gemalto
security to be free

ANNUAL REPORT 2015

Trust in a connected world

IN THIS REPORT

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

GEMALTO ANNUAL REPORT 2015
PUBLISHED MARCH 4, 2016

FOR MORE INFORMATION
VISIT OUR WEBSITE
www.gemalto.com

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

2015 illustrates the structural transformation and successful diversification of the Company. Gemalto demonstrated the resilience of its business model with another double-digit expansion in profit from operations and strong cash generation.

HIGHLIGHTS

REVENUE

€3,122m

+27% at historical exchange rates
+16% at constant exchange rates

IFRS NET PROFIT

€137m

2014: **€221m**

NET DEBT

€335m

2014 net cash: **€493m**

PROFIT FROM OPERATIONS

€423m

2014: **€383m**

ADJUSTED BASIC EARNINGS PER SHARE[1]

€3.45

2014: **€3.64**

CASH GENERATED FROM OPERATIONS

€425m

2014: **€348m**

PROFIT MARGIN FROM OPERATIONS

13.5%

2014: **15.5%**

CASH DIVIDEND PER SHARE

€0.47

+12%

RETURN ON CAPITAL EMPLOYED (ROCE)[1]

12%

2014: **17%**

[1] Adjusted financial information.

Chairman's statement

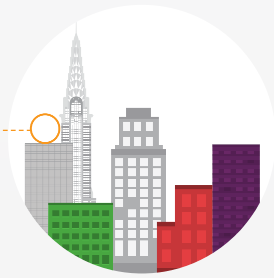
Breadth of markets gives us strength

"Gemalto continues to build and expand a strong, resilient platform for profitable growth."

ALEX MANDL
CHAIRMAN

PAYMENT & IDENTITY GREW +57% VS 2014

€1,818m



Gemalto maintained good growth in 2015, both organically and through our acquisition of SafeNet. As anticipated, it has been able to accelerate its growth in the Enterprise sector by leveraging Gemalto's global footprint. We benefited from the continuous expansion of many of our other markets too, notably the migration to EMV (chip and PIN) payment cards in the US and the proliferation of Machine-to-Machine communication and security needs for the Internet of Things. Once again, our Government business also posted very encouraging growth.

Not everything went our way, though. The closure of the US Softcard initiative came as a setback for our ambitions in mobile payment. But Gemalto's ability to keep growing sales and profits across its businesses despite this kind of disappointment is evidence of its strength and resilience. Our strength lies in the wealth of opportunities open to us by our technology and reach. And, as our Chief Executive explains opposite, our resilience lies in the agility with which we address them.

Market strength in a world of change

We recognize the demands of growing new businesses in a fast-changing environment. Gemalto is designed and built to evolve constantly as markets, technologies and opportunities change.

In 2013 we identified ten market opportunities as the drivers for our strategy. We knew they would not all develop at the same pace, and we do not need them all to perform well to be successful. Our strategy is to address them flexibly, focusing the most resources, at any given moment, on those that offer the greatest potential for profitable growth over time.

Critical enabler for a digital world

Gemalto's end-product is trust – a critical differentiator in an increasingly connected world. We create that trust by consistently doing two things: authenticating users and objects, and protecting our customers' data, whether it is in the form of money or anything else they view as precious. Every current and emerging digital service relies on the security provided by these two activities, authentication and data protection. That is what opens up such a breadth of opportunity for us.

Today we have leading shares in a broad spread of markets which use and value security. We are well placed to expand into adjacent opportunities – as we showed with the SafeNet acquisition in 2015, greatly strengthening our position in data protection. And our experienced management team has consistently demonstrated its ability to exploit market opportunities effectively as they emerge, grow and evolve. That is how, in markets that are increasingly crucial to modern business and personal life, Gemalto continues to build and expand a strong, resilient platform for profitable growth.

Alex Mandl Chairman

Flexibility is key to resilient growth

"We have a record of rising successfully to the challenges we set ourselves."

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

PLATFORMS & SERVICES
REVENUE GREW +79% VS 2014

€898m

We are now midway through the Long Range Plan we began in 2014. The essence of this plan was to transform the shape of our business, rapidly growing our Platforms and Services (P&S) activities to balance our Embedded Software and Products (ESP) operations. Our aim remains to triple our P&S revenues, and in the process to double our profit from operations.

The rebalancing is progressing well. In 2015, P&S sales reached €898 million, giving us a real prospect of reaching our 2017 objective a year ahead of plan. We are also making good progress towards our profit target: while the shutdown of Softcard has made that goal more demanding, mobile payment is just one of our ten market opportunities and we have a record of rising successfully to the challenges we set ourselves.

Simpler and more agile

One key to this success is flexibility in response to change. We are now a larger organization than before, serving uncorrelated sectors, and the breadth of opportunities we are addressing can make us appear complex. But across our many different markets we deploy essentially the same two core technologies, for authenticating identities and protecting data. It is hence not that hard for us to transfer technologies, redeploy people and leverage their skills across the organization. Looked at from the technology perspective, our business is simpler and therefore more agile than it might seem when looked at from the application viewpoint.

Going forward, in the second half of our Long Range Plan, we will earn increasing returns from the considerable investments made in the first half. These have given us the capacity to handle continuing growth in global demand for our banking cards, with contactless cards to follow, and the predictable expansion of both our Government and Enterprise Security lines. We will drive increasing volume of business through an infrastructure we now have in place. And our IoT* business is also poised for a long period of growth.

Flexibility backed by excellent execution

We will hence continue to allocate resources flexibly between our ten strategic growth opportunities, focusing on the markets that are developing fastest. And – crucially – we will aim at maintaining our record of excellence in execution and customer satisfaction.

Indeed, effective execution depends on people: our customers, and our employees. Our technological leadership and innovation do not exist for their own sakes – they are driven by our focus on our customers' satisfaction. Similarly, the commitment of our people is not something we take for granted – we support it through constant attention to our employees' engagement and motivation. We value our customers and people because our success depends on them, and I take the opportunity here to thank them for their trust and their contribution.

Olivier Piou Chief Executive Officer

* IoT: Internet of Things

What we do to create value

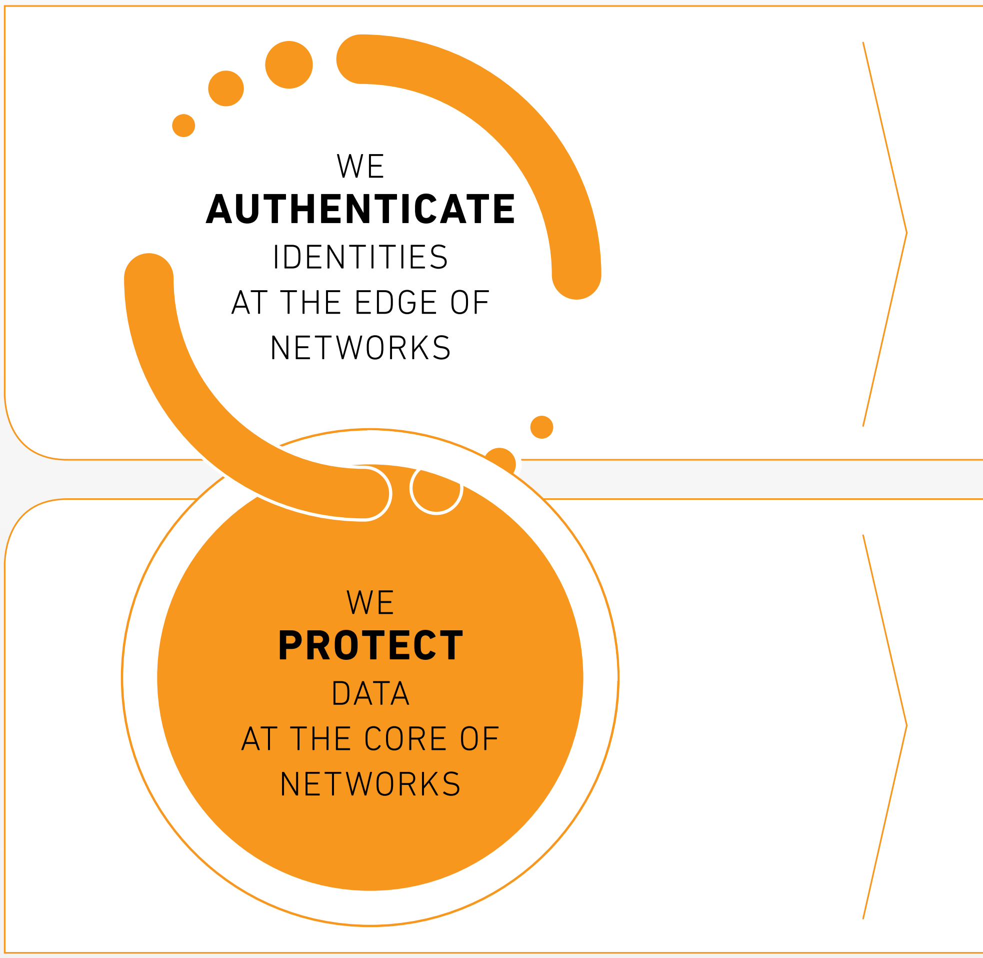
Digital technology offers huge potential. The possibilities are increasing daily, but so are the threats. Which is why trust is vital – and it's what we provide.

As online and mobile interactions grow around the globe, so does cyber crime. Businesses, governments, individuals – and even things – all need to reduce their exposure to data and identity theft.

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

We enable trusted exchanges

We develop secure software



Our technologies are based on two essential, interlocking processes: **authenticating people and things**, by embedding secure software in personal devices and in connected objects at the 'edge' of the network; and **protecting data** by encrypting it in servers at its 'core'.

Our success comes from our ability to make our technologies effective, convenient, scalable and affordable for everyday exchanges.

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

We deliver solutions and services

We sell multiple models

WE EMBED SOFTWARE IN PRODUCTS

ID AUTHENTICATION
Embedding secure software in smart devices used by people and things to protect, identify and authenticate them on the network.

software and products

software licenses

WE DEPLOY PLATFORMS & SERVICES

DATA PROTECTION
Encrypting data to ensure privacy, as well as creating value, even in shared environments like the cloud.

STRONG ID VERIFICATION
When simple login and password are not secure enough.

ID ISSUANCE
When a secure process is needed to control access to network resources.

software licenses

services

How we grow

By adapting its core technologies, Gemalto has developed and diversified into an increasing number of growth markets.

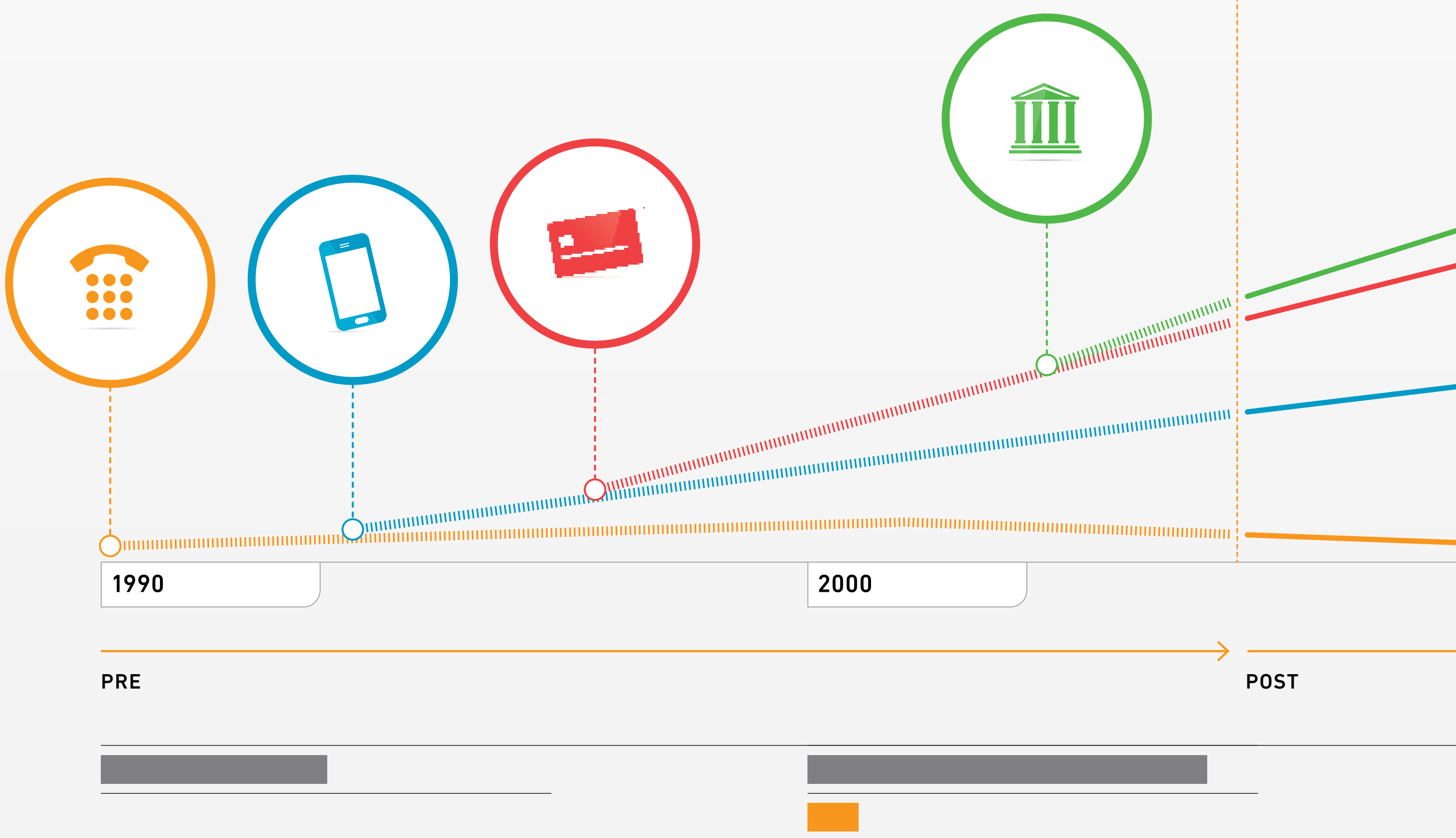
Our client base has grown and changed over time as digital security has become critical to more and more organizations. Banks, governments, corporations, retailers, mobile operators, OEMs and many others now use our services.

As their scale and needs have grown, we've grown with them – by developing and tailoring our technologies to support new opportunities.

We progressively increase our integration into expanding markets by complementing our products with related security services.

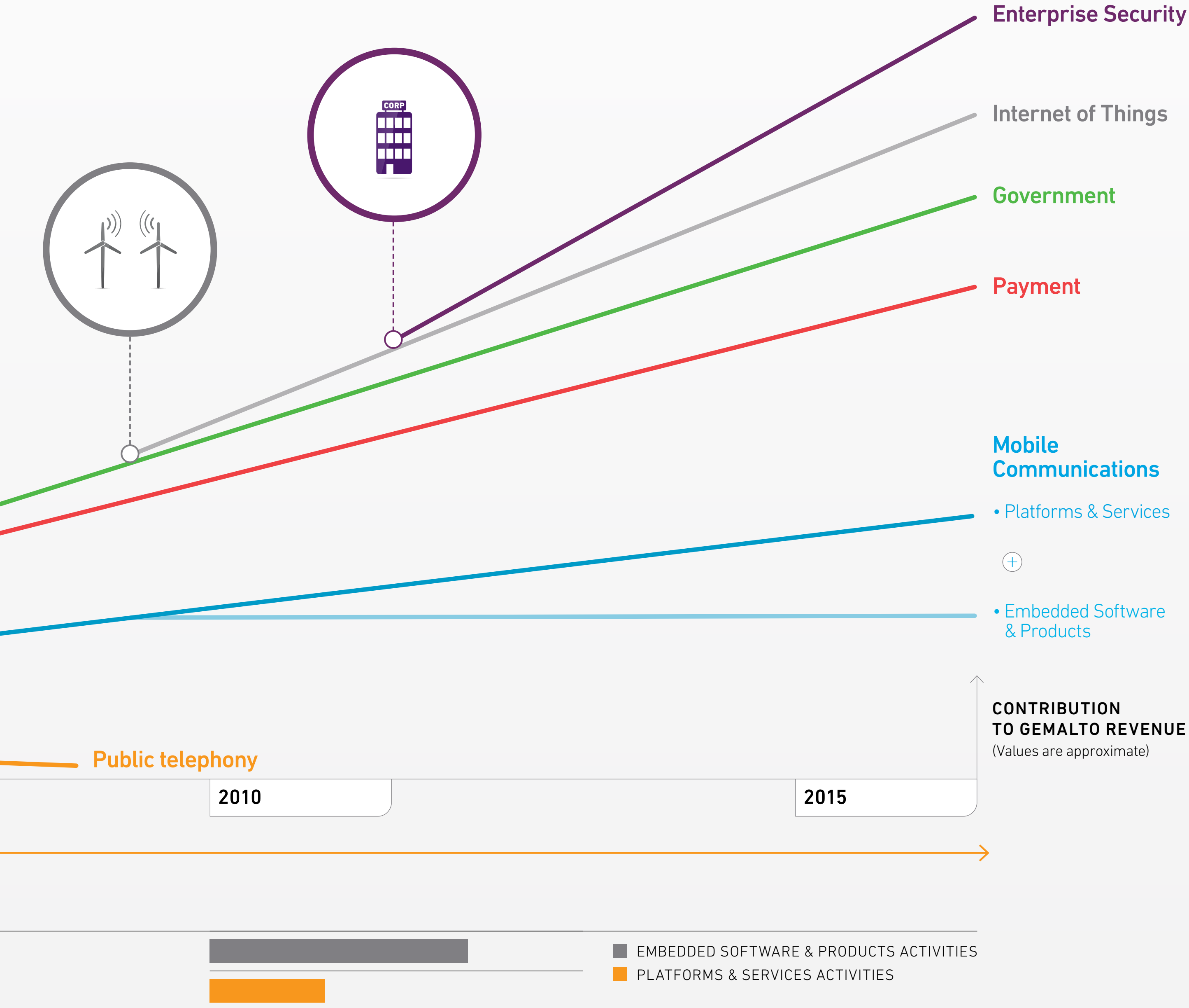
CREATION OF GEMALTO FROM THE MERGER OF TWO WORLD LEADERS

gemalto security to be free



Our products and services are sold in five main market segments organized in two reporting lines: Payment & Identity, and Mobile. Our fundamental technologies are developed for each market according to customer needs.

PAYMENT & IDENTITY	MOBILE
Payment	**Mobile Communications**
Enterprise Security	**Internet of Things**
Government	



How our main markets are evolving

PAYMENT & IDENTITY

The digital age is creating countless opportunities to deliver services more conveniently and efficiently. At the same time it is also creating ever greater demand for solutions that protect transactions, data and identities, combat fraud – and help bring trust.

Payment

Shipments of smart payment and banking cards worldwide will increase from 4.2 billion in 2014 to 9.1 billion in 2020[1], driven by the adoption of EMV[2] in major countries like the US and China.

Strong growth is also forecast for online payment, doubling from 79 billion remote transactions in 2015 to 163 billion in 2020. By then, 69% will be made via mobiles and tablets[3].

With contactless and NFC as further drivers, demand for protection and authentication is constantly rising.

[1] Source: IHS Technology
[2] The international standard for chip-based banking cards
[3] Source: Juniper Research

$4.4 trillion
VALUE OF REMOTE (MOBILE & ONLINE) TRANSACTIONS 2020
Source: Juniper Research July 2015

Enterprise Security

Since 2013, more than 3.6 billion personal and financial data records have been stolen or lost worldwide[1].

With the growth of cloud-based services, big data, mobility and social media, enterprises are realizing that perimeter security alone is not enough to protect sensitive data and identities. As a result, more organizations are moving to protect their sensitive information with encryption, strong authentication and user access controls.

Recent reports forecast the value of the worldwide Identity & Access Management (IAM) market to grow at 8% CAGR to 2019[2].

[1] Source: Breach Level Index
[2] Source: IDC

700 million
DATA RECORDS EXPOSED BY BREACHES IN 2015
Source: Breach Level Index

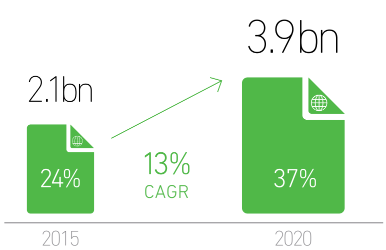
Government

The public sector globally is adopting 'eGovernment' which, with state-issued eID, cuts fraud and red-tape, and offers citizens the convenience of online services. With mobile access rising fast, there is an increasing need to protect data and authenticate users.

120 countries are also issuing contactless travel documents which, with the ICAO's[1] global Traveler Identification Program, enable access to automatic border gates as well as fast-track immigration and visa services.

[1] International Civil Aviation Organization

PENETRATION OF eDOCUMENTS IN TOTAL OF ALL GOVERNMENT DOCUMENTS IN CIRCULATION



Source: ABI research

MOBILE

Mobile connectivity is bringing consumers a convenient digital life, wherever they go. Services are proliferating on the many devices they carry. And machines are increasingly connected in the rapidly expanding 'Internet of Things'. Ultimately, every business needs a mobile strategy, and their services must be secure.

Mobile Communications

Mobile devices are delivering more and more services. In payment, issuers wanting to deploy their digital cards on mobile frameworks are driving the need for global TSH[1] infrastructures, providing banks with reach, autonomy and future proof security. Simple, robust technologies supporting NFC are also accelerating its adoption.

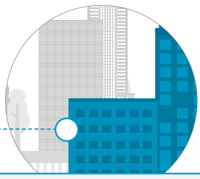
MNOs are answering the growing need for secure access to online services in a new role as identity providers. Everywhere, the security of the mobile ecosystem needs continuous attention to counter cyber threats.

[1] TSH: Trusted Services Hub

1.4 billion

MULTI-TENANT SECURE CLIENTS BY 2017

Source: Gemalto based on Eurosmart data 2015, includes all suppliers



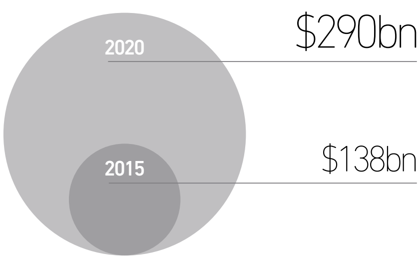
Internet of Things

Industrial applications

Internet connectivity is moving beyond laptops and smartphones to encompass virtually everything – from cars and smart meters to medical devices and home appliances. This is creating the Internet of Things (IoT), the combination of connected devices and software that produce, receive and analyze data – and so generate increasing demand for protection and authentication.

There will be 38 billion such devices by 2020, and the global value of the sector will then be $290 billion, more than doubling from $138 billion in 2015.

TOTAL VALUE OF IOT SERVICES



Source: Juniper Research 2015

Consumer electronics

People have an increasing number of connected devices such as tablets and wearables which in turn are changing the way they consume services. This is driving the need for flexible mobile connectivity, convenient service provisioning and security.

Growing consumer confidence in these devices will add momentum to the trend for mobile contactless payments, authentication, ticketing and enterprise applications.

DIGITAL HEALTHCARE REMOTE DEVICES IN 2020

95 million

Source: Juniper Research 2015

What our offer provides

PAYMENT & IDENTITY

Payment

Embedded Software & Products

- Electronic payment cards
- Authenticators for eBanking and eCommerce

Platforms & Services

- Mobile and card issuance services

Enterprise Security

Embedded Software & Products

- Identity cards and authentication tokens

Platforms & Services

- Encryption and key management services
- Cloud authentication services
- Software monetization

Government

Embedded Software & Products

- eID documents

Platforms & Services

- Enrollment and issuance services
- Border access management systems
- Security for eGov services

...ONLINE SHOPPERS CAN PAY SECURELY

...EMPLOYEES CAN SECURELY ACCESS CLOUD DATA

HTTP

...**SUBSCRIBERS**
CAN GET
INSTANT MOBILE
CONNECTIVITY
FOR THEIR
WEARABLES

MOBILE

Mobile Communications

Embedded Software & Products	Platforms & Services
• Embedded secure elements and embedded SIM for consumer devices	• Issuance services (Trusted Service Hub and mobile subscription management)
• Removable SIM	• Mobile money and carrier billing • SIM administration Over-the-Air (OTA)

Internet of Things

Embedded Software & Products	Platforms & Services
• Connectivity modules • Embedded security for industrial equipment and consumer devices	• Issuance services (Trusted Service Hub) • Application platform • Security consulting

...**ENERGY METERS**
CAN REMOTELY
AND SECURELY
TRANSMIT DATA

...**PASSENGERS**
CAN SWIFTLY
PASS THROUGH
BORDER CHECKS

Where we operate globally

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

EUROPE, CIS, MIDDLE EAST & AFRICA

REVENUE

€1,378m

HEADCOUNT

48%

NORTH & SOUTH AMERICA

REVENUE

€1,189m

HEADCOUNT

25%

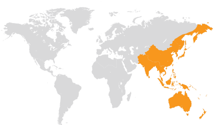
ASIA PACIFIC

REVENUE

€554m

HEADCOUNT

27%



OFFICES WORLDWIDE

118

NATIONALITIES OF OUR EMPLOYEES

117

COUNTRIES WHERE WE ARE BASED

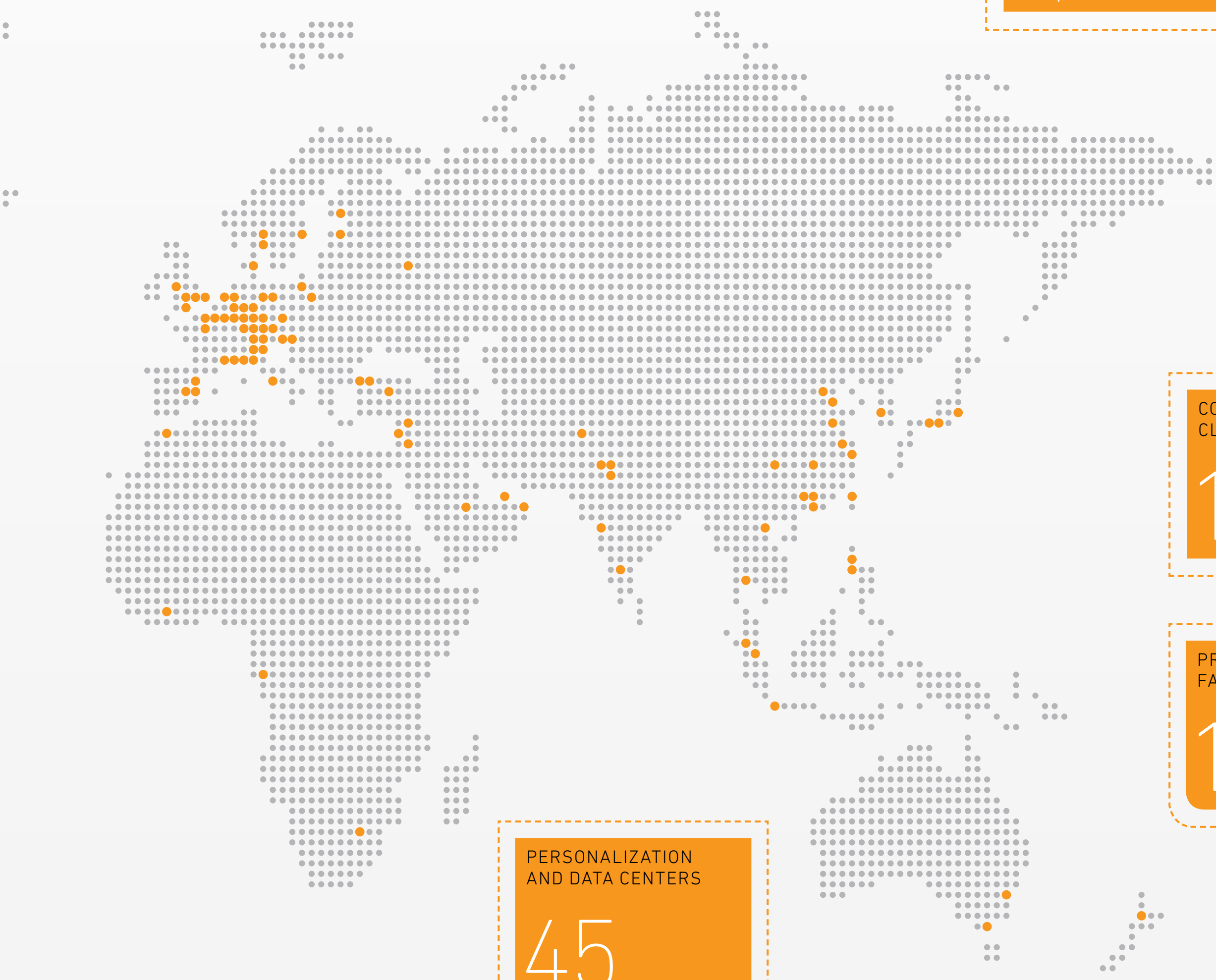
49

RESEARCH & SOFTWARE DEVELOPMENT CENTERS

27

R&D ENGINEERS

3,000+



COUNTRIES WHERE OUR CLIENTS ARE BASED

180+

PRODUCTION FACILITIES

17

PERSONALIZATION AND DATA CENTERS

45

KEY

GEMALTO SITES

Our strategy and objectives

OUR STRATEGY

Lead with innovation

- We invest early and significantly in select opportunities.

Replicate technologies worldwide

- We use core technologies in different sectors that need security, replicating our experience over industries, geographies and time.
- We build our offer around a common services infrastructure.

Retain our market neutrality

- We operate behind the scenes so that our clients can maintain a direct and trusted relationship with their customers.

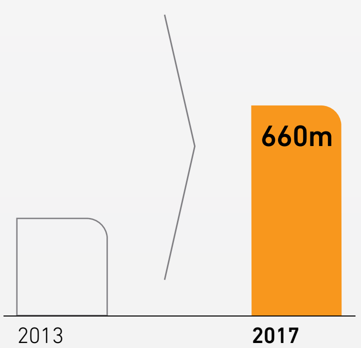
Maintain operational flexibility

- We invest in M&A in order to accelerate access to complementary businesses, new geographies and adjacent markets.
- We maintain a robust financial structure with low debt ratios.

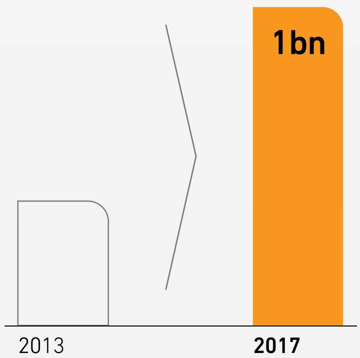
OUR STRATEGY DRIVES OUR PERFORMANCE...

...TO ACHIEVE OUR OBJECTIVES

Profit from operations €



Platforms & Services revenue €



Our strategy in practice

PAYMENT & IDENTITY

Payment

- Re-use our existing offer in regions moving to EMV.
- Extend our issuance infrastructure to support new payment form factors.

Enterprise Security

- Support a broader deployment of strong authentication to secure access to sensitive corporate data and assets.
- Increase the scope of our offer by vertically integrating data encryption.
- Enable technology companies to protect, manage and monetize their software.

Government

- Re-use our existing offer in countries moving to secure ID documents and support the move to new types of identification such as mobile ID.
- Reinforce our presence in digital enrollment, border access control and eGovernment services.

MOBILE

Mobile Communications

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

Deploy platforms and services to mobile operators for mobile commerce, mobile identity and mobile security, as well as network connectivity.

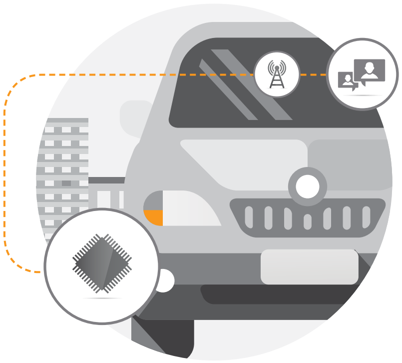
Internet of Things

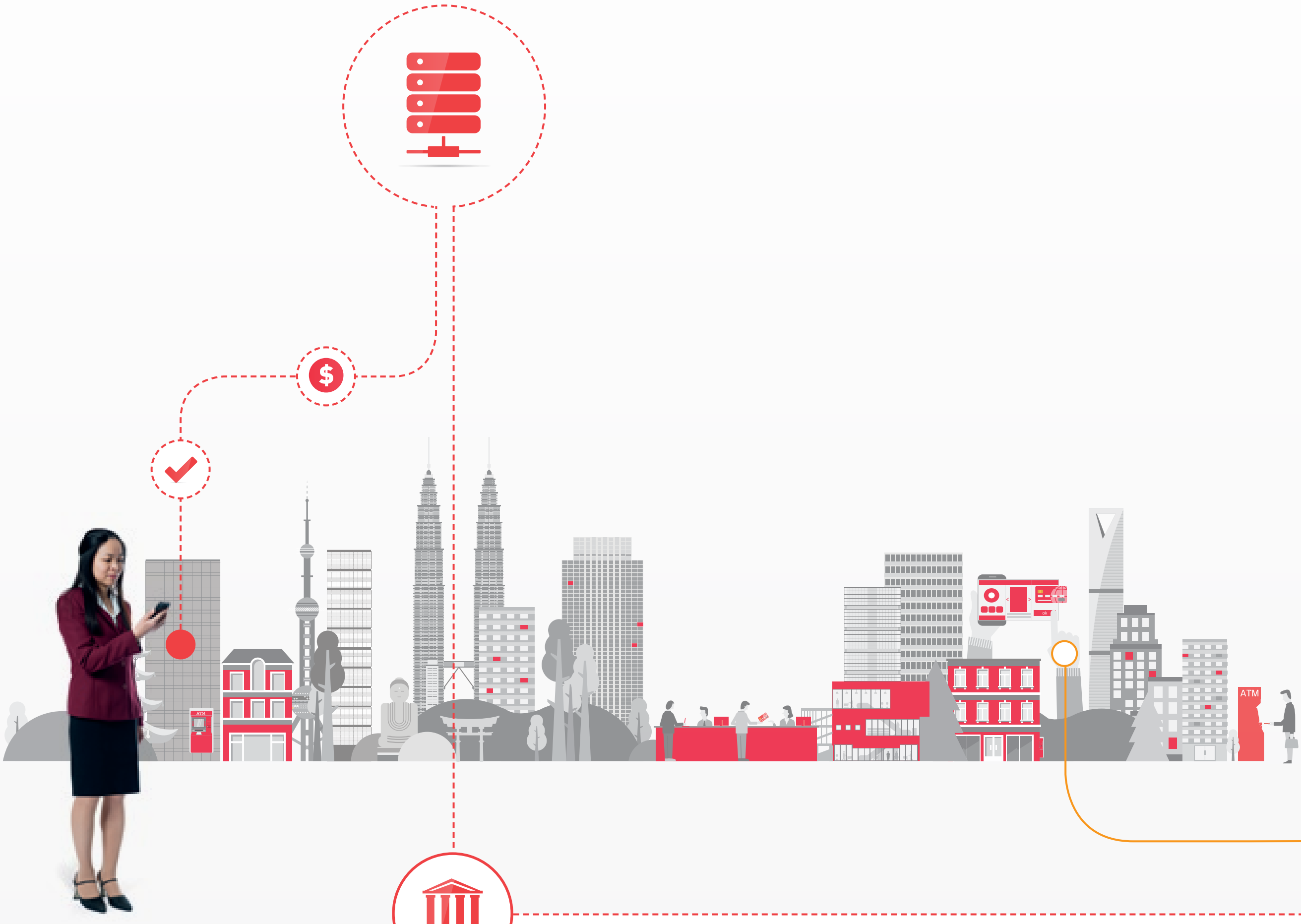
Industrial applications

- Lead the market of connectivity modules with plug-&-play solutions for different industries.
- Integrate SIM and secure element technology in industrial markets.
- Ensure IoT solutions are secure, well-managed and capable of supporting intelligent applications.

Consumer electronics

- Provide OEMs with technologies for securing and connecting consumer electronic devices.





Trust in a connected world

Securing mobile banking in the Philippines

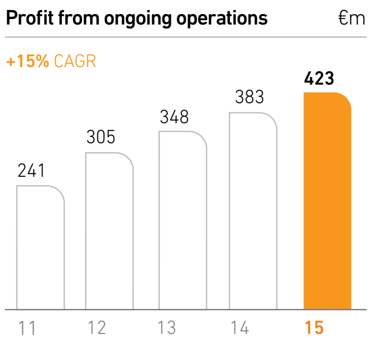
When over 90% of Filipinos said they wanted to "take their banking with them", BancNet* decided to deliver. Now, its 40 million banking cardholders can pay bills, check account balances and transfer funds using their computers, tablets and other mobile devices. Securing the service is Gemalto's Ezio solution, enabling them to perform dynamic, multi-layer authentication and verification of their transactions.

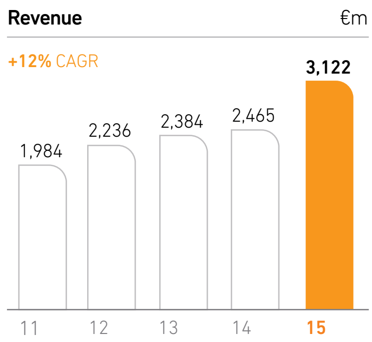
* BancNet is a Philippines-based network of 116 local and international banks.

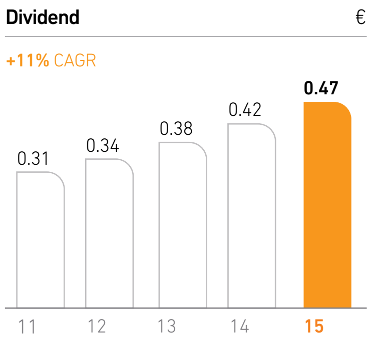
Financial review

Group financial review

- Full year revenue of €3.1 billion, up +16%, and profit from operations up +10%, at €423 million
- Revenue in Payment & Identity at €1.8 billion, represents 58% of the total sales
- Platforms & Services revenue reaches €898 million, up +70%
- Free cash flow generation accelerated over the year, with €233 million in the second semester







Basis of preparation of financial information

Segment information

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

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

Historical exchange rates and constant currency figures

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

Pro forma figures

Following the acquisition of SafeNet and for a better understanding of the year-on-year evolution of the business, the Company presents the 2014 Gemalto segment and activity pro forma figures as if SafeNet had been consolidated for the full year 2014 period and year-on-year variations between these 2014 pro forma figures and 2015 figures as if SafeNet had been consolidated starting from January 1, 2015. The difference between 2015 actual figures and 2015 pro forma figures corresponds to the SafeNet contribution from January 1, 2015 to January 7, 2015, the actual transaction closing date. SafeNet's pro forma figures used in this document were translated into Euro using monthly currency conversion rates. Variations of pro forma revenue figures are at constant exchange rates and exclude the impact of currencies variation hedging program for 2014 and 2015.

Overall pro forma growth includes the 2015 organic growth coming from SafeNet activities. This metric aims at giving a fair view of the operational performance of the Company, including the ensuing synergies generated by the acquisition.

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

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

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

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

- Amortization and depreciation of intangibles resulting from acquisitions are defined as the amortization and depreciation expenses related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant,...), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio, and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of the acquisition process).
- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock 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 cancelled commercial margin related to deferred revenue balance acquired.

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

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

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

Adjusted financial information

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

Total revenue for 2015 came in at €3,122 million. Strong growth in Payment, Government Programs and Machine-to-Machine, coupled with the addition of SafeNet drove the revenue expansion of +27% at historical exchange rates and +16% at constant exchange rates.

The total Company's year-on-year revenue growth was +6% pro forma. SafeNet's combination added 12 percentage points to the 2014 reported sales. The substantial strengthening of the US dollar versus Euro compared to 2014 and the now larger part of the Company's US dollar denominated revenue generated a 9 percentage point difference between revenue growth at historical and at constant exchange rates. This difference was partly reduced by the currency variation protection hedging program that induced a (2) percentage point reduction on the reported sales.

Embedded software & Products (E&P) revenue grew by +3%. Payment cards represented the largest part of the E&P expansion. High demand for connectivity and security modules for the Internet of Things (IoT) and strong deliveries in Government Programs also notably contributed to the E&P revenue increase. E&P activity in the Mobile segment reduced due to lower year-on-year SIM sales following the closure of the major US wireless carriers' payment venture, and to a lesser extent to lower demand in Latin America and Asia in the second semester.

In Platforms & Services (P&S), sales were up by +70%, due to further revenue expansion in payment issuance services, to growth in eGovernment services and to SafeNet's contribution to the Enterprise business. These increases largely exceeded the reduced Mobile Financial Services revenue coming from the United States.

Globally, 2015 revenue growth illustrated the structural transformation and successful diversification of the Company. Gemalto posted a +6% pro forma revenue growth though sales of SIM and Mobile related services declined by an unusual (15%) year-on-year during the period.

Adjusted financial information

	Full year 2015		Full year 2014		Year-on-year variations at	
Extract of the adjusted income statement	€ in millions	As a % of revenue	€ in millions	As a % of revenue	historical exchange rates	constant exchange rates
Revenue	**3,121.6**		2,465.2		+27%	+16%
Gross profit	**1,215.9**	**39.0%**	952.2	38.6%	+0.3 ppt	
Operating expenses	**(793.3)**	**(25.4%)**	(569.5)	(23.1%)	(2.3 ppt)	
EBITDA	**546.9**	**17.5%**	478.6	19.4%	+14%	
Profit from operations	**422.6**	**13.5%**	382.7	15.5%	+10.4%	
Net profit	**303.5**	**9.7%**	315.3	12.8%	(4%)	
Basic earnings per share (€)	**3.45**		3.64		(5%)	
Diluted earnings per share (€)	**3.41**		3.55		(4%)	

Year-on-year revenue variation details

Full year 2015 (in percentage points)	SafeNet addition	Pro forma growth	Hedge effect	Currencies variation effect	Revenue growth at historical exchange
Contributions to total year-on-year revenue variation	+12%	+6%	(2%)	+9%	+27%

Group financial review continued

Gross profit was up by €264 million, to €1,216 million, representing a gross margin of 39%, up +0.3 percentage point year-on-year. The increase in gross profit in the Payment and Government Programs businesses more than offset the lower contribution from the Mobile segment.

Operating expenses were up by 2.3 percentage point of revenue to 25.4%, at (€793) million. The increase came primarily from the addition of SafeNet, running at a higher percentage of operating expenses than Gemalto's historical business, and from currency translation effects, which outweighed the absence of variable pay-out to management and employees related to profit from operations.

As a result, 2015 profit from operations came in at €423 million, representing 13.5% profit margin and up €40 million, +10.4% year-on-year.

Gemalto's financial income was (€38) million compared to (€12) million for 2014. Interest expense and amortized costs on the public bond, private placements and credit lines facilities amounted to (€13) million and foreign exchange transactions and other financial items amounted to (€24) million.

Share of profit in associates was €2 million for the full year 2015. As a result, adjusted profit before income tax came in at €387 million compared to €370 million the previous year, an increase of +5%.

Adjusted income tax expense increased to (€83) million, compared to (€54) million the previous year, as Gemalto tax rate is progressively converging toward its expected normative effective tax rate level.

Overall, the 2015 adjusted net profit for the Company was €303 million, lower by €12 million when compared to 2014.

Adjusted basic earnings per share came in at €3.45, and adjusted diluted earnings per share at €3.41, compared to 2014 adjusted basic earnings per share of €3.64 and adjusted diluted earnings per share of €3.55.

IFRS Results

Fair value adjustments, mainly the non-cash amortization of the IFRS revaluation of SafeNet's pre-acquisition inventories and deferred revenue at their realizable value, accounted for (€71) million for the full year 2015. It was (€67) million for the first semester 2015, (€4) million for the second semester, and null in 2014. Amortization and depreciation of intangibles resulting from acquisitions, another non-cash element, came in at (€61) million versus (€27) million in 2014, also mainly due to the SafeNet acquisition. Restructuring and acquisition-related expenses increased to (€49) million versus (€30) million year-on-year, due to the acquisitions and to the restructuring of the Mobile Platforms & Services business and data centers. The equity-based compensation charge was reduced by (€17) million year-on-year, to (€39) million, as the Company long-term incentive plans are aligned with the multi-year development plan objectives and conditional on a set of cumulative progress indicators over the period.

The IFRS income tax rate came in at 18% for the year, up 4 percentage points versus 2014.

Cash position variation schedule

€ in millions	**Full year 2015**	Full year 2014
Cash and cash equivalent, beginning of period	**1,057**	**456**
Cash generated by operating activities, before changes in working capital	**443**	**394**
Cash provided (used) by working capital decrease (increase)	65	(81)
Cash used in restructuring actions	(29)	(20)
Cash generated by operating activities before prepaid derivatives	**479**	**294**
Prepaid derivatives	(124)	–
Cash generated by operating activities	**355**	**294**
Capital expenditure and acquisitions of intangibles	(185)	(125)
Free cash flow	**170**	**169**
Interest received, (paid), net	(10)	2
Cash used by acquisitions	(897)	(84)
Currency translation adjustments	5	1
Cash generated (used) by operating and investing activities	**(732)**	**87**
Cash used by the share buy-back program	(3)	(17)
Dividend paid to Gemalto shareholders	(37)	(33)
Net proceeds from financing activities	117	555
Other cash provided by financing activities	2	9
Cash and cash equivalent, end of period	**405**	**1,057**
Current and non-current borrowings excluding bank overdrafts, end of period	(740)	(564)
Net (debt), cash, end of period	**(335)**	**493**

As a result, Gemalto recorded an IFRS operating profit (EBIT) of €203 million for 2015 compared to €270 million in 2014 and an IFRS net profit of €137 million for 2015 versus €221 million in 2014. IFRS basic earnings per share and diluted earnings per share came in at €1.56 and €1.54 respectively in 2015, compared to €2.55 and €2.49 respectively in 2014.

Statement of financial position and cash position variation schedule

For the full year 2015, Gemalto operating activities generated a cash flow before changes in working capital of €443 million, up +12%, compared to the €394 million generated in 2014. Change in working capital had a €65 million positive impact on the cash flow in 2015 compared to an (€81) million negative impact in 2014. Net trade receivables and payables improved year-on-year mainly from better cash collection, advance payments received as well as customer payments which had been delayed from 2014 to 2015.

The hedging currency protection program generated a cash outflow of (€124) million in 2015 which will be recovered within the next three years. Capital expenditure and acquisition of intangibles amounted to (€185) million, i.e. 5.9% of revenue. Property, Plant, and Equipment assets accounted for (€98) million of investment in 2015, compared to (€81) million in 2014, to support the fast growing businesses, particularly in the United States. Acquisition and capitalization of development expenses represented (€88) million, with capitalization of development expenses representing 1.7% of revenue in 2015 compared to 1.5% in 2014.

Excluding the (€124) million prepaid derivative for hedging currency protection payment, free cash flow from operations increased by +74% at €293 million in 2015 compared to €169 million in 2014. When including this prepaid derivative payment, free cash flow from operations was €233 million in the second semester, leading to €170 million for the full year of 2015.

Cash outflow related to acquisitions, net of cash acquired, was (€897) million in 2015 versus (€84) million in 2014, mostly due to the acquisitions of SafeNet and Trüb.

On May 24, 2015, Gemalto paid a cash dividend of €0.42 per share in respect of the fiscal year 2014, up +11% on the dividend paid in 2014. This distribution used €37 million in cash.

Gemalto's share buy-back program had no impact on the cash position in 2015 and the independently managed liquidity program generated a (€3) million cash outflow. As at December 31, 2015, the Company held 903,717 of its own shares in treasury, representing 1.0% of its issued and paid-up share capital. The total number of shares issued increased by +991,865 in 2015 to 89,007,709 as announced in first semester and, net of the 903,717 shares held in treasury, 88,103,992 shares were outstanding as at December 31, 2015. The average acquisition price of the shares repurchased on the market by the Company held in treasury as at December 31, 2015 was €40.20.

Net proceeds from financing activities generated a €117 million cash inflow, mainly coming from private placement loan issuances, credit line drawdown, financing of US operations and proceeds received by the Company from the exercise of stock options by employees.

Gemalto's cash and cash equivalents as at December 31, 2015 was €405 million. It was €1,057 million at the end of 2014. The current and non-current borrowings excluding bank overdrafts were €740 million.

As a result in particular of the (€897) million cash outflow from acquisitions, partly offset by the operating cash generation acceleration, the Company's financial position moved to a net debt position of €335 million as at December 31, 2015 from a €493 million net cash position at the end of 2014.

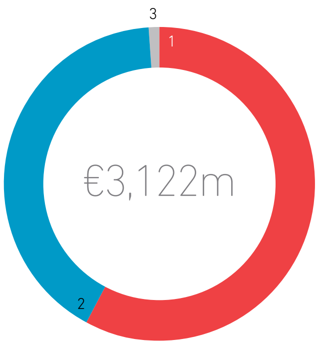
Outlook

For 2016, with the positive trends in Enterprise, Government Programs, Machine-to-Machine and the US EMV ramp-up effort completed, Gemalto expects to generate a +1.5 percentage point gross margin increase, accelerating its profit from operation expansion towards its 2017 objectives.

Segment financial review

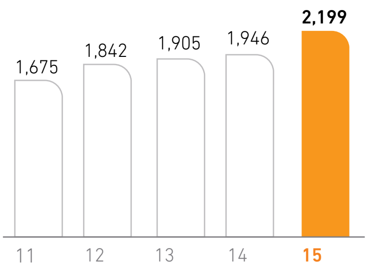
REVENUE BY SEGMENT

1.	Payment & Identity	**58%**
2.	Mobile	**41%**
3.	Patents & Others	1%



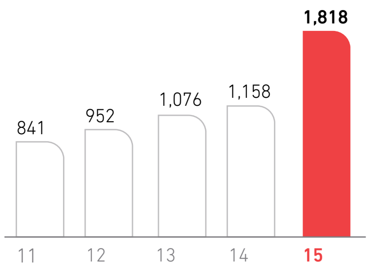
REVENUE EMBEDDED SOFTWARE & PRODUCTS €m

+7% CAGR



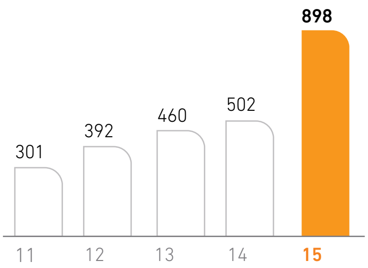
REVENUE PAYMENT & IDENTITY €m

+21% CAGR



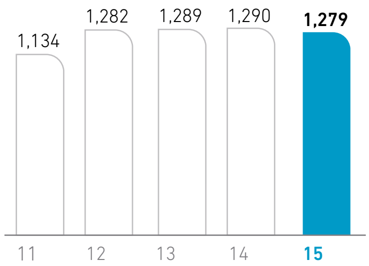
REVENUE PLATFORMS & SERVICES €m

+31% CAGR



REVENUE MOBILE €m

+3% CAGR



Full year 2015

	by segment			by activity	
Gemalto including SafeNet pro forma contribution (estimates, € in millions)	Payment & Identity	Mobile	Total including Patents & Others	Embedded software & Products	Platforms & Services
Revenue	1,818	1,279	3,122	2199	898
As a percentage of total revenue	58%	41%	100%	70%	29%
Gross profit	698	495	1,216		
Profit from operations	239	172	423		

Platforms & Services

Revenue from ongoing operations in Platforms & Services activities (€ in millions)	2015	2014	Year-on-year variations at constant exchange rates	Year-on-year variations at historical exchange rates
Mobile	248	259	(8%)	(4%)
Payment & Identity	650	243	+151%	+167%
Total	**898**	**502**	**+70%**	**+79%**

Segment information

During the fourth quarter, revenue expanded by +13% at constant exchange rates and +21% at historical exchange rates. In Mobile, similar trends as the previous quarter were observed, with lower (15%) revenue mostly due to lower SIM and related services sales in the United States. In the fourth quarter, growth in Payment & Identity was +44% at constant exchange rates and +53% at historical exchange rates, with lower year-on-year sales of payment cards in China.

Activities within Embedded software & Products and Platforms & Services both contributed to the revenue growth of Gemalto in 2015, up by +3% and +70% respectively (and up +1% and +11% respectively on a pro forma basis). Growth in Embedded software & Products came mostly from Payment, Machine-to-Machine and Government Programs. Platforms & Services' increase in revenue was driven by higher Payment issuance services, especially in the United States, expansion in Government Programs and the contribution of SafeNet to the Enterprise business, which largely offset the lower Mobile Financial Services revenue generated in 2015. Platforms & Services contributed 84% of the total Company revenue growth in 2015.

Full year profit from operations increased by +10.4% year-on-year. The lower profit from operations contribution of the Mobile segment was more than offset by the Payment & Identity segment performance, up +68% compared to 2014. Profit from operations increased in all Payment & Identity businesses, stemming from EMV migration in the United States for Payment, the initial SafeNet synergies in Enterprise and strong deliveries in Government Programs.

Segment financial review

Payment & Identity

Payment & Identity's full year revenue came in at €1,818 million, increasing by +45% at constant exchange rates compared to 2014.

Payment & Identity

Payment & Identity's full year revenue came in at €1,818 million, increasing by +45% at constant exchange rates compared to 2014 and up +16% pro forma SafeNet. The segment's Embedded software & Products sales were up by +18% at €1,168 million and its Platforms & Services sales more than doubled to €650 million.

The Payment business grew by +23% in 2015 versus 2014. The Americas posted the largest growth, with revenue almost doubling compared to the previous year on strong sales of EMV payment cards and rapid expansion of issuance services in the United States. Payment Embedded software & Products sales grew by +19% and Payment Platforms & Services revenue expanded by +40% compared to 2014 at constant exchange rates.

Revenue from the Enterprise business came in at €425 million in 2015 with expansion coming from the addition of SafeNet and from the sustained market demand for cybersecurity, software protection and software monetization solutions. The alignment of authentication portfolios between the Identity Access Management business and SafeNet is on track. The trend in revenue mix in authentication and data protection continues to move towards a higher proportion of software and services, and to gross profit increasing faster than revenue. On a pro forma basis this evolution had led to a gross margin increase of +2 percentage points in Enterprise compared to 2014.

Revenue from the Government Programs business came in at €391 million, up +24% at constant exchange rates compared to 2014. Sales expansion came from delivery commencements of previously won projects while at the same time project backlog continued to expand, and from the €45 million contribution of Trüb AG, a Swiss provider of identification solutions acquired in the second quarter of 2015. Government Programs Embedded software & Products revenue was up +19% and Government Programs Platforms & Services sales were up +44% in 2015 compared to 2014.

The steep business ramp-up in the United States led to an unusually high dedication of resources, yet the Payment & Identity segment gross margin as a whole improved to 38%, up +5.1 percentage points compared to 2014, due to the strong Platforms & Services expansion in the segment.

Operating expenses grew to (€460) million in 2015, in large part due to the acquisitions additions, and to a lesser extent to the currency translation effects as well as the shift of internal resources to the segment in order to effectively capture the rapid growth of its different businesses.

As a result profit from operations in Payment & Identity came in at €239 million, up +68% from the €142 million recorded in 2014, leading to a 13.1% profit margin from operations, up +0.9 percentage points.

HIGHLIGHTS

REVENUE

€1,818m

2014: **€1,158m**

GROSS PROFIT

€698m

2014: **€386m**

GROSS MARGIN

38.4%

(up **506** basis points)

PROFIT FROM OPERATIONS

€239m

2014: **€142m**

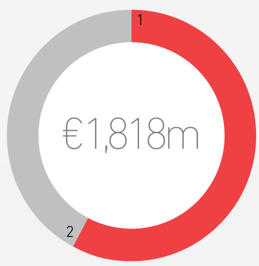
PROFIT MARGIN OPERATIONS

13.1%

(up **87** basis points)

REVENUE SPLIT

1. Payment & Identity	58%
2. Other segments	42%



Segment financial review

Mobile

The Mobile segment recorded annual revenue of €1,279 million.

Mobile

The Mobile segment recorded annual revenue of €1,279 million, (1%) lower year-on-year at historical exchange rates and (10%) at constant exchange rates.

Embedded software & Products revenue for the segment came in at €1,030 million, stable at historical exchange rates and (10%) lower compared to 2014 at constant exchange rates. The SIM business reduced by (17%) in 2015 compared to 2014, with a (23%) year-on-year reduction in the fourth quarter, mainly due to the United States operators' mobile payment venture closing as earlier announced, coupled with lower demand in Latin America and Asia. Revenue derived from SIM products now represents less than one quarter of total company revenues. The Machine-to-Machine business on the other hand continued to grow rapidly, by +18% year-on-year, due to the expanding global demand of connected devices and embedded secure elements for the Internet of Things (IoT).

Platforms & Services revenue for the segment came in at €248 million, lower by (8%) as Mobile Financial Services revenue decreased year-on-year due to lower mobile payment business in the United States, as announced earlier. On a global perspective, in 2015 Gemalto Mobile Financial Services achieved several key milestones to interconnect different technologies, devices and actors. In particular, Gemalto announced its partnership with Samsung to accelerate the deployment of Samsung Pay in Europe. Gemalto's Trusted Service Hub offers payment issuers a one stop connection for lifecycle management of payment credentials and tokenization services.

In 2015 Gemalto's Mobile Subscriber Services business also reached important milestones, related to embedded SIMs remote activation and management, with the adoption by the GSMA of a first common high-level architecture for the consumer market. Gemalto is deeply involved in this global interoperability effort, bringing its technical expertise and neutrality to help both device manufacturers and mobile network operators best align the ecosystem participants objectives. In this perspective, Gemalto recently provided the solution to Samsung Electronics for the launch of its latest Gear S2 smartwatch, allowing users to securely connect to their cellular network of choice.

Gross margin for the Mobile segment was 39% in 2015, lower by (4) percentage points compared to 2014 mainly due to the lower revenue generated in the United States.

Operating expenses increased by €9 million due to investments in Machine-to-Machine to capture the IoT sector's fast expansion and in Mobile Platforms & Services new features development. During the period, Gemalto significantly broadened its offers to device manufacturers and expanded the connectivity features of its platforms.

Profit from operations hence came in at €172 million, i.e. a 13.5% profit margin from operations.

HIGHLIGHTS

REVENUE

€1,279m

2014: **€1,290m**

GROSS PROFIT

€495m

2014: **€550m**

GROSS MARGIN

38.7%

(down **398** basis points)

PROFIT FROM OPERATIONS

€172m

2014: **€237m**

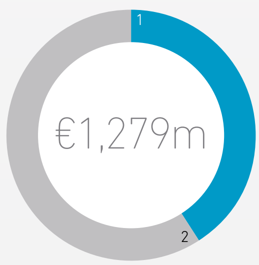
PROFIT MARGIN OPERATIONS

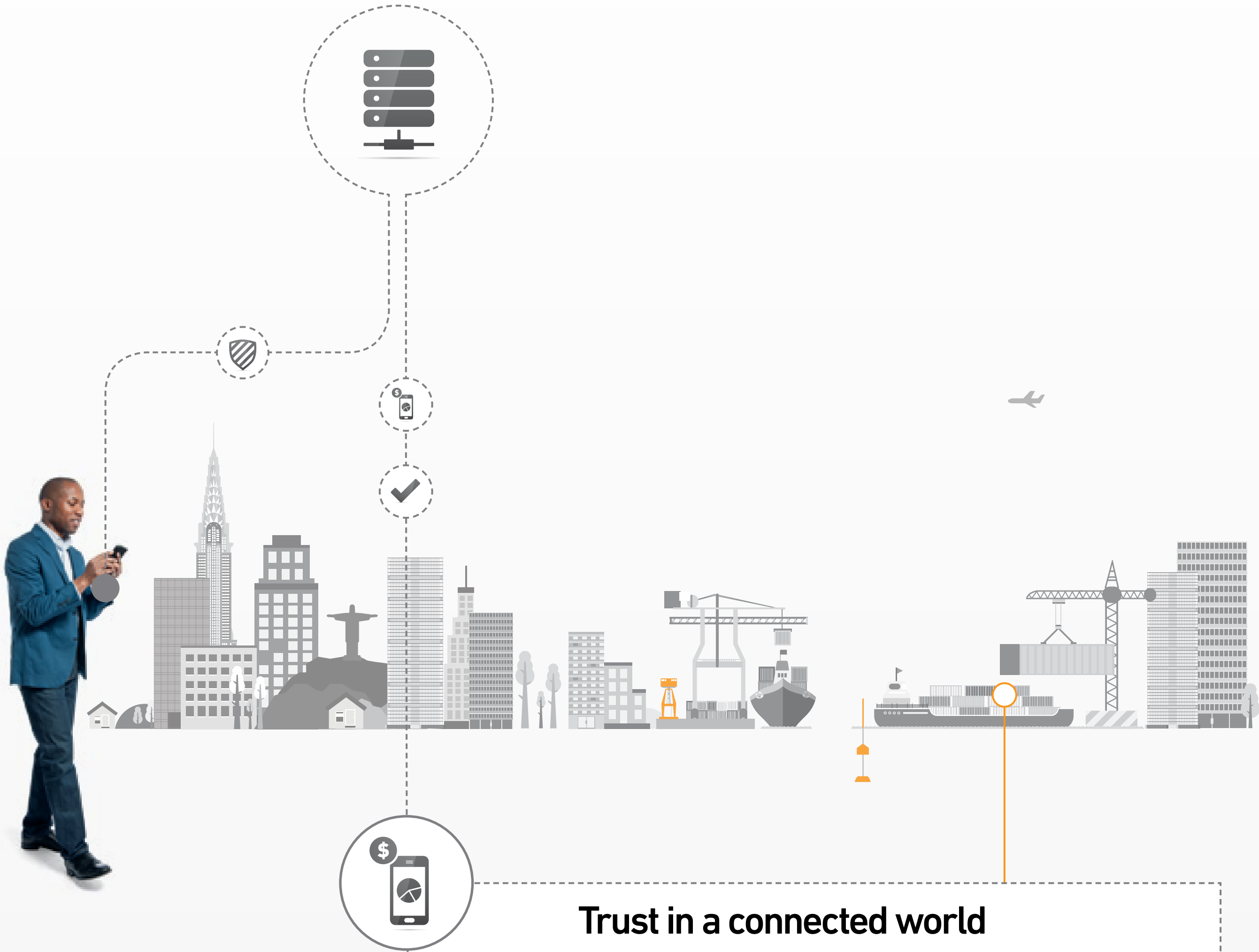
13.5%

(down **489** basis points)

REVENUE SPLIT

1. Mobile	41%
2. Other segments	59%





Trust in a connected world

Monitoring Brazil's inshore waters

By checking ocean conditions, including waves, currents, water depth, temperature and salinity, port authorities can improve navigation safety, streamline ship traffic and increase productivity. But ensuring the information is available all the time and in all conditions requires a highly robust and reliable system. Gemalto's M2M technology is being used in an innovative IoT solution to relay data in Porto do Açu, Rio de Janeiro, optimizing safety and efficiency in a hostile but strategically important environment.

Sustainability

Sustainability overview

WHAT WE STAND FOR

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

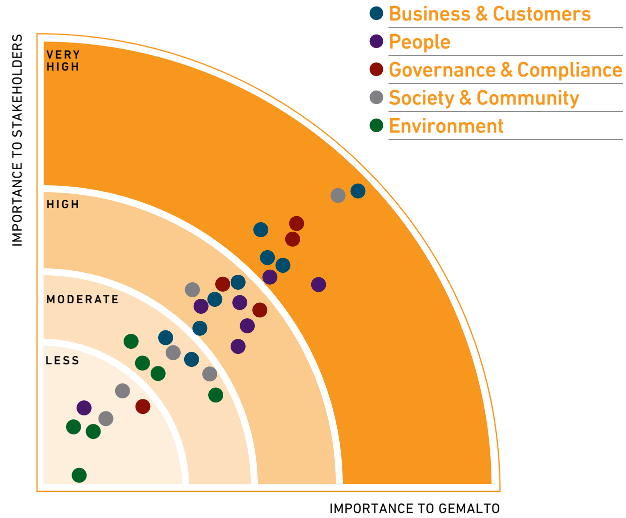
Our 2015 materiality analysis

In 2015, we carried out an extensive analysis to identify and prioritize the issues that are important to Gemalto's various stakeholders. To do this, we surveyed over 1,200 Gemalto managers, employees, investors, customers and suppliers to understand which they deem to be important and to what degree. This provided valuable insights including:

- There is particularly strong alignment between Gemalto management and the other stakeholders about materiality;
- Business & Customers, Governance & Compliance, and People topics generally rank in the high and very high bands, while Environmental issues are of moderate or lower importance. Society & Community topics are relatively evenly distributed;
- Data security, privacy and confidentiality emerge as the most important topics.

As a result, we intend to re-balance certain items in our sustainability programs and reporting.

Materiality matrix



Managing sustainability

At Gemalto, sustainability is managed from Boardroom to site level and everyone plays a part.

The Board of Directors
The Gemalto Board is ultimately responsible for the Company's sustainability vision and performance.

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

The Sustainability Steering committee
Reporting to the Sustainability Board, the Sustainability Steering committee includes representatives from most business functions. They identify and implement actions and engage with site managers and employees around the world.

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

Our focus areas

While our priorities remain the same as ever, we have reorganized the grouping of topics to better reflect the results of the materiality analysis. In this report we address some of the issues it identified as being of 'very high' and 'high' importance.

All topics will be examined in more detail in our 2015 Sustainability Report to be published in April 2016, including details of the materiality process and matrix.

Sustainability focus

Business & Customers

We are constantly developing our business in line with our customers' evolving needs. We aim to build trusting, long-term relationships with them, working together to develop innovative solutions that improve people's connected lives.

Data security

Data security is a critical and increasingly complex challenge for every organization. Due to the nature of our business, we process significant amounts of data every day. It's vitally important that we're trusted to manage the confidentiality and privacy of this data for all our customers, their end-users, our employees and suppliers.

Our Corporate Security and IT departments are responsible for managing data at all our sites. We apply stringent safeguards through a worldwide Security Management System (SMS). Implementation is assured by a global network of security officers, as well as comprehensive employee training. In 2014, we were the first company to achieve the highest security printing standard, ISO 14298 certification, on all its ID document production sites.

INVESTMENT IN R&D IN 2015

€241m

CUSTOMER 'SATISFIED' OR 'VERY SATISFIED' WITH GEMALTO

86%

Investing in R&D

We're constantly researching and innovating new ideas to address our clients' evolving needs, responding to digital opportunities and enhancing security across rapidly changing markets. We have some 3,000 engineers based in 27 Research and Software Development centers worldwide working to ensure our customers can deliver secure, sustainable solutions to their end-users. To support them, we've strengthened our up-stream research to inform product development through a central market research team. Our IDEAS Hub – an online consumer co-creation community – is also being used to test new concepts and generate insights about several new projects.

Ensuring business continuity

Our robust crisis management and business continuity response plans ensure we are resilient in the face of unforeseen events. Our approach to identifying, managing and controlling risks associated with our activities is explained in detail in the Risk section on pages 34-41 of this report.

Managing our supply chain

We work closely with our suppliers to develop a responsible supply chain that supports our business objectives, meets high ethical standards and ensures we treat them fairly.

Our responsible purchasing policies are based on United Nations Global Compact best practice. We set out what we expect of suppliers and how we intend to work with them in our CSR Ethical Purchasing Charter. Our comprehensive Supplier Relationship Management process includes regular business reviews to help identify and address issues together. We also support our suppliers in implementing Continuous Improvement Plans which enhance efficiency and sustainability across our supplier networks.

Since 2014, 100% of our main suppliers have signed the Charter, and we have carried out 43 on-site supplier audits to evaluate compliance. We also dedicated our 2015 CSR Employee Awareness Day to responsible purchasing and held a dedicated training event for suppliers in Asia to build understanding of our Sustainable Purchasing Policy.

Sustainability focus continued

People

Gemalto's success is built on the ingenuity and commitment of its people. We base our people management approach on a culture of strong ethics and innovation – ensuring that we continue to attract, nurture and retain a talented and diverse workforce.

Attracting and developing talent

To maintain our world-leading position, we need to hire the best engineers and the most creative people to ensure we're capable of developing the market-leading solutions of the future. Our ambitious talent acquisition strategy includes the 'REFER!' employee referral system, our University Relations Program, and a growing online and social media presence. In 2015, we recruited over 2,000 people across 43 countries.

We invest about 2% of salary costs in training and development. Our Induction and Newcomer Orientation are available to all new recruits, and the Gemalto Connection Program and University Discovery Program are designed to develop our best new employees.

NUMBER OF EMPLOYEES' NATIONALITIES ACROSS 49 COUNTRIES

117

EMPLOYEE SATISFACTION

82%

Source: Gemalto 'PeopleQuest Survey 2015'

In 2015, some 9,000 employees received training, with 80% satisfaction.

Wellbeing and work-life balance

We're convinced that the wellbeing of our employees is a key factor in the performance and competitiveness of our business. In 2015, our annual 'HR & Me' day included a major focus on health and wellbeing. Topics included issues such as nutrition, sleep and exercise, stress management, how to set up a healthy workspace and the benefits of preventive medical checks.

We're exploring the opportunities offered by technology to promote more flexible working. This includes teleworking in several countries which lets employees work at home one day a week.

Health and safety

It's vital we provide a safe environment for all our employees and visitors. Our Human Resources and Health & Safety management systems are designed to reduce the risks and ensure continuous improvement across our operations. All our production areas and our two main administration sites have achieved OHSAS 18001 accreditation, covering 55% of our employees. We run awareness and training programs and conduct regular audits to help reduce the risks, with a particular focus on high-risk activities such as:

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

Equal opportunities and diversity

We believe our business benefits most from a workforce that reflects the global diversity of our customers and the markets they serve. In 2015, 48% of our employees came from Europe, the Middle East and Africa, 27% from Asia and 25% from the Americas.

We also encourage the recruitment of women, as well as their development and promotion into Senior Management positions. In 2015, 36% of new recruits were women and, as of December 2015, two of our eight Senior Management team members and three of our 11 Board members were women.

Governance & Compliance

The topics identified under this heading in the 2015 materiality analysis are all covered in the Governance section on pages 44–63 of this report.

Society & Community

Digital technology can have positive benefits for people all over the world. We work with others to contribute solutions that meet social needs and help communities everywhere feel secure in their digital lives.

Data privacy and confidentiality

Our technology gives people the confidence they need to make the most of the connected world. This is crucial, because as the world becomes increasingly digital, people are benefiting from greater opportunities but also facing increasingly complex risks. In 2015*, an average of 1.4 million data records were breached per day, driving individuals and organizations to become more and more concerned about keeping data and identities safe.

We're currently working to promote industry-wide solutions aimed at improving data privacy and confidentiality. These include a 'Privacy by Design' label which is being integrated within the forthcoming EU data privacy regulation. It would be approved by certification authorities and displayed by online service suppliers.

Products with social impact

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

- Technological support for the pan-African mHealth Initiative (PAMI) which aims to provide nutrition and health information to over 15 million pregnant women and mothers in sub-Saharan Africa;
- Solutions that enable our customers to provide mobile banking to millions of people, improving reach and accessibility to financial services among local communities;
- Tele-health solutions that help clients deliver health services in an efficient way;
- Smart card based technology which supports governments in improving road safety; and
- A smart grid solution which promotes energy efficiency.

* Source: Breach Level Index H1 2015

Environment

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

Eco-design products

As demand for sustainable solutions continues to grow, reducing the environmental impact of our offer is a commercial opportunity. Our strategy is to develop a range of products that are more environmentally friendly, use fewer materials and make the most of sustainable technology.

We use life-cycle assessment and carbon foot-printing to inform the design and development of these products which include:

- A bio-sourced banking card which replaces the use of plastic in the card body with polylactic acid. This has a reduced environmental impact compared with traditionally used petroleum-based polymers;
- Smaller SIM cards; and
- Card readers and packaging made from eco-friendly materials.

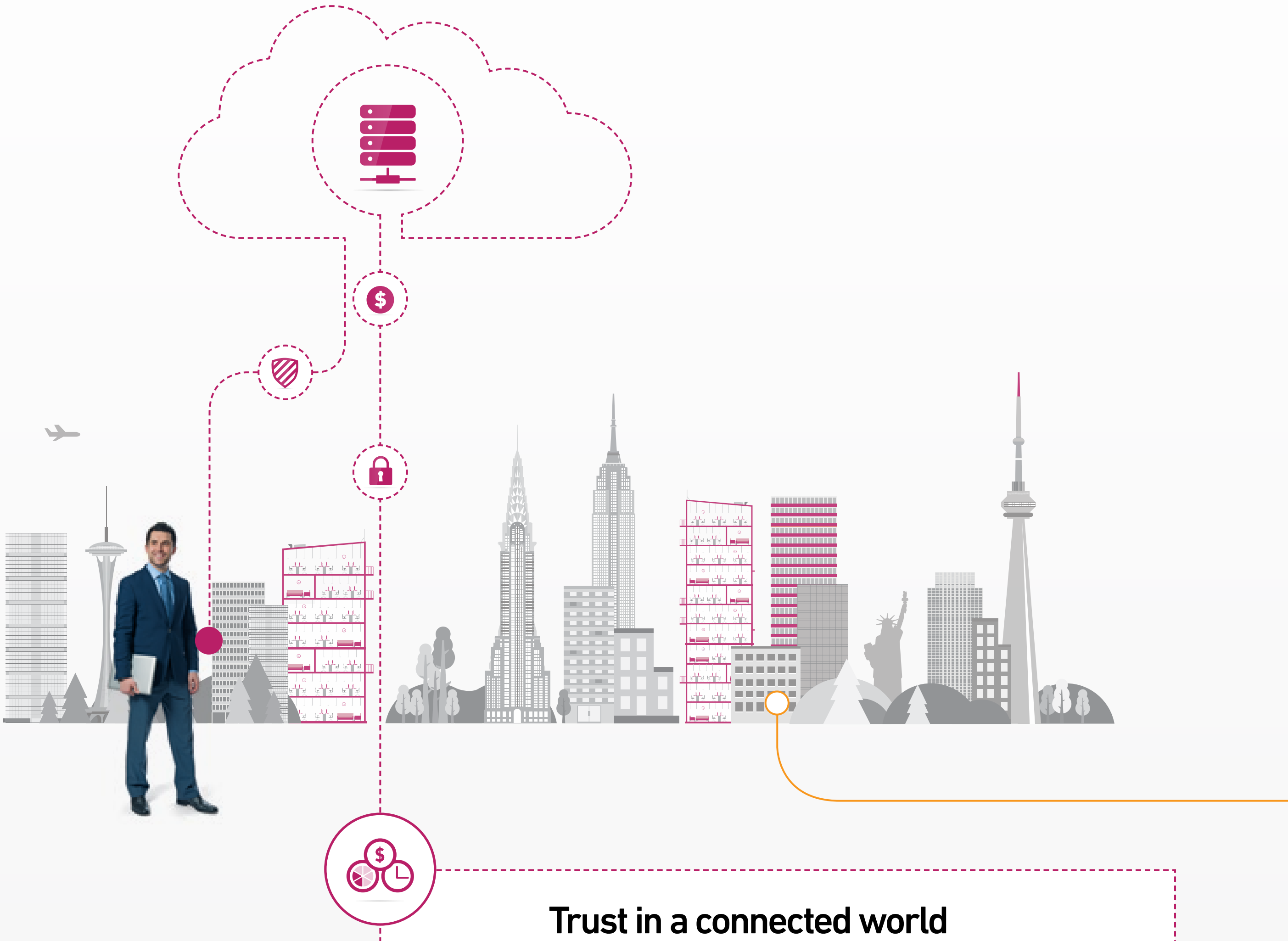
Energy and climate change

We first launched our carbon footprint program in 2009 to help monitor and reduce the emissions from our operations. Our focus is on reducing emissions from freight, minimizing business travel and lowering our energy usage. We aim to cut company-wide energy consumption by 5% year-on-year.

We also enable our customers to offset the carbon emissions associated with the products they buy from us. To date, this has seen 20,000 tons of CO_2eq offset through projects in developing countries that improve people's living conditions while reducing greenhouse gas emissions.

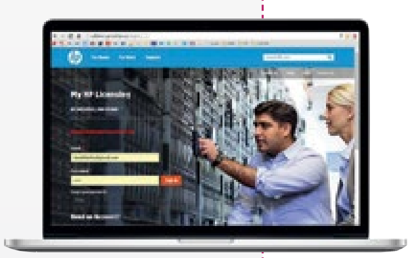
PAN-AFRICAN mHEALTH INITIATIVE TARGETS 15 MILLION PREGNANT WOMEN AND MOTHERS

15m



Trust in a connected world

Simplifying enterprise license management



HP provides a vast portfolio of solutions for large enterprises including best-in-class components that simplify IT. It needed an efficient, user-friendly way of managing disparate license generators, a huge catalog and thousands of product activations daily. So for its customer portal it chose Sentinel EMS, a flexible web-based solution that enables it to manage its 4 million entitlement records, as well as license activation, cloud licensing, advanced usage data collection and reporting.

Risk management

Risk management and control

"Our customers trust us to make risk management integral to our service and culture. It's part of our responsibility to them, as well as to investors, employees and other stakeholders."

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

Trusted to manage our risks

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

We review our principal risks regularly, because we work in a dynamic environment where new risks may arise or previously identified risks may have increasing impact.

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

What we focused on during the year

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

- Further improved preparation level of the Company to crisis management. Crisis Management Leaders formally submitted their updated plans for maturity assessment purpose.
- Expanded risk assessment on key activities with a focus on our Platforms & Services businesses.

What we plan to do in the future

- Reinforce resilience capabilities of our major sites.
- Support our key suppliers in the improvement of their business continuity responses.
- Streamline our internal control approach, strengthening synergies with risk management and internal audit.

THE WAY WE MANAGE RISK

HOW WE SHARE OUR RISK MANAGEMENT RESPONSIBILITIES

Gemalto is organized to optimize its risk management capability. Risk prevention and management is part of our culture, and responsibility is shared by managers throughout the organization.

WHO IS RESPONSIBLE FOR WHAT

The Board

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

Senior Management

- Oversees design and sustainable implementation of Enterprise Risk Management (ERM) and internal control systems.
- Defines and allocates risk appetite.

BUSINESS AND OPERATIONS MANAGEMENT

- Identifies and manages risks for their areas of responsibility.
- Maintains day-to-day internal control.

BUSINESS SUPPORT FUNCTIONS

- Define internal controls in their areas.
- Develop risk management culture and awareness of internal controls.

CORPORATE RISK MANAGEMENT

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

INTERNAL AUDIT

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

FIVE KEY RISK MANAGEMENT PROCESSES

1. Budgeting, planning and reporting
See page 36

2. Risk assessment and mitigation
See page 36

3. Crisis and business continuity management
See page 37

4. Fraud risk management
See page 37

5. Transfer to insurance
See page 37

FOUNDATIONS

Our processes are underpinned and informed by:

- STRATEGY AND OBJECTIVES
- CULTURE AND VALUES
- INTERNAL CONTROL
- SUSTAINABILITY

How we address risk management

FIVE KEY RISK MANAGEMENT PROCESSES

Our principal risks and mitigating actions are explained on pages 40-41. We have five dedicated processes for managing these and other risks:

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

1. Budgeting, planning and reporting

To support informed and timely decision-making, we maintain strategic planning and detailed annual budgeting processes based on complementary reporting systems.

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

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

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

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

Drawing on the review of the operating results and the treasury report, the Group Controller and CFO prepare an operating dashboard and report for review by the CEO and circulation to the Board and senior management. A review of activity is also presented by the CEO, COO and CFO at each Board meeting.

In addition to the monthly result calls, the Head of Consolidation holds quarterly reviews with each segment and region to help identify any transaction or event which could significantly impact the Group's results or financial condition.

2. Risk assessment and mitigation

Our risk management process has six key elements:

- Map and anticipate main identifiable risks and regularly update assessments
- Prioritize them against Group strategy and risk appetite
- Allocate risk ownership
- Develop and implement mitigation plans, including transfer to insurance
- Communicate key control objectives to operational managers
- Regularly check the effectiveness of the process

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

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

* ERA = Enterprise Risk Assessment

3. Crisis and business continuity management

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

Our Crisis Management Framework was first rolled out in 2010. It encompasses basic escalation and communication rules, guidelines for anticipation and action, and clear roles and responsibilities. Over 140 Crisis Management Leaders are in place worldwide and trained through simulation exercises.

In 2015 we continued to update and refine this framework, and all Crisis Management Leaders were asked to formally submit their updated Crisis Management Plans to the Corporate Risk Management team.

Our business continuity responses aim to avoid or minimize disruption to customers and our business in the event of a crisis. They include increasing the standardization of production tools and processes for greater flexibility between sites; multi-sourcing strategies to avoid dependence on a single supplier; creating redundancies in our infrastructure; and storing key information in back-up sites. Developments of specific technical capacities in these sites have significantly reduced the number of products still depending on single point of manufacturing. In 2015 we further reinforced our business continuity framework with improved tools and templates as well as educational support across the Company, with particular attention and focus on Manufacturing, IT and Purchasing. Continued governance and oversight of business continuity development is provided by our Business Continuity Leadership team.

4. Fraud risk management

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

All managers must report any suspicion of fraud to the Commission, and our whistle-blowing hotline enables employees to raise suspected irregularities with a confidential advisor. In the event of a fraud, managers must make appropriate changes to systems, controls, education and procedures to prevent recurrence, and the commission monitors the effectiveness of such actions.

In 2015 we trained some 880 key people in anti-fraud, anti-bribery, anti-trust and ethics. In addition, some 2,050 employees were trained in CFIUS and trade compliance topics. We also sent out internal newsletters on Internal Control and trade compliance.

5. Transfer to insurance

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

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

*ERA = Enterprise Risk Assessment

How we monitor effectiveness

ETHICAL PRACTICES AND EMPLOYEE CONFIDENCE

In our 2015 internal PeopleQuest survey, employees confirmed their confidence in our ethical practices and performance. They said that Gemalto and its management:

Are committed to ethical practices	91%
Set a good example	90%
Provide adequate information about ethical practices	88%

Risk management

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

Internal control

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

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

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

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

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

Financial control

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

How we provide independent assurance

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

Internal audit

- Our Internal Audit department conforms to the International Standards published by the Institute of Internal Auditors (IIA). It has direct and unlimited access to Group operations, documents and employees. It reports directly to the CFO, has an independent line of communication with the Audit committee Chairman and the CEO. Internal Audit reports to the Audit committee at each meeting and holds regular private sessions with the Audit committee.
- The team reports monthly and annually to the Chairman of the Audit committee and the CFO. Audit missions include ethics and fraud reviews and follow-up reviews of acquisitions.
- The *Institut Français de l'Audit et du Contrôle Internes* renewed the team's professional certification in November 2015.

External certifications

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

External auditor

- The independent external auditor provides an independent opinion on the financial results of the Group: its report is available on page 118. The auditor has unrestricted access to Gemalto sites and documentation, and communicates regularly with the Internal Audit department and with the Audit committee.
- The Audit committee assesses the work of the external auditor at least once a year.
- In line with changes in Dutch law, PwC's mandate terminated at the end of 2015. In anticipation, the Audit committee supervised a tender of reputable, global audit firms. As a result, the AGM of May 2015 approved the appointment of KPMG from January 1, 2016.

This table outlines what Gemalto's management sees as the principal risks to the Company and the measures taken to mitigate them.

Principal risks

STRATEGIC RISKS

KEY RISKS AND UNCERTAINTIES	MAIN MITIGATING MEASURES	
Economic and political environment Possible adverse impact on revenue	• Formal long-range Development Plan. • Geographic footprint in 52 countries.	
Competition and commoditization of products and services Possible adverse impact on growth and profitability	• Competitive and market intelligence program. • Diversified portfolio of activities. • Focus on creating value to clients: high overall customer confidence in the annual 'Tell Me' survey.	• Continuous improvement and cost reduction programs.
Acquisitions and/or joint ventures Inappropriate or untimely M&A strategy, poorly executed integration process	• Dedicated team manages corporate Development Plan and M&A. • Formal process to manage acquisitions and integrations.	• Review by M&A committee. • Post-acquisition integration audits with performance monitored by senior management and the Board.
Technology changes, innovation, R&D Failure to manage our innovation process and R&D projects efficiently Slower than expected adoption of technologies	• Competitive and market intelligence program. • Diversified technology portfolio (including through M&A). • Strong R&D and standardization teams. • Focus on innovation: Gemalto filed 107 new patent applications in 2015.	• Participation in industrial bodies and standardization organizations. • Innovation process leading to many innovation awards.

LEGAL AND COMPLIANCE RISKS

KEY RISKS AND UNCERTAINTIES	MAIN MITIGATING MEASURES	
Intellectual property rights risks Failure to protect our proprietary technology and IP rights, third-party claims for alleged infringement of their IP rights	• Dedicated and qualified internal IP team organized by technology. • Internal IP department, internal inventor policies and formal Open Source software policy.	• Patent committee. • Patent management database and third-parties' patents search. • Contract reviews on IP clauses.
Business integrity and ethics Internal fraud, bribery, anti-trust violations; actions or inactions perceived by stakeholders to be inappropriate	• Policies and procedures, Code of Ethics, whistle-blowing tool, employee survey. • Anti-fraud commission; Compliance Officer directly reporting to CEO. • Security certifications and organization.	• Training/e-learning: security, business principles, anti-fraud, anti-trust. • Internal audits on all suspected frauds. • Investigation process and tools.
Regulatory risks associated with our international operations and industry Failure to comply with regulatory changes, export controls and data protection regulations; impact of decisions from tax authorities, regulatory and other administrative bodies	• Legal organization in regions and by activity. • Training on tax and other regulations. • Corporate Tax, Controlling and Trade Compliance organizations with regional antennas. • Awareness program and compliance action plan led by Director of Global Data Privacy.	• Participation in standardization committees. • Advice from law firms, tax advisors and authorities where we operate.

FINANCIAL RISKS

For information about other financial risks such as interest rate risk, liquidity risk and credit risk, and the relevant mitigating actions, see Note 4 Financial Risk Management on page 79.

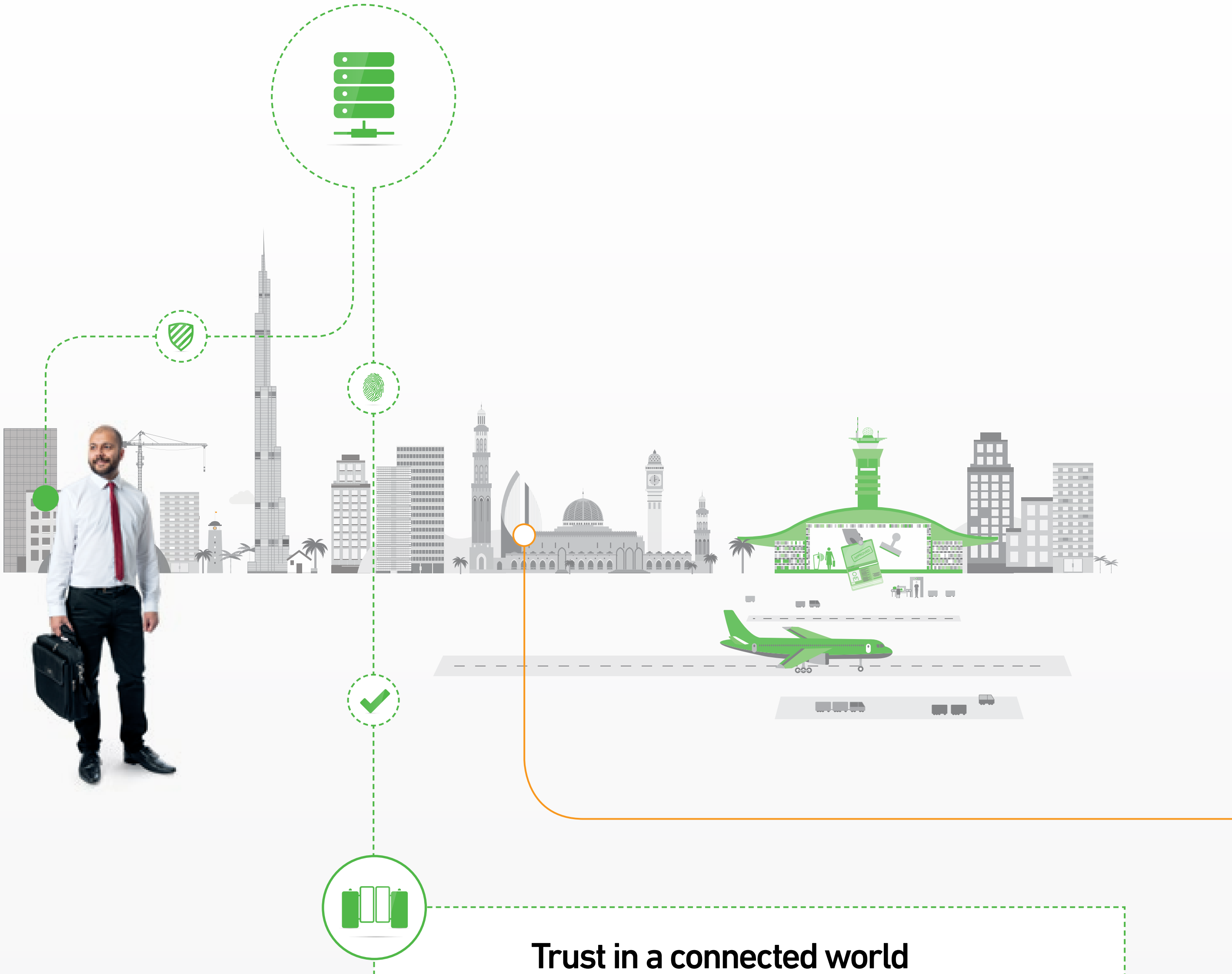
KEY RISKS AND UNCERTAINTIES	MAIN MITIGATING MEASURES	
Foreign exchange risk Devaluation of receivables and future cash flows impact on reported profits where revenue and costs are in different currencies	• Centralized currency risk management and reporting. • Treasury committee and treasury policies. • Manufacturing footprint providing natural hedging.	• Hedging strategies and transaction hedging (foreign exchange forward contracts recorded as cash flow hedges).
Financial counterparty risk Inability of customers and banks to fulfill their financial obligations	• Risk limits for counterparties regularly reviewed. • Use of plain-vanilla hedging instruments and low-risk money market investment.	• Working with financial institutions of investment grade (deposits, hedging transactions). • Set-off provisions in financial contracts.
Financial reporting risks Inability to produce timely and accurate financial statements; inaccurate assessment of tax exposures and other complex accounting issues	• Financial policies and procedures. • Single Companywide financial reporting tool. • Revenue recognition policies. • Consolidation department with dedicated specialists. • Regular balance sheet analysis and management reviews.	• Tax, Controlling and Treasury departments with regional antennae. Dedicated Internal Control and Audit departments. • Specific reviews by Internal Audit department. • External audits. • Regular reviews by Audit committee.

KEY: MAIN POTENTIAL IMPACTS EXPECTED WHEN UNFORESEEN CIRCUMSTANCES OCCUR:

- Financial
- Organizational
- Reputational
- Legal

OPERATIONAL RISKS

KEY RISKS AND UNCERTAINTIES	MAIN MITIGATING MEASURES	
Business continuity and resilience to crisis Failure to limit impact on our operations and reputation of any internal or external critical events or situations which may materialize unexpectedly	• Risk assessments with regular updates. • Crisis management framework and associated worldwide training program. • Diversified industrial footprint. • Enhancement of IT technology and infrastructure resilience.	• Continued investment to improve and secure manufacturing activities. • Business continuity framework, organization and responses. • Regular internal and external audits of facilities (including on crisis management and business continuity plans).
Sourcing and supply management Lack of supplier resilience to disaster, insolvency, non-compliance with ethical standards, inadequate management of suppliers	• Business intelligence on suppliers. • Multiple sourcing strategy. • Safety stocks management and protection clauses in contracts.	• Responsible purchasing program. • Supplier selection, qualification and monitoring process. Audits of some key suppliers. • Assessment of maturity of critical suppliers' business continuity plans.
Major contracts Failure on amount, duration, technology or commitments	• Bid and contract reviews with approval process according to limits of authority. • Prudent revenue recognition policies for Embedded software & Products and Platforms & Services businesses.	• Project-based organization for Government Programs and Platforms & Services contracts. • Risk assessments for major deals.
Quality of products, platforms and services Failure to develop and deploy secure, stable or reliable technology products and solutions	• Standardized manufacturing processes. • Quality management system and world-class enterprise organization. • 32 sites with ISO 9001 certification in 2015.	• Participation in standardization committees. • Dedicated organizations for software development, products, and platforms and services. • Product and professional liability insurance. • High overall customer confidence in annual 'Tell Me' survey.
Exposure to country risk Political, regulatory and trade exposure impacting our staff, footprint and receivables	• Country risk alert monitoring and communication. • Travel policy, travel approval process, regional travel champions. • Agreements with specialized security consulting companies. • Specific training sessions.	• Medical assistance and repatriation insurance. • Involvement of treasury, tax and legal departments at the early stages of international operations. • Advice from law firms, tax advisors and authorities where we operate.
Data protection and cyber security Leakage and/or loss of customers' or Gemalto's confidential data resulting, for example, from cyber attacks, employee negligence or vulnerability of our IT systems	• Security and cryptography expertise. • Extensive set of security and IT policies with regular training sessions. • Worldwide security organization with security officers in all important sites and regional/corporate security support. • Cyber Excellence Program.	• Corporate Security Incident Response team. • Security certifications by third-parties (including ISO 27001, EMV, GSM, SAS, etc). • Internal security audits (extended to IT subcontractors). • Anti-Fraud Commission.
Talent management Inability to attract, develop and retain highly qualified management and suitably skilled employees	• Comprehensive Human Resources strategy. • Focus on recruitment, management by objectives, compensation and benefits. • Succession plan for managers and senior managers.	• Focus on diversity, ethics and community. • Focus on training, promotion from within and mobility.
Customer retention Inability to maintain relationships with existing customers and to identify, attract and retain new customers	• Diversified portfolio of clients. • Operations from worldwide locations. • No customer represents more than 10% of Group annual revenue.	• Focus on creating value for clients: high overall customer confidence in annual 'Tell Me' survey. • Key account management.



Trust in a connected world

Increasing convenience for Omani citizens

When the Sultanate of Oman launched its ePassport program in 2015 it wanted to link the documents to its existing eID card program, streamlining enrollment and delivering considerable benefits for citizens and authorities alike. Using Gemalto's Document Management System to create a unified registration infrastructure not only enhances security and efficiency, but may also be a stepping stone to solutions such as eGates and eBorder management.

Governance

Our Board

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

Board committee key

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

Alex Mandl 1943

AMERICAN

Non-executive, independent Chairman of the Board N

Initial appointment: 2006

Current term: 2015-2017 (third term)

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

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

Olivier Piou 1958

FRENCH

Executive, Chief Executive Officer

Initial appointment: 2004

Current term: 2012-2016 (third term)

Other current appointments: member of the Board of Directors of Nokia.

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

Joop Drechsel 1955

DUTCH

Non-executive, independent A C

Initial appointment: 2015

Current term: 2015-2019 (first term)

Other current appointments: Chief Executive Officer of BCD Group, Chairman of the supervisory Board of Royal Wagenborg.

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

Johannes Fritz 1954

GERMAN

Non-executive, independent A M

Initial appointment: 2006

Current term: 2012-2016 (third term)

Other current appointments: Head of the Quandt/Klatten Family office and managing director of Seedamm-Vermögensverwaltungs GmbH; Board member of BHF Kleinwort Benson Group; Chairman of the supervisory Board of Solarwatt GmbH; and Board member of Drees & Sommer AG.

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

John Ormerod 1949

BRITISH

Non-executive, independent A C

Initial appointment: 2006

Current term: 2015-2017 (fourth term)

Other current appointments: Non-executive Director of ITV plc.; non-executive Director of Constellium N.V; and non-executive Chairman of First Names Group Ltd.

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

Homaira Akbari 1961

AMERICAN/ FRENCH

Non-executive, independent A M

Initial appointment: 2013

Current term: 2013-2017 (first term)

Other current appointments: Non-executive Director of Veolia (Paris Euronext: VIE), non-executive Director of Landstar System Inc. (NASDAQ: LSTR), non-executive Director of Covisint Corporation (NASDAQ: COVS).

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

Buford Alexander 1949

AMERICAN

Non-executive, independent N M

Initial appointment: 2009

Current term: 2013-2017 (second term)

Other current appointments: Chairman of the supervisory Board of the Amsterdam Institute of Finance; President Emeritus of the American Chamber of Commerce in the Netherlands; and supervisory Board member of the Roosevelt Study Center.

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

Philippe Alfroid 1945

FRENCH

Non-executive, independent C M

Initial appointment: 2010

Current term: 2014-2018 (second term)

Other current appointments: Chairman of the supervisory Board of Faiveley Transport SA; Board member of Essilor International SA; and Board member of Eurogerm SA.

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

Yen Yen Tan 1965

SINGAPOREAN

Non-executive, independent N M

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Regional VP/Managing Director, Asia Pacific (South), SAS Institute; Director, Singapore Press Holdings; Chairperson, Singapore Science Center; Director, Singapore Defence Science and Technology Agency; Director, Cap Vista Pte Ltd; Director, Singapore Institute of Directors; Advisory board member, National University of Singapore School of Computing; and advisor mentor of TNF Ventures.

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

Arthur van der Poel 1948

DUTCH

Non-executive, independent C N

Initial appointment: 2004

Current term: 2012-2016 (third term)
Voluntarily resigned as of December 31, 2015

Other current appointments: Chairman of the supervisory Board of ASML Holding NV; Chairman of the supervisory Board of BDR-Thermae Group BV.

Experience: Arthur van der Poel has a lifetime's experience in the electronics and telecoms sectors. He was member of the supervisory Board of Royal HaskoningDHV BV (2011-2014). Previously, he was Chairman of MEDEA+, the pan-European program for co-operative R&D in microelectronics (2004-2007); and previously a member of the Board of management of Royal Philips Electronics (1998-2003). Before that he served with Philips Semiconductors where he held different marketing and management positions (1984-1996), before becoming Chairman and CEO (1996-2001). Arthur had earlier worked for the International Telecommunication Union in Indonesia, and before that for the R&D group of Dutch telecom operator PTT.

Drina Yue 1957

AMERICAN

Non-executive, independent A C

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Board of Director, Christian Action Asia.

Experience: Drina Yue has a wealth of experience in the finance and telecommunications industry. She recently retired as the Senior Vice President and Managing Director of Western Union, responsible for the Asia Pacific region's 43+ countries/territories (2010-2014). Prior to that, she was head of Motorola's Asia Pacific Broadband Communications, Home & Network Mobility business (2004-2010); and COO then CEO of iSteelAsia, developing it into the world's first listed steel vertical portal (2000-2004). She was previously Chief of Staff to the President of Motorola's wireless infrastructure business in China (1999-2000); and held various roles with BellSouth (1984-1994) receiving eight US patents in telecommunications services. She began her career at AT&T as a development engineer and systems analyst (1980-1984). She was also a Board member of Hong Kong's Information Infrastructure Advisory Committee (2000-2006).

Our Senior Management

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

Paul Beverly 1962

AMERICAN

EVP Marketing

Paul Beverly has held his current position since 2006. In this role he leads Gemalto's global marketing activities, focusing on business development and the customer experience at all touch points. He also served as President of North America (2003-2013) with responsibility for business operations from the inception of the Company. Before that he held senior management positions in the United States and Europe for Schlumberger, with whom he began his career.

Paul is deeply involved in the high tech industry, having served as Chairman of the leading security trade organization and the Board of the University of Texas Technology Incubator, and frequently presenting at industry events and in the media. He is presently active with numerous charitable organizations and is a Board Member of the Austin Chamber of Commerce and the Technology Council. Paul holds Business and Economics degrees from Auburn and Harvard University.

Eke Bijzitter 1974

DUTCH

Compliance, Governance and Central Officer

Eke Bijzitter has held her current position since January 2014. Prior to this she was Group Corporate Counsel and Deputy Company Secretary of Gemalto (2005-2013).

Before joining Gemalto she held various positions as corporate counsel in the Netherlands. Eke Bijzitter has a degree in Law from the University of Groningen and a postgraduate degree in Corporate Structures from the Grotius Academie.

Isabelle Marand 1966

FRENCH

EVP Corporate Communication

Isabelle Marand has held her current position since January 2014. Prior to this she was VP Corporate Communication (2010-2013) and VP Branding and Internal Communication (2006-2010) for Gemalto. Isabelle previously headed Axalto's Communication department (2003-2006) and spent seven years in different marketing communication positions within Schlumberger. Before this she held various marketing and communication positions at Alcatel Business Systems (1989-1996). Isabelle Marand is a graduate from the Ecole Superieure de Commerce d'Amiens (Master in Management) and holds a degree in Foreign Languages from La Sorbonne Nouvelle University.

Martin McCourt 1962

IRISH

EVP Strategy and Innovation

Martin McCourt has held his current position since 2007, being responsible for Strategy and M&A and executing over 20 acquisitions. From January 2014, he has also taken responsibility for Research and Development, Innovation, IP and Purchasing. He was previously President of Asia for Gemplus (2005-2007) and before that had spent 20 years with Corning Inc in R&D, sales and marketing, strategy and M&A roles, most recently heading the worldwide Project Services business for Corning Cable Systems. Martin has a Master of Business Administration from INSEAD, a PhD in Integrated Optics from the Institut National Polytechnique in Grenoble and a degree in Electronic Engineering from University College Dublin.

Philippe Cabanettes 1955

FRENCH

EVP Human Resources

Philippe Cabanettes has held his current position since 2006. Before that he was VP Human Resources for Axalto (2004-2006); Director of Personnel for Schlumberger's Volume Products business (2001-2004) and Director of Personnel for Schlumberger's Resources Management Services division (1997-2001). He previously held various positions with worldwide responsibility for Human Resources in the petroleum, industrial and services sectors of the Schlumberger group, based in France, Italy and the US. He has served as President of PartnerJob.com, a non-profit, cross-industry organization facilitating Dual Career management since 2002. Philippe is a graduate from Institut d'Etudes Politiques in Paris ('Sciences-Po') and holds a Master in Economics from Université de Paris X.

Jean-Pierre Charlet 1953

FRENCH

EVP General Counsel, Risk Prevention and Management, Company Secretary

Jean-Pierre Charlet has held his current position since 2006. Since January 2014, he has also taken responsibility for Risk Prevention and Management.

Prior to this he was General Counsel of Rexel (2003-2005), Deputy General Counsel of Sanofi-Synthélabo (1999-2002), and General Counsel of Synthélabo (1996-1999).

From 1981 to 1996, he held positions within the Legal Departments of Carnaud-Metalbox, PPR group, Schlumberger Group and Société Métallurgique Le Nickel-SLN. In 1974, Jean-Pierre was admitted to the Bar in Paris, where he began his career in various law firms.

Jean-Pierre holds a Master in Law from Université de Paris X and a Master of Comparative Law from Georgetown University in Washington DC.

Jacques Tierny 1954

SWISS/ FRENCH

Chief Financial Officer

Jacques Tierny has held his current role since 2007. Before that he was head of the Valuation and Strategic Finance practice for KPMG Corporate Finance in Paris. Jacques was previously Group CFO and later Executive Deputy General Manager for the retail group Casino (2003-2006). He had earlier spent 23 years in various finance positions at Michelin, later becoming Group Deputy CFO. Jacques began his career as a commodity broker. He graduated in 1977 from the HEC School of Management in Paris, and also holds an MBA from the International Management Program of New York University and the Mestrado from Gétulio Vargas in São Paulo. Jacques has taught Corporate Finance at the Conservatoire National des Arts et Métiers (CNAM) and other business schools, and is a member of the Board of the French investment fund Sicav LCL Obligations Euro.

Philippe Vallée 1964

FRENCH

Chief Operating Officer

Philippe Vallée has held his current position since January 2014. Prior to this he was EVP of Gemalto Telecommunications Business Unit (2007-2013). He previously served Gemplus then Gemalto, in a number of roles including various Product and Marketing management roles; SVP Marketing and then President of the Telecom BU, Chief Technology Officer. Besides France, Philippe has served several assignments in Hong Kong and Singapore. Philippe has over 25 years' experience in the Telecom industry. As the Gemalto COO, he supervises all company Business Groups for Product, Marketing, Sales, Manufacturing and Information Systems functions.

He began his career with Matra Communication (now Lagardère Group) as a product manager on the first generation of GSM mobile phones. Philippe has a degree in Engineering (Telecom and Microelectronics) from the Institut National Polytechnique de Grenoble and is a graduate of the ESSEC Business School.

Chairman's letter

"Continuous improvement will always remain part of our ongoing agenda."

ALEX MANDL
CHAIRMAN

Continually improving our governance

In a fast-moving industry, the fundamentals of good Board governance assume particular importance. Continuous enhancement of the Board's capabilities and effectiveness is essential to keep pace with changing market needs, technological developments and the competitive landscape.

At Gemalto, this has always been a priority. We are an agile business, evolving rapidly to make best use of our experience and resources as new opportunities arise. We see great potential for expansion into adjacent markets and technologies, as we showed with the acquisition of SafeNet in 2014. Making these moves with confidence and assurance requires a highly experienced management team; effective oversight depends on having a correspondingly experienced and knowledgeable Board.

Besides seeking out people with the right experience, we continue to develop their skillsets. We maintain active programs of self-assessment and training for all Board members. We update them on technology developments at seminars within the Company, and bring in external experts to share their perspectives.

As a Board, our role is to oversee the conception and effective implementation of sound strategies. We aim to provide the executive with constructive challenge and informed support. And we recognize a duty to communicate clearly and openly to investors our view of the business – its progress and prospects.

Today we see Gemalto as uniquely well positioned in a space that is critical to the functioning of the modern world. Our positive view of the Company is founded on a realistic assessment of its management team and of the opportunities available to the business.

Alex Mandl Chairman

Our Board during 2015

BOARD COMPOSITION AS AT DECEMBER 31, 2015

LEGEND

MAN WOMAN NATIONALITY

(RE)APPOINTMENTS

- Alex Mandl was reappointed as non-executive Board member until 2017.
- Joop Drechsel was appointed as non-executive Board member until 2019.
- John Ormerod was reappointed as non-executive Board member until 2017.

EXPIRATION OF MANDATE / RESIGNATION

- Michel Soublin did not stand for reappointment as non-executive Board member.
- Arthur van de Poel voluntarily resigned as Board member as at December 31, 2015, anticipating the end of his mandate in view of a new assignment.

COMMITTEE COMPOSITION CHANGES

- Philippe Alfroid was appointed member of the M&A committee, instead of member of the Audit committee.
- Joop Drechsel was appointed member of the Audit committee and of the Compensation committee.

The Board's focus during the year

The Board held seven meetings: four in person and three by conference call. One Board resolution was taken without holding a meeting. The overall attendance rate at Board meetings during 2015 was in excess of 90%.

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

- Agenda for the AGM.
- Annual budget plan.
- CEO and Senior Management remuneration.
- Corporate governance structure and developments.
- Corporate strategy: Gemalto 2014-2017 multi-year development plan.
- Design and effectiveness of risk management and internal control systems and any significant changes to them.
- Development of business activities, investment and M&A opportunities, as well as the competitive environment.
- Financing requirements for the Group, including private placement and French commercial paper.
- Grants to employees under the Global Equity Incentive Plan.
- Group financial performance and disclosures.
- Long-term evolution of Board and committee composition, including chairmanship.
- Main risks to the business.
- Opportunities for employees to buy discounted shares under the Global Employee Share Purchase Plan.
- Performance and functioning of the Board, the Board committees and the individual Board members, including the CEO.
- Share buy-back and dividend policy.
- Succession planning for the CEO and Senior Management, and related management development.

Independence

During 2015, all our non-executive Board members met the independence requirements of the Dutch corporate governance code's best practice provision III.2.2. The Company is hence compliant with best practice provision III.8.4.

Our Board during 2015 continued

BOARD REAPPOINTMENT SCHEDULE AS AT DECEMBER 31, 2015

Board members	Date of initial appointment	2015 – 2016 – 2017 – 2018 – 2019
Alex Mandl	June 2006	3RD TERM
Olivier Piou	Feb 2004	3RD TERM
Homaira Akbari	May 2013	1ST TERM
Buford Alexander	May 2009	2ND TERM
Philippe Alfroid	May 2010	2ND TERM
Joop Drechsel	May 2015	1ST TERM
Johannes Fritz	June 2006	3RD TERM
John Ormerod	June 2006	4TH TERM
Yen Yen Tan	May 2012	1ST TERM
Arthur van der Poel*	May 2004	3RD TERM
Drina Yue	May 2012	1ST TERM

* Voluntarily resigned as of December 31, 2015

Our training and induction program

As is our usual practice, we ran an induction program for the new non-executive Board member, Joop Drechsel. Presentations from the CEO, COO, EVP General Counsel, Compliance Officer and EVP Human Resources provided detailed information about the Gemalto Group's structure, its governance, activities, products and operations. During 2015, our Board received an annual training program on Gemalto's products and services to which Joop Drechsel participated. In the second half of 2015, the Board visited a Gemalto site in the United States.

Board reappointment schedule

The Board adopted a reappointment schedule, which is published on our website and shown above, listing the members of the Board and their terms in office. A term is a maximum of four years. Length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of a maximum of two years each. There is no limit to the entire service of the executive Board member, except the age of 65, unless otherwise agreed with the Board.

How the Board is performing

Each year the Board performs a self-assessment to benchmark and evaluate the effectiveness of the Board and its committees, including the Chairman and the CEO. The evaluation process comprises written questionnaires and one-on-one interviews with all Board members. These usually cover key areas such as: strategy; risk management and internal controls; performance management; shareholder communication; Board culture and dynamics; Board composition, with particular reference to balance of skills, experience, independence, knowledge of the Group, and diversity; and the Board and committee calendar, agendas, materials and support. The completed questionnaires are available to the Chairman only, who prepares a written report that is discussed by the Board as a whole.

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

The self-assessment of the Board and its committees relating to the year 2015 is performed during the first quarter of 2016, the outcome of which will be reported in the 2016 Annual Report.

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

Board committee reports

Report of the Audit committee

Committee members on December 31, 2015 (all being independent)

John Ormerod (Chairman)	Homaira Akbari
Joop Drechsel	Drina Yue
Johannes Fritz	

Number of committee meetings in 2015 6

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

The committee's main responsibilities are to review the financial information to be published by the Company; to oversee the relationship with the Company's external auditors and receive reports on the plans for and findings of their work; to review the Company's risk management processes and effectiveness of its control systems; to approve the Company's internal audit plans; and to receive reports of internal audit work performed. The full Audit committee charter is posted on the Company's website at **http://www.gemalto.com/companyinfo/about/download/Audit_commitee_charter_Nov_29_2007.pdf**. The committee reports regularly to the Board on its work.

In carrying out its work, the committee challenges management on significant risks and mitigating actions, on the levels of exposures, on policies and authority limits and on the adequacy of judgmental-based assumptions and sensitivity analysis used in valuations of assets and liabilities.

In particular, during 2015 the committee reviewed and reported to the Board on the following:

- Annual financial statements and the related detailed report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements. Areas of focus were:
  - the appropriate application of revenue recognition policies, in particular in relation to new areas of business;
  - provisions for tax across the range of countries in which the Company operates in particular where tax laws are applied in a more subjective way;
  - accounting for and the presentation in the financial statements of the SafeNet acquisition;
  - the capitalization of development expenditure;
  - impairment testing of intangible assets;
  - provisions for credit risk in particular in relation to sales in emerging markets;
  - accounting for share based compensation expense; and
  - the overall presentation of the financial statements including the judgement applied by management when classifying some costs under the line item 'restructuring and acquisition-related expenses'.
- Condensed semi-annual financial statements and the related report to the committee by the external auditor, as well as the announcements of the interim management statements, including quarterly revenue figures.
- The Company's financial and risk management system and key internal financial control policies and procedures. These included a review of the cash management, counterparty risk and outstanding credit facilities, including the impact of foreign currency fluctuations, tax and treasury risks, including hedging. These steps are designed to help the Board review and assess the effectiveness of internal controls.
- Information and communication technology risks. The review of this area was based upon a presentation on the Company's Information Solutions and Services (ISS) plans and risks given annually to the committee by the CIO. This year the review was extended to cover a presentation on the development of the Company's Business Data centers and operations to support certain of our Platform & Services customer solutions.
- Reports on whistleblowing, significant claims and disputes – including those resulting in litigation – and related party transactions.
- The appointment of a new Head of Internal Audit when the current Head transferred to a new role in Gemalto. The committee also reviewed the internal audit charter, the internal audit plan for the next three years and its coverage in relation to external audit. The committee also reviewed reports on the effectiveness and independence of the internal audit process, considered their findings and recommendations and monitored management's follow-up actions.
- The development and implementation of the external auditor's plan for the 2015 audit. The committee reviewed with the external auditor the audit approach and scope of work for the year, as well as with the related fee proposal. The committee considered the auditor's procedures for maintaining a high standard of audit quality. In anticipation of KPMG performing their first audit in 2016, the committee completed a review of the preliminary audit plan for that year considering in particular the assessment of risk, materiality, the scope and testing approach.
- Performance and independence of the external auditor. The committee considered the steps taken to ensure their continued independence, including reviewing the fees paid for audit and non-audit services. Following the recommendation of the Audit committee, endorsed by the Board, KPMG Accountants N.V. was appointed external auditor for the financial year 2016 at the 2015 AGM.

Board committee reports continued

Report of the Nomination and Governance committee

Committee members on December 31, 2015 (all being independent)	
Alex Mandl (Chairman)	Buford Alexander
Yen Yen Tan	Arthur van der Poel
Number of committee meetings in 2015	4

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

Based on the committee's advice, the Board recommended the reappointment of the Board members who stood for reappointment at the 2015 AGM. Michel Soublin opted not to seek reappointment when his mandate expired at the close of the 2015 AGM.

After a thorough selection process supported by a leading executive search firm, the committee proposed to put forward Joop Drechsel as new non-executive Board member. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and CEO. Joop Drechsel was appointed at the 2015 AGM as non-executive Board member until 2019.

With the full support of the committee and the Board, Arthur van der Poel voluntarily resigned as of December 31, 2015. The committee has started a thorough selection process for a new Board candidate to be proposed at the 2016 AGM.

The committee prepared and coordinated with the Chairman of the Board the self-assessment of the Board and the committees.

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

Report of the M&A committee

Committee members on December 31, 2015 (all being independent)	
Johannes Fritz (Chairman)	Homaira Akbari
Buford Alexander	Philippe Alfroid
Yen Yen Tan	
Number of committee meetings in 2015	4

In 2015, the Board decided that the main purpose of the committee should be to advise the Board on the Company's merger, acquisition and divestiture activities. The Company's strategy and implementation plans remain the responsibility of the Board as a whole.

As a consequence, the committee charter was amended and the committee name changed from Strategy and M&A committee to M&A committee. During the year, the committee reviewed all material acquisition and divestiture proposals and also reviewed the post-acquisition performance of several previously acquired businesses.

Report of the Compensation committee

Committee members on December 31, 2015 (all being independent)	
Arthur van der Poel (Chairman)	Philippe Alfroid
Joop Drechsel	John Ormerod
Drina Yue	
Number of committee meetings in 2015	4

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

The committee reviewed the achievement of performance targets and objectives recommended by itself and set by the Board for 2014 and the resultant variable compensation payments for the CEO and Senior Management. The committee proposed to the Board the appropriate 2015 targets. As every year, the salary of the CEO was carefully reviewed. No change was recommended from the committee to the Board and the CEO's base salary remained unchanged.

The 2015 Remuneration report is set out on pages 59-62.

Working with the advisor from Mercer, the committee designed the terms of the 2015 Long Term Incentive (LTI) grant and recommended the Board to grant restricted share units to eligible employees in 2015 (including additional key contributors from the recently acquired business). It also defined the applicable grant characteristics, as well as the performance and service vesting conditions. This award is aligned to the achievement of the LRP presented in September 2013.

The committee also began work on the elements of the LTI for 2016, which included holding a preparatory meeting between the Chairman of the committee, the EVP Human Resources and Mercer, as in previous years.

The committee recommended that Gemalto employees in more than 35 countries should have the opportunity to buy shares in the Company at 15% below the market price by participating in the Global Employee Share Purchase Plan (GESPP).

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2015 and its compliance with the Dutch corporate governance code.

Corporate information and background

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

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

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

Compliance with the Dutch corporate governance code

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

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

- **Provision II.1.7:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities of a general, operational and financial nature to a confidential advisor. Gemalto has established a complaints-related procedure relating only to the reporting of alleged financial irregularities. We depart from the code in exempting alleged irregularities of a general or operational nature from this procedure since as a global company we are taking into account the laws of different countries where we are located. We are monitoring the evolution of such laws and, if feasible, we will reconsider the scope of the complaints-related procedure.
- **Provision II.2.8:** this provision recommends that severance payment in the event of dismissal may not exceed one year's salary, being the fixed compensation component. We depart from the code, as the severance payment for the CEO is one year of reference salary, being fixed and variable compensation, and reflects his accrued seniority with Gemalto. This arrangement was adopted by the 2006 EGM approving the Axalto-Gemplus combination and is included in the remuneration policy approved by the shareholders at the 2008 AGM.
- **Provision II.2.10:** this provision recommends that the Board has the power to adjust the value of conditionally awarded variable compensation where extraordinary circumstances would produce an unfair result. We depart from the code, as the CEO's employment contract does not specifically include such a right to adjust variable compensation in extraordinary circumstances. However, in such a case, the Company would make whatever adjustments were feasible under applicable law.
- **Provision III.3.5:** this provision recommends that non-executive Board members are appointed to the Board for a maximum of three four-year terms. We depart from the code, as non-executive Board members can be appointed for more than three terms. However, in practice we apply a stricter rule. At Gemalto, a term is a maximum of four years. Length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of a maximum of two years each.
- **Provision III.8.1:** this provision recommends that the Chairman of the Board may not have been an executive Board member. We depart from the code, as our Chairman, Alex Mandl, was executive Chairman of Gemalto from June 2006 to December 2007. However, the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders.
- **Provision IV.3.1:** this provision recommends that press conferences shall be announced in advance on the Company's website, and provisions shall be made for all shareholders to follow these meetings in real time. We departed once from this best practice provision during 2015. A press conference open to the media representatives only, was held on February 25, 2015 to comment on the outcome of an internal investigation following the sudden release days earlier of a press article incriminating Gemalto. The Company's investors were informed earlier that day through the publication of a press release. Price sensitive and other information relevant to the shareholders is disclosed as required by applicable law or as appropriate and made available on the Company's website.

Our governance structure continued

Board of Directors

One-tier Board

The Company has a statutory one-tier Board comprising one executive Board member (the CEO) and ten non-executive Board members.

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

This specifically includes:

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

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

The CEO is responsible for day-to-day management and can take such decisions without the need for the Board's approval or consent. In addition, the Board may delegate to the CEO powers that fall outside day-to-day management, so that these do not require a resolution of the Board. The CEO is supported by the Senior Management team. The Board's tasks and functions, as described in the Articles of Association and Board charter, include the duties recommended in the Dutch corporate governance code. These are published on our website.

Composition

The composition of the Board aims to ensure that its members can act critically and independently of one another and any particular interests. The profile setting out the desired expertise and background of the non-executive Board members was updated by the Board in October 2009 and is published on our website. We seek to achieve diversity of age, gender, expertise, social background and nationality on the Board. As at December 31, 2015, there are three women out of 11 Board members. We consider that there is no substantive deviation from the Dutch Bill on Management and Supervision regarding gender diversity.

At least one of the non-executive Board members can be regarded as a financial expert under the code's best practice III.3.2. At the 2007 AGM, the maximum number of Board members was set at 11 to allow the Board to determine its optimal size from time to time. During 2015, the Board consisted of 11 members: one executive (the CEO) and ten non-executives.

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

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

Appointments

Board members are appointed by the shareholders at a General Meeting, under arrangements set out in the Articles of Association. The Board may propose candidates, and such proposals may be binding or not. To date, the Board has never used its option to make a binding nomination. This has allowed the shareholders to appoint nominated candidates by a majority of the votes cast, with no quorum required.

A term is a maximum of four years. Length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of a maximum of two years each. There is no limit to the entire service of the executive Board member, except the age of 65, unless otherwise agreed with the Board. The executive Board member is appointed as the CEO by the non-executive Board members. They can revoke the appointment at any time – in which case they will appoint an acting CEO with the same powers and duties.

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

Other Board appointments

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

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

The acceptance by the CEO of a board membership of a listed company requires the approval of the Board. Other important positions held by the CEO shall be notified to the Board. Each non-executive Board member needs to receive prior approval from the Chairman of the Nomination and Governance committee before accepting any new corporate board mandate. Board members are required to inform the Chairman of the Nomination and Governance committee of any change in their existing status as director on any other board.

Conflicts of interest

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

Conflicts of interest, potential or actual, between the Company and members of the Board are governed by the Articles of Association and the Board charter. The Board must approve any decision to enter into a transaction where a Board member has conflicts of interest that are material to the Company or the individual Board member. Any such transaction will be declared in the Annual Report for the relevant year with a declaration that we have complied with best practice provisions II.3.2-4 and III.6.1-3 of the Dutch corporate governance code. Following the Gemalto Board charter, a Board member must step down temporarily or resign if a significant conflict exists and cannot be resolved. A Board member shall not take part in the assessment by the Board of a potential conflict of interest involving that Director and shall furthermore not take part in any decision-making process (*beraadslaging en besluitvorming*) that involves a subject or a transaction in relation to which he has a direct or indirect personal interest which conflicts with the interest of the Company. In 2015, no transactions were reported where a Board member had a conflict of interest that was material to the Company. There were, however, related-party transactions: for an overview, please see note 30 of the consolidated financial statements.

Indemnification of Board members

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

Board committees

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

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

Audit committee

This committee helps the Board to oversee the quality and integrity of Gemalto's financial statements, risk management and internal control arrangements, compliance with legal and regulatory requirements, external audit arrangements and internal audit function. It meets with the external auditor as often as necessary, and at least once a year without the CEO and management being present. The Board believes that at least one committee member is a financial expert within the meaning of best practice III.3.2 of the Dutch corporate governance code.

Compensation committee

This committee proposes the remuneration policy, setting the parameters for the CEO's remuneration, for approval by the General Meeting. Within the limits of this policy, it proposes the remuneration for the CEO (reviewed annually). It also proposes the individual remuneration for the non-executive Board members (reviewed from time to time) for approval by the General Meeting. More broadly, the committee oversees Gemalto's general remuneration policy and long-term awards such as options to acquire shares, restricted share units and/or share appreciation rights, and opportunities for employees to buy Company shares at a discount to the market price.

Nomination and Governance committee

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

M&A committee

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

Risk management and internal control systems

Gemalto maintains operational and financial risk management systems backed by systems and procedures for monitoring and reporting. A separate internal control function ensures compliance with our internal control requirements. Our risk management and internal control systems are explained in detail on pages 34-41, and the Board's statement on internal risk management and control systems is shown on page 63.

We are committed to individual and corporate integrity. Our internal procedures include a Code of Ethics describing the appropriate conduct for officers and employees, covering internal controls, financial disclosures, accountability, business practices and legal principles. We have distributed it across the Company and support it with regular training.

Our governance structure continued

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

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

These policies are published on our website.

Shares owned and rights to acquire shares

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

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

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

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital of €150,000,000 is divided into 150,000,000 ordinary shares with a nominal value of €1 each. On December 31, 2015, the Company's issued and paid-up share capital amounted to €89,007,709. This consisted of 89,007,709 ordinary shares, of which 903,717 were held in treasury and 88,103,992 were in circulation.

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

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

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

The 2014 AGM gave the Board authorization, renewed by the 2015 AGM, to repurchase Company shares. This allowed us to buy shares in 2015 to provide liquidity, to grant shares to employees and to fund external growth. On December 31, 2015, 903,717 shares with a market value of €49,948,439 were held in treasury, acquired at an average price of €40.20 per share. Shares held in treasury carry no voting rights.

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2015

Name	Shares	American Depository Receipts of Shares	Maximum (unvested) Restricted Share Units	Employee options	Units in a Fonds Commun de Placement d'Entreprise
Alex Mandl	10,000[1]				
Olivier Piou	326,000[2]		185,000[3]	111,500[3]	39,447.77[4]
Homaira Akbari		4,500[5]			

[1] Purchased in 2014, through a company controlled by the Board member.
[2] Progressively acquired since 2004.
[3] Progressively granted since 2005.
[4] Progressively purchased through participating in Global Employee Share Purchase Plans.
[5] Progressively purchased since 2014, through a company controlled by the Board member.

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

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

2015 AGM

The AGM was held on May 21, 2015. No shareholders exercised their right to add items to the AGM agenda.

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

- 2014 Annual Report (discussion item).
- Application of the remuneration policy in 2014 (discussion item).
- Adoption of the 2014 financial statements (voting item).
- Dividend policy and proposed cash dividend of €0.42 per share for 2014 (voting item).
- Discharge of the CEO and non-executive Board members for the fulfillment of their respective duties during 2014 (voting item).
- (Re)appointment of three non-executive Board members (voting item).
- Renewal of the Board's authorization to repurchase Company shares (voting item).
- Extension of the Board's authorization to issue shares and to grant rights to acquire shares in the share capital of the Company and to limit or exclude pre-emption rights (voting item).
- (Re)appointment of the external auditor for 2015 and 2016 (voting item).

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

Voting rights

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

Authorizations granted to the Board

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

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

b. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 5% of the issued share capital at May 21, 2015, for a period of 18 months, starting on May 21, 2015, with the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.

c. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 10% of the issued share capital at May 21, 2015, for a period of 18 months, starting on May 21, 2015, with pre-emptive rights accruing to shareholders with respect to such share issues.

d. To limit or exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 5% of the issued share capital for the purpose of M&A and/or (strategic) alliances for a period of 18 months, starting on May 21, 2015.

e. To acquire up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including October 31, 2016. On December 31, 2015, the Company's issued share capital consisted of 89,007,709 shares, of which 903,717 were held in treasury: on that basis the authorization covered up to 7,997,053 shares.

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

Distribution of profits

Our dividend policy was addressed as a separate agenda item for the first time at the 2005 AGM. It states that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2015, we paid a cash dividend of €0.42 per share for 2014.

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

Our governance structure continued

Shareholders' disclosures published on the AFM website on December 31, 2015

December 15, 2015:	EuroPacific Growth Fund	4.83% capital interest
December 15, 2015:	Capital Research and Management Company	9.89% voting rights
December 15, 2015:	Capital Group International Inc.	9.89% voting rights
December 2, 2015:	S.N. Quandt	4.19% capital interest and voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
November 6, 2015:	BlackRock, Inc.	3.00% capital interest and 3.74% voting rights
November 17, 2014:	OppenheimerFunds, Inc.	3.05% capital interest and voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2015 due to the following:

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

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

Shareholders' disclosures

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in Gemalto's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% (whether because of an acquisition or disposal of shares or other instruments, or because of a change in the total voting rights or capital issued). Disclosures must be made to the AFM immediately. The table above lists the substantial shareholdings in Gemalto N.V. on record in the AFM register on December 31, 2015, published on the AFM website at **www.afm.nl**.

Specific provisions of the Articles of Association

Required majorities and quora

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

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

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

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2015 AGM approved a Board proposal to appoint PricewaterhouseCoopers Accountants N.V. as the external auditor for 2015, and KPMG Accountants N.V. as the external auditor for 2016.

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

Two sections of this Annual Report – 'Board of Directors' on pages 54-56 and 'Shareholders and General Meetings' on pages 56-58 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Global Equity Incentive Plan – awards granted to employees

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

Global Employee Share Purchase Plan – FCPE: system of control

In 2015, as in previous years, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries can participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE) which offers tax benefits against long-term holding. The FCPE buys the Gemalto shares and in exchange employees receive units of the FCPE. Participation in the FCPE does not give rise to direct ownership of Gemalto shares or the right to acquire them. The FCPE has an independent Board of Directors and owned 372,961 shares of Gemalto on December 31, 2015. It exercises its voting rights on these shares independently, without instructions from participating employees.

Remuneration report

This report describes the remuneration policy for the CEO and the individual compensation paid to the CEO and non-executive Board members in 2015.

Introduction

The Board determines the CEO's compensation with reference to the remuneration policy, which also provides guidance on Senior Management compensation (though the latter is not addressed in this report). The policy is approved by the shareholders – it was most recently amended by the 2008 AGM – and is published on our website. It complies with the Dutch corporate governance code apart from a few exceptions which are explained on page 53.

In considering the remuneration and incentive plans, the Board is assisted by Mercer, an independent advisor.

Remuneration policy

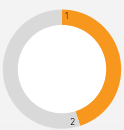
Our remuneration policy aims to attract, retain and reward talented staff and management by offering compensation that is competitive in Gemalto's industry, motivates management to meet or surpass the Company's business objectives, and aligns managers' interests with those of shareholders.

COMPENSATION FOR CEO OLIVIER PIOU IN 2015 VS 2014

	2015		2014	
Base salary	€850,000	Unchanged. Includes a fixed fee as executive Board member of Gemalto N.V. of €35,000.	€850,000	Amended in 2014. Includes a fixed fee as executive Board member of Gemalto N.V. of €35,000.
Variable incentive	€697,000	82% of base salary.	€714,687	85% of base salary.
Conditional multi-year share-based plan	from 0 to 60,000 RSUs	Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 60,000 RSUs. The grant is accounted for as equity-based compensation at a charge that may vary from €0 to €3,493,800, which will be expensed over 36 months.	from 0 to 75,000 RSUs	Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 75,000 RSUs. The grant is accounted for as equity-based compensation at a charge that may vary from €0 to €5,700,750, which will be expensed over 44 months.
Pension contributions	€69,782	Cost of the mandatory plan required by law in France. No supplemental pension plan is provided.	€73,552	Cost of the mandatory plan required by law in France. No supplemental pension plan is provided.

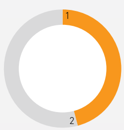
2015

1. Variable compensation	45%
2. Fixed compensation	55%



2014

1. Variable compensation	46%
2. Fixed compensation	54%



The policy, and the checks and balances applied in its execution, are designed to avoid situations where the CEO – or Senior Management with similar incentive plans – act in their own interests, and to keep risk-taking in line with the Company's adopted strategy and risk appetite.

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

The relationships between the chosen strategic objectives and the performance criteria applied, and between performance and compensation, are regularly reviewed.

Our policy is to maintain overall compensation levels at the 60th percentile for on-target performance – and in cases of exceptional performance within the upper quartile – benchmarked against comparison groups of companies. In 2015, the Board decided to review and adapt the composition of the comparison group in order to improve the level of representativeness in terms of size, industry and geography.

In this context, the Compensation committee analyzed the competitiveness of the CEO's remuneration against the two following panels, which include international high-tech and French companies:

Altran Technologies	Dassault Systemes	Ingenico	STMicroelectronics
AtoS	Essilor	Legrand	Technicolor
Bic	Iliad	Nexans	Thalès
Capgemini	Imerys	Oberthur	Vallourec

AtoS	Dassault Systemes	Logitech
Capgemini	Essilor	NXP
Capita Group	Imtech	Oberthur
Computacenter	Infineon Technologies	VMware
Criteo	Ingenico	

To ensure appropriate comparisons, the Compensation committee consults independent, internationally recognized compensation specialists regularly, drawing on survey data on remuneration policies and actual data on compensation in the comparison group companies.

Compensation elements

The CEO's compensation package consists of:

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

Details of the CEO's compensation are shown in the table (left) and in note 10 to the statutory financial statements of the Holding Company.

Remuneration report continued

Base salary (fixed part of the annual cash compensation)

The objective of the base salary is to attract and retain Senior Management, including the CEO, targeting the median level in our comparison group.

As of March 4, 2014, the CEO's salary is €850,000 and includes a fixed fee of €35,000 for his role as executive Board member of Gemalto N.V. It is reviewed annually by the Compensation committee. It will not be changed in 2016.

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

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

The CEO's variable incentive is based on achieving short-term (annual) financial and personal targets proposed by the Compensation committee and approved by the Board each year. For 2015, as in previous years, the targets were:

Financial targets, accounting for 2/3 of the variable incentive:

- Revenue: 4/15 of the variable incentive.
- Profit from operations: 4/15 of the variable incentive.
- Free cash flow: 2/15 of the variable incentive.

Personal targets, accounting for 1/3 of the variable incentive: these relate to the CEO's specific responsibilities and are defined as measurable actions linked to Gemalto's success and development.

The CEO's targets for 2016 will be along the same lines as for 2015. The personal targets include customer satisfaction and employee satisfaction.

The variable incentive ranges from zero to 180% of base salary. Meeting 100% of the objectives results in an incentive of 120% of base salary. Exceptional performance can take the variable incentive to a stretch level of up to 180% of base salary. Below a minimum performance threshold, the variable incentive for financial performance is zero. The variable incentive is calculated using two linear interpolation scales from threshold to target and from target to stretch. In exceptional cases, the Board may use its discretionary power and add or reduce an amount.

The performance of the CEO and of the Company in 2015 led to a result of 68% for the CEO's variable incentive. The variable incentive for the CEO is €697,000, i.e. 82% of his base salary.

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

The objective of the long-term variable incentive plan is to reward and retain Senior Management, including the CEO, over the longer term while aligning their interests with those of shareholders. The long-term incentive is intended to be clearly above the median level in the comparison group and in cases of exceptional performance within the upper quartile.

The Company's long-term incentive plan allows for the award of share options and performance-related shares, i.e. restricted share units and share appreciation rights. The Board may make annual awards to the CEO similar in substance or nature with a maximum value equivalent to 250,000 market value share options valued using any of the generally recognized valuation methods in a manner approved by the Board. Since 2009, the Board has granted restricted share units rather than share options, as it considers that these provide stronger alignment with shareholders' interests.

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

Restricted share units (RSUs)

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

During 2015, the CEO received 60,000 RSUs. Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 60,000 RSUs. The RSUs will vest only if the following conditions are met:

- Performance vesting conditions:
  - reaching a certain cumulative PFO over the period 2015-2017;
  - reaching a certain Platforms & Services revenue target over the period 2015-2017.

  Full vesting by meeting 100% of the above conditions; partial vesting by meeting at least one of the above objectives.
- Service vesting condition: being an employee of Gemalto on August 31, 2018.

The grant is accounted for as equity-based compensation at a charge that may vary from €0 to €3,493,800, which will be expensed over 36 months. Associated with this grant, some social levies, accounted for as an equity-based expense at a charge that may vary depending on both the above-mentioned performance as well as the share price upon delivery will be expensed over 36 months.

Share options

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

Benefits and pension contributions

The CEO enjoys the benefits appropriate to his position that apply to French employees.

These include the ability to participate in the Gemalto Employee Share Purchase Plan (GESPP). In 2015, employees were offered the opportunity to buy shares in Gemalto N.V. at a 15% discount to the market price, based on the lesser of the share values on the first and last day of the offering period. French employees participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE), a fund which subscribes to the Gemalto shares and gives the employee units of the FCPE in exchange. The CEO did not participate in the GESPP in 2015.

For 2015, the CEO's pension contribution costs to the mandatory pension plan in France amounted to €69,782. The CEO does not benefit from any special pension plan provided by Gemalto, other than the plan required by law in France.

Employment contract

Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM. His employment contract (originally dated 1981) is with Gemalto International SAS, a Gemalto subsidiary: it is not time limited, is governed by French law and carries a six-month notice period.

If Gemalto terminates Olivier Piou's employment contract, he is entitled to a severance payment equal to one year of reference salary. This represents the gross salary paid under his employment contract over the 12 months before its termination – including any bonuses, discretionary cash incentives and Board member fees. The severance payment will be in addition to the indemnities and benefits that would be provided under French laws and regulations and the collective bargaining agreement for the Engineers and Management level Employees in the Metallurgical Industry (*Convention collective nationale de la Métallurgie – Ingénieurs et Cadres*).

Long-term incentive plan awards granted to the CEO

Valuation of the long-term incentive plan awards made to the CEO: overview of awards over which he did not have unrestricted control at the start of 2015.

Restricted Share Units

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date[1]	End of lock-up	Value at end of lock-up
March 2010	May vary from 0 to 32,500 with a potential maximum multiplier of two	€877,104[2]	Conditional	March 2013 Performance vesting condition was met in 2011 so number of RSUs is defined: 58,000	€4,043,760	March 4, 2015	€4,187,600
March 2011	May vary from 0 to 150,000	€3,390,133[3]	Conditional	Dependent on when various market-related thresholds are reached; in all cases before the 2014 AGM The five vesting conditions were successively met so number of RSUs is defined: 150,000	€7,035,900	March 10, 2015	€10,467,000
March 2012	50,000	€1,908,000[2]	Conditional	December 2014 Performance vesting condition was met in 2013 so number of RSUs is defined: 50,000	€3,395,000	January 2017	Not applicable
May 2013	May vary from 0 to 50,000	€3,050,500[3]	Conditional	AGM 2016	Not applicable	Not applicable	Not applicable
March 2014	May vary from 0 to 75,000	€5,700,750[3]	Conditional	AGM 2018	Not applicable	Not applicable	Not applicable
August 2015	May vary from 0 to 60,000	€3,493,800[2]	Conditional	August 31, 2018	Not applicable	Not applicable	Not applicable

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

[1] For the valuation, the Gemalto share price at the opening of the stock exchange is used.
[2] Method used for valuation: arbitrage portfolio/asset replication.
[3] Method used for valuation: stochastic model.

Remuneration report continued

If his employment contract is terminated, Olivier Piou's recognized seniority is dating from 1981 and he is entitled to a six-month notice period, as well as a termination compensation (calculated on the basis of actual years employed) and paid vacations.

The severance payment will not be due if the employment contract is terminated for willful misconduct (*faute lourde* under French Supreme Court case law) or by his voluntary resignation. Any option rights granted to the CEO will vest automatically on the decision to terminate his contract and will remain exercisable for the full option term, and all other equity-based schemes will continue to vest after the date of termination. These arrangements do not apply if the contract is terminated for willful misconduct. The severance payment arrangements are a deviation of provision II.2.8 of the Dutch corporate governance code (see page 53).

There are no agreed arrangements for a CEO's early retirement.

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2015, and none were outstanding on December 31, 2015.

Remuneration of non-executive Board members

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

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

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

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

Gemalto does not offer non-executive Board members personal loans, guarantees or similar benefits. None were granted in 2015, and none were outstanding on December 31, 2015.

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

The remuneration of each non-executive Board member in office on December 31, 2015, for the year 2015 is detailed in the table below and also disclosed in note 10 to the statutory financial statements of the Holding Company.

Remuneration of Board members in office on December 31, 2015

	2015 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	M&A committee (€)
Alex Mandl	265,000	250,000	–	15,000	–	–
Olivier Piou	35,000	35,000	–	–	–	–
Homaira Akbari	94,000	70,000	16,000	–	–	8,000
Buford Alexander	86,000	70,000	–	8,000	–	8,000
Philippe Alfroid	89,160	70,000	6,232[2]	–	8,000	4,928[2]
Joop Drechsel[1]	57,646	42,928	9,812	–	4,906	–
Johannes Fritz	101,000	70,000	16,000	–	–	15,000
John Ormerod	108,000	70,000	30,000	–	8,000	–
Yen Yen Tan	86,000	70,000	–	8,000	–	8,000
Arthur van der Poel	93,000	70,000	–	8,000	15,000	–
Drina Yue	94,000	70,000	16,000	–	8,000	–
Total	**1,108,806**	**887,928**	**94,044**	**39,000**	**43,906**	**43,928**

1 Joined during the year: amount paid pro rata.
2 Committee member changes during the year: amount paid pro rata.

Board statements

The objectives of our internal risk management process are to identify the significant strategic, legal, regulatory, operational, financial and environmental risks that the Company may face; to map these risks; and to initiate actions that mitigate and reduce these risks to levels consistent with our risk appetite. The risk management techniques applied include operational and financial controls; financial hedging; risk transfer through our contractual arrangements; and insurance. The Company's risk profile is reported in 'Principal risks' on pages 40-41 with a description of principal risks, their most significant impact and the main mitigation actions. Our internal risk management and control systems are described on pages 34-39.

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

The Board is responsible for reviewing our internal risk management and controls and assessing their effectiveness. Its Audit committee has worked with management and Internal Audit to review the relevant processes, focusing on matters relating to financial reporting as well as the main strategic, legal, regulatory, operational and environmental risks that have been identified. It has also reviewed the results of management actions aimed at improving the way we organize our internal risk management and control processes. The Board has discussed the committee's findings.

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

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

- The annual financial statements for the year ended December 31, 2015, give a true and fair view of the assets, liabilities, financial position and profit or loss of Gemalto and its consolidated companies.
- The annual management report gives a true and fair view of the position as of the balance sheet date and the state of affairs during the 2015 financial year of Gemalto and its affiliated companies of which the data has been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch corporate governance code)

For the purpose of complying with provision II.1.5 of the Dutch corporate governance code on the risks relating to financial reporting, the Board believes that, to the best of its knowledge:

- Gemalto's internal risk management and control organization provides reasonable assurance that its financial reporting does not contain any error of material importance.
- Gemalto's internal risk management and control processes in relation to financial reporting have worked properly in 2015.

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
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

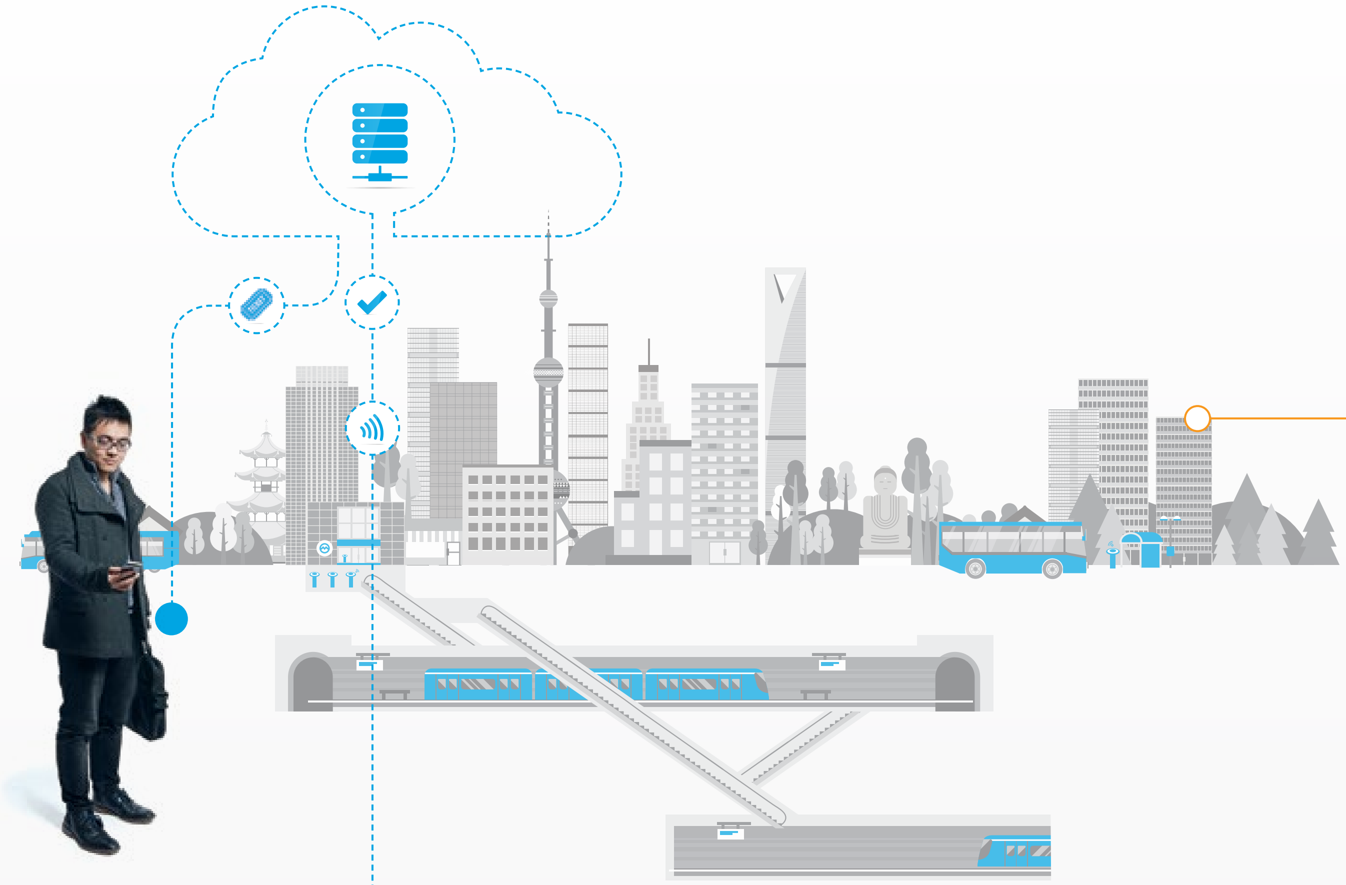
Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Drina Yue
Non-executive Board member

Amsterdam, March 3, 2016



Trust in a connected world

Faster commuting in China

45 million people in China's two largest cities, Shanghai and Beijing, use public transport systems every day. For speed and convenience, China Telecom* is deploying Gemalto's NFC solution so commuters can ride metros and pay for everyday purchases with a simple tap of their smartphones. The LTE SIMs also enable users to benefit from other NFC services, leading to a wider adoption of mobile contactless technology across the entire country.

* China Telecom is a leading operator in the country with more than 183 million subscribers.

Financial statements

Consolidated financial statements and notes

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2015	2014
Assets			
Non-current assets			
Property, plant and equipment, net	8	347,994	279,741
Goodwill, net	9	1,524,933	900,826
Intangible assets, net	9	592,597	218,137
Investments in associates	10	64,897	51,686
Deferred income tax assets	28	197,212	144,710
Other non-current assets	11	45,585	45,024
Derivative financial instruments	7	276	2,566
Total non-current assets		**2,773,494**	**1,642,690**
Current assets			
Inventories, net	12	273,564	223,579
Trade and other receivables, net	13	949,690	852,683
Derivative financial instruments	7	18,048	3,831
Cash and cash equivalents	14	407,659	1,059,572
Total current assets		**1,648,961**	**2,139,665**
Total assets		**4,422,455**	**3,782,355**
Equity			
Share capital		89,008	88,016
Share premium		1,240,241	1,206,877
Treasury shares		(36,329)	(55,482)
Fair value and other reserves		(8,135)	84,603
Cumulative translation adjustments		39,505	(3,957)
Retained earnings		1,158,525	1,070,653
Capital and reserves attributable to the owners of the Company		**2,482,815**	**2,390,710**
Non-controlling interests		**6,716**	**5,454**
Total equity		**2,489,531**	**2,396,164**
Liabilities			
Non-current liabilities			
Borrowings	15	549,758	398,027
Deferred income tax liabilities	28	122,817	46,165
Employee benefit obligations	16	121,958	107,361
Provisions and other liabilities	17	145,335	46,871
Derivative financial instruments	7	5,966	2,714
Total non-current liabilities		**945,834**	**601,138**
Current liabilities			
Borrowings	15	192,579	168,155
Trade and other payables	18	718,585	539,911
Current income tax liabilities		33,799	30,838
Provisions and other liabilities	20	19,366	12,968
Derivative financial instruments	7	22,761	33,181
Total current liabilities		**987,090**	**785,053**
Total liabilities		**1,932,924**	**1,386,191**
Total equity and liabilities		**4,422,455**	**3,782,355**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31, 2015	2014
Revenue	21	**3,121,560**	**2,465,159**
Cost of sales		(1,980,735)	(1,522,078)
Gross profit		**1,140,825**	**943,081**
Operating expenses			
Research and engineering		(188,383)	(143,713)
Sales and marketing		(466,866)	(335,189)
General and administrative		(168,811)	(149,527)
Other income (expense), net	25	(3,496)	12,604
Restructuring and acquisition-related expenses	19	(49,079)	(29,830)
Amortization and depreciation of intangibles resulting from acquisitions	19	(60,843)	(27,267)
Operating profit		**203,347**	**270,159**
Financial income (expense), net	26	(37,963)	(12,421)
Share of profit of associates	10	2,058	(628)
Profit before income tax		**167,442**	**257,110**
Income tax (expense)	28	(30,571)	(35,862)
Profit from continuing operation		**136,871**	**221,248**
Discontinued operation			
Profit (loss) from discontinued operation		(2,662)	–
Profit for the period		**134,209**	**221,248**
Attributable to:			
Owners of the Company		134,107	220,651
Non-controlling interests		102	597
Earnings per share			
Basic earnings per share	29	1.53	2.55
Diluted earnings per share	29	1.51	2.49
Earnings per share – continuing operations			
Basic earnings per share	29	1.56	2.55
Diluted earnings per share	29	1.54	2.49
Weighted average number of shares outstanding (in thousands)	29	87,812	86,490
Weighted average number of shares outstanding assuming dilution (in thousands)	29	89,077	88,716

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31, 2015	2014
Profit for the period		**134,209**	**221,248**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		42,996	37,747
Currency translation adjustments: transfer to financial income (expense), net		3	201
Effective portion of gains and losses on cash flow hedging		(140,976)	(23,149)
Deferred tax on cash flow hedging gains and losses		43,764	7,483
Currency translation differences on other comprehensive income items		(2,132)	(1,485)
Other comprehensive income that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	16	8,929	(17,709)
Deferred tax on actuarial gains and losses		(2,805)	5,330
Total other comprehensive income for the period, net of tax		**(50,221)**	**8,418**
Total comprehensive income for the period, net of tax		**83,988**	**229,666**
Attributable to:			
Owners of the Company		84,349	228,653
Non-controlling interests		(361)	1,013

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, 2015	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**(55,482)**	**84,603**	**(3,957)**	**1,070,653**	**5,454**	**2,396,164**
Profit for the period								134,107	102	134,209
Other comprehensive income (loss)						(93,220)	43,462		(463)	(50,221)
Total comprehensive income						**(93,220)**	**43,462**	**134,107**	**(361)**	**83,988**
Issuance of ordinary shares to fund up long-term employee incentive plans	991,865	991,865	992	33,358		(34,350)				–
Equity-based compensation charge, equity-settled						36,090				36,090
Other net assets change from associates								653		653
Employee share option plans		344,588			20,434	(10,512)				9,922
Purchase of Treasury shares, net		(45,378)			(1,281)	(1,819)				(3,100)
Dividend paid/payable to owners of the Company[2]								(36,955)		(36,955)
Non-controlling interests upon Trüb acquisition									1,635	1,635
Excess of purchase price on subsequent acquisition of non-controlling interests				6					(12)	(6)
First adoption of IFRIC21								1,140		1,140
Reclass of the actuarial gain/losses						11,073		(11,073)		–
Balance as at December 31, 2015	**89,007,709**	**88,103,992**	**89,008**	**1,240,241**	**(36,329)**	**(8,135)**	**39,505**	**1,158,525**	**6,716**	**2,489,531**
Balance as at January 1, 2014	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**(87,962)**	**99,396**	**(41,489)**	**883,525**	**5,053**	**2,153,453**
Profit for the period								220,651	597	221,248
Other comprehensive income (loss)						(29,530)	37,532		416	8,418
Total comprehensive income						**(29,530)**	**37,532**	**220,651**	**1,013**	**229,666**
Equity-based compensation charge, equity-settled						50,466				50,466
Other net asset changes from associates								(658)		(658)
Employee share option plans		762,571			48,083	(33,906)				14,177
Purchase of Treasury shares, net		(222,286)			(15,603)	(1,823)				(17,426)
Dividend paid/payable to owners of the Company[2]								(32,865)		(32,865)
Dividend paid to non-controlling interests									(862)	(862)
Excess of purchase price on subsequent acquisition of non-controlling interests (NCI)				(37)					(148)	(185)
Adjustment on minimum dividend to NCI									398	398
Balance as at December 31, 2014	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**(55,482)**	**84,603**	**(3,957)**	**1,070,653**	**5,454**	**2,396,164**

[1] The difference between the number of shares issued and the number of shares outstanding corresponded to the shares held in treasury. As at December 31, 2015, the number of treasury shares was 903,717 (1,202,927 as at December 31, 2014).

[2] See note 32.

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2015	2014
Profit for the period including non-controlling interests		**134,209**	**221,248**
Adjustment for:			
Tax	28	30,571	35,862
Research tax credit		(16,520)	(16,698)
Depreciation, amortization and impairment	8, 9	185,091	123,228
Equity-based compensation charge, equity-settled		36,090	50,466
Gains and losses on sale of fixed assets and write-offs		13,234	1,743
Gains and losses on sale of assets held for sale		(37)	(422)
Fair value adjustment upon business acquisitions	5	70,722	0
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		3	201
Net movement in provisions and other liabilities		14,377	5,929
Employee benefit obligations		4,236	5,751
Interest income	26	(3,654)	(4,314)
Interest expense and other financial expense	26	17,286	5,226
Share of profit from associates	10	(2,058)	628
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(4,184)	(10,500)
Trade and other receivables		76,810	(65,252)
Derivative financial instruments		(140,823)	36,812
Trade and other payables		9,952	(41,789)
Cash generated from operations		**425,305**	**348,119**
Income tax paid		(70,194)	(54,558)
Net cash provided by operating activities		**355,111**	**293,561**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, business, net of cash acquired	5	(888,433)	(84,045)
Purchase of property, plant and equipment		(98,468)	(81,863)
Proceeds from sale of property, plant and equipment		806	960
Acquisition and capitalization of intangible assets		(87,745)	(43,800)
Proceeds from, (increase in) other non-current assets		(537)	418
Loan to associate		(1,500)	(1,140)
Purchase of, contribution to, investments in associate		(8,201)	(161)
Interest paid		(12,823)	(1,855)
Interest received		2,740	3,893
Dividends received from investments in associates	10	2,320	813
Net cash used in investing activities		**(1,091,841)**	**(206,780)**
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests in subsidiaries		–	(185)
Proceeds from exercise of share options	24	9,922	14,177
Purchase of Treasury shares (net)		(3,100)	(17,426)
Proceed from issuance of Bond		–	395,192
Proceed from issuance of private placements	15	149,074	–
Proceed from drawdown of, (repayment of) credit lines and commercial paper	15	26,500	160,000
Payment of FV hedge Mark-to-Market		(58,477)	-
Repayments of borrowings		(7,884)	(4,173)
Dividends paid to owners of the Company	32	(36,955)	(32,865)
Dividends paid to non-controlling interests		–	(862)
Net cash used in financing activities		**79,080**	**513,858**
Cash and bank overdrafts, beginning of period	14	**1,057,404**	**456,098**
Net increase (decrease) in cash and bank overdrafts		**(657,650)**	**600,639**
Currency translation effect on cash and bank overdrafts		5,139	667
Cash and bank overdrafts, end of period	14	**404,893**	**1,057,404**

Notes to the consolidated financial statements

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

Note 1. General information

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

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

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2015 have been authorized for issue by the Board on 3 March 2016 and will be submitted to the AGM of May 19, 2016 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, 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm). 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 as noted below.

2.2 Changes in accounting policies and disclosures

(a) Standards, amendments to existing standards and interpretations mandatory for financial statements as at December 31, 2015

- *IFRIC – Interpretation 21 Levies*. The Group has adopted IFRIC 21 Levies with a date of initial application of 1 January 2015. The Group has some operation in France where it is subject to government levies. As a result of the adoption of IFRIC 21, the Group has reassessed the timing of when to accrue such levies, imposed by legislation. The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation. The Group previously accrued for taxes over the year on the basis that it would continue to operate in the future. In accordance with IFRIC 21, the Group has determined that the liability to pay the levies should be recognized in full on January 1st, when the obligating event as stated in the legislation occurs. Considering the low materiality of the restatement, the Group has not applied this interpretation retrospectively but prospectively. Would the interpretation had been applied retrospectively, the retained earnings would have been €1.1M lower on January 1, 2014. The adoption of IFRIC 21 did not have any impact on the Group's income statement on a full year basis.
- *Annual Improvements to IFRSs 2011–2013 Cycle*

(b) New standards, amendments to existing standards and interpretation issued by the IASB and not yet mandatory for financial statements as at December 31, 2015 (and not early adopted by the Group)

- *IFRS 9 Financial Instruments*. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities, it is effective for accounting periods beginning on or after 1 January 2018. The Group is yet to assess IFRS 9's full impact.
- *IFRS 15 Revenue from Contracts with Customers*. IFRS 15, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is currently assessing the impact of IFRS 15.
- *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. The Group is currently assessing the impact of IFRS 16.

- *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* set out that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain and loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS3. The amendments have been deferred indefinitely.
- *Amendments to IAS 12: Recognition of Deferred tax Assets for Unrealised Losses* clarify that: a) unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference, b) the carrying amount of an asset does not limit the estimation of probable future taxable profits, c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, d) an entity assesses a deferred tax asset in combination with other deferred tax assets. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is currently assessing the impact of these amendments.
- *Annual Improvements to IFRSs 2012–2014 Cycle*
- *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization*
- *Amendments to IFRS 11 Accounting of Acquisitions of Interests in Joint Operations*
- *Amendments to IAS 1: Disclosure Initiative*
- *IAS 19 Employee Benefits (Amended) – Employee contributions*

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

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

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

The Group recognizes non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amount of acquiree's identifiable net assets. For further acquisitions of non-controlling interest, the excess of the cost of acquisition over the carrying value of the Group's additional share of the identifiable net assets acquired, is recorded against the share premium in the equity.

If control is achieved by stages, the fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Adjustments to the fair value of the assets acquired and liabilities and contingent liabilities assumed can occur during a period of 12 months following the date of acquisition. When the Group ceases to have control, any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognized in the income statement.

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

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

(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 associate are accounted for by the equity method of accounting and are initially recognized at cost. Gemalto's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition. Gemalto's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of other post-acquisition movements in reserves is recognized in the Group's reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Gemalto's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Gemalto does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

(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 taken to 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 are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

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

2.7 Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the balance sheet. Goodwill on acquisitions of associates is included in 'Investments in associate' 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) Intangible assets, other than goodwill and brand names

Other intangible assets have a definite useful life and are carried at cost less accumulated amortization, except for customer relationships. Customer relationships arise from both separate purchases and business combinations. 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.

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' in the balance sheet, except for maturities greater than 12 months after the balance sheet date, which are classified as 'Other non-current assets' in the balance sheet. Loans and receivables are initially recognized at fair value and subsequently recorded at amortized cost using the effective interest method, less provision for impairment.

(c) Available-for-sale financial assets

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

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

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

2.10 Inventories

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

2.11 Trade receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

2.15 Taxes on income

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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' and 'Other non-current assets' in the balance sheet depending on the timing of expected cash inflows. The Company records the benefit of this credit only when all qualifying research has been performed and the Company has obtained sufficient evidence from the relevant government authority that the credit will be granted.

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

2.17 Research and development costs

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

2.18 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution plans (see note 16).

(a) Pension and similar obligations

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

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

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

Past service costs are recognized immediately in the income statement.

(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 Share-based payment

(a) Share-based compensation

Gemalto operates equity-settled share-based compensation plans (see note 24). The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(b) Share-based transaction

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

2.20 Provisions

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

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

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently regularly remeasured at their fair value. These instruments, which are expected to mature within three 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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

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

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

2.24 Estimation of financial instrument fair value

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

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

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

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

For the available-for-sale financial assets, they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at December 31, 2015, the value of Level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

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 are essential to understanding 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 Presentation of the income statement

The Group reports under the line 'Restructuring and acquisition-related expenses' (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provision of IAS 37; (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).

Management is exercising its judgment when assessing if a transaction is initiated as part of the normal course of business of the Company or if it qualifies as one of the categories mentioned above.

3.2 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.

3.3 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.

3.4 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.

3.5 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 if 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 discount rate. Altering these parameters could significantly affect the Group's impairment tests' outcome.

3.6 Share-based payments

Share-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 share-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 share options and restricted shares units issued by the Group are based on data available at the date of the grant. Using different input estimates or models could produce different values, which would result in the recognition of a higher or lower expense.

3.7 Employee benefit obligations

Actuarial valuations are used to determine the liability on employee benefit obligations. These valuations rely on key assumptions including discount rates, expected salary increase, mortality rates and employee turnover. The discount 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 discount rate and inflation rate are altered. The impacts on the reported liability would be, however, recognized against other comprehensive income.

3.8 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, a corresponding valuation allowance is taken into account.

3.9 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, discount rates to be applied and the expected period of benefits.

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

Significant portions of Gemalto revenue, cost of sales and expenses are generated in currencies other than the Euro, including the US Dollar, Sterling Pound, Japanese Yen, Chinese Renminbi, Canadian Dollar, Brazilian Real, Singapore Dollar and Polish Zloty. Revenue and gross profit are therefore significantly exposed to exchange rate fluctuations.

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

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 and options 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 €0.4 million on the profit or loss for 2015 (€0.3 million in 2014) and €3.1 million on the statement of financial position as at December 31, 2015 (€3.6 million in 2014).

	Year ended December 31,			
	2015		2014	
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect on profit before tax				
– Underlying[3]	(12,682)	13,332	(17,500)	19,405
– Hedges[4]	10,501	(12,067)	19,048	(20,080)
Net	**(2,181)**	**1,265**	**1,548**	**(675)**
Gain/(loss)				
Effect on equity				
– Hedges[5]	28,742	(30,210)	36,222	(38,026)

[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 several equity swaps cash-settled ending in May 2016 and June 2018. These financial instruments cover the share performance risks over their life time against the payment of financial interests.

As at December 31, 2015, the fair value of the equity swaps cash-settled amounted to €(0.3) million (€1.9 million in 2014). There was no margin call received or paid in cash by Gemalto at the end of 2015 (€0.4 million in 2014).

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,			
	2015		2014	
	Change in Gemalto share value			
	+10%	-10%	+10%	-10%
Income/(expense)				
Effect of profit before tax				
– Underlying[6]	(1,099)	1,099	(827)	827
– Hedges[7]	227	(227)	632	(632)
Net	**(872)**	**872**	**(195)**	**195**
Gain/(loss)				
Effect on equity				
– Hedges[8]	215	(215)	1,474	(1,474)

[6] Effect of revaluation of social levies excluding hedges.

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

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

4.3 Interest rate risk

Financial assets are invested in bank deposits and money market funds with maturities no longer than three months, classified as cash and cash equivalents. The main components of the financial liabilities are based on fix interest rates regarding the existing Public bond and private placements in place. Other source of financing are floating rate debt which provide short-term funding (from time to time commercial paper, drawdown on committed bilateral facilities, etc.). Financial income (expense) can therefore be sensitive to interest rate 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 rate 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)	**2015**		2014	
Variation in interest rate (in basis points)	+50	-50	+50	-50
Borrowings	(1,317)	1,317	(97)	64
Short-term deposits and investment funds	1,201	(1,201)	2,381	(2,381)

4.4 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €550 million bilateral credit facilities referred to in note 15, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period at 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 €24 million as of December 31, 2015 and €22.5 million as of December 31, 2014 (see note 31).

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

				2014
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	1,418	180	–	1,598
Bond	8,500	34,000	417,000	459,500
Credit lines drawdown	160,107	–	–	160,107
Other borrowings	3,421	2,477	–	5,898
Derivative financial instruments	37,551	3,789	–	41,340
Trade and other payables	539,911	–	–	539,911
	750,908	**40,446**	**417,000**	**1,208,354**

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. A portion of our short-term deposits and investment funds can be invested in commercial paper with a strong credit rating of A1/P1.

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 €550 million, arranged with international banks of strong credit rating referred to in note 15. The maturities of these facilities fall between September 17, 2017 and September 12, 2022.

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

	Year ended December 31,	
	2015	2014
Borrowings		
in % of total borrowing risk for Gemalto	19%	19%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	18%	25%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	10%	18%
Total risk for any single counterparty[9]		
in % of total counterparty risk for Gemalto	**15%**	**11%**

[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, 2015 and December 31, 2014, 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

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 2015 and 2014. 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, 2015, trade receivables of €149,115 were past due but not impaired (€167,617 in 2014). 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 ageing analysis of these trade receivables is as follows:

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

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

Overdue by	Carrying amount (Year ended December 31, 2014)	Bad debt reserve (Year ended December 31, 2014)	Overdue but not impaired (Year ended December 31, 2014)
Up to 1 month	74,678	(135)	74,543
2 to 3 months	46,283	(442)	45,841
4 to 6 months	27,408	(1,551)	25,857
Later than 6 months	29,310	(7,934)	21,376
	177,679	–	**167,617**
Provision for impairment of receivables	–	(10,062)	–
Trade receivables overdue but not impaired			**167,617**

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

	Year ended December 31, 2015	2014
As at January 1	**(10,062)**	**(10,555)**
Acquisition of subsidiaries	(1,040)	(19)
Provision for impairment of receivables	(8,675)	(1,147)
Receivables written off over the year as uncollectible	1,147	830
Unused amounts reversed	629	815
Currency translation adjustment	(91)	14
As at December 31	**(18,092)**	**(10,062)**

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, 2015, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in six currencies notably US Dollar, Sterling Pound, Mexican Peso, Singapore Dollar, South African Rand and Chinese Yuan. It also held forward contracts not qualified in hedge accounting and recognized through income statement at fair value, denominated in the same currencies and in South African Rand, Brazilian Real, 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, 2015							Year ended December 31, 2014						
	USD	GBP	MXN	SGD	ZAR	CNY	Other	USD	GBP	JPY	SGD	PLN	CNY	Other
Cash flow hedges														
Forward contracts	(11,776)	(6,135)	(2,979)	4,098	–	–	151	(20,690)	(5,206)	–	3,381	66	(1,596)	(149)
Derivative at fair value														
Forward contracts	4,818	150	–	(135)	321	645	737	(7,252)	(17)	(98)	47	53	461	59
Total	**(6,958)**	**(5,985)**	**(2,979)**	**3,963**	**321**	**645**	**888**	(27,942)	(5,223)	(98)	3,428	119	(1,135)	(90)

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

	2015		
	Total amount recognized in Other Comprehensive Income (1)+(2)	**Amount to be transferred in sales or cost of sales within one year (1)**	**Amount to be transferred in sales or cost of sales beyond one year (2)[10]**
Effective portion	(135,084)	(57,116)	(77,968)

	2014		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2)
Effective portion	(21,120)	(9,857)	(11,263)

[10] Amount to be reclassified as debits or credits to sales or cost of sales over the next 3 years.

Note 5. Business combinations

Safenet group

On January, 7 2015, Gemalto completed the acquisition of 100% of the share capital of SafeNet, a worldwide leader in data protection and software monetization, from Vector Capital for US$ 957 million paid in cash.

Headquartered in Belcamp, Maryland, US, and presently located in 27 countries, SafeNet is one of the largest dedicated digital information security companies in the world, trusted to protect, control the access to, and manage the world's most sensitive data and high value software applications. SafeNet employs approximately 1,500 employees, who serve more than 25,000 customers, both corporations and government agencies, in over 100 countries. Had the acquisition of SafeNet occured on January 1st, 2015, the Group estimates that its revenue and PFO would have been €320 million and €59 million respectively.

SafeNet reinforced Gemalto's Identity and Access Management business and is part of Gemalto's Payment & Identity segment. The goodwill amounting to €511 million is mainly attributable to expected synergies and know-how. This Goodwill is not deductible for tax purpose.

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.

The intangible assets

Acquired intangible assets FV is determined on the basis of commonly used valuations approaches, recommended by the International Valuation Standards Council. Three main natures of intangible assets have been identified and valued at acquisition using the income approach, technologies, customer relationships and brand names.

Depending on the nature and underlying characteristics of the intangible asset, either the Excess Earnings Method, or the Relief-from-Royalty Method has been used to appropriately value the intangible.

The inventories: revaluation of the inventories to their net realizable value

The FV of inventories (finished goods and work in progress) assumed in connection with the business combination is defined as the estimated revenue derived from the future sale of these goods less the sum of (i) the cost of disposal, and (ii) a reasonable profit allowance for the selling effort, both of which are estimated from the perspective of a market participant.

Therefore, the value of these inventories in the books of SafeNet at acquisition date was adjusted upward by $63 million.

Subsequent sales of the finished goods and work in progress carried in the SafeNet Inventories at the time of the acquisition generated a lower margin than if they would have been manufactured after the acquisition, all other factors being equal. The Group therefore discloses the amortization expense related to this revaluation in a dedicated column of its segment information (see note 6).

The deferred revenue: cancellation of commercial margin of deferred revenue

Upon a business combination, deferred revenue of the acquiree can be recognized only if it relates to an outstanding performance obligation assumed by the acquiree. The FV of deferred revenue has been estimated using the income approach based on the incremental cost, including a normal profit margin, of fulfilling the contract.

Therefore, the value of the deferred revenue in the books of SafeNet at acquisition date was adjusted downward by $24 million.

Subsequent performance obligations generated a lower margin than if they would have been performed outside of the scope of a business combination. The Group therefore discloses the amortization expense related to this revaluation in a dedicated column of its segment information (see note 6).

The cumulative non-cash expense triggered by the amortization of the revaluation of both inventories and deferred revenue amounted to €71 million as at December 31, 2015.

Notes to the consolidated financial statements continued

Note 5. Business combinations continued

Trüb group

On April 10, 2015, Gemalto completed the acquisition of 100% of the share capital of Trüb, Headquartered in Aarau, Switzerland, Trüb employs over 400 people and has a 100 year history of secure printing, including pioneering work in polycarbonate technology. Trüb provides identification solutions primarily to governments and banks and is a leading provider of high security polycarbonate identity documents. Had the acquisition of Trüb occured on January 1st, 2015, the Group estimates that its revenue and PFO would have been €97 million and €7 million respectively.

The Trüb business reinforced Gemalto leadership in high security identification documents and provided access to the local Swiss market. The goodwill amounting to €53 million is mainly attributable to expected synergies and know-how. This Goodwill is not deductible for tax purpose.

Buzzinbees

On December 15, 2015 Gemalto completed the acquisition of 100% of the share capital of Buzzinbees for €7 million, the technology leader in real-time SIM activation. The business will become part of the Core Network and Activation activity. Had the acquisition of Buzzinbees occured on January 1st, 2015, the Group estimates that its revenue and PFO would have been €5 million and €0.3 million respectively.

This Goodwill is not deductible for tax purpose.

Identifiable assets and liabilities at the date of acquisition:

In thousands of Euro	SafeNet Group	Trüb Group	Other acquisitions	Total
Assets				
Non-current assets	33,645	28,563	15,475	77,683
Current assets	195,011	37,543	–	232,554
Cash and cash equivalents	53,528	–	4,596	58,124
Total assets	**282,184**	**66,106**	**20,071**	**368,361**
Liabilities				
Non-current liabilities	226,882	22,885	19,650	269,417
Current liabilities	133,417	15,037	7,859	156,313
Borrowings (current)	105	14,355	0	14,460
Total liabilities	**360,404**	**52,277**	**27,509**	**440,190**
Cancellation on non-controlling interests		(1,635)		(1,635)
Identified fixed assets re-measured at Fair value	224,507	92,700	43,226	360,433
Associated deferred tax liabilities	(86,435)	(16,686)	(11,956)	(115,077)
Total fair value of identifiable net assets acquired (A)	**59,852**	**88,208**	**23,832**	**171,892**
Purchase consideration (B)	597,433	141,486	12,046	750,965
Hedging effect **(B)**	(26,769)			(26,769)
Purchase price adjustment on 2014 acquisitions **(B)**	–		(644)	(644)
Goodwill (B-A)	**510,812**	**53,278**	**(12,430)**	**551,660**
Analysis of cash flows on acquisitions:				
Purchase consideration settled in cash, including debt repayment	786,623	140,065	10,189	936,877
Net cash acquired	(53,528)	9,680	(4,596)	(48,444)
Net cash flows used in acquisitions	733,095	149,745	5,593	888,433
Purchase of investment in associates		1,421		1,421

The column Other acquisitions mainly reflects the adjustment to the goodwill of 2014 acquisitions accounted for in 2015 but within the purchase price allocation period.

The provisional goodwill arising from the acquisition of Trüb amounted to €53 million as at December 31, 2015, may be subject to significant changes over the purchase price allocation period.

Tax effects on the fair value of the intangible assets recognized amounted to €115 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	Impact in 2015, from 2014 acquisitions		Impact in 2015, from 2015 acquisitions		**Total recognized in 2015**
	Fair Value	Remaining useful life	Fair Value	Remaining useful life	**Fair Value**
Existing technologies	–	–	134,059	3-7 years	**134,059**
Customer relationships	43,226	2-14 years	139,620	10-15 years	**182,846**
Brand Name – SafeNet acquisition	–	–	30,428	Indefinite life	**30,428**
Brand Name – Trüb acquisition	–	–	700	3 years	**700**
Land	–	–	7,600	Indefinite life	**7,600**
Building	–	–	4,800	15 years	**4,800**

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 uses in planning for 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.

Notes to the consolidated financial statements continued

Note 6. Segment information continued

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

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

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

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

Year ended December 31, 2015	Payment & Identity	Mobile	Patents	Adjusted financial information	Equity-based compensation and associated costs[11]	Fair value adjustment upon business acquisitions[12]	IFRS financial information
Revenue	**1,818,410**	**1,278,520**	**24,630**	**3,121,560**	**–**	**–**	**3,121,560**
Cost of sales	(1,120,121)	(783,980)	(1,576)	(1,905,677)	(4,336)	(70,722)	(1,980,735)
Gross profit	**698,289**	**494,540**	**23,054**	**1,215,883**	**(4,336)**	**(70,722)**	**1,140,825**
Operating expenses							
Research and engineering	(92,654)	(82,894)	(9,265)	(184,813)	(3,570)	–	(188,383)
Sales and marketing	(279,402)	(171,698)	(1,061)	(452,161)	(14,705)	–	(466,866)
General and administrative	(83,945)	(68,371)	(468)	(152,784)	(16,027)	–	(168,811)
Other income (expense), net	(3,567)	795	(724)	(3,496)	–	–	(3,496)
Profit from operations	**238,721**	**172,372**	**11,536**	**422,629**			
Restructuring and acquisition-related expenses							(49,079)
Amortization and depreciation of intangibles resulting from acquisitions							(60,843)
Operating profit							**203,347**

Year ended December 31, 2014	Payment & Identity	Mobile	Patents	Adjusted financial information	Equity-based compensation and associated costs[11]	Fair value adjustment upon business acquisitions[12]	IFRS financial information
Revenue	**1,158,344**	**1,289,592**	**17,223**	**2,465,159**	**–**	–	**2,465,159**
Cost of sales	(772,122)	(739,407)	(1,467)	(1,512,996)	(9,082)	–	(1,522,078)
Gross profit	**386,222**	**550,185**	**15,756**	**952,163**	**(9,082)**	–	**943,081**
Operating expenses							
Research and engineering	(48,932)	(78,961)	(9,882)	(137,775)	(5,938)	–	(143,713)
Sales and marketing	(147,596)	(166,538)	(1,295)	(315,429)	(19,760)	–	(335,189)
General and administrative	(47,687)	(80,792)	(405)	(128,884)	(20,643)	–	(149,527)
Other income (expense), net	38	13,027	(461)	12,604	–	–	12,604
Profit from operations	**142,045**	**236,921**	**3,713**	**382,679**			
Restructuring and acquisition-related expenses							(29,830)
Amortization and depreciation of intangibles resulting from acquisitions							(27,267)
Operating profit							**270,159**

[11] Equity-based computed compensation charges and associated costs amounted to €38,638 for 2015 and €55,423 in 2014 (see note 24)

[12] See note 5

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, 2015	2014
Revenue		
Europe, Middle East and Africa	1,378,454	1,127,841
United States of America	792,614	478,726
Asia Pacific	553,661	500,877
North and South America excluding the United States of America	396,831	357,715
Total	**3,121,560**	**2,465,159**

	Year ended December 31, 2015	2014
Non-current assets		
United States of America	373,246	74,980
France	201,121	165,325
Europe, Middle East and Africa excluding France and Switzerland	195,760	190,918
Asia Pacific	131,353	114,396
Switzerland	106,362	3,386
North and South America excluding the United States of America	43,231	45,582
Total	**1,051,073**	**594,587**

Note 7. Financial assets/liabilities by category

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

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

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

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

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

December 31, 2014	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Total
Assets				
Other non-current assets	45,024	–	–	**45,024**
Trade and other receivables, net*	818,813	–	–	**818,813**
Derivative financial instruments	–	–	6,397	**6,397**
Cash and cash equivalents	169,894	889,678	–	**1,059,572**
Total	**1,033,731**	**889,678**	**6,397**	**1,929,806**

* Trade and other receivables, net 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	–	397,683	**397,683**
Borrowings	–	168,499	**168,499**
Trade and other payables*	–	461,611	**461,611**
Derivative financial instruments	35,895	–	**35,895**
Total	**35,895**	**1,027,793**	**1,063,688**

* 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, 2015 (see note 2.24):

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

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2014:

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	6,397	–	**6,397**
Investment funds	889,678	–	–	**889,678**
Total Assets	**–**	**896,075**	**–**	**896,075**
Liabilities				
Derivatives used for hedging	–	35,895	–	**35,895**
Total Liabilities	**–**	**35,895**	**–**	**35,895**

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

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2014	**5,400**	**222,814**	**557,105**	**785,319**
Acquisition of subsidiary and business	2,406	5,161	25,512	**33,079**
Additions	–	11,476	71,279	**82,755**
Disposals and write-offs	–	(5,837)	(68,790)	**(74,627)**
Currency translation adjustment	142	4,684	19,431	**24,257**
Gross book value as of December 31, 2014	**7,948**	**238,298**	**604,537**	**850,783**
Accumulated depreciation as of January 1, 2014	**(36)**	**(142,078)**	**(405,885)**	**(547,999)**
Acquisition of subsidiary and business	–	(747)	(14,666)	**(15,413)**
Depreciation charge	(3)	(13,166)	(48,226)	**(61,395)**
Disposals and write-offs	–	4,101	66,294	**70,395**
Currency translation adjustment	–	(2,708)	(13,922)	**(16,630)**
Accumulated depreciation as of December 31, 2014	**(39)**	**(154,598)**	**(416,405)**	**(571,042)**
Net book value as of December 31, 2014	**7,909**	**83,700**	**188,132**	**279,741**

Capitalized leases included in property, plant and equipment:

	Year ended December 31,	
	2015	2014
Gross book value	2,017	2,118
Accumulated depreciation	(1,601)	(728)
Net book value	**416**	**1,390**

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

	Year ended December 31,	
	2015	2014
Cost of sales	62,004	49,332
Research and engineering expenses	5,180	4,641
Sales and marketing expenses	1,215	686
General and administrative expenses	11,648	6,736
Restructuring & Reorganization expenses	1,045	–
Total depreciation expenses by destination	**81,092**	**61,395**

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

Notes to the consolidated financial statements continued

Note 9. Goodwill and intangible assets continued

	Goodwill	Patents and technology	Capitalized development costs	Customer relationships	Other intangibles	Total
Gross book value as of January 1, 2014	**863,566**	**339,238**	**181,009**	**78,624**	**111,964**	**1,574,401**
Acquisition of subsidiary and business	45,775	14,162	(332)	16,401	1,897	**77,903**
Additions	–	323	37,030	–	6,447	**43,800**
Write-offs	–	–	–	–	(562)	**(562)**
Currency translation adjustment	5,427	238	101	1,182	361	**7,309**
Gross book value as of December 31, 2014	**914,768**	**353,961**	**217,808**	**96,207**	**120,107**	**1,702,851**
Accumulated amortization as of January 1, 2014	**(12,966)**	**(297,351)**	**(87,222)**	**(48,844)**	**(74,837)**	**(521,220)**
Acquisition of subsidiary and business	–	(41)	147	–	(608)	**(502)**
Amortization charge	–	(16,688)	(24,186)	(9,146)	(11,813)	**(61,833)**
Write-offs	–	–	–	–	449	**449**
Currency translation adjustment	(976)	35	(23)	429	(247)	**(782)**
Accumulated amortization as of December 31, 2014	**(13,942)**	**(314,045)**	**(111,284)**	**(57,561)**	**(87,056)**	**(583,888)**
Net book value as of December 31, 2014	**900,826**	**39,916**	**106,524**	**38,646**	**33,051**	**1,118,963**

Other intangibles mainly consist of:

	Year ended December 31,	
	2015	2014
Licensing rights to use and distribute licensed technology	19,601	4,138
Acquired brand names	45,639	11,423
Miscellaneous software and other intangibles	24,904	17,490
Total	**90,144**	**33,051**

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

	Year ended December 31,	
	2015	2014
Cost of sales	41,442	32,229
Research and engineering expenses	889	879
Sales and marketing expenses	94	98
General and administrative expenses	731	1,360
Amortization and depreciation of intangible resulting from acquisition	60,843	27,267
Total	**103,999**	**61,833**

Goodwill impairment test

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

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

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

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

	Year ended December 31,	
In millions of Euro CGU	**2015**	2014
Mobile Communication	420	404
Machine-to-Machine	116	116
Secure Transactions	181	159
Government program	98	73
IDSS	710	149
Total	**1,525**	**901**

Cash flow generation for the years 2016 and 2017 are based on management's expectations for the future. Revenue growth beyond management plans horizon are extrapolated using progressively declining growth rate toward the 2% infinite growth rate used in the computation of the terminal value, for each CGU. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 8.8% in 2015 (8.4% in 2014), the before-tax weighted average cost of capital was estimated at 10.5% in 2015 (10.1% in 2014). The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2015 nor in 2014.

A sensitivity analysis regrouping key parameters, namely the projected cash flows, the discount 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 variable being held constant, no impairment charge would be recognized in 2015 if discounted projected cash flows were 20% lower, or the weighted average cost of capital before-tax used would have been 300 basis-point higher or the infinite growth rate for the revenue would have been 100 basis-point lower.

Note 10. Investments in associates

Investments in associates consist of the following:

	Year ended December 31, 2015	2014
Investments as of beginning of period	**51,686**	**49,035**
Acquisition of associates	6,779	161
Acquisition of associates included in Trüb	1,422	–
Other net changes in equity	653	(658)
Dividends paid by associates	(2,320)	(813)
Share of profit	2,058	(628)
Currency translation adjustment	4,619	4,589
Investments as of end of period	**64,897**	**51,686**

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2015, the net book value of goodwill in associates amounted to €6.1 million (€0.4 million in 2014).

In June 2015, Gemalto increased its shareholding into Trustonic Ltd. With 50% shareholding, the Group does not control Trustonic Ltd.

In April 2015, Gemalto acquired 15% of Smart Displayer Technology Co. Ltd, a non-listed Taiwanese company through a contribution of €1.8 million. Gemalto is the largest shareholder of this company with a representation at the Board of Directors.

With 18.39% shareholding in Goldpac Group Limited, Gemalto remains a substantial shareholder with one non-executive Board member. The market value of our shareholding in Goldpac Group Limited, on the Hong Kong stock exchange, was €61.4 million as at December 31, 2015 (€87 million in 2014). As at December 31, 2015 the carrying value of our investment, which is based on the latest publicly available information, was €57 million (€48 million in 2014).

Summarized financial information of significant associates:

	Year ended December 31, 2015	2014
	Goldpac Group	Goldpac Group
Current assets	300,006	263,844
Non-current assets	44,732	23,890
Current liabilities	108,289	88,017
Non-current liabilities	2,464	1,269
Net assets as of end of period	**233,985**	**198,448**

Summarized income statement:

	Year ended December 31, 2015	2014
	Goldpac Group	Goldpac Group
Revenue	124,681	99,968
Pre-tax (loss)/profit from continuing operations	22,022	19,480
Post-tax profit from continuing operations	17,964	14,340
Total comprehensive (expense)/income	17,965	16,307

The Group also has interests in a number of individually immaterial associates. As at December 31, 2015 the carrying value of these associates in the Group financial statement was €7.9 million (€3.8 million for 2014) and the related share of profit for the period was negative for €3.7 million (negative for €3.2 million in 2014).

Notes to the consolidated financial statements continued

Note 11. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31, 2015	2014
Research tax credit	9,698	10,402
Long-term deposits, net[13]	4,655	3,301
Tax receivable	11,996	14,050
Other	19,236	17,271
Total	**45,585**	**45,024**

[13] The €4,655 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 12. Inventories

Inventories consist of the following:

	Year ended December 31, 2015	2014
Gross book value		
Raw materials and spares	100,751	77,154
Work in progress	117,864	109,884
Finished goods	73,563	49,578
Total	**292,178**	**236,616**
Obsolescence reserve		
Raw materials and spares	(5,188)	(4,269)
Work in progress	(9,494)	(5,922)
Finished goods	(3,932)	(2,846)
Total	**(18,614)**	**(13,037)**
Net book value	**273,564**	**223,579**

The increase recorded in 'Inventories' mainly arises from the opening balance contributed by the business combinations completed during the year of €95 million, by the amortization of the fair value adjustment on the inventory for €(58) million through the income statement, and to the currencies translation effects for €8 million.

Note 13. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31, 2015	2014
Trade receivables	622,039	585,972
Provision for impairment of receivables	(18,092)	(10,062)
Trade receivables, net	**603,947**	**575,910**
Prepaid expenses	42,106	21,683
VAT recoverable and tax receivable	93,910	68,330
Advances to suppliers and related parties	11,524	12,187
Unbilled customers	143,218	133,356
Other	54,985	41,217
Total	**949,690**	**852,683**

The increase recorded in 'Trade and other receivables' mainly arises from the opening balance contributed by the business combinations completed during the year and to the currencies translation effects of €143 million and €17 million respectively.

Note 14. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2015	2014
Cash at bank and in hand	198,147	107,568
Short-term bank deposits and investment funds	209,512	952,004
Total	**407,659**	**1,059,572**

The average effective interest rate on short-term deposits was 1.53% in 2015 (0.93% in 2014). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds or in commercial paper, 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, 2015	2014
Cash and cash equivalents	407,659	1,059,572
Banks overdrafts	(2,766)	(2,168)
Total	**404,893**	**1,057,404**

Note 15. Borrowings

Borrowings consist of the following:

	Year ended December 31, 2015	2014
Non-current portion		
Other financial liability	4,440	2,477
Bond	400,000	400,000
Deferred costs and premium on bond	(3,935)	(4,622)
Private placement	149,133	–
Finance lease liabilities	120	172
Total non-current portion	**549,758**	**398,027**
Current portion		
Short-term loans	3,158	3,366
Commercial paper and credit lines	186,500	160,000
Bank overdrafts	2,766	2,168
Other financial liability	–	1,253
Finance lease liabilities	155	1,368
Total current portion	**192,579**	**168,155**
Total	**742,337**	**566,182**

As at December 31, 2015, 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 per cent, ahead of the SafeNet acquisition, and maturing in September 23, 2021. At December 31, 2015 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. For information the fair value of the bond as at December 31, 2015, is €406.3 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;

- €550 million committed bilateral facilities arranged with first rank banks maturing between September 17, 2017 and September 12, 2022. There are no financial covenants (financial ratios) concerning Gemalto's financial structure in the documentation of these facilities. As at December 31, 2015, the credit lines were not drawn (€160 million were drawn as at December 31, 2014); and
- In October 2015, a French commercial paper program has been implemented for a total capacity of €300 million with the aim of both diversifying and optimizing Gemalto's sources of financing. As at December 31, 2015, the outstanding amount reaches €186.5 million.

Movements on borrowings

	Year ended December 31,	
	2015	2014
Balance as at January 1	**566,182**	**6,910**
Net proceed from bond issue	–	395,192
Release of deferred costs and premium on bond and private placement	745	186
Accruals of interests on bond, private placement and credit lines	796	2,305
Net proceed from private placement	149,074	–
Proceed from credit lines drawdown	140,000	160,000
Repayments of credit lines	(300,000)	–
Proceed from commercial paper	200,000	–
Repayment of commercial paper	(13,500)	–
Repayments of financial lease liabilities	(1,468)	(2,750)
Repayments in other financial liabilities	(407)	(692)
Net change in bank overdraft	(9,322)	1,792
Net change in short-term loan	(5,845)	(766)
Acquisition of subsidiaries	15,672	3,586
Currency translation adjustment	410	419
Balance as at December 31	**742,337**	**566,182**

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

	Year ended December 31,	
	2015	2014
Euro (EUR)	739,845	562,735
US Dollar (USD)	1,895	1,704
Polish Zloty (PNL)	70	91
Philippino Peso (PHP)	–	386
Arab Emirates Dirham (AED)	503	178
Indian Rupee (INR)	–	1,088
Canadian Dollar (CAD)	24	–
Total	**742,337**	**566,182**

The nominal interest rates as at December 31, 2015 and 2014 were as follows:

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

Notes to the consolidated financial statements continued

Note 15. Borrowings continued

							2014
		Amount	EUR	USD	PLN	PHP	INR
Bond	Fixed rate	395,378	2.13%	–	–	–	–
Credit lines drawdown	Floating rate	160,000	0.78%	–	–	–	–
Other financial liabilities	Floating rate	3,730	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	3,229	n/s	–	–	4.61%	10.95%
Accruals of interests on bond	n/a	2,305	n/a	–	–	–	–
Finance lease liabilities	Floating rate	100	1.96%	–	–	–	–
Finance lease liabilities	Fixed rate	1,440	3.68%	7.22%	5.39%	–	–
Total		**566,182**					

Othe 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.

Bonds, commercial papers, private placements and finance lease liabilities are split by maturity as follows:

	Year ended December 31,				Year ended December 31,			
				2015				2014
	Bonds	**Commercial papers and private placements**	**Present value of finance lease liabilities**	**Financial lease (minimum lease payments)**	Bonds	Credit lines drawdown	Present value of finance lease liabilities	Financial lease (minimum lease payments)
Not later than 1 year	8,500	189,493	155	169	8,500	160,107	1,368	1,418
Later than 1 year and not later than 5 years	34,000	26,740	120	128	34,000	–	172	180
Later than 5 years	408,500	145,918	–	–	417,000	–	–	–
Total	**451,000**	**362,151**	**275**	**297**	**459,500**	**160,107**	**1,540**	**1,598**
Future finance charges on finance leases				(22)				(58)
Present value of finance lease liabilities				**275**				**1,540**

Note 16. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31,	
	2015	2014
Present value of obligations	228,242	167,099
Fair value of plan assets	(106,284)	(59,738)
Net defined benefit liability	**121,958**	**107,361**

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

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2014	**132,669**	**(49,697)**	**82,972**
Current service costs	8,305	–	8,305
Interest expense	6,802	(2,238)	4,564
Curtailment	(224)	–	(224)
Amount recognized in the income statement	**14,883**	**(2,238)**	**12,645**
Return on plan assets	–	(3,672)	(3,672)
Actuarial (gain) and loss arising from changes in demographic assumptions	60	–	60
Actuarial (gain) and loss arising from changes in financial assumptions	20,934	–	20,934
Actuarial (gain) and loss due to experience	387	–	387
Amounts recognized in other comprehensive income	**21,381**	**(3,672)**	**17,709**
Contributions to the plan by the employer	–	(3,698)	(3,698)
Payments	(4,747)	1,551	(3,196)
Acquisition of subsidiaries	96	–	96
Currency translation adjustment	2,817	(1,984)	833
Balance as at December 31, 2014	**167,099**	**(59,738)**	**107,361**

Notes to the consolidated financial statements continued

Note 16. Employee benefit obligations continued

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

	December 2014					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	74,436	52,639	21,287	–	18,737	167,099
Plan assets at fair value	–	(42,195)	(9,134)	–	(8,409)	(59,738)
Net defined benefit obligation	**74,436**	**10,444**	**12,153**	**–**	**10,328**	**107,361**

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

	Year ended December 2014				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	–	–	7,976	7,976
Equity securities	24,048	–	–	–	24,048
Debt instruments (Government and corporate bonds)	17,571	–	–	–	17,571
Other investments	576	9,134	–	433	10,143
Total plan asset fair value	**42,195**	**9,134**	**–**	**8,409**	**59,738**

In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees in the UK agree and submit a funding plan to the Pension Regulator within 15 months of the valuation date for all schemes showing an asset deficit, Gemalto N.V. and the trustees of the Gemplus Limited Staff Pension Scheme reached an agreement on the ongoing funding of the scheme, which consisted of a plan to fund the deficit over 9.5 years on a going concern basis and a parental guarantee put in place by Gemalto N.V. in the event that Gemalto UK Ltd were unable to fulfill its funding obligations.

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2015	2014
Eurozone		
Discount rate	2.15%	1.65%
Future salary increase	2.25%–2.5%	2.25%-3.00%
Inflation rate	2.00%	2.00%
UK		
Discount rate	3.80%	3.75%
Future salary increase	n/a	n/a
Inflation rate	3.25%	3.25%
Expected rate of return on plan assets	3.80%	3.75%

Discount rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discount 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 discount 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 discount 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 UK, Germany, Switzerland and French liabilities for the year ended December 31, 2015 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
Discount rate	(14,021)	15,918
Inflation rate	4,055	(3,863)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2011–2013 for France, (ii) SAPS S1PxA tables with a 1% long-term trend-rate for the UK, (iii) Richttafeln 2005G for Germany and (iv) BGV 2010 GT for Switzerland.

The following table sets forth the expected life of participants by geographical situation:

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

	Year ended December 31, 2014			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	18.7	23.0	18.9	n/a
Women	22.7	25.0	22.9	n/a
Longevity at age 65 for current members aged 45 (years)				
Men	18.7	24.4	21.5	n/a
Women	22.7	26.5	25.5	n/a

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2016 is €13,024. The weighted average duration of the defined benefit obligation is 15.1 years.

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

	Cash outflow		
	2016	2017	2018
Net defined benefit obligation	6,871	6,618	7,050

Note 17. Non-current provisions and other liabilities

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

	Year ended December 31,	
	2015	2014
Non-current provisions	68,211	23,984
Other non-current liabilities[14]	77,124	22,887
Total	**145,335**	**46,871**

[14] The €77,124 carrying value of other non-current liabilities is assessed to be equivalent to their fair value (€22,887 in 2014).

Notes to the consolidated financial statements continued

Note 17. Non-current provisions and other liabilities continued

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

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2014	**6,625**	**–**	**3,000**	**7,724**	**5,631**	**22,980**
Acquisition of subsidiaries	–	1,745	–	–	–	**1,745**
Additional provisions	1,138	–	95	1,193	900	**3,326**
Unused amount reversed	(814)	–	(522)	(53)	(1,719)	**(3,108)**
Used during the period	(39)	–	(256)	(36)	(628)	**(959)**
Reclassifications	(385)	–	–	(127)	(43)	**(555)**
Cumulative translation adjustment	51	–	(2)	338	168	**555**
As of December 31, 2014	**6,576**	**1,745**	**2,315**	**9,039**	**4,309**	**23,984**

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.

Note 18. Trade and other payables

Trade and other payables for the years ended December 31, 2015 and 2014 consist of the following:

	Year ended December 31,	
	2015	2014
Trade payables	225,256	221,771
Employee related payables	171,981	152,831
Accrued expenses	165,748	88,021
Accrued VAT	33,861	16,297
Deferred revenue	119,693	53,471
Other	2,046	7,520
Total trade and other payables	**718,585**	**539,911**

The increase in “Trade and other payables” compared to 2014, mainly arises from the opening balance contributed by the business combinations completed during the year and to currencies translation effects of €138 million and €16 million respectively.

Note 19. Additional information on specific line items of the income statement

The Group reported ‘Restructuring and acquisition-related expenses’ (see note 3.1) for €49,079 as at December 31, 2015 (€29,830 in 2014), which detailed as follows:

	Year ended December 31,	
	2015	2014
Severance and associated costs	8,884	23,029
Transaction costs on acquisition	4,952	3,216
Write-offs and impairments	12,823	1,455
Legal and professional fees	17,894	1,038
Other costs (income), net	4,526	1,092
Total restructuring and acquisition-related expenses	**49,079**	**29,830**

The main portion of the €49 million Restructuring and acquisition-related costs reflects expenses incurred in connection with the integration of the recent M&A activities for €19 million, out of which €14 million for SafeNet. The restructuring and transformation of the Group Mobile Platforms & Services business and data centers also contributed for €21 million.

Amortization and depreciation of intangibles resulting from acquisitions amounted to €60,843 for the year ended December 31, 2015 (€27,267 on December 31, 2014).

Note 20. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31, 2015	2014
Warranty	4,794	1,921
Provisions for loss on contracts	8,449	1,646
Restructuring and reorganization	2,931	6,739
Other	3,192	2,662
Total current provisions and other liabilities	**19,366**	**12,968**

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

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2014	**1,986**	**1,429**	**663**	**6,571**	**10,649**
Acquisition of a subsidiary	–	–	–	73	**73**
Additional provisions	704	1,188	6,468	484	**8,844**
Unused amount reversed	(849)	(86)	(66)	(270)	**(1,271)**
Used during the year	(558)	(909)	(325)	(3,215)	**(5,007)**
Reclassifications	437	–	–	(1,008)	**(571)**
Cumulative translation adjustment	201	24	(1)	27	**251**
As of December 31, 2014	**1,921**	**1,646**	**6,739**	**2,662**	**12,968**

Note 21. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31, 2015	2014
Embedded software & Products, excluding hedge effect	2,239,405	1,934,878
Platforms & Services, excluding hedge effect	916,838	502,210
Others	(34,683)	28,071
Total	**3,121,560**	**2,465,159**

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

Notes to the consolidated financial statements continued

Note 22. Costs of sales and operating expenses by nature

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

	Year ended December 31,	
	2015	2014
Depreciation, amortization, impairment, write-offs and other provisions	142,006	100,662
Amortization and depreciation of intangibles resulting from acquisitions	60,843	27,267
Employee compensation and benefit expense (see note 23)	1,049,399	826,735
Change in inventories (finished goods and work in progress)	56,835	(4,708)
Raw materials used and consumables	1,050,557	854,506
Freight and transportation costs	117,282	67,688
Travel costs	62,821	53,025
Buildings and office leases	114,800	80,366
Royalties, legal and professional fees	193,866	113,330
Subcontracting and temporary workforce	94,572	105,741
Others	(24,768)	(29,612)
Total expenses	**2,918,213**	**2,195,000**

Note 23. Employee compensation and benefit expense

	Year ended December 31,	
	2015	2014
Wages and salaries (including severance costs recorded in restructuring and acquisition-related expenses)	884,908	669,181
Pension – Defined benefit plans	12,430	8,081
Pension – Defined contribution plans	34,616	29,435
Share-based compensation expense	38,638	55,423
Others	78,807	64,615
Employee compensation and benefit expense	**1,049,399**	**826,735**

Note 24. Share-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 14 million ordinary shares of Gemalto N.V.

Gemalto share options

The following table summarizes the outstanding share option plans granted by the Board of Gemalto N.V. since the creation of the Company in 2004.

	Year ended December 31,			
Grant date	**Share options granted**	**Exercise price (Euro)**	**Number of options outstanding as of December 31, 2015**	Number of options outstanding as of December 31, 2014
Sep-05	685,000	–	–	38,000
Jun-06	1,600,000	23.1	22,750	106,730
Sep-07	872,000	20.83	64,760	93,980
Sep-08	1,399,000	26.44	422,746	493,465
Total	**4,556,000**		**510,256**	**732,175**

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 6 December 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.

The following table summarizes the outstanding share option plans:

Grant date (year)	Weighted average exercise price (Euro)	Number of options outstanding as of 2015	Weighted average exercise price (Euro)	Number of options outstanding as of 2014
	Year ended December 31,			
2005	–	–	20.08	54,874
Total	**–**	**–**	**20.08**	**54,874**

Movements in the number of share options outstanding (Gemalto and Gemplus) and their related weighted average exercise price are as follows:

	Weighted average exercise price (Euro)	Number of options outstanding as of 2015	Weighted average exercise price (Euro)	Number of options outstanding as of 2014
	Year ended December 31,			
Beginning of the period	**25.08**	**787,049**	**24.81**	**1,227,890**
Forfeited	24.10	(3,000)	–	–
Exercised	24.15	(273,793)	24.34	(440,841)
End of the period	**25.58**	**510,256**	**25.08**	**787,049**

As of December 31, 2015, the average remaining life of the 510,256 outstanding options is 2.5 years. It was 2.9 years as of December 31, 2014 for the 787,049 options.

Share options outstanding (Gemalto and Gemplus) at the end of the period have the following expiry dates and weighted average exercise prices:

Expiry date	Weighted average exercise price (Euro)	Number of options outstanding as of 2015	Weighted average exercise price (Euro)	Number of options outstanding as of 2014
	Year ended December 31,			
2015	–	–	23.90	151,424
2016	23.10	22,750	23.10	48,180
2017	20.83	64,760	20.83	93,980
2018	26.44	422,746	26.44	493,465
Total	**25.58**	**510,256**	**25.08**	**787,049**

The above outstanding options are all vested as of December 31, 2015.

Gemalto Restricted Share Units (RSUs)

In 2015, the Board of Gemalto N.V. granted performance and service-based RSUs to eligible employees worldwide. The following are the characteristics of the plans:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
Jan-15	80,000	Dec-17	Vesting conditions are both performance and service based. RSU will vest if the business unit IDSS results for the period 2014-2017 will reach certain cumulative targets in line with the objectives of the new multi-year development plan and the employee is employed by the Company as at December 31, 2017. Depending on performance, the maximum number of RSUs to be delivered may be 80,000.	Share price of €66 in January. Risk-free rate from Year 1 to Year 5 being -0.06% to 0.17%. Share price discount for no dividend eligibility of €1.39 per share.	none
Aug-15	789,950	Aug-18	Vesting conditions are both performance and service based. RSU will vest if the Group results for the period 2014-2017 will reach certain cumulative targets in line with the objectives of the new multi-year development plan and the employee is employed by the Company as at December 31, 2017. Depending on performance, the maximum number of RSUs to be delivered may be 789,950.	Share price of €59.76 in August. Risk free rate from Year 1 to Year 5 being -0.13% to 0.26%. Share price discount for no dividend eligibility of €1.53 per share.	none

Under the GEIP, some Gemalto employees in China were granted RSUs in 2015.

Notes to the consolidated financial statements continued

Note 24. Share-based compensation plans continued

Year ended December 31, 2015, the following RSUs granted by the Company were outstanding:

Grant date	Maximum amount granted based on performance variability	Amount vested	Amount forfeited	Outstanding	Remaining vesting conditions	End of vesting period
May-13	954,500	(767,027)	(187,473)	–	–	n/a
Mar/Apr 2014	949,500	–	(200,300)	749,200	performance and service	Dec-17
Jan-15	80,000	–	(25,000)	55,000	performance and service	Dec-17
Aug-15	789,950	–	(55,505)	734,445	performance and service	Aug-18
Total	**2,773,950**	**(767,027)**	**(468,278)**	**1,538,645**		

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 26, 2015 or November 6, 2015. 70,033 Treasury shares were subscribed by the employees at a price, net of discount, of €51.45 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.

Share-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,	
	2015	2014
Cost of sales	4,336	9,082
Research and engineering	3,570	5,938
Sales and marketing	14,705	19,760
General and administrative	16,027	20,643
Total	**38,638**	**55,423**

The associated costs amounted to €2,548 (€4,957 in 2014) and mainly include the accrual of French Social levies associated with the RSU granted in 2015 and 2014.

Share-based compensation cash inflow in the consolidated cash flow statement

Cash proceeds received from employees having exercised share options in 2015 was €9,922 (€14,177 in 2014).

Note 25. Other income (expense), net

	Year ended December 31,	
	2015	2014
Fixed assets write-offs and net gains/losses on sales	(119)	386
Compensation from customers and suppliers, net	(433)	8,298
Other	(2,944)	3,920
Total	**(3,496)**	**12,604**

Note 26. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2015	2014
Interest expense	(5,481)	(5,750)
Interest expense and amortized costs on public bond, private placements, credit line facilities and commercial paper	(12,516)	(2,492)
Interest income	3,654	4,314
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(2,439)	(2,179)
Swap points of derivative instruments	(20,013)	(4,987)
Other financial income (expense), net	(1,168)	(1,327)
Financial income (expense), net	**(37,963)**	**(12,421)**

Other financial income (expense) are 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 2015; and

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

Note 27. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2015	2014
Net sales	(59,313)	10,848
Cost of sales	5,109	(1,461)
Financial income (expense), net	(22,452)	(7,166)
Net foreign exchange gains (losses)	**(76,656)**	**2,221**

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 (see note 4) are recorded in sales if the underlying net exposure is a revenue (net selling position) and in cost of sales if the underlying net exposure is a cost (net buying position).

Note 28. Taxes

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

	Year ended December 31,	
	2015	2014
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	112,282	109,121
Deferred tax asset to be recovered within 12 months	84,930	35,589
Total	**197,212**	**144,710**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(122,062)	(45,336)
Deferred tax liabilities due within 12 months	(755)	(829)
Total	**(122,817)**	**(46,165)**
Deferred tax assets (liabilities), net	**74,395**	**98,545**

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

	Year ended December 31,	
	2015	2014
Beginning of the period	**98,545**	**75,815**
Acquisition of subsidiary and business	(93,636)	(12,290)
Credited to income statement	40,044	22,183
Tax credit (debit) recognized in other comprehensive income	40,959	12,813
Cumulative translation adjustment	(11,517)	24
End of the period	**74,395**	**98,545**

Deferred tax assets and liabilities for the years ended December 31, 2015 and 2014 detail as follows:

	Year ended December 31,	
	2015	2014
Assets		
Loss carry-forwards	89,318	66,795
Excess book over tax depreciation and amortization	33,533	33,727
Employee and retirement benefits	23,009	25,853
Warranty reserves and accruals	3,263	2,972
Other temporary differences	112,695	48,527
Total assets	**261,818**	**177,874**
Liabilities		
Excess tax over book depreciation and amortization	(174,020)	(56,338)
Other temporary differences	(13,403)	(22,991)
Total liabilities	**(187,423)**	**(79,329)**
Deferred tax assets (liabilities), net	**74,395**	**98,545**

Notes to the consolidated financial statements continued

Note 28. Taxes continued

The income tax credit (expense) is as follows:

	Year ended December 31, 2015	2014
Current tax	(70,615)	(58,045)
Deferred tax	40,044	22,183
	(30,571)	**(35,862)**

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, 2015		2014	
	€	%	€	%
Profit (loss) before income tax	167,442		257,110	
Tax calculated at the rate of the Holding Company	(41,861)	(25)	(64,278)	(25)
Effect of difference in nominal tax rate between the holding and the consolidated entities	27,652		19,031	
Effect of the reassessment of the recognition of deferred tax assets	2,602		14,365	
Effect of utilization of tax assets not recognized in prior years	(93)		6,048	
Effect of unrecognized deferred tax assets arising in the year	(8,355)		(2,157)	
Other permanent differences	(10,516)		(8,871)	
Income tax credit (expense)	**(30,571)**	**(18)**	**(35,862)**	**(14)**

In 2015, the Company recorded an income tax charge of €31 million on a pretax profit of €167.4 million. Deferred income tax assets are recognized for tax loss carry-forwards and other future deductions to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of December 31, 2015, Gemalto did not recognize tax assets amounting to €378.4 million (€315.9 million as of December 31, 2014) relating to tax losses and other future tax deductions. Of this amount, €292.7 million[15] related to tax loss carry-forwards amounting to €1,036.1 million[16] of which €950.2 million can be used indefinitely. In 2014 those amounts were €290.1 million, €997.9 million and €889.8 million respectively. Deferred income tax liabilities have been recognized for withholding taxes and other tax payables according to applicable laws on the unremitted earnings of subsidiaries when Gemalto does not intend to reinvest its earnings and when such taxes cannot be recovered. Deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

[15] Including €225.3 million (€224.6 million in 2014) related to Gemplus International S.A. (Luxembourg) tax loss carry-forwards.

[16] Including €771.1 million (€768.8 million in 2014) for Gemplus International S.A. (Luxembourg).

Note 29. Earnings per share

	Year ended December 31, 2015	2014
Profit attributable to Owners of the Company	**134,107**	**220,651**
Weighted average number of ordinary shares – basic	87,812	86,490
Effect of dilution from share options	1,265	2,226
Weighted average number of ordinary shares – diluted	89,077	88,716
Basic earnings per share	**1.53**	**2.55**
Diluted earnings per share	**1.51**	**2.49**
Basic earnings per share for continuing operations	**1.56**	**2.55**
Diluted earnings per share for continuing operations	**1.54**	**2.49**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period.

Note 30. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2015 and 2014 is summarized as follows:

	Year ended December 31, 2015	2014
Salaries and other short-term employee benefits	6,177	6,197
Share-based compensation charge	8,335	9,405
Total expenses	**14,512**	**15,602**

b) Purchases of goods and services

In 2015, the Company purchased €21,367 worth of equipment and services (€9,795 in 2014) under existing agreements from DataCard Corporation. Mr. Johannes Fritz heads the Quandt / Klatten Family office, and certain members of the Quandt / Klatten Family own the majority of DataCard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2015, total purchases from associated companies was €3,933 (€4,320 in 2014).

c) Sales of goods and services

In 2015, total sales to related parties amounted to €3,116 (€384 in 2014). In 2015, total sales to associated companies amounted to €82,073 (€71,766 in 2014).

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

	Year ended December 31,	
	2015	2014
Receivables from:		
Associates	26,560	43,823
Related parties	47	137
Total receivables	**26,607**	**43,960**
Payables to:		
Associates	401	377
Related parties	1,009	1,770
Total payables	**1,410**	**2,147**

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

e) Loan to related parties

As of December 31, 2015, the Company has granted an advance of €2.6 million to an associate.

Note 31. Commitments and contingencies

Legal proceedings

The Company is subject to legal and tax proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2015, are as follows:

	Year ended December 31,	
	2015	2014
Not later than 1 year	30,632	23,488
Later than 1 year and not later than 5 years	77,824	66,215
Later than 5 years	35,964	46,763
Total	**144,420**	**136,466**

Bank guarantees

As at December 31, 2015, bank guarantees, mainly performance and bid bonds, amounted to €161 million. 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, 2015, the commitments to purchase these safety stocks valued at the average purchase price amounted to €47 million (€58 million in 2014).

Gemalto N.V. guarantees

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

Note 32. Dividends

The AGM of May 21, 2015 has approved the distribution of a €36,955 dividend in respect of the financial year 2014.

This represents a dividend of €0.42 per share.

Note 33. Post-closing events

Since the beginning of 2016, the stock price of Goldpac Group Limited, has decreased significantly. As at March 3, 2016, the market value of our shareholding in Goldpac Group Limited was €44 million. The potential impairment of €13 million being the difference between the fair value and the carrying value, has not been accounted for in 2015.

Notes to the consolidated financial statements continued

Note 34. Consolidated entities

The companies over which Gemalto N.V. has directly or indirectly control are fully consolidated in the consolidated financial statements and are listed in the following table:

Country of incorporation	Company name	Gemalto's interest
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
	Multos International Pty Ltd	100%
	SafeNet Australia Pty Ltd	100%
	Netsize Pty Ltd	100%
Belgium	Gemventures 1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
	SafeNet Tecnologia em Informatica, Ltda	100%
	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	100%
	SafeNet (BVI) Co. Ltd	100%
Canada	Gemalto Canada Inc.	100%
	SafeNet Canada, Inc	100%
Chile	Gemalto Chile Limitada	100%
China	Gemalto Smart Cards Technology Co. Ltd	100%
	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Gemplus International Trade (Shanghai) Co. Ltd	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	83%
	Information Security Co Ltd Shenzen Nan	100%
	SafeNet China Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Estonia	Trüb Baltic AS	100%
Finland	Gemalto Oy	100%
	Valimo Wireless Oy	100%
France	Gemalto International S.A.S.	100%
	Gemalto S.A.	100%
	BuzzinBees S.A.S	100%
	Gemalto Treasury Services S.A.	100%
	SafeNet France S.A.R.L.	100%
	ISSM S.A.S.	100%
	Netsize S.A.	100%
	Netsize Payment S.A.S.	100%
	Newcard S.A.S.	100%
	Trusted Labs S.A.S.	100%
	TV-Card S.A.S.	100%
Gabon	Gemalto Gabon S.A.S.	100%

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Cardag Deutschland GmbH	60%
	SFNT Germany GmbH	100%
	Trüb Technology GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Asia Holding Limited	100%
	SafeNet Asia Ltd	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
	Netsize KFT	100%
India	Cinterion Wireless Modules India Private Limited	100%
	Gemalto Digital Security Private Ltd	100%
	SafeNet India Private Ltd	100%
	SafeNet Infotech Private Ltd	100%
	Gemalto Smart Cards Private Limited	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Indonesia	100%
	PT Gemalto Smart Cards	100%
	Gemalto Israel Ltd	100%
Israel	SafeNet Data Security (Israel) Ltd.	100%
Italy	Gemalto Cards Srl	100%
	Gemalto SPA	100%
	Eutronsec Srl	100%
	SafeNet Italy Srl	100%
	Netsize Srl	100%
Ivory Coast	Gemalto Côte d'Ivoire Sarl	100%
Japan	Gemalto KK	100%
	Nihon SafeNet KK	100%
Luxembourg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	Gemalto Mexico S.A. de CV	100%
	SafeNet Mexico S de RL de CV	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc sarl	100%
New Zealand	Gemalto (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Pakistan	Gemalto Pakistan (Private) Ltd	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Portugal	Ezybill – Comunicaçoes Eletronicas LDA	100%
Russia	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Singapore	SafeNet Pte. Ltd	100%
	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%

Country of incorporation	Company name	Gemalto's interest
South Africa	Gemalto Pty Ltd	100%
	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
Spain	Gemalto SP S.A.	100%
	SafeNet Spain SL	100%
	Swiss mobility Solutions SLU	100%
	Netsize Espana SL	100%
Sweden	AB Svenska Pass	100%
	Netsize Internet Payment Exchange AB	100%
	SafeNet Sweden AB	100%
	Gemalto AB	100%
	Netsize Sverige 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%
	SFNT CV – One CV	100%
	SFNT CV – Two CV	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 Terminals Ltd	100%
	Gemalto UK Ltd	100%
	Gemplus Ltd	100%
	Maosco Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	SafeNet Cryptocard Europe Ltd	100%
	SafeNet Cryptocard Holdings Ltd	100%
	SafeNet UK Ltd	100%
	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
	Magic Lamp (US) LLC	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Source One Direct Inc	100%
	Gemalto Inc.	100%
	Netsize Inc.	100%
	RNBO DE, Inc.	100%
	SafeNet Assured Technologies, LLC	100%
	SafeNet Holding Corporation	100%
	SafeNet, Inc.	100%
	Trivnet 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%
Hong Kong	Goldpac Group Ltd	18%
Japan	Toppan Gemalto Services Co. Ltd	50%
Jordan	Joint –Venture of Gemalto and Offtec Office and Banking Systems	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletec Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%
Taiwan	SmartDisplayer Technology Co.,Ltd	15%
United Kingdom	Trustonic Ltd	50%

Statutory financial statements and notes of the Holding Company

STATUTORY FINANCIAL STATEMENTS OF THE HOLDING COMPANY

NOTES TO THE STATUTORY FINANCIAL STATEMENTS OF THE HOLDING COMPANY

OTHER INFORMATION

Statement of financial position of the Holding Company

In thousands of Euro and before appropriation of result	Notes	Year ended December 31, 2015	2014
Assets			
Non-current assets			
Goodwill	2	741,734	671,534
Property, plant and equipment, net	3	46	46
Investments in subsidiaries and associates	4	2,237,256	1,611,008
Long-term loans to subsidiaries	4, 7	475,801	863
Total non-current assets		**3,454,837**	**2,283,451**
Current assets			
Short-term loans to subsidiaries	7	18,126	537,959
Receivables due from subsidiaries and associates		2,186	297,743
Other receivables		719	791
Cash and cash equivalents	5	10,891	15,810
Total current assets		**31,922**	**852,303**
Total assets		**3,486,759**	**3,135,754**
Equity			
Issued and paid in share capital	6	89,008	88,016
Share premium	6	1,240,241	1,206,877
Legal reserves	6	(61,596)	1,095
Other reserves	6	56,637	24,069
Retained earnings	6	1,024,418	850,002
Net income for the period	6	134,107	220,651
Capital and reserves attributable to the owners of the Holding Company		**2,482,815**	**2,390,710**
Liabilities			
Non-current liabilities			
Borrowings	7	545,198	395,378
Borrowings from subsidiaries	7	2,030	–
Other long-term liabilities	8	3,224	788
Deferred tax liabilities	8	–	579
Total non-current liabilities		**550,452**	**396,745**
Current liabilities			
Short-term borrowing from subsidiaries	7	–	1,250
Payables to subsidiaries		261,315	180,027
Short-term debt	7	186,500	160,000
Other payables		5,677	7,022
Total current liabilities		**453,492**	**348,299**
Total liabilities		**1,003,944**	**745,044**
Total equity and liabilities		**3,486,759**	**3,135,754**

Income statement of the Holding Company

In thousands of Euro	Year ended December 31, 2015	2014
Other income and expenses after tax	(45,078)	(61,166)
Share of profit of subsidiaries, net of tax	179,185	281,817
Net profit for the period	**134,107**	**220,651**

Statements of changes in shareholders' equity of the Holding Company

	Number of shares		Attributable to equity holders of the Holding Company					
In thousands of Euro	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
Shareholders' equity as of January 1, 2015	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**1,095**	**24,069**	**1,070,653**	**2,390,710**
Movements in fair value and other reserves:								
Currency translation adjustments						43,462		43,462
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						6,124		6,124
– Cash flow hedges, net of deferred tax					(97,212)			(97,212)
– Currency translation adjustments on fair value gains/(losses)						(2,132)		(2,132)
Transfer from Other reserves to Legal reserves					34,521	(34,521)		–
Net income recognized directly in equity					**(62,691)**	**12,933**	**–**	**(49,758)**
Net profit for the period							134,107	134,107
Total recognized income for 2015					**(62,691)**	**12,933**	**134,107**	**84,349**
Issuance of new shares	991,865	991,865	992	33,358		(34,350)		-
Equity-based compensation charge, equity-settled						36,090		36,090
Employee share option plans		344,588				9,922		9,922
Purchase of Treasury shares, net		(45,378)				(3,100)		(3,100)
Other net asset changes from associates							653	653
Excess of purchase price on subsequent acquisition of non-controlling interests				6				6
First adoption of IFRIC 21							1,140	1,140
Reclass of the actuarial gains/losses						11,073	(11,073)	
Dividends paid/payable to shareholders							(36,955)	(36,955)
Balance as of December 31, 2015	**89,007,709**	**88,103,992**	**89,008**	**1,240,241**	**(61,596)**	**56,637**	**1,158,525**	**2,482,815**
Shareholders' equity as of January 1, 2014	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**17,369**	**(47,424)**	**883,525**	**2,148,400**
Movements in fair value and other reserves:								
Currency translation adjustments						37,532		37,532
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						(12,379)		(12,379)
– Cash flow hedges, net of deferred tax					(15,666)			(15,666)
– Currency translation adjustments on fair value gains/(losses)						(1,485)		(1,485)
Transfer from Other reserves to Legal reserves					(608)	608		–
Net income recognized directly in equity					**(16,274)**	**24,276**		**8,002**
Net profit for the period							220,651	220,651
Total recognized income for 2014					**(16,274)**	**24,276**	**220,651**	**228,653**
Equity-based compensation charge, equity-settled						50,466		50,466
Employee share option plans		762,571				14,177		14,177
Purchase of Treasury shares, net		(222,286)				(17,426)		(17,426)
Other net asset changes from associates							(658)	(658)
Excess of purchase price on subsequent acquisition of non-controlling interests				(37)				(37)
Dividends paid/payable to shareholders							(32,865)	(32,865)
Balance as of December 31, 2014	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**1,095**	**24,069**	**1,070,653**	**2,390,710**

Notes to the statutory financial statements of the Holding Company

The notes below are an integral part of the statutory financial statements of the Holding Company, i.e. 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).

The Holding Company's financial data is included in the consolidated financial statements. As allowed by section 402, Book 2 of the Netherlands Civil Code, the income statement is presented in a condensed form.

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. 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 2.2 to 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 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 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 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, 2015	**671,534**
Acquisitions	55,844
Change in the identifiable assets of 2014 acquisitions	(644)
Currency translation adjustment	6,463
Transfer of goodwill related to transfers of subsidiaries	8,537
December 31, 2015	**741,734**

Notes to the statutory financial statements of the Holding Company continued

Note 3. Property, plant and equipment

January 1, 2015	Leasehold improvements and office furniture and equipment
Gross book value	563
Accumulated depreciation	(517)
Net book value	**46**
2015 movements	
Additions	12
Depreciation	(12)
Accumulated cost of disposals	(494)
Depreciation of disposals	494
December 31, 2015	
Gross book value	**81**
Accumulated depreciation	**(35)**
Net book value	**46**

Note 4. Investments and loans

	Year ended December 31, 2015	2014
Investments in subsidiaries and associates	2,237,256	1,611,008
Net investments in subsidiaries and associates	**2,237,256**	**1,611,008**

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, 2015	**1,607,894**	**3,114**	**863**	**1,611,871**
2015 movements				
Acquisitions	92,804			92,804
Contributions to subsidiaries and associates	310,118	4,930		315,048
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	207,578			207,578
Changes between direct and indirect goodwill of subsidiaries related to internal transfers	(8,537)			(8,537)
Excess of purchase price on subsequent acquisitions	12			12
Fair value gains and losses	(93,220)			(93,220)
Other changes in net assets of indirect associates	653			653
Change in accounting policies	1,140			1,140
Dividends	(105,381)			(105,381)
Other	(33)			(33)
Net result from subsidiaries	182,912			182,912
Net result from associates		(3,727)		(3,727)
Transfer from short-term loans and deposits			474,840	474,840
Revaluation through Profit and Loss			98	98
Currency translation adjustment	36,999			36,999
December 31, 2015	**2,232,939**	**4,317**	**475,801**	**2,713,057**

The terms of the long-term loans to subsidiaries are disclosed in note 7.

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2015	2014
Cash at bank and in hand	**10,891**	15,810
Total	**10,891**	**15,810**

Note 6. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2015 and consisted of 150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €89,008 as at December 31, 2015 and to €88,016 as at December 31, 2014.

The share capital consisted of 89,007,709 ordinary shares as at December 31, 2015 and of 88,015,844 ordinary shares as at December 31, 2014 with a nominal value of €1.

The Holding Company issued 991,865 new shares during 2015 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, 2015, the share premium amounted to €1,240,241 (€1,206,877 as at December 31, 2014).

Legal reserves

Pursuant to section 373, Book 2 of the Netherlands Civil Code, the part of retained earnings in relation to non-distributable results of Group companies and associates, pension reserves and cash flow hedges (if their balances are positive) are legal reserves.

Movements in legal reserves, which cannot be distributed freely, are presented below:

	Income recognized directly in equity
January 1, 2015	**1,095**
2015 movements	(97,212)
Additions/Transfers, net	34,521
December 31, 2015	**(61,596)**

As at December 31, 2015, "Income recognized directly in equity" consisted of:

	2015
Reserve for cash flow hedge	(96,118)
Cumulative translation adjustment	34,522
Total	**(61,596)**

Other reserves

As at December 31, 2015, "Other reserves" consisted of:

	2015
Treasury shares	(36,329)
Share option reserve	109,053
Net gains on Treasury shares in connection with the liquidity program	10,242
Reserve for actuarial gains and losses on benefit obligations	(8,065)
Treasury shares canceled	(18,923)
Other	659
Total	**56,637**

For reference to other movement in equity, refer to the consolidated statement of comprehensive income and consolidated statement of change in equity.

Notes to the statutory financial statements of the Holding Company continued

Note 7. Loans and borrowings

Loans to subsidiaries and associates

Loans with subsidiaries and associates consist of the following:

	Year ended December 31, 2015	
Subsidiaries	Long-term loans	Short-term loans
Gemalto Inc.	457,457	–
Source One Direct Inc.	17,383	–
PT Gemalto Smart Cards Indonesia	961	–
Gemalto Arabia Ltd	–	5,994
IPX Services SDN. BHD	–	63
Gemalto AG	–	9,429
Trustonic Ltd.	–	2,640
Total	**475,801**	**18,126**

The Holding Company financed its subsidiaries with the following terms:

	Gemalto Inc.	Source One Direct Inc.	PT Gemalto Smart Cards Indonesia	Gemalto Arabia Ltd	IPX Services Sdn Bhd	Gemalto AG	Trustonic Ltd
Effective date	December 29, 2015	December 21, 2015	July 28, 2009	December 15, 2012	January 16, 2014	June 25, 2015	March 2, 2015
Interest	4.5%	4.5%	3M US LIBOR +0.75%	3M SAR LIBOR + 0.75%	3M KLIBOR + 0.75%	1%	6M EURIBOR + 3%
Maximum facility	USD 500 million	USD 30 million	USD 1.05 million	SAR 40 million	MYR 0.3 million	CHF 18 million	EUR 2.64 million
Maturity	December 28, 2025	December 20, 2025	July 31, 2017	December 31, 2016	January 15, 2016	April 22, 2016	January 31, 2016

Borrowings from subsidiaries

	Year ended December 31, 2015
	Long-term Borrowings
Gemalto (Thailand) Ltd	2,030
Total	**2,030**

The Holding Company borrowed from its subsidiary with the following terms:

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010 and July 16, 2015
Interest	12M BIBOR +0.4%
Maximum facility	THB 80 million
Maturity	August 3, 2017

Borrowings

The non-current borrowings include an amount of €396,065 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, 2015 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 and the carrying value as of 31 December 2015 amounts to €149,133. The interest rates are 1.94% and 2.05% respectively for the two private placements.

The short-term borrowings consist of the implemented French commercial paper program for a total capacity of €300 million with the aim of both diversifying and optimizing the Company's sources of financing. As at December 31, 2015, the outstanding amount reaches €186.5 million. The average interest percentage is 0.14%.

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

Note 8. Non-current liabilities

The other long-term liabilities have an expected remaining lifetime of three years.

Note 9. Employees

The average number of staff employed by the Holding Company during 2015 was 15 (15 in 2014). None of these employees was employed abroad (none in 2014).

Note 10. Information relating to the Board

Amounts in this note are stated in Euro.

The total cost incurred for the remuneration of the Board amounts to:

Remuneration of the Board

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

Gemalto Board		Board membership remuneration	Salary and Social Security	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2014							
Alex Mandl	Non-executive Chairman	265,000	–	–	–	–	**265,000**
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	815,000	73,552	714,687	2,671,737	**4,309,976**
Arthur van der Poel	Non-executive Board member	93,000	–	–	–	–	**93,000**
Buford Alexander	Non-executive Board member	86,000	–	–	–	–	**86,000**
Drina Yue	Non-executive Board member	94,000	–	–	–	–	**94,000**
Homaira Akbari	Non-executive Board member	94,000	–	–	–	–	**94,000**
Johannes Fritz	Non-executive Board member	101,000	–	–	–	–	**101,000**
John Ormerod	Non-executive Board member	108,000	–	–	–	–	**108,000**
Michel Soublin	Non-executive Board member	86,000	–	–	–	–	**86,000**
Philippe Alfroid	Non-executive Board member	94,000	–	–	–	–	**94,000**
Yen Yen Tan	Non-executive Board member	86,000	–	–	–	–	**86,000**
Total		**1,142,000**	**815,000**	**73,552**	**714,687**	**2,671,737**	**5,416,976**

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. His employment contract (originally dated 1981), is with Gemalto International S.A.S., a Gemalto subsidiary: it is not time-limited, is governed by French law and carries a six-month notice period. He enjoys any and all benefits that may be applicable to French employees of the Company.

Pension costs refer to the legally mandatory pension plan in France. The Company does not provide any supplemental pension plan to the CEO nor to the Board Members.

The bonus and profit sharing is related to the performance in the year reported which is paid out in the subsequent year. Financial targets are accounting for two-thirds of the variable incentive and personal targets are accounting for one-third of the variable incentive. The performance of the CEO and of the Company in 2015 led to a result of 68% for the CEO variable incentive. The variable incentive in 2015 for the CEO is 82% of his base salary. For more details on the bonus and profit sharing, see the remuneration report included in this annual report.

Notes to the statutory financial statements of the Holding Company continued

Note 10. Information relating to the Board continued

The cost of restricted share units recorded by the Company is based on accounting standards and do 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 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 2015 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
- 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 €4,400 in 2015.

Share options and RSU's granted to Board members

Share options have been attributed under the Global Equity Incentive Plan as described in note 24 to the consolidated financial statements:

	Grant Date	Share options granted	Exercise price (Euro)	**Number of options outstanding as of December 31, 2015**	Number of options outstanding as of December 31, 2014
Olivier Piou	Sep 2008	150,000	26.44	111,500	129,000

During the year ended December 31, 2015, the Board of Gemalto N.V. granted performance and service conditioned restricted share units (RSUs) to the CEO, Olivier Piou.

The following are the characteristics of the plan:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
Aug 2015	60,000	Aug 2018	Vesting conditions are both performance and service based. RSU will vest if Group results will reach certain cumulative targets in line with the objectives of the new multi-year development plan and the service vesting condition is being an employee of Gemalto on December 31, 2017. Depending on performance, the maximum number of RSUs to be delivered may be 60,000.	Share price of €59.76. Risk-free rate from Year 1 to Year 5 being -0.13% to 0.26%. Share price discount for no dividend eligibility of €1.53 per share.	none

The fair value of the grant expensed over the vesting period in the income statement has been calculated using the stochastic option-pricing model. Vesting conditions are both performance and service based.

Year ended December 31, 2015, the following RSUs granted to Olivier Piou are outstanding:

Grant date	Number granted	Number vested[2]	Number forfeited	RSUs outstanding as at December 31,2015	Outstanding vesting conditions	End of vesting period
May 2013	50,000	(42,950)	(7,050)	–	n/a	Dec 2015
Mar 2014	75,000	–	–	75,000	performance and service	Dec 2017
Aug 2015	60,000	–	–	60,000	performance and service	Aug 2018

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

	Gemalto shares	**American Depository Receipts**	**FCPE units[1]**	**RSUs[2]**	**Gemalto share options**
As at December 31, 2015	**Number of shares held**	**Number of ADRs held**	**Number of units purchased**	**Maximum number of RSUs held**	**Number of shares options held**
Olivier Piou	326,000		39,448	185,000	111,500
Alex Mandl	10,000				
Homaira Akbari		4,500			
Total	**336,000**	**4,500**	**39,448**	**185,000**	**111,500**

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

[2] Subject to performance conditions confirmed upon the 2016 AGM (2013 grant will be delivered in June 2016).

Note 11. Auditor's fees

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2015 and 2014 were as follows:

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

2014	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	120	2,433	**2,553**
Other audit procedures	21	566	**587**
Fees relating to tax advice	–	51	**51**
All other fees	–	80	**80**
Total	**141**	**3,130**	**3,271**

Note 12. Guarantees, tax and lease commitments of the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £17.7 million (equivalent to €24.0 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Taxation

The Holding Company is head of a Dutch fiscal income tax unity. The other company included in the fiscal unity is Gemalto 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 €85.9 million for the years starting from year 2007; (2014: €98.8 million for the years starting 2006) 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.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2015, are as follows:

	2015
Not later than 1 year	239
Later than 1 year and not later than 5 years	368
Later than 5 years	–
Total	**607**

The Board

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
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

Yen Yen Tan
Non-executive Board member

Drina Yue
Non-executive Board member

Amsterdam, March 3, 2016
(A signed copy of the Annual Report is available at the Holding Company's office).

Independent auditor's report

To: the general meeting of Gemalto N.V.

Report on the financial statements 2015

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 2015 and of its result and cash flows for the year 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; and
- the accompanying Company financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2015 of Gemalto N.V., Amsterdam (the Company). The financial statements include the consolidated financial statements of Gemalto N.V. and its subsidiaries (together: 'the Group') and the Company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2015;
- the following statements for 2015: the consolidated income statement, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The statutory financial statements comprise:

- the statement of financial position as at 31 December 2015;
- the income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the statutory financial statements.

The basis for our opinion

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

We are independent of Gemalto N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

Our audit approach

Overview and context

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Board of Directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Directors that may represent a risk of material misstatement due to fraud. We also paid particular attention to accounting of business combinations, the recognition and subsequent valuation of goodwill, valuation of deferred tax assets, pension accounting, compensation expenses, revenue recognition and treasury accounting.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a digital security company. We included specialists or experts in the areas such as actuarial work, IT, valuation, financial instruments and tax in our team. Because business operations and financial processes of the group are highly automated, the IT General Controls ('ITGC') were particularly important in our audit. Therefore we addressed in our audit the continued proper operation of policies and procedures that are used to manage the IT activities.

Materiality

- Overall materiality: €12 million which is calculated as 5% of normalized profit before tax. Normalized profit before tax is calculated as profit before tax excluding impact of one off fair value adjustments related to the SafeNet acquisition.

Audit scope

- We conducted audit work in 23 subsidiaries.
- Site visits were conducted to Germany, Switzerland, France, China and US.
- Audit coverage: 76% of consolidated revenue and 80% of consolidated total assets.

Key audit matters

- Business combination related to the SafeNet Group and recognition and subsequent valuation of goodwill.
- Capitalisation of development costs as intangible assets and subsequent valuation.
- The valuation of the amounts recorded for uncertain tax positions.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibility for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	€12 million (2014: €13 million).
How we determined it	5% of normalized profit before tax. Normalized profit before tax is calculated as profit before tax excluding impact of one off fair value adjustments related to the SafeNet acquisition.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company. Furthermore, we excluded the impact of fair value adjustments (inventory step-up and deferred revenue) amounting to €70.7 million related to the SafeNet acquisition as these are significant one off items.
Component materiality	To each component in our audit scope, we, based on our judgement, have allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between €1.5 million and €7 million.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €1 million (2014: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our Group audit

Gemalto N.V. is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of Gemalto N.V. Given this structure we made use of component auditors. Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for Group entities to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole.

Factors to determine the type of work to perform and where to make use of component auditors were the geographic structure of the Group, the financial significance to the Group and/or risk profile of Group entities or activities based on the outcome of our Group risk assessment, review of the accounting processes and controls, and the industry in which the Group operates including specific local laws and regulations. On this basis, we selected Group entities for which we or the component auditor had to perform an audit or review of financial information, an audit of significant risks or an audit or review of specific balances.

The group audit scope was determined selecting subsidiaries based on significance and risk assessment and considering the audit procedures which can be performed at the head office level by the corporate team. We have selected 23 group entities where we performed procedures (full scope procedures for 12 group entities, review procedures for 4 group entities, specific procedures on significant balances for 7 group entities). These subsidiaries are located in the Netherlands, France, Switzerland, Brazil, the United Kingdom, Singapore, Germany, the United States of America, Mexico, China, Turkey, Colombia, Japan, Russia and the United Arab Emirates.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	76%
Total assets	80%
Operating profit	72%

None of the remaining components represented more than 4% of total Group revenue or total Group assets. For those remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For work which was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements. We issued instructions to component teams which include predefined reporting requirements and outcome of our risk assessment procedures. The group engagement team reviewed the component auditor's reports and discussed these with them in conference calls. Component auditors were visited based on the outcome of the aforementioned review and discussions and on a rotational basis. Current year site visits included France and Germany given the significance of these operations for the group and the United States and Switzerland due to the SafeNet and Trüb business combinations and China as part of rotation visits.

The Group consolidation, financial statement disclosures and a number of items are audited by the Group engagement team at the head office. These include goodwill recognition and its subsequent valuation, business combinations, derivative financial instruments, hedge accounting and share-based payments.

By performing the procedures above at components, combined with additional procedures at Group level such as summarized above, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Board of Directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Independent auditor's report continued

Key audit matter	How our audit addressed the matter
Business combination related to the Safenet Group and the recognition and subsequent measurement of goodwill	
Refer to notes 2.7, 3.3, 3.5 ,5 and 9 of the accompanying financial statements	
The company gained control over the SafeNet Group through the acquisition of 100% of the shares of the Group as of January 7, 2015, for a purchase consideration of €787 million. Following the purchase price allocation (in which identifiable assets and (contingent) liabilities assumed were recognised at fair value), €511 million resulted as goodwill recognised. The fair value 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 which gave rise to fair value adjustments as part of the purchase price allocation of this business combination. Accordingly, the acquisition is material and significant judgement is required in relation to the purchase price allocation including the resulting goodwill. Management, assisted by its external valuation specialists, determined the fair value of the SafeNet's identifiable assets and liabilities and contingent liabilities notably: technologies, brand names, customer relationships, deferred revenues and inventories. The valuation of these assets were based amongst others on future cash flow estimates, revenue derived from the future sale of the goods in inventory, cost of disposal, reasonable profit allowance for the selling effort and outstanding performance obligation assumed by the acquiree. Under EU-IFRS management is required to test the goodwill for impairment as part of the non-current assets of (groups of) Cash Generating Unit (CGUs) to which it is allocated, both annually and if there is a trigger for testing. The impairment tests were a key audit matter due to the significant judgements and assumptions made by management which are affected by uncertainties around future market or economic conditions.	We audited the accounting for the acquisition of the SafeNet Group. This included an analysis of the fair value of most of the identifiable assets acquired and liabilities assumed supporting the purchase price allocation and the resulting goodwill. We involved our internal valuation specialists to evaluate the valuation methodologies identifying fair value used by management (mainly excess earnings method and relief from royalty method) and tested the main assumptions (including expected future cash flows, royalty rates and useful lives, where relevant) against historical trends and external data. A significant amount of the purchase consideration of the SafeNet Group resulted in the recognition of goodwill, which management allocated to the Identity and Access Security (IDSS) CGU. Given the significance of the amount of goodwill, we particularly considered the appropriateness of the amount recognised as goodwill through the audit of the impairment test. We involved our internal valuation specialists to evaluate the methods (recoverable amount determined based on value in use calculations) and assumptions used by management and their advisors. We challenged and examined the business plans approved and assumptions used by management, including forecasted revenue base, profit from operations margin, working capital for terminal value calculations and cash flows necessary for the continuing use of the CGU's assets and allocated goodwill. We tested the reasonableness of the discount rates used. We validated the main assumptions against external data such as risk free rates and beta. Furthermore, we tested the reasonableness of the outcome of the impairment analysis with the peer group trading multiples as well as historic trend analyses. We have tested the mathematical accuracy of the models used by management. We also examined the related disclosures in the financial statements. We concur with management's judgements and outcome of their procedures.
Capitalization of development costs as intangible assets and subsequent valuation	
Refer to notes 2.7, 3.9 and 9 of the accompanying financial statements	
Capitalized development costs amount to a net book value of 130.1 million as 31 December 2015 in the accompanying consolidated financial statements. Development costs mainly comprise software development. The Company capitalizes eligible software and products development costs upon meeting the criteria as described in IAS 38. Capitalization criteria assessment under IAS 38 requires significant judgment and measurement uncertainty at inception and throughout the life of the project Judgements involved to determine the eligibility of the costs for capitalisation and the subsequent measurement requires detailed and sensitivity analysis.	Our audit procedures included, amongst others, assessment of the eligibility of the development costs for capitalisation as intangible asset under IAS 38 and evaluating the assumptions and methodologies used by the Company to test the impairment of these intangible assets. We have also reviewed the design of the controls identified by the management surrounding the intangible assets capitalisation and subsequent measurement and which we considered key, tested such controls and performed substantive test of details on the capitalised development costs. These procedures included on a sample basis testing underlying evidence including hours registration, testing estimates of useful life, testing estimates surrounding future economic cash flows. We concur with managements judgements and outcome of their procedures.
The valuation of the amounts recorded for uncertain tax positions	
Refer to notes 2.20, 3.8 and 17 of the accompanying financial statements	
Tax contingency accruals amount to €32.5 million as at 31 December 2015 in accompanying consolidated financial statements with respect to the tax exposures/different interpretations of tax rules. 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. The future actual outcome of the decisions concerning these tax exposures may result in materially higher or lower amounts than accrual included in the accompanying financial statements.	Our procedures included, amongst others, assessing the appropriateness of management's assumptions and estimates in relation to uncertain tax positions, challenging those assumptions and considering advice received by management from external parties to support their position. We have involved our tax specialists to consider management's assessment of the tax positions and related provision/liability accruals when necessary. We concur with management estimates and the outcome of their procedures to determine the relevant provision/liability.

Responsibilities of the Board of Directors

The Board of Directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the Board of Directors 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 of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors 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.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the Directors' report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Directors' report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Gemalto N.V. on 20 January 2006 by the Board of Directors and later by the passing of a resolution by the shareholders at the annual meeting held on 19 May 2006 and has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 10 years. Following mandatory firm rotation we will rotate off as auditors after the audit of 2015.

The Hague, 3 March 2016
PricewaterhouseCoopers Accountants N.V.

Willem Schouten RA

Independent auditor's report continued

Appendix to our auditor's report on the financial statements 2015 of Gemalto N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional skepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Concluding on the appropriateness of the Board of Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the 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.

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of Group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected Group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation according to the Articles of Association

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

The Board has determined with due observance of the Holding Company's policy on additions to reserves and on distributions of profits to propose to the 2016 AGM to distribute a dividend in cash of €0.47 per share in respect of the 2015 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

Since the beginning of 2016, the stock price of Goldpac Group Limited, has decreased significantly. As at March 3, 2016, the market value of our shareholding in Goldpac Group Limited was €44 million. The potential impairment of €13 million being the difference between the fair value and the carrying value, has not been accounted for in 2015.

Reconciliation from IFRS to adjusted financial information

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

Adjusted income statement by business segment

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

			12 months ended December 31, 2014		
			Excluding non-controlling interest	Basic EPS	Diluted EPS
Weighted average number of shares outstanding (in thousands)				86,490	88,716
IFRS financial information					
Operating profit		270,159			
Financial income		(12,421)			
Share of profit of associates		(628)			
Income tax		(35,862)			
IFRS	**Profit for the period**	**221,248**	**220,651**	**2.55**	**2.49**
Reconciliation to adjusted financial information					
Share-based compensation expense and associated costs		55,423			
Fair value adjustment upon business acquisition		–			
Restructuring and acquisition-related expenses		29,830			
Amortization and depreciation of intangibles resulting from acquisitions		27,267			
Income tax		(18,449)			
Adjusted	**Profit for the period**	**315,319**	**314,722**	**3.64**	**3.55**

Adjusted income statement by business segment

In thousands of Euro	Payment & Identity	Mobile	Patents	Full year 2014
Revenue	**1,158,344**	**1,289,592**	**17,223**	**2,465,159**
Gross profit	**386,222**	**550,185**	**15,756**	**952,163**
Operating expenses	(244,177)	(313,264)	(12,043)	(569,484)
Profit from operations	**142,045**	**236,921**	**3,713**	**382,679**

Investor information

Investor Relations policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's Investor Relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price-sensitive information is disseminated without delay through press releases and website updates.

In addition to the General Meetings, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, sustainability reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls or investor meetings. In addition, Gemalto regularly performs roadshows and participates in conferences for institutional investors. These activities further Gemalto's understanding of investor and analyst opinions. Relevant information for potential and current shareholders may be found on the Gemalto website under the link "Investor Relations" **www.gemalto.com/investors**.

Gemalto also observes quiet periods during which investor meetings of any kind are discouraged and financial aspects of the business are not discussed externally. For interim and annual publications, this covers at least 15 days prior to the publication date.

Corporate seat

Gemalto N.V. is the Holding Company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As at December 31, 2015 the Company's issued and paid-up share capital amounted to €89,007,709, consisting of 89,007,709 ordinary shares with a nominal value of €1 per share, of which 903,717 shares were held in treasury. Hence, 88,103,992 shares were outstanding as at December 31, 2015.

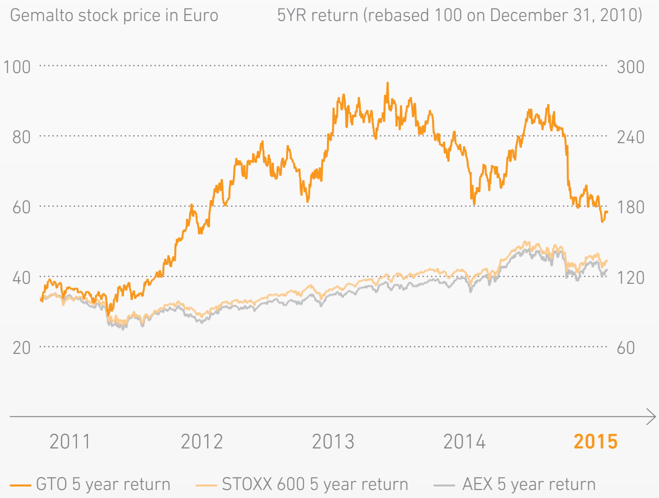
Stock exchange listing – 2015 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Amsterdam and Euronext Paris in Compartment A (Large Caps). Gemalto changed its market of reference to Euronext Amsterdam effective April 30, 2013. As a result of the change of market of reference, Gemalto's shares are no longer eligible for the French "Service à Réglements Différés" (SRD), a deferred settlement service for individual shareholders residing in France, as of April 25, 2013. SRD trades were possible until April 24, 2013.

Mnemonic: GTO
Exchange: Euronext Amsterdam, Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.AM, GTO.PA
Bloomberg: GTO:NA, GTO:FP
Among other stock indices, Gemalto is part of the: AEX (NL0000000107), SBF 120 (FR0003999481), MSCI Standard Europe and STOXX 600 Index (EU0009658202).

Gemalto is a part of the "Application Software" sub-industry within the "Information technology" industry of Morgan Stanley's Global Industry Classification Standard (GICS). Gemalto is also part of the "Software" sub-sector within the "Technology" industry of the Industry Classification Benchmark (ICB).

Share price evolution



- Average daily trading volume on Euronext exchanges in 2015: 435,241.
- Market capitalization as at December 31, 2015: €4,919,456,076.

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depository Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollars and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in US dollars, after being converted into US dollars by the depository bank at the prevailing rate.

Structure: Sponsored Level I ADR
Mnemonic: GTOMY
Exchange: OTC
Ratio (ORD:DR): 1:2
DR ISIN: US36863N2080
DR CUSIP: 36863N 208

Shareholders' disclosures made to the AFM and published on the AFM website as at December 31, 2015

The following shareholding threshold disclosures were applicable as at December 31, 2015. For further information, please refer to Shareholders' disclosures, page 58.

December 15, 2015:	Capital Group International Inc.	9.89% voting rights
December 15, 2015:	Capital Research and Management Company	9.89% voting rights
December 15, 2015:	EuroPacific Growth Fund	4.83% capital interest
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% capital interest and voting rights
December 2, 2015:	S.N. Quandt	4.19% capital interest and voting rights
November 6, 2015:	BlackRock, Inc	3.00% capital interest and 3.74% voting rights
November 17, 2014:	Oppenheimer Funds	3.05% capital interest and voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2015 due to the following:

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

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

Geographic spread of shareholdings

Geographical spread of identified shareholding as of October 2015

	% of outstanding capital
North America	26%
UK and Ireland	9%
Continental Europe	61%
Other	4%

Financial calendar 2016

Important dates of financial calendar

March 4, 2016	Publication of 2015 Fourth Quarter Revenue and Full Year Results
April 29, 2016	Publication of 2016 First Quarter Revenue
May 19, 2016	2016 Annual General Meeting of shareholders
August 26, 2016	Publication of 2016 Second Quarter Revenue and First Semester Results
October 28, 2016	Publication of 2016 Third Quarter Revenue

2016 Annual General Meeting of shareholders

Gemalto N.V. will hold its 2016 AGM at the Hyatt Place Amsterdam Airport Hotel, Rijnlanderweg 800, 2132 NN Hoofddorp (Haarlemmermeer), the Netherlands on Thursday, May 19, 2016 at 2 p.m. CET.

The persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights after the close of trading on the relevant Euronext stock exchange on April 21, 2016 (the "Record Date") in Gemalto's shareholders register, or in a register of a financial institution affiliated to Euroclear France S.A., regardless of whether they are shareholders at the time of the AGM.

Dividend

In 2010 the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, 2012, 2013, 2014 and 2015 it paid a cash dividend of €0.28, €0.31, €0.34, €0.38 and €0.42 for the financial years of 2010, 2011, 2012, 2013 and 2014 respectively. With due observance of the Company's dividend policy, the Board will propose a cash dividend of €0.47 per share in respect of the 2015 financial year at the 2016 AGM. For more information on the dividend policy, please refer to Distribution of profits, page 57.

Share buy-back program

As authorized by the 2015 AGM, the Company has renewed its share buy-back program up to and including October 31, 2016. Gemalto's share buy-back program had no impact on the cash position in 2015. As at December 31, 2015 the Company held 903,717 shares in treasury, which were repurchased on the market at an average acquisition price of €40.20. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 57.

Investor Relations contact:
Gemalto shareholders service
Tel: +33 1 5501 5509
Fax: +33 1 5501 5120
Email: investorrelations@gemalto.com
Investor Center: www.gemalto.com/investors
Contact us at: http://www.gemalto.com/php/contactus.php

Glossary of digital security terms

3FF (Third Form Factor): A very small SIM card, also known as a "micro-SIM", for use in small mobile devices.

4FF (Fourth Form Factor): An even smaller SIM card, also known as a "nano-SIM", for use in small mobile devices.

3G (Third Generation): The broadband telecommunications systems that combine high-speed voice, data and multimedia.

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

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

Big data: A collection of data sets so large and complex that they are difficult to process with traditional applications.

Bluetooth: A short-range wireless technology that simplifies communication and synchronization between the internet, devices and other computers.

BYOD (Bring Your Own Device): Using one's personal device (e.g. smartphone, laptop, tablet, etc.) for professional purposes in the workplace.

CAC (Common Access Card): A US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

Cell/cellular: Indicates the way any mobile network covers a geography, by cells, each cell being covered by a tower. A mobile phone keeps hopping on and off each contiguous cell, as it moves.

Client: A software application that runs on a personal device and relies on a server to perform some operations (see "thin client").

Cloud computing: Computing by using servers, storage and applications that are accessed via the internet.

Contactless: A device that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

CRM: Customer Relationship Management.

DDA (Dynamic Data Authentication): An authentication technology that allows banks to approve transactions at the terminal in a highly secure way.

DI (Dual-Interface): A device that is both contact and contactless.

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

Dongle: Any small piece of hardware that plugs into a computer.

EAC (Extended Access Control): A mechanism enhancing the security of ePassports whereby only authorized inspection systems can read biometric data.

eBanking: Accessing banking services via the internet.

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

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

eGovernment: The use of digital technologies (often via the internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: Personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: The industry standard for international debit/credit cards established by Europay, MasterCard and Visa.

ePassport: An electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

ePurse: A small portable device that contains electronic money and is generally used for low-value transactions.

eTicketing: Electronic systems for issuing, checking and paying for tickets, mainly for public transport.

FIPS 201 (Federal Information Processing Standard): A US federal government standard that specifies personal identity verification requirements for employees and contractors.

GSM (Global System for Mobile communications): A European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): The global association for mobile phone operators.

HSPD-12 (Homeland Security Presidential Directive-12): Orders all US federal agencies to issue secure and reliable forms of identification to employees and contractors, with a recommendation in favor of smart card technology.

IAM: Identity and Access Management.

ICAO (International Civil Aviation Organization): The UN agency which standardizes machine-readable and biometric passports worldwide.

IM (instant messaging): Using text on a mobile handset to communicate in real time.

IoT: Internet of Things: The network of connected objects and devices that are embedded with software so they can collect and exchange data.

IP (Internet Protocol): A protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

Java: A network oriented programming language invented by Sun Microsystems and specifically designed so that programs can be safely downloaded to remote devices.

LTE (Long Term Evolution): The standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): Technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

mBanking (mobile banking): Conducting various banking and financial transactions through a mobile device connected to the internet.

mCommerce (mobile commerce): Buying and selling goods and services using a mobile device connected to the internet.

MFS (Mobile Financial Services): Banking services such as transfer and payment available via a mobile device.

Microfinance: A means of offering a range of financial services to economically poor people who do not have bank accounts and so enabling financial inclusion.

MIM (Machine Identification Module): The equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MMS (Multimedia Messaging Service): A standard way of sending messages that include multimedia content (e.g. photographs) to and from mobile phones.

MNO (Mobile Network Operator): A company that provides services for mobile phone subscribers.

Module: The unit formed of a chip and a contact plate.

mPayment (mobile payment): Using a mobile handset to pay for goods and services.

Multi-tenant SIM: A device capable of carrying multiple IDs and shared by multiple service providers.

NFC (Near-Field Communication): A wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OMA (Open Mobile Alliance): A body that develops open standards for the mobile phone industry.

OS (Operating System): Software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): A method of distributing new software updates to cellphones which are already in use.

OTP (One-Time Password): A password that is valid for only one login session or transaction.

PC: Personal computer.

PIN (Personal Identification Number): A secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): The software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

Platform: A system's underlying software that enables a service.

Server: A networked computer.

SIM (Subscriber Identity Module): A smart card for GSM systems.

SMS (Short Message Service): A GSM service that sends and receives messages to and from a mobile phone.

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

TSM (Trusted Service Manager): A third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): A high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

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

USB (Universal Serial Bus): A standard input/output bus that supports very high transmission rates.

USIM (Universal Subscriber Identity Module): A SIM with advanced software that ensures continuity when migrating to 3G services.

VPN (Virtual Private Network): A private network often used within a company or group of companies to communicate confidentially over a public network.

Produced and designed by Radley Yeldar
www.ry.com

This report is printed on "Amadeus revive" paper. This is made from 100% post consumer waste certified according to the rules of the Forest Stewardship Council (FSC)®. It is manufactured at a mill that is certified to ISO14001 and EMAS environmental standards. The mill uses pulps that are processed chlorine free (PCF). The inks in printing this report are all vegetable-based.

Printed at Pureprint Group, ISO14001, FSC certified and CarbonNeutral®

Photography credits: Capa Pictures/Julien Lutt, Samsung, Getty Images, Thinkstock

RECYCLED
Paper made from recycled material
FSC® C022913

Inspired to know more?

You can find full details at **www.gemalto.com**
or on these social networks:

security to be free