Trust in a connected world

Simplifying enterprise license management

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

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Principal risks 40
“Our customers trust us to make risk management integral to our service and culture. It’s part of our responsibility to them, as well as to investors, employees and other stakeholders.”

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

Risk management and control

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

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

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

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

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

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

THE WAY WE MANAGE RISK

DETERMINED BY
Our overall strategy and objectives reflecting our risk appetite

SHAPED BY
Our culture and values, guiding our approach to risk management

SUPPORTED BY
Training on topics such as internal control, ethics, anti-fraud, authority limits, crisis and business continuity management and compliance

GOVERNED BY
Policies defining risk management and control standards for all our operations, published on our intranet and regularly updated

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER
HOW WE SHARE OUR RISK MANAGEMENT RESPONSIBILITIES

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

WHO IS RESPONSIBLE FOR WHAT

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

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

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

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

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

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

FIVE KEY RISK MANAGEMENT PROCESSES

1. Budgeting, planning and reporting
   - See page 36

2. Risk assessment and mitigation
   - See page 36

3. Crisis and business continuity management
   - See page 37

4. Fraud risk management
   - See page 37

5. Transfer to insurance
   - See page 37

FOUNDATIONS

Our processes are underpinned and informed by:

STRATEGY AND OBJECTIVES
CULTURE AND VALUES
INTERNAL CONTROL
SUSTAINABILITY
How we address risk management

FIVE KEY RISK MANAGEMENT PROCESSES

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

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

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

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

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

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

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

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

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

2. Risk assessment and mitigation
Our risk management process has six key elements:

- Map and anticipate main identifiable risks and regularly update assessments
- Prioritize them against Group strategy and risk appetite
- Allocate risk ownership
- Develop and implement mitigation plans, including transfer to insurance
- Communicate key control objectives to operational managers
- Regularly check the effectiveness of the process
Integrated in the Company’s processes, our approach is based on the principles of responsibility, ownership, performance oriented and continuous improvement. Key risks are assigned to risk owners responsible for developing action plans. Reporting on progress on the mitigation plans is done every six months by each manager sponsor of a risk assessment to the ERA* Steering Committee chaired by the COO.

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

* ERA = Enterprise Risk Assessment

**Sidebar: Gemalto Anti-Fraud Commission**

4. Fraud risk management

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

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

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

5. Transfer to insurance

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

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

How we monitor effectiveness

<table>
<thead>
<tr>
<th>ETHICAL PRACTICES AND EMPLOYEE CONFIDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are committed to ethical practices</td>
</tr>
<tr>
<td>Set a good example</td>
</tr>
<tr>
<td>Provide adequate information about ethical practices</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

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

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

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

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

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

#### Strategic Risks

<table>
<thead>
<tr>
<th>Key Risks and Uncertainties</th>
<th>Main Mitigating Measures</th>
</tr>
</thead>
</table>
| Economic and political environment | • Formal long-range Development Plan.  
• Geographic footprint in 52 countries. |
| Competition and commoditization of products and services | • Competitive and market intelligence program.  
• Diversified portfolio of activities.  
• Focus on creating value to clients: high overall customer confidence in the annual 'Tell Me' survey. |
| Acquisitions and/or joint ventures | • Dedicated team manages corporate Development Plan and M&A.  
• Formal process to manage acquisitions and integrations. |
| Technology changes, innovation, R&D | • Competitive and market intelligence program.  
• Diversified technology portfolio (including through M&A).  
• Strong R&D and standardization teams.  
• Focus on innovation: Gemalto filed 107 new patent applications in 2015. |

#### Legal and Compliance Risks

<table>
<thead>
<tr>
<th>Key Risks and Uncertainties</th>
<th>Main Mitigating Measures</th>
</tr>
</thead>
</table>
| Intellectual property rights risks | • Dedicated and qualified internal IP team organized by technology.  
• Internal IP department, internal inventor policies and formal Open Source software policy. |
| Business integrity and ethics | • Policies and procedures, Code of Ethics, whistle-blowing tool, employee survey.  
• Anti-fraud commission; Compliance Officer directly reporting to CEO.  
• Security certifications and organization. |
| Regulatory risks associated with our international operations and industry | • Legal organization in regions and by activity.  
• Training on tax and other regulations.  
• Corporate Tax, Controlling and Trade Compliance organizations with regional antennae.  
• Awareness program and compliance action plan led by Director of Global Data Privacy. |

#### Financial Risks

<table>
<thead>
<tr>
<th>Key Risks and Uncertainties</th>
<th>Main Mitigating Measures</th>
</tr>
</thead>
</table>
| Foreign exchange risk | • Centralized currency risk management and reporting.  
• Treasury committee and treasury policies.  
• Manufacturing footprint providing natural hedging. |
| Financial counterparty risk | • Risk limits for counterparties regularly reviewed.  
• Use of plain-vanilla hedging instruments and low-risk money market investment. |
| Financial reporting risks | • Financial policies and procedures.  
• Single Companywide financial reporting tool.  
• Revenue recognition policies.  
• Consolidation department with dedicated specialists.  
• Regular balance sheet analysis and management reviews. |

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

#### Business Continuity and Resilience to Crisis
Failure to limit impact on our operations and reputation of any internal or external critical events or situations which may materialize unexpectedly.

- Risk assessments with regular updates.
- Crisis management framework and associated worldwide training program.
- Diversified industrial footprint.
- Enhancement of IT technology and infrastructure resilience.
- Continued investment to improve and secure manufacturing activities.
- Business continuity framework, organization and responses.
- Regular internal and external audits of facilities (including on crisis management and business continuity plans).

#### Sourcing and Supply Management
Lack of supplier resilience to disaster, insolvency, non-compliance with ethical standards, inadequate management of suppliers.

- Business intelligence on suppliers.
- Multiple sourcing strategy.
- Safety stocks management and protection clauses in contracts.
- Responsible purchasing program.
- Supplier selection, qualification and monitoring process. Audits of some key suppliers.
- Assessment of maturity of critical suppliers’ business continuity plans.

#### Major Contracts
Failure on amount, duration, technology or commitments.

- Bid and contract reviews with approval process according to limits of authority.
- Prudent revenue recognition policies for Embedded software & Products and Platforms & Services businesses.
- Project-based organization for Government Programs and Platforms & Services contracts.
- Risk assessments for major deals.

#### Quality of Products, Platforms and Services
Failure to develop and deploy secure, stable or reliable technology products and solutions.

- Standardized manufacturing processes.
- Quality management system and world-class enterprise organization.
- 32 sites with ISO 9001 certification in 2015.
- Participation in standardization committees.
- Dedicated organizations for software development, products, and platforms and services.
- Product and professional liability insurance.
- High overall customer confidence in annual ‘Tell Me’ survey.

#### Exposure to Country Risk
Political, regulatory and trade exposure impacting our staff, footprint and receivables.

- Country risk alert monitoring and communication.
- Travel policy, travel approval process, regional travel champions.
- Agreements with specialized security consulting companies.
- Specific training sessions.
- Medical assistance and repatriation insurance.
- Involvement of treasury, tax and legal departments at the early stages of international operations.
- Advice from law firms, tax advisors and authorities where we operate.

#### Data Protection and Cyber Security
Leakage and/or loss of customers’ or Gemalto’s confidential data resulting, for example, from cyber attacks, employee negligence or vulnerability of our IT systems.

- Security and cryptography expertise.
- Extensive set of security and IT policies with regular training sessions.
- Worldwide security organization with security officers in all important sites and regional/corporate security support.
- Cyber Excellence Program.
- Corporate Security Incident Response team.
- Security certifications by third-parties (including ISO 27001, EMV, GSM, SAS, etc).
- Internal security audits (extended to IT subcontractors).
- Anti-Fraud Commission.

#### Talent Management
Inability to attract, develop and retain highly qualified management and suitably skilled employees.

- Comprehensive Human Resources strategy.
- Focus on recruitment, management by objectives, compensation and benefits.
- Succession plan for managers and senior managers.
- Focus on diversity, ethics and community.
- Focus on training, promotion from within and mobility.

#### Customer Retention
Inability to maintain relationships with existing customers and to identify, attract and retain new customers.

- Diversified portfolio of clients.
- Operations from worldwide locations.
- No customer represents more than 10% of Group annual revenue.
- Focus on creating value for clients: high overall customer confidence in annual ‘Tell Me’ survey.
- Key account management.