

Next generation digital security

Annual Report 2018



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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 2018 published February 14, 2019.



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CEO's review



04

Business overview



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Segmental review



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Sustainability

For more information visit our website

www.gemalto.com



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

Gemalto's 2018 results reflect its success at implementing its strategic priorities with a return to the Company's historic pattern of growing profits.

In the Identity, IoT & Cybersecurity segment, double digit revenue growth was fueled by the broadening of our portfolio in a dynamic Governments market, by the growing enterprise demand for cloud-based cybersecurity solutions and by the rapid expansion of IoT connectivity for industrial applications. In the Smartcards & Issuance segment, the Payment business stabilized in large part due to the US EMV normalization, while the removable SIM continued to decrease in line with expectations.

In this context, our strategic priorities are confirmed. We will continue to invest in the fast growing Identity, IoT and Cybersecurity segment. In Smartcards & Issuance, we will pursue the digitalization of the segment while leveraging our strong market positions.

Highlights

Revenue

€2,969m

+3% at constant exchange rates

Profit from operations¹

€332m

2017: €310m

Cash generated from operations

€360m

2017: €362m

Gross margin¹

37.0%

2017: 37.2%

Adjusted EBITDA¹

€480m

2017: €457m

Net debt

€552m

2017: €684m

Profit margin from operations

11.2%

2017: 10.4%

Adjusted basic earnings per share

€2.35

2017: €1.96

Net Debt / Adjusted EBITDA¹

1.15x

2017: 1.5x

¹ Adjusted financial information.

Building long-term value



In late December 2017, Gemalto's Board unanimously approved the offer by Thales to acquire Gemalto. This meant that over 2018, much of the Board's work involved supporting Gemalto's management to ensure the offer progressed as smoothly as possible. The transaction is expected to occur in the first quarter of 2019, shortly after all of the regulatory clearances have been secured.

In March 2018, the offer document was approved by the Dutch Financial Markets Authority (AFM) and, understandably, it was also one of the main topics of the AGM. We helped support the achievement of the necessary Regulatory Clearances and by the end of the year, Thales and Gemalto had obtained 11 of the 14 required.

However, the deal is not yet done and the role of the Board in 2018 was to work closely with Gemalto's management to ensure the best possible performance for the company.

In 2018, this involved the roll-out of a new strategic plan aimed at returning the company to growth. After a tough 2017, this plan focuses on business opportunities that create long-term value while also optimizing traditional businesses to make them more profitable in the short to medium-term.

The business is in a much better place than 12 months ago, all segments are delivering performance as expected and the company is in good shape for the next chapter as part of the Thales group. In almost 13 years, Gemalto has built undeniable value in its capacity to bring trust to organizations' digital transformation. The company now serves more than 30,000 businesses and governments worldwide and, in an increasingly digital world with rising numbers of cyberattacks, managing digital identities and protecting data are of value to any organization.

Thales recognized Gemalto's vision for long-term value creation back in December 2017. The fact that they will not just integrate Gemalto in its entirety but also reinforce it with their own digital assets in a new global business unit is a reflection of the value we have created these past years.

I am proud of the engagement of Gemalto's employees and management towards customers, investors and shareholders and would like to thank all Board members for their support and oversight. As Gemalto starts a new chapter, I am confident that the next generation of digital security is in good shape.

Alex Mandl
Chairman

2018 saw the launch of a new strategic plan

**#NextGeneration
DigitalSecurity**



Creating the next generation of digital security



As with every year, Gemalto's management team and I focused on delivering Gemalto's annual business objectives for our stakeholders. However, we also had a second task of preparing our integration within Thales while respecting the regulatory approvals process. These two tasks are intrinsically linked as a healthy business will contribute towards a successful integration.

After a tough 2017, we unveiled a new strategy for long term value creation – Next Generation Digital Security. As every business and government around the world goes through a digital transformation, we have a key role to play. Our unique combination of digital identification and data protection gives them new ways to protect their assets and bring trust to their, increasingly virtual, relationships with customers or citizens.

Our new financial reporting structure is a reflection of our strategic plan. It highlights growing markets where investment is needed while detailing our strategy for generating profits from traditional businesses to provide this investment capacity.

As a result, in 2018 we saw growth of 11% in the Identity, IoT & Cybersecurity segment. This was achieved by redeploying resources as well as winning key contracts like the new UK ePassport. We grew our expertise in Biometrics which is not just applied to civil identity programs such as border control in Colombia but also in the private sector to verify consumers' identities.

Over the year we also accelerated the deployment of cloud-based cybersecurity and provided secure IoT connectivity for a growing number of clients in consumer electronics (e.g. Microsoft), automotive, healthcare, utilities and more.

The payment business returned to normality after the dip in 2017. The US EMV market is now in regular renewal mode while financial institutions who buy our payment cards now also trust us with digital payment (Apple Pay, Samsung Pay). We also support their compliance with new identity and data protection regulations.

The traditional SIM business continued to contract as predicted. Over the year we resized our resources to best serve mobile operators while also developing the next generation of embedded SIMs (eSIM). 2018 saw us deliver our 100th eSIM solution and in the wider eco-system I was pleased to see this technology integrated into the latest iPhone.

I'm proud of the way all of our people reacted after an adverse 2017. They proved to be resilient, adaptable and, as such, have delivered growth once again. The outlook is positive for Gemalto, today we serve around 30,000 organizations but our Next Generation Digital Security could potentially be used by any business and government.

In Q1 2019, we should become part of the Thales group. It is not just positive for investors, but also customers, employees, suppliers and more. The combination of our business with Thales' digital ambitions will help us accelerate our strategy.

The new chapter that awaits Gemalto reminds me of the company's creation in 2006 and the next phase is just as inspiring. Our business will be integrated in its entirety within Thales and our existing capabilities will be improved with the stability, investment and customer-base they possess.

The future's bright – it just won't be orange anymore.

Philippe Vallée
Chief Executive Officer

About Gemalto

Our purpose

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

Who we are

Gemalto enables businesses and governments to offer trusted digital services for billions of individuals and things.

We operate globally with clients in nearly every country around the world. You will find our digital identity and data protection technologies at the heart of modern life. We are there when banks exchange funds, people cross borders or drivers step into connected cars.

What we do

We have created a unique portfolio of technology that both manages digital identities and protects assets – we call this Next Generation Digital Security. This helps secure the world's digital transformation, bringing trust to payments, border control, the Internet of Things and much more.

Our solutions include physical and digital identity credentials, multiple methods of authentication (including biometrics), IoT connectivity and data encryption.

These technologies help organizations protect the entire digital service life-cycle from the moment people sign-up to the time they unsubscribe.

Among our clients are many of the world's best known brands and governments, who rely on us to authenticate billions of identities and protect trillions of data exchanges every day.

15,000

employees

180+

countries where our clients are based

30,000+

clients

Our values

Our business is underpinned by three core values:



Customers

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



People

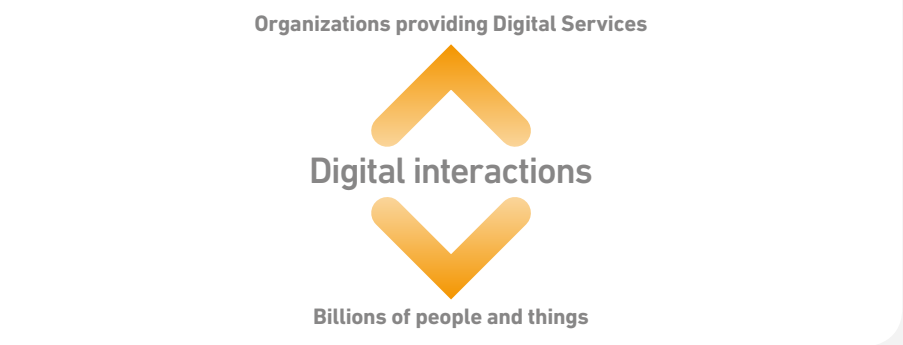


We value their diversity, encourage teamwork and conduct ourselves with integrity.



Innovation

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

How we create value

Next Generation Digital Security		
Every organization is going through a digital transformation, generating growing volumes of data and digital interactions. However, these also lead to increased cyberattacks. Our solutions bring trust to the complete digital service life-cycle by countering identity theft and data fraud.		
Growing digital interactions Organizations buy our solutions because they enable trusted exchanges between them and their end-users	 <p>Organizations providing Digital Services</p> <p>Digital interactions</p> <p>Billions of people and things</p>	
Requiring trust They recognize the need to fight the root causes of cyberattacks	 <p>Digital identity</p> <p>Data protection</p>	
Across the life-cycle We provide software and services that protect every stage of the digital service life-cycle	 <p>Authentication including biometrics</p> <p>Log in</p> <p>Use</p> <p>Data encryption</p> <p>Digital ID issuance</p> <p>Identity verification</p> <p>Sign up</p> <p>User journey</p> <p>Leave</p> <p>Gemalto offer</p> <p>Account deletion</p>	
In key markets Serving 30,000+ customers in two distinct segments	Identity, IoT & Cybersecurity Take leadership position in digital security solutions for Governments, Enterprises and the Internet of Things.	Smartcards & Issuance Provide payment cards and SIMs for Financial Institutions and Mobile Operators and support their digital transformation.

Our key segments

Identity, IoT & Cybersecurity



Identity

Helping Governments provide secure identities to every citizen

The market

Governments worldwide are looking to protect their citizens and secure their nation with strong civil identity schemes. They are also embracing the world's digital transformation by delivering efficient eGov and mGov services.

To deploy national identity programs, countries rely on secure ID documents and are increasingly leveraging biometrics for enrollment and ID verification as well as other digital technologies.

Our offer

We are now a part of over 200 programs worldwide supporting government agencies in civil identity, biometrics and law enforcement. In 2018 we won our largest contract for travel documents to supply the next generation of UK ePassports.

We produce and personalize a wide range of secure documents such as passports, drivers' licenses, national ID cards, health cards and vehicle registrations as well as their digital companions.

Our ID management and verification solutions enhanced with biometrics help confirm people's identities and enroll them in national registers. This technology provides a smoother border experience like that found at Paris's airports which use our Automated Border Control (ABC) gates.

Our solutions also address public security and law enforcement challenges offering the latest in criminal forensics and real-time facial recognition.



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Smoother border control

Our new generation of Automated Border Control (ABC) gates for airports are smaller, have a modular design and offer faster passenger processing.



IoT

Connecting things securely

The market

The IoT is expanding at a rapid pace. In 2026, the number of IoT connections is expected to reach 32.5 billion¹. Industrial companies – from transportation to energy – are increasingly turning to the IoT as a way to simplify processes, monitor systems and improve efficiency. Consumer device manufacturers are also seeking to differentiate their products by offering secure connectivity for services such as home automation, fitness and in-car infotainment.

¹ Source: Berg Insight.

Our offer

Working with enterprises, OEMs, mobile operators and cloud service providers, Gemalto has a global view of the different elements – software, hardware and data – needed to build robust IoT services.

We provide three critical components for the ecosystem to thrive: reliable connectivity, robust security and an agile monetization framework.

Thousands of industrial applications such as smart energy, healthcare, connected cars, logistics etc. use our products and services. Our IoT modules help connect any object while eSIMs in devices provide authentication and flexible connectivity.

Our OnDemand Connectivity platform helps connect devices to cellular networks right out of the box. While secure elements and encryption technology protects data across networks.



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Securing the grid

Gemalto now protects smart grids with a dedicated cybersecurity solution. It protects mass smart metering deployments and ensures integrity for the long life-cycle of these devices.



Cybersecurity

Protecting identities, data and software

The market

Digital technology is transforming the way enterprises work, with increasing amounts of data being produced, stored and shared. In fact, more than a third of all corporate data is now stored in the cloud¹.

This rapid change presents complex challenges for organizations' IT and Security teams. Cloud services and connected devices are proliferating while compliance pressures also continue to grow. At the same time, cyberattacks keep growing. Since 2013 more than 13 billion data records have been lost or stolen².

¹ Source: 2016 Global Cloud Data Security Survey.

² Source: Breach Level Index.

Our offer

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



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Data protection on demand

SafeNet Data Protection On Demand offers an easier way to buy, implement and manage security by providing data encryption and key management as a service from the cloud.

Smartcards & Issuance



Payment

Securing banking and payment transactions

The market

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

Our traditional offer

In the payment card segment we provide more than 3,000 financial institutions with EMV contact and contactless cards as well as related card personalization and issuance services such as in-brand instant issuance. Our latest innovations include pioneering biometric payment, metal cards for high-end users as well as a range of solutions for white label schemes allowing local customization of the broad EMV standards. We also supply contactless ticketing for mass transit.

Digital Banking & Payment

To support financial institutions with their digital transformation we provide a growing range of software and services for digital banking and payment services.

Gemalto's ID verification solutions enable banks to verify new customers' identities when they register either in-branch or online. Our software tokens and biometrics can be used to sign-in to banking services or confirm transactions. We also offer risk-based authentication.

Our Trusted Services Hub helps banks and retailers deploy mobile payment services and links with major schemes such as Apple Pay and Samsung Pay.



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Helping banks become identity providers

The Gemalto Trust ID Network, built in partnership with R3, is a decentralized digital ID platform based on Blockchain. It helps streamline new customer enrollment while limiting risk of ID theft and fraud.



Mobile

Connecting people securely

The market

Around the world people are increasingly using connected devices to access mobile services. In fact, in 2017 there were some five billion mobile subscribers¹. Now that a large majority of people already have a mobile phone, operators are focusing on the relationship with their customers, who often have multiple cellular devices, as well as investing in IoT connectivity services.

¹ Source: GSMA Global Mobile Trends 2017.

Our traditional SIM offer

Since the start of GSM we have brought trust to the mobile ecosystem by authenticating users and devices to mobile networks. We continue to do this as a leading supplier of removable SIM cards as well as platforms and services for their issuance and management while working with operators to make the transition to embedded SIMs (eSIMs).

Digital Mobile Connectivity

The mobile industry is embracing the latest digital technologies and subscriber identification is no different. With Gemalto eSIM solutions, mobile connectivity is enhanced thanks to digitized subscription activation and mobile ID verification.

At the same time the user journey is simplified and logistics are smoother for operators and OEMs. All Gemalto solutions are fully compliant with the latest GSMA Remote SIM Provisioning specifications.

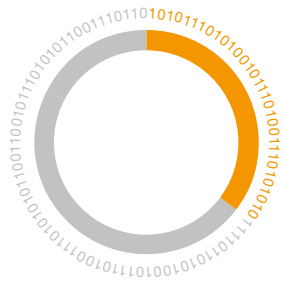


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100 eSIM solutions deployed

By October 2018 we had supplied 100 eSIM remote subscription management platforms to mobile operators, car manufacturers and OEMs across all continents.

Our global presence



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

North and South America

Revenue

€1,051m

00110101001011101001110101010011001

47

countries where we are based

110

offices worldwide

122

nationalities of our employees

35

research and software development centers

3,000

R&D engineers

47

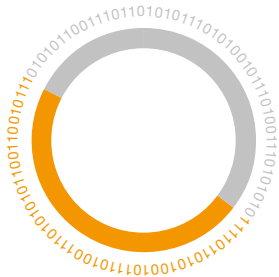
personalization and data centers

24

production facilities



Gemalto N.V. is the parent company of the Gemalto Group. For more information, see Our governance structure, pages 58–63, and for a list of subsidiaries, see Note 35 Consolidated entities, page 111.

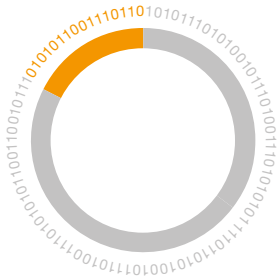


Europe, CIS, Middle East and Africa

Revenue

€1,402m

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Asia Pacific

Revenue

€516m

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Key

- Gemalto sites
- ✕ Head office

What we've been doing this year

From developing agile work practices, community initiatives, to industry recognition and new technology solutions, 2018 was a busy year. Here are just a few of the highlights of the past 12 months.

Feb 2018



Developing our agile and digital mindset

In February we launched a worldwide Agility program for our technical community. Since then we've engaged with 1000 employees to promote agility and collaborative working. This took the form of digital training and agility awareness sessions to better serve our customers and capture new business opportunities. Agility weeks were held in France, India and Singapore and, as part of the program, two new agile work spaces were created in the South of France (Sophia Antipolis) and the US (Austin).

May 2018



Recognized for operational excellence by Vodafone.

We received the Vodafone Supplier Awards recognition for "outstanding performance in supporting their continuous drive for operating efficiency to deliver greater benefits to their customers". A long standing strategic supplier of SIM and eSIM solutions to the Vodafone Group, this award is the result of Gemalto's involvement in successful launches of new eSIM consumer & IoT services for the Group.

June 2018



Facial recognition solution excels at US Homeland Security Rally*

Our innovative Cogent Live Face Identification System (LFIS) solution outperformed 11 other companies at the 2018 Biometrics rally, sponsored by the US Department of Homeland Security's (DHS) Science and Technology Directorate (S&T) in conjunction with the National Institute of Standards and Technology (NIST). The solution obtained a ground-breaking 99.44% acquisition rate in under five seconds

99.44%

live facial acquisition rate in five seconds

21.3%

yearly growth expected in facial recognition market over the next six years**

With an expected 21.3%** growth per year in the facial recognition market over the next six years, the spectrum of potential use cases for such a high performance solution is broad; smoother airport travel from check-in to biometric boarding as well secure access control, video surveillance and other law enforcement services.

* does not constitute an endorsement or guarantee by the US Government

** Source: Allied Market Research, "World Facial Recognition Market – Opportunities and Forecasts, 2015-2022"

Aug 2018



Boosting cloud security across multiple providers

As businesses connect to more devices and cloud platforms they need solutions that offer security, flexibility and compatibility without limiting their potential for innovation. Gemalto launched SafeNet Virtual KeySecure, a scalable virtual key management solution that integrates with leading cloud service providers such as AWS, Microsoft Azure, Google Cloud Platform, IBM Cloud, VMware, Microsoft Hyper-V and OpenStack. It provides companies of all sizes with a single key management solution spanning multiple private or public cloud environments.

Oct 2018



UK consumers excited by biometric payment cards

According to new research conducted by GfK* on behalf of Gemalto, more than half of UK consumers (54%) would be ready to use biometric payment cards if they were available at their bank today. For 82% of them, it would even become their preferred payment card – generating a clear 'top of the wallet' effect. These innovative cards with integrated fingerprint readers let users authorize payments with a simple touch of their finger on the sensor, as an alternative to the PIN code.

* Research conducted by GfK (821 interviews done online representative of UK card holders from 05/25 to 06/05/2018).

Nov 2018



Women in Biometrics Award 2018

Gemalto's Anne Wang, Director of Biometric Technology Research & Development, is one of five winners of the Women in Biometrics Awards. A panel of independent judges recognized Anne as a leader in the field of biometrics from a shortlist of 80 nominations. These awards aim to highlight innovative women who are helping to create a more secure world thanks to biometric technology.

Sep 2018



Giving back to society

In 2018 we launched our non-profit program for trust in the digital world, which supports education and research. It currently covers eight different partnerships across America, China, France, India, Mexico and the Philippines. As part of the program, Gemalto provided full scholarships for three year higher education courses in Engineering for several students with Passerelles numériques, an NGO offering IT training and personal development in the Philippines. We also sponsored Elles Bougent, a French social impact organization, for the sixth year running, as part of which Gemalto's women have tutored hundreds of female students and encouraged them to consider a career in Science or Technology. In the research realm we launched a partnership with the Center for ID at the University of Texas (Austin). They provide insight and guidance regarding current and future identity issues that impact personal security, commerce, government services, and even national security. More projects are in the pipe so watch this space.

Oct 2018



Making payments more sustainable

We joined the Greener Payments Partnership, a MasterCard initiative, aimed at establishing environmental best practices and reducing first-use PVC plastic in card manufacturing. The partnership continues Gemalto's work over the last decade to address our customers' sustainability concerns. As part of this we provide Bio Sourced (PLA) Card as an alternate to PVC and work on carbon offsetting programs. To date Gemalto has supplied more than 2 million Bio sourced cards to banking customers.

2 million

Bio sourced cards delivered.

Gemalto and Thales update

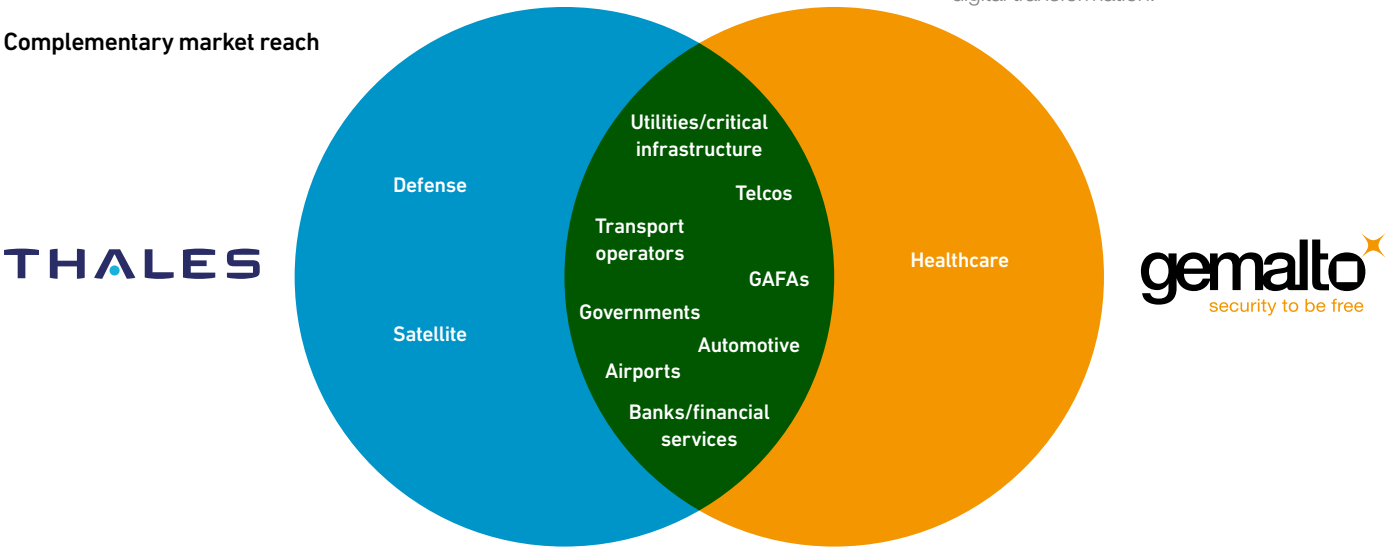
How Gemalto fits with Thales

In December 2017, Gemalto's Board unanimously accepted a proposed acquisition by Thales. It was felt that this was the best offer for Gemalto and its stakeholders. By becoming part of Thales, Gemalto will be able to accelerate its strategy.

Both organizations share a common passion for technology with world-class R&D and successfully address the needs of demanding clients, many of which are found in the same industries. The common aim is to create a market leader in digital security.

Prior to the offer, Thales had already invested >€1 billion in connectivity, data analytics and artificial intelligence and the integration of Gemalto strongly accelerates this digital strategy. The combination will better answer companies' and governments' needs for data security challenges as they go through their digital transformation.

Complementary market reach



How has the acquisition progressed?

On 17 December 2017, Thales and Gemalto jointly announced that they had reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per ordinary share cum dividend. Gemalto's Board of Directors unanimously recommended and fully supported the offer.

The offer document was approved by the Dutch Financial Markets Authority (AFM) and was published on March 27, 2018.

Pursuant to an exemption granted by the AFM on August 9, 2018, the Gemalto share acceptance period was further extended and will end two weeks after the fulfillment of the offer condition with respect to regulatory clearances or the waiver thereof.

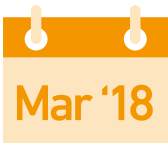
In order to complete the transaction Thales and Gemalto have worked constructively with the competent authorities to obtain regulatory approvals and clearances related to antitrust and foreign investments in certain countries.

By the end of 2018 Thales and Gemalto had obtained 11 of the 14 required Regulatory Clearances. These are the antitrust clearances obtained in Australia, China, Israel, Mexico, New Zealand, South Africa, Turkey, and the European Union, and clearances relating to foreign investments in Australia, Canada and the United States (CFIUS).

The transaction should close shortly after all of the Regulatory Clearances have been secured, which is expected to occur in the first quarter of 2019.



December 17, 2017
Gemalto agrees offer from Thales



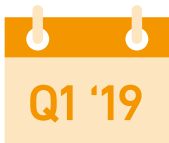
March 27, 2018
Offer document published



August 9, 2018
Gemalto share acceptance further extended



December 20, 2018
Thales and Gemalto are granted regulatory clearances by the Australian and Mexican competition authorities and therefore have 11 of the 14 required



Transaction set to close in Q1 2019

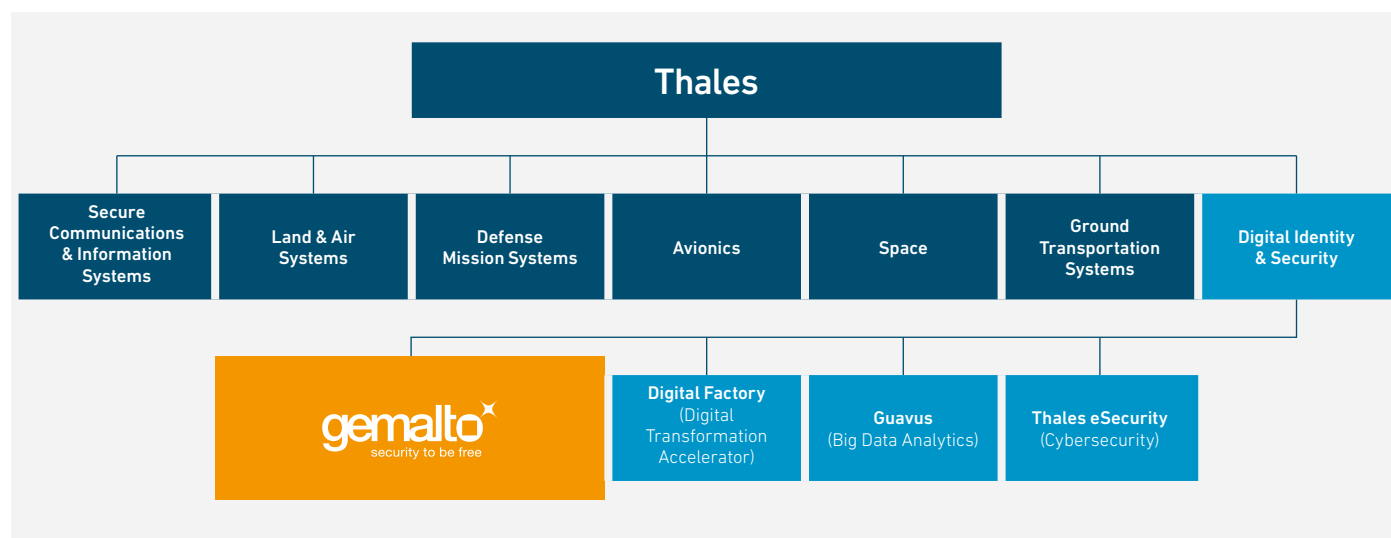
What will the new organization look like?

Prior to the Gemalto acquisition, Thales was made up of six Global Business Units (the dark blue boxes in the diagram below). Gemalto will be combined with existing digital assets from Thales in big data analytics, cybersecurity and digital transformation to form a seventh Global Business Unit (GBU). This will be named Digital Identity and Security (DIS) and will be managed by Philippe Vallée, Gemalto's CEO.

Altogether, this new GBU will represent c. 20% of pro forma Group revenues and rank among the top three digital security players worldwide, with revenues of €3.5 billion.

It will continue to serve Gemalto's legacy markets i.e. Banking and Payment, Enterprise Security, Government, IoT, Mobile and Software Monetization as well as the business coming from Thales' digital assets.

In addition, the GBU will be responsible for accelerating Thales' internal digital transformation.



Future potential

Creating a global leader in the fast growing digital security market.

The acquisition will accelerate the roll-out of Gemalto's strategic vision as well as Thales' digital strategy by creating a global leader in digital security and cybersecurity.

The combined organization will create a unique portfolio of IoT, Mobile and Cloud technologies. By combining this with Thales' broader sensing, data processing and decision-making technologies, we will be able to create new solutions in fields such as connected trains, air traffic management for drones and secure cloud computing for battlefields as well as many others.

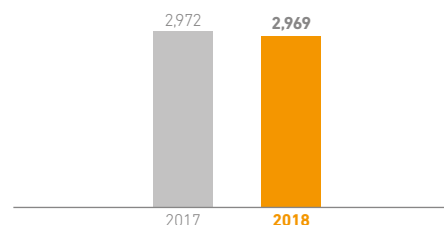
Beyond the realm of joint product innovation, both organizations will seek to cross-sell existing offers with each other's customer base in the public and private sectors.

Every organization around the world is in the midst of a digital transformation and stand to benefit from the joint digital security solutions Gemalto will deliver as part of Thales.

Group financial review

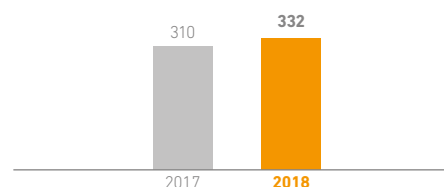
- 2018 full year results delivered in line with expectations
- Full year revenue at €3 billion with Identity, IoT and Cybersecurity segment revenue up +11% at constant exchange rates
- Profit from operations at €332 million, up +7%
- Thales transaction expected to close in Q1 2019, 11 of 14 Regulatory Clearances obtained

Revenue €m



Profit from operations €m

+7% YoY



Basis of preparation of financial information

Segment information

The Identity, IoT & Cybersecurity segment comprises businesses associated with homeland security for governments ("Governments"), IoT connectivity for industrial applications ("IoT") and cybersecurity for enterprises ("Cybersecurity").

The Smartcards & Issuance segment comprises businesses mainly associated with removable SIM cards ("SIM"), payment cards ("Payment") and their issuance services. The segment includes as well businesses associated to the digital transformation of smartcards ("Digital") such as digital payment, digital banking, remote subscription management, embedded SIM/MIM and embedded secure elements. Patents business is also included in this segment.

Historical exchange rates and constant currency figures

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

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

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

To better assess its past and future performance, the Company also prepares an adjusted income statement where the key metric used to evaluate the business and make operating decisions over the period 2010 to 2018 is the profit from operations (PFO).

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

- Amortization, and impairment of intangibles resulting from acquisitions are defined as the amortization, and impairment expenses related to intangibles assets and goodwill recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant...), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of an acquisition process).

- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock Purchase plans; (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of Directors to employees; and the related costs.
- Fair value adjustments over net assets acquired are defined as the reversal, in the income statement, of the fair value adjustments recognized as a result of a business combination, as prescribed by IFRS3R. Those adjustments are mainly associated with (i) the amortization expense related to the step-up of the acquired work-in-progress and finished goods assumed at their realizable value and (ii) the amortization of the 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, Other income and Other expenses.

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

Net debt and net cash

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

Adjusted financial information

Extract of the adjusted income statement	Full year 2018		Full year 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	2,968.7		2,971.7		=	+3%
Gross profit	1,099.0	37.0%	1,104.8	37.2%	(0.2 pp)	
Operating expenses	(766.7)	(25.8%)	(795.2)	(26.8%)	+0.9 pp	
EBITDA	479.7	16.2%	456.7	15.4%	+0.8 pp	
Profit from operations	332.2	11.2%	309.6	10.4%	+0.8 pp	
Financial income (expense), net	(49.8)		(32.8)			
Share of profit (loss) of associates	(2.6)		(1.2)			
Non-recurring profit (loss) relating to associates			10.1			
Income tax (expense)	(68.8)		(109.8)			
Net profit (loss)	211.0		175.9			
Net profit (loss) non-controlling interests	(1.4)		(0.6)			
Net profit (loss) owners of the company	212.4	7.2%	176.5	5.9%	+1.3 pp	
Basic Earnings per share (€)	2.35		1.96		+20%	
Diluted Earnings per share (€)	2.31		1.94		+19%	

Adjusted financial information

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

Gemalto posted revenue of €2,969 million for the full year, increasing by +3% at constant exchange rates and stable at historical exchange rates when compared to the same period of last year. The Company's revenue growth was driven by a double digit revenue increase from the Identity, IoT and Cybersecurity segment partially offset by revenue erosion from the Smartcards & Issuance segment.

Gross profit came in at €1,099 million and gross profit margin settled at 37%, a comparable level to last year. This result combines an increase in gross profit resulting from strong revenue growth in the Identity, IoT & Cybersecurity segment that came with slight margin erosion and that was offset by a gross profit decrease in line with the revenue drop in the Smartcards & Issuance segment.

Operating expenses were down (€28) million, at (€767) million through tighter control of expenses in the Smartcards & Issuance segment including the disposal of a mobile sub-business line even as the Company continued to invest in the Identity, IoT & Cybersecurity segment in line with its strategic priorities.

As a result, profit from operations was €332 million.

Gemalto's financial income was (€50) million, composed of interest on financial debt and currency fluctuations net of hedging.

Share of loss in associates was (€3) million for the full year 2018.

Adjusted profit before income tax came in at €280 million.

Adjusted income tax expense was (€69) million resulting in an adjusted income tax rate of 25% for the full year 2018.

Overall, the adjusted net profit of the Company was €212 million. Consequently, adjusted basic earnings per share and adjusted diluted earnings per share came in respectively at €2.35 and €2.31.

Group financial review continued

Reconciliation from adjusted financial information to IFRS

Full year period ended December 31 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition- related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,968,694	–	–	–	–	2,968,694
Cost of sales	(1,869,728)	(84,986)	(5,223)	(8,897)	–	(1,968,834)
Gross profit	1,098,966	(84,986)	(5,223)	(8,897)	–	999,860
Operating expenses	(766,730)		(44,307)	(22,820)		(833,857)
Profit from operations	332,236					
Operating profit (loss)		(84,986)	(49,530)	(31,717)	–	166,003
Financial income (expense), net	(49,797)					(49,797)
Share of profit (loss) of associates	(2,612)					(2,612)
Income tax (expense)	(68,836)					(53,956)
Net profit (loss)	210,991					59,638
Net profit (loss) non-controlling interests	(1,438)					(1,438)
Net profit (loss) owners of the company	212,429					61,076
Number of shares Basic	90,452					90,452
Number of shares Diluted	91,993					91,993
EPS Basic (€)	2.35					0.68
EPS Diluted (€)	2.31					0.66

Amortization and depreciation of intangibles resulting from acquisitions came in at (€85) million. This amount is mainly composed of the amortization of the Identity Management Business acquired in 2017 and that of Safenet acquired in 2015.

Restructuring and acquisition-related expenses were (€50) million, compared to (€114) million in 2017, essentially corresponding to restructuring and portfolio optimization costs of the transition plan as well as initial costs related to the Thales project. Year-on-year expenses were down (€64) million, reflecting the effects of the transition plan initiatives that were launched in 2017.

The equity-based compensation charge was (€32) million, down (€5) million from last year, as no major Long-Term Incentive plan was launched in 2018.

As a result, Gemalto recorded an operating profit of €166 million for the full year 2018.

The income tax charge came in at (€54) million compared to (€36) million the previous year. Excluding the impacts of the transition plan and the Thales project, the income tax rate was at 24% in line with the Gemalto long term income tax rate.

The net result was at €61 million profit for the full year 2018 leading to a basic earnings per share of €0.68.

Cash position variation schedule

€ in millions	Year ended December 31,	
	2018	2017
Cash and bank overdrafts, beginning of period	302	663
Cash generated by operating activities, before changes in working capital	366	356
Net change in working capital	(20)	(14)
Cash used in restructuring actions and acquisition related expenses	(70)	(48)
Net cash generated by operating activities before Time-decorrelated hedging effect/(Prepaid derivatives)	276	294
Time-decorrelated hedging effect/(Prepaid derivatives)	30	48
Net cash generated by operating activities	306	342
Capital expenditure and acquisitions of intangibles	(129)	(152)
Free cash flow	177	190
Interest received	2	2
Cash used by acquisitions	(30)	(759)
Other cash provided by investing activities	(1)	2
Currency translation adjustments	(3)	(11)
Cash generated (used) by operating and investing activities	145	(576)
Cash generated (used) by the liquidity and share buy-back programs	0	(1)
Dividend paid to Gemalto shareholders	0	(45)
Net proceed (repayment) from/of financing instruments	(178)	267
Interest paid	(17)	(14)
Other cash provided (used) by financing activities	3	8
Cash and bank overdrafts, end of period	257	302
Current and non-current borrowings excluding bank overdrafts, end of period	(808)	(986)
Net (debt), cash, end of period	(552)	(684)

Statement of financial position and cash position variation schedule

For the full year 2018, operating activities generated a cash flow of €366 million before changes in working capital.

Changes in working capital reduced cash flow generation by (€20) million in 2018 compared to (€14) million in 2017. The (€6) million deterioration of working capital from last year was attributable to the increase in inventories which were exceptionally low in 2017.

Cash consumed in restructuring activities and acquisition related expenses was (€70) million, up €22 million from last year. The cash was essentially used as part of the transition plan and through costs associated to the Thales project.

Capital expenditure and acquisition of intangibles amounted to (€129) million, i.e. 4.3% of revenue compared to 5.1% in 2017. The investment in Property, Plant, and Equipment amounted to (€33) million in 2018, (€32) million lower than last year resulting from the one-off effect of the rationalization of the Governments business footprint. The investment in intangible assets accounted for (€96) million, up €9 million

on last year, mostly due to an increase in R&D capitalization.

As a result, in 2018 Gemalto generated free cash flow of €177 million.

At the announcement of the Thales offer on December 17, 2017, Gemalto treasury's liquidity program was immediately suspended and ultimately closed in 2018.

As at December 31, 2018, the Company held 201,045 shares, or 0.22% of its own shares in treasury, a reduction of 137,998 shares from December 31, 2017, allocated to the employee share options plans. The total number of Gemalto shares issued was 90,920,356 shares as consequence of the issuance of 496,542 ordinary shares used to fund share based compensation plans. Net of the 201,045 shares held in treasury, 90,719,311 shares were outstanding as at December 31, 2018. The average acquisition price of the shares repurchased on the market by the Company held in treasury as at December 31, 2018 was €31.22.

In 2018, due to the Thales offer, Gemalto's Board of Directors elected not to distribute a dividend in respect of the fiscal year 2017, leaving the offer at €51 euros cum dividend for each issued and outstanding share of Gemalto. As the Thales transaction is expected to close in Q1 2019, Gemalto's Board of Directors will not propose a dividend distribution for the 2018 fiscal year.

Repayment of financing instruments including interests consumed (€194) million.

Cash in hand, net of bank overdrafts amounted to €257 million as of year-end 2018 versus €302 million at the end of 2017.

Considering the €808 million total amount of borrowings as at December 31, 2018, Gemalto's net debt position decreased by €132 million down to €552 million. The net debt reduction was the product of free cash flow generated in 2018 and was partially offset by a cash outflow from merger and acquisition activities. Company net debt currently represents 1.15 times its adjusted EBITDA.

Segment financial review

Revenue split by segment



Key: ● Identity, IoT & Cybersecurity ● Smartcards & Issuance

Full year 2018

(€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	2,969	1,381	1,588
At constant rates	+3%	+11%	(3%)
At historical rates	=	+8%	(6%)
As a percentage of total revenue		47%	53%

Gemalto posted revenue of €2,969 million for the full year 2018, increasing +3% at constant exchange rates, stable at historical exchange rates compared to the same period of last year.

The Identity, IoT & Cybersecurity segment's revenue came in at €1,381 million, increasing +11% at constant exchange rates compared to the previous year. The segment contributed to 47% of Gemalto's total 2018 revenue.

The Smartcards & Issuance segment posted revenue of €1,588 million, (3%) lower at constant exchange rates, accounting for 53% of Gemalto total 2018 revenue.

Profit from operations (€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Second semester	240	88	152
Full year	332	137	195
As a percentage of the total profit from operations		41%	59%

The second semester profit from operations was €240 million representing 72% of the 2018 full year profit from operations which came in at €332 million.

Identity, IoT & Cybersecurity

Revenue

€1,381m

2017: €1,278m

Gross profit

€564m

2017: €540m

Operating expenses

€(427)m

2017: €(400)m

Profit from operations

€137m

2017: €139m

Identity, IoT and Cybersecurity full year revenue came in at €1,381 million, up +11% at constant exchange rates compared to 2017.

The Governments business posted strong revenue growth compared with the same period of last year. The positive performance was due to the contribution of the Identity Management Business and substantial secure document deliveries in Europe, Asia, and Africa offsetting weaker performance in the Middle East. In the second quarter, Gemalto won its largest ever passport contract with the United Kingdom Home Office. The contract spans 11.5 years, including 10 years of production and issuance services. Initial project deliveries took place in the fourth quarter. Gemalto also deployed a number of its commercial biometric solutions to large banking and telecom customers. These results highlight Gemalto's innovation capabilities aimed at helping governments better protect their citizens, and Gemalto's ability to apply biometric solutions in commercial markets where demand is fast growing.

The Cybersecurity business delivered a contrasted performance this year, in spite of revenue growth in its three sub-businesses. As more stringent regulatory environments

on data privacy come into force, companies, especially in Europe, remained slow at developing cybersecurity initiatives which led to lower than expected revenue growth this year in the encryption sub-business line. The software monetization sub-business revenue grew, supported by large projects in Europe and Asia while the authentication sub-business returned to growth on the back of acceleration in deployments of its cloud offer. In this context, Gemalto continued to increase its Marketing and R&D investments with a focus on its cloud offers that help organizations efficiently manage users' authentication, access management and data protection across multiple private and public cloud environments. As a result of these investments, Gemalto is increasingly well positioned to capture the growing demand for cloud cybersecurity solutions.

The IoT business posted an outstanding revenue performance this year. The increase was driven by strong deliveries in Europe and Asia to large customers in Automotive, Health, Payment and Metering sectors. These successes reflect the unique combination of Gemalto's extensive set of IoT modules that provide a sturdy foundation for secure connectivity and an improved lifecycle management which extends durability,

reliability and flexibility. A combination that proves a compelling answer for the growing number of industrial solutions that require high availability, expanded coverage and long-life such as utility meters and smart city solutions. In addition, it also strengthens the business case for cellular IoT technology and Gemalto should continue to benefit from the sustained market demand across key industrial sectors.

Overall, the Identity, IoT & Cybersecurity segment's gross profit was up +4% from last year at €564 million driven notably by the Governments business. Gross margin for the segment came in at 41%, down (1%) due to a business mix effect resulting from faster revenue growth in the IoT business.

Operating expenses for the segment came in at €427 million, up by €27 million compared with the same period of last year. This increase was mainly due to strong marketing and R&D investments in the three business lines to support the sustained growth.

As a result, profit from operations in the Identity, IoT & Cybersecurity segment came in at €137 million and profit from operations margin settled at 10% for the full year 2018.

Identity, IoT & Cybersecurity continued



Identity

A new ePassport for the UK

British citizens will soon carry one of the most technically advanced passports in the world as Gemalto won an 11.5 year contract to supply the next generation of UK passports from 2019. It will integrate a polycarbonate data page (instead of paper) for the first time as well as a range of new security features to fight fraud. This important ePassport contract from Her Majesty's Passport Office (HMPO) is another example of our company's support for governments to better protect their citizens and secure their borders.



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Identity



Biometric border control in Colombia

We are helping to transform the immigration and border crossing in Colombia through biometric iris verification implemented by Migración Colombia, the country's border control agency. This Automated Border Control (ABC) solution uses iris recognition to securely identify people and speed up immigration checks. It was launched in February with a pilot program at Bogotá's El Dorado International Airport. Gemalto has supported Migración Colombia with secure document authentication, biometric solutions and software integration for their border operations.



Cybersecurity



Protecting Faraday Future's connected cars

Californian mobility company, Faraday Future, turned to Gemalto to protect its first intelligent electric car. It will use our data security and encryption technology to secure their vehicles' software as well as the data generated during the cars' lifespan. Our SafeNet Hardware Security Modules (HSMs) and Public Key Infrastructure (PKI) enable Faraday Future to protect communications between the car, network systems and people. Our solution fights car hacking and helps build consumer confidence in connected vehicles.



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Identity, IoT & Cybersecurity continued



Connecting cars in South Korea

Korea Telecom (KT), the largest South Korean telecommunications provider, is using Gemalto's On-Demand Connectivity (ODC) platform and embedded SIMs (eSIM) to deliver out-of-box connectivity to its Industrial IoT customers. In particular this provides automobile manufacturers with in-vehicle connected services through their GiGA drive platform and a single eSIM to remotely provision the mobile subscription once the car is shipped. This provides complete flexibility of subscription management, regardless of the vehicle's country of origin.



Smartcards & Issuance

Revenue

€1,588m

2017: €1,694m

Gross profit

€535m

2017: €565m

Operating expenses

€(340)m

2017: €(395)m

Profit from operations

€195m

2017: €170m

Smartcards & Issuance full year revenue came in at €1,588 million, (3%) lower year-on-year at constant exchange rates.

As expected, the Payment business stabilized this year. This performance was due to US EMV market demand normalizing combined with solid payment card shipments in other regions and sustained contactless migrations across countries worldwide. This year also saw growing interest and initial scale deployments of the promising biometric technology for payment cards. The payment market is expected to continue to evolve along current trends. Removable SIM revenue continued to decrease this year due to the limited product mix evolution and, to a lesser extent, to the dismissal of low profit-margin opportunities. This business pattern is expected to continue, resulting in a sustained tight control of associated expenses.

The Digital business revenue was down year-on-year mostly due to Gemalto's mobile services portfolio optimization as MNOs focus their investments toward eSIM. During the year, infrastructure deployments of connectivity solutions increased in key sectors of the IoT market and Apple's decision in September to introduce eSIM technology in its new generation of iPhones was a turning point in the adoption of such technology. It should trigger an acceleration in the rate of activations that will benefit Gemalto's eSIM solutions with Mobile Network Operators.

The Digital Banking sub businesses grew thanks to large authentication programs roll out with banks in Europe and Latin America. In digital payment, Gemalto grew its revenue and announced the enabling of Hong Kong's Octopus card through Samsung Pay via its Trusted Service Hub (TSH), a landmark program that follows recent successes in Japan and Spain and one that confirms the competitiveness of Gemalto's digital offer in this transforming market.

The Smartcards & Issuance segment's gross profit was down (5%) at €535 million compared with last year, as a result of the impact of the revenue decrease in the removable SIM business and its ensuing revenue mix evolution. Gross margin improved slightly at 34% as the benefits of the transition plan were partially offset by the impact of the shift in the revenue mix toward Payment.

Operating expenses decreased by (€55) million down to (€340) million, reflecting the strong benefits of the transition plan and the disposal of a mobile sub business line as part of the portfolio optimization.

As a result, the Smartcards & Issuance segment's profit from operations for 2018 was €195 million and its profit from operations margin settled at 12.3%. Excluding the one-off effect of a mobile sub business line disposal, the profit margin came in at 10.7%, in line with expectations.

Smartcards & Issuance continued

Payment



First biometric contactless payment card

Customers at the Bank of Cyprus were the first in the world to enjoy biometric convenience for contactless card payments. Compatible with existing POS terminals, users simply place their fingerprint on the biometric payment sensor which compares the fingerprint scan with the biometric reference data securely stored in the card which then validates the transaction. Gemalto also provides an in-branch enrollment process and thanks to the on-card storage of sensitive biometric information, the complete solution provides both security and data privacy.



Payment



Taking Hong Kong's Octopus Card to Samsung Pay

In-line with Hong Kong's cashless society strategy, Octopus Cards Limited (OCL), operator of the Octopus contactless payment card worked with Gemalto to deploy a digital version of their service 'Smart Octopus in Samsung Pay'. It allows consumers to securely pay and travel by simply tapping their Samsung phones on an Octopus reader, regardless of their mobile operator. The solution uses Gemalto's robust Trusted Services Hub (TSH) to secure digitization of the card for Samsung Pay, including the transfer of the balance and loyalty schemes.



Mobile



Faster ID checks for Telefónica Deutschland

Since 2017, customers of prepaid SIMs in Germany are obliged by law to provide proof of identity. Telefónica Deutschland answered this challenge, by deploying Gemalto's Digital Identity Verification service. It offers both regulatory compliance and a smooth customer experience for customers signing up for mobile services via multiple channels – in-store, online or via their mobile. Gemalto's service optimizes the customer acquisition process and confirms the authenticity of a vast range of identity documents (passports, ID cards etc.) in real-time.



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Smartcards & Issuance continued



Qualcomm Technologies integrates our eSIMs

The collaboration supports the integration of Gemalto's eSIM technology and remote subscription management with the Qualcomm® Snapdragon™ mobile PC platform. This innovation will provide seamless LTE and forthcoming 5G connection, extended battery life, and a foundation for consumer applications such as online payments, transport ticketing and authentication to cloud services.



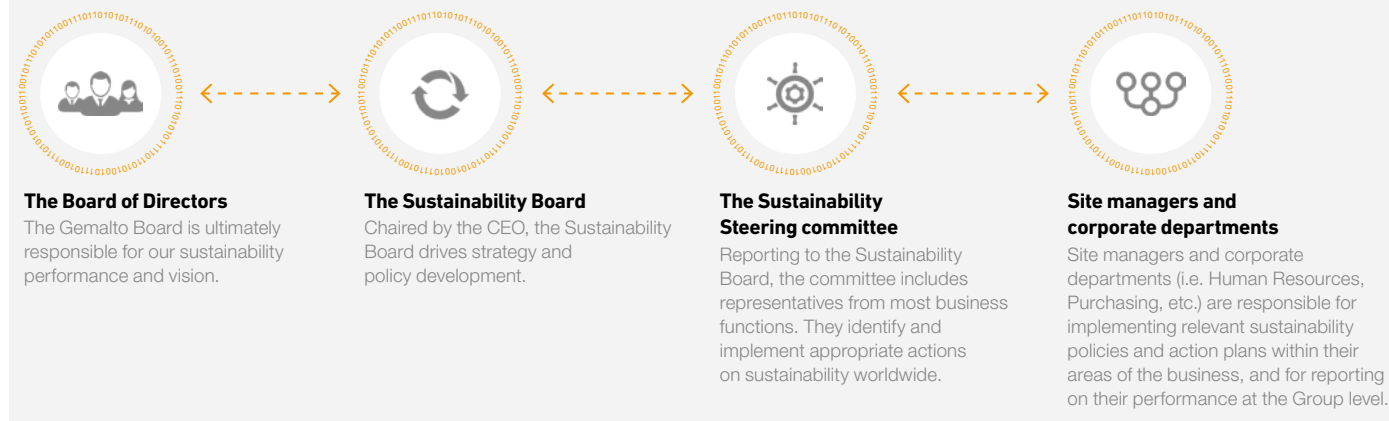
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Sustainability overview

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

Managing sustainability

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



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

These include our:

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






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

Our sustainability agenda

To identify and prioritize the issues that matter most to our stakeholders, we conducted a materiality analysis in 2015. The issues were then grouped into five main reporting areas: Business and Customers, People, Society and Community, Environment and Governance and Compliance. To ensure our long-term development, we have also developed our Sustainability agenda for 2018 and beyond, which sets our key priorities for the coming years. In particular, we have identified five engagements.

We also analyzed how Gemalto's Sustainability priorities contribute to the United Nations Sustainable Development Goals (SDG). Our five Sustainability engagements will support eight SDGs.

In the following pages, we review our priorities for each of the five main reporting areas, and how we addressed our five engagements in 2018. All issues raised in our materiality analysis were covered in our last Sustainability Report published in May 2017.

Reporting areas	Engagement	Why it matters
Business & Customers	 Intensify our data security and resilience	Protect data, the central asset of the digital economy and society. Respond to the global increase in data breaches.
People	 Develop our agile skills and digital learning	Adapt to our fast changing environment to remain competitive. Increase the reach and efficient delivery of learning initiatives.
Society & Community	 Build our 'non-profit program for trust in the digital world'	Give back to society in our field of expertise. Play a role in digital trust beyond our products and solutions.
Environment	 Increase our renewable energy use	Minimize our impact on climate change.
Governance & Compliance	 Implement best practices in the protection of personal data	Respect end-user data privacy. Comply with General Data Protection Regulation (EU).

Business & Customers

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

Key engagement



Intensify our data security and resilience

Sustainable Development Goals



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

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

In 2018 we continued our company-wide Cyber Excellence Program (CEP) which is based on three pillars: prevent, detect and react. The program concentrates on five key security areas including customer data protection, internal information systems infrastructure, cloud security, internal data protection and end-user focus. It is complementary to other measures already in place and boosts our resilience against the threat from cyberattacks.

Innovation

Innovation is one of Gemalto's core values. To ensure we continue to generate new ideas and technological solutions we have adopted agile development practices. These help us adjust more quickly to our customers' evolving needs, and efficiently explore any technology that could impact our markets. Our innovation journey maps all steps: from triggering creativity, to nurturing ideas and developing innovative solutions for our traditional and adjacent businesses.

Throughout the year, a team with mixed talents, skilled in technology and ideation encourages Gemalto employees from around the world to contribute to our next wave of solutions. As part of this, we use the design thinking model so our clients and the end-users are positioned at the center of any development.

In order to multiply the sources of innovation we leverage not only our employees creativity, but also our privileged relations with the start-up eco-system and industry consortiums.



To efficiently align our efforts, we aim to only invest in promising projects. This is done through regular board reviews with all key people in the company to accelerate initiatives or stop them if necessary.

Customer loyalty with Net Promoter Score (NPS)

+54

see page 32 for explanation

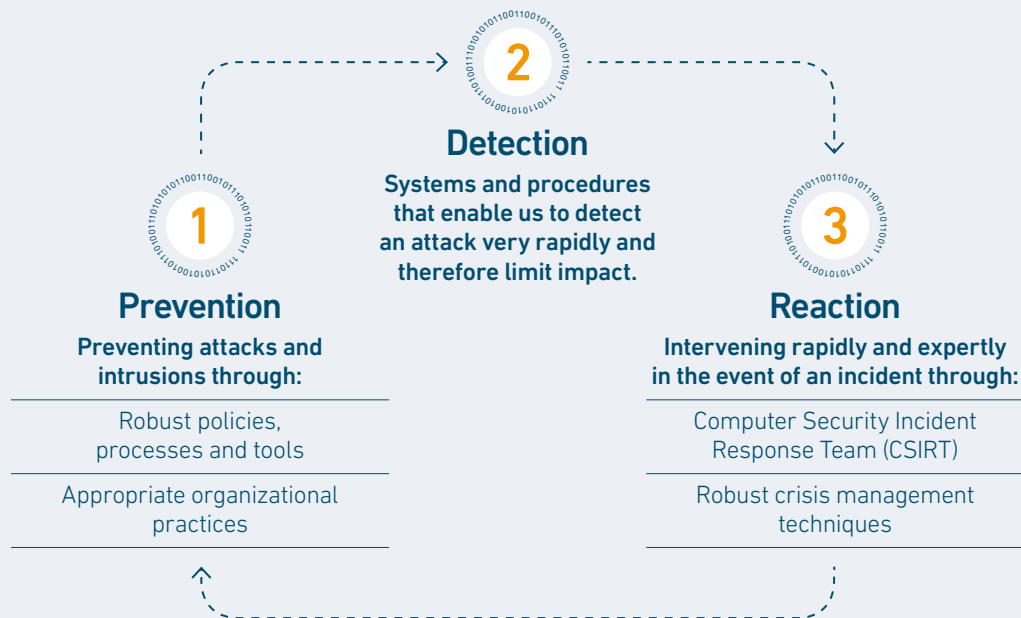


Investment in R&D in 2018

€265m

2017: €255m

Gemalto's Security Management System focuses on three key areas



Crisis and Business continuity

To ensure resilience in the face of unforeseen events, we have developed robust crisis management and business continuity response plans. For more on our approach to identifying, assessing and mitigating risks associated with our activities, see the Risk Management section on pages 37-40 of this report.

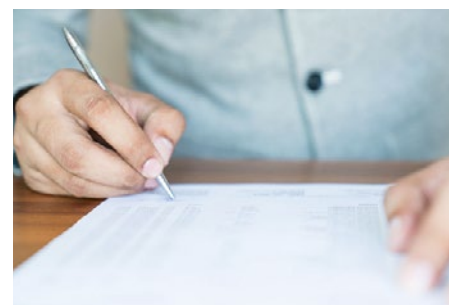
Managing our supply chain

Our responsible purchasing policies are based on United Nations Global Compact best practices as well as our Purchasing CSR Charter which clearly sets out what we expect of suppliers and how we require to work with them.

Our comprehensive Supplier Relationship Management process includes regular business reviews to help identify, address and quickly fix issues together.

To enhance efficiency and sustainability across our supplier networks, we also work with suppliers to initiate, implement and monitor their Continuous Improvement Plans.

Effective partnership is key for us. It is why we work closely with our suppliers to develop a high-quality, robust and reliable supply chain that supports our business objectives. This also helps us meet our high ethical standards and is backed by a comprehensive supply chain risk management process.



Main suppliers that signed the Purchasing CSR Charter (2018)

98%

2017: 98%

On-site supplier audits since 2014

70

People

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

Key engagement



Develop our agile skills and digital learning

Sustainable Development Goals



The digital world is built on a constant flow of creative and flexible solutions, with short feedback loops and continuous improvement. Gemalto has endorsed the agility mindset to better serve its customers and efficiently capture new business opportunities. We have implemented an agile skills program targeting diverse Gemalto employees, from developers to Operations, as well as Marketing, HR and Finance. In 2018, more than 1,000 people were trained or took part in agility workshops. Agility weeks were organized in three countries (France, Singapore and India), with a strong focus on DevSecOps, which is a methodology allowing us to keep security culture in our agile working methods.

Technologies within Gemalto’s eco-system are advancing rapidly and our people need the latest skills and knowledge to keep apace with our markets and customers. With adapted, up-to-date and on-demand learning programs, we respond to employees’ immediate needs across diverse disciplines and businesses. In 2017, we expanded our digital learning offer to give employees a greater choice of learning methods. In 2018, we continued to expand digital learning access for our employees based around the globe in fields such as cloud technologies, machine learning, data science, DevOps as well as a multitude of other new courses.

Talent attraction

We focus on hiring the best and most creative people in their respective fields by leveraging our ambitious talent acquisition strategy. This includes an employee referral system, our University Relations Program, and a growing online and social media presence. In 2018, we recruited over 2000 people across 44 countries. All new recruits follow our induction and newcomer orientation programs.

Health, safety and well-being

It is essential that we provide a safe environment for all our employees and visitors. Our HR and Health & Safety management systems are designed to reduce risks and ensure continuous improvement across our operations. Many of our production areas and our two main administration offices have achieved OHSAS 18001 certification, covering 52% of our employees.

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

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

In 2017 we launched a safety best practices training for site managers and on-site HSE teams. In 2018 it was further deployed to team managers.

Our remote working program allows eligible employees in several locations, the opportunity to work from home one or two days per week. By fostering a greater sense of trust, this initiative offers employees increased flexibility, independence and more efficient time management.



Employees trained in 2018

78%

2017: 75%



Our digital learning programs can be easily adapted to make them relevant to the maximum number of employees worldwide.”

Ramya Ganesan

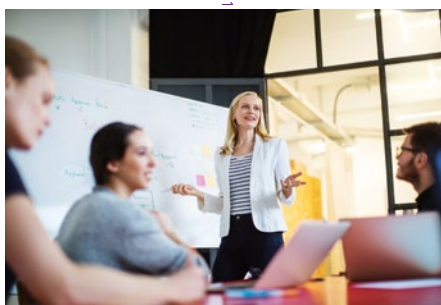
Learning and development manager (Singapore)



Equal opportunities and diversity

We believe our workforce should reflect both the global nature of our business and the diversity of our customers and end-users. Our Code of Ethics includes a clear statement on equal employment opportunities, in line with UN Global Compact principles.

Our employees are made up of 122 nationalities which is a key asset that we continually protect, enrich, and optimize through training, missions and mobility. We are a Tech company with roots in engineering and women make up 37% of all Gemalto employees and 28% of our exempt employee population. To create more balance, we focus on attracting more women and supporting their development and promotion into all levels of expert and management positions. In 2018, 42% of new recruits were women. In September 2018, in line with the Women's Empowerment Principles (WEP) Statement, part of the United Nations' Global Compact initiative signed by Gemalto, we launched a global Maternity Leave Program guaranteeing 15 weeks paid leave for all women employees regardless of location or local legislation.



Employee satisfaction

79%

2017: 80%

Society & Community

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

Key engagement



Build our 'non-profit program for trust in the digital world'

Sustainable Development Goals



In a world where the explosion of digital has multiplied both opportunities and risks, security is key to our daily lives. In this context, Gemalto seeks to use its skills and expertise to broaden its scope beyond the confines of the Company. In 2018 we launched our non-profit program for trust in the digital world. This new philanthropic program focuses on education and research with the following objectives:

- Encourage young people in developing countries, disadvantaged students, and particularly women to study Information and Communications Technologies (ICT) and Science, Technology, Engineering and Mathematics (STEM) disciplines.
- Help nurture the next generation of digital citizens by sharing best practices with regard to the appropriate and responsible use of technology.
- Support research into the sociological aspects of establishing a responsible digital identity.
- Develop prototypes and support projects run by NGOs to provide trusted digital services to help underprivileged people.

This program includes ongoing and new partnerships between Gemalto and various NGOs and universities in the countries where Gemalto is based. Our partnerships include:

- Education: Funding scholarships, tutoring students, participating in conferences, financing education programs and training, and developing communication tools.
- Research: Supporting research topics, funding chairs, participating in conferences, and developing prototypes.

In 2018 we signed eight partnerships with NGOs and Universities in six different countries.

Solutions with a social purpose

Our solutions help tackle some of society's major challenges. These include:

- Connectivity solutions for smart meters that promote energy efficiency and reduction of greenhouse gas (GHG) emissions. This helps utility companies improve energy efficiency by reducing energy loss and provides better integration of distributed power generation and renewable energy supplies. In the home, smart meters help consumers track and reduce their consumption and related costs.
- Mobile health solutions use IoT technology to deliver innovative services in an efficient, accessible way. For example, by providing real-time, remote monitoring for chronic illnesses such as diabetes, sleep apnea or heart disease, mHealth solutions can improve well-being, avoid hospitalization and reach people who live in isolated areas.

Engagement with stakeholders

We regularly engage with a wide range of individual and organizational stakeholders to hear their views, build partnerships and communicate our actions and performance.

- We are in constant dialog with our customers to identify common interests, meet mutual objectives, understand sustainability requirements and develop solutions. Our new Pulse customer listening program allows us to monitor the critical steps of our customers' journey via digital surveys. This helps detect gaps in their journey and perform the right improvement actions. Face-to-face interviews take place to assess the overall customer relationship, align our future market view and drive our product development. To gauge customer loyalty we employ the industry-standard Net Promoter Score (NPS), with the question "Would you recommend Gemalto to a colleague or peer?". In 2018, we had a NPS score of +54, ranking us amongst the top technology companies.
- Our annual 'PeopleQuest' survey is designed to track employee satisfaction globally so that we can continue to meet their high expectations and identify areas for improvement. Our annual Sustainable Development Day enables employees to share and learn about social and environmental issues. Every year, we share the priorities of our HSE and sustainability agenda and invite employee feedback on our Sustainability Report.



We support Passerelles numériques, a non-profit organization which provides education, technical and professional training in the digital sector to young underprivileged. These images illustrate some of the students benefiting from this program in the Philippines.

- In the countries where we have sites we are involved in various local initiatives supporting sustainable development such as mobility, training and social inclusion, environmental protection and economic development.
- We also engage with our suppliers through our responsible purchasing policy (see page 29).
- JustAskGemalto.com our consumer advice website gives us the opportunity to share our knowledge with end-users.

Promoting partnerships

A wide variety of partnerships support our business and CSR objectives, including those with universities, schools, NGOs, research bodies and industrial organizations (e.g. Tsinghua University in China, University of Texas, Austin etc.). These partnerships help talent attraction and support our research and innovation. We are a member of major federations and consortia, both within and outside of our industry (e.g. Eurosmart, SIMalliance, etc.).



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

Key engagement



Increase our renewable energy use

Sustainable Development Goals



Energy is an increasingly critical resource to power the digital world. Our commitment to increase the use of renewable energy is a pragmatic approach to help tackle climate change.

In June 2018, during our annual worldwide Gemalto Sustainable Development Day, we shared our vision for sustainable energy with our employees. The aim was to create awareness of our renewable energy actions and to remind people how to contribute to everyday energy savings.

We have long prioritized the reduction of energy consumption in our largest sites. In 2018, to continue this effort to improve our energy efficiency, we started the implementation of Energy Management Systems based on the ISO 50001 standard in our main French sites. Today our operational headquarters in Meudon (Paris), a manufacturing site in Normandy and a Research & Development site in the South of France are ISO 50001 certified.

We also sourced renewable electricity in certain countries where we operate thanks to renewable energy certificates such as Guarantee of Origin (GO) in France, Renewable Energy Certificate (Green-e Energy) in the US and International REC Standard (i-REC) in China. In France, all of our industrial sites, as well as our main offices use 100% renewable electricity enabling more than 98% of our employees to work using 'green' electricity.

We used 33,382 MWh of renewable electricity in 2018.

Our response to climate change

In 2009 we launched our carbon footprint program to help monitor and reduce the emissions from our operations. In addition to energy targets we focus on reducing emissions from freight, and minimizing business travel. We also help our customers to offset the carbon emissions associated with the products they buy from us. To date, this program has offset 25,000 tons of CO₂eq through projects in developing countries that improve living conditions while reducing greenhouse gas emissions.

In 2018, the Gemalto carbon offset offer was selected by the UK government as part of our contract to supply the next British passport – it will be the first CarbonNeutral® certified passport.

Thanks to our engagement on sustainable energy we strive to consume renewable electricity where possible. As part of this program we reduced our carbon footprint by 7867 tons of CO₂eq in 2018.

Eco-products and solutions

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

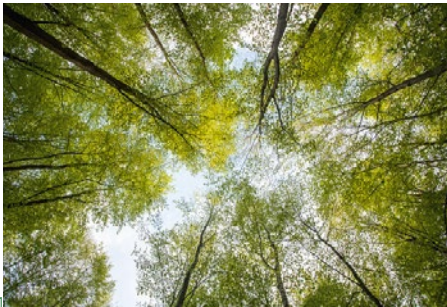
They include:

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



Renewable electricity in 2018

33,382 MWh



Carbon emissions offset since 2009

25,000 tons CO₂eq

Governance & Compliance

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

Key engagement



Implement best practices in the protection of personal data

Sustainable Development Goals



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

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

Our public website hosts several documents covering the protection of personal data. We implement the concept of privacy by design, evidences, and rights of individuals at R&D level. As of May 2018 we deployed a mandatory online training course on personal data protection to all our employees.

Anti-fraud, bribery and corruption

Gemalto's anti-fraud framework is designed to prevent, detect, deter and respond to fraudulent activities (see details page 40). Our employees are encouraged to use the Gemalto whistleblower procedure to raise any concerns about financial irregularities.

We extend our anti-fraud focus to suppliers and our agents who promote our solutions and services in some locations.

Compliance

Gemalto complies fully with international, regional and local customs and trade control laws, regulations and directives wherever it does business. This includes RoHS (directive on the restriction of the use of certain Hazardous Substances in electrical and electrical equipment), REACH (Registration, Evaluation, Authorization and restriction of Chemicals) and WEEE (Waste Electrical and Electronic Equipment) regulations. Our Trade compliance mitigating actions are described on page 44.

Human rights

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

Risk management and control, Governance

To know more about our Risk management and control as well as our Governance, please refer to pages 37 and 47 of this report.

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

1,027

2017: 487

Ethical conduct

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



Positive response by employees to ethics-related questions in our employee survey

90%

2017: 91%

Risk management and control



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

Philippe Vallée
Chief Executive Officer

The way we manage risk



Trusted to manage our risks

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

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

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

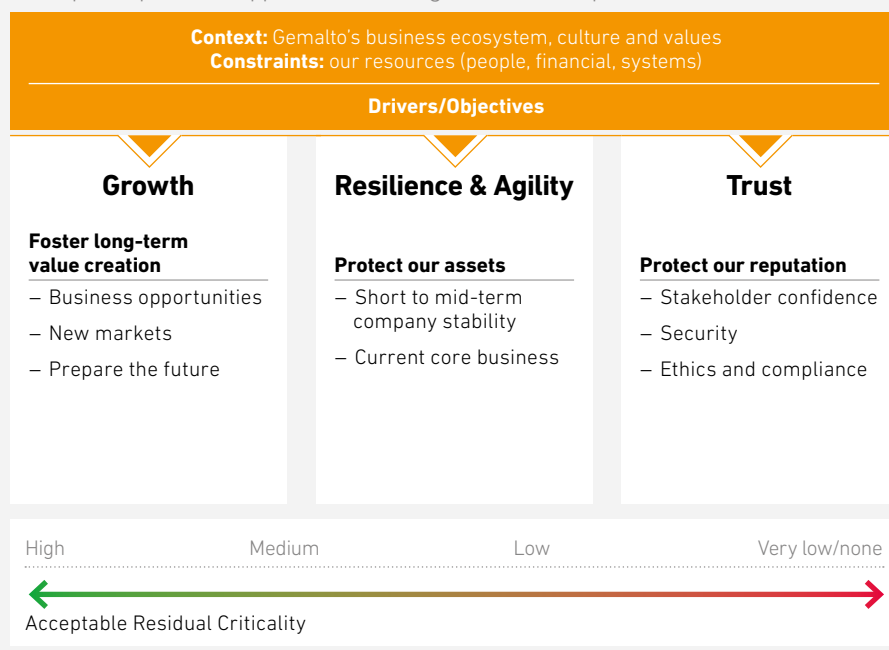
The Board needs reasonable assurance that our risk management and reporting systems remain sound. So we have a range of policies and processes involving both internal and independent controls: Internal Audit, external certification bodies and external auditors. These are designed to strike the right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

Risk appetite principles

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

As part of its Enterprise Risk Management Framework, Gemalto has developed its approach to Risk Appetite based on three pillars: Growth – Resilience & Agility – Trust.

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



How we share our risk management responsibilities

Who is responsible for what

The Board

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

Senior Management

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

Business management

First line of defense

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

Support functions

Second line of defense

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

Corporate risk management

Second line of defense

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

Internal audit

Third line of defense

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

Five key risk management processes

1

Budgeting, planning and reporting

See page 39

2

Risk assessment and mitigation

See page 39

3

Crisis and business continuity management

See page 40

4

Fraud risk management

See page 40

5

Transfer to insurance

See page 40

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 43-46. We have five dedicated processes for managing these and other risks:

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

1. Budgeting, planning and reporting

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

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

adjust our approach to business and our objectives accordingly.

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

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

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

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

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

2. Risk assessment and mitigation

Our risk management process has six key elements:



How we address risk management continued

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

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

* Enterprise Risk Management.



3. Crisis and business continuity management

Our crisis management processes and business continuity responses are designed to improve our resilience to all unforeseen events (e.g. supply chain disruption, employee repatriation, network intrusion attempts, etc.), and minimize their impact on our stakeholders and reputation.

In 2010 we first rolled out our Crisis Management Framework, which encompasses basic escalation and communication rules, guidelines for anticipation and action, and clear roles and responsibilities. We currently have in place 150 Crisis Management Leaders worldwide, trained through simulation exercises.

In 2018, we put in place a standardized process to review compliance crisis management plans with the Crisis Management Framework. A specific training session to cover the potential crises related to our new biometrics business following the acquisition of 3M’s Identity Management Business was conducted.

Our business continuity responses are built with the aim to ensure that in the event of a crisis, disruption and impact to both our business and our customers is kept to a minimum. 2018 has seen a focus on strengthening our existing framework, ensuring that the tools and education materials support the business continuity for the company and for our customers’ businesses. In addition,

commitment to address key elements of planning in support of our purchasing and continuity has remained consistent.

Having strengthened the assessment and continuous improvement of business continuity plans for our strategic operational sites through our Internal Control processes in 2018, we are now better placed to widen our scope in this domain going forward. The quarterly review meetings attended by our Business Continuity Leadership team continue to reinforce oversight and governance, and provide the driving force behind our continuity planning efforts.

4. Fraud risk management

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

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

In 2017, we performed a comprehensive fraud risk mapping covering all our activities and areas. This assessment allowed us to complete the assessment of corruption and bribery risks carried out at corporate level in 2016. We trained 1027 key people in anti-fraud, anti-bribery, anti-trust and ethics. In addition, 600 employees were trained in trade compliance topics.

5. Transfer to insurance

Our global insurance programs cover property damage, business interruption, public, product and professional liability, environmental impairment liability, cargo, cyber risks and Directors’ and Officers’ exposures. They aim to protect the Company against exceptionally large or numerous claims, at a cost that does not impair Group competitiveness. We neither

own nor operate any captive insurance: we use only high-quality and financially sound insurers, combining master policies with local insurance policies where countries require this.

Negotiation and coordination of these programs are carried out centrally with the help of leading insurance brokers with integrated international networks. In this way we secure broad and consistent cover for all

Gemalto activities and locations worldwide, cost optimization, and global reporting and control, while ensuring compliance with local regulatory requirements. We review our insurance strategies periodically, taking into account changes in our risk profile (such as acquisitions, claims, loss events and other activities) and insurance market trends.

How we monitor effectiveness

Ethical practices and employee confidence

In our 2018 internal PeopleQuest survey, employees confirmed their confidence in our ethical practices and performance. They said that Gemalto and its management:

90%

are committed to ethical practices

90%

provide adequate information about ethical practices

91%

set a good example

Risk management

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

Internal control

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

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

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

Every year, this team runs a self-evaluation campaign to ensure that the proper control is maintained and enhanced at all organization and process levels. The reliability of these self-evaluations is regularly tested by internal auditors. The 'Security, Quality and Sustainable development' department, with representatives throughout the Group, also promotes the appropriate culture and performs regular audits.

Action plans are agreed upon to remediate deficiencies and are monitored by the operational management with a particular focus on newly acquired companies. Results of the self-evaluation, associated testing and progress on remediation plans are reviewed by the Internal Control steering committee.

The Audit committee regularly reviews the internal control process effectiveness as well as the internal audit activity.

Financial control

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

How we provide independent assurance

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

Internal audit

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

External certifications

- We maintain a number of certifications: some, such as EMV, GSM SAS, ISO 9001, ISO/TS 16949, ISO 14001, OHSAS 18001, ISO 27001 and ISO 50001 which are necessary for the conduct of our business. The effectiveness of our Quality and Health, Safety and Environment (HSE) management systems is constantly challenged by external and internal audits seeking continuous improvement.

External auditor

- The external auditor provides an independent opinion on the financial results of the Group: its report is available on page 124. On top of this regulatory assessment, external auditors are seen as experts by the Company, who interacts with them on a constant basis, gives them unrestricted access to Gemalto sites and documentation, and has them communicate regularly with the Internal Audit department and with the Audit committee.
- The Audit committee assesses the work of the external auditor at least once a year.

Principal risks

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

Growth

Identity, IoT & Cybersecurity businesses do not reach growth objectives.



Relevance/materiality

- Failure to benefit as expected from business opportunities particularly in the Internet of Things, Cybersecurity and Government businesses.
- Failure to make security a ready-to-use service that grows as fast as the markets it protects.
- Sovereignty consideration reduces the potential market for global security solution providers despite increasing needs.
- Changes in regulations (e.g. data privacy) impact our international operations and industry.
- Offer from competition better fits market demands than Gemalto's.
- Market demand is not strong enough for cloud independent security solutions.

Potential impacts/effects

- Negative impact on revenues, cash flows and profitability sustainability.
- Negative impact on R&D, sales and marketing investment in these businesses.

Mitigating actions

Strategy

- Run competitive and market intelligence program.
- Run a formal multi-year development plan.
- Run a regular Opportunity and Portfolio financial review to gauge investment and cash allocation across our businesses.
- Invest on R&D, balancing near-term improvements with longer-term 'break-out' solutions.
- Perform selective M&A.
- Promote agility, benchmarking and quick market responses.
- Use common core technologies across whole business to leverage internal synergies.
- Contribute effectively to standardization bodies.
- Diversify use cases of our technologies and client bases.
- Invest in customer intimacy, focus on creating value for clients; high overall customer confidence in the Pulse customer listening program.

Offer

- Design security solutions to preserve customer ownership and control.
- Design security solutions to facilitate enforcement of local regulatory compliances.
- Design security solutions for and from the cloud, with a specific focus on the most stringent security use cases that cannot be served by generic public cloud environments.
- Provide customers with superior functionality and easier deployment by integrating our security services.
- Offer security consulting and audit services to best anticipate changes in customer demands.

Go to market

- Focus on industries where reach is strong.
- Target market leadership where Gemalto plays.
- Adjust continuously the geographic footprint by balancing local hiring with the right network of local partners and distributors.

Profitability

Smartcards & issuance businesses do not reach profitability objectives.



Relevance/materiality

- Market decreases faster than our costs, profit margin shrinks.
- Not reaching cost reduction objectives.
- Physical SIM cards and/or payment cards are replaced by software and dematerialized solutions before our position is strongly established there.
- Protectionism may favor local players vs global ones.

Potential impacts/effects

- Negative impact on cashflows and profitability sustainability.
- Inefficient distribution of physical, personnel and financial resources.

Mitigating actions

Strategy

- Optimize cost to serve smartcard market.
- Run a regular Opportunity and Portfolio financial review to gauge investment and cash allocation across our businesses.
- Focus on the digital transformation of smartcard markets.
- Focus on multi-platform hybrid security technologies.
- Promote agility, benchmarking and quick market responses.
- Invest in customer intimacy, focus on creating value for clients; high overall customer confidence in the Pulse customer listening program.

Offer

- Integrate our security solutions into a large number of devices, cloud and software platforms.
- Invest early in the dematerialization of smart card technology, applied to existing markets.
- Design security solutions to be deployed in hybrid customer IT environments.
- Design security solutions that provide a high quality end-user experience.
- Maintain a comprehensive Product and Software Platform architecture to quickly answer clients' unmet business needs.

Go to market

- Be selective on smartcard market opportunities, aligned with Gemalto profit margin objectives.
- Focus on digital ready/early adopter markets.
- Partner with key stakeholders in the digital transformation of the smartcard market.

Key: Main potential impacts expected when unforeseen circumstances occur:



Financial



Organizational



Reputational



Legal

Principal risks continued

Geopolitics and regulations

Geopolitical factors and uncertainties oblige Gemalto to assess potential impacts on our international operations.



Relevance/materiality

- Due to our worldwide presence, the Group is subject to numerous rapidly evolving and complex customs laws and export control regulations impacted by geopolitical factors (e.g. Brexit, China export control law, etc.).
- Political or regulatory uncertainties and tensions between major trading parties lead to unstable business climate which impact Gemalto's operations (e.g. trade protectionism like the current US-China trade war, US withdrawal from international agreements, etc.).

Potential impacts/effects

- Breach in regulations in case of lack of export permit, business with denied parties, etc.
- Fines and other sanctions.
- Impact on our image and reputation.
- Immediate/quick termination of business.
- Increased delays in deliveries (customs delays being a large barrier to trade).
- Impact on profitability and commercial competitiveness due to unexpected increase in customs tariffs, higher administrative costs, etc.

Mitigating actions

- Risk identification with early involvement of Trade Compliance & Tax at business and operational decision-making processes.
- Risk assessments with regular updates and follow up on progress on mitigation plans at senior management level.
- Policies and procedures, Code of Ethics.
- Dedicated network of 25 Trade Compliance champions who operate under the leadership of the Corporate Trade Compliance Manager.
- Use of automated tools (e.g. screening of denied parties).
- Regular training sessions (via eLearning, face-to-face, etc.) on export controls, incoterms, multi-party transactions, customs clearance, etc. to improve awareness.
- Regular internal and external audits.

Data protection and cybersecurity, data privacy regulations

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



Relevance/materiality

- Data protection and cybersecurity are core to our business, which itself is contingent on customer confidence in our ability to protect the privacy of the data they entrust to us.
- Hacking threats are growing significantly.
- Enhanced data quality and integrity lead to strategic business decisions and better customer service.
- Compliance with data privacy laws.

Potential impacts/effects

- Leakage and/or loss of data (confidential or personal) resulting, for example, from cyberattacks, employee negligence or the vulnerability of our IT systems.
- Inquiries, claims and remediation costs.
- Investigation by governmental privacy authorities, administrative fines, contractual liabilities, legal actions from data subjects.
- Constraints on data center footprint.
- Adverse impact on reputation and business.
- Drop in stock prices due to negative publicity.

Mitigating actions

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

Product quality and service delivery

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



Relevance/materiality

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

Potential impacts/effects

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

Mitigating actions

- Standardized manufacturing processes.
- Quality management system and world-class enterprise organization.
- Dedicated R&D teams for Product as well as Platforms & Services.
- Bid and contract reviews with approval process based on risk assessment and according to limits of authority.
- Product and professional liability insurance.
- Customer satisfaction measured regularly with high overall customer confidence in annual survey.
- Dedicated key account management program.
- Qualification labs continuously improving qualification processes.
- Failure at analysis labs.
- Corporate quality improvements programs, anti-error systems.
- Solution delivery: Risk analysis and solution criticality quotation system triggering level of security to target.
- Audits and self-assessment programs for Manufacturing plants, Data Centers and R/D centers.

Talent management

The required new technical skills for our people need to be accelerated to meet our growth and transformation ambitions.



Relevance/materiality

- The Group's success and its strategic shift towards Software and Services and the cloud are contingent on recruiting, retaining and developing highly skilled personnel (Senior Management, R&D, engineering, sales, marketing, data scientists, cloud developers...).
- There is intense competition for skilled employees in many of Gemalto's growth markets.
- The low turnover in mature markets means less possibility for hiring for new skills.

Potential impacts/effects

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

Mitigating actions

- Comprehensive Human Resources strategy with eight pillars (diversity, mobility, promotion from within, learning, recruitment, compensation & benefits, ethics & well-being, management by objectives).
- Technical Ladder to recognize individual contributors/technical skills.
- Cloud transformation learning program – 2500 engineers across Gemalto since 2016 with dedicated digital learning curriculum and certification.
- New skills development knowledge maps i.e. machine learning, data scientist.
- Working methodology transformation programs agile, DevOps, design thinking coaching, accelerator programs.
- Short-term and long-term management incentive plans.
- Succession plan for Senior Management positions.
- Company presence on professional social networks.
- Yearly Employee satisfaction survey and related action plan.
- Acquisition of specific expertise accelerated through M&A.

Key: Main potential impacts expected when unforeseen circumstances occur:



Financial



Organizational



Reputational



Legal

Principal risks continued

For further information about financial risks (e.g. interest rate risk, liquidity risk and credit risk), see Note 4 Financial risk management, pages 84-88.

Business integrity, ethics and reputation

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



Relevance/materiality

- As a listed company with a worldwide presence, the Group is subject to numerous rapidly evolving and complex laws and regulations. As a listed company operating worldwide, the Group is or may be impacted by several fast changing, complex laws and policies.
- Stakeholder trust is directly tied to ethical behavior, compliance with applicable rules and regulations and internal policies and procedures.

Potential impacts/effects

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

Mitigating actions

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

IP protection and claims

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



Relevance/materiality

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

Potential impacts/effects

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

Mitigating actions

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

Contracts

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



Relevance/materiality

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

Potential impacts/effects

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

Mitigating actions

- In-depth risk analysis ahead of bidding process for major opportunities, taking into account the Group's chances of success.
- Offer/contract review with clear and detailed presentation of risks & related mitigation strategy & submission of duly qualified offer/contract (legally and financially).
- Approval process of offer/contract as per authority limits in order to ensure decision-making at proper management level and anticipate efficient allocation of resources.
- Project-based organization in Government Business Unit and complex solutions and services contracts so as to anticipate risks identified and implement relevant mitigation actions agreed, notably at the stage of the bid and/or contract management.
- Compliance with Authority limits, bid & contract management processes, revenue recognition policy, contractual guidelines and training to increase awareness on those processes and guidelines.

Key: Main potential impacts expected when unforeseen circumstances occur:



Governance

Governance

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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 member, independent Chairman of the Board

N

Initial appointment: 2007

Current term: 2017-2019 (fourth term)

Other current appointments: member of the Board of Directors of Genpact Limited and Lead Director of R1 RCM Inc.(formerly named Accretive Health).

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

Philippe Vallée 1964

French



Executive member Chief Executive Officer

Initial appointment: 2016

Current term: as of September 1, 2016 – 2020

Other current appointments: None.

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

Joop Drechsel 1955

Dutch



Non-executive, independent

A C

Initial appointment: 2015

Current term: 2015-2019 (first term)

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

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

Johannes Fritz 1954

German



Non-executive, independent

M N

Initial appointment: 2006

Current term: 2018-2020 (fifth term)

Other current appointments: Head of the Quandt/Klatten Family office and Managing Director of Seedamm-Vermögensverwaltungs GmbH; Chairman of the supervisory board of Solarwatt GmbH; Board member of Drees & Sommer AG; Board member of Lonrho Holdings Limited and member of the supervisory board of Mann + Hummel Verwaltungs GmbH.

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

Homaira Akbari 1961

American/
French

Non-executive member, independent

**Initial appointment:** 2013**Current term:** 2017-2021 (second term)

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

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

Buford Alexander 1949

American



Non-executive, independent

**Initial appointment:** 2009**Current term:** 2017-2019 (third term)

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

Experience: Buford Alexander is a Senior Partner 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

**Initial appointment:** 2010**Current term:** 2018-2020 (third term)

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

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

Olivier Piou 1958

French



Non-executive member, non-independent

**Initial appointment:** 2004**Current term:** 2016-2020 (first term as non-executive).

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

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

Jill Smith 1958

American/
British

Non-executive, independent

**Initial appointment:** 2017**Current term:** 2017-2021 (first term)

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

Experience: Jill Smith brings more than 25 years of experience as an international business leader, including 17 years as CEO of private and public companies in the technology and information services markets.

Previously, Jill Smith served as Chairman, CEO and President of DigitalGlobe Inc. (NYSE: DGI), a global provider of satellite imagery products and services. She started her career as a consultant at Bain & Company, where she rose to become Partner. She subsequently joined Sara Lee as Vice President, and went on to serve as President and CEO of eDial, a VoIP collaboration company, and of SRDS, a business-to-business publishing firm. She also served as Chief Operating Officer of Micron Electronics, and co-founded Treacy & Company, a consulting and boutique investment business. She was a Non-Executive Director of SoundBite Communications (NASDAQ: SDBT) (2012-2013) prior to its acquisition in 2013, of Elster Group (NYSE: ELT) (2011-2012) prior to its acquisition in 2012 of Hexagon (Nasdaq Stockholm: HEXA B) (2013-2017), and of Endo International plc (NASDAQ: ENDP) (2012-2018).

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

Yen Yen Tan 1965

Singaporean



Non-executive, independent

**Initial appointment:** 2012**Current term:** 2016-2020 (second term)

Other current appointments: President, Asia Pacific Vodafone Global Enterprise; Director, Singapore Press Holdings; Director, ams AG, Chairperson, Singapore Science Center; 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: Ms. Tan has considerable experience in the technology sector. She was Regional VP/ Managing Director, Asia Pacific (South), SAS Institute; Senior VP Applications, Oracle Corporation Asia Pacific (2010-2014); VP/Managing Director, Hewlett-Packard Singapore (2005-2010) and various senior management positions with HP across Asia-Pacific (1993-2005). Director, Singapore Defence Science and Technology Agency; Chairperson, Singapore's Infocomm Technology Federation (2009-2011); Board member, Infocomm Development Authority (2009-2011), committee member of its Media Masterplan's Talent and Manpower Work Committee (2013-2014); Deputy Chairperson, Singapore's Ministry of Communications & Information Internet & Media Advisory committee (2009-2011); and member, IT sub-committee, Singapore's Government Economic Strategies Committee (2010-2011).

Our Senior Management

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



Emmanuel Unguran
EVP Mobile Services
& IoT

Isabelle Marand
EVP Corporate
Communications

Sébastien Cano
EVP Enterprise
& Cybersecurity

Serge Barbe
Chief Technology Officer

Philippe Vallée
Chief Executive Officer

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

Eva Rudin
EVP Central Operations



Frédéric Trojani
EVP Government

Virginie Dupérat-Vergne
Chief Financial Officer

Philippe Cabanettes
EVP Human Resources

Philippe Cambriel
EVP Corporate Projects
and France

Bertrand Knopf
EVP Banking
& Payment

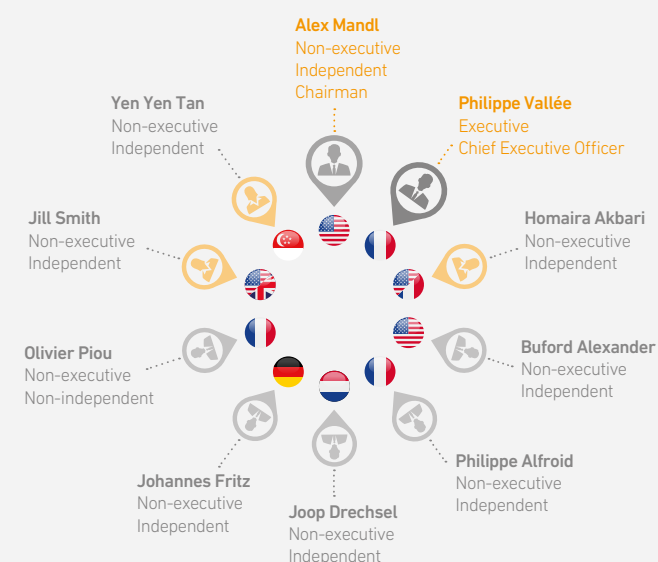
Eke Bijzitter
Governance and
Corporate Officer

Jean-Pierre Charlet
EVP Legal and
Company Secretary

Our Board during 2018

Board composition

as at December 31, 2018



The Board's focus during the year

The Board held 11 meetings: five in person and six by conference call.

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

- Agenda for the AGM.
- Annual budget plan.
- Board and committee composition, including chairmanship.
- CEO and Senior Management remuneration.
- Compliance with tax regulations worldwide where Gemalto operates.
- Corporate governance structure and developments, including the Dutch corporate governance code.
- Corporate strategy: oversight of the implementation and execution of the Company's strategy.
- Design and effectiveness of risk management and internal control systems and any significant changes to them. Risk management and prevention updates.
- Development of business activities, investment and M&A opportunities, as well as the competitive environment.
- Financing requirements for the Group.
- Group financial performance and disclosures, as well as review of the outlook statements.
- Main risks to the business.
- Offer from Thales: guiding the process leading up to the Offer, the launch of the Offer, the status of obtaining necessary regulatory clearances and the preparation of the integration within the Thales group following the Offer, including focusing on employee retention, by closely monitoring the entire process, liaising with Gemalto's advisors, regularly discussing the progress within the Board and advising the CEO.
- Performance and functioning of the Board, the Board committees and the individual Board members.
- Share buy-back and dividend policy.
- Succession planning for Senior Management, and related management development.

Reappointments in 2018

- Philippe Alfroid was reappointed as non-executive Board member until the AGM of 2020.
- Johannes Fritz was reappointed as non-executive Board member until the AGM of 2020.

Expiration of mandate in 2018

- John Ormerod's mandate as non-executive Board member expired at the 2018 AGM.

Board and committee attendance records

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

	B	A	C	N	M
Alex Mandl	10/11	–	–	4/4	–
Philippe Vallée	11/11	–	–	–	–
Homaira Akbari	10/11	5/7	–	–	3/4
Buford Alexander	10/11	–	–	4/4	4/4
Philippe Alfroid	8/11	–	4/4	–	2/4
Joop Drechsel	9/11	6/7	4/4	–	–
Johannes Fritz	8/11	–	–	4/4	3/4
John Ormerod	4/5*	4/4*	2/2*	–	–
Olivier Piou	11/11	7/7	–	–	4/4
Jill Smith	9/11	7/7	4/4	–	–
Yen Yen Tan	9/11	–	–	4/4	4/4

* Expiration of mandate at the AGM of 2018

Independence

During 2018, one non-executive Board member is considered not independent, as he is the former CEO. All other Board members meet the independence requirements of the Dutch corporate governance code's best practice provision 2.1.8. The Company is hence compliant with best practice provision 2.1.7.

Board reappointment schedule as at December 31, 2018

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

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

Our Board during 2018 continued

Our training and induction program

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

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

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. During 2017, the Board engaged the services of an external expert for the assessment of the Board and committees. This assessment examined performance, effectiveness and composition. It also covered key areas such as: strategy; risk management and internal controls; performance management; shareholder communication; Board culture and dynamics; Board composition, with particular reference to balance of skills, experience, independence, knowledge of the Group, and diversity; and the Board and committee calendar, agendas, materials and support. The external expert reported on the conclusions to the Board, with a number of suggested improvements for consideration and implementation by the Board, which the Board continued to focus on during 2018.

Public offer by Thales

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

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

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

During the 2018 AGM, Gemalto informed its shareholders about the Offer and proposed to adopt certain technical resolutions that are conditional on consummation of the Offer. All these resolutions were adopted by the General Meeting.

More information on the Offer can be found in the Offer Document on Gemalto's website.

During the period that the Offer was launched, the Board closely monitored the offer process and the status of obtaining the necessary regulatory clearances.

Board composition post-completion of Thales Offer

Following completion of the Offer, the Board will be composed as follows:

Philippe Alfroid Non-executive Board member Independent	Pascal Bouchiat Non-executive Board member Non-independent	Pierre-Eric Pommellet Non-executive Board member Non-independent	Marie-Hélène Sartorius Non-executive Board member Independent
Isabelle Simon Non-executive Board member Non-independent	Philippe Vallée Executive Board member and Chief Executive Officer		

Board committee reports

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

Report of the Audit committee

Committee members on December 31, 2018
(all being independent, except Olivier Piou)

Joop Drechsel (Chairman)

Homaira Akbari

Olivier Piou

Jill Smith

Number of committee meetings in 2018: 7

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

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

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

In particular, during 2018 the committee considered and reported to the Board on the following:

- Annual financial statements and the related report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements. Areas of focus were:
 - the appropriate application of revenue recognition policies, in particular in areas of business, such as software development and implementation, where contracts have multiple components and Government Programs where contracts often have multiple components and cover extended periods of time;
 - provisions for tax across the range of countries in which the Company operates, in particular where tax laws are applied in a more subjective way;
 - the capitalization and amortization of development expenditure;
 - impairment testing of intangible assets;
 - provisions for credit risk in particular in relation to sales in emerging markets;
 - accounting for bonus payments and share-based compensation expense; and
 - the overall presentation of the financial statements including the preparation of the alternative performance measure (PFO).
- Condensed semi-annual financial statements and the related report to the committee by the external auditor, as well as the announcements of the interim trading updates, including quarterly revenue figures.
- The development and implementation of the external auditor's plan for the 2018 audit. The committee reviewed the external auditor's approach, its assessment of financial risk and materiality and scope of planned procedures for the year. The committee considered the auditor's procedures for maintaining a high standard of audit quality including steps taken to ensure their continuing independence. The committee considered the scope of and fees for non-audit services consistent with the policy established by the committee.
- During 2018, the committee reviewed the performance of KPMG, the Company's external auditor.
- Outlook statements and forecasts and the underlying documents.

Board committee reports continued

- The Company's financial and risk management system and key internal financial control policies and procedures. These included a review of the cash management, the share buy-back program, counterparty risk and outstanding credit facilities, including the impact of foreign currency fluctuations, tax and treasury risks, as well as hedging. The committee further reviewed the Enterprise Risk Management program, focusing on fraud and the internal control framework. 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.
- A global ERP implementation project aimed at standardizing key systems across the Company's businesses. Some areas where particular functions or activities are distinct will continue to operate different systems. This is a multi-year project, which started in 2016, and the committee continued to review the scope, governance, and risk management of the project.
- Whistle-blowing. Most reports are related to relatively minor issues. They are dealt with in strict confidence by the Company's confidential advisor and where appropriate with the support of our Anti-Fraud Commission and Internal Audit. On the rare occasions where potentially serious issues are reported, in particular involving Senior Management, the issues are investigated, again in strict confidence, by the committee and the Chairman of the Board, assisted by an independent outside counsel.
- Significant claims and disputes – including those resulting in litigation.
- The internal audit charter, the internal audit plan for 2018 and 2019 and its coverage in relation to external audit.
- The effectiveness and independence of the internal audit process, considering internal audit findings and recommendations and management's follow-up actions.

Report of the Compensation committee

Committee members on December 31, 2018
(all being independent)

Philippe Alfroid (Chairman)

Joop Drechsel

Jill Smith

Number of committee meetings in 2018: 4

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

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

The committee prepared the 2018 Remuneration report as set out on pages 64-68.

Due to the specific context of the Offer, the committee did not propose a Long Term Incentive grant for 2018, nor did the committee propose the launch of a 2018 Global Employee Share Purchase Plan.

Report of the Nomination and Governance committee

Committee members on December 31, 2018
(all being independent)

Alex Mandl (Chairman)

Buford Alexander

Johannes Fritz

Yen Yen Tan

Number of committee meetings in 2018: 4

During the year, the committee made recommendations to the Board for Board reappointments and committee memberships, taking into account the diversity policy and profile of the non-executive Board members.

Based on the committee's advice, the Board recommended the reappointment of the Board members who stood for reappointment at the 2018 AGM, as the Board is pleased to be able to capitalize further on the knowledge and experiences of these Board members, which are of particular added value for Gemalto and its stakeholders.

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

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

Report of the M&A committee

Committee members on December 31, 2018
(all being independent, except Olivier Piou)

Johannes Fritz (Chairman)

Homaira Akbari

Buford Alexander

Philippe Alfroid

Olivier Piou

Yen Yen Tan

Number of committee meetings in 2018: 4

The committee advised the Board in respect of the Company's merger, acquisition and divestiture activities. The committee met four times and facilitated several full Board discussions on strategy and M&A related topics.

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

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2018 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 Strozilaan 382, 1083 HN, Amsterdam, the Netherlands. Its registration number on the Amsterdam trade register is 27.25.50.26.

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

Compliance with the Dutch corporate governance code

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

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

- **Provision 2.6.1:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities. Gemalto has established a complaints-related procedure relating only to the reporting of alleged financial irregularities. We depart from the code in exempting alleged irregularities of a general or operational nature from this procedure since as a global company we have been taking into account the laws of different countries, where we are located. We are monitoring the evolution of such laws and, if and when feasible, we will reconsider the scope of the complaints-related procedure in 2019.

- **Provision 3.2.3:** this provision recommends that severance payment in the event of dismissal may not exceed one year's salary, being the fixed compensation component. We depart from the code. However, the shareholders have approved the following deviations for the CEO:

- a. Up to August 31, 2019: up to a max of 18 months of reference salary, fixed and variable compensation, to be decided by the Board;
- b. As from September 1, 2019: 12 months of reference salary; and
- c. In the exceptional case that the severance payment based on the CEO's French employment agreement, as required by French law, exceeds the severance payment as provided under a. and b., then the severance payment as required by French law prevails. In such a case no additional severance payment will be due for the part related to the CEO's Executive Board mandate.

- **Provision 5.1.3:** this provision recommends that the Chairman of the Board may not have been an executive Board member. Alex Mandl was executive Chairman of Gemalto from June 2006 to December 2007. Alex Mandl is Chairman of the Board as the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders. As long as Alex Mandl is Chairman of the Board we depart from the code.

Board of Directors

One-tier Board

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

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

This specifically includes:

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

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

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

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

Composition

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

The Board adopted in December 2017 the diversity policy and profile of the non-executive Board members, which is published on our website. The policy sets out the desired expertise and background of the non-executive Board members. In addition, there is an overview of the skills and experiences of the Board members and the pursued goals in respect of the make-up of the Board. With respect to diversity among non-executive Board members, the objective pursued, is to have a variation of age, gender, expertise, social background and nationality. In as much as possible a balance shall be strived for to achieve the above mentioned variation. The Board aims to comply with the relevant requirements by law as regards gender diversity for the Board.

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

Dutch law prescribes a 30% gender diversity in the Board. As there are currently three women out of ten Board members, the 30% gender diversity is achieved for the Board.

At least one of the non-executive Board members can be regarded as a financial expert in accordance with the Audit committee charter. At the 2007 AGM, the maximum number of Board members was set at 11 to allow the Board to determine its optimal size from time to time. During 2018, the composition of the Board was as follows:

- Until the 2018 AGM: one executive Board member (the CEO) and ten non-executive Board members.
- As from the 2018 AGM: one executive Board member (the CEO) and nine non-executive Board members.

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

The Board is assisted by two Company Secretaries, Eke Bijzitter and Jean-Pierre Charlet.

Appointments

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

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

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

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

Other Board appointments

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

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

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

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

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.

Our governance structure continued

Conflicts of interest

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

Conflicts of interest, potential or actual, between the Company and members of the Board are governed by the Articles of Association and the Board charter. The Board must approve any decision to enter into a transaction where a Board member has conflicts of interest that are material to the Company or the individual Board member. Any such transaction will be declared in the Annual Report for the relevant year with a declaration that we have complied with best practice provisions 2.7.3 and 2.7.4 of the Dutch corporate governance code. Following the Gemalto Board charter, a Board member must step down temporarily or resign if a significant conflict exists and cannot be resolved. A Board member shall not take part in the assessment by the Board of a potential conflict of interest involving that Board member and shall furthermore not take part in any decision-making process (beraadslaging en besluitvorming) that involves a subject or a transaction in relation to which such Board member has a direct

or indirect personal interest which conflicts with the interest of the Company. In 2018, no transactions were reported where a Board member had a conflict of interest that was material to the Company. For an overview of related party transactions, if any, please see Note 31 of the consolidated financial statements.

Indemnification of Board members

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

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2018

Name	Shares	American Depository Receipts of Shares	Maximum (unvested) Restricted Share Units	Units in a Fonds Commun de Placement d'Entreprise
Alex Mandl	10,000 ¹			
Philippe Vallée	181,300 ²		115,100 ³	20,545.28 ⁴
Homaira Akbari		4,500 ⁵		
Olivier Piou	473,999 ⁶			72,658.96 ⁴

¹ Purchased in 2014, through a company controlled by the Board member.

² Progressively acquired since 2009.

³ Progressively granted since 2014.

⁴ Progressively purchased through participating in Global Employee Share Purchase Plans.

⁵ Progressively purchased since 2014, through a company controlled by the Board member.

⁶ Progressively acquired since 2004.

Board committees

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

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

Audit committee

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

Compensation committee

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

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

Nomination and Governance committee

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

M&A committee

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

Risk management and internal control systems

Gemalto maintains operational and financial risk management systems backed by systems and procedures for monitoring and reporting. A separate internal control function ensures compliance with our internal control requirements. Our risk management and internal control systems are explained in detail on pages 37-46 and the Board's statement on internal risk management and control systems is shown on page 69.

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

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

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

Shares owned and rights to acquire shares

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

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

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

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

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital of €150,000,000 is divided into 150,000,000 ordinary shares with a nominal value of €1 each. On December 31, 2018, the Company's issued and paid-up share capital amounted to €90,920,356. This consisted of 90,920,356 ordinary shares, of which 201,045 were held in treasury and 90,719,311 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 2018 AGM gave the Board authorization to repurchase Company shares. During 2018 no shares were repurchased. Shares held in treasury carry no voting rights.

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

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

2018 AGM

The AGM was held on May 18, 2018. 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:

- 2017 Annual Report (discussion item).
- Application of the remuneration policy in 2017 (discussion item).
- Adoption of the 2017 financial statements (voting item).
- Dividend policy and no dividend for 2017 (discussion item).
- Discharge of the CEO's and non-executive Board members for the fulfillment of their respective duties during 2017 (voting items).
- Reappointment of two non-executive Board members (voting items).
- Renewal of the Board's authorization to repurchase Company shares (voting item).
- Authorization of the Board to issue shares and to grant rights to acquire shares in the share capital of the Company with or without pre-emptive rights accruing to shareholders (voting items).
- Explanation of the recommended public offer made by Thales (Discussion item)
- Conditional amendment of the Articles of Association following settlement of the Offer (Voting item)
- Conditional conversion of Gemalto and amendment of the Articles of Association following delisting from Euronext Amsterdam and Euronext Paris (Voting item)
- Conditional appointment of four new Non-executive Board members as of settlement of the Offer (Voting items)
- Discharge of Board members for the fulfillment of their duties during the 2018 financial year (voting items)

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

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

Our governance structure continued

Voting rights

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

Shareholders' disclosures published on the AFM website on December 31, 2018

March 29, 2018:	DNCA Finance	5.03% capital interest and voting rights.
January 15, 2018:	Magnetar Financial LLC	3.01% capital interest and voting rights.
June 16, 2016:	S.N.Quandt	5.67% capital interest and voting rights
December 2, 2015:	S.H.U. Klatten Née Quandt	3.21% capital interest and voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights

Note that the table may not reflect the actual shareholding as of December 31, 2018 due to the following:

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

Authorizations granted to the Board

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

- To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, with a maximum of 1.5% of the issued share capital per calendar year, up to a total of 5% of the issued share capital at the date of the 2014 AGM, for a period of five years, starting on May 21, 2014, without preemptive rights accruing to shareholders with respect to such share issues for the purpose of the Gemalto N.V. Global Employee Share Purchase Plan (GESPP) and/or the Gemalto N.V. Global Equity Incentive Plan (GEIP).
- To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 5% of the issued share capital at May 18, 2018, for a period of 18 months, starting on May 18, 2018, with the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.
- To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 25% of the issued share capital at May 18, 2018, for a period of 18 months, starting on May 18, 2018, without the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.
- To limit or exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 5% of the issued share capital at May 18, 2018 for the purpose of M&A and/or (strategic) alliances for a period of 18 months, starting on May 18, 2018.
- To limit and exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 10% of the issued share capital at May 18, 2018, for the purpose of a non-dilutive tradable rights offering for a period of 18 months, starting on May 18, 2018.
- To acquire, at any time, up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including November 17, 2019. On December 31, 2018, the Company's issued share capital consisted of 90,920,356 shares, of which 201,045 were held in treasury: on that basis the remaining authorization covered up to 8,890,990 shares.

Distribution of profits

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

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.

In 2018, we did not pay a dividend.

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, 2018, published on the AFM website at www.afm.nl.

Specific provisions of the Articles of Association

Required majorities and quora

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

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

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

(Re)appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually.

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 58-60 and ‘Shareholders and General Meetings’ on pages 61-63 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Global Equity Incentive Plan – awards granted to employees

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

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

This accelerated vesting mechanism will apply in case of successful completion of the bid by Thales, as well as in case of successful completion of any competing tender offer.

Global Employee Share Purchase Plan – FCPE: system of control

For the last time in 2017, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries could 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 464,657 shares of Gemalto on December 31, 2018. It exercises its voting rights on these shares independently, without instructions from participating employees.

Merger agreement with Thales

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

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

Corporate governance statement

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

Non-financial information statement

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

Remuneration report

This report describes:

- Gemalto's remuneration policy for the CEO.
- Compensation paid to Philippe Vallée as CEO in 2018.
- Compensation paid to non-executive Board members in 2018.

Introduction

The Board determines the CEO's compensation in accordance with the remuneration policy approved by shareholders in 2008. This policy also provides guidance on Senior Management compensation (though the latter is not addressed in this report). The policy is published in full on our website. The CEO's compensation package complies with the Dutch corporate governance code, with the exception of best practice provision 3.2.3, which is explained on page 58.

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

CEO remuneration policy

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

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

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

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

Comparison with peer companies

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

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

International high-tech peer companies

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

French peer companies

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

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

Compensation elements

The CEO's compensation package consists of:

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

Details of the CEO's compensation are shown in the table on page 66 and in note 14 to the statutory financial statements of the Holding Company.

Base salary (fixed part of the annual cash compensation)

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

It is reviewed annually by the Compensation committee.

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

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

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

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

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

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

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

Restricted share units (RSUs)

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

Share options

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

Employment contract

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

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

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

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

- As from September 1, 2016 up to August 31, 2019: up to a maximum of 18 months of reference salary (base salary + Board fees + bonuses), to be decided by the Board.
- As from September 1, 2019: 12 months of reference salary.
- In the exceptional case that the severance payment based on Philippe Vallée's French employment agreement, as required by French law, exceeds the severance payment as provided under a. and b., then the severance payment as required by French law prevails. In such a case no additional severance payment will be due for the part related to Philippe Vallée's executive Board mandate.

Benefits and pension contributions

The CEO enjoys the benefits appropriate to his position that apply to French employees. These include the ability to participate in the Gemalto Employee Share Purchase Plan (GESPP). French employees participate in this plan through a Fonds Commun de Placement d'Entreprise (FCPE), a fund which subscribes to Gemalto shares and gives the employee units of the FCPE in exchange. There was no GESPP offered in 2018. The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided.

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2018, and none were outstanding on December 31, 2018.

Remuneration report continued

Compensation for Philippe Vallée as CEO in 2018

Base salary	€750,000	The CEO's annual salary is €750,000, including a fixed fee for his position as executive Board member of Gemalto N.V.
Variable incentive	€1,172,804	<p>For 2018, as in previous years, the targets were:</p> <p>Financial targets, accounting for two-thirds of the variable incentive:</p> <ul style="list-style-type: none"> • Revenue: 4/15 of the variable incentive. Achievement 189.5% of objective target. • Profit from operations: 4/15 of the variable incentive. Achievement 127.4% of objective target. • Free cash flow: 2/15 of the variable incentive. Achievement 93.6% of objective target. <p>Personal targets, accounting for one-third of the variable incentive: these relate to the CEO's specific responsibilities and are defined as measurable actions linked to Gemalto's success and development. Personal targets include customer satisfaction and employee engagement. Achievement 100% of objective target.</p> <p>For meeting 100% of these objectives, the performance-based annual variable compensation is 120% of base salary. Exceptional performance exceeding 100% achievement of objectives can increase the variable compensation to 180% of base salary.</p> <p>The performance of the CEO and of the Company in 2018 led to a score of 130.3% against the CEO's variable incentive targets. The variable incentive payment to Philippe Vallée was €1,172,804 representing 156.4% of his base salary.</p> <p>The Board did not use its discretionary power to modify the variable incentive.</p>
Conditional multi-year share-based plan	Not applicable	Not applicable
Benefits and pension contributions	€81,793	The CEO participates in the mandatory Gemalto pension plan required by law in France. No supplemental pension plan is provided.

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

Annual total compensation ratio

We monitor the ratio in annual compensation for our employees. In 2018, the annual compensation ratio of the CEO compensation (€1,156,000) and the median annual compensation of our employees (€38,011) is 30.4. In 2017, the annual compensation ratio of the CEO compensation (€1,230,480) and the median annual compensation of our employees (€38,495) was 32.0.

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

- The CEO's annual compensation is calculated from the annual base salary for 2018 + the variable incentive as CEO paid out in 2018.
- The median annual compensation is calculated from the annual base salary for 2018 + the average bonus paid out in 2018 (with December 2018 exchange rates).

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

Overview of awards over which he did not have unrestricted control at the start of 2018.

Date of grant	Number	Value at grant date	Vesting conditions	Date of vesting	Achievement (Performance vesting conditions)	Value at vesting date ¹	End of lock-up	Value at end of lock-up
March 2012	12,000	€457,920 ²	Performance vesting condition: <ul style="list-style-type: none"> Reaching a certain profit from operations for 2013. Service vesting condition: <ul style="list-style-type: none"> Being an employee of Gemalto on December 31, 2014. 	December 2014	Achievement 100% of target (Number of RSUs: 12,000)	€814,800	January 2017	€664,560
April 2014	May vary from 0 to 50,000	€3,800,500 ³	Performance vesting conditions: <ul style="list-style-type: none"> Reaching the 2017 PFO target. Reaching a certain cumulative PFO over the period 2014-2017. Reaching a certain cumulative EPS over the period 2014-2017. Reaching the 2017 Platforms & Services Revenue target. Full vesting by meeting 100% of the above conditions; partial vesting by meeting one or more of the above objectives. Service vesting condition: <ul style="list-style-type: none"> Being an employee of Gemalto on December 31, 2017. 	AGM 2018	Achievement 40% of target (Number of RSUs: 20,000)	€997,800	N/A	N/A
August 2015	May vary from 0 to 40,000	€2,329,200 ²	Performance vesting conditions: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Being an employee of Gemalto on August 31, 2018. 	August 31, 2018	Achievement 20% of target (Number of RSUs: 8,000)	€400,160	N/A	N/A
June 2016	100	€5,353 ³	Service vesting condition: <ul style="list-style-type: none"> Being an employee of Gemalto on June 2, 2019. 	June 2, 2019*	N/A	N/A	N/A	N/A
October 2016	May vary from 0 to 50,000	€2,731,000 ³	Performance vesting conditions: <ul style="list-style-type: none"> Reaching a certain Platforms & Services revenue target in 2017. Reaching a certain cumulative revenue target of Government Programs, IDSS and M2M in 2017 Reaching a certain Profit from Operations in 2017. Service vesting condition: <ul style="list-style-type: none"> Being an employee of Gemalto on October 3, 2019. 	October 3, 2019*	N/A	N/A	N/A	N/A
September 2017	May vary from 0 to 65,000	€1,252,550 ³	Performance vesting condition: <ul style="list-style-type: none"> Reaching a certain Gemalto Total Shareholder's Return ('TSR') versus the index STOXX Europe 600 Technology TSR over the period September 2017 – September 2020. Service vesting condition: <ul style="list-style-type: none"> Being an employee of Gemalto on September 30, 2020. 	September 30, 2020*	N/A	N/A	N/A	N/A

* Accelerated vesting upon completion of the public offer by Thales

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

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

³ Method used for valuation: stochastic model.

Remuneration report continued

Remuneration of non-executive Board members

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

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

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

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

Gemalto does not offer non-executive Board members personal loans, guarantees or similar benefits. None were granted in 2018, and none were outstanding on December 31, 2018.

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

The remuneration of each non-executive Board member in office on December 31, 2018, for the year 2018 is detailed in the table below and also disclosed in note 14 to the statutory financial statements of the Holding Company.

Remuneration of Board members in office on December 31, 2018

	2018 total (€)	Board (€)	Audit committee (€)	Nomination Governance Committee (€)	Compensation committee (€)	M&A committee (€)
Alex Mandl	265,000	250,000		15,000		
Philippe Vallée*	300,000	300,000				
Homaira Akbari	94,000	70,000	16,000			8,000
Buford Alexander	86,000	70,000		8,000		8,000
Philippe Alfroid	93,000	70,000			15,000	8,000
Joop Drechsel	108,000	70,000	30,000		8,000	
Johannes Fritz	93,000	70,000		8,000		15,000
Olivier Piou	94,000	70,000	16,000			8,000
Jill Smith	94,000	70,000	16,000		8,000	
Yen Yen Tan	86,000	70,000		8,000		8,000
Total	1,313,000	1,110,000	78,000	39,000	31,000	55,000

* Fixed fee for his position as executive Board member. For an overview of his compensation, please refer to page 66.

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 43-46 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 39-40.

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

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

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

Alex Mandl

Non-executive Chairman of the Board

Philippe Vallée

Executive Board member and Chief Executive Officer

Homaira Akbari

Non-executive Board member

Buford Alexander

Non-executive Board member

Philippe Alfroid

Non-executive Board member

Joop Drechsel

Non-executive Board member

Johannes Fritz

Non-executive Board member

Olivier Piou

Non-executive Board member

Jill Smith

Non-executive Board member

Yen Yen Tan

Non-executive Board member

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, 2018, 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 2018 financial year of Gemalto and its affiliated companies of which the data have been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch corporate governance code)

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

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

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Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31,	
		2018	2017
Assets			
Non-current assets			
Property, plant and equipment	8	280,677	316,426
Goodwill	9	1,534,341	1,468,214
Intangible assets	9	717,958	757,814
Investments in associates	10	5,399	8,542
Deferred tax assets	29	32,260	37,818
Other investment	11	32,455	39,183
Other non-current assets	12	83,725	79,584
Total non-current assets		2,686,815	2,707,581
Current assets			
Inventories	13	256,392	226,339
Trade and other receivables	14	1,048,421	998,500
Derivative financial instruments	7	4,002	55,633
Cash and cash equivalents	15	261,608	320,675
Total current assets		1,570,423	1,601,147
Total assets		4,257,238	4,308,728
Equity			
Share capital		90,920	90,424
Share premium		1,338,389	1,303,799
Treasury shares		(6,477)	(10,721)
Fair value and other reserves		6,495	32,574
Cumulative translation adjustments		(51,511)	(74,485)
Retained earnings		894,014	834,368
Capital and reserves attributable to the owners of the Company		2,271,830	2,175,959
Non-controlling interests		2,481	3,375
Total equity		2,274,311	2,179,334
Liabilities			
Non-current liabilities			
Borrowings	16	722,893	717,986
Deferred tax liabilities	29	103,255	102,081
Employee benefit obligations	17	121,543	126,716
Provisions and other liabilities	18	121,782	129,972
Total non-current liabilities		1,069,473	1,076,755
Current liabilities			
Borrowings	16	90,557	286,788
Trade and other payables	19	728,329	682,248
Current income tax liabilities		26,607	27,930
Provisions and other liabilities	21	38,580	52,261
Derivative financial instruments	7	29,381	3,412
Total current liabilities		913,454	1,052,639
Total liabilities		1,982,927	2,129,394
Total equity and liabilities		4,257,238	4,308,728

References in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement relate to notes on pages 76 to 112, which form an integral part of the consolidated financial statements.

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31,	
		2018	2017
Revenue	22	2,968,694	2,971,717
Cost of sales		(1,968,834)	(2,013,127)
Gross profit		999,860	958,590
Operating expenses			
Research and engineering		(192,000)	(197,982)
Sales and marketing		(483,766)	(511,554)
General and administrative		(187,659)	(197,870)
Other income	26	56,062	10,385
Other expenses	26	(26,494)	(426,493)
Operating (loss) profit		166,003	(364,924)
Financial income (expense), net	27	(49,797)	(32,806)
Share of profit (loss) of associates	10	(2,612)	(1,243)
Impairment of associates	10	–	10,105
Profit (loss) before income tax		113,594	(388,868)
Income tax (expense)	29	(53,956)	(35,688)
Profit (loss) for the period		59,638	(424,556)
Attributable to:			
Owners of the Company		61,076	(423,907)
Non-controlling interests		(1,438)	(649)
Earnings per share			
Basic earnings per share	30	0.68	(4.72)
Diluted earnings per share	30	0.66	(4.72)
Weighted average number of shares outstanding (in thousands)	30	90,452	89,883
Weighted average number of shares outstanding assuming dilution (in thousands)	30	91,993	89,883

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31,	
		2018	2017
Profit (loss) for the period		59,638	(424,556)
Other comprehensive income that are or may be reclassified to income statement:			
Currency translation adjustments		23,009	(136,197)
Currency translation adjustments charged to financial income (expense), net		154	(13,601)
Effective portion of gains and losses on cash flow hedging (credited)/charged to gross profit		(6,709)	21,714
Effective portion of gains and losses on cash flow hedging		(2,111)	90,660
Cost of hedging on cash flow hedging charged to financial income (expense), net		(88)	–
Cost of hedging on cash flow hedging		(3,375)	–
Deferred tax on cash flow hedging		–	(16,182)
Currency translation differences on other comprehensive income items		440	1,029
Other comprehensive income (loss) that will never be reclassified to income statement:			
Remeasurement of defined benefit obligation	17	5,652	(779)
Deferred tax on remeasurement of defined benefit obligation		(1,652)	(2,036)
Equity securities – change in fair value		(6,728)	(8,785)
Total other comprehensive income (loss) for the period, net of tax		8,592	(64,177)
Total comprehensive income (loss) for the period, net of tax		68,230	(488,733)
Attributable to:			
Owners of the Company		69,479	(487,031)
Non-controlling interests		(1,249)	(1,702)

Consolidated statement of changes in equity

In thousands of Euro	Number of shares ¹		Attributable to owners of the Company								Non-controlling interests	Total equity
	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings	Total equity attributable to the owners			
Balance as at January 1, 2018	90,423,814	90,084,771	90,424	1,303,799	(10,721)	32,574	(74,485)	834,368	2,175,959	3,375	2,179,334	
Profit (loss) for the period								61,076	61,076	(1,438)	59,638	
Other comprehensive income (loss)						(14,571)	22,974		8,403	189	8,592	
Total comprehensive income						(14,571)	22,974	61,076	69,479	(1,249)	68,230	
Issuance of ordinary shares used to fund equity-based compensation plans	496,542	496,542	496	34,590		(35,086)			–		–	
Equity-based compensation charge, equity-settled						26,298			26,298		26,298	
Other net assets change from associates								10	10		10	
Employee share option plans		137,998			4,244	(2,720)			1,524		1,524	
Purchase of Treasury shares, net									–		–	
Contribution from NCI to the subsidiary incorporation									–	355	355	
Adjustment on initial application of IFRS 15 (net of tax)*								(1,440)	(1,440)		(1,440)	
Balance as at December 31, 2018	90,920,356	90,719,311	90,920	1,338,389	(6,477)	6,495	(51,511)	894,014	2,271,830	2,481	2,274,311	
Balance as at January 1, 2017	89,928,639	89,210,804	89,929	1,291,795	(29,042)	(59,872)	74,265	1,303,176	2,670,251	5,196	2,675,447	
Profit (loss) for the period								(423,907)	(423,907)	(649)	(424,556)	
Other comprehensive income (loss)						85,626	(148,750)		(63,124)	(1,053)	(64,177)	
Total comprehensive income						85,626	(148,750)	(423,907)	(487,031)	(1,702)	(488,733)	
Issuance of ordinary shares used to fund equity-based compensation plans	495,175	495,175	495	18,024		(18,519)			–		–	
Equity-based compensation charge, equity-settled						33,537			33,537		33,537	
Other net assets change from associates								42	42		42	
Employee share option plans		421,044			16,346	(5,630)			10,716		10,716	
Purchase of Treasury shares, net		(42,252)			1,975	(2,547)			(572)		(572)	
Dividend paid/payable to owners of the Company								(44,964)	(44,964)		(44,964)	
Non-controlling interests upon 3M's IMB acquisition									–	40	40	
Contribution from NCI to the subsidiary incorporation									–	792	792	
Acquisition of non-controlling interests				(6,020)					(6,020)	(951)	(6,971)	
Reclassification of the actuarial gain/losses						(21)		21	–		–	
Balance as at December 31, 2017	90,423,814	90,084,771	90,424	1,303,799	(10,721)	32,574	(74,485)	834,368	2,175,959	3,375	2,179,334	

¹ The difference between the number of the shares issued and the number of shares outstanding corresponds to the shares held in treasury. As at December 31, 2018, the number of treasury shares was 201,045 (339,043 as at December 31, 2017).

* The impact, net of tax, of the transition to IFRS 15 on retaining earnings as at January 1, 2018 is disclosed in Note 2.2

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31,	
		2018	2017
Cash flows from operating activities			
Profit (loss) for the period including non-controlling interests		59,638	(424,556)
Adjustment for:			
Income tax expenses	29	53,956	35,688
Research tax credit		(13,354)	(17,832)
Depreciation, amortization	8, 9	232,465	227,202
Equity-based compensation charge, equity-settled		26,298	33,537
Gains and losses on sale of fixed assets and write-offs		(4,000)	(649)
Gain on sales of non-core business		(25,982)	(3,178)
Impairment charge		–	433,633
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		154	(13,601)
Change in provisions and other liabilities		1,055	60,746
Employee benefit obligations		594	(4,464)
Interest income	27	(3,520)	(3,010)
Interest expense and other financial expense	27	19,720	13,615
Share of profit (loss) from associates	10	2,612	1,243
Impairment of associates	10	–	(10,105)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(30,877)	15,350
Trade and other receivables		(24,590)	(13,042)
Derivative financial instruments		33,527	52,708
Trade and other payables		31,827	(21,488)
Cash generated from operations		359,523	361,797
Income tax paid		(53,386)	(20,238)
Net cash provided by operating activities		306,137	341,559
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, business, net of cash acquired		(22,758)	(756,062)
Purchase of property, plant and equipment		(60,639)	(66,796)
Proceeds from sale of property, plant and equipment		27,522	1,759
Acquisition and capitalization of intangible assets		(96,169)	(87,011)
Proceeds from, (increase in) other non-current assets		416	(284)
Loan to associates		(2,440)	(750)
Proceeds from sale of a subsidiary		(6,640)	1,772
Purchase of, contribution to, investments in associates	10	(250)	(4,505)
Interest received		2,343	2,274
Dividends received from investments in associates	10	856	3,186
Net cash used in investing activities		(157,759)	(906,417)
Cash flows provided by (used in) financing activities			
Acquisition of non-controlling interests		–	(6,971)
Capital contribution from a non-controlling interest of a newly incorporated subsidiary		355	792
Proceeds from exercise of share options	25	1,524	10,716
Purchase of Treasury shares (net)		–	(572)
Proceed from issuance of private placements		–	92,605
Proceed from drawdown of commercial paper	16	568,500	660,000
Repayment of commercial paper	16	(758,500)	(569,000)
Proceed (repayments) of borrowings		(1,774)	2,726
Proceed from term loan	16	–	80,000
Collection of FV hedge Mark-to-Market		12,340	3,581
Interest paid		(16,754)	(14,248)
Dividends paid to owners of the Company	33	–	(44,964)
Dividends received from Equity securities		3,239	671
Net cash provided by (used in) financing activities		(191,070)	215,336
Cash and bank overdrafts, beginning of period	15	302,365	663,016
Net increase (decrease) in cash and bank overdrafts		(42,692)	(349,522)
Currency translation effect on cash and bank overdrafts		(3,090)	(11,129)
Cash and bank overdrafts, end of period	15	256,583	302,365

Notes to the consolidated financial statements

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

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

Note 1. General information

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

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

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

The share capital consisted of 90,920,356 ordinary shares as at December 31, 2018 and of 90,423,814 ordinary shares as at December 31, 2017 with a nominal value of €1 with no specific rights attached thereto.

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2018 have been authorized for issue by the Board on 13 February, 2019 and will be submitted to the AGM 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, 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with section 2:362(9) of the Netherlands Civil Code. The consolidated financial statements have been prepared on historical costs basis, except for certain financial assets and liabilities (including derivative instruments) measured at fair value, defined benefit pensions plans and plan assets measured at fair value. 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, 2018

- *IFRS 15 Revenue from contracts with customers (including amendments and clarifications).*

IFRS 15 establishes the accounting principles that an entity shall apply to recognize revenue from contracts with customers. It replaces the previous standards and interpretations related to revenue recognition, notably IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer Loyalty Programmes". The Company has adopted IFRS 15 using the modified retrospective method. Under this method, the impact of the initial application of the standard is accounted for in shareholders' equity as of January 1, 2018, without restating comparative periods presented.

The main impact of the implementation of IFRS 15 results from contracts with multiple elements. Under IAS18 and IAS11, revenue was recognized as each element is earned based on the relative fair value of each element and when there is no undelivered element that are essential to the functionality of the delivered elements. Under IFRS15, contracts are analyzed as a single performance obligation recognized over time using a cost-to-cost method. The following table summarizes the impact, net of tax, of the transition to IFRS 15 on retained earnings:

	January 1, 2018
Retained earnings	
Deferral of margin	(1,873)
Related tax	433
Impact as at January 1, 2018	(1,440)

The impact of adopting IFRS 15 on the Group's statements of financial position as at December 31 2018 and its statement of profit and loss amounted to €2 million before tax.

- *IFRS 9 Financial instruments*

On 1 January 2018 the Group adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments – Recognition and Measurement'.

The Group has not restated comparative information for prior periods. The impact in shareholder's equity as at January 1, 2018 was not significant.

- Classification and Measurement: on 1 January 2018, we reclassified our financial assets to the new categories based on the Group's reason for holding the assets and the nature of the cash flows from the assets. As permitted by IFRS 9, the Group has designated its equity securities held at the date of initial application as measured at fair value through other comprehensive income. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss. There have been no other changes to the classification or carrying values of the Group's financial assets from adopting the new classification model. There have been

no changes to the classification or measurement of the Group's financial liabilities.

- **Impairment:** from 1 January, 2018 the Group implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on the segmentation of our receivables and their relating ageing profile. The adoption of the expected loss approach has not resulted in any material change in impairment provision for any financial asset.
- **Hedge accounting:** the Group applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application all of the Group's existing hedging relationships were eligible to be treated as continuing hedge relationships. Under IAS 39, the change in fair value of the forward element of a forward exchange contracts (swap points) was recognized immediately in profit or loss. Under IFRS 9, the swap points are accounted for as a cost for hedging and the Group has elected to recognize them in the OCI. These swap points will subsequently be transferred to the statement of profit and loss and presented in the financial result upon the maturity of the forward contracts.

The application of IFRS 9 has not resulted in any significant impact for the Group as of December 31, 2018.

- *Amendments to IFRS2 – Classification and Measurement of Share-based Payment Transactions.* The amendments cover three accounting areas i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings and iii) accounting for a modification of a share-based payment from cash-settled to equity-settled;
- *IFRIC 22 – Foreign Currency Transactions and Advance consideration.* The interpretation clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.
- *Annual Improvements to IFRS Standards 2014–2016 Cycle issued, the amendments to IFRS 1 and IAS 28;*
- *Amendments to IAS 40: Transfers of Investment Property* provides guidance on transfers to, or from, investment properties. A transfer is made when and only when there is an actual change in use;
- *Amendments to IFRS 4: Amended by Applying IFRS 9 with IFRS 4.* The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4, a temporary exemption from applying IFRS9 and an overlay approach.

The above standard and amendments did not have a significant impact on the Group's financial statements as at December 31, 2018.

(b) *New standards, amendments to existing standards and interpretation issued by the IASB and not yet mandatory for financial statements as at December 31, 2018 (and Management has not early adopted these standards).*

- **IFRS 17 Insurance Contracts** (issued on 18 May, 2017): the objective is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after 1 January, 2021;
- **IFRIC 23 Uncertainty over Income Tax Treatments:** clarifies the accounting for uncertainties in income taxes. The interpretation is

effective for annual periods beginning on or after 1 January, 2019. Earlier application is permitted;

- **Amendments to IFRS 9: Prepayment Features with negative Compensation,** the amendments relate to changes regarding symmetric prepayment options and clarification regarding the modification of financial liabilities. The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January, 2019. Earlier application is permitted;
- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures** to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are effective for periods beginning on or after 1 January, 2019. Earlier application is permitted;
- **Annual Improvements to IFRS Standards 2015-2017 Cycle** makes amendments to the IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments effective for annual periods beginning on or after 1 January, 2019. Earlier application is permitted;
- *Amendments to IAS19 Plan amendment, curtailment or settlement.* The amendments clarify that: i) on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and ii) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments effective for annual periods beginning on or after 1 January, 2019. Earlier application is permitted.
- The Group is currently assessing the impact of these amendments.
- **IFRS 16 Leases** – the Group is required to adopt IFRS 16 from 1 January, 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January, 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
 - (i) **Leases in which the Group is a lessee:** the group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16 to assure the completeness and accuracy of the data. This review includes identifying the right-of-use assets, review of the contractual end-date including renewal and early termination options and separating service elements in the leasing arrangement. Furthermore, the group has determined its incremental borrowing rate which will be used as basis for the discounting of the future payments and the lease liability. Based on the review, the Group will recognize new assets and

Notes to the consolidated financial statements continued

liabilities for its operating leases of primarily real estate, cars and equipment. The nature of expenses related to those leases will now change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized. In addition, the Group will no longer recognize provisions for operating leases that it assesses to be onerous as described in Note 32. Instead, the Group will include the payments due under the lease in its lease liability. No significant impact is expected for the Group's finance leases. Based on the information currently available, the Group estimates that it will recognize additional lease liabilities in the range between €110 million and €140 million as at 1 January, 2019.

- (ii) Leases in which the Group is a lessor: the Group has no significant sub-leases in which the Group is a lessor.
- (iii) Transition: the Group plans to apply IFRS 16 initially on 1 January, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January, 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity where they are recorded using the exchange rates

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

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

(c) Group companies

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

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

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

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

2.7 Goodwill and intangible assets

(a) Goodwill

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

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

(b) Brand names

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

(c) Customer relationships

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

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

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

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

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

Notes to the consolidated financial statements continued

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, financial assets measured at amortized costs and financial assets at fair value through OCI (debt or equity investment). Under IFRS 9 the basis on which assets are measured is the way they are classified. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets at amortized cost

Financial assets arise when Gemalto provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets in Trade and other receivables, net in the balance sheet, except for maturities greater than 12 months after the balance sheet date, which are classified as Other non-current assets in the balance sheet. A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets at fair value through OCI

Financial assets at fair value through OCI are non-derivatives that are either designated in this category or not classified in any of the other categories. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

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.

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 using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Under IFRS9 the incurred loss model has been replaced by expected credit loss model (ECL's).

A provision for impairment of trade receivables is always measured at an amount equal to life time ECL's. The amount of the provision is recognized in the income statement within sales and marketing expenses.

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

2.15 Taxes on income

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

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

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

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

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

2.16 Research tax credits and government grants

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

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

2.17 Research and development costs

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

2.18 Employee benefits

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

(a) Pension and similar obligations

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

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

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

Past service costs are recognized immediately in the income statement.

(b) Termination benefits

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

(c) Profit-sharing and bonus plans

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

2.19 Equity-based payment

(a) Equity-based compensation

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

Notes to the consolidated financial statements continued

(b) Equity-based transaction

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

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

2.20 Provisions

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

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

2.21 Revenue recognition

Gemalto recognizes revenue to depict the transfer of promised goods and service to customer in an amount that reflects the consideration to which Gemalto expects to be entitled in exchange for those goods or services. Gemalto recognizes revenue in accordance with the five steps model by applying the following process: (i) identify the contract(s), (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when Gemalto satisfies a performance obligation:

(a) Product and service revenue

Gemalto's product and service are generally sold based upon contracts with customers 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 when the customer obtains the control of the promised good or service. Control may be transferred either overtime or at point in time. Revenue for products including notably SIM cards, credit cards and identity documents is recognized at the point in time, including but not limited, generally when the goods are delivered, significant risks and rewards of the ownership of the products have been transferred to the customer, when Gemalto has a present right to a payment and the collectability is reasonably assured. Revenue for services including notably platform built and run, support and maintenance, personalization services or development of specific identity and payment solutions is recognized over the time when the customer simultaneously receives and consumes the benefits of services or Gemalto creates or enhances an asset that the customer controls as the asset is created or enhanced or Gemalto has no alternative use for the delivered asset and Gemalto has an enforceable right to payment for performance completed to date, in case the customer terminates the contract for convenience.

(b) Multiple-element arrangements

Some contracts could contain a bundle of goods or services that are not distinct. Gemalto accounts for individual products and services separately if they are distinct i.e. if a product or service is separately identifiable from other items in the bundle package and the customer can benefit from it. The stand-alone selling prices are determined on the list price at which Gemalto sells the products or services separately.

For items that are not sold separately, the Group estimates stand-alone selling prices using the cost plus approach.

(c) Uninstalled Materials

Uninstalled materials are materials acquired by Gemalto that will be used to satisfy its performance obligation for which the cost incurred does not depict transfer to the customer. Specific consideration shall be given to Governmental Programs for which i) one single revenue stream and one global margin are recognized overtime using the cost-to-cost method, ii) in the measure of progress, no margin recognized with respect to uninstalled material delivered at the beginning of the contract. A faithful depiction of Gemalto's performance might be to recognize revenue equal to the cost of the uninstalled materials if all of the following conditions are met: (i) the goods is not distinct, (ii) the customer is expected to obtain control of the goods significantly before receiving services related to the goods, (iii) the cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation and (iv) Gemalto procures the goods from a third party and is not significantly involved in designing, manufacturing or integrating it in the global performance obligations.

(d) Contract assets and liability

Contracts with customers will be presented in a Company's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the Company performing by transferring the related good or service to the customer. Where the Company has performed by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of the Company's right to consideration. A contract asset is recognized when the Company's right to consideration is conditional on something other than the passage of time (for example future performance of the Company). A receivable is recognized when the Company's right to consideration is unconditional except for the passage of time. Contract assets and receivables are accounted for in accordance with IFRS 9. Any impairment relating to contracts with customers should be measured, presented and disclosed in accordance with IFRS 9. Any difference between the initial recognition of a receivable and the corresponding amount of revenue recognized should also be presented as an expense, for example, an impairment loss.

(e) Contract modifications

If contract modification adds distinct goods or services that are priced commensurate with their stand-alone selling prices, it is accounted for as a separate contract. Otherwise, contract modification is accounted for as the termination of the existing contract and creation of a new contract or accounted for as part of the original contract, applying a cumulative catch-up adjustment, if the remaining goods or services are not distinct from those already transferred.

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 1.5 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 accumulated in the other comprehensive income. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss.

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

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

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

2.24 Estimation of financial instrument fair value

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques requiring financial inputs observable on the markets. The fair value of derivative financial instruments is calculated at inception and over the life of the derivative. These instruments are classified in Level 2. The fair value of forward and exchange contracts at inception is zero. Over the life of the contract, the fair value is derived from the following parameters communicated by the Company's banks or official financial information providers: (i) spot foreign exchange rate and (ii) interest rate differential between the two currencies. Fair value is then obtained by discounting, for the remaining life of each contract, its expected gain or loss calculated by difference between the contract rate and the market forward rate, applied to the notional amount of the contract. At maturity, the fair value is calculated by the difference between the contract rate and the prevailing closing rate, applied to the notional amount of the contract.

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

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

2.25 Offsetting financial instruments

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

Note 3. Critical judgments and estimates

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

Notes to the consolidated financial statements continued

3.1 Revenue recognition

Revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment. Judgment is applied once management determines that a performance obligation is satisfied over time, it shall measure its progress toward completion to determine the timing of revenue recognition. The cost-to-cost method is applied by the Company to best depict its performance in transferring control of goods and services to the customer. This method measures progress based on resources consumed or efforts expended relative to total resources expected to be consumed or total efforts expected to be expended. Judgment is exercised to determine which input measure is most indicative of performance, as well as which inputs should be included or excluded. The method for measuring progress toward completion is consistently applied to arrangements with similar performance obligation and similar circumstances.

3.2 Goodwill

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

3.3 Intangible assets

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

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

3.4 Impairment tests

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

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

3.5 Equity-based payments

Equity-based compensation plans are recognized as an expense based on their fair value at date of grant. These plans do not have a direct cash cost to the Company other than administrative and social levies, as these plans' costs are borne by shareholders through dilution. The fair value of equity-based compensation plans is estimated through the use of valuation models which require certain parameters such as the risk-free interest rate, expected dividends, expected volatility

and the expected option life and is expensed over the vesting period. Such parameters are disclosed in note 24. The valuation of share options and restricted shares units issued by the Group are based on data available at the date of the grant. Using different input estimates or models could produce different values, which would result in the recognition of a higher or lower expense.

3.6 Employee benefit obligations

Actuarial valuations are used to determine the liability on employee benefit obligations. These valuations rely on key assumptions including discounting rates, expected salary increase, mortality rates and employee turnover. The discounting rate is based on high-quality corporate bonds at the end of the reporting period. Due to the prevailing market and economic conditions, these assumptions may differ from the actual market developments and as a result may have a material effect on the estimation of the liability. Note 17 – Employee benefit obligations discloses a sensitivity analysis and presents the effects on the liability if the discounting rate, inflation rate, salary growth and mortality are altered. The impacts on the reported liability would be, however, recognized against other comprehensive income.

3.7 Income taxes

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

3.8 Development costs

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

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

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

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

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

Foreign exchange forward contracts that hedge a portion of subsidiaries' known or forecasted commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IFRS 9 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 4.6).

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 €0.6 million on the profit or loss for 2018 (€0.3 million in 2017) and €1.7 million on the statement of financial position as at December 31, 2018 (€0.6 million in 2017).

	Year ended December 31,			
	2018		2017	
	Change in \$/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect on profit before tax				
– Underlying ²	(13,387)	14,073	(14,809)	15,568
– Hedges ³	15,864	(16,684)	14,568	(15,285)
Net	2,477	(2,611)	(241)	283
Gain/(loss)				
Effect on equity				
– Hedges ⁴	4,254	(4,479)	9,254	(9,639)

² Effect of revaluation of financial assets and liabilities, excluding hedges.

³ Effect on mark-to-market valuation of fair value hedges.

⁴ 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 Interest rate risk

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

Effect on profit before tax Income/(expense)	2018		2017	
	+50	-50	+50	-50
Variation in interest rate (in basis points)	+50	-50	+50	-50
Borrowings	(71)	71	(483)	483
Short-term deposits and investment funds	427	(427)	1,288	(1,288)

4.3 Liquidity risk

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

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

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

In addition to the below liabilities, Gemalto N.V. has issued a guarantee which amounted to €31 million as of December 31, 2018 and €31.8 million as of December 31, 2017 (see note 32).

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

				2018
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	175	806	–	981
Bond	8,500	471,000	–	479,500
Private placements	6,768	106,983	171,440	285,191
Commercial paper	70,000	–	–	70,000
Term loan	284	80,070	–	80,354
Other liabilities	15,767	7,842	–	23,609
Derivative financial instruments	35,893	–	–	35,893
Trade and other payables	728,329	–	–	728,329
Total	865,716	666,701	171,440	1,703,857

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

4.4 Financial counterparty risk

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

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

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

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

			Year ended December 31,	
			2018	2017
Borrowings				
in % of total borrowing risk for Gemalto			28%	29%
Derivative financial instruments				
in % of total derivative financial instruments risk for Gemalto			16%	16%
Cash and cash equivalents				
in % of total cash and cash equivalents risk for Gemalto			29%	19%
Total risk for any single counterparty⁵				
in % of total counterparty risk for Gemalto			29%	25%

⁵ 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, 2018 and December 31, 2017, the credit and debit value adjustment (CVA and DVA) are not material and do not modify the global fair valuation of financial instruments.

4.5 Credit risk

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

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than Company's sales in 2018 and 2017. 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 collectability is uncertain. Additionally, the Company performs ongoing credit evaluations of countries and customers' financial condition.

As of December 31, 2018, trade receivables of €182,484 were past due but not impaired (€158,246 in 2017). These relate to a number of independent customers for whom there is no recent history of default and whose credit standing is regularly assessed. The aging analysis of these trade receivables is as follows.

	Year ended December 31,		
	2018		
Overdue by	Carrying amount	Bad debt reserve	Overdue but not impaired
Up to 1 month	85,294	(86)	85,208
2 to 3 months	45,650	(171)	45,479
4 to 6 months	25,023	(513)	24,510
Later than 6 months	68,756	(41,469)	27,287
	224,723		
Provision for impairment of receivables		(42,239)	
Trade receivables overdue but not impaired			182,484

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

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

	Year ended December 31,	
	2018	2017
As at January 1	(25,540)	(18,045)
Acquisition of subsidiaries	(303)	(1,497)
Provision for impairment of receivables	(26,913)	(11,598)
Receivables written off over the year as uncollectible	2,502	1,792
Unused amounts reversed	6,006	2,073
Business disposal	1,767	–
Currency translation adjustment	242	1,735
As at December 31	(42,239)	(25,540)

4.6 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, 2018, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in three different currencies namely US Dollar, Pound Sterling and Japanese Yen. It also held forward contracts not qualified in hedge accounting and evaluated at fair value, denominated in the same currencies and in Norwegian Krone, Swedish Krona, Singapore Dollar, Polish Zloty, South African Rand, Swiss Franc, Emirati Dirham, Australian Dollar, Brazilian Real, Canadian Dollar, Czech Koruna, Chinese Yuan, New Zealand Dollar, Israeli Shekel, Romanian Leu 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):

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

	Year ended December 31, 2018					Year ended December 31, 2017					
	USD	GBP	ZAR	SGD	Other	USD	GBP	SGD	ZAR	JPY	Other
Cash flow hedges											
Forward contracts	(5,856)	1,584	–	–	(38)	27,892	(24)	–	–	–	–
Derivative at fair value											
Forward contracts	(21,082)	(169)	144	(31)	69	25,335	(25)	103	(360)	76	(302)
Total	(26,938)	1,415	144	(31)	31	53,227	(49)	103	(360)	76	(302)

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

	2018		
	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) ⁶
Effective portion	(847)	(847)	–
	2017		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2) ⁶
Effective portion	(8,468)	(8,468)	–

⁶ Amount to be reclassified as debits or credits to sales or cost of sales over the next year.

Note 5. Business combination and disposal

Business combination

In December 2018, Gemalto acquired Green Bit, an innovative provider of biometric scanners. With a design team headquartered in Turin (Italy) and manufacturing based in Tianjin (China), Green Bit employs approximately 50 people.

Biometric scanners are being used more and more by Governments for citizens' biometric enrollment, authentication and other identity management purposes. These devices capture the fingerprint image that can then be stored and used in Automated Fingerprint Identification System (AFIS). It is important for Gemalto, both in terms of capabilities and competitiveness, to be able to offer a wide range of in-house biometric scanners when selling complete AFIS systems.

This acquisition, combined with the Group's biometric solutions, will allow the Company to offer our customers high-quality competitive scanners that will complement its document reader portfolio. Green Bit will fill-out our product range with innovative products while completing our R&D roadmap. It will increase the Groupe R&D capabilities and accelerate the roadmap of new technologies. Green Bit will be integrated in our Government Business Unit. For practical reasons the consideration paid and the contingent payment have been allocated to the provisional goodwill for an amount equal to €27.6 million and may be subject to significant changes over the purchase price allocation. The goodwill is not deductible for tax purpose.

Disposal of non-core business

In December 2018, Gemalto concluded the disposal of a non-core business activity. The maximum consideration amount to €38 million and includes a contingent consideration. The disposal gave rise to a €25.8 million gain recorded upon change in control and presented in the line other income in the segment Smartcards & Issuance (see note 6).

In thousands of Euro	Business disposed
Assets	
Non-current assets	1,443
Current assets	20,003
Cash and cash equivalents	8,589
Total assets	30,035
Liabilities	
Non-current liabilities	2,713
Current liabilities	18,033
Borrowings (current)	7,504
Total liabilities	28,250
Net assets and liabilities	1,785

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.

The Group has revised its operating segments to align with the new strategy under which the business is managed and reviewed by the CODM and decided to report its activities under two segments: Identity, IoT & Cybersecurity and Smartcards & Issuance. The first one aims at strengthening our leadership in biometrics, civil identity, data protection and secure the Internet of Things. Gemalto will therefore continue to invest significantly in developing its offers to capture the growth in those large markets. The second segment builds on Gemalto's leadership in digitalization while rightsizing its operations in the more mature businesses. The implementation of the transition plan is central to this segment strategy. From this year onward, Gemalto will be presenting its fast-growing businesses in an Identity, IoT & Cybersecurity segment and the more mature businesses in Smartcards & Issuance segment.

Gemalto's technologies provide two essential, interlocking functions: authenticating people and things, and protecting data by encrypting it. Gemalto's operations can be divided in two market segments: a) The Identity, IoT & Cybersecurity segment reports on businesses associated with Government Programs, Internet of Things and Enterprise b) The Smartcards & Issuance segment reports on businesses associated with mobile secure elements (SIM, embedded secure element), mobile Platforms & Services, secure personal interactions including Payment. Patents & Others is also included in this segment.

Identity, IoT & Cybersecurity: Gemalto designs security solutions that help governments, industrial companies and enterprises to bring trust to a wide range of services. Gemalto supports over 200 programs worldwide supporting government agencies in areas such as ePassports, border and visa management, biometrics, ID and health cards, voter and vehicle registration, drivers' licenses, and eGovernment services. Gemalto works constantly with clients on innovative ways to increase efficiency and meet citizens' expectations. Gemalto's growing capability in biometrics is creating new opportunities in areas such as ID verification, border controls and law enforcement. Gemalto also offers best-in-class biometric solutions in the growing forensics market. With the largest portfolio of machine-to-machine and Internet of Things solutions and services, Gemalto allows industrial companies to accelerate the introduction of new connected objects and services. Gemalto's solutions ensure security throughout an object's lifecycle, cut costs and increase revenue. Gemalto's Internet of Things portfolio is made of M2M modules and software solutions. These enable advanced solutions in industries such as healthcare, retail services, smart energy, transportation, logistics and automotive. Gemalto helps them to bring new connected services to market quickly, add value and open up new revenue streams with secure devices, identities and data. Gemalto's solutions are based on authenticating people when they access networks and encrypting data wherever it is found. As the world's computing moves to the cloud, Gemalto helps organizations overcome complex security challenges by providing its solutions as a service. In addition to encrypting data, securing identities and managing access, Gemalto also offers software licensing solutions to businesses to protect their Intellectual Property and maximize the uptake and profitability of their software business.

Smartcards & Issuance: Gemalto offers smart card products and solutions to financial institutions, retail, transport and mobile network operators. Payment services can also be connected to transport and loyalty programs. Gemalto's white label offering enables local customization of the broad EMV standards for local authorities to brand and control national payment networks. Gemalto also secures digital banking and payment apps and services as well as protects sensitive company and customer data through encryption. Gemalto's ID verification solutions enable banks to verify new customers' identity documents when enrolling them in-branch or online. Through Gemalto's mobile and Assurance Hub technologies they can provide personalized authentication steps according to the risk level and the context of usage. Gemalto's Trusted Services Hub helps both banks and retailers to offer consumers easier ways to pay with their smart phones and other devices. And Gemalto's security solutions protect and secure their data at every level of their infrastructure. For mobile network operators, Gemalto's technologies and innovations are focused on enabling richer services and growth throughout the ecosystem, while managing and protecting identities. Gemalto continues exploring opportunities to create new revenue streams as the world transitions to new technologies such as eSIMs and 5G. Gemalto also licenses its intellectual property and provides security and other technology advisory services.

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 2018 is the Profit From Operations (PFO). PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses; (iii) all equity-based compensation charges and associated costs; and (iv) fair value adjustments upon business acquisitions.

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

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

Notes to the consolidated financial statements continued

Note 6. Segment information continued

- 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, 2018	ID, IoT & Cybersecurity	Smartcards & Issuance	Adjusted financial information	Amortization and depreciation of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	1,380,834	1,587,860	2,968,694					2,968,694
Cost of sales	(816,849)	(1,052,879)	(1,869,728)	(84,986)	(5,223)	(8,897)		(1,968,834)
Gross profit	563,985	534,981	1,098,966	(84,986)	(5,223)	(8,897)	–	999,860
Operating expenses								
Research and engineering	(94,262)	(89,621)	(183,883)		(4,751)	(3,366)		(192,000)
Sales and marketing	(254,894)	(203,934)	(458,828)		(14,245)	(10,693)		(483,766)
General and administrative	(82,196)	(73,605)	(155,801)		(23,097)	(8,761)		(187,659)
Other income	23,007	29,510	52,517		3,545			56,062
Other expenses	(18,250)	(2,485)	(20,735)		(5,759)			(26,494)
Profit from operations	137,390	194,846	332,236					
Operating profit (loss)				(84,986)	(49,530)	(31,717)	–	166,003

Year ended December 31, 2017	ID, IoT & Cybersecurity	Smartcards & Issuance	Adjusted financial information	Amortization and depreciation of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	1,277,845	1,693,872	2,971,717					2,971,717
Cost of sales	(738,028)	(1,128,914)	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	539,817	564,958	1,104,775	(89,006)	(38,727)	(8,910)	(9,542)	958,590
Operating expenses								
Research and engineering	(84,744)	(96,074)	(180,818)		(13,186)	(3,978)		(197,982)
Sales and marketing	(244,953)	(225,158)	(470,111)		(29,372)	(12,071)		(511,554)
General and administrative	(74,404)	(78,733)	(153,137)		(32,681)	(12,052)		(197,870)
Other income	3,570	6,712	10,282		103			10,385
Other expenses	148	(1,579)	(1,431)	(424,671)	(391)			(426,493)
Profit from operations	139,434	170,126	309,560					
Operating profit (loss)				(513,677)	(114,254)	(37,011)	(9,542)	(364,924)

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,	
	2018	2017
Revenue		
Europe, CIS, Middle East and Africa	1,401,793	1,373,379
United States of America	702,145	685,509
Asia Pacific	515,525	588,977
North and South America excluding the United States of America	349,231	323,852
Total	2,968,694	2,971,717
	Year ended December 31,	
	2018	2017
Non-current assets		
United States of America	359,239	407,349
France	343,163	365,110
Europe, CIS, Middle East and Africa excluding France	282,695	274,581
Asia Pacific	86,440	101,226
North and South America excluding the United States of America	48,677	53,283
Total	1,120,214	1,201,549

Note 7. Financial assets/liabilities by category

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

December 31, 2018	Financial assets at amortized cost	Assets at fair value through profit and loss	Assets at fair value through OCI (equity security)	Total
Assets				
Equity security	–	–	32,455	32,455
Other non-current assets	83,725	–	–	83,725
Trade and other receivables*	988,366	–	–	988,366
Derivative financial instruments	–	4,002	–	4,002
Cash and cash equivalents	261,608	–	–	261,608
Total	1,333,699	4,002	32,455	1,370,156

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

	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Liabilities			
Bond	–	400,431	400,431
Borrowings	–	413,019	413,019
Trade and other payables*	–	524,099	524,099
Derivative financial instruments	29,381	–	29,381
Total	29,381	1,337,549	1,366,930

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

December 31, 2017	Financial Assets at amortized cost	Assets at fair value through profit and loss	Assets at fair value through OCI (equity security)	Total
Assets				
Equity security	–	–	39,183	39,183
Other non-current assets	79,584	–	–	79,584
Trade and other receivables*	942,254	–	–	942,254
Derivative financial instruments	–	55,633	–	55,633
Cash and cash equivalents	220,819	99,856	–	320,675
Total	1,242,657	155,489	39,183	1,437,329

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

Notes to the consolidated financial statements continued

Note 7. Financial assets/liabilities by category continued

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

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

Fair value estimation

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2018 (see note 2.24):

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	4,002	–	4,002
Equity security	32,455	–	–	32,455
Investment funds	–	–	–	–
Total	32,455	4,002	–	36,457
Liabilities				
Derivatives used for hedging	–	29,381	–	29,381
Total	–	29,381	–	29,381

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	55,633	–	55,633
Equity security	39,183	–	–	39,183
Investment funds	99,856	–	–	99,856
Total	139,039	55,633	–	194,672
Liabilities				
Derivatives used for hedging	–	3,412	–	3,412
Total	–	3,412	–	3,412

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, 2018	27,508	303,093	768,599	1,099,200
Additions	–	12,072	49,644	61,716
Business disposed	–	–	(360)	(360)
Disposals and write-offs	(12,699)	(19,356)	(39,251)	(71,306)
Currency translation adjustment	979	1,068	(631)	1,416
Gross book value as of December 31, 2018	15,788	296,877	778,001	1,090,666
Accumulated depreciation as of January 1, 2018	(56)	(218,371)	(564,347)	(782,774)
Depreciation charge	(6)	(14,859)	(58,260)	(73,125)
Business disposed	–	–	288	288
Disposals and write-offs	–	12,486	36,329	48,815
Currency translation adjustment	–	(1,707)	(1,486)	(3,193)
Accumulated depreciation as of December 31, 2018	(62)	(222,451)	(587,476)	(809,989)
Net book value as of December 31, 2018	15,726	74,426	190,525	280,677

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

Capitalized financial leases included in property, plant and equipment:

	Year ended December 31,	
	2018	2017
Gross book value	827	779
Accumulated depreciation	(511)	(403)
Net book value	316	376

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

	Year ended December 31,	
	2018	2017
Cost of sales	56,640	63,033
Research and engineering expenses	6,585	6,311
Sales and marketing expenses	1,094	1,114
General and administrative expenses	8,806	10,280
Total depreciation expenses by destination	73,125	80,738

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, 2018	1,904,025	616,260	355,062	420,305	197,709	3,493,361
Acquisition of subsidiary and business	29,050	–	–	–	–	29,050
Additions	–	3	80,847	–	26,310	107,160
Write-offs	–	(6,825)	(5,837)	(769)	(9,388)	(22,819)
Business disposed	(28,711)	(11,222)	(415)	(11,172)	(3,640)	(55,160)
Currency translation adjustment	36,678	5,191	1,379	9,665	3,397	56,310
Gross book value as of December 31, 2018	1,941,042	603,407	431,036	418,029	214,388	3,607,902
Accumulated amortization as of January 1, 2018	(435,811)	(414,263)	(178,678)	(141,119)	(97,462)	(1,267,333)
Acquisition of subsidiary and business	–	–	–	–	–	–
Amortization charge	–	(44,100)	(57,803)	(38,823)	(18,614)	(159,340)
Write-offs	–	5,684	5,837	769	9,380	21,670
Business disposed	28,711	11,222	415	11,170	3,425	54,943
Currency translation adjustment	399	(625)	(730)	(4,521)	(66)	(5,543)
Accumulated amortization as of December 31, 2018	(406,701)	(442,082)	(230,959)	(172,524)	(103,337)	(1,355,603)
Net book value as of December 31, 2018	1,534,341	161,325	200,077	245,505	111,051	2,252,299

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

Other intangibles mainly consist of:

	Year ended December 31,	
	2018	2017
Licensing rights to use and distribute licensed technology	14,435	5,947
Acquired brand names	63,903	64,186
Miscellaneous software and other intangibles	32,713	30,114
Total	111,051	100,247

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

	Year ended December 31,	
	2018	2017
Cost of sales	157,788	153,618
Research and engineering expenses	792	864
Sales and marketing expenses	39	55
General and administrative expenses	721	889
Other expenses	–	424,671
Total	159,340	580,097

Goodwill impairment test

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

In assessing whether goodwill should be subject to impairment, the carrying value of each CGU was compared to its recoverable value. Recoverable value is the greater of the value in use and the fair value less costs of disposal. The value in use of each CGU is calculated using a five-year discounted cash flow analysis plus a discounted residual value, corresponding to the capitalization to perpetuity of the normalized cash flows of year five (also called the Gordon Shapiro approach).

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

Cash flow generations for the years 2019 to 2023, were based on management's expectations for the future. For each of our CGUs, the key assumptions in the cash flow projections relate to (i) the revenue growth, (ii) the development of the profit-from-operation margin, and (iii) the rates used for discounting cash flows. The terminal value growth rate for our CGUs revenue was at maximum +2%, same as last year. For Mobile Communication a 0% infinite growth rate was used. The consolidated growth rate to perpetuity was 1.8%.

The discount rate used in this calculation is the after-tax weighted average cost of capital estimated at 9.5% (9.5% in 2017), the before-tax weighted average cost of capital was estimated at 11.0% (11.2% in 2017).

The amount of goodwill as at December 31, 2018 and December 31, 2017 were as follows:

In millions of Euro CGU	Management approach	Period of cash flow projection	Revenue growth rate to perpetuity	Profit from operation, margin evolution over the projected period	Pre-tax discount rate	Goodwill in millions of Euro	
						2018	2017
Mobile Communication	External sources and past experience	5 years	0%	Improvement	11%	–	–
IoT	External sources and past experience	5 years	2%	Improvement	11%	116	116
Payment	External sources and past experience	5 years	2%	Improvement	11%	200	198
Government	External sources and past experience	5 years	2%	Improvement	11%	565	521
E&C	External sources and past experience	5 years	2%	Improvement	11%	653	633
Total						1,534	1,468

A sensitivity analysis regrouping key parameters, namely the projected cash flows, the discounting rate and the infinite growth rate, has shown that, under all reasonable changes in assumptions, there is no probable scenario in which the recoverable amount of a CGU would be less than its carrying amount. All other variables being held constant, no impairment charge would be recognized in 2018 if discounted projected cash flows were 20% lower, or the weighted average cost of capital before-tax used would have been 200 basis-point higher or the infinite growth rate for the revenue would have been 100 basis-point lower.

Note 10. Investments in associates

Investments in associates consist of the following:

	Year ended December 31,	
	2018	2017
Investments as of beginning of period	8,542	48,011
Capital contribution to associate	250	4,505
Other net assets changes in equity	10	42
Dividends paid by associates	(856)	(3,186)
Reclassification to other investments	–	(47,968)
Impairment of associates	–	10,105
Share of profit (loss)	(2,612)	(1,243)
Currency translation adjustment	65	(1,724)
Investments as of end of period	5,399	8,542

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2018, the net book value of goodwill in associates amounted to €1.5 million (€5.6 million in 2017).

Summarized financial information of significant associates:

	Year ended December 31,	
	2018	2017
	Trustonic	Trustonic
Current assets	4,975	6,453
Non-current assets	7,921	9,870
Current liabilities	21,467	16,401
Non-current liabilities	169	125
Net assets as of end of period	(8,740)	(203)

Summarized income statement:

	Year ended December 31,	
	2018	2017
	Trustonic	Trustonic
Revenue	9,725	10,159
Pre-tax (loss)/profit from continuing operations	(8,600)	(9,098)
Post-tax (loss)/profit from continuing operations	(8,742)	(9,112)
Total comprehensive (expense)/income	16	(11)

The Group also has interests in a number of individually immaterial associates. As at December 31, 2018 the carrying value of these associates in the Group financial statement was €4.9million (€4 million for 2017) and the related share of profit for the period was positive for €1.4 million (positive for €0.8 million in 2017).

Note 11. Other investment

Other investments regards the 18.34% stake in the share capital of Goldpac Group Limited, a company listed on Hong Kong Stock exchange (HK: 3315) that is principally engaged in delivering embedded software and secure payment products for global customers and leveraging innovative Fintech to provide personalization service, system platforms and other total solutions for customers in a wide business range including finance, government, healthcare, transportation and retails. The subsequent changes in the share price of those equity securities for 2018 gave rise to a €6.7 million loss recognized in a specific equity reserve as presented in the statement of other comprehensive income.

Notes to the consolidated financial statements continued

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2018	2017
Research tax credit	41,420	41,414
Long-term deposits, net ⁷	4,500	4,650
Tax receivable	8,165	10,191
Other	29,640	23,329
Total	83,725	79,584

⁷ The €4,500 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2018	2017
Gross book value		
Raw materials and spares	99,410	84,044
Work in progress	106,576	107,761
Finished goods	76,962	62,616
Total	282,948	254,421
Obsolescence reserve		
Raw materials and spares	(6,702)	(7,245)
Work in progress	(9,228)	(6,200)
Finished goods	(10,626)	(14,637)
Total	(26,556)	(28,082)
Net book value	256,392	226,339

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2018	2017
Trade receivables	704,688	689,394
Provision for impairment of receivables	(42,239)	(25,540)
Trade receivables	662,449	663,854
Prepaid expenses	36,570	44,223
VAT recoverable and tax receivable	72,265	75,124
Advances to suppliers and related parties	23,485	12,023
Contract asset	190,007	161,914
Other	63,645	41,362
Total	1,048,421	998,500

The contract assets relate to the Company's rights to consideration for the work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Company issues an invoice to the customer.

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2018	2017
Cash at bank and in hand	243,570	186,824
Short-term bank deposits and investment funds	18,038	133,851
Total	261,608	320,675

The average effective interest rate on short-term deposits was 4.15% in 2018 (1.16% in 2017). 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,	
	2018	2017
Cash and cash equivalents	261,608	320,675
Banks overdrafts	(5,025)	(18,310)
Total	256,583	302,365

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2018	2017
Non-current portion		
Bond	400,000	400,000
Deferred costs and premium on bond	(1,875)	(2,561)
Private placement	236,122	232,632
Term loan	80,000	80,000
Other financial liabilities	7,842	7,623
Finance lease liabilities	804	292
Total non-current portion	722,893	717,986
Current portion		
Commercial paper	70,000	260,000
Short-term loans	4,623	7,064
Bank overdrafts	5,025	18,310
Other financial liabilities	10,742	1,283
Finance lease liabilities	167	131
Total current portion	90,557	286,788
Total	813,450	1,004,774

As at December 31, 2018, Gemalto's main sources of financing are made of:

- A €400 million public bond listed in the Luxembourg stock exchange issued in September 2014 at 2.125%, ahead of the SafeNet acquisition, and maturing in September 23, 2021. The bond is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables. For information the fair value of the bond as at December 31, 2018, is €415.2 million, while its carrying amount is equal to €400 million;
- Two private placements issued in March and April 2015 for a total of €150 million and maturing between 2020 and 2030. They were booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;

Notes to the consolidated financial statements continued

Note 16. Borrowings continued

- One private placement issued in April 2017 for USD 100 million and maturing in 2028. The private placement is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables;
- One term loan issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables; €600 million committed bilateral facilities arranged with first rank banks maturing between December 19, 2019 and July 23, 2023. There are no financial covenants (financial ratios) concerning Gemalto's financial structure in the documentation of these facilities. As at December 31, 2018 and December 31, 2017 the credit lines were not drawn; and
- €500 million of French commercial paper program. As at December 31, 2018, the outstanding amount reaches €70 million (€260 million as at December 31, 2017).

Movements on borrowings

	Year ended December 31,	
	2018	2017
Balance as at January 1	1,004,774	730,606
Net proceed from private placement	3,362	83,318
Release of deferred costs and premium on bond and private placement	815	789
Accruals of interests on bond, private placement and other borrowings	(349)	1,536
Proceed from term loan	–	80,000
Proceed from commercial paper	568,500	660,000
Repayment of commercial paper	(758,500)	(569,000)
Net change in financial lease liabilities	547	21
Net change in other financial liabilities	1,474	(2,350)
Net change in bank overdraft	(13,254)	18,078
Net change in short-term loan	(2,015)	2,128
Acquisition of subsidiaries	8,263	–
Currency translation adjustment	(167)	(352)
Balance as at December 31	813,450	1,004,774

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

	Year ended December 31,	
	2018	2017
Euro (EUR)	715,519	909,271
Polish Zloty (PLN)	340	379
Swiss Franc (CHF)	7,324	7,043
Yuan Renminbi (CNY)	207	–
South Africa Rand (ZAR)	1,195	1,261
Turkish Lira (TRY)	–	2,077
Canadian Dollar (CAD)	4	10
US Dollar (USD)	88,861	84,733
Total	813,450	1,004,774

The nominal interest rates as at December 31, 2018 and 2017 were as follows:

									2018
		Amount	EUR	CHF	USD	PLN	ZAR	CAD	CNY
Bond	Fixed rate	398,125	2.13%	–	–	–	–	–	–
Private placement	Fixed rate	236,122	2.00%	–	4.33%	–	–	–	–
Term loan	Fixed rate	80,000	0.35%	–	–	–	–	–	–
Commercial paper	Fixed rate	70,000	-0.21%	–	–	–	–	–	–
Other financial liabilities	n/a	18,584	ns	n/a	–	–	n/a	–	ns
Short-term loans and bank overdrafts	Floating rate	5,366	n/a	–	n/a	–	–	–	–
Accrued interests	n/a	4,282	n/a	–	–	–	–	–	–
Finance lease liabilities	Fixed rate	971	2.12%	–	7.40%	1.59%	–	7.40%	–
Total		813,450							

									2017
		Amount	EUR	CHF	USD	PLN	ZAR	CAD	TRY
Bond	Fixed rate	397,439	2.13%	–	–	–	–	–	–
Private placement	Fixed rate	232,632	2.00%	–	4.33%	–	–	–	–
Term loan	Fixed rate	80,000	0.35%	–	–	–	–	–	–
Commercial paper	Fixed rate	260,000	(0.15)%	–	–	–	–	–	–
Other financial liabilities	n/a	8,906	n/a	n/a	–	–	n/a	–	–
Short-term loans and bank overdrafts	Floating rate	20,728	n/a	–	n/a	–	–	–	15.25%
Accrued interests	n/a	4,646	n/a	–	n/a	–	–	–	–
Finance lease liabilities	Fixed rate	423	–	–	7.40%	1.69%	–	7.40%	–
Total		1,004,774							

Other financial liabilities have no specific interest rate as it relates to the liabilities for additional compensation/guaranteed dividend payable to non-controlling interests. n/a: not applicable. n/s: not significant.

These funding sources do not require Gemalto to comply with any financial ratios.

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

Year ended December 31, 2018						Year ended December 31, 2017				
	Bond	Commercial papers and private placements	Term loan	Present value of finance lease liabilities	Financial lease (minimum lease payments)	Bond	Commercial papers and private placements	Term loan	Present value of finance lease liabilities	Financial lease (minimum lease payments)
Not later than 1 year	8,500	76,768	284	167	175	8,500	266,622	284	131	138
Later than 1 year and not later than 5 years	417,000	106,983	80,070	804	806	425,500	40,676	80,354	292	296
Later than 5 years	–	171,440	–	–	–	–	239,945	–	–	–
Total	425,500	355,191	80,354	971	981	434,000	547,243	80,638	423	434
Future finance charges on finance leases					(10)					(11)
Present value of finance lease liabilities					971					423

Note 17. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31,	
	2018	2017
Present value of obligations	228,950	232,561
Fair value of plan assets	(107,407)	(105,845)
Net defined benefit liability	121,543	126,716

The Group is subject to national mandatory pension systems and other compulsory plans, or makes contributions to social pension funds based on local regulations. When the obligation of the Group is limited to the payment of the contribution into these plans or funds, the recognition of such liability is not required.

In addition, the Group has, in some countries, defined benefit plans consisting of final retirement salary, committed pension payments, long service awards (jubilees) and other schemes.

In France, the labor law and specific industry labor agreements require that a final retirement salary is paid to all French employees upon retirement, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service are also eligible for a jubilee award.

In the UK, the arrangement consisted of a funded defined benefit scheme under which retired employees draw their benefits principally as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme based on defined contributions was put in place. The plan asset held in trust is governed by local regulations and practice. Responsibility for governance of the plan, including investment decisions and contributions schedules, lies with the board of trustees. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

In Germany, labor agreements and specific company agreements require for the employees the payment of a fixed monthly lifelong pension, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service (fixed one time premium after 25, 40 or 50 years of seniority) are also eligible for a jubilee award other than some specific plans in case of the death of an employee.

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

In Switzerland, the Group's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. The plan asset is held in a life-insurance company.

Other less significant defined benefit plans exist in other countries including Finland, Israel, Italy, Mexico, United Arab Emirates and South Korea.

Movements in the net defined benefit obligation

The movements in the net defined benefit obligation over the periods ended are as follows:

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2018	232,561	(105,845)	126,716
Current service costs	12,032	–	12,032
Interest expense	3,692	(1,808)	1,884
Curtailment	(3,846)	3,587	(259)
Amount recognized in the income statement	11,878	1,779	13,657
Return on plan assets	–	(577)	(577)
Actuarial (gain) and loss arising from changes in demographic assumptions	(241)	–	(241)
Actuarial (gain) and loss arising from changes in financial assumptions	(6,934)	–	(6,934)
Actuarial (gain) and loss due to experience	2,100	–	2,100
Amounts recognized in other comprehensive income	(5,075)	(577)	(5,652)
Contributions to the plan by the employer	–	(5,818)	(5,818)
Contributions to the plan by the employee	898	(898)	–
Payments	(11,346)	4,143	(7,203)
Reclassification from other liabilities	(388)	–	(388)
Currency translation adjustment	422	(191)	231
Balance as at December 31, 2018	228,950	(107,407)	121,543

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2017	239,929	(106,793)	133,136
Current service costs	11,846	–	11,846
Interest expense	4,189	(1,829)	2,360
Curtailment	(11,940)	3,356	(8,584)
Amount recognized in the income statement	4,095	1,527	5,622
Return on plan assets	–	(1,375)	(1,375)
Actuarial (gain) and loss arising from changes in demographic assumptions	(668)	–	(668)
Actuarial (gain) and loss arising from changes in financial assumptions	1,594	–	1,594
Actuarial (gain) and loss due to experience	1,228	–	1,228
Amounts recognized in other comprehensive income	2,154	(1,375)	779
Contributions to the plan by the employer	–	(5,897)	(5,897)
Contributions to the plan by the employee	1,195	(1,195)	–
Payments	(8,080)	2,879	(5,201)
Reclassification from other liabilities	595	–	595
Currency translation adjustment	(7,327)	5,009	(2,318)
Balance as at December 31, 2017	232,561	(105,845)	126,716

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 2018					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	73,250	56,856	27,671	46,825	24,348	228,950
Plan assets at fair value	–	(42,175)	(15,387)	(38,868)	(10,977)	(107,407)
Net defined benefit obligation	73,250	14,681	12,284	7,957	13,371	121,543

	Year ended December 2017					
	France	UK	Germany	Switzerland	Other countries	Total
Projected benefit obligation	72,561	61,541	26,680	44,122	27,657	232,561
Plan assets at fair value	–	(44,751)	(14,121)	(32,185)	(14,788)	(105,845)
Net defined benefit obligation	72,561	16,790	12,559	11,937	12,869	126,716

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 2018				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	495	–	6,429	6,924
Equity securities	14,585	14,892	–	–	29,477
Debt instruments (Government and corporate bonds)	–	–	38,868	–	38,868
Other investments	27,590	–	–	4,548	32,138
Total plan asset fair value	42,175	15,387	38,868	10,977	107,407

	Year ended December 2017				
	UK	Germany	Switzerland	Other countries	Total
Insurance contracts	–	488	32,185	10,235	42,908
Equity securities	14,450	–	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–	–
Other investments	30,301	13,633	–	4,553	48,487
Total plan asset fair value	44,751	14,121	32,185	14,788	105,845

In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees in the UK agree and submit a funding plan to the Pension Regulator within 15 months of the valuation date for all schemes showing an asset deficit, Gemalto N.V. and the trustees of the Gemplus Limited Staff Pension Scheme reached an agreement on the ongoing funding of the scheme, which consisted of a plan to fund the deficit up to 2022 on a going concern basis and a parental guarantee put in place by Gemalto N.V. in the event that Gemalto UK Ltd was unable to fulfill its funding obligations.

Fair value estimation of plan assets

The following table shows the fair value estimation of the plan assets in UK, Germany and Switzerland for the years ended December 31, 2018 and 2017:

	Year ended December 2018			
	Level 1	Level 2	Level 3	Total
Insurance contracts	495	–	–	495
Equity securities	29,477	–	–	29,477
Debt instruments (Government and corporate bonds)	38,868	–	–	38,868
Other investments	27,590	–	–	27,590
Total plan asset fair value	96,430	–	–	96,430

	Year ended December 2017			
	Level 1	Level 2	Level 3	Total
Insurance contracts	488	32,185	–	32,673
Equity securities	14,450	–	–	14,450
Debt instruments (Government and corporate bonds)	–	–	–	–
Other investments	43,934	–	–	43,934
Total plan asset fair value	58,872	32,185	–	91,057

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2018	2017
Eurozone		
Discounting rate	1.60%	1.60%
Future salary increase	2.25 % – 3%	2.25 % – 3%
Inflation rate	1.50 % – 2%	1.50 % – 2%
Expected rate of return on plan assets	1.60%	1.60%
UK		
Discounting rate	2.80%	2.50%
Future salary increase	n/a	n/a
Inflation rate	3.45%	3.40%
Expected rate of return on plan assets	2.80%	2.50%
Switzerland		
Discounting rate	1.05%	0.65%
Future salary increase	0.50%	0.50%
Inflation rate	0.75%	0.50%
Expected rate of return on plan assets	1.05%	0.65%

Discounting rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discounting rate to be applied for the liability calculation. Both indexes refer to Euro denominated and Sterling corporate bonds with AA rating maturing over ten years respectively. For duration exceeding ten years in the Eurozone, the discounting rate used is an extrapolation of the zero-coupon bond rate adjusted with the spread on iBoxx. In Switzerland, the Group uses Swiss high quality corporate bonds index for the liability calculation.

The assumptions in respect of discounting rate and inflation rate have a significant effect on the liability valuation. Changes to these assumptions in the light of prevailing market conditions may have a significant impact on future valuations.

Sensitivity analysis

The following table shows the sensitivity of the France, UK, Germany and Switzerland liabilities for the year ended December 31, 2018 to reasonable changes in main assumptions used, all other variables being held constant:

Increase/(Decrease) in the liability	0.5 percentage point increase	0.5 percentage point decrease	+1 Year	-1 Year
Discounting rate	(13,218)	14,844		
Inflation rate	5,191	(4,731)		
Salary growth	3,283	(3,055)		
Mortality			4,228	(3,292)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2012–2014 for France, (ii) SAPS S2Px tables with a 1.25% long-term trend-rate for the UK, (iii) Richttafel 2018G for Germany and (iv) BGV 2015 GT for Switzerland.

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

	Year ended December 31, 2018			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	22.60	20.04	22.50
Women	22.94	24.30	23.57	24.54
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.00	22.83	24.33
Women	22.94	25.80	25.83	26.37
	Year ended December 31, 2017			
	France	UK	Germany	Switzerland
Longevity at age 65 for current pensioners (years)				
Men	19.02	22.70	19.26	22.38
Women	22.94	24.30	23.32	24.43
Longevity at age 65 for current members aged 45 (years)				
Men	19.02	24.10	21.90	24.26
Women	22.94	25.90	25.82	26.29

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2019 is €10,562. The weighted average duration of the defined benefit obligation is 12.7 years (15.4 years as at December 31, 2017).

Duration of the plans by geographical area:

	Year ended December 2018				
	France	UK	Germany	Switzerland	Other countries
Duration in years	10.9	20.0	14.2	17.3	10.1
	Year ended December 2017				
	France	UK	Germany	Switzerland	Other countries
Duration in years	11.2	20.0	14.4	18.2	12.3

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

	Cash outflow		
	2019	2020	2021
Net defined benefit obligation	9,664	8,947	8,528

Note 18. Non-current provisions and other liabilities

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

	Year ended December 31,	
	2018	2017
Non-current provisions	41,042	54,706
Other non-current liabilities ⁸	80,740	75,266
Total	121,782	129,972

⁸ The €80,740 carrying value of other non-current liabilities is assessed to be equivalent to their fair value (€75,266 in 2017).

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, 2018	3,792	24,693	3,010	17,974	5,237	54,706
Business disposed	–	–	–	(1,417)	–	(1,417)
Additional provisions	877	503	662	1,850	8,003	11,895
Unused amount reversed	–	(63)	(702)	(3,459)	–	(4,224)
Used during the period	–	(1,020)	(448)	(646)	(75)	(2,189)
Reclassifications	(742)	(17,309)	100	(13)	125	(17,839)
Cumulative translation adjustment	28	–	(19)	114	(13)	110
As of December 31, 2018	3,955	6,804	2,603	14,403	13,277	41,042
	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2017	1,875	1,935	4,655	22,392	8,792	39,649
Acquisition of a subsidiary	–	–	–	2,816	40	2,856
Additional provisions	2,061	24,502	180	2,442	547	29,732
Unused amount reversed	(439)	(762)	(1,116)	(4,638)	(106)	(7,061)
Used during the period	(7)	(914)	(680)	(2,420)	(53)	(4,074)
Reclassifications	366	(68)	–	(507)	(3,532)	(3,741)
Cumulative translation adjustment	(64)	–	(29)	(2,111)	(451)	(2,655)
As of December 31, 2017	3,792	24,693	3,010	17,974	5,237	54,706

The assessment of these risks has been performed with the assistance of external counsels when needed and provisions booked when necessary as described in note 2.20.

Notes to the consolidated financial statements continued

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2018 and 2017 consist of the following:

	Year ended December 31,	
	2018	2017
Trade payables	209,371	205,386
Employee related payables	201,602	169,950
Accrued expenses	72,985	80,858
Accrued VAT	27,047	33,311
Contract liabilities current portion	206,612	187,664
Other	10,712	5,079
Total trade and other payables	728,329	682,248

The contract liabilities primarily relate to maintenance and subscriptions contracts for which the cash collection can be decorrelated from the pattern of revenue recognized over time.

	Year ended December 31,	
	2018	2017
Advance from customer	36,111	42,105
Deferred revenue current portion	170,501	145,559
Contract liabilities current portion	206,612	187,664
Deferred revenue non-current portion	48,419	37,642
Contract liabilities including non current portion	255,031	225,306

Note 20. Restructuring and acquisition-related expenses by nature

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

	Year ended December 31,	
	2018	2017
Severance and associated costs	(2,395)	92,988
Transaction costs on acquisition	22,506	2,108
Write-offs and impairments	20,492	3,118
Legal and professional fees	2,187	5,478
Other costs (income), net	6,740	10,562
Total restructuring and acquisition-related expenses	49,530	114,254

Restructuring and acquisition-related expenses was (€50) million, and mainly includes the costs associated with the transition plan, the geographical portfolio optimization and costs associated to the Thales project. This year's expenses were down €64 million compared to last year as the major transition plan initiatives were launched in 2017.

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2018	2017
Warranty	5,933	6,802
Provisions for loss on contracts	719	1,542
Restructuring and reorganization	21,451	37,022
Other	10,477	6,895
Total current provisions and other liabilities	38,580	52,261

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2018	6,802	1,542	37,022	6,895	52,261
Business disposed	–	–	(595)	(75)	(670)
Additional provisions	1,284	575	845	7,189	9,893
Unused amount reversed	(724)	(442)	(13,098)	(949)	(15,213)
Used during the year	(2,234)	(860)	(19,831)	(2,401)	(25,326)
Reclassifications	743	–	17,110	(222)	17,631
Cumulative translation adjustment	62	(96)	(2)	40	4
As of December 31, 2018	5,933	719	21,451	10,477	38,580

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2017	4,207	6,162	3,428	3,535	17,332
Acquisition of a subsidiary	–	441	–	–	441
Additional provisions	4,589	1,401	36,720	4,780	47,490
Unused amount reversed	(957)	–	(226)	(437)	(1,620)
Used during the year	(501)	(9,834)	(2,293)	(1,234)	(13,862)
Reclassifications	(366)	3,916	(147)	249	3,652
Cumulative translation adjustment	(170)	(544)	(460)	2	(1,172)
As of December 31, 2017	6,802	1,542	37,022	6,895	52,261

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2018	2017
Embedded software & Products, excluding hedge effect	1,875,933	1,950,801
Platforms & Services, excluding hedge effect	1,073,131	1,035,588
Others	19,630	(14,672)
Total	2,968,694	2,971,717

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

Disaggregation of revenue and order backlog:

Most of the revenue is recognized point in time. Revenue recognized over time approximates €350 million or 12% of the total revenue of the year. Out of the €350 million Revenue recognized over time, circa €315 million comes from our Identity, IoT and Cybersecurity segment and mainly relates to our activities linked to platforms built and run, support and maintenance or development or specific identity and payment solution.

With regards to the Identity, IoT & Cybersecurity segment, the unsatisfied performance obligations represent the transaction price for products & services for which we have a material right but work has not yet been performed. As at December 31, 2018, the revenue expected to be recognized in the future related to the performance obligations that are unsatisfied or partially unsatisfied approximates to € 475m. The Smart Cards and Issuance segment mainly relates to short term product and services (less than one year) and is therefore excluded from this amount as well as highly probable variable considerations.

Note 23. Costs of sales and operating expenses by nature

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

	Year ended December 31,	
	2018	2017
Depreciation, amortization, impairment, write-offs and other provisions	156,121	161,460
Amortization and depreciation of intangibles resulting from acquisitions	84,986	513,677
Employee compensation and benefit expense (see note 24)	1,087,181	1,155,286
Change in inventories (finished goods and work in progress)	(14,074)	2,773
Raw materials used and consumables	1,016,135	1,019,430
Freight and transportation costs	96,653	98,853
Travel costs	54,123	56,246
Buildings and office leases	107,237	109,678
Royalties, legal and professional fees	179,080	163,283
Subcontracting and temporary workforce	97,938	101,135
Others	(62,689)	(45,180)
Total costs of sales and operating expenses	2,802,691	3,336,641

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2018	2017
Wages and salaries (including severance costs recorded in restructuring and acquisition-related expenses)	918,131	1,008,166
Pension – Defined benefit plans	11,773	3,262
Pension – Defined contribution plans	38,480	36,855
Share-based compensation expense	31,717	37,011
Others	87,080	69,992
Total employee compensation and benefit expense	1,087,181	1,155,286

Notes to the consolidated financial statements continued

Note 25. Equity-based compensation plans

All share and exercise prices are expressed in Euro.

Gemalto has established a Global Equity Incentive Plan (GEIP) for its employees.

Gemalto share option and Restricted Share Unit plans (excluding Gemplus share option plans)

The GEIP authorizes the Company to grant eligible employees over the duration of the plan ending December 31, 2024 the right to acquire a maximum 14 million ordinary shares of Gemalto N.V. when vesting conditions are met.

Gemalto share options

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

Grant date	Share options granted	Exercise price (Euro)	Year ended December 31,	
			Number of options outstanding as of December 31, 2018	Number of options outstanding as of December 31, 2017
Sep-08	1,399,000	26.44	–	57,138
Total	1,399,000		–	57,138

Gemplus S.A. and Gemplus International S.A. share options

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on December 6, 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the combination public exchange offer (i.e. 25 Gemplus shares for two Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

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

	Weighted average exercise price (Euro)	Number of options outstanding as of 2018	Year ended December 31,	
			Weighted average exercise price (Euro)	Number of options outstanding as of 2017
Beginning of the period	26.44	57,138	26.05	370,455
Forfeited	–	–	–	–
Exercised	–	(57,138)	25.98	(313,317)
End of the period	–	–	26.44	57,138

As of December 31, 2018, there are no outstanding options in place (Gemalto and Gemplus). It was 0.8 years as of December 31, 2017 for the 57,138 options.

Gemalto Restricted Share Units (RSUs)

In 2018, the Board of Gemalto N.V. granted service-based RSUs to eligible employee. The following are the characteristics of the plans:

Grant date	RSU granted	End of service period	Valuation assumptions used	RSU vested
Jan-18	10,000	Dec-18 Vesting conditions are service-based. RSU will vest if the employee is employed by the Company as at December 31, 2018.	Share price of €49.59	10,000

Year ended December 31, 2018, the following RSUs granted by the Company were outstanding:

Grant date	Maximum amount granted based on performance variability	Amount forfeited	Outstanding	Remaining vesting conditions	End of service period
Jun-16	790,585	(171,340)	619,245	service	Jun-19
Oct-16	960,000	(529,531)	430,469	performance and service	Oct-19
May-17	25,830	(1,580)	24,250	service	Dec-19
May-17	124,000	(117,955)	6,045	performance and service	Dec-19
Sep-17	65,000	–	65,000	performance and service	Sep-20
Sep-17	300,000	–	300,000	performance and service	Sep-20
Sep-17	632,000	(19,000)	613,000	performance and service	Sep-20
Jan-18	10,000	–	10,000	service	Dec-18
Total	2,907,415	(839,406)	2,068,009		

Equity-based compensation expense in the income statement

The compensation expense corresponding to the amortization of the IFRS 2 value of the share options and RSUs, the GESPP and associated costs was recorded as follows:

	Year ended December 31,	
	2018	2017
Cost of sales	8,897	8,910
Research and engineering	3,366	3,978
Sales and marketing	10,693	12,071
General and administrative	8,761	12,052
Total	31,717	37,011

The associated costs amounted to €4.1 million (€3 million in 2017) and mainly include the accrual of French Social levies associated with the RSU.

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

Cash proceeds received from employees having exercised share options in 2018 was €1,524 (€10,716 in 2017).

Note 26. Other income and Other expenses

Other income

	Year ended December 31,	
	2018	2017
Gains on sales of non-core business	25,982	3,178
Compensation from customers and suppliers	351	2,296
Gains on sales of fixed assets	27,522	1,774
Other	2,207	3,137
Total	56,062	10,385

Other expenses

	Year ended December 31,	
	2018	2017
Impairment charge	–	(424,671)
Fixed assets write-off	(23,581)	(1,360)
Other	(2,913)	(462)
Total	(26,494)	(426,493)

Notes to the consolidated financial statements continued

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2018	2017
Interest expense	(3,906)	(3,867)
Interest expense and amortized costs on public bond, private placements, credit line facilities and commercial paper	(15,638)	(14,576)
Interest income	3,520	3,010
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(10,281)	(7,739)
Swap points of derivative instruments	(21,278)	(25,703)
Other financial income (expense), net	(2,214)	16,069
Financial income (expense), net	(49,797)	(32,806)

Other financial income (expense) is mainly composed of:

- (i) reassessment to fair value of financial assets and liabilities;
- (ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries in 2018; and
- (iii) commitment and arrangement fees related to the unused credit lines.

Note 28. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2018	2017
Net sales	5,692	(19,409)
Cost of sales	1,017	(2,305)
Financial income (expense), net	(31,559)	(33,442)
Net foreign exchange gains (losses)	(24,850)	(55,156)

Foreign exchange gains or losses arising from the Company's qualified hedges under IFRS9 (see note 4) are recorded in sales if the underlying net exposure is a revenue (net selling position) and in cost of sales if the underlying net exposure is a cost (net buying position).

Note 29. Taxes

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

	Year ended December 31,	
	2018	2017
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	8,860	12,659
Deferred tax asset to be recovered within 12 months	23,400	25,159
Total	32,260	37,818
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(101,950)	(99,596)
Deferred tax liabilities due within 12 months	(1,305)	(2,485)
Total	(103,255)	(102,081)
Deferred tax assets (liabilities), net	(70,995)	(64,263)

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

	Year ended December 31,	
	2018	2017
Beginning of the period	(64,263)	(8,642)
Acquisition of subsidiary and business	987	(42,508)
Credited to income statement	(540)	(7,922)
Tax credit (debit) recognized in other comprehensive income	(1,652)	(18,218)
Cumulative translation adjustment	(5,527)	13,027
End of the period	(70,995)	(64,263)

Deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 detail as follows:

	Year ended December 31,	
	2018	2017
Assets		
Loss carry-forwards	12,923	17,871
Excess book over tax depreciation and amortization	8,457	10,160
Employee and retirement benefits	11,290	12,091
Warranty reserves and accruals	351	377
Other temporary differences	43,785	42,938
Total assets	76,806	83,437
Liabilities		
Excess tax over book depreciation and amortization	(132,181)	(130,899)
Other temporary differences	(15,620)	(16,801)
Total liabilities	(147,801)	(147,700)
Deferred tax assets (liabilities), net	(70,995)	(64,263)

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2018	2017
Current tax	(53,416)	(27,765)
Deferred tax	(540)	(7,923)
Total	(53,956)	(35,688)

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,			
	2018		2017	
	€	%	€	%
Profit (loss) before income tax	113,594		(388,868)	
Tax calculated at the rate of the Holding Company	(28,398)	(25.0)	97,217	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	11,355		43,356	
Effect of the reassessment of the recognition of deferred tax assets	(15,691)		(832)	
Effect of utilization of tax assets not recognized in prior years	–		–	
Effect of unrecognized deferred tax assets arising in the year	(13,987)		(68,937)	
Other permanent differences	(7,235)		(106,492)	
Income tax credit (expense)	(53,956)	(47)	(35,688)	9.2

In 2018, the Company recorded an income tax charge of €(53.9) million on a pretax profit of €113.6 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, 2018, Gemalto did not recognize tax assets amounting to €297.7 million (€324.6 million as of December 31, 2017) relating to tax losses and other future tax deductions. Of this amount, €266.1 million⁹ related to tax loss carry-forwards amounting to €1,220.9 million¹⁰ of which €1,142.2 million can be used indefinitely. In 2017 those amounts were €282.2 million⁹, €1,251.7¹⁰ million and €1,163.8 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.

⁹ Including €200.8 million (€200.6 million in 2017) related to Gemplus International S.A. (Luxembourg) tax loss carry-forwards.

¹⁰ Including €772 million (€771.1 million in 2017) for Gemplus International S.A. (Luxembourg).

Note 30. Earnings per share

	Year ended December 31,	
	2018	2017
Profit attributable to Owners of the Company	61,076	(423,907)
Weighted average number of ordinary shares – basic	90,452	89,883
Effect of dilution from share options	1,541	–
Weighted average number of ordinary shares – diluted	91,993	89,883

Basic earnings per share	0.68	(4.72)
Diluted earnings per share	0.66	(4.72)

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

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period. However, their conversion to ordinary shares would not decrease earnings per share or increase loss per share and as such they have not been treated as dilutive.

Note 31. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2018 and 2017 is summarized as follows:

	Year ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	12,422	8,885
Share-based compensation charge	5,869	9,726
Total expenses	18,291	18,611

b) Purchases of goods and services

In 2018, the Company purchased €7,612 worth of equipment and services (€8,463 in 2017) under existing agreements from Entrust Datacard Corporation. Mr. Johannes Fritz heads the Quandt/Klatten Family office, and certain members of the Quandt/Klatten Family own the majority of Entrust Datacard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2018, total purchases from associated companies was €2,759 (€4,201 in 2017).

Notes to the consolidated financial statements continued

Note 31. Related party transactions continued

c) Sales of goods and services

In 2018, total sales to related parties amounted to €3,143 (€1,963 in 2017). In 2018, total sales to associated companies amounted to €380 (€1,075 in 2017).

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

	Year ended December 31,	
	2018	2017
Receivables from:		
Associates	101	394
Related parties	1,671	550
Total receivables	1,772	944
Payables to:		
Associates	403	298
Related parties	261	189
Total payables	664	487

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

Note 32. Commitments and contingencies

Legal proceedings

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

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate, office facilities and datacenter in effect as of December 31, 2018, are as follows:

	Year ended December 31,	
	2018	2017
Not later than 1 year	45,904	28,131
Later than 1 year and not later than 5 years	106,221	78,109
Later than 5 years	22,177	21,182
Total	174,302	127,422

Lease commitments as at December 31, 2018 included associated service charges for an amount equal to €36 million. The increase compared to 2017 is mainly related to new lease contracts on datacenter.

The table below shows the lease payments recognized as expenses in 2018 and 2017:

	Year ended December 31,	
	2018	2017
Lease expenses	48,930	46,547
Total	48,930	46,547

Bank guarantees

As at December 31, 2018, bank guarantees, mainly performance and bid bonds, amounted to €135 million (€167 million in 2017). 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, 2018, the commitments to purchase these safety stocks valued at the average purchase price amounted to €16 million (€16 million in 2017).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (€28 million in 2017) equivalent to €31 million (€31.8 million in 2017), granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Other commitments

The costs Gemalto has incurred and expects to incur in relation to the Public offer by Thales amount to approximately €40 million and relate to fees of legal advisers, financial advisers, tax advisers, strategic advisers, auditor and communication advisers. These costs will be borne by Gemalto.

Note 33. Dividends

The 2018 AGM has decided not to pay a final dividend for 2017 in view of the Thales's recommended offer for Gemalto.

Note 34. Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2018 which would materially impact the consolidated financial statements of the Company.

Note 35. Consolidated entities

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

Country of incorporation	Company name	Gemalto's interest
Algeria	Cogent Systems Maghreb Sarl	49%
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
	Multos International Pty Ltd	100%
	SafeNet Australia Pty Ltd	100%
	Netsize Pty Ltd	100%
Belgium	Gemventures1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
	SafeNet Tecnologia em Informatica, Ltda	100%
	Gemalto do Brasil Cartoes e Terminais Ltda	100%
Cameroon	Gemalto Cameroun S.A.	100%
Canada	Gemalto Canada Inc.	100%
	SafeNet Canada, Inc	100%
Chile	Gemalto Chile Limitada	100%
China	Gemalto Smart Cards Technology Co. Ltd	100%
	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
	Cogent Systems (Shenzhen) Inc	100%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Green Bit (Tianjin) Biometric Systems Co., Ltd.,	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	100%
	SafeNet China Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Estonia	Trüb Baltic AS	100%
Finland	Gemalto Oy	100%
France	Gemalto International S.A.S.	100%
	Gemalto S.A.	100%
	Gemalto Treasury Services S.A.	100%
	Gemalto Service S.A.S.	100%
	SafeNet France S.A.R.L.	100%
	ISSM S.A.S.	100%
	Netsize Payment S.A.S.	100%
	Newcard S.A.S.	100%
	Trusted Labs S.A.S.	100%
	TV-Card S.A.S.	100%
Gabon	Gemalto Gabon S.A.S.	100%

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Cardag Deutschland GmbH	100%
	SFNT Germany GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Cogent Systems Inc. HK Limited	100%
	SafeNet Asia Ltd	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
India	Cinterion Wireless Modules India Private Limited	100%
	Gemalto Digital Security Private Ltd	100%
	SafeNet India Private Ltd	100%
	SafeNet Infotech Private Ltd	100%
	Gemalto Smart Cards Private Limited	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Smart Cards	100%
Israel	Gemalto Israel Ltd	100%
	SafeNet Data Security (Israel) Ltd.	100%
Italy	Gemalto SPA	100%
	Green Bit S.p.A	100%
	SafeNet Italy 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	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	Gemalto Mexico S.A. de CV	100%
	SafeNet Mexico S de RL de CV	100%
Monaco	MCtel S.A.M.	100%
Morocco	Gemalto Maroc sarl	100%
New Zealand	Gemalto (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Pakistan	Gemalto Pakistan (Private) Ltd	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Romania	Gemalto Services srl	100%
Russian Federation	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
	Gemalto Cogent LLC	100%
Senegal	Gemalto Senegal SA	83%
Singapore	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%

Notes to the consolidated financial statements continued

Note 35. Consolidated entities continued

Country of incorporation	Company name	Gemalto's interest
South Africa	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
South Korea	Gemalto Korea Limited	100%
Spain	Gemalto SP S.A.	100%
	SafeNet Spain SL	100%
Sweden	AB Svenska Pass	100%
	SafeNet Sweden AB	100%
	Gemalto AB	100%
Switzerland	Gemalto AG	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%
	HAFALAD BV	100%
	SafeNet Europe B.V.	100%
	SafeNet Technologies B.V.	100%
	SFNT BV – One BV	100%
	Gemalto Finance B.V.	100%
	SFNT Netherlands Cooperatief B.A.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
	Plastkart	66%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
	Gemalto Digital Security Solutions LLC	100%
	Gemalto Dubai LLC	100%
United Kingdom	Gemalto UK Ltd	100%
	Maosco Ltd	100%
	Gemplus Ltd	100%
	Multos Ltd	100%
	SafeNet UK Ltd	100%
United States of America	Gemalto IoT LLC	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Gemalto Cogent Inc	100%
	Cogent System Exchange, LLC	100%
	Gemalto SSD Inc	100%
	Gemalto Inc.	100%
	Green Bit Americas Inc.,	100%
	Green Bit Holding USA Inc.,	100%
	SafeNet Assured Technologies, LLC	100%
	SafeNet, Inc.	100%

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Bulgaria	Trüb Demax Plc	50%
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	23%
	Wizway Solutions S.A.S.	25%
Japan	TGS Co. Ltd	50%
Jordan	Joint-Venture of Gemalto and Offtec Office and Banking Systems	50%
Singapore	V3 Teletech Pte Ltd	21%
Taiwan	SmartDisplayer Technology Co.,Ltd	15%
United Kingdom	Trustonic Ltd	50%

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.

Statutory financial statements and notes of the Holding Company

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Statement of financial position of the Holding Company

In thousands of Euro and before appropriation of result	Notes	Year ended December 31,	
		2018	2017
Assets			
Non-current assets			
Goodwill	2	391,819	345,687
Property, plant and equipment	3	9	25
Investments in subsidiaries and associates	4	2,306,550	2,365,975
Long-term loans to subsidiaries	4, 7	435,920	435,038
Total non-current assets		3,134,298	3,146,725
Current assets			
Short-term loans to subsidiaries	7	7,291	2,120
Receivables due from subsidiaries and associates		14,400	15,878
Other receivables		7,766	2,265
Cash and cash equivalents	5	17,060	12,185
Total current assets		46,517	32,448
Total assets		3,180,815	3,179,173
Equity			
Issued and paid in share capital	6	90,920	90,424
Share premium	6	1,338,389	1,303,799
Legal reserves	6	(53,338)	(71,926)
Other reserves	6	1,845	19,294
Retained earnings	6	832,938	1,258,275
Net income for the period	6	61,076	(423,907)
Capital and reserves attributable to the owners of the Holding Company		2,271,830	2,175,959
Liabilities			
Non-current liabilities			
Borrowings	8	714,248	710,071
Borrowings from subsidiaries	8	–	2,067
Other long-term liabilities	9	7,324	7,043
Total non-current liabilities		721,572	719,181
Current liabilities			
Short-term borrowing from subsidiaries	8	2,139	–
Payables to subsidiaries		94,624	15,807
Short-term debt	8	70,000	260,000
Other payables		20,650	8,226
Total current liabilities		187,413	284,033
Total liabilities		908,985	1,003,214
Total equity and liabilities		3,180,815	3,179,173

Income statement of the Holding Company

In thousands of Euro	Notes	Year ended December 31,	
		2018	2017
Revenue			–
Cost of sales		(8,009)	(8,246)
Gross profit		(8,009)	(8,246)
Sales and marketing expenses		(10,083)	(11,845)
General and administrative expenses		(38,230)	(24,588)
Total costs		(48,313)	(36,433)
Operating profit/(loss)		(56,322)	(44,679)
Other income		3,409	2,074
Changes in value of fixed assets investments		–	(392,617)
Financial income	11	20,062	21,256
Financial expense	11	(33,519)	(25,017)
Result from ordinary activities before tax		(66,370)	(438,983)
Tax on result on ordinary activities	12	(3,033)	35
Share in results of subsidiaries and associates	4	130,479	15,041
Net result for the period after tax		61,076	(423,907)

Statements of changes in shareholders' equity of the Holding Company

In thousands of Euro	Number of shares		Attributable to equity holders of the Holding Company					Total equity
	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	
Shareholders' equity as of January 1, 2018	90,423,814	90,084,771	90,424	1,303,799	(71,926)	19,294	834,368	2,175,959
Movements in fair value and other reserves:								
Currency translation adjustments					22,974			22,974
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						4,000		4,000
– Cash flow hedges, net of deferred tax					(12,283)			(12,283)
– Currency translation adjustments on fair value gains/(losses)					440			440
Equity securities – net changes in fair value						(6,728)		(6,728)
Transfer from other reserves to legal reserves					7,457	(7,457)		
Net income recognized directly in equity					18,588	(10,185)	0	8,403
Net profit for the period							61,076	61,076
Total recognized income for 2018					18,588	(10,185)	61,076	69,479
Issuance of new shares	496,542	496,542	496	34,590		(35,086)		0
Equity-based compensation charge, equity-settled						26,298		26,298
Employee share option plans		137,998				1,524		1,524
Other net asset changes from associates							10	10
Adjustment on initial application IFRS 15 (net of tax)							(1,440)	(1,440)
Balance as of December 31, 2018	90,920,356	90,719,311	90,920	1,338,389	(53,338)	1,845	894,014	2,271,830
Shareholders' equity as of January 1, 2017	89,928,639	89,210,804	89,929	1,291,795	(20,402)	5,753	1,303,176	2,670,251
Movements in fair value and other reserves:								
Currency translation adjustments					(148,745)			(148,745)
Fair value gains/(losses), net of tax:								
– Remeasurement of defined benefit obligation, net of deferred tax						(2,815)		(2,815)
– Cash flow hedges, net of deferred tax					96,192			96,192
– Currency translation adjustments on fair value gains/(losses)					1,029			1,029
Equity securities – net changes in fair value						(8,785)		(8,785)
Net income recognized directly in equity					(51,524)	(11,600)	–	(63,124)
Net profit for the period							(423,907)	(423,907)
Total recognized income for 2017					(51,524)	(11,600)	(423,907)	(487,031)
Issuance of new shares	495,175	495,175	495	18,024		(18,519)		–
Equity-based compensation charge, equity-settled						33,537		33,537
Employee share option plans		421,044				10,716		10,716
Purchase of Treasury shares, net		(42,252)				(572)		(572)
Other net asset changes from associates							42	42
Acquisition of non-controlling interests				(6,020)				(6,020)
Dividends paid/payable to shareholders							(44,964)	(44,964)
Reclass actuarial gains/losses						(21)	21	–
Balance as of December 31, 2017	90,423,814	90,084,771	90,424	1,303,799	(71,926)	19,294	834,368	2,175,959

Notes to the statutory financial statements of the Holding Company

The Company financial statements are part of the 2018 financial statements of Gemalto N.V.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ("the Holding Company" or "Gemalto"), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements for a description of these principles).

1.2 Investments

Subsidiaries are all entities over which the Holding Company has control. The Holding Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are recognized from the date on which control is transferred to the Holding Company and derecognized from the date that control ceases. Associates are all entities over which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Holding Company calculates the net asset value using the accounting policies as described in note 2.3 of the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

When the Holding Company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement. When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognized in equity.

The Holding Company determines at each reporting date whether there is any objective evidence that investments in the associates are impaired. If this is the case, the Holding Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates in the income statement. As goodwill is included in the carrying amount of the investments in associates, it is not separately tested for impairment.

The Holding Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Holding Company only if the Holding Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the Holding Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Holding Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Holding Company will recognize a provision.

Amounts due from investments are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate.

1.3 Goodwill

Presentation of goodwill depends on the structuring of the acquisition. Goodwill is presented separately in the statutory financial statements if this relates to an acquisition performed by the Holding Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher between value in use and fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Note 2. Goodwill

	Goodwill
January 1, 2018	345,687
Acquisition of subsidiaries	27,650
Change direct/indirect goodwill	18,161
Currency translation adjustment	321
December 31, 2018	391,819

Notes to the statutory financial statements of the Holding Company continued

Note 3. Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2018	
Gross book value	86
Accumulated depreciation	(61)
Net book value	25
2018 movements	
Additions	
Depreciation	(16)
December 31, 2018	
Gross book value	57
Accumulated depreciation	(48)
Net book value	9

Note 4. Investments and loans

	Year ended December 31,	
	2018	2017
Investments in subsidiaries and associates	2,306,550	2,365,975
Net investments in subsidiaries and associates	2,306,550	2,365,975

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, 2018	2,359,453	6,522	435,038	2,801,013
2018 movements				
Acquisitions				
Contributions to subsidiaries and associates	106,131			106,131
Disposal of non core business	(5,366)			(5,366)
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	112,277			112,277
Fair value gains and losses	(14,571)			(14,571)
Changes in direct/indirect goodwill	(18,161)			(18,161)
Dividends and capital reductions	(387,493)	(42)		(387,535)
First application of IFRS15 and other movements	(1,222)			(1,222)
Share in results from subsidiaries and associates	134,032	(3,553)		130,479
Revaluation through Profit and Loss			17,622	17,622
Reimbursement of loan			(16,740)	(16,740)
Currency translation adjustment	18,543			18,543
December 31, 2018	2,303,623	2,927	435,920	2,742,470

The terms of the long-term loans to subsidiaries are disclosed in note 7. In the carrying value of the investments and loans there are no accumulated depreciation or impairment charges.

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2018	2017
Cash at bank and in hand	17,060	12,185
Total	17,060	12,185

Note 6. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2018 and consisted of €150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €90,920 as at December 31, 2018 and to €90,424 as at December 31, 2017. The share capital consisted of 90,920,356 ordinary shares as at December 31, 2018 and of 90,423,814 ordinary shares as at December 31, 2017 with a nominal value of €1 with no specific rights attached thereto.

The Holding Company issued 496,542 new shares during 2018 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, 2018, the share premium amounted to €1,338,389 (€1,303,799 as at December 31, 2017). The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

Legal reserves

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

As at December 31, 2018, Income recognized directly in equity consisted of:

	2018
Cumulative translation adjustment	(45,881)
Total	(45,881)

Other reserves

As at December 31, 2018, Other reserves consisted of:

	2018
Treasury shares	(6,477)
Share option reserve	62,360
Net gains on Treasury shares in connection with the liquidity program	6,834
Net changes in fair value of equity securities	(15,513)
Reserve for actuarial gains and losses on benefit obligations	(19,638)
Treasury shares canceled	(18,923)
Reserve for cash flow hedge	(7,457)
Other	659
Total	1,845

Notes to the statutory financial statements of the Holding Company continued

Note 7. Loans

Loans to subsidiaries and associates

Loans to subsidiaries and associates consist of the following:

	Year ended December 31, 2018	
	Long-term loans	Short-term loans
Subsidiaries		
Gemalto Inc.	435,920	
Gemalto Cogent LLC		2,675
Gemalto B.V.		1,425
Associate		
Trustonic Ltd.		3,191
Total	435,920	7,291

The Holding Company financed its subsidiaries and associate with the following terms:

	Gemalto Inc.	Gemalto Cogent LLC	Gemalto B.V.	Trustonic Ltd.
Effective date	December 29, 2015	25 October 2018	July 14, 2016	December 11, 2017
Interest	4.5%	3M SIBOR +0.75%	2%	6M EURIBOR +3%
Maximum facility	USD 500 million	SAR 12.5 million	AED 12 million	EUR 3.2 million
Maturity	December 28, 2025	October 25, 2019	July 13, 2019	June 28, 2019

Note 8. Borrowings

Borrowings from subsidiaries

Borrowings from subsidiaries and associates consist of the following:

	Year ended December 31, 2018
	Short-term borrowings
Gemalto (Thailand) Ltd	2,139
Total	2,139

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

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010 and July 16, 2015
Interest	12M BIBOR +0.4%
Maximum facility	THB 80 million
Maturity	August 3, 2019

Borrowings

The non-current borrowings include an amount of €398,125 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, 2018 the bond was booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short-term payables.

Two private placements were issued in March and April 2015 for a total amount of €150 million and maturing between 2020 and 2030. They were recorded based on the amortized cost method. The interest rates are 1.94% and 2.05% respectively for the two private placements.

One private placement is issued in April 2017 for USD 100 million which matures in 2028. The private placement is booked based on the amortized cost method and the interest rate is 4.33%. The three private placements have a carrying value of €236,122 as of 31 December 2018.

One term loan is issued in March 2017 for €80 million and maturing in 2020. The term loan is booked based on the amortized cost method and the interest rate is 0.35%.

The short-term borrowings consist of the implemented French commercial paper program for a total capacity of €500 million with the aim of both diversifying and optimizing the Company's sources of financing. As at December 31, 2018, the outstanding amount reaches €70 million. The average interest percentage is (0.21)% per annum.

Further information about the current and non-current borrowings is included in note 16 of the consolidated financial statements.

Note 9. Other long-term liabilities

The other long-term liabilities have an expected remaining lifetime of 2 years.

Note 10. Wages and salaries

	Year ended December 31,	
	2018	2017
Wages and salaries	2,827	2,732
Costs with respect to share (option) plans	26,298	33,537
Social security charges	175	183
Pension contributions	106	75
Other employee costs	310	356
Total	29,716	36,883

The wages and salaries include the remuneration of the Board members as further detailed in note 14. Further information about the cost with respect to the share (option) plans are included in note 25 of the consolidated financial statements. These costs contain the cost for all worldwide employees and are included in the different functional income statement categories (Cost of Sales, Sales and marketing expenses and General and administrative expenses).

The average number of staff employed by the Holding Company during 2018 was 12 (16 in 2017) based on full time equivalents excluding the Board Members. None of these employees were employed abroad (none in 2017).

Note 11. Financial income and expense

	Year ended December 31,	
	2018	2017
Interest and similar income	20,062	21,256
Interest and similar expenses	(19,905)	(16,119)
Exchange differences	(13,614)	(8,898)
Total	(13,457)	(3,761)

Note 12. Tax on result from ordinary (business) activities

The Holding Company is head of a Dutch fiscal income tax unity. The other companies included in the fiscal unity are Gemalto B.V. and Gemalto Finance B.V. The fiscal unity regime provides for a tax consolidation of Dutch resident entities within a group by filing one consolidated tax return. The Holding Company is liable for the tax activities of the entire tax fiscal unity. The Company has cumulative tax losses amounting to €77.6 million for the years starting from year 2010; (2017: €75.5 million for the years starting 2009) accordingly no corporate income tax payable is due; no current income tax payable and no income tax charge is included in these company only financial statements with the exception of incurred withholding tax on dividends received from subsidiaries. The tax losses have not been recognized as deferred tax asset as management expects no utilization in the foreseeable future.

Note 13. Auditor's fees

The aggregate fees billed by the external auditor, KPMG, for professional services rendered for the fiscal years 2018 and 2017 respectively were as follows:

	Fee KPMG Accountants N.V.	Fee other KPMG offices	Total fee KPMG
2018			
Audit of the financial statements	191	3,189	3,380
Other audit procedures	41	659	700
All other non-audit fees			
Total	232	3,848	4,080
2017			
Audit of the financial statements	156	3,099	3,255
Other audit procedures		543	543
All other non-audit fees		35	35
Total	156	3,677	3,833

Notes to the statutory financial statements of the Holding Company continued

Note 14. Information relating to the Board

Amounts in this note are stated in Euro.

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

Remuneration of the Board

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer social charges ¹	Total
Fiscal year 2018							
Alex Mandl	Non-executive Chairman	265,000					265,000
Philippe Vallée	Executive Board member and Chief Executive Officer	300,000	450,000	1,172,804	976,209	574,318	3,473,331
Olivier Piou	Non-executive Board member	94,000				313,075	407,075
Buford Alexander	Non-executive Board member	86,000					86,000
Homaira Akbari	Non-executive Board member	94,000					94,000
Jill Smith	Non-executive Board member	94,000					94,000
Johannes Fritz	Non-executive Board member	93,000					93,000
John Ormerod	Non-executive Board member	35,540					35,540
Philippe Alfroid	Non-executive Board member	93,000				3,768	96,768
Yen Yen Tan	Non-executive Board member	86,000					86,000
Joop Drechsel	Non-executive Board member	108,000				3,768	111,768
Total		1,348,540	450,000	1,172,804	976,209	894,929	4,842,482

¹ The amount includes the employer part of the national mandatory pension system cost. No supplemental pension is provided by the Company to its directors and officers.

Gemalto Board		Board membership remuneration	Salary	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Employer social charges ²	Total
Fiscal year 2017							
Alex Mandl	Non-executive Chairman	265,000					265,000
Philippe Vallée	Executive Board member and Chief Executive Officer	300,000	450,000	409,424	1,074,629	550,889	2,784,942
Olivier Piou	Non-executive Board member	90,055				(6,295)	83,760
Buford Alexander	Non-executive Board member	86,000					86,000
Homaira Akbari	Non-executive Board member	94,000					94,000
Jill Smith	Non-executive Board member	58,718					58,718
Johannes Fritz	Non-executive Board member	93,000					93,000
John Ormerod	Non-executive Board member	104,433					104,433
Philippe Alfroid	Non-executive Board member	93,000				3,571	96,571
Yen Yen Tan	Non-executive Board member	86,000					86,000
Joop Drechsel	Non-executive Board member	97,567				3,571	101,138
Total		1,367,773	450,000	409,424	1,074,629	551,736	3,853,562

² The amount includes the employer part of the national mandatory pension system cost. No supplemental pension is provided by the Company to its directors and officers.

Mr. Philippe Vallée was appointed as CEO at the 2016 AGM and his service period started as of September 1, 2016.

For more details on the bonus, profit sharing and grants of restricted share units of the CEO, reference is made to the remuneration report included in this Annual Report.

The cost of restricted share units recorded by the Company is based on accounting standards and does not reflect the value of the restricted share units at the grant date, nor the value at the vesting date and nor the value at the end of the blocking periods if these performance-conditioned and/or service-conditioned restricted share units vest and become available.

Remuneration of non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees, is approved by the shareholders. The remuneration is reviewed periodically by the Compensation committee. The current annual remuneration for non-executive Board members as approved by the 2018 AGM is:

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

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €4,400 in 2018.

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

	Gemalto shares	FCPE units ³	American Depository Receipts	RSUs ⁴
As at December 31, 2018	Number of shares held	Number of units purchased	Number of ADRs held	Maximum number of RSUs held
Philippe Vallée	181,300	20,545		115,100
Olivier Piou	473,999	72,659		–
Alex Mandl	10,000 ⁵			
Homaira Akbari			4,500 ⁵	
Total	665,299	93,204	4,500	115,100

³ FCPE (Fonds commun de Placement d'Entreprise), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

⁴ Subject to performance and/or service conditions or delivery of shares.

⁵ Purchased through a company controlled by a Board member.

Note 15. Guarantees, tax and lease commitments of the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of £28 million (equivalent to €31 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan. The Company issued a bank guarantee of €61 thousand.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2018, are as follows:

	2018
Not later than 1 year	216
Later than 1 year and not later than 5 years	677
Later than 5 years	–
Total	893

The Board

Alex Mandl

Non-executive Chairman of the Board

Philippe Vallée

Executive Board member and Chief Executive Officer

Homaira Akbari

Non-executive Board member

Buford Alexander

Non-executive Board member

Philippe Alfroid

Non-executive Board member

Joop Drechsel

Non-executive Board member

Johannes Fritz

Non-executive Board member

Olivier Piou

Non-executive Board member

Yen Yen Tan

Non-executive Board member

Jill Smith

Non-executive Board member

Amsterdam, February 13, 2019 (A signed copy of the Annual Report is available at the Holding Company's office).

Independent auditor's report



To: the General Meeting of Shareholders and the Board of Gemalto N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2018 and of its result and its 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.
- the accompanying statutory financial statements of the holding company give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2018 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 financial statements 2018 of Gemalto N.V. (the Company) based in Amsterdam. The financial statements include the consolidated financial statements and the statutory financial statements of the holding company.

The consolidated financial statements comprise:

- 1 the consolidated statement of financial position as at 31 December 2018;
- 2 the following consolidated statements for 2018: the income statement, the statements of comprehensive income, changes in equity and cash flow; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The statutory financial statements of the holding company comprise:

- 1 the statement of financial position as 31 December 2018;
- 2 the following statements for 2018: the income statement, the statement of changes in shareholders' equity; and
- 3 the notes comprising the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Gemalto N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

MATERIALITY

- Materiality of €8.3 million
- 5.1% of profit before tax from continuing operations, excluding one off costs

GROUP AUDIT

- 86% of total assets
- 81% of revenue
- All significant components have been in scope for audit procedures

KEY AUDIT MATTERS

- Valuation of goodwill
- Revenue recognition on complex contracts
- Capitalized development costs

UNQUALIFIED OPINION

- We issued an unqualified opinion

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at €8.3 million (2017: €9.0 million). The materiality is determined with reference to profit before tax from continuing operations 5.1% (2017: 5.6%), which excludes the effect of primarily acquisition and restructuring costs as disclosed in note 20. We consider profit before tax from continuing operations as the most appropriate benchmark because the main stakeholders are primarily focused on profit before tax, excluding one off costs. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee that misstatements in excess of €0.4 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Gemalto N.V. is at the head of a group of components. The financial information of this group is included in the financial statements of Gemalto N.V.

Our group audit mainly focused on significant components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements. We have considered in this respect Gemalto's business volatility and dispersed geographical presence, including many emerging countries.

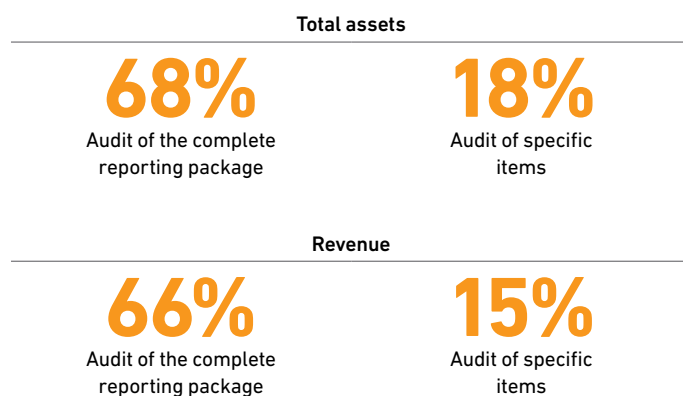
We have selected 31 significant components where we performed procedures. For these significant components we have:

- performed audit procedures at group level in respect of some areas in the reporting packages, such as the goodwill impairment tests, other (in) tangible asset impairments, accounting for associates and joint ventures, valuation of deferred tax assets, acquisitions and restructurings and lease accounting (IFRS 16);
- and made use of the work of other KPMG auditors for 18 components for which an audit of the complete reporting package was performed and 13 components for which an audit of specific items was performed.

For non-significant components we performed desktop and analytical procedures.

The group audit team provided detailed instructions to all significant component auditors who were part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. We have discussed with our component auditors the audit approach, the findings and observations reported to the group audit team. File reviews were performed for the entities in the United States of America, France, Switzerland and The Netherlands. The group audit team visited locations in Finland and UK. By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section summary can be further specified as follows:



Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detections and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with the Board and Audit Committee. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition in respect of incorrect cut-off
- fraud risk in relation to management override of controls

Furthermore, we did not identify other fraud risks and risks of non-compliance with laws and regulations which could have a material impact on the financial statements.

Our audit procedures included:

- an evaluation of the of internal controls relevant to mitigate these risks
- supplementary substantive audit procedures, including detailed testing of journal entries in
 - revenue accounts
 - non-routine transactions
 which included verification of source documentation

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks did not result in findings to be included in this audit report.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board and the Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison with prior year we did not identify any new key audit matter. The key audit matter on revenue recognition has been updated for IFRS 15. The key audit matter on the acquisition of 3M's identity management business was only applicable for the 2017 audit.

Independent auditor's report continued



Valuation of goodwill

Description

The carrying value of Goodwill as at December 31, 2018 is €1,534 million. The Company performed its annual goodwill impairment tests in December 2018. The impairment tests were considered to be significant to our audit due to the complexity of the assessment process and judgements and assumptions involved which are affected by expected future market and economic developments and contains a risk of error.

Our response

We challenged the cash flow projections included in the goodwill impairment tests by considering the historical trends and reasonableness of forecasts made by the management. Additionally, we critically assessed and tested management's key assumptions, methodologies, the weighted average cost of capital and information used, for example by comparing them to external and historical data, such as external market growth expectations and by analysing sensitivities in the group's valuation model. We also involved KPMG valuation specialists to assist us in these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units which included evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates. We also assessed the adequacy of the Company's disclosures included in note 9 in the financial statements.

Our observation

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

Revenue recognition on complex contracts

Description

An increasing portion of the group's revenue is generated from large and complex contracts, including multiple components and specific clauses (such as contingency clauses). In addition, the group has adopted the mandatory IFRS 15 for the financial year beginning January 1, 2018 using the modified retrospective method as disclosed in notes 2.21 and 22. Relating to revenue recognition, judgement is applied in determining the timing of the transfer of control of the goods and services – at point in time or over time. It relates also on whether the transfer of control of the goods or services to the buyer has taken place to determine whether revenue and costs should be recognized in the current period. When a transaction contains multiple components, the identification of the various performance obligations and the related allocation of the transaction price to the performance obligations identified requires management judgement and contains a risk of error.

Our response

Our procedures included amongst others, an assessment of the revenue recognition method adopted by management for complex contracts. We have tested the effectiveness of the controls instituted by management with respect to the monthly review of revenue recognition and the identification of any unusual contractual terms.

We performed detailed procedures, including testing on a sample basis underlying evidence of delivery of products or services, including contracts and third party correspondence to determine appropriate revenue recognition, through which we have also assessed the appropriateness of management's estimates in relation to the unbilled balances and management judgment in relation to the identification of the performance obligation and the related transaction price to the performance obligations identified. We also assessed the adequacy of the Company's disclosures included in notes 2.21 and 22 in the financial statements in relation to IFRS 15.

Our observation

The results of our test of management's controls and procedures to ensure appropriate recognition of revenues in accordance with IFRS 15 were satisfactory and determined that the Company's disclosures meet the requirements of EU-IFRS.

Capitalized development costs

Description

Capitalized development costs of €200 million are deemed significant to our audit, given the rapid technological developments in the industry which impacts technical feasibility and potential impairment triggers, as well as the specific criteria that need to be met for capitalization. This involves management judgement, in relation of establishing technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment of the carrying value of assets, requires management judgement which is affected by future market or economic developments and contains a risk of error.

Our response

We have performed audit procedures to verify the accuracy and valuation of the amounts recognized. Our audit procedures included, among other things, evaluating the internal controls on capitalization of development costs, assessing the recognition criteria for intangible assets, challenging the judgements made in capitalizing development costs, including the authorisation of the stage of the project in the development phase, the accuracy of costs included and assessing the useful economic life attributed to the asset. In addition, we considered whether any indicators of impairment were present by understanding the business rationale for existing projects mainly based on technological developments. We also assessed the adequacy of the Company's disclosures in note 9 of the financial statements.

Our observation

The results of our test of management's controls and substantive procedures to ensure appropriate recognition and valuation of capitalized development costs in accordance with EU-IFRS were satisfactory and determined that the Company's disclosures meet the requirements of EU-IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the board report which includes business overview, financial review, sustainability, risk management and governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of Shareholders as auditor of Gemalto N.V. on 22 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Board and the Audit Committee for the financial statements

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

As part of the preparation of the financial statements, the Board is responsible for assessing the Gemalto N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board should prepare the financial statements using the going concern basis of accounting unless the Board either intends to liquidate the Gemalto N.V. or to cease operations, or has no realistic alternative but to do so. The Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 13 February 2019
KPMG Accountants N.V.

T. van der Heijden RA

Independent auditor's report continued



Appendix:

Description of our responsibilities for the audit of the financial statements.

Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gemalto N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board;
- concluding on the appropriateness of the Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Gemalto N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation according to the Articles of Association

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

As the Thales transaction is expected to close in Q1 2019, Gemalto's Board of Directors will not propose a dividend distribution for the 2018 fiscal year.

Post-closing events

To management's knowledge, there are no significant events that occurred since December 31, 2018 which would materially impact the statutory financial statements of the Holding Company.

Reconciliation from adjusted financial information to IFRS

Full year period ended December 31, 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,968,694	–	–	–	–	2,968,694
Cost of sales	(1,869,728)	(84,986)	(5,223)	(8,897)	–	(1,968,834)
Gross profit	1,098,966	(84,986)	(5,223)	(8,897)	–	999,860
Operating expenses	(766,730)		(44,307)	(22,820)		(833,857)
Profit from operations	332,236					
Operating profit (loss)		(84,986)	(49,530)	(31,717)	–	166,003
Financial income (expense), net	(49,797)					(49,797)
Share of profit (loss) of associates	(2,612)					(2,612)
Income tax (expense)	(68,836)					(53,956)
Net profit (loss)	210,991					59,638
Net profit (loss) non-controlling interests	(1,438)					(1,438)
Net profit (loss) owners of the company	212,429					61,076
Number of shares Basic	90,452					90,452
Number of shares Diluted	91,993					91,993
EPS Basic (€)	2.35					0.68
EPS Diluted (€)	2.31					0.66

Adjusted income statement by business segment

(€ in thousands)	Identity, IoT & Cybersecurity	Smartcards & Issuance	Full year 2018
Revenue	1,380,834	1,587,860	2,968,694
Gross profit	563,984	534,982	1,098,966
Operating expenses	(426,595)	(340,135)	(766,730)
Profit from operations	137,389	194,847	332,236

Full year period ended December 31, 2017 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,971,717					2,971,717
Cost of sales	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	1,104,775	(89,006)	(38,727)	(8,910)	(9,542)	958,590
Operating expenses	(795,215)	(424,671)	(75,527)	(28,101)		(1,323,514)
Profit from operations	309,560					
Operating profit (loss)		(513,677)	(114,254)	(37,011)	(9,542)	(364,924)
Financial income (expense), net	(32,806)					(32,806)
Share of profit (loss) of associates	(1,243)					(1,243)
Non-recurring profit/(loss) relating to associates	10,105					10,105
Income tax (expense)	(109,759)					(35,688)
Net profit (loss)	175,857					(424,556)
Net profit (loss) non-controlling interests	(649)					(649)
Net profit (loss) owners of the company	176,505					(423,907)
Number of shares Basic	89,883					89,883
Number of shares Diluted	91,062					89,883
EPS Basic (€)	1.96					(4.72)
EPS Diluted (€)	1.94					(4.72)

Adjusted income statement by business segment

(€ in thousands)

	Identity, IoT & Cybersecurity	Smartcards & Issuance	Full year 2017
Revenue	1,277,845	1,693,872	2,971,717
Gross profit	539,818	564,957	1,104,775
Operating expenses	(400,383)	(394,832)	(795,215)
Profit from operations	139,435	170,125	309,560

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 is 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 Strozilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. On December 31, 2018 the Company's issued and paid-up share capital amounted to €90,920,356, consisting of 90,920,356 ordinary shares with a nominal value of €1 per share, of which 201,045 shares were held in treasury. Hence, 90,719,311 shares were outstanding as at December 31, 2018.

Stock exchange listing – 2016 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Amsterdam and Euronext Paris in Compartment A (Large Caps). Gemalto changed its market of reference to Euronext Amsterdam effective April 30, 2013. As a result of the change of market of reference, Gemalto's shares are no longer eligible for the French "Service à Réglements Différés" (SRD), a deferred settlement service for individual shareholders residing in France, as of April 25, 2013. SRD trades were possible until April 24, 2013.

Mnemonic: GTO

Exchange: Euronext Amsterdam, Euronext Paris

ISIN Code: NL0000400653

Reuters: GTO.AS

Bloomberg: GTO:NA, GTO:FP

Among other stock indices, Gemalto is part of the: AEX (NL0000000107), SBF 120 (FR0003999481), MSCI EMU Small Cap. and STOXX 600 Index (EU0009658202).

Gemalto is a part of the "Application Software" sub-industry within the "Information technology" industry of Morgan Stanley's Global Industry Classification Standard (GICS). Gemalto is also part of the "Software" sub-sector within the "Technology" industry of the Industry Classification Benchmark (ICB).

Share price evolution



- Average daily trading volume on Euronext exchanges in 2018: 319,885.
- Market capitalization as at December 31, 2018: €4,595,840,295.

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depositary 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, 2018

The following shareholding threshold disclosures were applicable as at December 31, 2018. For further information, please refer to Shareholders' disclosures, page 62.

March 29, 2018:	DNCA Finance	5.03% capital interest and 5.08% voting rights
January 15, 2018:	Magnetar Financial LLC	3.01% capital interest and voting rights
June 16, 2016:	S.N. Quandt	5.67% capital interest and voting rights
December 2, 2015:	S.H.U. Klatten née Quandt	3.21% voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2018 due to the following:

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

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

Geographic spread of shareholdings

Geographical spread of identified shareholding as of December 2018

	% of outstanding capital
North America	17%
UK and Ireland	4%
Continental Europe	59%
Other	20%

Dividend

In 2010 the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, 2012, 2013, 2014, 2015, 2016 and 2017 it paid a cash dividend of €0.28, €0.31, €0.34, €0.38, €0.42, €0.47 and €0.50 for the financial years of 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively. In 2018, due to the Thales offer, Gemalto's Board of Directors elected not to distribute a dividend in respect of the fiscal year 2017, leaving the offer at €51 euros cum dividend for each issued and outstanding share of Gemalto. As the Thales transaction is expected to close in Q1 2019, Gemalto's Board of Directors will not propose a dividend distribution for the 2018 fiscal year. For more information on the dividend policy, please refer to Distribution of profits, page 62.

Share buy-back program

The 2017 share buy-back ended on October 31, 2018 and was not renewed. As at December 31, 2018 the Company held 201,045 shares in treasury, which were repurchased on the market at an average acquisition price of €31.22. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 62.

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Glossary of digital security terms

4G: The fourth generation of cellular mobile communications technology, succeeding 3G.

5G: The fifth generation of cellular mobile communications technology. It's specifications are under construction. 5G performance targets high data rate, reduced latency, energy saving, cost reduction, higher system capacity, and massive device connectivity.

Agility: When referring to software development, agility is an approach under which requirements and solutions evolve through the collaborative effort of self-organizing and cross-functional teams and their customer/end user.

Automated Border Control (ABC): an automated immigration control system combining electronic gate hardware and advanced software such as facial recognition and border control software.

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

Big data: A collection of data sets so large and complex that they are difficult to process with traditional applications.

Biometrics: The science of analyzing physical or behavioral characteristics specific to each individual (e.g. fingerprint, iris, voice, etc.) in order to be able to authenticate their identity.

Blockchain: A continuously growing chain of blocks (records) which are secured using cryptography and cannot be deleted or modified.

Cell/cellular: Indicates the way any mobile network covers a geography, by cells, each cell being covered by a tower. A mobile phone keeps hopping on and off each contiguous cell, as it moves.

Client: A software application that runs on a personal device and relies on a server to perform some operations.

The Cloud/Cloud computing: Computing by using servers, storage and applications that are accessed via the Internet.

Contactless: A device that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

Cryptography: The creation of written or generated codes that allows information to be kept secret.

DevOps: This term is a compound of 'software **DEV**elopment' and 'information technology **OP**eration**S**'. It refers to a set of practices that emphasizes the collaboration and communication of both software developers and IT professionals while automating the process of software delivery and infrastructure changes.

Digital banking: Accessing banking services via the Internet.

Digital identity document: A digitized version of a physical ID document e.g. ID cards, Drivers' Licenses, Health cards, etc.

Digital driver's license: A highly secure, digitized version of a physical driver's license or ID card that is stored on a smartphone.

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

eGovernment: The use of digital technologies (often via the Internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: Personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: The industry standard for international debit/credit cards established by Europay, MasterCard and Visa.

Encryption: The process of encoding messages or information in such a way that only authorized parties can access it.

ePassport: An electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

eSIM: The embedded SIM (also called eSIM or eUICC) is a new secure element designed to remotely manage multiple mobile network operator subscriptions and be compliant with GSMA specifications.

General Data Protection Regulation (GDPR): Is a regulation by which the European Parliament, the European Council and the European Commission intend to strengthen and unify data protection for individuals within the European Union (EU).

GSM (Global System for Mobile communications): A European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): The global association for mobile phone operators.

HSM (hardware security module): A physical computing device that safeguards and manages digital keys for strong authentication and provides cryptoprocessing.

IoT (Internet of Things): The network of connected objects and devices that are embedded with software so they can collect and exchange data.

Keys: In cryptography, a key is a variable value that is applied using an algorithm to a string or block of unencrypted text to produce encrypted text, or to decrypt encrypted text. The length of the key is a factor in considering how difficult it will be to decrypt the text in a given message.

LTE (Long Term Evolution): The standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): Technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

MIM (Machine Identification Module): The equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MNO (Mobile Network Operator): A company that provides services for mobile phone subscribers.

OEM (Original Equipment Manufacturer): A company that builds products using components from other companies.

On Demand Connectivity (ODC): a software platform that allows to securely and remotely manage the lifecycle of cellular subscriptions for connecting consumer and industrial eSIM-ready devices that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): A method of distributing new software updates to cellphones which are already in use.

PIN (Personal Identification Number): A secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): The software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

Platform: A system's underlying software that enables a service.

Server: A networked computer.

SIM (Subscriber Identity Module): A smart card for GSM systems.

Tokenization: In mobile payment services tokenization consists of replacing card credentials with a token. It is only the token data which is then stored in the mobile device – protecting the real card number from misuse.

Trusted Services Hub (TSH): a software platform that enables financial institutions, enterprises, transport operators and other organizations to securely provision digital services to mobile devices around the world n mobile payment services tokenization consists of replacing card credentials with a token.

TSM (Trusted Service Manager): A third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): A high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

USB (Universal Serial Bus): A standard input/output bus that supports very high transmission rates.

VPN (Virtual Private Network): A private network often used within a company or group of companies to communicate confidentially over a public network.

Wearables: The terms 'wearable technology', 'wearable devices', and 'wearables' all refer to electronic technologies or computers that are incorporated into items of clothing and accessories which can comfortably be worn on the body.

Wireless module: An industrial-grade radio chip that enables communication on cellular networks as part of the IoT.

Produced and designed by Radley Yeldar
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Inspired to know more?

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