Annual Report 2012

gemalto
security to be free

Delivering success in digital security

In an increasingly connected society, Gemalto is the leader in making digital interactions secure and easy

Contents

Gemalto N.V. 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 'Overview', 'Vision and performance' and 'Governance' sections.

For a more complete picture please visit:

www.gemalto.com

Overview

Highlights

Performance highlights

Revenue
€2,246m
+11%
(2011: €2,015m)

Cash generated by operating activities
€285m
+35%
(2011: €211m)

Profit from operations[1]
€306m
+20%
(2011: €256m)

Net cash
€353m
+14%
(2011: €309m)

Profit margin from operations[1]
13.6%
up 100 basis points
(2011: 12.7%)

Cash dividend per share
€0.31
+11%
(2011: €0.28)

IFRS net profit
€201m
+25%
(2011: €161m)

Return on Capital Employed (ROCE)[1]
17.1%
up 40 basis points
(2011: 16.7%)

Adjusted basic earnings per share[1]
€3.14
+15%
(2011: €2.73)

Operational highlights

- Gemalto achieved a milestone year, posting record results and delivering faster than planned on what we set out to do: over the past three years we grew our revenue and profit by close to 40% and 80% respectively and kept a strong net cash position.
- In 2012, we also secured a large number of long-term contracts in the mobile payment and government sectors, which will bolster our profitable expansion into the future.
- With the growth opportunities that we see in front of us, we have reinforced the investments in our businesses, preparing to fulfill the ambitions of our next long-term development plan.

[1] Adjusted financial information for all operations.

Chairman's statement

"We are focused on one of the most crucial market opportunities of our age. With its expertise in security and commitment to mobility, Gemalto has positioned itself in the sweet spot where those two drivers meet."

A terrific year

Twelve months ago I described 2011 as a 'remarkable' year for Gemalto. 2012 was even better. The Company not only achieved strong sales and profit growth across all main businesses, it also hit its strategic target of €300 million profit from operations one year ahead of schedule. All this despite challenging economic conditions in Europe and the US, as well as generally slower growth rates in Asia and in most developing markets.

Importantly, we delivered for all our key stakeholders.

We succeeded for our customers, who responded with loyalty and consistently positive feedback in our annual survey.

We succeeded for investors, who saw the share price rise sharply over the year. Gemalto's admission to France's CAC 40 Index of NYSE Euronext in December 2012 reflects how well shareholders have fared and how highly the Company is now regarded.

And we succeeded for our people, who showed their approval not only in record employee satisfaction ratings but also in the outstanding performance they delivered.

The strengths that sustain us

These successes derive from very solid and sustainable strengths.

Firstly, our market. We are focused on one of the most crucial market opportunities of our online age. Throughout the world, growth, innovation and economic development are underpinned by two key drivers. One is people's desire for mobility: to be digitally connected wherever they go. The other, amplified by this, is the ever greater need for digital security. Gemalto has positioned itself in the sweet spot where those two drivers meet.

By investing in the relevant skills we have developed another underlying strength: a unique concentration of expertise. This means we are capable of deploying the innovative technologies demanded by our clients in both mature and developing economies worldwide.

Prioritizing our opportunities

A further asset is the Senior Management's experience, and their determination to keep developing and refining the business. This has particular salience as they prepare Gemalto's next strategic plan up to 2017. Since the Company's position in an exciting marketplace presents more opportunities than we can satisfactorily address, we will have to select and prioritize wisely. This is another key role for the Board, which is providing the management team with both challenge and support in determining risk appetite, and narrowing down to the most compelling opportunities with the highest chances of success. This process is well under way and will conclude in a few months' time.

We will continue to ensure we strike the right balance between meeting the Company's capital requirements and delivering a return that meets shareholders' expectations. The Board regularly reviews the dividend policy and I discuss many of the Board's other governance responsibilities on page 38.

A great future ahead

The technology business moves fast and constantly evolves. No matter how great the successes of the previous year, we can never rest on our laurels. What customers, investors and employees can rely on is the great combination of strengths that Gemalto brings to its chosen markets.

Rest assured that we will keep on developing them, focusing on satisfying our customers and responding to new opportunities as they emerge.

Alex Mandl
Chairman

CEO's message

"Our performance in 2012 results from having a clear-sighted strategy, focusing on areas we understand well, and combining innovation and continuous improvement with excellent execution."

Achieving our objectives

Gemalto's success in 2012 comes from our clients' desire to do business with us and our people's dedication to deliver. Engage both of these groups right and strong financial performance follows.

Engaging our customers

We attach great importance to our customers' satisfaction. We measure it and link it to our employees' objectives and incentives. It is not just a metric. For years we have refined our processes for engaging our clients more closely in the way we work, innovate and deliver our services.

Keeping our clients at the heart of our business helps everyone in the Company. It gives our innovation programs direction and purpose. Most of our R&D is driven by what our clients tell us about their aspirations, whether we're inventing new solutions or enhancing existing products and services. Only a small proportion is driven by technological push.

In 2012, this customer-grounded approach kept the primary focus of our innovation on two areas. One was mobile financial services, where we combined our expertise in mobile technology and banking systems to create convenient new services for consumers. The other was trusted services management, ensuring that both our customers and their clients, the consumers, can use these new applications with confidence.

Engaging our people

Gemalto runs very light in terms of capital spending. Our assets are our people: their skills, enthusiasm and energy. As with our clients, we monitor their satisfaction, listen to their expectations and work hard to engage them in our plans and goals. Their commitment determines our ability to move mountains for our customers.

To involve them even more closely in our ambitions and successes, we introduced in 2012 a share-based performance-linked reward scheme for all our employees. This focuses them on our operating profit target, and rewards them in helping to meet it. Not that their engagement depends on financial compensation alone. What encourages many of our employees to work hard each day is also the understanding that we share the same purpose: bringing trust to the rapidly emerging digital and wireless world, helping our clients to simplify the everyday lives of billions of people. It's a noble role for society.

Looking forward

We are demanding, on ourselves and our colleagues, because it makes good sense for our business, of course, and because we manage sensitive data in areas where we need to maintain an impeccable record. This makes us a disciplined, process-oriented company – frugal in its operations and alert to the risk of complacency.

Our prospects are supported by strong positive megatrends, most of which are still in their infancy: their impact lies ahead of us. The mobile and digital world is growing, as consumers now expect it, globally. Our accessible markets are constantly expanding. So the position we have built, and our momentum, means that we can plan on future growth that will be largely organic. Replicating, leveraging, developing and refining what we already have will certainly keep us busy for some time!

We have acquired today one of the most desirable positions in the global digital space – offering both products and services at the intersection between the mobile, internet, security and payment domains. Our customers are sufficiently diverse and widespread that none represents more than a small percentage of our revenue. We have a culture of quietly and meticulously perfecting what we do. Our over 10,000 strong workforce deserves all the credit for the Company's outstanding execution in 2012. And gives me over 10,000 reasons to look forward with confidence.

Olivier Piou
Chief Executive Officer

Our business

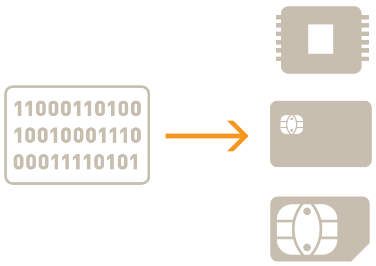
Gemalto enables its clients to offer trusted and convenient digital services to billions of individuals.

What we do

What we do is founded on our expertise in security processes, software and cryptography. We draw on these to develop and install secure software in diverse products used to access digital services. We personalize these devices with the credentials of our clients and the identities of their customers across hundreds of networks. In ensuring they are continuously monitored and maintained, we fulfill our mission to bring trust to the digital world.

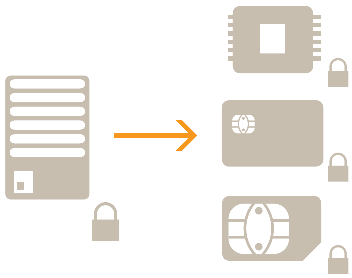
Embedded software and products

At the core of our business is the development of software which we configure and embed in a multitude of different devices and form factors. These secure operating systems and applications facilitate access by billions of end-users to a widening range of digital applications and services.



Platforms and services

Our platforms and services enable us to extend our reach to products already in the field. This means we can manage the software and confidential data they contain and the services they make possible throughout their life-cycle.



Innovation

Our business is inspired by continuous innovation. This was underpinned in 2012 by an investment of €177 million in R&D. The work of our 1,700 digital engineers has created an impressive portfolio of intellectual property comprising some 4,300 patents and patent applications. Our clients tell us that they consider this one of our core strengths. It helps them enhance their digital security, differentiate themselves in increasingly competitive markets and offer an ever-widening range of safe, convenient services.

Who we serve

Consumers interact with their electronic devices and digital services in ways that are constantly evolving, but for every new experience there are two fundamental needs: trust and convenience.

We concentrate on providing solutions that infuse confidence into our clients' services and deliver convenience in communications, payment and identity.

We take great pride in the trust we've earned over two decades of working with many of the world's best-known telecommunication operators, financial institutions, government agencies and enterprises.

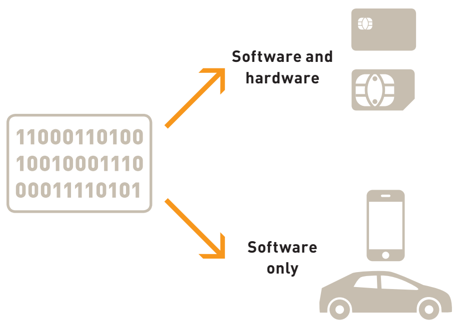
	Telecom operators	Financial institutions	Government agencies	Industrial and equipment manufacturers	Enterprises
What we do:	Access, services and management for mobile networks.	Payment and banking transactions.	Citizen identities and services for eGovernment.	Connections for machines and devices.	Access for personnel to data and sites.

How we make money

Our portfolio encompasses everything necessary to protect digital transactions: secure products embedded with our software; platforms protecting sensitive data in the field; and management systems running on secure servers in our own or our clients' data centers. Since our clients need to access these products remotely, we also provide them with the solutions to manage them anytime, everywhere.

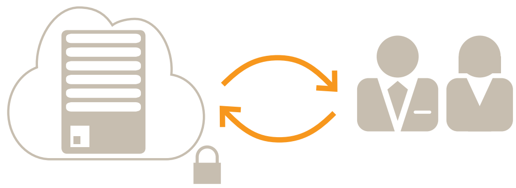
Sell and license: products and software

We typically license our embedded operating systems and applications as a bundle of secure hardware and software. This gives our customers a complete product that is tamper-resistant and certified to strict standards.



Manage and personalize: sensitive data

We configure the data required for these devices to operate in the field. To do so, our clients trust us with their most precious and sensitive assets: their digital keys and their customers' details. We personalize the embedded software with this information either at our own secure facilities or remotely over secure channels.



Deploy: complete solutions

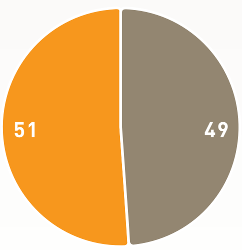
Using our embedded software and products, and platforms and services, we enable our clients to deploy a widening range of solutions including online banking, mobile payment applications, national identity programs, smart energy systems, corporate security, legally-binding digital signature, securely authenticated cloud services and many others. Our platforms also include secure transactional capabilities for payment as well as identity authentication and verification.

Where we operate

We operate globally from numerous worldwide locations.

Our clients are in about 190 countries, and none represents more than 5% of our annual revenue.

Revenue % by country[1]



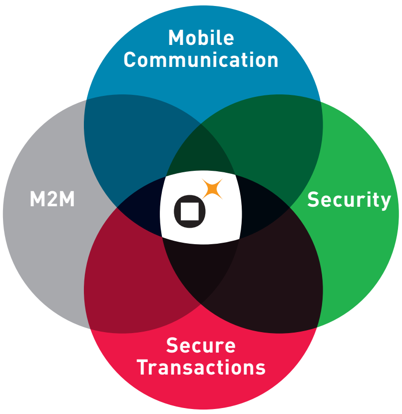
	North and South America	Europe, Middle East and Africa	Asia
Revenue[1]	€678m 30% of revenue	€1,126m 50% of revenue	€432m 20% of revenue
Headcount	22%	51%	27%

[1] Revenue is based on adjusted financial information for ongoing operations.

Our opportunity

The digital universe abounds with opportunities. For astute organizations, the prospects are considerable. At Gemalto, we believe there are five key trends with strong growth potential for our Company.

Our structure
Four converging business segments



Things are becoming connected

Connecting things globally, efficiently, conveniently

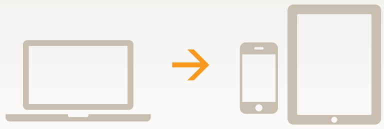
Machine-to-Machine

Today there are some 6 billion subscriptions to mobile networks, mostly people, but the next 6 billion[1] users will mainly be devices (Machine-to-Machine or M2M). This trend will revolutionize the operations of many industries beyond telecommunications. M2M systems offer the means to reduce the cost of doing business, to improve data collection and to deliver higher levels of service. In addition, they can help automate many manual processes, ensure optimum energy consumption in the drive to create greener cities and contribute to making the most of big data that's being gathered. The opportunity is also attractive for carriers because the way machines use networks complements the patterns of traditional subscribers[1]. Connected devices may consume less data and can be programmed to transmit during off-peak hours, allowing an operator to maximize the use of its network capacity. In this context, with billions of machines connected over networks, controls over access rights and the security of the data they are exchanging become paramount.

12 billion
mobile connected devices by 2020[2]

Two issues that are vital to realizing the potential of machine-based operations are the reliability of the data transmission and the ease of integration with other business systems. And the next great challenge will be managing and protecting data collected from the field to enable safe and efficient decision-making at the network management level.

People are getting much more mobile



Global mobile: more connections, higher speeds, more services

Securing mobile services

Penetration of mobile phones and other connected devices is at an all-time high and continues to grow, such that the number of devices per person is on a trajectory to reach 1.4 by 2016[1]. This is driven by an explosion of new form factors, one of the consequences of which is the growing need to ensure that services can be accessed in the same way across different devices. This in turn is creating a demand for improved identity management systems, and opening opportunities in CRM and marketing as smartphones and tablets become second and third screens for consuming media and advertising.

1.4 devices
per person by 2016[3]

One of the fundamental changes brought about by the next generation of operator network technologies is the ability to add software content (third party or carrier developed) to the secure element inside a mobile device after it has been issued. Converting this vault into a safe place for other service providers to store data enables a host of new services geared at enriching the consumer experience. This phenomenon also allows operators and providers to extend new levels of security to existing applications and services. Providers need solutions to easily and securely deliver and maintain this sensitive data within the device. As adoption grows, the reliability, uptime and performance of such solutions become matters of utmost importance.

[1] Source: 4G Americas.
[2] Source: GSMA.
[3] Source: Cisco Visual Networking Index.

Electronic payment is spreading rapidly

Finance: instant, online and even more personal

EMV penetration

To date, one quarter of the global market for payment cards has converted to the more secure Europay, MasterCard and Visa (EMV) standard, and many more are following suit. This on-going trend is marked by three underlying drivers for growth. First, the significant increase in the number of people choosing to use payment cards. Next, the desire to reduce fraud and protect cardholder identities which is driving major regional migrations, particularly in North America and Asia, such that the smart payment card market is set to double over the next five years[4]. And third, the progressive shift to higher-end, dual-interface contactless products which are gaining popularity for the speed and convenience they offer, especially for low-value payments.

>20%

mobile payments user growth CAGR 2012 to 2016[6]

Mobile Financial Services

The use of mobile handsets to make payments was initially successful in markets with a large unbanked population. Since then, it has evolved to become a commercial reality in many developed markets too, with the worldwide number of mobile payment users expected to grow at over 20%[6] per year from now until 2016. One of the predominant technologies emerging for facilitating mobile payment is Near-Field Communication (NFC), with these transactions expected to reach $40 billion by 2014[5]. In this context, the need for security, to protect credentials and transactions, remains a significant consideration for ensuring widespread adoption.

[4] Source: ABI Research.
[5] Source: Yankee group.
[6] Source: Gartner.

Internet users are demanding more safety

Enterprise networks: threat, trust and the Cloud

Protecting identity and access

Today's enterprises are facing multiple pressures, not least that their networks are subject to increasingly sophisticated threats: in 2011 there were over 174 million[7] compromised records. In addition, with the growing number of employee-owned devices in the workplace, corporations must manage a progressively heterogeneous installed-base. And they are also working urgently to optimize their technology solutions, driving a shift to a cloud infrastructure to deliver more affordable and variable computing capacity. As a result, enterprises face unprecedented challenges in ensuring a safe operating environment. Multi-factor authentication solutions instill confidence that sensitive corporate resources are only accessed by the right people.

>50%

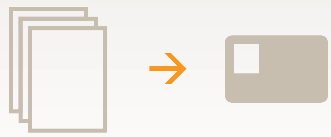
increase in IT Security spending from 2012 to 2017[8]

eBanking and eCommerce

Since customers increasingly prefer to interact with their banks over the internet instead of in person, further improvement in transactions online or via a mobile phone ranks as banks' second most important priority[9]. Yet, as financial institutions and merchants begin to extend services in this way, the accounts become more valuable targets for fraudsters. Banks must deal with the unpredictable security environment of their users' personal devices as well as direct attacks on their IT infrastructures. Thus they are increasing their investments to combat these threats and maintain the trust of their customers.

[7] Source: Verizon Data Breach Investigations report.
[8] Source: Gartner.
[9] Source: Ernst and Young 2012 banking survey.

Governments are going digital



Efficient, trustworthy administration

Growth of eGovernment

The penetration of government-issued eDocuments is still low and there remains substantial room for growth. The opportunity falls into two categories: governments moving to their first digital program, and those who have already seen the benefits and are extending to other services. Digitization is driven by administrations looking for ways to reduce fraud while at the same time improving the efficiency of benefits delivery and protecting the privacy of citizens. The physical embodiment of these services is often in electronic identity documents including ePassports, eID cards, drivers' licenses and other official credentials. These bring additional advantages such as enabling better social benefits distribution and speeding up border controls.

Hence eGovernment services increasingly appear on the roadmaps of technology-minded countries all around the world, and not only with the objective of improving administrative efficiencies. While the term eGovernment may date back to their first web pages on the internet, nations have reached an inflection point as citizens too have started to demand more transactional services online[10]. Governments have demonstrated a meaningful interest in implementing end-to-end digital identity solutions in response to this growing demand.

90%

passports with a smart chip by 2016[11]

[10] Source: UN eGov survey 2012.
[11] Source: IMS research.

Our strategy

Gemalto offers solutions that enable people to access personalized digital services, conveniently and securely – and has done so since its formation.

Over time, Gemalto's markets have evolved and multiplied as the diversity and volume of digital interactions between users and organizations has grown. In this increasingly connected society, services like payment, transport, cloud IT and internet services need and benefit from our expertise in cryptography, secure software and sensitive data management.

While the continuing equipment of partially penetrated markets offers numerous growth opportunities, demands from other adjacent markets are also materializing. The benefits of our convenient, efficient solutions are enabling trusted remote interactions between people and businesses across a multitude of digital networks.

In order to grow in this rapidly changing domain, we follow a clear strategy. Our approach is based on three pillars that enable us to consistently transform our Company and thrive in the fast-paced sectors in which we operate.

These pillars drive our financial performance and ensure the sustainability of our business. They center on our technological leadership, our ability to scale profitably and our flexibility and commitment to exceptional execution.

On these foundations, our management aims to balance additional improvements in key financial indicators in the near-term without disturbing our long-term development. This balance is at the heart of the way we deliver value to our clients, employees, and shareholders.

90%
of LTE/4G OTA systems in the US[1]

>40
commercial Trusted Service Management (TSM) projects in progress

Lead with innovation

- **Be the undisputed leader for high-end and new offers across our entire portfolio**
- **Ensure fast time-to-market with inclusive vertical offers**

First to market

1996 – Invented and commercialized Java Card®
1996 – First OTA deployment
2005 – First ICAO-compliant ePassport
2011 – First LTE/4G OTA platform deployed
2012 – First certified banking grade UICC
2012 – First commercial launch of NFC mobile payments powered by Gemalto TSM.

Innovation generation/patents

4,300 patents and patent applications.
€177 million investment in R&D in 2012.
Proactive innovation program and business incubation structure.

End-to-end security management

Clear leadership in trusted remote management with 350 commercial references in mobile communications, banking and government programs sectors.

Unmatched number of commercial references in the growing TSM market for securing mobile payment and other services, covering over 800 million people.

[1] Source: Gemalto

Grow profitably

17.1%
Return on Capital Employed

190
Our products are used in about 190 countries

- Address markets with worldwide potential through a few thousand business-to-business clients
- Replicate our technology across market segments
- Combine infrastructure deployment and managed services into our offers

Geographic reach
We have balanced activity across economies and regions. We apply lessons learned from the field in order to replicate success stories across the world.

Common technologies and convergence
Built into our organization is an extensive network of knowledge and technology sharing between operating segments. These synergies position us to lead the convergence of our markets and capitalize on our unique set of capabilities and solutions.

Complementary dynamics
The market cycles of our Embedded Software & Products and Platforms & Services activities result in complementary financial dynamics. The natural lag between architecture deployment and service activation resulting from consumer adoption results in a smoother, less volatile growth profile.

Act with focus, flexibility and foresight

85%
of our customers say they are satisfied or very satisfied with Gemalto[2]

92%
of the 400 top managers of Gemalto were promoted from within[3]

- Focus on digital security and offer solutions with a high return on investment
- Evolve consistently from within and nurture young business acquisitions
- Anticipate long-term changes and base investment strategy around it

Affordable and versatile security
Gemalto's core technology delivers an excellent value-to-cost ratio in protecting identities and transactions over digital networks. This is why it has been applied in so many different ways and markets over the last 20 years.

Organizational flexibility
Every year we conduct listening campaigns with various stakeholders to garner their feedback for inclusion in customer action and employee development plans. Through this process we assess trends and make the adjustments necessary to ensure future success.

Visionary leadership
Gemalto follows a series of sequential multi-year strategic plans to manage development for the long-term while still gauging success against immediate, tangible financial objectives. These plans also give Gemalto the opportunity to develop and retain talent by placing future leaders in front of new markets and challenges.

[2] Source: Gemalto Tell Me survey 2012.
[3] Source: Gemalto.

Objectives and progress

"Gemalto achieved a milestone year, posting record results and delivering faster than planned on what we set out to do: over the past three years we grew our revenue and profit by close to 40% and 80% respectively and kept a strong net cash position."

Olivier Piou
Chief Executive

Our objective

In November 2009, we announced our 2010-2013 Development Plan: through revenue growth and margin expansion, our objective was to deliver €300 million in profit from operations by the end of 2013.

In 2012, profit from ongoing operations was €305 million, surpassing our target one year ahead of schedule.

Multiple sources of revenue and profit[1]

Two synergistic activities

Over the last three years the contribution of our Platforms & Services activities to the increase in our revenue and profit has become significant. This is the result of our established strategy of addressing market demands through comprehensive solutions. It is also driven by the increasing usage of our technology to secure online transactions and always-connected devices.

These Platforms & Services complement our Embedded Software & Products activity, and we now have two well-balanced sources of growth delivering strong sales and marketing synergies.

Global reach in uncorrelated market sectors

While our focus remains on digital security, we balance activities across functional and geographical markets for an improved long-term perspective and lower volatility.

Our sales reach 190 countries, allowing Gemalto to harness the growth of emerging markets while maintaining a diversified and stable basis of performance.

The strong leverage of the Security business line, which went from break-even to 12% profit margin, as well as the worldwide development of EMV have significantly changed the segment composition of contribution to profit from operations.

Return on capital employed (ROCE)

+180 basis points
at 17.1%
(2009: 15.3%)

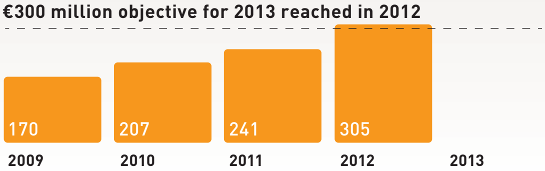
Balanced use of cash and augmented return on capital employed

Use our strong operating cash flows to equally fund:
- Investments to fuel organic growth
- Bolt-on acquisitions
- Provide returns to shareholders

[1] All figures except cash flows and ROCE are for ongoing operations.
[2] High GDP-growth refers to countries with GDP growth of 5% per annum or greater. Source: United Nations Statistics 2006-2011 CAGR.
[3] Capital expenditure and acquisition of intangibles.

Profit from ongoing operations €m

€300 million objective for 2013 reached in 2012



Profit from ongoing operations

+79%

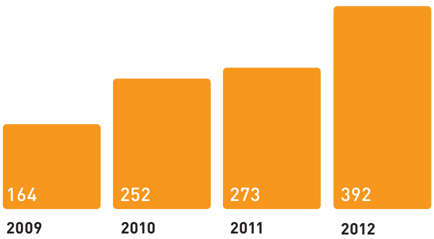
CAGR: +22%

Revenue from ongoing operations

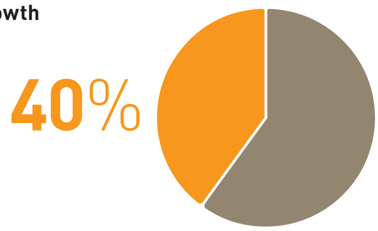
+43%

CAGR: +13%

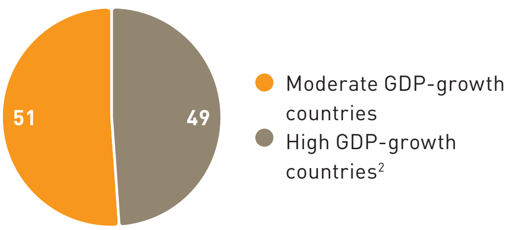
Platforms & Services revenue €m



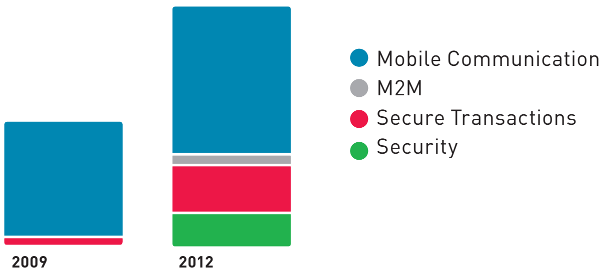
Contribution of Platforms & Services to 2012 revenue growth



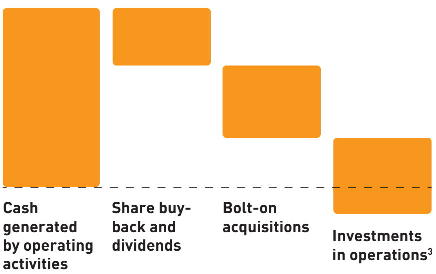
Revenue % by country



Profit from ongoing operations €m



Use of operating cash flows (2010-2012)



Outlook 2013

For the full year 2013 Gemalto anticipates double-digit revenue expansion at constant exchange rates. Increased investment in operations to drive business development beyond 2013 should lead to a more pronounced seasonality in profit from operations between the two semesters.

Gemalto's next long-term development plan and objectives will be announced in the second part of the year.

Group Financial review

Highlights

Revenue

€2,246m
(2011: €2,015m)

Gross margin[1]

38.5%
(up 120 basis points)

Gross profit[1]

€864m
(2011: €752m)

Profit margin from operations[1]

13.6%
(up 100 basis points)

Profit from operations[1]

€306m
(2011: €256m)

Basis of preparation

The financial review is based on adjusted financial information: non-GAAP measures where the key metric used to evaluate the business and to take operating decisions is the profit from operations (PFO). PFO is defined as the IFRS operating result adjusted for the amortization and depreciation of intangibles resulting from acquisitions, for share-based compensation charges, and for restructuring and acquisition-related expenses.

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.

For a better understanding of the current and future year-on-year evolution of the business, comments in the 'Segment information' paragraphs and the following Segmental review chapters address ongoing operations, which excludes the following items from the income statement: contributions from discontinued operations, assets classified as held for sale and from other items not related to ongoing operations. The segments financial information for 2011 is presented pro-forma on the 2012 basis of preparation.

For the year 2012, reported figures for ongoing operations only differ from figures for all operations by the contribution from assets held for sale and the gain on sales of a subsidiary to an associate. Compared to figures reported on the full year of 2011, figures for ongoing operations for the full year 2011 reported in this publication were re-presented to also exclude the contribution from assets classified as held for sale in 2012.

Revenue variations are at constant exchange rates, except where otherwise noted. All other figures in this financial review are at historical exchange rates, except where otherwise noted. 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.

[1] Adjusted measures:
Gemalto uses adjusted financial information and non-GAAP measures to assess the underlying performance of the Group. For further explanation and reconciliation to IFRS numbers see pages 115-117.

Financial performance

Revenue of the Company for all its operations reached €2.25 billion. The largest part of the growth was provided by the Mobile Communication and Security segments which generated additional revenue of €204 million. Secure Transactions and Machine-to-Machine also contributed positively to revenue growth.

Across all segments, Platforms & Services activities grew by +26%, to account for €392 million in 2012, generating 40% of the total Company growth and further increasing their share of the Company's revenue. In the mobile payment and the government sectors substantial long-term contracts were signed and their deployments initiated.

Gross profit for the Company was up +15%, or €113 million, to €864 million. This represents a gross margin of 38.5%, higher by +1.2 percentage point on 2011. This gross profit improvement was driven by gross margin increases in the Mobile Communication and Secure Transactions segments as well as by revenue growth in Security. Globally, additional revenue came in at higher gross margin due to the greater proportion of Platforms & Services revenue and to an improved product mix, particularly in the Mobile Communication segment.

Operating expenses increased by 8% to €558 million, representing an essentially stable ratio to revenue of 25%. Expenses in operating resources grew in all segments, especially in research and development, to support project deployments and future growth opportunities. This resulted in a sequential increase in operating expenses, with €298 million for the second semester when excluding Other income.

Full year profit from all operations came in at €306 million, up a remarkable +20% on the previous year's performance that benefited from the one-time positive contribution from a gain on the re-measurement to fair value of Gemalto's investment in a Chinese JV. Driven by the positive developments in all main segments, the year-on-year positive variation in profit from ongoing operations reached +26%, settling at €305 million despite a €9 million decrease in profit from operations recorded in the Patents segment, related to ongoing litigation the Company initiated in the United States. Continuing deployments of fourth generation mobile networks, acceleration in the deployment of infrastructures enabling mobile payment services and increasing adoption of electronic identity programs supported the improvement. Platforms & Services activities contributed markedly to the profit increase through strong revenue growth and better absorption of operating costs, which had increased substantially in these activities since the beginning of the current long-term strategic plan in preparation for the strong involvement of Gemalto in mobile payment service deployments.

Financial income was a charge of €11 million for the year, lower by €1 million on 2011. Net interest income was a charge of €1 million and the foreign exchange transactions and hedging instruments re-evaluation at year-end generated a charge of €5 million. The remaining charges were mainly related to reassessment at fair value of financial liabilities. Share of profit of associates was lowered by €4 million to €2 million, as Gemalto consolidated an acquired company in which it previously had a share of interest.

Consequently, adjusted profit before income tax was €297 million, +19% higher than the €249 million recorded in 2011.

Income tax expense was €35 million, up from a €20 million charge in 2011, reflecting the anticipated increase in the effective tax rate related to the recognition of fewer deferred tax assets.

In 2012, the Company recorded no charge from discontinued operations, which accounted for a €1.6 million charge in 2011, in relation to the disposal of the Point-of-Sale activity at the end of 2010.

As a result, adjusted net profit of the Company for all operations was €262 million in 2012, a +15% increase when compared to €228 million in 2011, and adjusted net profit margin increased to 11.7%.

Basic adjusted earnings per share for all operations came in at €3.14, up 15%, and fully diluted adjusted earnings per share for all operations settled at €3.00, up 13%.

Adjusted financial information for all operations

	Full year 2012		Full year 2011		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	Year-on-year variation at historical exchange rates
Revenue	**2,245.5**		2,015.4		+11%
Gross profit	**864.4**	**38.5%**	751.5	37.3%	+1.2 ppt
Operating expenses[1]	**(558.1)**	**(24.9%)**	(515.1)	(25.6%)	+0.7 ppt
JV deconsolidation gain	**0.0**		19.2	1.0%	
EBITDA[2]	**381.3**	**17.0%**	319.8	15.9%	+19%
Profit from operations	**306.3**	**13.6%**	255.6	12.7%	+20%
ongoing operations	**305.0**		241.4		
other operations	**1.2**		14.3		
Net profit	**261.6**	**11.7%**	227.7	11.3%	+15%
Earnings per share (€)[3]					
Basic	**3.14**		2.73		+15%
Diluted	**3.00**		2.65		+13%

[1] In the adjusted income statement, Operating Expenses are defined as the sum of Research and Engineering, Sales and Marketing, General and Administrative expenses, and Other income (expense) net.
[2] EBITDA is defined as PFO plus depreciation and amortization expenses, excluding the amortization and depreciation of intangibles resulting from acquisitions.
[3] The full year 2012 adjusted basic earnings per share is determined on the basis of the weighted average number of Gemalto shares outstanding during the 12-month period ended December 31, 2012, i.e. 83,310,429 shares taking into account the effect of the share buy-back program. The full year 2012 adjusted diluted earnings per share is determined by using 87,129,977 shares corresponding to the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding and considering that all outstanding share-based instruments were exercised (5,382,234 instruments) and the proceeds received from the instruments exercised (€89,036,102) were used to buy back shares at the average share price of the full year 2012 (1,562,686 shares at €56.98).

Platforms & Services

Revenue from ongoing operations in Platforms & Services activities (€ in millions)	2012	2011	Year-on-year variations at constant exchange rates	Year-on-year variations at historical exchange rates
Mobile Communication[1]	**210**	161	+27%	+31%
Secure Transactions	**115**	99	+13%	+16%
Security[2]	**66**	40	+59%	+65%
Total	**392**	**301**	**+26%**	**+30%**

[1] In the Mobile Communication segment, growth from Platforms & Services activities was +21% at historical rates when excluding the contribution of activities acquired and deconsolidated during the year.
[2] From 2012, revenue from Platforms & Services in the Security segment follows the same definition as in the other segments, i.e. not only includes personalization services but also server platforms, application software and services, and the same definition was applied to the above figures for the year 2011. The total 2011 revenue made in Platforms & Services by the Company as reported in the previous year was €273 million, of which €12 million was generated by the Security segment.

Group Financial review continued

Net cash (€m)

	Year ended 31 December 2012	2011
Cash generated by operating activities	**285**	**211**
Capital expenditure and acquisitions of intangibles	(125)	(93)
Free cash flow	**160**	**118**
Cash used by acquisitions	(73)	(0)
Other	2	14
Cash provided (used) by operating and investing activities	**89**	**131**
Cash paid on dividends and for share buy-back	(71)	(84)
Other cash provided (used) by financing activities	14	28
Change in cash and cash equivalents due to change in consolidation method	0	(19)
Net cash generated during year	**33**	**55**
Cash and cash equivalents, beginning of year	330	275
Borrowings[1]	(10)	(21)
Net cash at end of year	**353**	**309**

[1] Current borrowings and non-current borrowings including finance lease and bank overdrafts.

Statement of financial position and cash position variation schedule

For the full year 2012, operating activities generated a cash flow of €285 million, increasing by +35% over the €211 million generated in 2011. The increase in cash used by working capital requirements amounted to €18 million, in line with the larger volume of activity. Cash used in restructuring actions and for acquisition-related expenses was €8 million, stable on the previous year. Capital expenditure and acquisition of intangibles (net) amounted to €125 million compared to €93 million in 2011, of which €68 million was incurred for Property, Plant and Equipment versus €52 million in 2011 in relation to data centers set-up and capacity increase. Capital expenditures in 2012 also included essentially stable capitalized development costs of €36 million (€34 million in 2011) and an expenditure of €12 million for the acquisition of intangible assets for long-term usage (license) reported during the first semester.

Net impact from investing activities related to acquisitions was €73 million in 2012 after a non-material amount in 2011. This consideration relates to cash payments made for business combinations completed during the year.

Gemalto's share buy-back program used €45 million in cash in 2012 for the purchase of 868,137 shares, net of the liquidity program. As at December 31, 2012, the Company owned 3,930,523 shares, i.e. 4.47%, of its own shares in treasury. The total number of Gemalto shares issued remained unchanged, at 88,015,844 shares. Net of the shares held in treasury, 84,085,321 shares were outstanding as at December 31, 2012. The average acquisition price of the shares repurchased on the market by the Company as part of its buy-back program and held in treasury as at December 31, 2012 was €38.61.

On May 31, 2012, Gemalto paid a cash dividend of €0.31 per share in respect of the fiscal year 2011. This distribution used €26 million in cash. Other financing activities generated €14 million in cash, including €33 million of proceeds received by the Company from the exercise of share options by employees and €16 million remitted for the repayment of borrowings.

As a result of these elements, Gemalto's cash and cash equivalents as at December 31, 2012 were €363 million. Current and non-current borrowings were reduced to €10 million from €21 million in 2011, and Gemalto's net cash position as at December 31, 2012 was €353 million, an increase of €44 million when compared with December 31, 2011.

For the year 2012, total assets grew by +12% or €293 million to €2.71 billion as at December 31, 2012, compared to €2.42 billion as at December 31, 2011, due to a balanced growth in current and non-current assets in relation to the Company's increased business activities and longer-term investments. Shareholders' equity increased by +12%, or €205 million, to €1.92 billion as at December 31, 2012 compared to €1.72 billion as at December 31, 2011. The increase was mainly the result of the positive net profit generation, which was partly offset by the 2011 dividend distribution.

Segment information

Revenue of the Security, Secure Transactions and Machine-to-Machine segments together represented 51% of the total Company revenue, a stable proportion when compared to 2011. The share of profit from ongoing operations generated by those segments was slightly lower at 40% of the Company's profit from ongoing operation (42% in 2011) due to the strong improvement in Mobile Communication. Patents had a negative contribution to profit from ongoing operations in 2012 due to the litigation the Company initiated in the United States.

During the fourth quarter of 2012, all four main segments posted strong year-on-year revenue growth. As in the earlier quarters of 2012, the evolution of foreign currency translation in Euro had a favorable impact on revenue growth.

For the second semester of 2012, Gemalto's revenue growth from ongoing operations was +15% at historical rates and +10% at constant rates, another improvement on the already solid first semester performance.

In the second semester of 2012, profit from ongoing operations grew at a double-digit rate in each of the four main segments, which together recorded a +18% increase. When including the adverse impact to profit from ongoing operations of the Patents segment, the Company's profit from ongoing operations grew by +13%. Profit from ongoing operations, although consistently hedged, also benefited from a favorable impact related to foreign currency translations in Euro during the year.

Patent revenue settled at €2 million, as Gemalto and potential licensees continued to postpone the signing of new agreements due to the litigation Gemalto initiated in the United States.

This lower revenue again translated into reduced gross profit as segments' costs are essentially fixed. Operating expenses grew due to the increase in legal fees associated with the litigation underway.

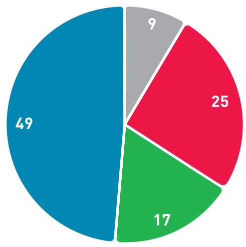
As a result, Patents recorded a loss of €9.8 million in profit from operations compared to a loss of €0.5 million the previous year.

Revenue (€m)[1]

Name	2012	2011
Mobile Communication	1,090	960
Machine-to-Machine	192	174
Secure Transactions	568	531
Security	384	310
Patents	2	9
Total revenue	2,236	**1,984**

Change in Total revenue (%)	
at historical rates	+13%
at constant rates	+9%

Revenue (%)



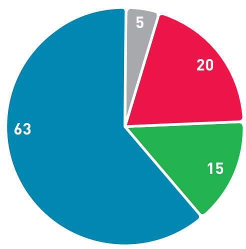
Profit from operations (€m)[1]

Name	2012	2011
Mobile Communication	193	141
Machine-to-Machine	14	14
Secure Transactions	62	58
Security	45	30
Patents	(10)	(1)
Total profit from operations	**305**	**241**
Total profit margin from operations (%)	13.6%	12.2%

Change in Total profit from operations (%)	
at historical rates	+26%
Change in Total profit margin from operations (ppt)	
at historical rates	+1.5 ppt

[1] Revenue and PFO figures are for ongoing operations.

Profit from operations (%)



Segmental review
Mobile Communication

Highlights

- Double-digit revenue growth from a strong performance in all regions and in both sets of activities.
- Embedded Software & Products revenue up +6% year-on-year.
- Platforms & Services at €210m, up +27% year-on-year.

Revenue

€1,090m
(2011: €960m)

Gross profit

€471m
(2011: €391m)

Profit from operations

€193m
(2011: €141m)

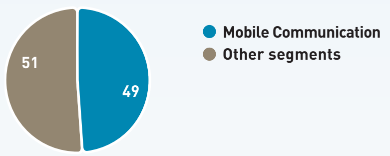
Profit margin from operations

17.7%
(up 310 basis points)

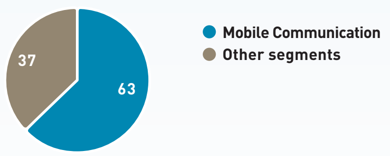
Gross margin

43.2%
(up 250 basis points)

Revenue (%)



Profit from operations (%)



Performance review

Mobile Communication recorded annual revenue of €1.09 billion, up +10% at constant rates. The double-digit increase results from strong performance in all geographical regions, in both the Embedded Software & Products and the Platforms & Services activities.

Embedded Software & Products pursued its shift to a more favorable mix of higher-end offerings and posted a +6% increase in revenue year-over-year. While the expansion of Long-Term Evolution (LTE/4G) coverage drove a large part of the improvement, 2012 was also marked by an increase in demand for products to support the imminent commercial launches of mobile payments services around the world.

Platforms & Services posted another excellent year with revenue up +27%, at €210 million compared to €161 million the previous year. Today, Gemalto is at a key first phase in the ramp-up of its mobile financial services business with customers actively deploying the infrastructure required to commercialize their offer. In 2012, the number of contracts covering Trusted Service Management (TSM) services and Gemalto Mobile Payment Platforms continued to increase markedly and Gemalto teams dedicated significant resources to the timely and efficient delivery of integration services for the initial contracts signed in 2011 and early 2012.

Trusted to run nationwide NFC services

In our role as Trusted Services Manager (TSM), we're bringing together a unique consortium of mobile operators, banks and other service providers to deliver Singapore's nationwide Near-Field Communication (NFC) project for its citizens.

For more information see
www.gemalto.com/telecom/linqus/mfs

The +2.5 percentage point increase in gross margin to 43% reflects the same improving trend in revenue mix observed since the second semester of 2011. It was achieved in spite of the expenses engaged to deploy mobile financial solutions. Both activities contributed to the gross margin improvement, benefiting from the deployment of new generations of products, scale effects and improved resource allocation.

Operating expenses were down slightly to 25.5% of revenue although investment expensed in the Platforms & Services activity grew steadily as a percentage of revenue as the year progressed.

Revenue growth and mix improvement drove profit margin from operations to rise considerably from 15% to 18% of segment revenue, to €193 million, illustrating the Company's ability to generate value with its strategy of early investment in promising adjacent opportunities.

Supporting LTE in the US

Gemalto's 'Always Connected' technology is being used by Sprint, one of the major operators in the US, to support its Long Term Evolution (LTE/4G) broadband service and provide a better user experience for its subscribers.

Solutions for a new era

Mobile Communication is entering a new phase with faster access to data and massive growth in applications. In 2012, Gemalto demonstrated that it is at the forefront of these changes and generating significant returns from its investment in innovative technologies.

By the start of 2012 there were 6.2 billion mobile subscribers[1], 30% more than in 2009 and equivalent to nearly 90% of the world population. At the same time, with the rapid uptake of smartphones and tablets, mobile data volumes are growing exponentially. Together, these developments are creating an unprecedented explosion in communication and fueling the demand for next generation networks such as LTE.

The mobile handset is already at the center of many people's social and administrative lives, provoking innumerable changes. Amongst these, the boundaries between eCommerce and mCommerce are blurring, with people browsing and shopping through a variety of different devices. As a result, advertisers, transport authorities, governments, banks, retailers, entertainment companies and others are all developing mobile screen touchpoints. So network operators are becoming strategic mediation channels between these providers and their subscribers.

Gemalto enables carriers to position themselves in this new value chain, with a wide range of software, services and personalized secure devices. These help our clients develop new user experiences and incremental revenues, optimize networks and reduce costs. Adaptable to every need and all handsets, high-end or low, we are helping to ensure that the end-users' mobile experiences are as personal, secure and convenient as possible.

[1] Source: Ericsson.

Increasing opportunities

Mobile Financial Services

More and more people are accessing financial services via their handsets, and with our experience not only in mobile communications, but also in banking, authentication, transport and retailing, we offer a complete range of applications and services in this area.

For example, we enable people to use their handsets to pay for goods and services both in-store and online. We also help banks to deliver convenient mobile services for their users, strengthening customer relationships while reducing costs. In developed markets this enables them to introduce numerous services via the handset. In developing markets, they can deliver banking services at lower costs, without branches or internet coverage.

Near-Field Communication (NFC)

By incorporating credit/debit card services and other applications into a SIM card, we are enabling people to use contactless NFC technology in their cellphones for payments, transport ticketing, loyalty programs and more. And in our role as a Trusted Service Manager (TSM), we enable MNOs, banks and service providers to deploy these solutions securely and seamlessly.

Operator Billing

Mobile commerce needs a variety of payment methods, and our billing solutions offer device manufacturers, application stores, online communities and eCommerce players an ideal means of collecting revenues.

Delivering valuable services

Mobile Marketing Services

We help operators to use the mobile as a media channel, which they can leverage both to build their own customer relationships and to help brands engage with consumers. With our 'Smart Message' solution, we enable both operators and brands to achieve wide reach, respectful dialogue and real interactivity with customers. This enables them to deploy efficient, innovative strategies that build loyalty and so develop long-term revenues.

Mobile Communication continued

Personal Cloud Services
Users expect their digital content and services to be with them everywhere. We ensure they can protect, manage, organize and share their data on any platform – mobile, computer or Cloud – and link it to social networks. Our solutions work on more than 1,000 devices and manage over 3 billion contacts.

Mobile Identity
We let people use their phones to securely approve payments, sign documents and prove who they are in the online world. In certain countries our offer includes the deployment of official government identities.

Optimizing the network
Advanced Connectivity (LTE/4G)
Gemalto is an award-winning innovator in Long-Term Evolution (LTE/4G) technology. Our Advanced Connectivity offer opens devices to ultra-fast broadband and brings our expertise in digital identity, security and subscription management to a wide range of new applications.

Roaming Optimization Services
With the increase in data roaming, assigning users to preferred networks when abroad can make a real difference to MNO costs. Our solutions deliver high traffic-steering rates and ensure carriers can seamlessly connect subscribers to their preferred partners.

Device Management
MNOs are facing growing complexity of handsets and increasing use of applications, while subscribers want simplicity, right out of the box. Our solution helps operators manage seamless set-up for mobiles throughout their life-cycle.

Machine-to-Machine

Highlights

- **Revenue up +6% year-on-year, driven by semester-on-semester improvement.**
- **Gross profit up +6% although gross margin fell slightly compared to the previous year.**
- **Profit increasing to €14m, up +2%.**

Revenue

€192m
(2011: €174m)

Gross profit

€64m
(2011: €60m)

Profit from operations

€14m
(2011: €14m)

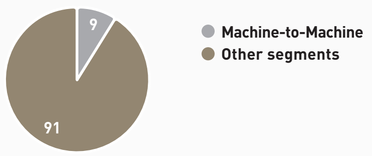
Profit margin from operations

7.3%
(down 60 basis points)

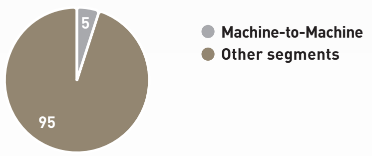
Gross margin

33.2%
(down 150 basis points)

Revenue (%)



Profit from operations (%)



Enabling secure payment transactions
Gemalto M2M solutions have been used by VeriFone to power over 5 million POS systems, and recently to launch the industry's first 4G version. Gemalto's TSM solution secures the ISIS platform, enabling VeriFone's payment devices via NFC.

For more information see **www.gemalto.com/m2m**

Performance review

Machine-to-Machine posted revenue of €192 million, an increase of +6%, driven by semester-on-semester improvement, and a remarkable performance as our industrial customers faced significant macroeconomic headwinds.

A number of new module design-in wins booked throughout the year reinforced Gemalto's position as a strategic partner to industrial customers at the forefront of connected device communication. Gemalto's expertise in a variety of connectivity technologies will continue to benefit the segment's future prospects as customers address the challenges posed by operator roadmaps aimed at repurposing legacy network capacity. Gemalto's portfolio, which spans the full range of technologies from 2G to LTE, provides its customers with a key asset to manage these future technology migrations.

The segment's gross profit was also up by +6% to €64 million, though gross margin fell slightly by 1.5 percentage points when compared to the previous year.

Operating expenses rose to €50 million essentially due to the consolidation of SensorLogic and other investments made to develop the Platforms & Services offering in this segment.

As a result, profit from operations was 2% higher than in the previous year, at €14 million.

Solutions connecting devices

Machine-to-Machine (M2M) communication is at the early stages of its market maturity and still offers large potential for growth. While the uptake is already encouraging, complexity and a highly fragmented value chain are perceived barriers for even faster adoption. Gemalto has positioned itself to answer these challenges.

The M2M value chain comprises device manufacturers, connectivity and service providers as well as system integrators, each serving diverse vertical markets with their own specific demands. Device manufacturers must be able to connect to networks globally and across legacy and future technologies. Connectivity providers seek solutions to meet service level agreements for business critical processes. System integrators need tools for fast development of M2M applications, while service providers need scalable solutions for global deployments to end-users. Serving these markets successfully requires highly specialized product offers for each part of the ecosystem and a coherent overall proposition.

Together with its proven security solutions, Gemalto's unique M2M offer responds to these issues by offering all the necessary components to simplify and enable the internet of things. Our unique Cinterion™ portfolio includes smart cellular communication modules, secure Machine Identification Modules (MIM)™, subscription management and an application enablement platform.

These solutions serve as a solid foundation for our customers to establish and expand their M2M business with ease and confidence. M2M turns objects into manageable assets, making devices at the edge an integral part of the enterprise. Thousands of industrial applications benefit from M2M technology through improved efficiency or new business opportunities. M2M already plays a key role in vertical industries such as automotive, utilities, healthcare, payment, security, logistics and transport.

Automotive

We enable our automotive customers to provide secure high-speed LTE connectivity. This enables end-users to enjoy innovative 'infotainment' solutions on the road while vehicles meet new regulations for safety such as eCall and ERA/Glonass[2]. At the same time car manufacturers can improve their customer relationship management and offer new services either to the end-user or to the community, such as those based on 'swarm intelligence'.

Health

In the health sector, we enable our customers to provide valuable user experiences through solutions that work out-of-the-box. Our modules, security solutions and application platform enable doctors to read data sent from outpatients' portable devices anywhere in the world, or make selected data available to a wide range of healthcare providers – who can therefore reduce costs while helping people to receive better care.

Logistics and transport

In logistics, we help ensure that our customers' assets are safe and constantly tracked – so they are more efficient in delivery and better at managing risk. Our application enablement platform simplifies the development of tracking applications by providing M2M functionalities such as location-based services and alarming.

Smart energy

We help utilities manage their resources in real-time according to actual supply-and-demand by enabling secure access to remote meters and distribution points. Our security solutions enable customers to meet upcoming government regulations for security in smart grids and to restrict hacking attempts.

[2] eCall and ERA/Glonass are EU and Russian initiatives intended to bring automatic assistance to motorists.

Secure Transactions

Highlights

- **Revenue up by +3% on top of the strong gains recorded in 2011.**
- **Platforms & Services activities grew by +13% to €115m driven by more demand for personalization services and the first deployments of TSM infrastructure by banks.**
- **Profit from operations increased by +8% to €62m.**

Revenue

€568m
(2011: €531m)

Gross profit

€183m
(2011: €168m)

Profit from operations

€62m
(2011: €58m)

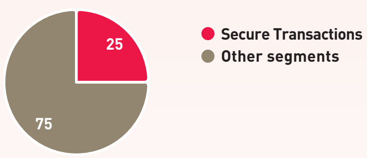
Profit margin from operations

11.0%
(up 10 basis points)

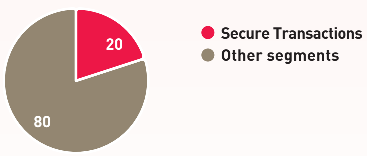
Gross margin

32.3%
(up 60 basis points)

Revenue (%)



Profit from operations (%)



Performance review

Secure Transactions posted revenue of €568 million in 2012, increasing by +3% on top of the strong gains recorded in 2011 (+17%).

The main drivers of growth continue to be increasing demand from developing regions, the growing success of Gemalto's dual-interface Optelio™ products in markets with high EMV penetration and the rolling out of contactless payment technology. More country migrations began to benefit the segment's financial performance towards the end of the year with revenue re-accelerating, at +7%, in the fourth quarter.

The Platforms & Services activities in this segment grew by +13%, to €115 million, driven by expansion in personalization services and the first deployments of Trusted Service Manager (TSM) infrastructures by financial institutions that aim to launch mobile payment services in the near future.

Gross profit increased by €15 million to €183 million representing a gross margin of 32%, up by 60 basis points year-on-year, as the favorable effects of technology upgrades were coupled with growing demand in developing regions.

Operating expenses increased by €10 million, or +9% year-on-year, due to investment in certain regions in preparation of future EMV migrations and to support the global mobile payment opportunity.

As a result, profit from operations increased by +8% versus previous year to €62 million.

Making payment go mobile in Mexico

Our technological expertise and support is underpinning a country-wide project in Mexico to make banking more convenient for millions of people by transforming their mobile handsets into innovative, efficient payment devices.

For more information see **www.gemalto.com/financial/mfs**

Solutions for changing markets

The world of financial services is changing fast. Transactions are being digitized, and using an increasing range of channels and form-factors. Consumers enjoy the array of choices offered, yet are concerned about security. With our experience in banking, mobile communications and personal identity, Gemalto continues to provide innovative solutions in this dynamic sector.

When financial institutions are conceiving new, digitized payment programs, they increasingly look to us for support. They want innovative platforms to create extra revenue streams, and they need expert advice in choosing the right options to extend their reach.

In response, we offer solutions tailor-made to their requirements. We embed our secure operating systems and software in a widening variety of form-factors beyond the traditional banking card. We manage and update those devices when they're in the field. And we provide the solutions that make online and mobile banking secure and easy.

Enabling NFC transactions in the US

Gemalto is enabling Chase, the major US bank, to load a digital version of its customers' payment cards onto their mobile handsets. People can then use them to make secure, effortless payments by simply tapping them against a reader.

EMV: secure, convenient payment

Europay, MasterCard and Visa (EMV) is the globally recognized standard for chip-based credit and debit cards. Offering a high degree of security, interoperability and convenience, it protects users from fraud and offers better control for providers. In several regions, like Europe, EMV is dominant while in others, like the US, the potential for growth is substantial. During 2012, Gemalto recorded several successes in EMV deployments.

The speed of contactless

More and more of our EMV cards offer contactless payment. Users simply hold their device near a reader, even if it's still in their wallet. This makes payment quicker and easier – especially for low-value amounts – replacing cash and cutting waiting times. It allows issuers to benefit from innovative designs and form-factors, and to combine payments of different kinds such as public transport and retail.

Enhancing the customer experience

Before they can be used, payment devices need to be personalized and issued, and Gemalto offers comprehensive services for both. We help our clients enhance their devices with fresh, differentiating designs; and enable their customers to 'hyper-personalize' them with a favorite photo, which leads to increased activation and usage. Our issuance solutions also make delivery easier and faster – even instantaneous.

eBanking and eCommerce

Gemalto is the only truly global provider of strong authentication, replacing out-dated passwords for a wide range of services in eBanking and eCommerce. We report revenue from these operations under 'Security' see page 23.

Banking on mobile

Mobility is revolutionizing banking everywhere. One key driver is Near-Field Communication (NFC), enabling banks to use the SIM in handsets as a channel for their services. Our mobile solutions also include payment and banking, as well as money services for the unbanked. As a Trusted Service Manager (TSM) we enable banks, network operators and service providers to deploy seamless NFC solutions. We report revenue by destination, under either 'Secure Transactions' or 'Mobile Communication'.

Security

Highlights

- Another year of double-digit growth in Security revenue, up +19%.
- Platforms & Services in the segment grew even faster, up +59% to €66m, with large global contract wins.
- Profit from operations rose by an impressive +52% increase year-on-year, reaching a profit margin of 11.8%.

Revenue

€384m
(2011: €310m)

Gross profit

€142m
(2011: €118m)

Profit from operations

€45m
(2011: €30m)

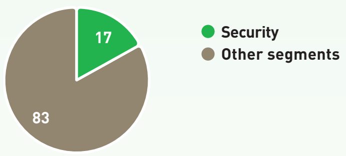
Profit margin from operations

11.8%
(up 220 basis points)

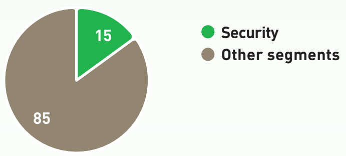
Gross margin

37.1%
(down 100 basis points)

Revenue (%)



Profit from operations (%)



Performance review

Security delivered another strong year with continued double-digit growth, up +19% to €384 million.

Excellent project execution contributed significantly to the segment's performance and new and more comprehensive contract wins reinforced the strong backlog.

Platforms & Services revenue grew even faster, posting a +59% increase, in line with Gemalto's established strategy of addressing market demands through comprehensive solutions. It stood at €66 million in 2012.

In Government Programs, 2012 further reinforced the pervasiveness of electronic identity solutions. Key projects such as the digitalization of voting procedures, the modernization of national identity programs, and deployments of electronic healthcare documents were implemented in various countries. In Identity and Access Management, growing demand for Gemalto's Ezio™ online banking security solutions also contributed to the segment's revenue increase.

Gross profit increased by +21%, or €24 million, to €142 million. Operating expenses grew at half that rate of increase, i.e. +10%, or €9 million to €97 million creating further operating leverage. Investments were essentially focused on developing online banking and Protiva™ cloud security access offers and providing additional resources to deliver on the strong growth in demand in Government Programs.

As a result, profit from operations rose to €45 million, an excellent +52% increase over the same period last year, to now represent 12% of segment revenue.

Securing Sweden's electronic identity documents

Gemalto is delivering Sweden's ePassports and eID cards, including European Residence Permits. The five-year contract includes live enrollment, registration of citizens' data, production, personalization and issuance services.

For more information see **www.gemalto.com/govt**

Solutions inspiring confidence

Security is a fundamental need in the digital world, engendering trust amongst providers and consumers alike. For governments, enterprises and internet players, confidence is paramount in sustaining and developing their end-user relationships. In 2012, Gemalto's solutions were again favored by our clients for enhancing not just the security but also the efficiency of their services.

We provide advanced, high-end products and solutions in each of our focused market segments. We have also developed in-depth knowledge of each application's business processes, enabling us to optimize government and enterprise systems.

Government programs

With solutions contributing to 80 eGovernment programs worldwide, Gemalto is a leading player in the worldwide movement to harness digital technologies to deliver advanced identity services for citizens.

Electronic ID and travel services

Our eID and travel services include citizen enrollment, personalization and issuance, plus consultancy, training and support. Our multi-purpose eDocuments are used for identification, commercial registration, energy bill payments and eVoting. We also provide tamper-proof eDrivers' licenses and electronic vehicle registration certificates, while our eHealth solutions improve the efficiency of healthcare programs and help professionals to concentrate on care rather than management.

Our travel solution dramatically cuts fraud and speeds up border checks. It includes ePassport technologies for over 25 countries, border controls and eVisas.

eBanking and eCommerce

Gemalto is a global provider of strong online services for eBanking and eCommerce. We help our clients to reinforce their offers across all channels, increase their customers' loyalty and arm themselves against competitors and other threats by focusing on user-friendly solutions which strengthen authentication and signature services. Our solutions offer secure access to home and mobile banking services, retail and corporate bank networks, eCommerce sites and cloud computing services.

Identity and Access Management (IAM)

Organizations need to ensure their assets are safe – especially when they are stored in the 'Cloud' – and offer their mobile workers secure access to networks, applications and data. In response to these challenges, Gemalto provides advanced solutions for the most demanding situations, both for internal stakeholders, including employees, executives and board members, as well as external partners, suppliers and customers.

Organizations and governments

Our IAM solution enables employees to access premises, PCs and networks securely and efficiently. Since Gemalto is a Microsoft Gold certified partner, it is fully integrated into their systems. We enable digital signatures to verify that electronic documents are authentic and make electronic transactions legally binding. For government employees, we offer certified solutions that increase the efficiency of their work and safeguard sensitive data.

Our focused approach to specific segments enables us to better tailor our solutions to business needs. For example, with regard to Police and Defense organizations, our IAM solution delivers secure, simple network access for law-enforcement personnel in a particularly demanding environment.

Healthcare

To ensure the best patient care, professionals need access to medical records at a moment's notice. Yet in order to protect patients and comply with regulations, this highly sensitive information needs to be safeguarded from unauthorized access.

Trading floors (multi-terminal environments)

For traders, every second counts. Gemalto has worked with our financial institution partners to develop a solution that allows secure, yet simple access to multi-terminal clusters typically found on trading floors.

Secure access to medical data

Gemalto is providing One-Time Password (OTP) tokens to Equifax, a leader in identity management, for use by healthcare workers in New York State. The secure, flexible devices enable doctors and others to share medical information in full compliance with regulations.

Risk management and control

"Risk management and controls are critical to the Company: their aim is to increase our ability to achieve our objectives."

A distinctive feature of our business is that risk management is an intrinsic part of our solutions and devices. As some potential risks to our activities could impact our business's operational security, integrity and continuity, we see effective risk management as part of our responsibility to customers, as well as to investors, employees and other stakeholders. Our customers trust us to make it integral to our service and our culture.

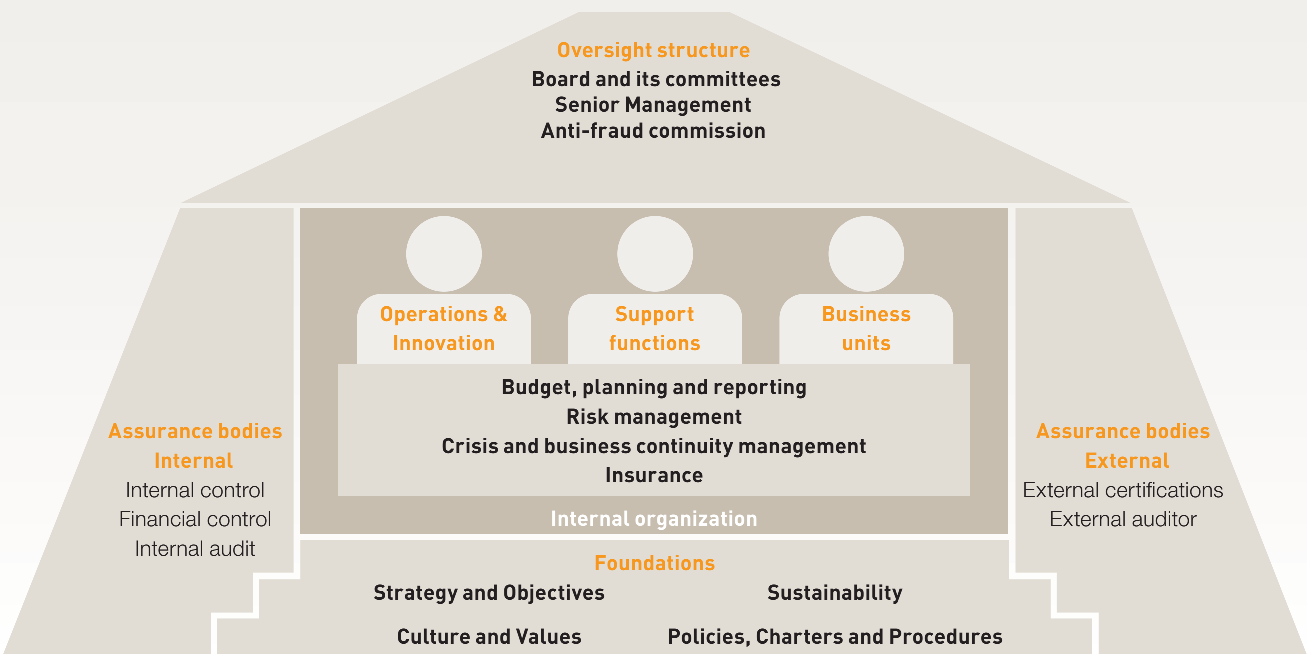
In common with most organizations worldwide, we are affected by a number of risk factors, not all within our control. Some, such as macroeconomic factors, are likely to affect the performance of businesses generally; others are specific to our operations. We have put in place processes to identify and address our key risks. These include for instance 'Technology shift' because of fast technology changes and 'Foreign exchange' because we operate in many different countries worldwide.

We review our principal risks regularly. As the Company operates in a dynamic environment, there may be circumstances in which previously unidentified risks arise or the impact of identified risks is greater than expected.

To provide reasonable assurance to the Board as to the integrity of Gemalto's reporting and effectiveness of its systems of risk management, we have implemented a range of policies and processes with both internal and independent controls. These aim as much as possible at preventing and detecting misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations; and enhancing the Company's ability to achieve its objectives.

The diagram below summarizes our approach to risk management and our internal control systems. It is followed by detailed explanation of each component.

Risk management organization



The foundations of our approach

Our overall **strategy and objectives** set the parameters within which we identify and manage risk. They are described on pages 8-11.

Our **culture and values** shape the manner in which risk management policies and internal control procedures are implemented. They form part of our wider approach to **sustainability**, set out on pages 32-33.

Detailed implementation is governed by charters, as well as operational and financial **policies and procedures**, that set risk management and control standards for the Group's worldwide operations. They are published on our intranet and updated as required.

To promote effective implementation we organize regular training and awareness sessions throughout the Company on topics such as security, internal control, ethics, anti-fraud, authority limits, contract management, trade compliance and competition rules.

How we oversee risk management

Our oversight structure ensures that the organization is geared to effective risk management.

Board and its committees

The Board is responsible for reviewing the Company's system of internal risk management and controls and for assessing their effectiveness. On its behalf, the Audit committee regularly reviews with management and internal audit the Company's system of internal risk management and controls – focusing on financial reporting, main operational risks and the results of improvement actions. In turn, the committee's findings are reviewed by the Board.

Senior Management

Senior managers oversee design and implementation of control systems and the existence and appropriateness of internal control and risk management monitoring systems across all businesses and locations. They promote sustainability, Group values and culture, and internal controls at all levels.

Anti-Fraud Commission

The Anti-Fraud Commission comprises the Group General Counsel, the EVP Human Resources, the Chief Information Officer, the Quality, HSE[1], Security and WCE[2] Director and the Internal Audit Director. Its objectives encompass continuous fraud risk assessment, anti-fraud policy and procedures, and action in response to actual or suspected frauds. It meets formally every quarter and ad hoc in between. It has developed an anti-fraud action plan, including the launch of the Gemalto anti-fraud policy in 2009, the implementation in 2010 of a framework agreement with two specialized forensic firms, the publication of a fraud investigation protocol in 2011, and an update of the fraud reporting procedure in 2012.

How we share risk management responsibilities

We regard risk management and internal control as a responsibility that is shared by everyone in the organization, from senior management to the most junior employee and this is part of our culture. External stakeholders are also associated when required.

Business units and Operations and Innovation

The managers of each operation or business are responsible for setting up an internal control organization for their sites and/or areas of responsibility, and identifying and managing risks in line with Group strategy, policies and standards. They are helped in their risk analysis and response by the support functions.

Support functions

Our support functions comprise Finance, Purchasing, IT, Security, Quality, Health Safety and Environment, HR and Legal. They analyze risks, define prevention and protection standards as well as policies and procedures, inform and train employees and relevant stakeholders, and monitor the implementation of the risk policies in their respective fields of expertise.

Internal organization

In addition, our internal organization is set up in such a way as to optimize our ability to manage risk Company-wide. With its broad remit and transversal perspective, the Group Risk and Insurance department is responsible for driving the risk management process across the Company, managing the Group insurance programs and monitoring action plans to reduce risks. Reporting to the General Counsel, the Company Secretary and to the CFO, it is also involved in crisis and business continuity management. It also works closely on risk management with the other two key departments concerned, Internal Audit and Internal control, sharing information and meeting regularly for reviews.

[1] HSE: Health, Safety and Environment.
[2] WCE: World-Class Enterprise.

Risk management and control continued

How we address risk management

Our principal risks, together with the main mitigating actions, are summarized on pages 30-31.

We have developed four dedicated processes for managing these and other risks across the organization:

- Planning and reporting
- Risk management
- Crisis and business continuity management
- Insurance.

Budgeting, planning and reporting

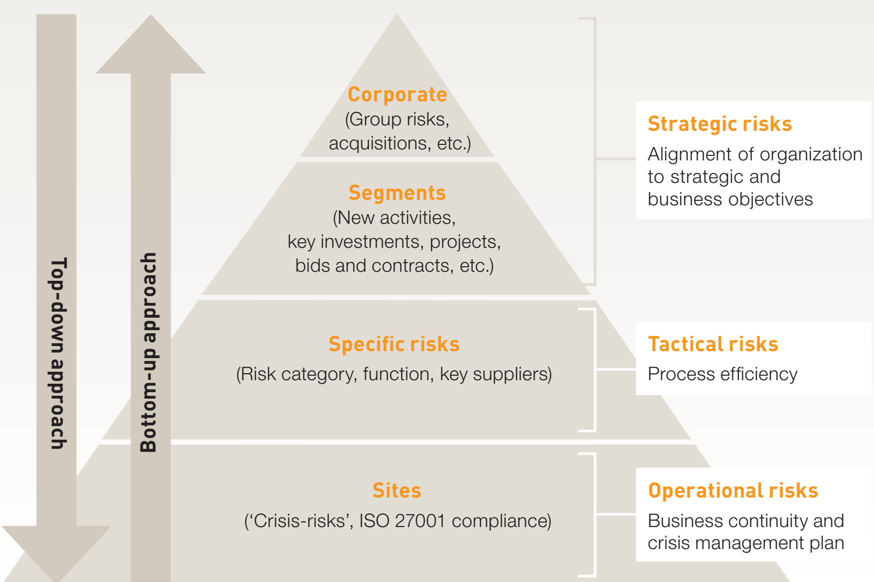
Our processes ensure that our decision-makers have the data they need to support informed and timely decisions. We maintain detailed budget and planning processes based on a number of complementary reporting systems.

Our **2010-13 Development Plan**, prepared in 2009 in line with Group objectives and strategy, encompasses the whole Group. The 2014-17 Development Plan is in progress.

Our budget and forecast updating process and business reviews cover all operational entities and corporate departments. The process begins in October to deliver an annual budget for the Group, which is presented to the Board in December for the following year. Whenever changes in activity justify it, current-quarter and current-year forecasts are reviewed and consolidated into updated forecasts for the Group on the basis of actions undertaken to meet Group objectives. These form a key part of the system for coordinating and monitoring Group activity.

Our operating and financial results are reported and reviewed monthly and quarterly. Operating results are reviewed in detail in the first days of the following month by our Corporate Controller and the Executive Vice-President and/or Controller of each segment and geographic area, on a date fixed in advance in the reporting calendar. These reviews are also attended periodically by the CFO and the Internal Audit Director. Once validated, operating results are consolidated by the Corporate Accounting department, reviewed by the Corporate Treasurer, Corporate Tax Director and Corporate Controller, and presented to the CFO for review. The Corporate Controller and CFO then present them jointly to the CEO.

Objective pursued per risk assessment level



The Corporate Treasurer prepares a monthly report which includes a review of the financial results for the period, the efficiency of the balance sheet and cash flow hedges, the client receivables position and the Group's cash and debt positions.

Drawing on the review of the operating results and the treasury report, the Corporate Controller and CFO prepare the monthly operating dashboard and accompanying CEO and CFO letter. These are reviewed by the CEO before being circulated to the Board and senior management. The dashboard and accompanying letter cover the activity of the month by segment, the updated operating income statement forecast for the current quarter, and the cash, debt and working capital positions. A review of the activity is presented by the CEO and the CFO at each Board meeting.

In the last days of each quarter the Corporate Controller holds pre-close reviews with each segment and region. Combined with the monthly result calls, these allow prompt identification and communication of any transaction or event which could significantly impact the Group's results or financial condition.

Risk management

Our risk management process involves:

- Mapping and anticipating the main identifiable risks.
- Prioritizing them against the Group's strategy and risk appetite.
- Allocating risk ownership.
- Developing and implementing mitigation plans that are proportionate to the risks involved, including transfer to insurance market.
- Communicating key control objectives to employees.
- Regularly checking the effectiveness of the process.

Identifying and assessing our major risks enables us to focus on those that matter and to align our action plans and resources accordingly. Risk assessment is carried out at all management levels. For example:

- **Group level:** in 2010, we launched a major Enterprise Risk Assessment (ERA) in line with the Company's strategy and objectives. It was completed in 2011 with a review by the Management, the Audit committee and the

"Gemalto has developed business continuity responses which help to minimize disruptions to its clients."

Board, and periodic reviews since then. As part of this exercise we enhanced our risk analysis criteria, our assessment methodology and the representation of managers involved. As sponsor of the overall approach, the CEO strengthened the empowerment of risk owners, who are responsible for the progress of the mitigating actions – giving them cross-segment and organization-wide responsibility. Each key risk is sponsored by a member of senior management. Key outcomes of the ERA were communicated to all employees. Actions plans have been monitored ever since with links to the budget.

- **Corporate level:** Major new investments, like major assets, acquisitions and developments, are analyzed from a risk perspective, and reviewed with the segments. Risks are identified and considered for decision-making with action plans developed and subsequently monitored.
- **Business level:** risk assessments are performed on major bids and contracts as well as on new activities. Management reviews performance quarterly.
- **Risk category and function levels:** following the Group risk mapping exercise, specific risk assessments have since been performed, for instance on fraud.
- **Site level:** sites perform crisis risk assessment in line with the Gemalto crisis management framework. Production and personalization sites assess their security and industrial risks. This contributes to some certification requirements like ISO 27001.

Crisis and business continuity management

Our crisis management organization and business continuity responses are there to help reduce the impact of crises on both the Company and our stakeholders.

Our **crisis management framework** encompasses basic escalation and communication rules, guidelines for anticipation and action, and clarified roles and responsibilities. Around the globe, about 100 crisis management leaders have been appointed and trained through simulation exercises. Gemalto also provides crisis management training with simulations for local crisis management teams.

Gemalto has developed **business continuity responses** to avoid or minimize disruption to customers and our business through greater standardization of production tools and processes, multi-sourcing strategies, IT availability and redundancy infrastructure. We have strengthened our business continuity capability by improving the centralization of pertinent data and implementing architecture for distributing this data seamlessly to back-up sites.

This proactive approach to crisis management and business continuity has enabled us to respond effectively to unforeseen events, minimizing their impact on our stakeholders and reputation.

In 2012, Gemalto continued to update and refine its crisis and business continuity management plans.

Insurance

The Group policy on insurance cover focuses on optimizing and securing the policies we contract. The aim is to protect the Company against exceptionally large or numerous claims, at a cost that does not impair Group competitiveness. The Group neither owns nor operates any captive insurance. Our global insurance programs involve only high-quality and financially sound insurers and combine master policies and local insurance policies where countries require this.

The negotiation and coordination of these programs is 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. Gemalto reviews its insurance coverage strategies periodically, taking into account changes in its risk profile (such as acquisitions, claims, loss events and other activities) and insurance market trends.

Our insurance programs encompass property damage, business interruption, public, product and professional liability and directors' and officers' exposures. From 2011, Gemalto has been paying particular attention to IT/IS risks (data protection and cyber risks).

Risk management and control continued

"Our internal control system aims to ensure that realization of objectives is monitored, financial reporting is reliable and applicable laws and regulations are complied with."

How we monitor effectiveness

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

Internal control

Gemalto has defined internal control principles and procedures for main transaction cycles and central functions. Internal control is based on granting responsibilities and powers to the managers of subsidiaries, to management bodies and to their functional teams (such as Legal, HR and Purchasing).

Our internal control system cannot provide absolute assurance. Nevertheless, while keeping a reasonable balance between cost and assurance, it aims at ensuring that realization of objectives (including sustainability goals) is monitored, financial reporting is reliable and applicable laws and regulations are complied with.

Our dedicated Security and QHSE (Quality, Health, Safety and Environment) department, with representatives throughout the Group, promotes the appropriate culture and performs regular audits. The Anti-Fraud Commission ensures that proper controls are enforced on potential fraud areas. And our Internal Control over Financial Reporting (ICFR) department uses yearly risk-based self-assessment campaigns to ensure that the proper level of internal control is maintained and regularly enhanced.

The production and control of financial information is structured to be consistent with our segments. To ensure the quality and completeness of the financial data produced and reported, we have set up a process for the production and management review of operating results, identified the main risks which impact significantly on the financial statements, and implemented preventive and corrective controls to mitigate those risks. To improve internal control over and above the quality of financial reporting, we run an annual self-assessment campaign based on financial risks (including IT/IS risks) following the recognized COSO[3] 2 model. For a number of our most critical processes and entities, the self-evaluations of the controls are tested by internal auditors and to some extent by the Company's external auditor. This process also helps us to define plans for remedying identified deficiencies and to follow up the progress of those plans year-on-year.

In 2012, we paid particular attention to improving the effectiveness of internal controls in our IT function and newly acquired companies.

An annual report on financial internal controls and internal audit activity is prepared by the Internal Audit Director, reviewed and agreed with the CFO, and then with the CEO. It is presented to the Audit committee as part of the review process of the annual accounts.

Financial control

Financial controllers are responsible for assuring management that the controls over the Group's earnings and operating performance remain adequate. They participate in drawing up the budget and quarterly business reviews; and they oversee the monthly financial results of segments, regions and the Group as a whole. They also play an active role in operational and performance improvement projects, and in cost control and cost-effectiveness initiatives.

[3] COSO: Committee of Sponsoring Organizations of the Treadway Commission.

"To assess and test our internal risk management and control systems we have a dedicated and certified internal audit department."

Internal audit

To assess and test our internal risk management and control systems we have a dedicated and certified internal audit department operating under a charter approved by the Audit committee (updated in 2010 and 2012) and in line with international professional standards set by the Institute of Internal Auditors. Consisting of eight auditors based in Amsterdam, it has direct and unlimited access to Group operations, documents and employees. The Internal Audit Director reports directly to the CFO and has an independent line of communication with the Audit committee Chairman and with the CEO, as well as regular private sessions with the Audit committee.

Until 2012, Group Internal Audit prepared a yearly plan which was approved by the Audit committee in December for the following year. This drew on the findings of the Enterprise Risk Assessment (ERA), the yearly financial risk mapping, discussions with management and the external auditor, and regular audits of major sites. To facilitate a more global and strategic approach, we have now extended the planning cycle to three years. In December 2012 the committee approved a three-year plan covering the period 2013-15.

For each audit, a formal report is issued and circulated. This includes recommendations for corrective actions with an implementation plan and the comments of the auditees. Implementation of accepted corrective action is followed up systematically and documented in a formal report. The Internal Audit department performs follow-up reviews of acquisitions at the request of management, the Audit committee or the Strategy and M&A committee.

The Internal Audit Director prepares a monthly report – including a summary of his department's activity, key internal control issues and their status – for the Chairman of the Audit committee and the CFO. An annual report on internal audit and internal control is also submitted to the CEO and the Audit committee.

On November 2, 2010, Gemalto received the professional certification of its internal audit activities from the *Institut Français de l'Audit et du Contrôle Internes* (IFACI), the French representative of the Institute of Internal Auditors (IIA). In November 2011 and November 2012, this certification was successfully renewed.

External certification

Because of the nature of our activities, we maintain a number of certifications, some of which (including EMV, GSM SAS and ISO 27001) are necessary for the conduct of our business. These vary from site to site and by business type, according to local regulations and customer requirements. The effectiveness of our quality and HSE management systems is constantly challenged by external audits (both ISO/OHSAS standards and market specific) and internal audits. Both look for continuous improvement through identification of sensitive areas and deployment of best practices.

External auditor

The independent external auditor (PricewaterhouseCoopers) is granted unrestricted access to Gemalto sites and documentation. The external auditor communicates regularly with the internal audit department and with the Audit committee, being invited to all the Audit committee meetings and to private sessions.

The Audit committee assesses the work of the external auditor at least once a year. The external auditor provides an independent opinion on the financial results of the Group, and its report is included in the Gemalto Annual Report.

Principal risks

This table outlines what Gemalto's management believes to be the principal risks to the Company and the actions taken to mitigate them. It is not an exhaustive list of all the risks that may affect Gemalto but aims to report the main ones that stem from our activities[1].

Risk area	Main mitigating actions	
Strategic risks		
Lower growth and profitability (Changes in business environment, decrease in activities and/or increase in competition, etc.)	– 2010-2013 Development Plan. – Diversified portfolio of activities. – Focus on innovation: Gemalto filed 110 new patent applications in 2012.	– Focus on creating value to clients: High overall customer confidence in the 2012 'Tell Me' survey. – Global presence in 43 countries.
Acquisitions and/or joint ventures (Wrong selection and/or integration)	– Single dedicated team manages Corporate Development plan and M&A. – Formal process to manage acquisitions and integrations.	– Review by Strategy and M&A committee. – Post-acquisition integration audits with performance monitored by Management and the Board.
Technology shift (Market moving to alternative technologies)	– Competitive and market intelligence program. – Diversified technology portfolio (including through M&A). – Strong R&D/standardization teams.	– Participation in industrial bodies and standardization organizations. – Innovation process leading to many innovation awards.
Legal and compliance risks		
Intellectual Property Rights risks (Failure to protect Gemalto's proprietary technology and IP rights, third-party claims for alleged infringement of their IP rights).	– Dedicated and qualified internal IP team organized by technology. – Internal IP department and internal inventor policies.	– Patent committee. – Patent management database and third parties' patents search. – Contract reviews on IP clauses.
Internal fraud and non-ethical behavior (Worldwide activities and in digital security)	– Policies and procedures, code of ethics, whistle-blowing tool, etc. – Anti-fraud commission. – Security certifications and organization.	– Training/e-learning: security, business principles, anti-fraud. – Internal audits on all suspected frauds. – Investigation process and tools.
Changes in regulatory environment (Data privacy and protection laws, Tax, Trade regulations and Export Controls)	– Legal organization in regions and by activity. – Training on Tax and other regulations. – Tax department with regional antennas.	– Participation in standardization committees. – Advice from law firms, tax advisors and authorities where we operate.
Operational risks		
Business interruption and crisis (Any internal or external event which would materialize unexpectedly and significantly affect the Company's operations and/or reputation)	– Risk mapping with regular updates (both at site and Group levels). – Crisis Management framework and worldwide training program. – Diversified industrial footprint.	– Continued investment to improve and secure manufacturing activities. – Business continuity responses build-up. – Regular internal and external audits of facilities (including on Crisis Management and Business Continuity plans).
Sourcing risks and dependency on suppliers (Lack of supplier resilience to disaster, insolvency, non-compliance with ethical standards, etc.)	– 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.
Defective products and/or service failures (Manufacturing, personalization services and development of software)	– Standardized manufacturing processes. – Quality Management system and World-Class Enterprise organization. – 26 sites with ISO 9001 certification in 2012.	– Dedicated organization for software, products, platforms and services. – Product and Professional liability insurance. – High overall customer confidence in 2012 survey ('Tell Me').

Main potential impacts
Financial **Organizational** **Reputational** **Legal**

Main potential impacts
● Financial ● Organizational ● Reputational ○ Legal

Risk area	Main mitigating actions	
Operational risks continued		
Bidding and execution failures of major contracts ● ● ○ (Amount, duration, technology and commitments)	– Bid and contract reviews with approval process according to limits of authority. – Risk assessment performed for major deals.	– Project-based organization for Government Program and software, solutions and services contracts.
Exposure to country risk ● ● (Political, regulatory and trade exposure impacting our staff, footprint and receivables)	– Involvement of treasury, tax and legal departments at the early stages of international operations. – Medical assistance and repatriation insurance.	– Agreements with specialized security consulting companies. – Country risk alert monitoring and communication. – Travel policy and travel security policy.
Confidential data mismanagement ● ● (Leakage and/or loss of customers' or Gemalto's confidential data)	– 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.	– Security certifications by third parties (including ISO 27001, EMV, GSM, SAS, etc.). – Internal security audits (extended to IT subcontractors). – Anti-fraud commission.
Dependence on key managers and employees ● ● (Competition for talent is intense)	– Comprehensive Human Resources strategy focusing on recruitment, diversity, management by objectives, compensation	and benefits, training, ethics and community, promotion from within, and mobility.
Customer retention ● ● (Ability to maintain relationships with existing customers and to identify, attract and retain new customers)	– Diversified portfolio of clients in about 190 countries, operations from worldwide locations. – No customer represents more than 5% of Group's annual revenue.	– Focus on creating value to clients: High overall customer confidence in the 2012 'Tell Me' survey. – Key account management.
Financial risks[1]		
Foreign exchange risk ● (Manufacturing footprint, portfolio of receivables, future cash flows and competition)	– Centralized currency risk management by the Treasury department with regional antennas, and currency reporting. – Treasury committee and treasury policies.	– Hedging strategies including natural hedging (i.e. matching costs and revenue currencies) and transaction hedging (foreign exchange forward contracts and options recorded as cash flow hedges).
Financial counterparty risk ● (Long-term contracts, terms of payment and cash deposit)	– Risk limits set for counterparties and regularly reviewed. – Treasury committee. – Use of plain vanilla hedging instruments and low-risk money market investment.	– Working with financial institutions of investment grade (deposits, hedging transactions). – Set-off provisions in financial contracts.
Financial reporting risks ● ● (Revenue recognition process, inventory valuation, taxation and other complex accounting issues)	– Financial policies and procedures. – Single financial reporting tool Company-wide and single Enterprise Resource Planning under continuing deployment. – Revenue recognition process. – Consolidation department with dedicated specialists. – Regular balance sheet analysis.	– Tax, Controlling and Treasury departments with regional antennas. Dedicated Internal Control and Audit departments. – Specific reviews performed by the Internal Audit department. – Regular reviews by the Audit committee. – Audit by external renowned independent audit firm.

[1] For further information about other financial risks that do not fall into this section (i.e. interest rate risk, liquidity risk and credit risk) and the relevant mitigating actions, see Note 4 Financial risk management pages 68-72.

Sustainability

Gemalto has a strong background in sustainability. We are continually working to improve our performance and meet our stakeholders' expectations of corporate citizenship.

Managing sustainability

As a signatory of the United Nations Global Compact (UNGC) since 2009, Gemalto has been regularly benchmarking its policies and results against world-class companies. We also review them annually against the Compact's ten principles on human and labor rights, anti-corruption and the environment. In September 2012 we sent our latest Communication of Progress (COP) to the UNGC.

Our Corporate Social Responsibility (CSR) policies and activities are guided by a multidisciplinary Steering committee. It is supervised by our three Executive Vice-Presidents of Human Resources, Marketing and General Counsel, and also comprises representatives from key related support functions and Business Units. The committee met twice in 2012 to review the previous year's results and to validate the current year's projects. Three specialist sub-committees subsequently met three times each to review progress.

Legal framework

We target full compliance with national and international environmental regulations. Some of the most significant directives come from the EU and their increase worldwide is an established trend. This extends to RoHS (Restriction of Hazardous Substances), REACH (Registration, Evaluation, Authorization and Restriction of CHemicals), and WEEE (Waste Electrical and Electronic Equipment).

Gemalto has also accelerated efforts to measure its carbon footprint. This anticipates new laws in several countries.

Materiality

In line with best practice, we communicate about our CSR policies and activities according to the issues that matter most to our Company – their 'materiality'.

In previous years we defined our main CSR projects empirically, based on our experience, the requests of our stakeholders and HSE regulations. In 2011, in order to get a more broadly-based vision of the materiality of our CSR issues, we performed a complete CSR Risks and Opportunities analysis, with the help of external specialists, so that we could:

- identify and prioritize risks according to the current strategy and objectives of our Company; and
- assign resources and develop action plans on the CSR risks that matter.

Gemalto already carries out such risk assessments at various management levels (Group, site, activity, projects, domain etc.) and it was therefore a natural progression to do the same in relation to CSR.

The assessment involved conducting interviews of internal functions interfacing with our main stakeholders, benchmarking against other organizations, analyzing internal and external documents, and taking account of issues raised by clients, rating agencies and other stakeholders.

Our key stakes

From our 2011 analysis, 23 key stakes have been identified of which 8 were qualified as 'priority':

- Responsible purchasing
- Governance and ethics
- Stakeholder dialogue and engagement
- Consumer data protection and privacy
- Gemalto sustainability image
- Solutions social benefits
- Climate change impact
- Products eco-conception.

Thus the assessment study generally confirmed our empirical approach and validated our current policies, programs and actions. Many of the stakes were addressed in our 2012 CSR action plan.

Compliance

To express our commitment to basic human and labor rights, we comply with:

- **The Universal Declaration of Human Rights**
- **International Labor Organization (ILO) standards.**

We have also signed the United Nations Global Compact charter.

We undergo yearly external assessments/certifications of our management systems for:

- **Quality (ISO 9001)**
- **Environment (ISO 14001)**
- **Health and Safety (OHSAS 18001)**
- **Security (ISO 27001).**

As a Dutch company with shares listed on Eurolist by Euronext Paris, we comply with:

- **Dutch corporate law**
- **The Dutch Act on Financial supervision**
- **Dutch corporate governance rules**
- **French AMF regulations.**

The Dutch AFM is the supervising authority of the Company.

Full details of our Sustainability policies and activities, including a complete report in PDF format, are available at:

www.gemalto.com/companyinfo/sustainability

An updated report will be published in May 2013.

Key elements of our 2012 CSR action plan

Our values

Gemalto's activities are founded on three core values which reinforce our sustainability and enable us to have a positive impact on the world.

Customers

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

Our customers include numerous governments, banks, mobile operators, enterprises, industries and organizations. In total they comprise about 190 nationalities on all five major continents. In every case we are entirely focused on their satisfaction, and consequently they give us a high rating in terms of customer confidence[1]. The trust they grant us is one of our most highly prized assets, enabling us to develop ever deeper relationships and underpinning our sustainability.

People

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

Gemalto is the sum of its people – a remarkable workforce of some 107 nationalities bound together by an ethos of excellence. Their technical expertise is highly respected; and their dedication to serving our clients is demonstrated round the clock, every day. This commitment is reflected year after year in our customer satisfaction survey; and experienced every time they need advice, confront a problem or decide to take another step forward in serving their end-users.

Innovation

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

Gemalto was founded on groundbreaking innovations and our customers recognize that this is still one of our core strengths in adding value. These help them enhance their digital security, differentiate themselves in increasingly competitive markets and offer an ever-widening range of services.

[1] Source: Tell Me 2012, Gemalto's annual customer listening program.

Key stakes	Ongoing projects and new initiatives 2012
Responsible purchasing	– Monitor actions following purchasing CSR risk analysis, e.g. key supplier engagements and audits, as well as purchasing team awareness and skills.
Governance and Ethics	– Build and implement anti-fraud e-learning modules. – Upgrade Gemalto code of ethics.
Stakeholder dialogue and engagement	– Integrate CSR courses in the Gemalto training catalog. – Introduce a human theme to the 2012 Gemalto Sustainable Development Day.
Consumer data protection and privacy	– Reinforce the annual internal audit plan of security systems against ISO standards. – Ensure external security certifications are maintained.
Gemalto sustainability image	– Improve readability and content of Sustainability Report. – Revitalize Gemalto's 'Your World' initiative.
Solutions social benefits	– Increase awareness of social benefits of our solutions (white paper published about eGovernment). – Develop communication with end-users via JustAskGemalto (www.justaskgemalto.com).
Climate change impact	– Optimize measurement and management of our CO_2 emissions. – Reduce carbon emissions due to customer delivery (transport and packing). – Develop and deploy the Gemalto carbon offset offer.
Products eco-conception	– Develop and industrialize greener products/production technologies. – Improve/deploy Gemalto eco-design skills and practices.

Governance

The 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.

Alex Mandl (1943) American

Non-executive member, independent Chairman of the Board, Chairman of the Nomination and Governance committee

Initial appointment: 2006

Current term: 2011-2015 (second term)

Other current appointments: lead Director of Dell Inc; member of the Board of Directors of Arise Virtual Solutions Inc.

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

Olivier Piou (1958) French

Executive member Chief Executive Officer

Initial appointment: 2004

Current term: 2012-2016 (third term)

Other current appointments: member of the Board of Directors of Alcatel-Lucent SA.

Experience: Olivier Piou conducted the merger of Gemplus and Axalto which formed Gemalto in 2006, and has been its CEO since then. Before that he was CEO and Board member of Axalto (2004-2006), which he introduced to the stock market, and President of Smart Cards with Schlumberger (1998-2004). He previously held a number of positions with that company across technology, marketing and operations in France and the US (1981-1998). He was 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.

Arthur van der Poel (1948) Dutch

Non-executive, independent, Chairman of the Compensation committee; member of the Nomination and Governance committee

Initial appointment: 2004

Current term: 2012-2016 (third term)

Other current appointments: Chairman of the supervisory Board of ASML Holding NV; member of the supervisory board of BDR-Thermae Group BV; and member of the supervisory Board of Royal HaskoningDHV BV.

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

John Ormerod (1949) British

Non-executive, independent Chairman of the Audit committee; member of the Compensation committee

Initial appointment: 2006

Current term: 2009-2013 (second term)

Other current appointments: Chairman of Tribal Group plc; non-executive Director of Computacenter plc; and non-executive Director of ITV plc.

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

Kent Atkinson (1945) British

Non-executive, independent Member of the Audit and Strategy and M&A committees

Initial appointment: 2005

Current term: 2009-2013 (second term)

Other current appointments: senior independent Director of Coca-Cola HBC SA; senior independent Director of UK Asset Resolution Ltd.; and non-executive Director of the Bank of Ireland Group.

Experience: Kent Atkinson chaired the audit committee of Axalto (2005-2006). He also has a wealth of other non-executive director experience including Standard Life plc (2005-2011); non-executive Director of Millicom International Cellular SA, a provider of cellular telephony services in emerging markets (2007-2010); senior independent Director of Telent plc (previously Marconi Corporation), a provider of network and communications services across many industries (2002-2007); Chairman of Link Plus Corporation Inc, specializing in communications products (2006-2008); and senior independent Director of Cookson Group plc (2002-2005). Kent was Chief Financial Officer at Lloyds TSB Group plc and previously held senior managerial positions in Latin America and the Middle East (1967-2002).

Buford Alexander (1949) American

Non-executive, independent
Member of the Nomination and Governance and Strategy and M&A committees

Initial appointment: 2009

Current term: 2009-2013 (first term)

Other current appointments: Chairman of the supervisory board of the Amsterdam Institute of Finance; Chairman of the Holland America Friendship Foundation; President emeritus of the American Chamber of Commerce in the Netherlands; and member of the Fulbright Commission in the Netherlands.

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

Drina Yue (1957) American

Non-executive, independent
Member of the Audit committee

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Senior Vice-President and Managing Director of Western Union, Asia Pacific.

Experience: Drina Yue has a wealth of experience especially in telecommunications. She was head of Motorola's Asia Pacific Broadband Communications, Home & Network Mobility business (2004-2010); and COO then CEO of iSteelAsia, developing it into the world's first listed steel vertical portal (2000-2004). She was previously Chief of Staff to the President of Motorola's wireless infrastructure business in China (1999-2000); and held various roles with BellSouth (1984-1994) receiving five US patents in telecommunications services. She began her career at AT&T as a development engineer and systems analyst (1980-1984). She was also a Board member of HK's Information Infrastructure Advisory Committee (2000-2006) and is a member of the Solicitors' Disciplinary Tribunal Panel of the HK Legal Council.

Johannes Fritz (1954) German

Non-executive, independent
Chairman of the Strategy and M&A committee; member of the Audit committee

Initial appointment: 2006

Current term: 2012-2016 (third term)

Other current appointments: Head of the family office and managing director of Seedamm-Vermögensverwaltungs GmbH; Chairman of the supervisory board of Solarwatt GmbH; and Board member of Drees & Sommer AG.

Experience: Johannes Fritz was a Director of Gemplus (2002-2006). With significant experience in the finance and the banking sector, he has been Head of the Quandt 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.

Michel Soublin (1945) French

Non-executive, independent
Member of the Nomination and Governance and the Strategy and M&A committees

Initial appointment: 2004

Current term: 2011-2015 (third term)

Other current appointments: None.

Experience: Michel Soublin has held several positions in finance and management in Paris, New York and Moscow within Schlumberger, of which Axalto was formerly a division. He was CEO of its e-Transactions subsidiary involving smart cards, POS terminals, service station equipment and parking divisions (1983-1990); financial director of its Oilfield Services (1996-1998); director of Business Information Systems (1998-1999); Group Treasurer (2001-2005); and financial advisor (2005-2007).

Philippe Alfroid (1945) French

Non-executive, independent
Member of the Audit and Compensation committees

Initial appointment: 2010

Current term: 2010-2014 (first term)

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

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

Yen Yen Tan (1965) Singaporean

Non-executive, independent
Member of the Strategy and M&A committee

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Senior Vice-President (Applications), Oracle Corporation Asia Pacific; Director, Singapore Press Holdings; Chairman, Singapore Science Center; Director, Singapore Defence Science and Technology Agency; Director, Cap Vista Pte Ltd; Director, Singapore Institute of Directors; member of the advisory boards for Singapore Institute of Management's International Academic Panel and National University of Singapore School of Computing; and advisor mentor of TNF Ventures.

Experience: Yen Yen Tan has considerable experience in the technology sector. She was Vice-President and Managing Director for Hewlett-Packard (HP) Singapore (2005-2010); and previously held various senior management positions with HP including sales, channels and marketing across Asia-Pacific region (1993-2005). She was also Chairman of the Singapore Infocomm Technology Federation (2009-2011); and Deputy Chairperson of the Internet and Media Advisory Committee of Singapore's Ministry of Information, Communications and the Arts (2009-2011).

Governance

The Senior Management

Gemalto's Executive Vice-Presidents (EVPs), under the direction of the CEO, have primary responsibility for running the Company's day-to-day business.

Paul Beverly (1962) American

EVP Marketing and President North America

Paul Beverly has held his current position since 2006. He was previously President of Americas (2003-2006) and VP in Electronic Transactions for Schlumberger in North America (1999-2003). Before that he held senior management positions in operations, sales and marketing in North America and Europe for Schlumberger, with whom he began his career. He is deeply involved in the high-tech industry, having served as Chairman of the leading trade organization and on the Board of the University of Texas Technology Incubator, and frequently presenting at industry events and in the media. He is active with numerous charitable organizations and is a Board Member of the Austin Chamber of Commerce. Paul holds Business and Economics degrees from Auburn and Harvard University.

Philippe Cabanettes (1955) French

EVP Human Resources

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

Martin McCourt (1962) Irish

EVP Strategy, Mergers and Acquisitions

Martin McCourt has held his current position since 2007. In this role he has responsibility for Gemalto's strategic planning and M&A activity, executing over 20 acquisitions. He was previously President of Asia for Gemplus (2005-2007) and before that had spent 20 years with Corning Inc in R&D, sales and marketing, strategy and M&A roles, most recently heading the worldwide Project Services business for Corning Cable Systems. Martin has a Master of Business Administration from INSEAD, a PhD in Integrated Optics from the *Institut National Polytechnique* in Grenoble and a Bachelor of Electronic Engineering from University College Dublin.

Christophe Pagezy (1958) French

EVP Corporate Projects

Christophe Pagezy has held his current position since 2007. Prior to this he was EVP Mergers and Acquisitions of Gemalto (2006-2007), and VP Business Development for Axalto (2004-2006). Christophe was previously General Manager of Schlumberger's Terminals division (2002-2004). He also held various operational, technical and business positions in France and Italy with Schlumberger (1985-2002). Christophe is a graduate from the *Ecole Supérieure d'Electricité* (Supelec) and from the Massachusetts Institute of Technology (MIT).

Philippe Cambriel (1958) French
EVP Secure Transactions Business Unit

Philippe Cambriel has held his current position since 2006. Prior to this he was President of Axalto's Smart Cards business for Europe, the Middle East and Africa (2004-2006); and VP of Schlumberger's e-Transaction Cards business (2001-2003). He had previously been Chief Officer, sales and marketing with Bull CP8 (1998-2001); Vice President PC and Intel servers business unit of Bull (1997); and General Manager for IPC France (1996). Before that he held various sales and marketing positions with Compaq in France and Germany (1989-1996), having started his career with Aerospatiale in 1983. Philippe is a graduate from the *Ecole Nationale Supérieure de l'Aéronautique et de l'Espace (Sup'Aéro)* and has an MBA from INSEAD.

Jean-Pierre Charlet (1953) French
EVP General Counsel and Company Secretary

Jean-Pierre Charlet has held his current position since 2005. Prior to this he was General Counsel of Rexel (2003-2005), Deputy General Counsel of Sanofi-Synthélabo (1999-2002), and General Counsel of Synthélabo (1996-1999). From 1981 to 1996 he held positions within the Legal Departments of Carnaud-Metalbox, PPR group, Schlumberger group and Société Métallurgique Le Nickel-SLN. Jean-Pierre was admitted to the Bar in Paris in 1974 where he began his career in various law firms. Jean-Pierre holds a Master in Law from *Université de Paris X* and a Master of Comparative Law from Georgetown University in Washington D.C.

Claude Dahan (1947) French
EVP Operations

Claude Dahan has held his current position since 2006. Prior to that he was VP of Schlumberger's and then Axalto's Smart Cards business (2002-2006); and VP marketing and product development for Schlumberger (2001-2002). Before that he held various management positions in Schlumberger's many different businesses, including research and engineering, marketing and production in France and the US (1982-2001). He began his career with the *Office National d'Etudes et de Recherches Aérospatiales* (ONERA) in 1977, later serving as VP of a research center. Claude is a graduate from the *Ecole des Mines de Paris*, has a PhD in physics and fluid mechanics, and holds an advanced management degree from INSEAD.

Jacques Sénéca (1959) French
EVP Security Business Unit

Jacques Sénéca has held his current position since 2007, and was previously Gemalto's EVP Europe. He joined Gemplus in 1989 and was a member of its Executive Committee from 1990, serving as EVP EMEA; Head of its ID & Security and Telecom Business Units; and Head of R&D and of its Business Development & Corporate Ventures fund. He previously served STMicroelectronics in manufacturing, marketing and business development in Europe and Asia. Jacques represents Gemalto on the Board of Keynectis, a leader in Public Key Infrastructure; and was Chairman of Eurosmart (2006-2008), the international organization for the smart card industry. Jacques holds degrees in Engineering from *Ecole Nationale Supérieure d'Arts et Métiers* (ENSAM) and in Business Administration from *IAE* in Aix-en-Provence, France.

Jacques Tierny (1954) Swiss and French
EVP Chief Financial Officer

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

Philippe Vallée (1964) French
EVP Telecommunications

Philippe Vallée has held his current position since 2007. He previously served Gemalto and Gemplus in a number of roles including heading the Product and Marketing Center; CTO; VP Marketing and then President of the Telecom BU; and VP Gemplus Technologies Asia based in Singapore. Before that he held a number of positions in marketing, product management and sales in Europe and in Asia, and has over 23 years' experience in the Telecom industry. He began his career with Matra Communication (now Lagardère Group) as a product manager on the first generation of GSM mobile phones. Philippe has a degree in Engineering (Telecom and Microelectronics) from the *Institut National Polytechnique de Grenoble* and is a graduate of the ESSEC Business School.

Letter from the Chairman

Dear shareholders,

Among its many duties, Gemalto's Board focused on three key topics during 2012: meeting the highest standards of corporate governance; benchmarking its role to fulfill it in the most effective manner; and overseeing the Company's long-term planning and performance.

We believe that excellence in corporate governance contributes to the Company's long-term success and supports sound decision-making. In the following pages we have endeavored to give you a clear and comprehensive overview of the Group's governance arrangements. Details of our activities during 2012 are given on pages 39-41, and our compliance and responsibility statements are set out on pages 46-51.

Corporate governance structure

We are reviewing the Company's corporate governance structure annually. During 2012, we looked at the Articles of Association and the Board charter in the light of the Dutch Bill on Shareholders' Rights and the Dutch Bill on Management and Supervision evolutions. As a result, the Board has amended its charter and it will propose amendments to the Articles of Association at the 2013 AGM.

Board evaluation

We are also committed to continually improving the quality of our work. In 2012, we appointed a recognized expert to evaluate our effectiveness – a process which has confirmed that the Board is effective and operates well. A summary of the report is on page 39.

Board composition

A key factor in the Board's success is having the right balance of skills and experience around the table. During the year we focused on the Board's future evolution to ensure that we further enhance the current high level of effectiveness. In light of his other obligations Geoffrey Fink had decided not to stand for reappointment when his mandate expired, and on behalf of the Board I would like to thank him for his contribution to Gemalto over the past six years. At the 2012 AGM we were pleased to recommend and record the appointment of two new Non-executive members, Drina Yue and Yen Yen Tan, two active businesswomen who bring their diversity of skills and experience to our Board.

Corporate strategy

We also dedicated a substantial amount of time to supervising the development of the new Gemalto long-term strategy. On completion of this process we expect to set out our strategy for the following years, continuing along the path of superior profitable growth, employee engagement and customer satisfaction in digital security.

Risk management and internal controls

Through our regular enterprise risk assessment process we reviewed the Company's main risks and their management. On the Board's behalf, the Audit committee assessed the effectiveness of our related systems. Its conclusions are set out on page 51. Details of the Group's principal risks, their prevention and management and of the internal control systems are given on pages 24-31.

Shareholder engagement

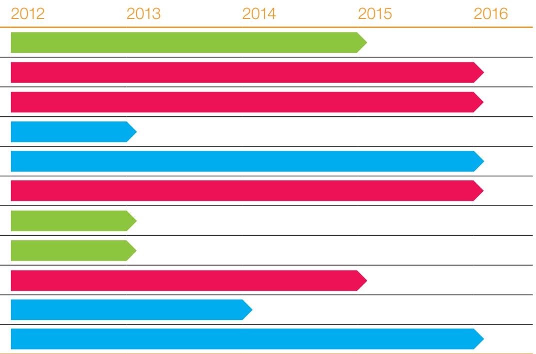
As a Board we value open, constructive and effective communication with our various stakeholders. Our CEO, CFO and Investor Relations Officer invested significant time and effort to maintain regular dialogue with our shareholders during 2012. The Annual General Meeting (AGM) is an important forum in which shareholders can raise questions on this report, and on the resolutions proposed: I look forward to sharing the 2012 Company's successes with you at the next AGM on 23 May 2013.

Alex Mandl
Chairman of the Board

Board reappointment schedule

The Board adopted a reappointment schedule, which is published on our website. The table here on the right lists the members of the Board and their terms in office. The maximum term is four years. Board members may be reappointed for additional terms. There is no limit for the Executive Board member other than the age of 65. The Board will propose certain amendments to the Articles of Association. If so adopted by the 2013 AGM, the entire service of Non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, Non-executive Board members may be reappointed for additional terms of maximum two years each.

Board members	Date of initial appointment
A. Mandl	2 June 2006
O. Piou	17 Feb 2004
A. vd Poel	1 May 2004
B. Alexander	20 May 2009
D. Yue	24 May 2012
J. Fritz	2 June 2006
J. Ormerod	2 June 2006
K. Atkinson	11 May 2005
M. Soublin	17 Feb 2004
Ph. Alfroid	19 May 2010
Y.Y. Tan	24 May 2012



First term Second term Third term

Board activities during 2012

Board meetings

The Board held eight meetings: four in person and four by conference call. All Board members attended the majority of the meetings.

Among other matters, the Board addressed the following subjects:

- Agenda for the AGM
- Annual budget plan for 2013
- CEO and senior management remuneration
- Corporate governance structure and developments
- Corporate strategy
- Design and effectiveness of risk management and internal control systems and any significant changes to them
- Development of business activities, investment and M&A opportunities
- Grants to employees under the Global Equity Incentive Plan
- Group financial performance
- How best to measure performance
- Long-term evolution of Board and committee composition, including chairmanship and memberships
- Main risks to the business
- Opportunities for employees to buy discounted shares under the Global Employee Share Purchase Plan
- Performance of the CEO
- Share buy-back and dividend policy
- Succession planning for the CEO and senior management, and related management development
- Training on Gemalto's products and services.

The Non-executive Board members met regularly in the absence of the CEO to discuss matters such as their own performance, the functioning of Board committees and individual Board members, and the performance and remuneration of the CEO.

Board and committee composition changes during 2012

Reappointments:

- Arthur van der Poel was reappointed as Non-executive Board member until 2016
- Johannes Fritz was reappointed as Non-executive Board member until 2016
- Olivier Piou was reappointed as Executive Board member until 2016.

Appointments:

- Drina Yue was appointed as Non-executive Board member until 2016
- Yen Yen Tan was appointed as Non-executive Board member until 2016.

Expiration of mandate:

- Geoffrey Fink did not stand for reappointment as Non-executive Board member.

Committee composition changes:

- Buford Alexander was appointed member of the Nomination and Governance committee
- Drina Yue was appointed member of the Audit committee
- Philippe Alfroid was appointed member of the Compensation committee
- Yen Yen Tan was appointed member of the Strategy and M&A committee.

Independence of the Non-executive Board members

As of December 31, 2012, all our Non-executive Board members met the independence requirements of the Dutch corporate governance code's best practice provision III.2.2. The Company is hence compliant with best practice provision III.8.4. Johannes Fritz became independent at the date of the 2012 AGM, which reappointed him to the Board. Alex Mandl became independent on 2 December 2012, five years after the end of his tenure as Gemalto's Executive Chairman.

Induction program for new Non-executive Board members

Along our usual practice, we ran an induction program for the two new Non-executive Board members, Drina Yue and Yen Yen Tan. Presentations from the CEO, EVP General Counsel and EVP Human Resources provided detailed information about the Gemalto Group's structure, activities, products and operations. Our new Non-executive Board members participated in the annual training program for Board members on Gemalto's products and services.

Board evaluation

In 2012, we invited an external expert, Dr Tracy Long, PhD, of Boardroom Review, to benchmark and evaluate the effectiveness of the Board and its committees, including the Chairman and the CEO. The evaluation comprised written questionnaires and one-on-one interviews with all Board members and selected senior managers. These 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 completed questionnaires were available to the external advisor only, who prepared a written report which was discussed by the Board as a whole. While it was clear that the Board is effective and operates well, this benchmarking exercise raised valuable points that will form part of the agenda for the Board and its committees for the coming period.

Board committee reports

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

Report of the Audit committee

Committee members
John Ormerod (Chairman)
Drina Yue
Johannes Fritz
Kent Atkinson
Philippe Alfroid

During 2012, the committee held eight meetings. It also regularly met without the presence of the management, and individually with the CFO, EVP General Counsel, Internal Audit Director and the external auditor.

Discussions and reviews regularly focused on financial statements, the quarterly announcements, internal control procedures, financial and risk management, information technology and security management, internal audit reports and planning, tax, and the external auditor's performance and independence.

In particular, the committee reviewed:

- The 2011 annual financial statements and the related detailed report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements.
- The condensed interim financial statements as at June 30, 2012 and the related report by the external auditor, as well as the announcements of the 2012 interim management statements, including quarterly revenue figures.
- Reports on the Company's financial and risk management system and key internal financial control policies and procedures, to help the Board review and assess the effectiveness of internal controls. These included a review of the cash management and outstanding credit facilities, tax and treasury risks, including hedging, and information and communication technology risks.
- Reports on whistle-blowing, significant claims and disputes – including those resulting in litigation – and related-party transactions.
- The internal audit charter, the internal audit plan for 2012 and its coverage in relation to external audit. The committee also reviewed reports on the effectiveness and independence of the internal audit process, considered their findings and recommendations and monitored management's follow-up action.
- The external auditor's plan for the audit for the year ended December 31, 2012.
- The performance and independence of the external auditor. Having considered the steps taken to ensure their continued independence, including reviewing the fees paid for audit and non-audit services, the committee recommended their reappointment. It also took note of new developments of Dutch law on the rotation of external auditors and will develop plans to comply with the new requirements.

Report of the Compensation committee

Committee members
Arthur van der Poel (Chairman)
John Ormerod
Philippe Alfroid

During 2012, the committee held five meetings.

Late 2011 and early 2012, the committee reviewed surveys from Mercer, an internationally recognized firm of compensation specialists, selected by the committee and independent from management, based on which the committee recommended maintaining the current remuneration level for the CEO during 2012.

During the year, the committee held different meetings with Mercer to review the positioning of the Gemalto remuneration policy for the CEO and senior management, its coherence with the Group's performance and its competitiveness in the market. Different analyses were initiated on a variety of subjects, such as past compensation outcome and Company results, competitiveness of the CEO compensation, link between Company size and level of compensation, and pension schemes practices in France. Future trends and innovative approaches to Executive remuneration were reviewed in light of motivation and retention. The committee will take these into account when making recommendations regarding the CEO remuneration level for 2013.

It reviewed the 2011 objectives achievements and associated variable compensation payments for the CEO and senior management, and proposed the 2012 targets. The 2012 Remuneration Report is set out on pages 42-45.

Upon proposal by the CEO and senior management, the committee recommended to the Board granting restricted share units to all Gemalto employees worldwide (the '2012 All Stars Recognition Plan'). It defined the grant characteristics and the performance and service vesting conditions that should apply. As in previous years, it also recommended that Gemalto employees in more than 30 countries should have the opportunity to buy shares in the Company at 15% below the market price (the '2012 Global Employee Share Purchase Plan').

Report of the Nomination and Governance committee

Committee members
Alex Mandl (Chairman)
Arthur van der Poel
Buford Alexander
Michel Soublin

During 2012, the committee held six meetings.

During the year the committee focused on the future nature, shape and composition of the Board in order to maintain the current high level of effectiveness.

Based on the committee's advice, the Board recommended the reappointment of all members of the Board who stood for reappointment at the 2012 AGM. Geoffrey Fink opted not to seek reappointment when his mandate expired at the close of the AGM, because of his other obligations. After a thorough selection process supported by a leading executive search firm, the committee proposed to expand the Board from ten to eleven members and put forward two women as new Non-executive Board members. Interviews and introduction meetings were held with the committee members and other Board members including the Chairman and CEO.

The committee receives regular updates on developments in Dutch corporate law. In light of the newly implemented Bill on Shareholders' Rights and the Bill on Management and Supervision, it reviewed the Company's Articles of Association and the Board charter during the year. As a result, the Board updated its charter and will invite shareholders to adopt some changes to the Articles of Association. Other topics addressed during the year included the governance sections of the Annual Report and the agenda for the AGM.

Report of the Strategy and M&A committee

Committee members
Johannes Fritz (Chairman)
Buford Alexander
Kent Atkinson
Michel Soublin
Yen Yen Tan

During 2012, the committee held four meetings.

The committee reviewed all material investment and divestiture proposals. It advised and submitted recommendations to the Board on Gemalto's external growth and strategic planning activities, their definition and implementation. The committee also reviewed the post-acquisition performance of several of the previously acquired businesses.

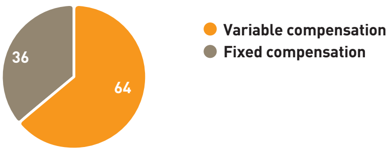
The committee dedicated a substantial amount of time to supervising the development of the new Gemalto long-term strategy.

Remuneration report

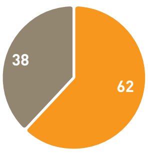
This report describes the remuneration policy for the CEO and the individual compensation paid to the CEO and Non-executive Board members in 2012.

Composition of CEO compensation (%)

2012



2011



Introduction

The Board determines the CEO's compensation with reference to the remuneration policy, which also provides guidance on senior management compensation (though the latter is not addressed in this report). The policy is approved by the shareholders – it was most recently amended by the 2008 AGM – and is published on our website. It complies with the Dutch corporate governance code apart from a few exceptions which are explained on page 46. In valuing the remuneration components and incentive plans, the Board is assisted by Mercer, an independent advisor.

Remuneration policy

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

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

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

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

Our policy is to maintain overall compensation levels at the 60th percentile – and in cases of exceptional performance within the upper quartile – benchmarked against a comparison group of relevant companies, particularly continental European high-tech and industrial companies. To ensure appropriate comparisons the Compensation committee consults independent, internationally recognized compensation specialists regularly, drawing on survey data on remuneration policies and actual data on compensation in the comparison group companies.

Compensation elements

The CEO's compensation package consists of:
- base salary (fixed part of the annual cash compensation);
- performance related short-term variable incentive (variable part of the annual cash compensation);
- performance related long-term variable incentive (conditional multi-year share-based plan); and
- benefits and pension contributions.

Details of the CEO's compensation are shown in the table below and in note 9 to the Statutory financial statements of the Holding Company.

Compensation for CEO Olivier Piou

Base salary	€800,000	Includes a fixed fee as Executive Board member of Gemalto N.V. of €35,000.
Variable incentive	€1,440,000	180% of base salary (result was 192%, capped at 180%).
Conditional multi-year share based plan	50,000 RSUs	The grant is accounted for as an equity-based compensation at a charge of €1,908,000 for Gemalto, which will be expensed over 36 months.
Pension contributions	€72,520	Cost of the mandatory plan required by law in France.

Base salary (fixed part of the annual cash compensation)

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

The CEO's salary of €800,000 includes a fixed fee of €35,000 for his role as Executive Board member of Gemalto N.V. It is reviewed annually by the Compensation committee and was not changed in 2012. It will not be changed in 2013.

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

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

The CEO's variable incentive is based on achieving short-term (annual) financial and personal targets proposed by the Compensation committee and approved by the Board each year. For 2012, as in previous years, the targets were:

Financial targets, accounting for $^2/_3$ of the variable incentive:

- Revenue: $^4/_{15}$ of the variable incentive
- Profit from operations: $^4/_{15}$ of the variable incentive
- Free cash flow: $^2/_{15}$ of the variable incentive.

Personal targets, accounting for $^1/_3$ of the variable incentive: these relate to the CEO's specific responsibilities and are defined as measurable actions linked to Gemalto's success and development.

The CEO's targets for 2013 will be in line with those for 2012. The personal targets include customer satisfaction and employee satisfaction.

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

The remarkable performance of the CEO and of the Company in 2012 led to a stretch level result of 192% for the CEO variable incentive. However, this result being capped at 180% by his employment contract and the Remuneration Policy, the variable incentive paid to the CEO was €1,440,000, i.e 180% of his base salary.

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

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

The Company's long-term incentive plan allows for the award of share options and performance-related shares, i.e. restricted share units and share appreciation rights (though the latter has not been awarded so far). The Board may make annual awards to the CEO similar in substance or nature with a maximum value equivalent to 250,000 market value share options valued using any of the generally recognized valuation methods in a manner approved by the Board. Since 2009, the Board has granted restricted share units rather than share options, as it considers that these provide stronger alignment with shareholders' interests.

Restricted share units (RSUs)

RSUs are shares awarded conditionally to the CEO, senior management and eligible employees. There is no purchase price to be paid, but vesting is conditional on specific Board-approved performance targets and specific service criteria being met. Delivery of shares will not occur until two years after the grant date. Benefiting from the RSU qualified plan in France, the CEO must retain the shares for two more years after the delivery date.

During 2012 the CEO received 50,000 RSUs, which will vest only if the following conditions are met:

- Performance vesting condition: reaching a certain profit from operations for 2013.
- Service vesting condition: being an employee of Gemalto on December 31, 2014.
- The grant is accounted for as an equity-based compensation at a cost of €1,908,000 for Gemalto, which will be expensed over 36 months.

Share options

When granting share options, the Board shall apply performance criteria, the achievements of which are preconditions for the vesting of such share options. Under specific circumstances (such as a new hire), the Board has discretionary power to grant the CEO unconditional share options.

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

Special conditions apply if the Company and/or its affiliates is absorbed by merger and liquidated, or undergoes 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.

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. In 2012, employees were offered the opportunity to buy shares in Gemalto N.V. at a 15% discount to the market price, based on the lesser of the share values on the first and last day of the offering period. French employees participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE), a fund which subscribes to the Gemalto shares and gives the employee units of the FCPE in exchange. The CEO did not participate in this plan in 2012.

For 2012, the CEO's pension contribution costs to the mandatory plan in France amounted to €72,520. The CEO does not benefit from any special pension plan provided by Gemalto, other than the plan required by law in France.

Employment contract

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

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

Long-term incentive plan awards granted to the CEO

Valuation of the long-term incentive plan awards made to the CEO: overview of awards over which he did not yet have unrestricted control at the start of the year 2012

Share Options

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date[3]	End of lock-up	Exercise price (€)
September 2008	150,000	€1,049,761[1]	Unconditional (previous year performance-related)	September 2012 (four years after date of grant)	€6,330,000	Not applicable	€26.44 per share

Restricted Share Units

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Value at end of lock-up
October 2009	May vary from 0 to 65,000	€1,689,377[2]	Conditional	October 2012 Performance vesting condition was met in 2010 so number of RSUs is defined: 65,000	€4,498,000	October 2014	Not applicable
March 2010	May vary from 0 to 32,500 with a potential maximum multiplier of two	€877,104[2]	Conditional	March 2013 Performance vesting condition was met in 2011 so number of RSUs is defined: 58,000	Not applicable	March 2015	Not applicable
March 2011	May vary from 0 to 150,000	€3,390,133[1]	Conditional	Dependent on when various market-related thresholds are reached; in all cases before the 2014 AGM Vesting conditions were successively met during 2012 so number of RSUs is defined: 150,000	€ 7,035,900	Two years from date of shares delivery, and in no event before March 2015	Not applicable
March 2012	50,000	€1,908,000[2]	Conditional	December 2014	Not applicable	January 2017 (if vested)	Not applicable

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

[1] Method used for valuation: Stochastic Model.
[2] Method used for valuation: Arbitrage portfolio / Asset replication.
[3] For the valuation the value of the Gemalto share at the opening of the Stock Exchange is used.

1981 and he is entitled to a six-month notice period, as well as a termination compensation (calculated on the basis of actual years employed) and paid vacations.

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

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

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2012, and none were outstanding at December 31, 2012.

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 current annual remuneration for Non-executive Board members, as approved by the 2007 AGM, is:

- €200,000 for the Non-executive Chairman of the Board.
- €65,000 for each other Non-executive Board member.
- An additional €16,000 for each member of the Audit committee and €24,000 for the committee chairman.
- An additional €8,000 for each member of every other Board committee and €12,000 for the committee chairman.

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 2012, and none were outstanding at December 31, 2012.

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

The remuneration of each Non-executive Board member for the year 2012 is detailed in the table below and also disclosed in note 9 to the Statutory financial statements of the Holding Company.

	2012 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	Strategy and M&A committee (€)
Alex Mandl	212,000	200,000		12,000		
Olivier Piou	35,000	35,000				
Arthur van der Poel	85,000	65,000		8,000	12,000	
Buford Alexander	77,852	65,000		4,852[1]		8,000
Drina Yue	49,131	39,426[1]	9,705[1]			
Johannes Fritz	93,000	65,000	16,000			12,000
John Ormerod	97,000	65,000	24,000		8,000	
Kent Atkinson	89,000	65,000	16,000			8,000
Michel Soublin	81,000	65,000		8,000		8,000
Philippe Alfroid	85,852	65,000	16,000		4,852[1]	
Yen Yen Tan	44,278	39,426[1]				4,852[1]
Total	**949,113**	**768,852**	**81,705**	**32,852**	**24,852**	**40,852**

This table includes the 2012 remuneration of Board members in office on December 31, 2012.

[1] Joined during the year: amount paid pro rata.

Corporate governance

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2012, and its compliance with the Dutch corporate governance code.

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, which sets out principles and best practices for Dutch listed companies.

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

- Provision II.1.7: Gemalto has a complaints-related procedure enabling employees to report alleged financial irregularities within the Company to a confidential advisor. To comply with the EU and French data protection rules we depart from the code in exempting alleged irregularities of a general or operational nature from this procedure. They must be reported internally to the relevant manager.
- Provision II.2.7: in 2006 the vesting of options granted to CEO Olivier Piou was amended. If his appointment as CEO is terminated, unless for willful misconduct, his options rights will vest automatically. They will then remain exercisable for the full term of the option, regardless of any early termination provisions in the Gemalto Equity Incentive Plan and relevant Sub-Plan. All other equity-based schemes will continue to vest even after the date of termination. It is not normally our policy to amend the conditions attached to Executive Board members' options during the term; in this special case the amendment was adopted by the 2006 Extraordinary General Meeting ('EGM') approving the Axalto-Gemplus combination and is included in the remuneration policy approved by the shareholders.
- Provision II.2.8: the severance payment for the CEO is not in line with the Dutch corporate governance code which recommends a maximum of one year's salary based on the fixed remuneration component. The CEO's severance payment reflects his accrued seniority with Gemalto. This arrangement was confirmed by the 2006 EGM approving the Axalto-Gemplus combination and is included in the remuneration policy approved by the shareholders.
- Provision II.2.10: the CEO's employment contract does not specifically include scope for adjusting the value of conditionally awarded variable compensation where extraordinary circumstances would produce an unfair result. In such a case, the Company would make whatever adjustments were feasible under applicable law.
- Provision II.2.13 (e): we do not disclose the names of the individual companies in the comparison group used for benchmarking senior management remuneration. However, we do confirm that they are relevant organizations, primarily continental European high-tech and industrial companies. The surveys are performed by Towers Watson, an internationally recognized firm of independent compensation specialists.
- Provision III.8.1: Alex Mandl was Executive Chairman of Gemalto from June 2006 to December 2007. As he was a former Executive Board member, his appointment from December 2007 as Non-executive Chairman of the Board was not in line with the code for a one-tier Board; however, the Board was concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders.

The Dutch corporate governance code is at:

www.commissiecorporategovernance.nl

Corporate information and background

Gemalto N.V. (the Company) is a public limited liability company (*Naamloze Vennootschap*) under Dutch law. Its shares have been listed on NYSE Euronext Paris (Euronext NL0000400653) since 2004. It is the parent company of the Gemalto Group (the 'Group').

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

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

Board of Directors

One-tier Board

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

The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole. This specifically includes:
- Achievement of the Company's objectives
- Corporate strategy and the risks inherent in the business activities
- Design and effectiveness of the internal risk management and control systems
- The financial reporting process
- Compliance with primary and secondary legislation
- Company-shareholder relationships
- Corporate social responsibility issues that are relevant to the enterprise.

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

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

Composition

The composition of the Board aims to ensure that its members can act critically and independently of one another and any particular interests. The profile setting out the desired expertise and background of the Non-executive Board members was updated by the Board in October 2009 and is published on our website. We seek to achieve diversity of age, gender, expertise, social background and nationality on the Board – and at the 2012 AGM two women were appointed as Non-executive Board members. However, the present Board composition still falls short of the Board ambition and the Dutch Bill on Management and Supervision regarding gender diversity, which requires at least 30% male and 30% female representation. As far as possible, we will continue to strive for an appropriate balance.

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

At the 2007 AGM, the maximum number of Board members was set at 11 to allow the Board to determine its optimal size from time to time. The Board currently consists of 11 members: one executive (the CEO) and ten non-executive.

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 proper conduct of business at meetings. If the Chairman is absent or indisposed, the committee chairmen will choose a vice-chairman from among themselves to take the role temporarily.

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

Appointments

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

Board members are appointed for a maximum of four years and may be reappointed for additional terms. There is no limit for the Executive Board member other than the age of 65. The Board will propose certain amendments to the Articles of Association. If so adopted by the 2013 AGM, the entire service of Non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, Non-executive Board members may be reappointed for additional terms of maximum two years each.

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 representing at least a quarter of the Company's issued share capital. If this quorum is not met, a second meeting can be called at which no quorum is required. If the Board makes the proposal, no quorum is required.

Other board appointments

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

Non-executive Board members must inform the Chairman, and the Chairman must inform the Chair of the Nomination and Governance committee, if they are nominated for election as director or if there is any change in their status as director on any other board.

In addition to his present position as CEO of Gemalto, the CEO may not hold more than two board memberships at listed companies worldwide or large Dutch companies, and may not chair the board of any such company. The Board must give its approval before the CEO can accept any such board membership, and the Board must be informed about other important positions held by the CEO.

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 III.6.1-3 of the Dutch corporate governance code. If a significant conflict exists and cannot be resolved, the Board member must step down temporarily or resign. In 2012, no transactions were reported where a Board member had a conflict of interest that was material to the Company. There were, however, related-party transactions: for an overview, please see note 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.

Board committees

The Board has four committees comprising Non-executive Board members: Audit, Compensation, Nomination and Governance, and Strategy 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

It currently consists of five Non-executive Board members. It 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 or management being present. The Board believes that at least one committee member is a financial expert within the meaning of best practice III.3.2 of the Dutch corporate governance code.

Compensation committee

It currently consists of three Non-executive Board members. It 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

It currently consists of four Non-executive Board members. It 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.

Strategy and M&A committee

It currently consists of five Non-executive Board members. It advises the Board on Gemalto's strategy and on the major features of its merger, acquisition and divestment activity.

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 24-29, and the Board's statement on internal risk management and control systems is shown on page 51.

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

These policies are published on our website.

Shares owned and rights to acquire shares

Board members hold Gemalto shares for long-term investment. They must comply with the policy on owning and trading in Gemalto securities, which is published on our website.

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. This policy is published on our website.

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2012

Name	Shares	(Maximum) Restricted Share Units	Employee options	Gemplus employee options	*Units in a Fonds Commun de Placement d'Entreprise*
Alex Mandl			80,000[1]		
Olivier Piou	65,000[2]	258,000[3]	500,000[3]		4,243.81[4]
Michel Soublin	1,500[5]				
Johannes Fritz				11,302[6]	

[1] Through a company controlled by him.
[2] Progressively acquired since 2004.
[3] Progressively granted since 2005.
[4] Progressively purchased through participating in Global Employee Share Purchase Plans.
[5] Purchased in 2004.
[6] Can be exercised for Gemplus shares exchangeable for Gemalto shares at a ratio of 25/2, resulting in 904 Gemalto shares.

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. As at December 31, 2012, the Company's issued and paid-up share capital amounted to €88,015,844. This consisted of 88,015,844 ordinary shares, of which 3,930,523 were held in treasury and 84,085,321 were in circulation. During 2012 there were no changes in the Company's issued share capital.

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 preemptive 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. All such resolutions must be approved by at least two-thirds of the votes cast at a General Meeting where at least half the issued share capital is represented.

The 2011 AGM gave the Board authorization, renewed by the 2012 AGM, to repurchase Company shares. This allowed us to buy shares in 2012 to provide liquidity in the secondary market, grant shares to employees and fund external growth. At December 31, 2012, 3,930,523 shares with a market value of €267,275,564 were held in treasury, acquired at an average price of €38.61 per share. Shares held in treasury carry no voting rights.

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

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

2012 AGM

The AGM was held on 24 May 2012. 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:

- 2011 Annual Report.
- Adoption of the 2011 financial statements.
- The dividend policy and proposed cash dividend of €0.31 per share for 2011.
- Discharge of the CEO and Non-executive Board members for the fulfillment of their respective duties during 2011.
- Reappointment of the CEO and appointment or reappointment of four Non-executive Board members.
- Renewal of the Board's authorization to repurchase Company shares.
- Reappointment of the external auditor for 2012.

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

Voting rights

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

Authorizations granted to the Board

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

- To issue shares or grant rights to acquire shares in the Company, and to limit or exclude shareholders' preemptive rights. This authorization runs for five years up to and including March 17, 2014 and covers all shares that can be issued within the authorized share capital as set out in the Articles of Association. At December 31, 2012, out of the authorized 150,000,000 shares, 61,984,156 remained unissued.
- To acquire up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including November 23, 2013. On December 31, 2012 the Company's issued share capital consisted of 88,015,844 shares, of which 3,930,523 were held in treasury: on that basis the authorization covered up to 4,871,061 shares.
- To cancel up to 9,101,584 shares, in one or more tranches, as the Board sees fit.

Distribution of profits

Our dividend policy was addressed as a separate agenda item for the first time at the 2005 AGM. It states that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2012 we paid a cash dividend of €0.31 per share for 2011.

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

Shareholders' disclosures

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in Gemalto's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 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. Under new Dutch law entering into force on July 1, 2013, the 5% threshold will be reduced to 3%.

During 2012 the AFM notified us of changes in substantial shareholdings which were published on its website at www.afm.nl. As at December 31, 2012 the disclosure in the table below was shown on the website.

Disclosure notification date and notifier	
May 28, 2009 Caisse des Dépôts et Consignations (CDC)	8.43% capital interest and voting rights

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, dissolve the Company, merge or demerge it. Such proposals must win at least two-thirds of the votes cast at a General Meeting where at least a third of the issued share capital is represented. In the absence of this quorum, a second meeting can be held at which no quorum is required.

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2012 AGM approved a Board proposal to appoint PricewaterhouseCoopers Accountants N.V. as the external auditor for 2012.

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

Two sections of this Annual Report – 'Board of Directors' on pages 47-48 and 'Shareholders and General Meetings' on pages 49-50 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Gemalto Equity Incentive Plan – awards granted to employees

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

Gemalto Employee Share Purchase Plans – FCPE: system of control

In 2012, like in previous years, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries can participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE) which offers tax benefits. 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 169,830 shares of Gemalto on December 31, 2012. It exercises its voting rights on these shares independently, without instructions from participating employees.

Board statements

The objectives of our internal risk management process are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face; to map these risks; and to initiate actions that mitigate, reduce, transfer, hedge, keep and manage, or suppress them. The Company's risk profile is reported in 'Principal risks' on pages 30-31 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 24-29.

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

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

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

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

- The annual financial statements for the year ended December 31, 2012 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 per the balance sheet date and the state of affairs during the 2012 financial year of Gemalto and its affiliated companies of which the data has been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch Corporate Governance Code)

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

- Gemalto's internal risk management and control organization provides reasonable assurance that its financial reporting does not contain any error of material importance.
- Gemalto's internal risk management and control processes in relation to financial reporting have worked properly in 2012.

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
Executive Board member
and Chief Executive Officer

Arthur van der Poel
Non-executive Board member

Buford Alexander
Non-executive Board member

Drina Yue
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Kent Atkinson
Non-executive Board member

Michel Soublin
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Amsterdam, March 12, 2013

Consolidated financial statements and notes

Consolidated financial statements

Notes to the consolidated financial statements

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2012	2011
Assets			
Non-current assets			
Property, plant and equipment, net	8	237,444	222,892
Goodwill, net	9	852,240	812,959
Intangible assets, net	9	198,660	159,223
Investments in associates	10	25,697	13,783
Deferred income tax assets	29	108,027	89,721
Available-for-sale financial assets, net		–	–
Other non-current assets	12	48,883	44,014
Derivative financial instruments	7	14,290	7,006
Total non-current assets		**1,485,241**	**1,349,598**
Current assets			
Inventories, net	13	185,535	172,667
Trade and other receivables, net	14	652,752	558,757
Derivative financial instruments	7	19,340	8,426
Cash and cash equivalents	15	358,610	330,384
Total current assets		**1,216,237**	**1,070,234**
Assets held for sale	11	**13,210**	**1,711**
Total assets		**2,714,688**	**2,421,543**
Equity			
Share capital		88,016	88,016
Share premium		1,207,195	1,209,216
Treasury shares		(151,753)	(156,531)
Fair value and other reserves		123,388	87,006
Cumulative translation adjustments		81	8,102
Retained earnings		654,795	480,702
Capital and reserves attributable to the owners of the Company		**1,921,722**	**1,716,511**
Non-controlling interests		**10,590**	**4,225**
Total equity		**1,932,312**	**1,720,736**
Liabilities			
Non-current liabilities			
Borrowings	16	3,674	5,762
Deferred income tax liabilities	29	31,994	23,805
Employee benefit obligations	17	80,039	51,470
Provisions and other liabilities	18	84,439	76,228
Derivative financial instruments	7	277	9,704
Total non-current liabilities		**200,423**	**166,969**
Current liabilities			
Borrowings	16	6,564	15,261
Trade and other payables	19	539,401	467,215
Current income tax liabilities		23,218	22,331
Provisions and other liabilities	21	6,990	10,083
Derivative financial instruments	7	4,803	18,948
Total current liabilities		**580,976**	**533,838**
Liabilities associated with assets held for sale	11	**977**	**–**
Total liabilities		**782,376**	**700,807**
Total equity and liabilities		**2,714,688**	**2,421,543**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31, 2012	2011
Continuing operations			
Revenue	22	**2,245,500**	**2,015,384**
Cost of sales		(1,387,599)	(1,266,802)
Gross profit		**857,901**	**748,582**
Operating expenses			
Research and engineering		(141,139)	(118,092)
Sales and marketing		(316,451)	(288,895)
General and administrative		(147,730)	(137,299)
Gain on remeasurement to fair value of an investment in associate		–	19,240
Gain on sale of a subsidiary	11	5,584	–
Other income (expense), net	26	9,490	33
Restructuring and acquisition-related expenses	20	(7,911)	(15,374)
Amortization and depreciation of intangibles resulting from acquisitions	20	(20,985)	(24,813)
Operating profit		**238,759**	**183,382**
Financial income (expense), net	27	(11,433)	(12,504)
Share of profit of associates[1]	10	1,801	5,714
Profit before income tax		**229,127**	**176,592**
Income tax (expense)	29	(28,206)	(13,670)
Profit from continuing operations		**200,921**	**162,922**
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)		–	(1,554)
Profit for the period		**200,921**	**161,368**
Attributable to:			
Owners of the Company		201,041	160,115
Non-controlling interests		(120)	1,253
Earnings per share			
Basic earnings per share	30	2.41	1.93
Diluted earnings per share	30	2.31	1.88
Earnings per share – continuing operations			
Basic earnings per share		2.41	1.95
Diluted earnings per share		2.31	1.89
Weighted average number of shares outstanding (in thousands)	30	83,310	83,086
Weighted average number of shares outstanding assuming dilution (in thousands)	30	87,130	85,383

[1] The amount reported in 2011 includes the remeasurement to fair value of previously held interest in AB Svenska Pass for €4,180.

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31, 2012	2011
Profit for the period		**200,921**	**161,368**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		(9,265)	4,252
Currency translation adjustments: transfer to income statement financial expense/ (financial income) upon loss of control		1,007	(1,952)
Transfer of accumulated fair value on available-for-sale financial assets to investments in associates upon change in consolidation method		–	(662)
Effective portion of gains and losses on cash flow hedging		33,914	(14,649)
Deferred tax on cash flow hedging gains and losses		(11,150)	–
Currency translation differences on other comprehensive income items		(284)	(492)
Other comprehensive income that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	17	(10,676)	(4,044)
Deferred tax on actuarial gains and losses		5,178	288
Total other comprehensive income for the period, net of tax		**8,724**	**(17,259)**
Total comprehensive income for the period, net of tax		**209,645**	**144,109**
Attributable to:			
Owners of the Company		210,002	142,823
Non-controlling interests		(357)	1,286

Consolidated statement of changes in equity

	Number of shares[2]	
In thousands of Euro	Issued	Outstanding
Balance as at January 1, 2012	**88,015,844**	**83,019,536**
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income		
Share-based compensation expense		
Employee share option plans		1,924,809
Purchase of Treasury shares, net		(868,137)
Shares delivered on acquisition		9,113
Dividend paid/payable to owners of the Company[3]		
Dividend paid to non-controlling interests		
Excess of purchase price on subsequent acquisition of non-controlling interests[4]		
First time application of IAS 19 Amended		
Balance as at December 31, 2012	**88,015,844**	**84,085,321**
Balance as at January 1, 2011	**88,015,844**	**83,131,248**
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income		
Share-based compensation expense		
Employee share option plans		1,697,231
Purchase of Treasury shares, net		(1,808,943)
Excess of purchase price on subsequent acquisition non-controlling interests		
Dividend paid/payable to owners of the Company		
Dividend paid to non-controlling interests		
Change in consolidation method		
Balance as at December 31, 2011	**88,015,844**	**83,019,536**

[2] The difference between the number of shares issued and the number of shares outstanding corresponded to the shares held in treasury, 3,930,523 treasury shares and 4,996,308 treasury shares as at December 31, 2012 and December 31, 2011 respectively.
[3] See note 33.
[4] See note 5.

Attributable to owners of the Company							
Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings	**Non-controlling interests**	**Total equity**
88,016	**1,209,216**	**(156,531)**	**87,006**	**8,102**	**480,702**	**4,225**	**1,720,736**
					201,041	(120)	200,921
			16,982	(8,021)		(237)	8,724
			16,982	**(8,021)**	**201,041**	**(357)**	**209,645**
			35,411				35,411
		56,732	(23,304)				33,428
		(52,250)	7,090				(45,160)
		296	203				499
					(25,840)		(25,840)
						(168)	(168)
	(2,021)					6,890	4,869
					(1,108)		(1,108)
88,016	**1,207,195**	**(151,753)**	**123,388**	**81**	**654,795**	**10,590**	**1,932,312**
88,016	**1,209,437**	**(132,046)**	**79,962**	**5,879**	**344,302**	**14,757**	**1,610,307**
					160,115	1,253	161,368
			(19,515)	2,223		33	(17,259)
			(19,515)	**2,223**	**160,115**	**1,286**	**144,109**
			29,346				29,346
		37,186	(3,338)				33,848
		(61,671)	551				(61,120)
	(221)						(221)
					(23,275)		(23,275)
						(1,589)	(1,589)
					(440)	(10,229)	(10,669)
88,016	**1,209,216**	**(156,531)**	**87,006**	**8,102**	**480,702**	**4,225**	**1,720,736**

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2012	2011
Profit for the period including Non-controlling interests		**200,921**	**161,368**
Adjustment for:			
Tax	29	28,206	13,670
Research tax credit		(11,278)	(11,492)
Depreciation, amortization and impairment	8, 9	96,000	88,984
Share-based payment expense		35,411	29,346
Gains and losses on sale of fixed assets and write-offs		1,374	5,513
Gains and losses on sale of assets held for sale		(5,584)	–
Gains and losses on remeasurement to fair value of an investment in associate		–	(19,240)
Remeasurement to fair value of assets held for sale		1,571	–
Operating income from subsidiary classified as held for sale		–	(3,287)
Loss on sale of a discontinued operation, net of tax		–	142
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		1,007	(1,952)
Net movement in provisions and other liabilities		(11,956)	(1,332)
Employee benefit obligations		5,880	3,436
Interest income	27	(3,478)	(3,203)
Interest expense and other financial expense		5,035	7,896
Share of profit from associates	10	(1,801)	(5,714)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(6,558)	(15,768)
Trade and other receivables		(72,792)	11,090
Derivative financial instruments		(483)	4,243
Trade and other payables		61,349	(1,160)
Cash generated from operations		**322,824**	**262,540**
Income tax paid		(37,728)	(51,453)
Net cash provided by operating activities		**285,096**	**211,087**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(67,936)	(16,660)
Purchase of property, plant and equipment		(70,031)	(53,074)
Proceeds from sale of property, plant and equipment		2,157	1,207
Acquisition and capitalization of intangible assets		(56,898)	(41,081)
Proceeds from sale of non-current assets		1,751	76
Loan to investments in associate		2,765	(2,886)
Proceeds from sale of a subsidiary		5,485	–
Proceeds from sale of investments in associate		–	18,000
Purchase of investments in associate		(10,593)	(1,407)
Interest paid		(1,391)	(1,334)
Interest received		3,412	3,197
Dividends received from investments in associates	10	137	12,340
Net cash used in investing activities		**(191,142)**	**(81,622)**
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests in subsidiaries		(2,709)	(352)
Proceeds from exercise of share options		33,428	33,848
Purchase of Treasury shares (net)		(45,160)	(61,120)
Repayments of borrowings		(16,056)	(4,099)
Dividends paid to owners of the Company	33	(25,840)	(23,275)
Dividends paid to non-controlling interests		(168)	(1,920)
Net cash used in financing activities		**(56,505)**	**(56,918)**
Net increase (decrease) in cash and bank overdrafts		**37,449**	**72,547**
Cash and bank overdrafts, beginning of period	15	**330,069**	**275,301**
Change in cash and cash equivalent due to change in consolidation method		–	(19,403)
Currency translation effect on cash and bank overdrafts		(4,478)	1,624
Cash and bank overdrafts, end of period	15	**363,040**	**330,069**

Notes to the consolidated financial statements

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

Note 1. General information

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

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

Gemalto N.V. is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands.

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2012 have been authorized for issue by the Board on March 12, 2013 and will be submitted to the AGM of May 23, 2013 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, 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: www.ec.europa.eu/internal_market/accounting/ias/index_en.htm). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments used for hedging) at fair value through profit or loss. The preparation of financial statements in conformity with 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, 2012

- IFRS 7 *Financial Instruments: Disclosures (Amended) – Transfers of Financial Assets.*

This amendment to the standard did not have an impact on the Group's financial statements as at December 31, 2012.

(b) The following amendment to existing standard issued but not mandatory for financial statements as at December 31, 2012 has been early adopted by the Group

- IAS 19 *Employee Benefits (Amended)*

The Group has voluntary adopted the amendments to IAS 19 Employee Benefits. The amendments require that changes in defined benefit obligations and fair value of plan assets to be recognized immediately through other comprehensive income. Past service costs are no longer amortized over the vesting period but recognized immediately in the income statement. The net interest income or expense on the net defined liability (asset) is determined by applying the discount rated used to measure the defined benefit obligation.

In addition, the distinction between short-term and other long-term employee benefits is now based on expected timing of settlement rather than the employee's entitlement to the benefits.

As a result, the application of the amendments to IAS 19 has resulted in the Group to immediately recognize past service costs and reclassify short-term employee benefits to long-term benefits. The impacts are not considered material that would merit a representation of the retrospective information. Therefore, the effects of the amendments have been accounted for in the reporting period.

(c) The following standards, amendments to existing standards and interpretation have been issued but not mandatory for financial statements as at December 31, 2012 (and not early adopted by the Group)

- IFRS 9 *Financial Instruments: Classification and Measurement*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IAS 27 *Separate Financial Statements (Revised)*
- IAS 28 *Investments in Associates and Joint Ventures (Revised)*
- IAS 12 *Income Taxes (Amended) – Recovery of Underlying Assets*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- IFRS 7 *Financial Instruments: Disclosures (Amended) – Offsetting Financial Assets and Financial Liabilities*
- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) – Government Loans*
- Amendments to IFRSs Improvements to IFRS (2009 – 2011)
- IFRS 10, IFRS 11, IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
- IFRIC 20 *Stripping costs in the production phase of a surface mine*

The standards, amendments to existing standards and interpretation above are not anticipated to have a material impact on the Group's future financial position or performance.

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all entities over which Gemalto has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Gemalto controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Gemalto. 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 in 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 twelve months following the date of acquisition. When the Group ceases to have control, any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognized in the income statement.

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

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

(b) Associates

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates on a monthly basis; and

(iii) all resulting exchange differences are recognized as a separate component of equity.

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

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

2.7 Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the balance sheet. Goodwill on acquisitions of associates is included in 'Investments in associate' in the balance sheet. Separately recognized goodwill is tested annually for impairment or more frequently when there is an indication that it may 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) Other intangible assets

Other intangible assets have a definite useful life and are carried at cost less accumulated amortization. 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
Capitalized development costs	2-7 years
Other	1-15 years

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently when there is an indication that they may be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may 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 of an asset fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments and financial assets

Gemalto classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Gemalto provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets in 'trade and other receivables' in the balance sheet, except for maturities greater than 12 months after the balance sheet date, which are classified as 'Other non-current assets' in the balance sheet. Loans and receivables are initially recognized at fair value and subsequently recorded at amortized cost using the effective interest method, less provision for impairment.

(c) Available-for-sale financial assets

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

Investments representing less than 20% of the equity of the investee are classified as available-for-sale financial assets. Available-for-sale financial assets are carried at fair value but if fair value cannot be reliably measured, these items are accounted for using the cost method. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity.

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

2.10 Inventories

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

2.11 Trade receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method. Borrowings are classified as current liabilities unless Gemalto has a right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Taxes on income

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

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

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

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

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

2.16 Research tax credits and government grants

Research tax credits are provided by various governments to give incentives for companies to perform technical and scientific research. These research tax credits are presented as a reduction of research and development expenses in the income statement when companies that have qualifying expenses can receive such grants in the form of a tax credit irrespective of taxes ever paid or ever to be paid. These tax credits are included in 'Trade and other receivables' 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 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 Share-based payment

(a) Share-based compensation

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

(b) Share-based transaction

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

2.20 Provisions

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

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

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. These instruments, which are expected to mature within 24 months 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 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 4.6. Movements on the hedging reserve are shown in the consolidated statement of comprehensive income.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within the foreign exchange gains and losses. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, being recognized in the income statement when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement as foreign exchange gain or loss in the financial income.

For fair value hedges of existing assets and liabilities, 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 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 for the period.

2.24 Estimation of derivative 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), based on market parameters obtained from the Company's banks or official financial information providers, and using the following variables: (i) spot foreign exchange rate, (ii) volatility and (iii) risk-free interest rate, applied to the terms of the contract (notional amount, strike rate and expiration date). At maturity, the fair value is either zero if the option is not exercised or, when exercised, calculated by the difference between the strike rate and the prevailing closing rate, applied to the notional amount of the contract.

For the available-for-sale financial assets, they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at December 31, 2012, the value of Level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

Note 3. Critical judgments and estimates

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

3.1 Presentation of the income statement

The Group reports under the line 'Restructuring and acquisition-related expenses' (as detailed in note 20)

(i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provision 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).

The Group also discloses under the line named 'Amortization and depreciation of intangible assets resulting from acquisitions' the amortization and depreciation expense related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.

3.2 Revenue Recognition

A portion of the Company's revenue is generated from large and complex contracts. Judgment is applied on client's acceptance criteria and if the transfer of risk and rewards to the buyer has taken place when determining whether revenue and costs should be recognized in the current period. The extent of contract completion and the customer credit standing is also taken into consideration to ascertain whether the settlement of the service justifies revenue recognition. When a transaction contains multiple elements, the identification of each separately identifiable component and the related allocation of the relative fair value requires management judgment.

3.3 Goodwill

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

3.4 Intangible assets

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

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

3.5 Impairment tests

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

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

3.6 Share-based payments

Share-based compensation plans are recognized as an expense based on their fair value at date of grant. These plans do not have a direct cash cost to the Company other than administrative as these plans costs are borne by shareholders through dilution. The fair value of share-based compensation plans is estimated through the use of valuation models which require certain parameters such as the risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Such parameters are disclosed in note 25. The share options and restricted shares units issued by the Group are based on data available at the date of the grant. Using different input estimates or models could produce different values, which would result in the recognition of a higher or lower expense.

3.7 Employee benefit obligations

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

3.8 Income taxes

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

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

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

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

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

Foreign exchange forward contracts and options that hedge a portion of subsidiaries' known or forecast commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in the income statement. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred in the settlement of balance sheet items not denominated in the relevant subsidiary's functional currency, are not qualified in hedge accounting (see note 4.6).

The following table shows the sensitivity of the Group's results to some reasonably possible changes in the US Dollar exchange rate against the Euro, all other variables being held constant, split between:

- effect on profit or loss due to changes in the fair value of financial assets and liabilities (including those denominated in US Dollar-linked currencies); and
- effect on equity due to changes in the fair value of cash flow hedges held at the balance sheet date.

The impacts of other currencies to similar fluctuations for any given currency do not exceed €0.3 million on the profit or loss for 2012 (€0.3 million in 2011) and €2 million on the balance sheet as at December 31, 2012 (€2.2 million in 2011).

	Year ended December 31,			
	2012		2011	
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense) **Effect of profit before tax**				
– Underlying[5]	(1,805)	1,897	(1,282)	1,348
– Hedges[6]	1,664	(1,749)	980	(1,029)
Net	**(141)**	**148**	**(302)**	**319**
Gain/(loss) **Effect on equity**				
– Hedges[7]	8,353	(11,100)	8,281	(10,300)

[5] Effect of revaluation of financial assets and liabilities, excluding hedges
[6] Effect on mark-to-market valuation of fair value hedges
[7] 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, classified as cash and cash equivalents. Financial liabilities are mainly floating rate finance leases. Financial income (expense) can therefore be sensitive to interest rate fluctuations. The Company however considers that this risk may not have a significant impact on its financial situation in the short term and does not use derivative financial instruments to hedge interest rate risk. The following table shows the sensitivity of the Group's results to some reasonably possible changes in the interest rates, all other variables being held constant. There is no effect on the Group's equity.

Effect on profit before tax Income/(expense)	Variation in interest rate (in basis points)	2012	2011
Borrowings	(50)	28	43
	50	(31)	(43)
Short-term deposits and investment funds	(50)	(1,203)	(988)
	50	1,203	988

4.3 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €300 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 at the balance sheet date to the contractual maturity date. The amounts disclosed in the table for 2012 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 €21.6 million as of December 31, 2012 and €21.2 million as of December 31, 2011 (see note 32).

	2012			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	2,593	2,131	–	4,724
Other borrowings	4,027	1,557	–	5,584
Derivative financial instruments	3,224	207	–	3,431
Trade and other payables	539,401	–	–	539,401
	549,245	**3,895**	**–**	**553,140**

	2011			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	2,474	3,720	–	6,194
Other borrowings	12,898	2,127	–	15,025
Derivative financial instruments	12,850	3,254	–	16,104
Trade and other payables	467,215	–	–	467,215
	495,437	**9,101**	**–**	**504,538**

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 3 months. Money market mutual funds consist of open-ended investment companies (SICAV) authorized by the French AMF. Funds are selected based on (i) the low level of risk with a diversified portfolio of short-term fixed income securities and money market instruments (bonds, treasury bills and notes, commercial paper, certificates of deposit, etc.), (ii) the quality of the funds management company and (iii) a daily liquidity. A portion of our short-term deposits and investment funds can be invested in commercial paper with a strong credit rating of A1/P1.

The Company also maintains credit lines with various banks. It includes facilities for derivative financial instruments, uncommitted short-term facilities, short-term bonds and guarantee lines, and also a series of committed bank bilateral credit facilities totaling €300 million arranged with international banks of strong credit rating referred to in note 16. The maturities of these facilities are comprised between December 9, 2014 and September 17, 2017.

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

	Year ended December 31, 2012	2011
Borrowings		
in % of total borrowing risk for Gemalto	19%	19%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	21%	22%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	12%	12%
Total risk for any single counterparty[8]		
in % of total counterparty risk for Gemalto	14%	13%

[8] Including bilateral credit facilities, financial leases, bond and guarantee lines, uncommitted short-term facilities.

4.5 Credit risk

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2012 and 2011. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of countries and customers' financial condition.

As of December 31, 2012, trade receivables of €116,558 were past due but not impaired (€97,954 in 2011). These relate to a number of independent customers for whom there is no recent history of default and whose credit standing is regularly assessed. The ageing analysis of these trade receivables is as follows:

	Year ended December 31, 2012			2011
Overdue by:	Carrying amount	Bad debt reserve	Overdue but not impaired	Carrying amount
Up to 1 month	64,971	(121)	64,850	67,016
2 to 3 months	34,583	–	34,583	20,138
4 to 6 months	11,444	(252)	11,192	7,364
Later than 6 months	16,097	(10,164)	5,933	12,982
	127,095		**116,558**	**107,500**
Provision for impairment of receivables		(10,537)		(9,546)
Trade receivables overdue but not impaired			**116,558**	**97,954**

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

	Year ended December 31, 2012	2011
As at January 1,	**(9,546)**	**(8,576)**
Acquisition of subsidiaries	(1,167)	(341)
Provision for impairment of receivables	(3,500)	(4,643)
Receivables written off over the year as uncollectible	1,870	2,219
Unused amounts reversed	1,709	1,467
Reclassification	1	206
Currency translation adjustment	96	122
As at December 31,	**(10,537)**	**(9,546)**
Yearly loss (as a percentage of annual revenue)	(0.00%)	(0.00%)

4.6 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, 2012, the Group held forward and option contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in US Dollar, Sterling Pound, Japanese Yen, Singapore Dollar and Polish Zloty. Following the acquisition of Ericsson Internet Payment Exchange AB (IPX) over the second semester 2012, Gemalto's economic exposure in Swedish Krona has been significantly reduced. The Group has decided to disqualify the existing 2013 cash flow hedges already in place by contracting reverse forward contracts. It also held forward and option contracts designated as fair value hedges of assets and liabilities, denominated in the same currencies and in South African Rand.

The fair value of the Group's financial instruments is recorded in current or non-current assets and liabilities, as 'Derivative Financial Instruments' and details as follows (mark-to-market valuations):

	Year ended December 31, 2012								Year ended December 31, 2011						
	USD	GBP	JPY	SGD	PLN	ZAR	SEK	Other	USD	GBP	JPY	SGD	PLN	ZAR	Other
Cash flow hedges															
Forward contracts	17,323	(587)	8,863	182	1,462	–	–	–	4,316	(574)	(2,063)	1,875	(1,385)	–	7
Option contracts	(1,100)	–	120	–	–	–	–	–	(10,453)	(288)	(1,504)	–	–	–	–
Fair value hedges															
Forward contracts	1,425	43	705	(28)	(10)	285	16	6	(2,011)	(68)	(138)	47	(62)	(164)	–
Option contracts									–	–	(755)	–	–	–	–
Disqualified hedges															
Forward contracts	–	–	–	–	–	–	(155)	–							
	17,648	**(544)**	**9,688**	**154**	**1,452**	**285**	**(139)**	**6**	**(8,148)**	**(930)**	**(4,460)**	**1,922**	**(1,447)**	**(164)**	**7**

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

	2012		
	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)[9]
Effective portion	30,889	14,918	15,971

[9] Amount to be reclassified as debits or credits to sales or cost of sales over the next 47 months.

	2011		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2)[10]
Effective portion	(3,025)	(3,854)	829

[10] Amount to be reclassified as debits or credits to sales or cost of sales over the next 24 months.

Note 5. Business combinations

In 2012, Gemalto undertook a number of business combinations for a total consideration of €74 million, paid in cash. The most significant acquisitions were the controlling interest acquired in Plastikkart Akıllı Kart Iletisim Sistemleri Sanayi ve Ticaret A.S. (Plastkart) and the acquisition of Ericsson Internet Payment Exchange AB (IPX). These business combinations have been accounted for under the acquisition method as prescribed by IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). They have been included in the Group's consolidated financial statements as of the date the Group obtained control.

Identifiable assets and liabilities at the date of acquisition

In thousands of Euro	Plastkart	IPX	Other acquisitions	Total
Assets				
Property, plant and equipment, net	4,218	84	2,290	6,592
Intangible assets, net	4,764	19,380	2,954	27,098
Deferred income tax assets	–	599	1,380	1,979
Other non-current assets	–	2,529	74	2,603
Inventories, net	4,649	–	4,777	9,426
Trade and other receivables, net	4,707	14,422	9,205	28,334
Cash and cash equivalents	1,349	505	1,470	3,324
Total assets	**19,687**	**37,519**	**22,150**	**79,356**

In thousands of Euro	Plastkart	IPX	Other acquisitions	Total
Liabilities				
Borrowings (non-current)	778	–	1,732	2,510
Deferred income tax liabilities	953	4,264	1,467	6,684
Employee benefit obligation	–	73	811	884
Provisions and other liabilities (non-current)	–	5,146	–	5,146
Trade and other payables	421	14,761	9,811	24,993
Current income tax liabilities	188	–	60	248
Borrowings (current)	450	–	2,734	3,184
Provisions and other liabilities (current)	108	–	1	109
Total liabilities	**2,898**	**24,244**	**16,616**	**43,758**
Fair value of identifiable net assets	**16,789**	**13,275**	**5,534**	**35,598**

Purchase consideration	**(73,613)**
Fair value of identifiable net assets	35,598
Non-controlling interests, based on their proportionate interest in the recognized amounts of the asset and liabilities of the acquirees	(6,890)
Goodwill	**(42,884)**
Excess of purchase price on subsequent acquisitions of non-controlling interests	**(2,021)**

Analysis of cash flows on acquisitions:	
Purchase consideration settled in cash	(73,613)
Net cash acquired	2,968
Net cash flows used in acquisitions	**(70,645)**

Plastkart

On June 25, 2012, Gemalto acquired 75.3% of the voting rights of Plastkart a regional leader in personalization services and smart card production based in Turkey for €12.8 million from its founders. In order to fulfill its obligation, a public offer to acquire the remaining publicly owned shares took place between November 20, 2012 and December 17, 2012. As a result of the mandatory public offer, Gemalto owned 98.02% of voting rights and 58.84% of ownership interest as at December 31, 2012. Gemalto has been Plastkart's long-term technology partner, since 2003. Going forward, the companies will continue to co-operate as in the past, with Plastkart focusing on the fast-growing Turkish market of 75 million inhabitants. Turkish banks are already deploying dual-interface contactless cards in large volumes. From the date of acquisition, the incremental contribution of Plastkart to the Group's revenue and profit from operation were €8.5 million and €1.2 million respectively.

Ericsson Internet Payment Exchange AB (IPX) and other acquisitions

On September 30, 2012, Gemalto acquired IPX and Ericsson's Trusted Service Manager (TSM) activity, from Telefonaktiebolaget LM Ericsson, the world's leading provider of communications technology and services. IPX has developed one of the leading mobile payment and messaging platforms in the world and connects more than 1,000 customers to over 120 Mobile Network Operators. IPX also operates payment platforms as a white label service for various operators.

In 2012, Gemalto completed various other acquisitions which were less material either individually or in aggregate. The total purchase consideration transferred and the total goodwill arising from these acquisitions amounted to €58 million and €39 million, respectively.

Intangible assets identified as part of the purchase price allocation

In most instances, Gemalto management, assisted by independent qualified experts, provisionally identified and allocated the combination value to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquiree. Tax effects on the fair value of the intangible assets recognized amounted to €5.2 million.

The following table summarizes the estimated fair value of the intangible assets acquired and their remaining useful life at the date of the acquisitions:

	Plastkart		IPX	
In thousands of euros	Fair Value	Remaining useful life	Fair Value	Remaining useful life
Existing technologies	–	–	6,000	5 to 7 years
Customer relationships	4,034	8 years	13,380	6 years
Brand name	730	7 years	–	–

Note 6. Segment information

In accordance with IFRS 8 Operating Segments, the information by operating segment is derived from the business organization and activities of Gemalto.

Gemalto's activities are reported in four main segments: Mobile Communication, Machine-to-Machine, Secure Transactions and Security. In each of these segments, the Group sells a range of solutions comprising microprocessor-based devices powered by embedded secure software; back office server software; and services (including consulting, training, customization, installation, optimization, maintenance, operation of device management platforms, content distribution platforms, international roaming optimization platforms, of electronic ID enrollment and issuance systems, etc., and services aimed at individual personalization of each device) as well as intellectual property right licenses.

Mobile Communication customers are principally mobile network operators. Our solutions comprise SIM and UICC cards, client-server and back-office software, platforms and services including roaming optimization, mobile payment, mobile marketing, personal data management and trusted services management (TSM).

Machine-to-Machine customers include a broad range of industries such as utilities, health and automotive. The solutions comprise modules and software that connect machines in order to improve operations, productivity and efficiency in the 'internet of things', plus support and other services.

Secure Transactions customers are financial institutions, retailers and other card issuers, as well as mass transit authorities. The offer comprises chip card and contactless payment solutions and services, plus mobile financial solutions. The segment also sells subscriber authentication and rights management solutions to Pay TV service providers.

Security customers include government agencies and government service providers; and enterprises and other organizations, including banks, providing secure online services. The solutions comprise secure electronic identity documents, including ePassports and badges, strong multi-factor online authentication and transaction solutions, as well as a range of support services.

Revenue, gross and operating profit derived from the licensing of the Group's patent portfolio is reported into the segment 'Patents'.

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 2013 is the Profit from operations. Profit from operations 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; and (iii) all equity-based compensation charges and associated costs (reported in the column 'Adjustments' within the tables below). This supplemental non-GAAP measure is used internally to understand, manage and evaluate business and take operating decisions. It is among the primary factors management uses in planning for and forecasting future periods, and compensation of executives is based in part on the performance of the business based on this non-GAAP measure.

For a better understanding of the year-on-year performance of the business, the adjusted income statement for Ongoing operations, as reported within the tables below, not only excludes the contribution from discontinued operation, but also the contributions from assets held for sale and from items not related to Ongoing operations reported in the column 'Reconciling items'.

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 tables below applies the same accounting policies as those used and described in these consolidated financial statements.

										Year ended December 31, 2012
	Ongoing operations									
In thousands of Euro	Mobile Communication	Machine–to-Machine	Secure Transactions	Security	Patents	Adjusted financial information for ongoing operations	Reconciling items[11]	Adjusted financial information	Adjustments[12]	IFRS financial information
Revenue	**1,089,591**	**192,211**	**568,008**	**383,995**	**2,131**	**2,235,936**	**9,564**	**2,245,500**	**–**	**2,245,500**
Cost of sales	(618,569)	(128,458)	(384,777)	(241,561)	(305)	(1,373,670)	(7,419)	(1,381,089)	(6,510)	(1,387,599)
Gross profit	**471,022**	**63,753**	**183,231**	**142,434**	**1,826**	**862,266**	**2,145**	**864,411**	**(6,510)**	**857,901**
Operating expenses										
Research and engineering	(64,483)	(14,590)	(21,707)	(21,999)	(11,147)	(133,926)	(3,711)	(137,637)	(3,502)	(141,139)
Sales and marketing	(142,592)	(23,299)	(73,597)	(60,075)	(196)	(299,759)	(2,548)	(302,307)	(14,144)	(316,451)
General and administrative	(77,908)	(11,922)	(25,585)	(17,303)	(280)	(132,998)	(266)	(133,264)	(14,466)	(147,730)
Gain on sale of a subsidiary							5,584	5,584	–	5,584
Other income (expense), net	7,270	27	23	2,136	(1)	9,455	35	9,490	–	9,490
Profit from operations	**193,309**	**13,969**	**62,365**	**45,193**	**(9,798)**	**305,038**	**1,239**	**306,277**		
Restructuring and acquisition-related expenses										(7,911)
Amortization and depreciation of intangibles resulting from acquisitions										(20,985)
Operating profit										**238,759**

In thousands of Euro	Ongoing operations: Mobile Communication[13]	Ongoing operations: Machine–to-Machine	Ongoing operations: Secure Transactions	Ongoing operations: Security	Ongoing operations: Patents	Adjusted financial information for ongoing operations	Reconciling items[11]	Adjusted financial information	Adjustments[12]	IFRS financial information
										Year ended December 31, 2011
Revenue	**959,970**	**174,267**	**531,362**	**309,870**	**8,793**	**1,984,262**	**31,122**	**2,015,384**	**–**	**2,015,384**
Cost of sales	(569,347)	(113,844)	(363,177)	(191,845)	(1,292)	(1,239,505)	(24,333)	(1,263,838)	(2,964)	(1,266,802)
Gross profit	**390,623**	**60,423**	**168,185**	**118,025**	**7,501**	**744,757**	**6,789**	**751,546**	**(2,964)**	**748,582**
Operating expenses										
Research and engineering	(52,351)	(12,709)	(20,105)	(21,170)	(7,135)	(113,470)	(2,671)	(116,141)	(1,951)	(118,092)
Sales and marketing	(134,960)	(19,015)	(65,405)	(53,790)	(512)	(273,682)	(2,849)	(276,531)	(12,364)	(288,895)
General and administrative	(64,191)	(15,128)	(24,243)	(16,818)	(317)	(120,697)	(1,805)	(122,502)	(14,797)	(137,299)
Gain on remeasurement to fair value of an investment in associate							19,240	19,240	–	19,240
Other income (expense), net	1,482	154	(729)	3,549	9	4,465	(4,432)	33	–	33
Profit from operations	**140,603**	**13,725**	**57,703**	**29,796**	**(454)**	**241,373**	**14,272**	**255,645**		
Restructuring and acquisition-related expenses										(15,374)
Amortization and depreciation of intangibles resulting from acquisitions										(24,813)
Operating profit										**183,382**

[11] Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to 'Ongoing operations'.
[12] The amounts reported in the column 'Adjustments' correspond to the €38,622 and €32,076 equity-based computed compensation charges and associated costs for 2012 and 2011 respectively.
[13] Compared to the published consolidated financial statements as of December 31, 2011, the contribution from assets classified as held for sale in 2012 have been reclassified from 'Mobile Communication' to 'Reconciling Items'.

Geographical information

The tables below show revenue and non-current assets (excluding 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,	
	2012	2011
Revenue		
Europe, Middle East and Africa	1,125,700	1,026,389
Asia Pacific	438,124	400,133
North and South America excluding the United States of America	412,088	397,857
United States of America	269,588	191,005
Total	**2,245,500**	**2,015,384**

	Year ended December 31,	
	2012	2011
Non-current assets excluding goodwill (net)		
France	240,454	215,907
Europe, Middle East and Africa excluding France and Germany	149,314	106,633
Asia Pacific	84,091	78,286
North and South America	83,356	64,155
Germany	75,786	71,658
Total	**633,001**	**536,639**

Note 7. Financial assets/liabilities by category

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

December 31, 2012	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
Assets					
Available-for-sale financial assets, net	–	–	–	–	–
Other non-current assets	48,883	–	–	–	48,883
Trade and other receivables, net	652,752	–	–	–	652,752
Derivative financial instruments	–	–	33,630	–	33,630
Cash and cash equivalents	130,320	228,290	–	–	358,610
Total	**831,955**	**228,290**	**33,630**	**–**	**1,093,875**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	10,238	10,238
Derivative financial instruments	5,080	–	5,080
Total	**5,080**	**10,238**	**15,318**

December 31, 2011	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
Assets					
Available-for-sale financial assets, net	–	–	–	–	–
Other non-current assets	44,014	–	–	–	44,014
Trade and other receivables, net	558,757	–	–	–	558,757
Derivative financial instruments	–	–	15,432	–	15,432
Cash and cash equivalents	93,678	236,706	–	–	330,384
Total	**696,449**	**236,706**	**15,432**	**–**	**948,587**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	21,023	21,023
Derivative financial instruments	28,652	–	28,652
Total	**28,652**	**21,023**	**49,675**

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2012 (see note 2.24):

Estimation of derivative financial instrument fair value

December 31, 2012	Level 1	Level 2	Level 3	Total balance
Assets				
Derivatives used for hedging	–	33,630	–	33,630
Short-term bank deposits and investment funds	228,290	–	–	228,290
Available-for-sale financial assets	–	–	–	–
Total Assets	**228,290**	**33,630**	**–**	**261,920**
Liabilities				
Derivatives used for hedging	–	5,080	–	5,080
Total Liabilities	**–**	**5,080**	**–**	**5,080**

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2011:

December 31, 2011	Level 1	Level 2	Level 3	Total balance
Assets				
Derivatives used for hedging	–	15,432	–	15,432
Short-term bank deposits and investment funds	236,706	–	–	236,706
Available-for-sale financial assets	–	–	–	–
Total Assets	**236,706**	**15,432**	**–**	**252,138**
Liabilities				
Derivatives used for hedging	–	28,652	–	28,652
Total Liabilities	**–**	**28,652**	**–**	**28,652**

Note 8. Property, plant and equipment

Property, plant and equipment, net consist of the following:

	Land	Building and improvement	Machinery and equipment	Total property, plant and equipment
Gross book value as of January 1, 2012	**5,826**	**216,455**	**561,845**	**784,126**
Acquisition of subsidiary and business	450	1,514	4,628	6,592
Additions	20	13,753	57,149	70,922
Reclassification to assets held for sale	(683)	(8,434)	(6,668)	(15,785)
Disposals and write-offs	–	(6,599)	(47,827)	(54,426)
Currency translation adjustment	(17)	(486)	(4,327)	(4,830)
Gross book value as of December 31, 2012	**5,596**	**216,203**	**564,800**	**786,599**
Accumulated depreciation as of January 1, 2012	**(277)**	**(141,035)**	**(419,922)**	**(561,234)**
Depreciation charge	(30)	(12,607)	(40,860)	(53,497)
Reclassification to assets held for sale	276	5,334	5,881	11,491
Disposals and write-offs	–	6,206	44,677	50,883
Currency translation adjustment	(2)	520	2,684	3,202
Accumulated depreciation as of December 31, 2012	**(33)**	**(141,582)**	**(407,540)**	**(549,155)**
Net book value as of December 31, 2012	**5,563**	**74,621**	**157,260**	**237,444**

	Land	Building and improvement	Machinery and equipment	Total property, plant and equipment
Gross book value as of January 1, 2011	**5,767**	**211,579**	**533,035**	**750,381**
Acquisition of subsidiary and business	–	15	2,165	2,180
Additions	–	7,057	46,684	53,741
Other reclassifications	–	14	669	683
Disposals and write-offs	–	(3,366)	(23,064)	(26,430)
Currency translation adjustment	59	1,156	2,356	3,571
Gross book value as of December 31, 2011	**5,826**	**216,455**	**561,845**	**784,126**
Accumulated depreciation as of January 1, 2011	**(233)**	**(129,628)**	**(403,309)**	**(533,170)**
Depreciation charge	(27)	(13,044)	(34,334)	(47,405)
Impairment charge	–	–	(108)	(108)
Other reclassifications	–	9	(287)	(278)
Disposals and write-offs	–	2,531	20,571	23,102
Currency translation adjustment	(17)	(903)	(2,455)	(3,375)
Accumulated depreciation as of December 31, 2011	**(277)**	**(141,035)**	**(419,922)**	**(561,234)**
Net book value as of December 31, 2011	**5,549**	**75,420**	**141,923**	**222,892**

Capitalized leases included in property, plant and equipment:

	Year ended December 31,	
	2012	2011
Gross book value	54,622	53,994
Accumulated depreciation	(33,679)	(32,087)
Net book value	**20,943**	**21,907**

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

	Year ended December 31,	
	2012	2011
Cost of sales	43,384	37,496
Research and engineering expenses	3,149	2,855
Sales and marketing expenses	638	641
General and administrative expenses	6,326	6,413
Total depreciation expense by destination	**53,497**	**47,405**

Note 9. Goodwill and intangible assets

Goodwill and intangible assets, net consist of the following:

	Goodwill	Patents and technology	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2012	**826,418**	**311,749**	**127,436**	**168,841**	**1,434,444**
Acquisition of subsidiary and business	42,884	9,601	(1,601)	19,098	69,982
Additions	–	219	36,344	20,335	56,898
Write-offs	–	–	(5,705)	(26,428)	(32,133)
Disposals		(357)	(12)	(1,056)	(1,425)
Reclassification to assets held for sale	(4,000)	(3,595)	(1,900)	(337)	(9,832)
Currency translation adjustment	234	107	(40)	728	1,029
Gross book value as of December 31, 2012	**865,536**	**317,724**	**154,522**	**181,181**	**1,518,963**
Accumulated amortization as of January 1, 2012	**(13,459)**	**(272,362)**	**(53,788)**	**(122,653)**	**(462,262)**
Amortization charge	–	(12,547)	(17,807)	(12,149)	(42,503)
Write-offs	–	–	5,698	26,428	32,126
Disposals		356	–	816	1,172
Reclassification to assets held for sale		2,710	748	128	3,586
Currency translation adjustment	163	(340)	(1)	(4)	(182)
Accumulated amortization as of December 31, 2012	**(13,296)**	**(282,183)**	**(65,150)**	**(107,434)**	**(468,063)**
Net book value as of December 31, 2012	**852,240**	**35,541**	**89,372**	**73,747**	**1,050,900**

Additions of 'Other intangibles' include in 2012 the acquisition for €12 million of a right to use and distribute a licenced technology for a 5 year period.

	Goodwill	Patents and technology	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2011	**812,248**	**307,160**	**114,030**	**156,581**	**1,390,019**
Acquisition of subsidiary and business	12,508	2,215	2,362	8,958	26,043
Additions	–	530	34,404	6,147	41,081
Disposals and write-offs	–	(167)	(23,444)	(3,481)	(27,092)
Reclassifications	–	1,600	–	(405)	1,195
Currency translation adjustment	1,662	411	84	1,041	3,198
Gross book value as of December 31, 2011	**826,418**	**311,749**	**127,436**	**168,841**	**1,434,444**
Accumulated amortization as of January 1, 2011	**(13,255)**	**(255,498)**	**(63,074)**	**(106,638)**	**(438,465)**
Amortization charge	–	(15,029)	(11,009)	(15,433)	(41,471)
Disposals and write-offs	–	51	20,318	272	20,641
Reclassifications	–	(1,600)	–	–	(1,600)
Currency translation adjustment	(204)	(286)	(23)	(854)	(1,367)
Accumulated amortization as of December 31, 2011	**(13,459)**	**(272,362)**	**(53,788)**	**(122,653)**	**(462,262)**
Net book value as of December 31, 2011	**812,959**	**39,387**	**73,648**	**46,188**	**972,182**

Other intangibles mainly consist of:

	Year ended December 31,	
	2012	2011
Licensing rights to use and distribute licensed technology	9,392	–
Acquired customer relationship	35,683	22,092
Acquired brand names	11,305	10,741
Miscellaneous software and other intangibles	17,367	13,355
Total	**73,747**	**46,188**

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

	Year ended December 31,	
	2012	2011
Cost of sales	20,527	15,191
Research and engineering expenses	380	783
Sales and marketing expenses	21	15
General and administrative expenses	590	669
Amortization and depreciation of intangible resulting from acquisition	20,985	24,813
Total	**42,503**	**41,471**

Goodwill impairment test

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

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

The CGUs include, in their carrying value, a goodwill that reconciles with the total goodwill reported by Gemalto as follows:

In millions of Euro	Year ended December 31,	
CGU:	2012	2011
Mobile Communication	414	403
Machine-to-Machine	116	117
Secure Transactions	138	122
Security	184	171
Total	**852**	**813**

The recoverable amount of the CGUs is determined based on projected cash flows after tax derived from management plans as of the date the review was carried out. Cash flows beyond management plans horizon are extrapolated using a growth rate, which does not exceed the average growth rate for the industry in which Gemalto operates.

The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 8.6% in 2012 (8.7% in 2011). The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2012 nor in 2011. Further, no impairment charge would be recognized in 2012 if discounted projected cash flows were 20% lower.

Note 10. Investments in associate and available-for-sale financial assets

Investments in associates consist of the following:

	Year ended December 31,	
	2012	2011
Investments as of beginning of period	**13,783**	**10,934**
Acquisition of associates	11,963	1,429
Change in consolidation method of AB Svenska Pass (ABSP)	–	(8,766)
Guaranteed dividend receivable	–	(3,498)
Change in consolidation method	(37)	–
Reclassification (to) from assets held for sale	(1,263)	8,601
Dividends paid by associates	(137)	(131)
Share of profit	1,801	1,534
Remeasurement to fair value of previously held interest in ABSP	–	4,180
Other movements	–	(654)
Currency translation adjustment	(413)	154
Investments as of end of period	**25,697**	**13,783**

In 2012, the acquisitions of associates mainly related to the creation of Trustonic Ltd, a joint venture with ARM and Giesecke & Devrient. The Gemalto contribution amounted to €7 million paid in cash.

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2012, the net book value of goodwill in associates amounted to €7,611 (in 2011 €3,067).

Gemalto's associates' aggregated key data were as follows (in total):

	Associates' total			
Year	Assets	Liabilities	Revenue	Profit/(loss)
2012	**139,976**	**75,916**	**88,103**	**8,344**
2011	57,610	21,254	54,681	5,185

The previous year financial information is disclosed when current year financial information is not available.

Note 11. Assets held for sale

On November 30, 2012, following the approval of the regulatory authorities, Gemalto contributed to the newly created joint venture Trustonic Ltd, through the sale of its fully owned subsidiary Trusted Logic Mobility. The gain amounting to €5.6 million is presented on the line item 'gain on sale of a subsidiary' in the consolidated income statement.

The assets still classified in 'held for sale' as at December 31, 2012 comprise non-strategic assets currently in the course of disposal.

	Year ended December 31,	
	2012	2011
Assets held for sale as of beginning of period	**1,711**	**57,183**
Additions	23,422	5,346
Disposals	(10,208)	(25,000)
Reclassification from liabilities held for sale	–	(21,076)
Cancellation of Non-controlling interest in the Joint venture	–	(10,229)
Reassessment to fair value	(1,571)	19,240
Dividend received	–	(12,209)
Reclassification to investment in associate	–	(8,601)
Currency translation adjustment	(144)	(2,943)
Assets held for sale as of end of period	**13,210**	**1,711**

	Year ended December 31,	
	2012	2011
Liabilities held for sale as of beginning of period	**–**	**19,788**
Additions	7,698	2,499
Disposals	(6,709)	–
Reclassification to assets held for sale	–	(21,076)
Currency translation adjustment	(12)	(1,211)
Liabilities held for sale as of end of period	**977**	**–**

Effect of reclassification as assets and liabilities held for sale on the consolidated statement of financial position:

	Year ended December 31,
	2012
Property, plant and equipment, net	(4,294)
Goodwill	(4,000)
Intangible assets, net	(2,246)
Investments in associates	(1,263)
Deferred income tax assets	(111)
Other non-current assets	(616)
Inventories, net	(519)
Trade and other receivables, net	(5,705)
Cash and cash equivalents	(4,668)
Assets classified as held for sale	**(23,422)**
Deferred income tax liabilites	(736)
Employee benefit obligations	(121)
Trade and other payables	(6,798)
Current income tax liabilities	(43)
Liabilities classified as held for sale	**(7,698)**

The currency translation adjustment reserve, related to entities classified as held for sale as at December 31, 2012 amounted to €1,468 (a deferred gain).

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2012	2011
Loan receivable from former Gemplus chairman (net of provision)	9,137	9,296
Research tax credit	3,642	10,214
Long-term deposits, net[14]	2,828	2,660
Tax receivable	11,228	6,468
Other[15]	22,048	15,376
Total	**48,883**	**44,014**

[14] The €2,828 carrying value of long-term deposits is assessed to be equivalent to their fair value.

[15] 'Other' mainly includes deferred consideration receivable related to (i) the sale in 2012 of a subsidiary held for sale and (ii) the sale in 2011 of an investment in an associate held for sale.

In 2000, a former chairman of Gemplus was granted a loan of €71,900 to finance the exercise of share options. In December 2001, this former chairman ceased his active involvement with Gemplus. In the second quarter of 2002, Gemplus learned that the former chairman had financial difficulties that would affect his ability to repay the loan. Accordingly, Gemplus recorded a provision originally as of June 30, 2002 amounting to €69,620 as of December 31, 2006 after taking into account a severance payable, which is conditional on reimbursement of the loan (see note 18). In proceedings brought by Gemplus in April 2004, an arbitral tribunal issued a final award in favor of Gemplus and its indirect subsidiary against this former chairman in the amount of €71,900, plus accrued interest and attorneys' fees and costs. Gemplus has not forgiven the loan nor released the arbitration award.

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2012	2011
Gross book value		
Raw materials and spares	50,895	61,712
Work in progress	106,001	89,374
Finished goods	43,138	39,657
Total	**200,034**	**190,743**
Obsolescence reserve		
Raw materials and spares	(5,065)	(6,524)
Work in progress	(6,594)	(7,121)
Finished goods	(2,840)	(4,431)
Total	**(14,499)**	**(18,076)**
Net book value	**185,535**	**172,667**

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2012	2011
Trade receivables	478,279	404,140
Provision for impairment of receivables	(10,537)	(9,546)
Trade receivables, net	**467,742**	**394,594**
Prepaid expenses	23,654	17,576
VAT recoverable and tax receivable	64,282	62,260
Advances to suppliers and related	9,902	11,579
Unbilled customers	60,002	53,482
Other	27,170	19,266
Total	**652,752**	**558,757**

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2012	2011
Cash at bank and in hand	130,320	93,678
Short-term bank deposits and investment funds	228,290	236,706
Total	**358,610**	**330,384**

The average effective interest rate on short-term deposits was 1.44 % in 2012 (1.61% in 2011). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds or in commercial paper, with maturities of less than three months at the balance sheet date.

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,	
	2012	2011
Cash and cash equivalents	358,610	330,384
Cash and cash equivalents classified as assets held for sale	4,578	–
Banks overdrafts	(148)	(315)
Total	**363,040**	**330,069**

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2012	2011
Non-current portion		
Other financial liability	1,557	2,121
Finance lease liabilities	2,117	3,641
Total non-current portion	**3,674**	**5,762**
Current portion		
Short-term loans	2,509	2,140
Bank overdrafts	148	315
Other financial liability	1,370	10,443
Finance lease liabilities	2,537	2,363
Total current portion	**6,564**	**15,261**
Total	**10,238**	**21,023**

The Group has signed a series of bilateral committed revolving credit lines, arranged with first rank banks. The total amount is €300 million and the maturities fall between December 9, 2014 and September 17, 2017. None of the bilateral credit lines were drawn as at December 31, 2012 and 2011 respectively. There are no financial covenants (ratio) concerning our financial structure in the documentation of these facilities.

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

	Year ended December 31,	
	2012	2011
Euro (EUR)	6,063	7,388
British Pound (GBP)	–	10,443
Arab Emirates Dirham (AED)	50	42
Chinese Yuan (CNY)	2,109	2,240
US Dollar (USD)	2,016	910
Total	**10,238**	**21,023**

The nominal interest rates as at December 31, 2011 and 2012 were as follows:

		2012					
		Amount	EUR	USD	GBP	AED	CNY
Other financial liability	Floating rate	2,927	n/a	n/a	–	–	–
Short-term loans and bank overdrafts	Floating rate	2,657	n/s	–	–	n/s	n/s
Finance lease liabilities	Floating rate	4,412	1.59%	–	–	–	–
Finance lease liabilities	Fixed rate	242	4.07%	4.91%	–	–	–
Total		**10,238**					

		2011					
		Amount	EUR	USD	GBP	AED	CNY
Other financial liability	Floating rate	12,564	3.00%	1.13%	n/a	–	n/a
Short-term loans and bank overdrafts	Floating rate	2,455	4.18%	–	–	n/s	n/s
Finance lease liabilities	Floating rate	5,722	2.09%	–	–	–	–
Finance lease liabilities	Fixed rate	282	n/s	–	–	–	–
Total		**21,023**					

n/a: not applicable. No specific interest rate as it relates to the liabilities for additional compensation/guaranteed dividend payable to non-controlling interests.
n/s: not significant. These funding sources do not require Gemalto to comply with any financial ratio.

Finance lease liabilities are split by maturity as follows:

	Year ended December 31,	
	2012	2011
Finance lease liabilities minimum lease payments		
Not later than 1 year	3,675	2,474
Later than 1 year and not later than 5 years	1,049	3,720
Later than 5 years	–	–
Total	**4,724**	**6,194**
Future finance charges on finance leases	(70)	(190)
Present value of finance lease liabilities	**4,654**	**6,004**

The present value of finance lease liabilities is as follows:

	Year ended December 31,	
	2012	2011
Present value of finance lease liabilities		
Not later than 1 year	2,536	2,362
Later than 1 year and not later than 5 years	2,118	3,642
Later than 5 years	–	–
Total	**4,654**	**6,004**

Note 17. Employee benefit obligations

Amounts recognized in the balance sheet

	Year ended December 31,	
	2012	2011
Present value of obligations	127,302	93,199
Fair value of plan assets	(47,263)	(41,729)
Net defined benefit liability	**80,039**	**51,470**

The Group is subject to mandatory national pension systems and other compulsory plans, or makes contribution to social pension funds based on legal 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 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 salary pension under which retired employees draw their benefits as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme was put in place. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

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

Movement in the Net defined benefit obligation

The movement in the net defined benefit obligation over the periods ended is as follows:

	Present value of obligation	Fair value of plan assets	Total
Balance as at January 1, 2012	**93,199**	**(41,729)**	**51,470**
Past service costs recognized in equity[16]	1,816	–	1,816
Reclassifications from short-term employee benefit to long-term upon early application of IAS 19 Amended	9,087	–	9,087
Current service costs	7,298	–	7,298
Interest expense	6,201	(2,054)	4,147
Curtailment	(266)	–	(266)
Amount recognized in the income statement	**13,233**	**(2,054)**	**11,179**
Return on plan assets	–	(2,196)	(2,196)
Actuarial (gain) and loss arising from changes in demographic assumptions	(102)	–	(102)
Actuarial (gain) and loss arising from changes in financial assumptions	12,126	–	12,126
Actuarial (gain) and loss due to experience	848	–	848
Amounts recognized in other comprehensive income	**12,872**	**(2,196)**	**10,676**
Contributions to the plan by the employer	–	(2,447)	(2,447)
Payments	(4,490)	1,638	(2,852)
Reclassifications to liabilities held for sale	(121)	–	(121)
Acquisition of subsidiaries	884	–	884
Currency translation adjustment	822	(475)	347
Balance as at December 31, 2012	**127,302**	**(47,263)**	**80,039**

[16] As a result of the voluntary adoption of IAS 19 Amended, past service costs were recognized for €1,816. This amount has been recorded in the consolidated statement of changes in equity together with the related deferred tax impacts.

	Present value of obligation	Fair value of plan assets	Total
Balance as at January 1, 2011	**82,310**	**(38,551)**	**43,759**
Current service costs	4,635	–	4,635
Past service costs	405	–	405
Interest expense	4,166	(1,721)	2,445
Curtailment	(408)	–	(408)
Amount recognized in the income statement	**8,798**	**(1,721)**	**7,077**
Return on plan assets	–	579	579
Actuarial (gain) and loss arising from changes in demographic assumptions	3,465	–	3,465
Amount recognized in other comprehensive income	**3,465**	**579**	**4,044**
Contributions to the plan by the employer	–	(1,860)	(1,860)
Contributions to the plan by the employee	–	(37)	(37)
Payments	(2,678)	1,134	(1,544)
Reclassifications	380	(466)	(86)
Acquisition of subsidiaries	271	–	271
Currency translation adjustment	653	(807)	(154)
Balance as at December 31, 2011	**93,199**	**(41,729)**	**51,470**

Net defined benefit obligation by geographical situation

The following table sets forth the funded status of the net defined benefit obligation by geographical situation:

	December 2012			
	France	**UK**	**Other countries**	**Total**
Projected benefit obligation	56,134	41,837	29,331	127,302
Plan assets at fair value	–	(35,711)	(11,552)	(47,263)
Net defined benefit obligation	**56,134**	**6,126**	**17,779**	**80,039**

	December 2011			
	France	UK	Other countries	Total
Projected benefit obligation	34,728	40,425	20,314	95,467
Plan assets at fair value	–	(31,612)	(10,117)	(41,729)
Defined benefit obligation in excess of plan assets	**34,728**	**8,813**	**10,197**	**53,738**
Past service costs	(2,268)	–	–	(2,268)
Net defined benefit obligation	**32,460**	**8,813**	**10,197**	**51,470**

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 and Finland, plan assets are comprised of equity securities, corporate bonds and other investments. The plan assets are composed of the following:

	Year ended December 31,	
	2012	2011
Equity securities	20,937	18,193
Government bonds	14,960	12,423
Other investments	11,366	11,113
Total plan asset fair value	**47,263**	**41,729**

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

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2012	2011
Eurozone		
Discount rate	3.00%	4.50%
Future salary increase	3.26%	3.27%
Inflation rate	1.96%	1.96%
UK		
Discount rate	4.50%	4.70%
Future salary increase	n/a	n/a
Inflation rate	2.75%	3.00%
Expected rate of return on plan assets	4.50%	6.55%

Discount rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discount rate to be applied for the liability calculation. Both indexes refer to Euro denominated and Sterling corporate bonds with AA rating maturing over 10 years respectively.

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

Sensitivity analysis

The following table shows the sensitivity of the UK and French liabilities for the year ended December 31, 2012 to reasonable changes in main assumptions used, all other variables being held constant:

Increase/(Decrease) in the liability	0.5 percentage point increase	0.5 percentage point decrease
Discount rate	(6,957)	7,873
Inflation rate	3,223	(2,817)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2008-2010 for France and (ii) PxA92 with Medium Cohort Improvement, 1% floor for the UK.

The following table sets forth the funded status of the net defined benefit obligation by geographical situation:

	Year ended December 31, 2012	
	France	UK
Longevity at age 65 for current pensioners (years)		
Men	18.4	22.8
Women	22.5	26.1
Longevity at age 65 for current members aged 45 (years)		
Men	18.4	24.7
Women	22.5	28.2

	Year ended December 31, 2011	
	France	UK
Longevity at age 65 for current pensioners (years)		
Men	18.2	22.7
Women	22.4	26.0
Longevity at age 65 for current members aged 45 (years)		
Men	18.2	24.7
Women	22.4	28.1

Projected information

The expected service costs charged in the income statement for the year ending December 31, 2013 are €8,112. The weighted average duration of the defined benefit obligation is 15.5 years.

Expected maturity analysis of the defined benefit obligations is as follows:

	Cash outflow		
	2013	2014	2015
Net defined benefit obligation	3,811	2,590	2,970

Note 18. Non-current provisions and other liabilities

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

	Year ended December 31, 2012	2011
Non-current provisions	52,076	43,353
Other non-current liabilities	32,363	32,875
Total	**84,439**	**76,228**
Former management related[17]	9,138	9,297
Government grants	3,100	8,288
Long-term payables[18]	20,125	15,290
Total other non-current liabilities	**32,363**	**32,875**

[17] Former management-related liability includes the former Gemplus chairman's termination package conditioned to the refund of a loan granted to him by Gemplus in 2000 see note 12.
[18] The €20,125 carrying value of long-term payables is assessed to be equivalent to their fair value (€15,290 in 2011).

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, 2012	**7,050**	**354**	**8,235**	**23,254**	**4,460**	**43,353**
Acquisition of a subsidiaries	–	–	–	5,146	–	5,146
Additional provisions	2,271	–	3,793	9,384	1,611	17,059
Unused amount reversed	(1,151)	(90)	(139)	(7,729)	(1,163)	(10,272)
Used during the period	(114)	(300)	(2,100)	(42)	(131)	(2,687)
Reclassifications	(370)	–	–	162	(271)	(479)
Cumulative translation adjustment	(15)	36	(44)	(37)	16	(44)
As of December 31, 2012	**7,671**	**–**	**9,745**	**30,138**	**4,522**	**52,076**

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2011	**6,256**	**2,028**	**2,413**	**22,268**	**4,151**	**37,116**
Additional provisions	1,999	278	7,057	2,742	1,759	13,835
Unused amount reversed	(1,177)	(6)	(998)	(1,189)	(748)	(4,118)
Used during the period	(570)	(1,938)	(240)	(27)	(786)	(3,561)
Reclassifications	512	(19)	–	–	–	493
Cumulative translation adjustment	30	11	3	(540)	84	(412)
As of December 31, 2011	**7,050**	**354**	**8,235**	**23,254**	**4,460**	**43,353**

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2012 and 2011 consist of the following:

	Year ended December 31,	
	2012	2011
Trade payables	207,600	188,792
Employee related payables	165,986	151,574
Accrued expenses	78,993	59,689
Accrued VAT	31,633	22,497
Deferred revenue	51,406	41,320
Other	3,783	3,343
Total trade and other payables	**539,401**	**467,215**

Note 20. Additional information on specific line items of the income statement

The Group reported 'Restructuring and acquisition-related expenses' (see note 3.1) for €7,911 as at December 31, 2012 (€15,374 in 2011), which detailed as follows:

	Year ended December 31,	
	2012	2011
Severance and associated costs	3,288	8,519
Transaction costs on acquisition	1,453	342
Write-offs and impairments	1,428	5,412
Other costs (income), net	1,742	1,101
	7,911	**15,374**

Amortization and depreciation of intangibles resulting from acquisitions amounted to €20,985 for the year ended December 31, 2012 (€24,813 on December 31, 2011).

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2012	2011
Warranty	3,482	2,809
Provisions for loss on contracts	293	106
Restructuring and reorganization	978	5,090
Other	2,237	2,078
Total current provisions and other liabilities	**6,990**	**10,083**

	Warranty	Provision for loss on contracts	Restructuring and reorganization	Other	Total
As of January 1, 2012	**2,809**	**106**	**5,090**	**2,078**	**10,083**
Acquisition of subsidiaries	–	–	–	109	109
Additional provisions	2,240	271	58	1,181	3,750
Unused amount reversed	(1,019)	(29)	(647)	(433)	(2,128)
Used during the year	(922)	(53)	(3,583)	(958)	(5,516)
Reclassifications	370	–	19	271	660
Cumulative translation adjustment	4	(2)	41	(11)	32
As of December 31, 2012	**3,482**	**293**	**978**	**2,237**	**6,990**

	Warranty	Provision for loss on contracts	Restructuring and reorganization	Other	Total
As of January 1, 2011	**4,527**	**534**	**2,141**	**6,508**	**13,710**
Acquisition of subsidiaries	–	50	–	–	50
Additional provisions	755	–	4,224	1,094	6,073
Unused amount reversed	(1,379)	(52)	(152)	(1,872)	(3,455)
Used during the year	(566)	(412)	(1,278)	(3,615)	(5,871)
Reclassifications	(512)	4	19	–	(489)
Cumulative translation adjustment	(16)	(18)	136	(37)	65
As of December 31, 2011	**2,809**	**106**	**5,090**	**2,078**	**10,083**

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2012	2011
Sales of goods	1,856,612	1,694,940
Revenue from Services	392,049	301,075
Others	(3,161)	19,369
Total	**2,245,500**	**2,015,384**

Compared to the published consolidated financial statements as of December 31, 2011, the revenue from 'services' has been represented in order to take into account the harmonization of 'Revenue from Platforms and Services' definition across the four main segments.

'Others' includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments.

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,	
	2012	2011
Depreciation, amortization, impairment charges and write-offs	76,048	76,369
Amortization and depreciation of intangibles resulting from acquisitions	20,985	24,828
Employee compensation and benefit expense (see note 24)	743,866	673,697
Change in inventories (finished goods and work in progress)	(18,432)	3,423
Raw materials used and consumables	789,603	704,019
Freight and transportation costs	62,307	54,109
Travel costs	49,864	44,073
Buildings and office leases	87,601	74,893
Royalties, legal and professional fees	133,898	117,097
Subcontracting and temporary workforce	90,359	80,080
Gain on remeasurement to fair value of an investment in associate	–	(19,240)
Gain on sale of a subsidiary	(5,584)	–
Others	(23,774)	(1,346)
Total expenses	**2,006,741**	**1,832,002**

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2012	2011
Wages and salaries (including severance costs recorded in restructuring and acquisition related expenses)	614,268	565,638
Pension – Defined benefit plans	7,032	4,632
Pension – Defined contribution plan	27,679	24,076
Share-based compensation expense	34,797	28,673
Others	60,090	50,678
Employee compensation and benefit expense	**743,866**	**673,697**

Note 25. Share-based compensation plans

All share and exercise prices are expressed in Euro.

Gemalto has established a Global Equity Incentive Plan ('GEIP') for its employees.

Gemalto share option and Restricted Share Unit plans (excluding Gemplus share option plans)

The GEIP authorizes the Company to grant eligible employees over the duration of the plan ending March 18, 2014 the right to acquire 14 million ordinary shares of Gemalto N.V.

Gemalto share options

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

Grant date	Share options granted	Exercise price (Euro)	Number of options outstanding as of December 31, 2012	Number of options outstanding as of December 31, 2011
May-04	3,196,000	14.80	126,250	344,332
Sep-05	685,000	30.65	271,410	461,500
Jun-06	1,600,000	23.10	541,350	867,730
Sep-07	872,000	20.83	218,878	452,278
Sep-08	1,399,000	26.44	1,021,301	1,260,940
	7,752,000		**2,179,189**	**3,386,780**

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 2 Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

The following table summarizes the outstanding share option plans:

	Year ended December 31,			
Grant date (year)	Weighted average exercise price (Euro)	Number of options outstanding as of 2012	Weighted average exercise price (Euro)	Number of options outstanding as of 2011
2002	–	–	15.13	164,891
2003	12.64	188,035	13.63	251,658
2004	16.00	18,083	16.00	18,083
2005	19.81	109,418	19.96	140,466
2006	–	–	27.50	2,042
	15.32	**315,536**	**15.72**	**577,140**

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

	Year ended December 31,			
	Weighted average exercise price (Euro)	Number of options outstanding as of 2012	Weighted average exercise price (Euro)	Number of options outstanding as of 2011
Beginning of the period	**22.99**	**3,963,920**	**22.35**	**5,587,905**
Granted	–	–	–	–
Forfeited	18.42	(37,372)	27.78	(44,940)
Exercised	22.00	(1,431,823)	20.56	(1,579,045)
End of the period	**23.69**	**2,494,725**	**22.98**	**3,963,920**

As of December 31, 2012, the average remaining life of the 2,494,725 outstanding options is 4 years. It was 4.6 years as of December 31, 2011 for the 3,963,920 options.

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

	Year ended December 31,			
Expiry date	Weighted average exercise price (Euro)	Number of options outstanding as of 2012	Weighted average exercise price (Euro)	Number of options outstanding as of 2011
2012	–	–	15.00	164,889
2013	13.30	269,943	14.21	493,906
2014	15.15	62,423	14.98	120,168
2015	25.46	717,092	25.93	1,081,572
2016	23.07	205,087	23.09	390,166
2017	20.83	218,878	20.83	452,278
2018	26.44	1,021,302	26.44	1,260,941
	23.69	**2,494,725**	**22.98**	**3,963,920**

The above outstanding options are all vested as of December 31, 2012.

Gemalto Restricted Share Units (RSUs)

On March 6, 2012, the Board of Gemalto N.V. granted performance and service-based RSUs to all eligible employees (over 10,000) of all levels worldwide. The following are the characteristics of the plans:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
Mar-12	1,363,635	Dec 2014	Vesting conditions are both performance and service based. RSU will vest if Group PFO (see note 6) reaches the target value for the year 2013 and the employee is employed by the Company as at December 31, 2014	Share price of €46.98 Risk free rate from Year 1 to Year 5 being 0.51% to 1.70% Fair value including a 4.74% discount	none

The fair value of the grant expensed over the vesting period in the income statement has been calculated as of March 6, 2012 using the stochastic option-pricing model. Under the GEIP, some Gemalto employees in China were granted RSUs in 2009, 2010, 2011 and 2012.

The number of restricted shares units vested as at December 31, 2012 are as follows:

Grant date	Amount granted	Amount vested	Amount forfeited	Outstanding	Remaining vesting conditions	End of vesting period
Oct-09	611,500	(576,500)	(35,000)	–	none	n/a
Mar-10	615,218	–	(84,946)	530,272	service	Mar-13
Mar-11	990,000	(990,000)	–	–	none	n/a
Mar-11	199,500	–	(12,000)	187,500	service	Mar-14
Mar-12	1,363,635	–	(47,990)	1,315,645	performance and service	Dec-14

Gemalto Employee Share Purchase Plans

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

Employee Share Purchase plan 2012

Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing share price of October 29, 2012 or November 9, 2012. 34,991 Treasury shares were subscribed by the employees at a price, net of discount, of €59.33 per share. In China, the share purchase price paid by the employees is currently held by the local employer and the finalization of the transaction with the local employees is subject to approval of the State Administration of the Foreign Exchange.

Share-based compensation expense in the income statement

The compensation expense corresponding to the amortization of the IFRS 2 value of the share options and RSUs, the GESPP and associated costs was recorded as follows:

	Year ended December 31,	
	2012	2011
Cost of sales	6,510	2,964
Research and engineering	3,502	1,951
Sales and marketing	14,144	12,364
General and administrative	14,466	14,797
Total	**38,622**	**32,076**

The associated costs amounted to €3,211 (in 2011 €2,729) and mainly include the French Social Security contribution associated with the RSU grants.

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

Cash proceeds received from employees having exercized share options in 2012 was €33,428 (€33,848 in 2011).

Note 26. Other income (expense), net

	Year ended December 31,	
	2012	2011
Fixed assets write-offs and net gains/losses on sales	522	504
Compensation from customers and suppliers, net	2,015	4,159
Release of a tax risk and related interests	7,290	–
Other	(337)	(4,630)
Total	**9,490**	**33**

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2012	2011
Interest expense	(4,494)	(3,214)
Interest income	3,478	3,203
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(4,413)	(2,897)
Ineffective part of derivative instruments designated as cash flow hedges	(309)	(3,938)
Other financial income (expense), net	(5,695)	(5,658)
Financial income (expense), net	**(11,433)**	**(12,504)**

Other financial income (expense) are mainly composed of:

(i) reassessment to fair value of several financial liabilities, including liabilities related to commitments to non-controlling interests; and

(ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries.

Note 28. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2012	2011
Net sales	(5,293)	10,575
Cost of sales	3,214	54
Financial income (expense), net	(4,722)	(6,835)
Net foreign exchange gains (losses)	**(6,801)**	**3,794**

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

Note 29. Taxes

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

	Year ended December 31,	
	2012	2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	80,015	67,368
Deferred tax asset to be recovered within 12 months	28,012	22,353
	108,027	**89,721**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(21,490)	(23,387)
Deferred tax liabilities due within 12 months	(10,504)	(418)
	(31,994)	**(23,805)**
Deferred tax assets (liabilities), net	**76,033**	**65,916**

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

	Year ended December 31,	
	2012	2011
Beginning of the period	**65,916**	**32,105**
Acquisition of subsidiary and business	(4,705)	(3,087)
Reclassification to assets/liabilities held for sale	625	–
Credited to income statement	19,629	37,642
Tax credit (debit) recognized in other comprehensive income	(5,972)	288
Tax credit on past service costs recognized in equity	708	–
Cumulative translation adjustment	(168)	(1,032)
End of the period	**76,033**	**65,916**

Deferred tax assets and liabilities for the years ended December 31, 2012 and 2011 detail as follows:

	Year ended December 31, 2012	2011
Assets		
Loss carry-forwards	61,214	57,451
Excess book over tax depreciation and amortization	19,924	12,371
Employee and retirement benefits	17,725	8,939
Warranty reserves and accruals	1,166	2,331
Other temporary differences	44,841	32,601
Total Assets	**144,870**	**113,693**
Liabilities		
Excess tax over book depreciation and amortization	(49,904)	(32,834)
Other temporary differences	(18,933)	(14,943)
Total Liabilities	**(68,837)**	**(47,777)**
Deferred tax assets (liabilities), net	**76,033**	**65,916**

The income tax credit (expense) is as follows:

	Year ended December 31, 2012	2011
Current tax	(47,835)	(51,312)
Deferred tax	19,629	37,642
	(28,206)	**(13,670)**

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, 2012		2011	
	€	%	€	%
Profit (loss) before income tax	229,127		176,592	
Tax calculated at the rate of the Holding Company	(57,282)	(25.0)	(44,148)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	9,874		29,982	
Effect of the reassessment of the recognition of deferred tax assets	24,951		30,683	
Effect of utilization of tax assets not recognized in prior years	13,181		6,842	
Effect of unrecognized deferred tax assets arising in the year	(7,840)		(24,073)	
Other permanent differences	(11,090)		(12,956)	
Income tax credit (expense)	**(28,206)**	**(12.3)**	**(13,670)**	**(7.7)**

In 2012, the Company recorded an income tax charge of €28.2 million on a pretax profit of €229.1 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, 2012, Gemalto did not recognize tax assets amounting to €321.3 million (€330.7 million as of December 31, 2011) relating to tax losses and other future tax deductions. Of this amount, €294.8 million[19] related to tax loss carry-forwards amounting to €1,028.2 million[20] of which €918.3 million can be used indefinitely. In 2011 those amounts were €296.7 million, €1,038.0 million and €943.3 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.

[19] Including €227.5 million (€234.3 million in 2011) related to Gemplus International S.A. (Luxemburg) tax loss carry-forwards.
[20] Including €795.7 million (€818.8 million in 2011) for Gemplus International S.A. (Luxemburg).

Note 30. Earnings per share

	Year ended December 31, 2012	2011
Profit attributable to Owners of the Company	**201,041**	**160,115**
Weighted average number of ordinary shares – basic	83,310	83,086
Effect of dilution from share options	3,820	2,297
Weighted average number of ordinary shares – diluted	87,130	85,383
Basic earnings per share	**2.41**	**1.93**
Diluted earnings per share	**2.31**	**1.88**

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

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

Note 31. Related party transactions

a) Key Management compensation

The compensation of 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) paid in 2012 and 2011 by the Company is summarized as follows:

	Year ended December 31,	
	2012	2011
Salaries and other short-term employee benefits	10,101	9,079
Share-based compensation charge	19,436	15,157
Total expenses	**29,537**	**24,236**

b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2012, the Company purchased €1,642 worth of equipment (€1,325 in 2011) under existing agreements. Mr. Alex Mandl, who has been the Company's Non-executive Chairman of the Board since December 2, 2007, is also a director of Dell Computer Corporation. Mr. Mandl had no involvement in these transaction.

In 2012, the Company purchased €4,452 worth of equipment and services (€2,782 in 2011) under existing agreements from DataCard Corporation. Mr. Johannes Fritz heads the Quandt Family office, and certain members of the Quandt Family own the majority of DataCard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2012, total purchases from associated companies was €353 (in 2011 €3,439).

c) Sales of goods and services

In 2012, total sales to related parties amounted to €470 (€1 in 2011).

In 2012, total sales to associated companies amounted to €15,550 (€2,173 in 2011).

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

	Year ended December 31,	
	2012	2011
Receivables from:		
Associates	12,566	3,000
Related parties	177	2
Total receivables	**12,743**	**3,002**
Payables to:		
Associates	28	432
Related parties	263	3,910
Total payables	**291**	**4,342**

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

e) Loans receivable from/payable to related parties

The Company has granted a loan in foreign currency substantially equivalent to €1.5 million to an associate. This loan is reported in current assets.

Note 32. Commitments and contingencies

Legal proceedings

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

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2012, are as follows:

	Year ended December 31,	
	2012	2011
Not later than 1 year	22,939	19,816
Later than 1 year and not later than 5 years	63,546	58,353
Later than 5 years	15,495	24,392
Total	**101,980**	**102,561**

Bank guarantees

As at December 31, 2012, bank guarantees, mainly performance and bid bonds, amounted to €74.6 million. These guarantees have been issued as part of the Group's normal operations in order to secure the Group's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Group.

Microprocessor chip purchase commitments

Gemalto is committed by contracts with its suppliers of chips to purchase the whole quantity of products in safety stocks within a period of time of one year from the availability date of the safety stocks. As at December 31, 2012, the commitments to purchase these safety stocks valued at the average purchase price amounted to €50 million (€34.4 million in 2011).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.6 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Note 33. Dividends

The AGM of May 24, 2012 has approved the distribution of a dividend of 0.31 Euro per share in respect of the financial year 2012. This represents a €25.8 million cash distribution.

Note 34. Post-closing events

To management's knowledge, there is no significant event that occurred since December 31, 2012 which would materially impact the consolidated financial statements.

Note 35. Consolidated entities

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

Country of incorporation	Company name	Gemalto's interest
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
Australia	Multos International Pty Ltd	100%
Australia	Netsize Pty Ltd	100%
Belgium	Gemventures 1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
Brazil	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	100%
Canada	Cinterion Wireless Modules Canada Inc.	100%
Canada	Gemalto Canada Inc.	100%
China	Axalto Smart Cards Technology Co. Ltd	100%
China	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
China	Gemalto Technologies (Shanghai) Co. Ltd	100%
China	Gemplus (Beijing) Electronics Research and Development Co. Ltd	100%
China	Gemplus (Tianjin) New Technologies Co. Ltd	100%
China	Gemplus International Trade (Shanghai) Co. Ltd	100%
China	Shanghai Axalto IC Card Technologies Co. Ltd	83%
China	Information Security Co Ltd Shenzen Nan	100%
China	Tianjin Gemplus Smart Cards Co. Ltd	51%
China	Todos (Qingdao) Co. Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Finland	Gemalto Nordic Oy	100%
Finland	Gemalto Oy	100%
Finland	Valimo Wireless Oy	100%
France	CP8 Technologies S.A.	100%
France	Gemalto International S.A.S.	100%
France	Gemalto S.A.	100%
France	Gemalto Treasury Services S.A.	100%
France	MCTel France S.A.	100%
France	Netsize S.A.	100%
France	Newcard S.A.S.	100%
France	SLP S.A.S.	100%
France	Trusted Labs S.A.S.	100%
France	Trusted Logic S.A.S.	100%
France	TV-Card S.A.S.	100%
Germany	Cinterion Wireless Modules GmbH	100%
Germany	Gemalto GmbH	100%
Germany	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Asia Holding Limited	100%
Hong Kong	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
Hungary	Netsize KFT	97%
India	Cinterion Wireless Modules India Private Limited	100%
India	Gemalto Digital Security Private Ltd	100%
India	Gemalto Terminals India Private Ltd	100%
India	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Indonesia	100%
Indonesia	PT Gemalto Smart Cards	100%
Ireland	Celocom Ltd	100%
Israel	Gemalto Israel Ltd	100%
Italy	Gemalto Cards srl	100%
Italy	Gemalto SPA	100%

Country of incorporation	Company name	Gemalto's interest
Italy	Gemalto Systems & Cards srl	100%
Italy	IPX Italia Srl	100%
Italy	Netsize Italia SRL	100%
Japan	Data Security Systems Solutions KK	100%
Japan	Gemalto KK	100%
Luxemburg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
Malaysia	Gemalto Sdn Bhd	100%
Malaysia	IPX Services Sdn Bhd	100%
Mexico	CP8 Mexico S.A. de CV	100%
Mexico	Gemalto Mexico S.A. de CV	100%
Mexico	GTOMX, S.A. de C.V.	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc	100%
Netherlands Antilles	Cards & Terminals N.V.	100%
New Zealand	Serverside Graphics (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Philippines	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Portugal	Ezybill – Comunicaçoes Eletronicas LDA	100%
Russia	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Senegal	Gemalto Senegal S.A.R.L.	100%
Singapore	Data Security Systems Solutions Pte Ltd	100%
Singapore	Gemalto Holding Pte Ltd	100%
Singapore	Gemalto Pte Ltd	100%
Singapore	Gemplus Asia Pacific Pte Ltd	100%
Singapore	Internet Payment Exchange PTE LTD	100%
Singapore	Multos International Pte Ltd	100%
Singapore	Netsize SGP Pte Ltd	100%
Singapore	Trusted Logic Asia Pte Ltd	100%
South Africa	Gemalto Pty Ltd	100%
South Africa	Gemalto Southern Africa Pty Ltd	100%
South Africa	Netsize Proprietary Ltd	100%
South Africa	Trusted Logic Africa Pty Ltd	100%
Spain	Gemalto SP S.A.	100%
Spain	Internet Payment Exchange SL	100%
Spain	Netsize Espana SL	100%
Sweden	AB Svenska Pass	100%
Sweden	Ericsson Internet Payment Exchange AB	100%
Sweden	Gemalto AB	100%
Sweden	Gemalto Sverige AB	100%
Sweden	Netsize Sverige AB	100%
Sweden	Todos eCode Security AB	100%
Switzerland	Gemplus Management & Trading S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Data Security Systems Solutions (Thailand) Co. Ltd	49%
Thailand	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
Turkey	Plastkart	59%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Axalto Cards Ltd	100%
United Kingdom	Gemalto Terminals Ltd	100%
United Kingdom	Gemalto UK Ltd	100%
United Kingdom	Gemplus Ltd	100%
United Kingdom	Maosco Ltd	100%
United Kingdom	Multos Ltd	100%
United Kingdom	Netsize UK Ltd	100%
United Kingdom	Serverside Group Ltd	100%

Country of incorporation	Company name	Gemalto's interest
United Kingdom	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
United States of America	Data Security Systems Solutions, Inc.	100%
United States of America	Gemalto Inc.	100%
United States of America	Netsize Inc.	100%
United States of America	Serverside Graphics, Inc.	100%
United States of America	Trivnet Inc.	100%

For the above listed entities, the percentage of voting rights equals the percentage of ownership interest, with the exception of Trusted Labs S.A.S., Gemalto Southern Africa Pty Ltd and Plastkart for which the percentage of voting rights are 49%, 70% and 98% respectively.

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	22%
France	Setelis S.A.	22%
Germany	CLM GmbH Co. KG	50%
Germany	CLM GmbH	50%
Hong Kong	Gemplus Goldpac Group Ltd	20%
Japan	Toppan Gemalto Services Co. Ltd	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletec Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%
United Kingdom	Trustonic Ltd	30%
United States of America	Macheen, Inc	17%

Statutory financial statements and notes of the Holding Company

Statutory financial statements of the Holding Company

Notes to the Statutory financial statements of the Holding Company

Statement of financial position of the Holding Company

In thousands of Euro	Notes	Year ended December 31, 2012	2011
Assets			
Non-current assets			
Goodwill	2	643,635	613,690
Property, plant and equipment, net	3	98	175
Investments in subsidiaries and associates	4	994,857	1,777,286
Long-term loans to subsidiaries	4, 7	283,097	10,938
Other non-current assets		58	–
Total non-current assets		**1,921,745**	**2,402,089**
Current assets			
Receivables due from subsidiaries		562	3,849
Other receivables		1,828	2,101
Cash and cash equivalents	5	11,490	4,405
Total current assets		**13,880**	**10,355**
Total assets		**1,935,625**	**2,412,444**
Equity			
Issued and paid-in share capital	6	88,016	88,016
Share premium	6	1,207,195	1,209,216
Legal reserves	6	17,336	8,761
Other reserves	6	(45,620)	(70,184)
Retained earnings	6	453,754	320,587
Net profit for the period	6	201,041	160,115
Total equity		**1,921,722**	**1,716,511**
Liabilities			
Non-current liabilities			
Long-term borrowing from subsidiaries		–	3,988
Provisions on investments in subsidiaries and associates	4	2,486	4,835
Total non-current liabilities		**2,486**	**8,823**
Current liabilities			
Short-term borrowing from subsidiaries	7	5,163	669,230
Payables to subsidiaries		694	2,934
Short-term debt		3	10,443
Other payables		5,557	4,503
Total current liabilities		**11,417**	**687,110**
Total liabilities		**13,903**	**695,933**
Total equity and liabilities		**1,935,625**	**2,412,444**

Income statement of the Holding Company

In thousands of Euro	Year ended December 31, 2012	2011
Loss, net of tax	(53,711)	(42,252)
Share of profit of subsidiaries, net of tax	254,752	202,367
Net profit for the period	**201,041**	**160,115**

Statement of changes in shareholders' equity of the Holding Company

In thousands of Euro	Number of shares Issued	Number of shares Outstanding
Shareholders' equity as of January 1, 2012	**88,015,844**	**83,019,536**
Movements in fair value and other reserves:		
Currency translation adjustments		
Fair value gains/(losses), net of tax:		
– Actuarial gains and losses on benefit obligations, net of deferred tax		
– Cash flow hedges, net of deferred tax		
– Currency translation adjustments on fair value gains/(losses)		
Transfer from Other reserves to Legal reserves		
Net income recognized directly in equity		
Net profit for the period		
Total recognized income for 2012		
Share-based compensation expense		
Employee share option plans		1,924,809
Purchase of Treasury shares, net		(868,137)
Excess of purchase price on subsequent acquisition of non-controlling interests		
Shares delivered on acquisition		9,113
Dividends paid/payable to shareholders		
First time application of IAS 19 Amended		
Balance as of December 31, 2012	**88,015,844**	**84,085,321**
Shareholders' equity as of January 1, 2011	**88,015,844**	**83,131,428**
Movements in fair value and other reserves:		
Currency translation adjustments		
Fair value gains/(losses), net of tax:		
– Financial assets available-for-sale		
– Actuarial gains and losses on benefit obligations, net of deferred tax		
– Cash flow hedges		
– Currency translation adjustments on fair value gains/(losses)		
Transfer from Other reserves to Legal reserves		
Net income recognized directly in equity		
Net profit for the period		
Total recognized income for 2011		
Share-based compensation expense		
Employee share option plans		1,697,231
Purchase of Treasury shares, net		(1,808,943)
Excess of purchase price on subsequent acquisition of non-controlling interests		
Dividends paid/payable to shareholders		
Change in consolidation method		
Balance as of December 31, 2011	**88,015,844**	**83,019,536**

Attributable to equity holders of the Holding Company					
Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
88,016	**1,209,216**	**8,761**	**(70,184)**	**480,702**	**1,716,511**
					–
		(8,021)			(8,021)
			(5,498)		(5,498)
		22,764			22,764
			(284)		(284)
		(6,168)	6,168		–
		8,575	**386**		**8,961**
				201,041	201,041
		8,575	**386**	**201,041**	**210,002**
			35,411		35,411
			33,428		33,428
			(45,160)		(45,160)
	(2,021)				(2,021)
			499		499
				(25,840)	(25,840)
				(1,108)	(1,108)
88,016	**1,207,195**	**17,336**	**(45,620)**	**654,795**	**1,921,722**
88,016	**1,209,437**	**15,681**	**(61,886)**	**344,302**	**1,595,550**
		2,223			2,223
		(662)			(662)
			(3,712)		(3,712)
		(14,649)			(14,649)
			(492)		(492)
		6,168	(6,168)		–
		(6,920)	**(10,372)**		**(17,292)**
				160,115	160,115
		(6,920)	**(10,372)**	**160,115**	**142,823**
			29,346		29,346
			33,848		33,848
			(61,120)		(61,120)
	(221)				(221)
				(23,275)	(23,275)
				(440)	(440)
88,016	**1,209,216**	**8,761**	**(70,184)**	**480,702**	**1,716,511**

Notes to the statutory financial statements of the Holding Company

The notes below are an integral part of the statutory financial statements of the Holding Company.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ('the Holding Company' or 'Gemalto'), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

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

1.2 Investments

Subsidiaries are all entities (including special purpose entities) over which the Holding Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Holding Company controls another entity. 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 to the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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.

Note 2. Goodwill

	Goodwill
January 1, 2012	**613,690**
Acquisition of Plastkart	3,550
Acquisition of Ghirlanda	9,973
Acquisition of IPX	18,302
Change in the identifiable assets of MCTel	(2,666)
Currency translation adjustment	786
December 31, 2012	**643,635**

Note 3. Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2012	
Gross book value	479
Accumulated depreciation	(304)
Net book value	**175**
2012 movements	
Additions	7
Depreciation	(84)
Reclassification in Gross book value	32
Reclassification in Accumulated depreciation	(32)
December 31, 2012	
Gross book value	518
Accumulated depreciation	(420)
Net book value	**98**

Note 4. Investments and loans

	Year ended December 31, 2012	2011
Investments in subsidiaries and associates	994,857	1,777,286
Provisions on investments in subsidiaries and associates	(2,486)	(4,835)
Net investments in subsidiaries and associates	**992,371**	**1,772,451**

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, 2012	**1,770,897**	**1,554**	**10,938**	**1,783,389**
2012 movements				
Acquisition of Plastkart	9,898			9,898
Acquisition of Ghirlanda	1,527			1,527
Acquisition of IPX	13,275			13,275
Acquisition of Trustonic		6,614		6,614
Acquisition of Newcard	499			499
Adjustment on 2011 acquisitions	2,666			2,666
Contributions to subsidiaries	1,559			1,559
Internal acquisitions of investments by the Holding Company from its own subsidiaries	76,467			76,467
Gemplus International S.A.: Share capital increase	4,680			4,680
Gemplus International S.A.: Share buy-back	(757,492)			(757,492)
Excess of purchase price on subsequent acquisition of Trusted Logic	(243)			(243)
Change in accounting policy (see note 2.2 to the consolidated financial statements)	(1,108)			(1,108)
Fair value gains	16,983			16,983
Dividends	(401,193)			(401,193)
Net result from subsidiaries	254,965			254,965
Net result from associates		(213)		(213)
Refund of loans			268,117	268,117
New loans			4,425	4,425
Revaluation through Profit and Loss			(435)	(435)
Currency translation adjustment	(8,905)	(59)	52	(8,912)
December 31, 2012	**984,475**	**7,896**	**283,097**	**1,275,468**

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2012	2011
Cash at bank and in hand	11,490	881
Short-term bank deposits and investment funds	–	3,524
Total	**11,490**	**4,405**

The average effective interest rate on short-term deposits was 0.00% in 2012 (0.38% in 2011).

Note 6. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2012 and consisted of 150 million ordinary shares with a nominal value of €1.

Issued and fully paid-in share capital amounted to €88,016 as at December 31, 2012 and 2011, and consisted of 88,015,844 ordinary shares with a nominal value of €1.

Share premium

As at December 31, 2012, the share premium amounted to €1,207,195 (€1,209,216 as at December 31, 2011).

Legal reserves

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

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

	Income recognized directly in equity	Undistributable results of Group companies	Total
January 1, 2012	**8,710**	**51**	**8,761**
2012 movements	14,743	–	14,743
Additions/Transfers, net	(6,168)	–	(6,168)
December 31, 2012	**17,285**	**51**	**17,336**

As at December 31, 2012, 'Income recognized directly in equity' consisted of:

	2012
Cumulative translation adjustment	81
Reserve for cash flow hedge	16,596
Fair value adjustments on financial assets available-for-sale	608
Total	**17,285**

Other reserves

As at December 31, 2012, 'Other reserves' consisted of:

	2012
Treasury shares	(151,753)
Share option reserve	137,375
Net gains on Treasury shares in connection with the liquidity program	1,999
Reserve for actuarial gains and loses on benefit obligations	(12,607)
Associated cumulative translation adjustments	(1,711)
Treasury shares canceled	(18,923)
Total	**(45,620)**

Note 7. Loans and borrowings with subsidiaries

Loans to subsidiaries

	Year Ended December 31, 2012
Subsidiaries	Long-term Loans
Gemalto Treasury Services S.A.	277,737
Gemalto Pty Ltd (former Gemalto Namitech Pty Ltd)	3,226
Gemalto Southern Africa Pty Ltd	1,337
PT Gemalto Smart Cards Indonesia	797
Total	**283,097**

The Holding Company borrows from or lends to Gemalto Treasury Services S.A., the Treasury Center entity. The agreement is interest-bearing and valid for a time period of one year, automatically renewable for further periods of one year, if not cancelled.

The Holding Company financed its subsidiaries with the following terms:

	Gemalto Pty Ltd	Gemalto Southern Africa Pty Ltd	PT Gemalto Smart Cards Indonesia	Gemalto Arabia Ltd
Effective date	March 18, 2009	June 1, 2012	July 28, 2009	December 15, 2012
Type of loan	non-interest-bearing loan	interest-bearing loan	interest-bearing loan	interest-bearing loan
Maximum facility	ZAR110 million	ZAR45 million	USD1.1 million	SAR10 million
Maturity	five-year	five-year	five-year	two-year

Borrowings from subsidiaries

Borrowings from subsidiaries consist of the following:

	Year ended December 31, 2012
	Short-term Borrowings
Cards & Terminals N.V.	2,092
Axalto Cards & Terminals Ltd	1,815
Gemalto (Thailand) Ltd	1,256
Total	**5,163**

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

	Cards & Terminals N.V.	Axalto Cards & Terminals Ltd	Gemalto (Thailand) Ltd
Effective date	December 14, 2010	December 14, 2010	August 3, 2010
Type of borrowing	interest-bearing loan	interest-bearing loan	interest-bearing loan
Maximum facility	USD3.5 million	USD2.4 million	THB50 million
Maturity	three-year	three-year	three-year

Note 8. Employees

The average number of staff employed by the Holding Company during 2012 was 12 (12 in 2011). None of these employees was employed abroad (none in 2011).

Note 9. Information relating to the Board

Amounts in this note are stated in Euro.

At the 2012 AGM, based on the Nomination and Governance committee's advice, the Board recommended the reappointment of all members of the Board who stood for reappointment. Geoffrey Fink opted not to seek reappointment when his mandate expired at the close of the AGM, because of his other obligations.

After a thorough selection process, the committee proposed to expand the Board from 10 to 11 members and put forward two women as new Non-executive Board members. Interviews and introduction meetings were held with the committee members and other Board members including the Chairman and CEO.

At the 2013 AGM, the terms of Buford Alexander, John Ormerod and Kent Atkinson will end.

Remuneration of the Board

Gemalto Board		Board member fee per annum	Board committee fee per annum	Remuneration from January 1 until December 31, 2012
Fiscal year 2012				
Alex Mandl	Non-executive Chairman	200,000	12,000	212,000
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	–	35,000
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Buford Alexander	Non-executive Board member	65,000	12,852	77,852
Drina Yue	Non-executive Board member	39,426	9,705	49,131
Geoffrey Fink	Non-executive Board member	25,751	6,339	32,090
Johannes Fritz	Non-executive Board member	65,000	28,000	93,000
John Ormerod	Non-executive Board member	65,000	32,000	97,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
Michel Soublin	Non-executive Board member	65,000	16,000	81,000
Philippe Alfroid	Non-executive Board member	65,000	20,852	85,852
Yen Yen Tan	Non-executive Board member	39,426	4,852	44,278
Total		**794,603**	**186,600**	**981,203**

Gemalto Board		Board member fee per annum	Board committee fee per annum	Remuneration from January 1 until December 31, 2011
Fiscal year 2011				
Alex Mandl	Non-executive Chairman	200,000	12,000	212,000
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	–	35,000
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Buford Alexander	Non-executive Board member	65,000	8,000	73,000
Geoffrey Fink	Non-executive Board member	65,000	16,000	81,000
Johannes Fritz	Non-executive Board member	65,000	28,000	93,000
John Ormerod	Non-executive Board member	65,000	32,000	97,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
Michel Soublin	Non-executive Board member	65,000	16,000	81,000
Philippe Alfroid	Non-executive Board member	65,000	16,000	81,000
Total		**755,000**	**172,000**	**927,000**

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 2007 AGM is:

- €200,000 for the Non-executive Chairman of the Board;
- €65,000 for each other Non-executive Board member;
- an additional €16,000 for each member of the Audit committee and €24,000 for the committee chairman;
- and an additional €8,000 for each member of every other Board committee and €12,000 for the committee chairman.

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €4,882 in 2012.

The remuneration paid by the Holding Company or by companies of the Group to the CEO, Olivier Piou, for the 2012 financial year is as follows:

	Total Reference Compensation[1]	Variable (percentage of Total Reference Compensation)	Total gross compensation paid for 2012
Olivier Piou	800,000	180%[2]	2,240,000

[1] including his Board member fees
[2] 192% capped at 180%

Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM. His employment contract (originally dated 1981), is with Gemalto International S.A.S., a Gemalto subsidiary: it is not time limited, is governed by French law and carries a six-month notice period. He enjoys any and all benefits that may be applicable to French employees of the company. His performance in 2012 entitled him to a 192% variable compensation, however his variable compensation is capped at 180% in his employment contract, capped which was thus applied.

Share options granted to Board members

Share options have been attributed under the Global Equity Incentive Plan as described in note 25 to the consolidated financial statements:

	Grant Date	Share options granted	Exercise price (€)	**Number of options outstanding as of December 31, 2012**	Number of options outstanding as of December 31, 2011
Alex Mandl	Aug 2002	361,664	24.88	–	35,000
	Jun 2006	200,000	23.10	80,000	200,000
Olivier Piou	Sep 2005	150,000	30.65	150,000	150,000
	Jun 2006	200,000	23.10	200,000	200,000
	Sep 2008	150,000	26.44	150,000	150,000

During the year ended December 31, 2012, the Board of Gemalto N.V. granted performance and service conditioned restricted share units (RSUs) to the CEO, Olivier Piou.

The following are the characteristics of the plan:

Grant Date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
Mar 2012	50,000	Dec 2014	Vesting conditions are both performance and service based. RSU will vest if Group PFO reaches the target value of the year 2013 and the service vesting condition is being an employee of Gemalto on December 31, 2014	Share price of €46.98 Risk free rate from Year 1 to Year 5 being 0.51% to 1.70% Fair value including a 4.74% discount	none

The fair value of the grant expensed over the vesting period in the income statement has been calculated as of March 6, 2012 using the stochastic option-pricing model. Vesting conditions are both performance and service based.

Year ended December 31, 2012, the following RSUs granted to Olivier Piou are outstanding:

Grant Date	Amount granted	Amount vested	Amount forfeited	Options outstanding as at December 31,2012	Outstanding vesting conditions	End of vesting period
Oct 2009	65,000	(65,000)	–	–	n/a	n/a
Mar 2010	65,000	–	(7,000)	58,000	service	Mar 2013
Mar 2011	150,000	(150,000)	–	–	n/a	n/a
Mar 2012	50,000	–	–	50,000	performance and service	Dec 2014

Share-based compensation charge related to Olivier Piou's share options and RSUs amounted to €3,120,712 in 2012 (€3,520,816 in 2011). No charge was recorded during the period in relation with Alex Mandl's share options (no charge in 2011 either). The gross compensation paid for 2012 and discussed in the section 'Remuneration of the Board' of this note excludes share-based compensation charge.

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

As at December 31, 2012	Gemalto Shares	FCPE Units[3]	RSUs[4]	Gemalto Share options
	Number of shares held	Number of units purchased	Maximum number of RSUs held	Number of shares options held
Olivier Piou	65,000	4,244	258,000	500,000
Axel Mandl	–	–	–	80,000
Michel Soublin	1,500	–	–	–
Johannes Fritz	–	–	–	904
Total	**66,500**	**4,244**	**258,000**	**580,904**

[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 service conditions

Note 10. Auditor's fees

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2011 and 2012 were as follows:

2012	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	115	2,485	2,600
Other audit procedures	15	519	534
Fees relating to tax advice	–	22	22
Total	**130**	**3,026**	**3156**

2011	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	112	2,536	2,648
Other audit procedures	–	418	418
Fees relating to tax advice	–	27	27
Total	**112**	**2,981**	**3,093**

Note 11. Guarantees granted by the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.6 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2012, are as follows:

	2012
Not later than 1 year	230
Later than 1 year and not later than 5 years	657
Later than 5 years	80
Total	**967**

The Board

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
Executive Board member
and Chief Executive Officer

Arthur van der Poel
Non-executive Board member

Buford Alexander
Non-executive Board member

Drina Yue
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Kent Atkinson
Non-executive Board member

Michel Soublin
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Amsterdam, 12 March, 2013

(A signed copy of the Annual Report is available at the Holding Company's office).

Other information

Auditor's report

Independent auditor's report on statutory financial statements

To: the General Meeting of Shareholders of Gemalto N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of Gemalto N.V. , Amsterdam as set out on pages 52 to 112. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Board of directors' responsibility

The board of directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2012, 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 and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2012, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report as included in the accompanying annual report which comprises of sections Overview, Vision and performance and Governance, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

The Hague, 12 March 2013

PricewaterhouseCoopers Accountants N.V.
Original signed by W.A. Schouten RA

Further statutory information

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – Dividend

The Board has determined with due observance of the Holding Company's policy on additions to reserves and on distributions of profits to propose to the 2013 AGM to distribute a dividend in cash of €0.34 per share in respect of the 2012 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

To management's knowledge, there is no significant events that occurred since December 31, 2012 which would materially impact the statutory financial statements of the Holding Company.

Adjusted measures

Adjusted income statement and profit from operations non-GAAP measure

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards. 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 take operating decisions over the period 2010 to 2013 is the Profit from operations.

Profit from operations (PFO) is a non-GAAP measure defined as the IFRS operating result adjusted for equity-based compensation charges and associated costs, for restructuring and acquisition-related expenses, and for the amortization and depreciation of intangibles resulting from acquisitions. These items are further explained as follows:

- 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.

- 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).

- 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.

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, Sales and Marketing, General and Administrative expenses, and Other income (expense) net.

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

Return on capital employed (ROCE) is defined as after-tax PFO divided by capital employed.

Adjusted income statement for ongoing operations

For a better understanding of the current and future year-on-year evolution of the business, the Company also provides an adjusted income statement for the ongoing operations.

- **Ongoing operations**
  The adjusted income statement for ongoing operations not only excludes, as per the IFRS income statement, the contribution from discontinued operation to the income statement, but also the contributions from assets classified as held for sale and from other items not related to ongoing operations.

- **Assets held for sale**
  For the year 2012, reported figures for ongoing operations only differ from figures for all operations by the contribution from assets held for sale and the gain on sale of a subsidiary to an associate. Compared to figures reported on the full year of 2011, figures for ongoing operations for the full year 2011 reported in this publication were re-presented to also exclude the contribution from assets classified as held for sale in 2012.

Adjusted income statement by business segment

	Ongoing operations:							
In thousands of Euro	Mobile Communication	M2M	Secure Transactions	Security	Patents	Full year 2012 ongoing operations	Reconciling items[1]	Full year 2012 all operations
								Year ended December 31, 2012
Revenue	**1,089,591**	**192,211**	**568,008**	**383,995**	**2,131**	**2,235,936**	**9,564**	**2,245,500**
Gross profit	**471,022**	**63,753**	**183,231**	**142,434**	**1,826**	**862,266**	**2,145**	**864,411**
Operating expenses	(277,713)	(49,784)	(120,866)	(97,241)	(11,624)	(557,228)	(906)	(558,134)
Profit from operations	**193,309**	**13,969**	**62,365**	**45,193**	**(9,798)**	**305,038**	**1,239**	**306,277**

Reconciliation from Adjusted financial information to IFRS

					Year ended December 31, 2012
In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items[1]	Adjusted financial information for all operations	Adjustments	IFRS financial information
Revenue	**2,235,936**	**9,564**	**2,245,500**		**2,245,500**
Cost of sales	(1,373,670)	(7,419)	(1,381,089)	(6,510)	(1,387,599)
Gross profit	**862,266**	**2,145**	**864,411**	**(6,510)**	**857,901**
Operating expenses					
Research and engineering	(133,926)	(3,711)	(137,637)	(3,502)	(141,139)
Sales and marketing	(299,759)	(2,548)	(302,307)	(14,144)	(316,451)
General and administrative	(132,998)	(266)	(133,264)	(14,466)	(147,730)
Gain on remeasurement to fair value of an investment in associate					
Gain on sale of a subsidiary		5,584	5,584		5,584
Other income (expense), net	9,455	35	9,490		9,490
Profit from operations	**305,038**	**1,239**	**306,277**		
Share-based compensation charges and associated costs				(38,622)	
Restructuring & acquisition-related expenses				(7,911)	(7,911)
Amortization and depreciation of intangibles resulting from acquisitions				(20,985)	(20,985)
Operating profit				**(67,518)**	**238,759**
Financial income (expense), net	(11,494)	61	(11,433)		(11,433)
Share of profit of associates	2,009	(208)	1,801		1,801
Profit before income tax	**295,553**	**1,092**	**296,645**	**(67,518)**	**229,127**
Income tax (expense)	(34,902)	(103)	(35,005)	6,799	(28,206)
Profit from continuing operations	**260,651**	**989**	**261,640**	**(60,719)**	**200,921**
Profit (loss) from discontinued operation (net of income tax)					
Profit for the period	**260,651**	**989**	**261,640**	**(60,719)**	**200,921**
Attributable to:					
Owners of the Company	260,365		261,635		201,041
Non-controlling interests	286		5		(120)
Earnings per share (€ per share)					
Basic	3.13		3.14		2.41
Diluted	2.99		3.00		2.31

[1] 'Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to ongoing operations.

In thousands of Euro	Ongoing operations: Mobile Communication	M2M	Secure Transactions	Security	Patents	Full year 2011 ongoing operations	Reconciling items[1]	Full year 2011 all operations
								Year ended December 31, 2011
Revenue	**959,970**	**174,267**	**531,362**	**309,870**	**8,793**	**1,984,262**	**31,122**	**2,015,384**
Gross profit	**390,623**	**60,423**	**168,185**	**118,025**	**7,501**	**744,757**	**6,789**	**751,546**
Operating expenses	(250,020)	(46,698)	(110,482)	(88,229)	(7,955)	(503,384)	7,483	(495,901)
Profit from operations	**140,603**	**13,725**	**57,703**	**29,796**	**(454)**	**241,373**	**14,272**	**255,645**

In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items[1]	Adjusted financial information for all operations	Adjustments	IFRS financial information
					Year ended December 31, 2011
Revenue	**1,984,262**	**31,122**	**2,015,384**	**–**	**2,015,384**
Cost of sales	(1,239,505)	(24,333)	(1,263,838)	(2,964)	(1,266,802)
Gross profit	**744,757**	**6,789**	**751,546**	**(2,964)**	**748,582**
Operating expenses					
Research and engineering	(113,470)	(2,671)	(116,141)	(1,951)	(118,092)
Sales and marketing	(273,682)	(2,849)	(276,531)	(12,364)	(288,895)
General and administrative	(120,697)	(1,805)	(122,502)	(14,797)	(137,299)
Gain on remeasurement to fair value of an investment in associate		19,240	19,240		19,240
Other income (expense), net	4,465	(4,432)	33		33
Profit from operations	**241,373**	**14,272**	**255,645**		
Share-based compensation charges and associated costs				(32,076)	
Restructuring & acquisition-related expenses				(15,374)	(15,374)
Amortization and depreciation of intangibles resulting from acquisitions				(24,813)	(24,813)
Operating profit				**(72,263)**	**183,382**
Financial income (expense), net	(14,605)	2,101	(12,504)		(12,504)
Share of profit of associates	5,714		5,714		5,714
Profit before income tax	**232,482**	**16,373**	**248,855**	**(72,263)**	**176,592**
Income tax (expense)	(16,122)	(3,496)	(19,618)	5,948	(13,670)
Profit from continuing operations	**216,360**	**12,877**	**229,237**	**(66,315)**	**162,922**
Profit (loss) from discontinued operation (net of income tax)		(1,554)	(1,554)		(1,554)
Profit for the period	**216,360**	**11,323**	**227,683**	**(66,315)**	**161,368**
Attributable to:					
Owners of the Company	215,300		226,430		160,115
Non-controlling interests	1,060		1,253		1,253
Earnings per share (€ per share)					
Basic	2.59		2.73		1.93
Diluted	2.52		2.65		1.88

Investor information

Investor relation policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's investor relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price sensitive information is disseminated without delay through press releases and web site 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 road shows 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 web site 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 fifteen days prior to the publication date.

Corporate seat

Gemalto N.V. is the holding company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As at December 31, 2012 the Company's issued and paid-up share capital amounted to €88,015,844, consisting of 88,015,844 ordinary shares with a nominal value of €1 per share, of which 3,930,523 shares were held in treasury. 84,085,321 shares were hence in circulation on December 31, 2012.

Stock exchange listing – 2012 stock market data

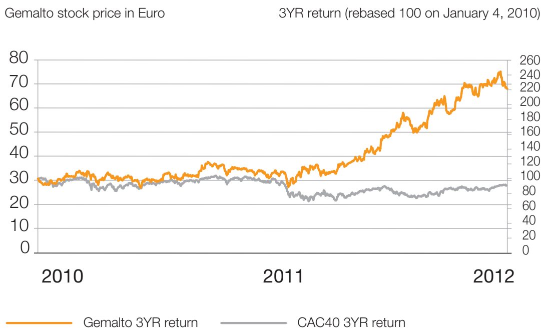
Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Paris in the compartment A (Large Caps). Gemalto shares were eligible for the Deferred Settlement System or Service de Règlement Différé (SRD) from January 26, 2006 onwards.
Mnemonic: GTO
Exchange: NYSE Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.PA
Bloomberg: GTO:FP
Among other stock indices, Gemalto is part of the: CAC 40 (FR0003500008), MSCI Standard Europe and Dow Jones STOXX 600 Index (EU0009658202).

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depository Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollar 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 dollar, after being converted into US dollar 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

Share price evolution



- Average daily trading volume on Euronext Paris in 2012: 385,392
- Market capitalization as at December 31, 2012: €5,717,801,828

Shareholders' disclosures

The following shareholding threshold disclosures were applicable as at December 31, 2012. For further information, please refer to Shareholders' disclosures, page 50.

Notification date	Notifier	Disclosure (% of capital)
May 28, 2009	Caisse des Dépôts et Consignations (CDC) (France)	8.43%

Geographic spread of share holdings

Geographical spread of identified shareholding as of November 2012

	% of outstanding capital
North America	29%
UK and Ireland	14%
Continental Europe	51%
Other	6%

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, it paid a cash dividend of €0.28 in respect of the 2010 financial year and in 2012, it paid a cash dividend of €0.31 in respect of the 2011 financial year. With due observance of the Company's dividend policy, the Board will propose to the 2013 AGM to distribute a dividend in cash of €0.34 per share in respect of the 2012 financial year up by 10%. For more information on the dividend policy, please refer to Distribution of profits, page 50.

Share buy-back program

As authorized by the 2012 AGM, the Company has renewed its share buy-back program up to and including November 23, 2013. During the full year 2012, the Company used €45 million to purchase Gemalto shares within this program. As at December 31, 2012, the Company held 3,930,523 shares in treasury, which were repurchased on the market at an average acquisition price of €38.61. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 50.

Financial calendar 2013

Important dates of financial calendar

March 14, 2013	Publication of 2012 Fourth Quarter Revenue and Full Year Results
April 25, 2013	Publication of 2013 First Quarter Revenue
May 23, 2013	2013 Annual General Meeting of shareholders
August 29, 2013	Publication of 2013 Second Quarter Revenue and First Semester Results
October 24, 2013	Publication of 2013 Third Quarter Revenue

2013 annual meeting of shareholders
Gemalto N.V. will hold its 2013 AGM at the Sheraton Amsterdam Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG Schiphol Airport, the Netherlands on Thursday, May 23, 2013 at 2 p.m. CET.

The Board has decided that the persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights on April 25, 2013 (the 'Record Date') in Gemalto's shareholders register, or in a register of an institution affiliated to Euroclear France S.A., regardless of whether they are shareholder at the time of the AGM. For this purpose, the Board will consider the persons recorded as such after the close of trading on the Record Date.

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Glossary of digital security terms

3FF (Third Form Factor): a very small SIM card, also known as a 'micro-SIM', for use in small mobile devices.

3G (Third Generation): the broadband telecommunications systems that combine high-speed voice, data and multimedia.

3GPP (Third Generation Partnership Project): a group that aims to produce specifications for a 3G system based on GSM networks.

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

Big data: a collection of data sets so large and complex that they are difficult to process with traditional applications.

Bluetooth: a short-range wireless technology that simplifies communication and synchronization between the internet, devices and other computers.

CAC (Common Access Card): a US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

Cloud computing: computing by using servers, storage and applications that are accessed via the internet.

Contactless: a card that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

CRM: Customer Relationship Management.

DDA (Dynamic Data Authentication): an authentication technology that allows banks to approve transactions at the terminal in a highly secure way.

DI (Dual-Interface): a device that is both contact and contactless.

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

Dongle: any small piece of hardware that plugs into a computer.

EAC (Extended Access Control): a mechanism enhancing the security of ePassports whereby only authorized inspection systems can read biometric data.

eBanking: accessing banking services via the internet.

eCommerce: buying and selling goods and services via the internet.

eGovernment: the use of digital technologies (often via the internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: the industry standard for international debit/ credit cards established by Europay, MasterCard and Visa.

ePassport: an electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

ePurse: a small portable device that contains electronic money and is generally used for low-value transactions.

eTicketing: electronic systems for issuing, checking and paying for tickets, mainly for public transport.

FIPS 201 (Federal Information Processing Standard): a US federal government standard that specifies personal identity verification requirements for employees and contractors.

GSM (Global System for Mobile communications): a European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): the global association for mobile phone operators.

HSPD-12 (Homeland Security Presidential Directive-12): orders all US federal agencies to issue secure and reliable forms of identification to employees and contractors, with a recommendation in favor of smart card technology.

IAM: Identity and Access Management.

ICAO (International Civil Aviation Organization): the UN agency which standardizes machine-readable and biometric passports worldwide.

IM (instant messaging): using text on a mobile handset to communicate in real time.

IP (Internet Protocol): a protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

Java: a network oriented programming language invented by Sun Microsystems and specifically designed so that programs can be safely downloaded to remote devices.

LTE (Long Term Evolution): the standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

mCommerce: buying and selling goods and services using a mobile device connected to the internet.

MFS (Mobile Financial Services): banking services such as transfer and payment available via a mobile device.

Microprocessor: a 'smart' card comprising a module embedded with a chip, a computer with its own processor, memory, operating system and application software.

MIM (Machine Identification Module): the equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MMS (Multimedia Messaging Service): a standard way of sending messages that include multimedia content (e.g. photographs) to and from mobile phones.

MNO (Mobile Network Operator): a company that provides services for mobile phone subscribers.

Mobile money: banking and payment services for unbanked users.

Module: the unit formed of a chip and a contact plate.

mPayment: using a mobile handset to pay for goods and services.

NFC (Near-Field Communication): a wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OMA (Open Mobile Alliance): a body that develops open standards for the mobile phone industry.

OS (Operating System): software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): a method of distributing new software updates to cellphones which are already in use.

OTP (One-Time Password): a password that is valid for only one login session or transaction.

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.

SIM (Subscriber Identity Module): a smart card for GSM systems.

SMS (Short Message Service): a GSM service that sends and receives messages to and from a mobile phone.

Thin client: a computer (client) that depends primarily on a central server for processing activities. By contrast, a fat client does as much local processing as possible.

TSM (Trusted Service Manager): a third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): a high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

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

USB (Universal Serial Bus): a standard input/output bus that supports very high transmission rates.

USIM (Universal Subscriber Identity Module): a SIM with advanced software that ensures continuity when migrating to 3G services.

VPN (Virtual Private Network): a private network often used within a company or group of companies to communicate confidentially over a public network.

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