmermeer (Schiphol Airport), The Hague, Utrecht or Rotterdam.
- 16.4** A General Meeting must be convened by letters sent to Persons with Meeting Rights no later than on the eighth day prior to the day of the meeting.
- 16.5** A convening notice may, if the Person with Meeting Rights consents thereto, take the form of a legible and reproducible communication sent by electronic means to the address notified by him to the Company for this purpose.
- 16.6** Where the rules laid down by law or by these articles of association in relation to the place where meetings should be held, the convening of meetings or the drawing up of agendas have not been complied with, legally valid resolutions may still be passed provided that all Persons

with Meeting Rights have consented to the place of the meeting or to a decision being made on the relevant matters, respectively, and provided that the Directors have been afforded the opportunity to give their advice prior to the decision-making.

GENERAL MEETING - PROCEDURAL RULES

Article 17

- 17.1** The General Meeting shall appoint its own chairman.
- 17.2** Directors shall, in that capacity, have an advisory vote at General Meetings.
- 17.3** The Board may decide that each Person with Meeting Rights is entitled, whether in person or represented by a person holding a written proxy, to participate in, address and (where applicable) exercise his voting rights at the General Meeting by electronic means of communication.
- 17.4** The Board may impose conditions on the use of electronic means of communication.

GENERAL MEETING - DECISION-MAKING

Article 18

- 18.1** Each share shall give the right to cast one vote at General Meetings.
- 18.2** The Board may decide that votes cast before the General Meeting, but not earlier than on the thirtieth day before that of the meeting, by electronic means of communication shall be equated with those cast at the time of the meeting.
- 18.3** Unless a greater majority is required by law, all resolutions shall be passed by a Simple Majority. Invalid and blank votes shall not be counted as votes cast.

GENERAL MEETING - RESOLUTIONS WITHOUT HOLDING A MEETING

Article 19

- 19.1** Shareholders may pass resolutions without holding a meeting provided that all Persons with Meeting Rights have consented to this manner of decision-making, which consent may be given electronically. The votes on such a resolution must be cast in writing.
- 19.2** The Directors must have been afforded the opportunity to give their advice prior to the decision-making referred to in Article 19.1.

FINANCIAL YEAR, ANNUAL ACCOUNTS

Article 20

- 20.1** The financial year of the Company will coincide with the calendar year.
- 20.2** Each year, within five months after the end of the Company's financial year, unless this period is extended by a maximum of five months by the General Meeting on account of special circumstances, the Board shall prepare annual accounts and deposit them at the Company's office for inspection by the Shareholders. If the Company is required by law to prepare a management report, the Board shall, within the same period, also deposit the management report for inspection by the Shareholders. The annual accounts shall be signed by all Directors. If one or more of their signatures is missing, this fact and the reason therefor shall be stated.
- 20.3** The annual accounts shall be adopted by the General Meeting. The signing of the annual accounts as provided for in the first sentence of section 2:210(5) DCC shall not serve as adoption of those accounts.
- 20.4** The Company shall publish the annual accounts, together with all other relevant documents and information if and to the extent and in the manner required by law.

DISTRIBUTIONS ON SHARES

Article 21

- 21.1** The profits as determined through the adoption of the annual accounts shall be at the disposal

of the General Meeting. The General Meeting may decide to make a distribution, to the extent that the shareholders' equity exceeds the reserves that must be maintained by law.

- 21.2** A resolution to make a distribution shall not take effect as long as the Board has not given its approval. The Board may only withhold such approval if it knows or should reasonably foresee that, following the distribution, the Company will be unable to continue paying its due and payable debts.
- 21.3** For the purposes of calculating any distribution, shares held by the Company in its own capital shall not be included.
- 21.4** For the purposes of calculating the amount to be distributed on each share, only the amount of the mandatory payments towards the nominal value of the shares shall be taken into account. The preceding sentence may be derogated from with the consent of all Shareholders.

DISSOLUTION AND LIQUIDATION

Article 22

- 22.1** In the event of the Company being dissolved, the liquidation shall be effected by the Board unless the General Meeting decides otherwise.
- 22.2** Any assets remaining after payment of all of the Company's debts shall first be applied to pay back the part of the nominal value that has been paid up on the shares. Any remaining assets shall then be distributed among the Shareholders in proportion to the aggregate nominal value of their shares. No distribution may be made to the Company in respect of shares held by it.
- 22.3** After the liquidation has been completed, the books, records and other information carriers of the Company shall be kept for the period prescribed by law by the person designated for that purpose in the resolution of the General Meeting to dissolve the Company. Where the General Meeting has not designated such a person, the liquidators shall do so.