Annual Report 2009

gemalto
security to be free

Bringing trust and convenience to the digital world

Our vision

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

Financial highlights

Revenue
€1,654m
2008: €1,680m

Adjusted operating income[*]
€171m
2008: €169m

Adjusted operating margin[*]
10.3%
2008: 10.1%

IFRS net income
€118m
2008: €115m

Net cash
€381m
2008: €344m

Cash generated by operating activities
€200m
2008: €132m

Cash returned to shareholders (share buy-back)
€65m
2008: €65m

Return on Capital Employed (ROCE)
14.3%
2008: 15.5%

Adjusted basic earnings per share[*]
€1.75
2008: €1.80

[*] Adjusted financial information is a set of non-GAAP measures defined as IFRS financial information adjusted for reorganisation charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151.

"In the very adverse 2009 economic environment Gemalto further improved its profitability. Strong focus on value creation for our customers and operational efficiency translated into meaningful gross margin improvements. We again demonstrated our ability to generate strong cash flows. The return to a positive trend in the fourth quarter is a good sign for the start of our 2010-2013 Development Plan. And at the 2010 shareholders' meeting, we are proposing the first dividend distribution in our history."

Olivier Piou
Chief Executive Officer

For further information please visit
www.gemalto.com

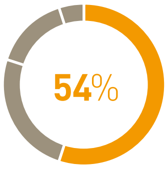
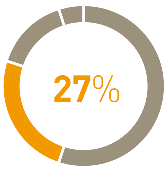
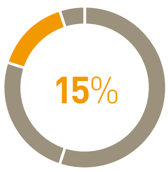
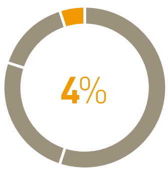
The Board report comprises the following chapters: 'Our vision', 'Segmental overview', 'Group financial and operating review', and 'Governance'.

Gemalto N.V. is a public company incorporated in the Netherlands. It is headquartered in Amsterdam and has subsidiaries around the world. Unless otherwise specified, we refer to them as 'Gemalto'.

Our segments

Gemalto is at the heart of our evolving digital society. The freedom to communicate, travel, shop, bank, entertain and work – anytime, anywhere, and in ways that are convenient, enjoyable and secure – has become an integral part of what people want and expect. Gemalto meets these growing demands of millions of people worldwide by offering our products and services through the following segments:

Segment	Solutions	Markets
Mobile Communication page 20	• A unique portfolio of Subscriber Identity Module (SIM) and Universal Integrated Circuit Card (UICC) based solutions for Mobile Network Operators (MNOs) and 'virtual' operators.	**Telecommunications:** the world's leading supplier of SIM cards, software and services to the mobile industry, we deliver a vast range of solutions to address the increasingly complex ecosystem of digital communications that now serves nearly 5 billion subscribers.
Secure Transactions page 24	• Innovative and secure payment solutions for financial institutions and retailers. • Rapid, convenient, contactless eTicketing solutions for public transport. • Pay TV subscriber authentication and rights management solutions.	**Financial services and retail:** the leading player in this sector, we deliver a wide range of chip card solutions and services to banks and other issuers with hundreds of millions of end-users. **Transport and Pay TV:** we provide eTicketing solutions to governments and mass transit authorities; plus a range of Pay TV solutions to secure access service providers.
Security page 28	• Highly secure, durable products, solutions and services for Government Programs. • Identity and Access Management (IAM) solutions for enterprises and other organizations.	**Government:** the world's leading supplier of ePassports, we also provide secure electronic documents and services for eID, eHealth, eDriving license and other eGovernment programs. **Enterprise and eBanking:** we provide secure Identity and Access Management solutions for enterprises and other organizations; plus a range of secure eBanking services.
Others page 32	• Point-of-Sale terminals and services for retailers. • Phone cards for Public Telephony operators.	We provide POS terminals (including embedded software and related servers), technical support and maintenance services to restaurants, petrol stations and other retailers. We sell a vast range of pre-paid cards and solutions for Public Telephony.

Revenue		Adjusted EBIT[*]	Highlights
€888m 2008: €948m		**€142m** 2008: €160m	• Resilience in a cautious market with some customers delaying innovative projects. • Software & services revenue up 15% at constant exchange rates. • Gross margin improved, reflecting focus on value-selling and efficiency. • Tight control on operating expenses offset consolidation of new activities.
€441m 2008: €443m		**€15m** 2008: €27m	• Return to growth in the fourth quarter. • Special provision of €11m related to situation in Germany identified in January 2010. • Increase in gross margin in the second semester due to improvements in product mix and personalization efficiency. • Tight controls on operating expenses offset consolidation of new activities.
€248m 2008: €216m		**€7m** 2008: €(20m)	• Double-digit growth in revenue, driven by eID and eBanking. • Significant gross margin improvements from better industrialization and stronger patents contribution. • Security turned to profit for the full year, demonstrating operational leverage.
€77m 2008: €73m		**€6m** 2008: €3m	• POS terminals delivered solid growth. • Public Telephony revenue declined in line with expectations and market trends, as mobile telephony progressively replaces public telephony around the world.

[*] Adjusted financial information is a set of non-GAAP measures defined as IFRS financial information adjusted for reorganisation charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. Please refer to page 151.

Our business model

Gemalto's expertise spans the entire process for creating digital security solutions. We buy microprocessors, develop operating systems and software, and produce and personalize secure devices – of which we have already delivered 11 billion worldwide. We continue to innovate with new forms and architectures, and expand our software and services offering for operators who want to provide secure, convenient services to consumers.

Research & Development

R&D centers

11

Digital scientists

1,400

Gemalto's internationally renowned team of security and cryptography experts leads the way in the design and implementation of new anti-fraud solutions certified to the highest standards.

Solutions, software and services

Value-added services

€164m

value of services sold 2009

Software and services

Gemalto's expertise and experience in the field means we are uniquely placed to offer a range of services around identity and security management. We design and implement entire solutions that include software, hardware, training and support. We also help clients to exploit the increasingly powerful capabilities of our SIM, UICC and smart cards with additional services delivered over the useful life of each device.

Personalization facilities

30

Personalized devices

Gemalto is a trusted partner for the individual personalization of millions of secure personal devices daily, certified to the best security level practices. Our issuance and post-issuance services oversee each step in delivering them all the way to the end-user, as well as replacing and upgrading them once in the field.

Generic cards

Production sites

18

- Complete range of smart cards, banking cards, identity documents, etc.
- Point-of-Sale (POS) terminals , USB dongles and other hardware.

32

Number of publicly funded research projects Gemalto participated in during 2009.

103

New inventions first filed in 2009. (2008: 80)

4,500

Patents and patent applications in our patent portfolio, representing about 1,200 patent families.

Licensing of intellectual property

We continue to innovate with new forms and architectures, and provide complete solutions for secure, convenient services.

Partner network

www.gemalto.com/ourpartners

Technology partners:
Develop products (hardware and/or software) that are complementary to Gemalto's. Technology partners and Gemalto commit to making their products interoperable and engage in co-marketing activities.

Markets

Gemalto leverages its business model in a wide variety of markets

- Telecommunications
- Finance services and retail
- Transport and Pay TV
- Government
- Enterprise

www.gemalto.com/ourmarkets

Consumers

1.4 billion
Secure devices produced and personalized in 2009.

350 million+
People currently carry a Gemalto EMV* card worldwide.

120 million+
Contactless travel cards supplied to date worldwide.

2 million+
POS terminals sold to date in more than 25 countries.

* EMV: EuroPay, MasterCard, Visa: the industry standard for international debit/credit cards.

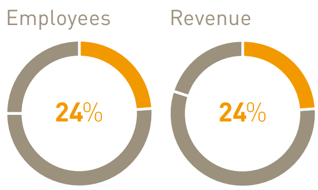
Original Equipment Manufacturers:
Companies that embed and resell Gemalto technologies in their own products with their own branding.

Business partners:
Resell and market Gemalto products and services.

Solution partners:
Develop solutions based on Gemalto products and technologies using Gemalto development tools and references.

Our global presence

Gemalto's global presence is key to the way we serve our clients, with our sites and facilities strategically spread across every continent. Beyond this, it's our employees of some 90 nationalities, and our worldwide network of partners, who make the difference. So wherever our clients are based, we're not far away and we speak their language.



Americas

Argentina	Buenos Aires
Brazil	Curitiba Janeiro São Paulo
Canada	Montreal Ontario
Columbia	Bogota
Mexico	Cuernavaca Iztapalapa Mexico City
USA	Arlington Austin Montgomeryville North Wales

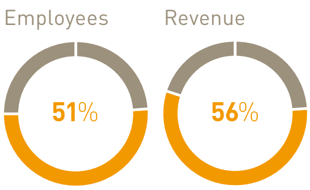
Key
- Research & Development centers
- Production sites
- Personalization facilities
- Sales and Marketing offices

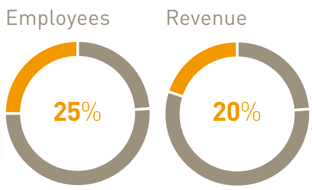
Key figures

77
Sales and Marketing offices

90
Nationalities

10,000
Employees





Europe and CISMEA

Europe

Belgium	Brussels
Czech Republic	Prague
Denmark	Ballerup Copenhagen
Finland	Vantaa
France	LaCiotat/Gemenos Meudon/Versailles Pont-Audemer Sophia-Antipolis Tours
Germany	Filderstadt Ismaning Overath
Hungary	Budapest
Ireland	Dublin
Italy	Agrate Brianza Milan Rome
Netherlands	Amsterdam
Norway	Oslo
Poland	Tczew Warsaw
Spain	Barcelona Madrid
Sweden	Stockholm
UK	Fareham Ferndown Havant London Warrington

CISMEA

Egypt	Cairo
Kazakhstan	Almaty
Oman	Muscat
Pakistan	Lahore
Russia	Moscow Saint-Petersburg
Senegal	Dakar
South Africa	Cape Town Johannesburg
Turkey	Istanbul
United Arab Emirates	Dubai

Asia

Australia	Sydney Melbourne
Bangladesh	Dhaka
China	Beijing Changsha Guangzhou Hong Kong Shanghai Taipei, Taiwan Tianjin Zuhai
India	Bangalore Mumbai New Delhi Noida
Indonesia	Jakarta
Japan	Tokyo
Korea	Seoul
Malaysia	Kuala Lumpur
Philippines	Makati
Singapore	Singapore
Thailand	Bangkok
Vietnam	Hanoi

For full details of each of our locations
www.gemalto.com/locations

Stock price at 31 Dec 2009

€30.50

2008: €17.90

This represents an increase in value of 70.4% in 2009, compared to the CACNext20 Index that increased by 19.8%, and to the SBF120 Index that increased by 24%.

Chairman's statement

Against a difficult economic backdrop, Gemalto delivered strong results in 2009. This underscores the success of the Company's strategy and is a tribute to the hard work and creativity of its management and employees.

"Gemalto has performed well during a challenging year for the global economy and has continued to win plaudits from customers and shareholders."

A strong performance

I'm delighted to report that Gemalto performed well during 2009 despite a highly challenging environment. The fact that the business has expanded profitability against this dismal economic backdrop is a significant achievement.

Although the Company has delivered improved margins and impressive cost control, growth remains a major priority. We are targeting organic opportunities both through innovation and higher sales in our existing operations. Acquisitions will also enable us to expand quickly into new areas. In addition, we will continue to build on the expertise, experience and leadership of our world-class management team which recognizes that this kind of growth is essential to maintaining the Company's momentum.

A sign of the quality in this team is the way it has intelligently navigated the challenges of the past year. Gemalto is a truly global player, and part of our strategy has been to take strong positions in markets that have been resilient during the tough economy. Equally important, we have a wide range of services to offer our customers – and that has helped ensure we could stay on course despite the difficult economic conditions.

Winning new business

During 2009 Gemalto won significant new business with some of the world's largest and most influential companies, due in no small part to this ability to provide mission-critical technology across a range of digital security needs. Our people's willingness to apply their technological leadership to help clients move forward in their own markets has been reflected by excellent scores in our independent customer survey.

Paying a dividend

As a sign of our confidence in the Company's development, in 2009 we announced our intention to pay a dividend for the first time. Although we should see improvements in most economies around the world during 2010, it's unlikely to be a rapid or predictable recovery. But the Company is the leading player in an increasingly important sector, and it is well-placed to grow aggressively around the world. These are all hallmarks of a successful business with strong and effective leadership.

Finally, let me re-emphasize that this positive progress in testing times has only been made possible by our customers, employees, managers and supportive shareholders – so my most sincere thanks go to them all.

Alex Mandl
Chairman

Chief executive's review

Gemalto's performance in 2009 showed the value of our strategy and its resilience in turbulent times. Thanks to our strong relationships with our customers, and the skills and dedication of our people, we are well-placed to exploit the robust growth expected in the digital security market.

"Our objective remains simple: to grow and be the clear leader in digital security. We want to make it convenient and safe for people to live in the increasingly digital, wireless world."

Passing the test

Gemalto is a successful, innovative company – the world leader in a digital security market that's growing in size and importance. Last year we delivered on the objective we set for ourselves at the end of 2005: 'over 10% adjusted EBIT in 2009.' Throughout the tough economic environment of recent times we continued to improve our efficiency through a sound management-by-objectives approach, and, most importantly, a constant focus on customer satisfaction.

Our growth opportunities

Growth is a critical driver for our 2010-2013 Development Plan and a key management priority.

Because our markets are developing fast, organic growth is a key driver for Gemalto's performance. We are seeing wireless capabilities embedded in an increasingly wide variety of devices. Our development of software and services for the wireless business space, building on our extraordinarily large installed base of remotely manageable SIM cards, is just beginning. Less than 20% of bank cards worldwide currently have embedded chips – at a time when fraud concerns make a compelling case for EMV. Consumer demand for convenient, secure eBanking and wireless access to financial services is vocal in many countries. Network access and rights management, particularly at the dawn of cloud computing, is another potentially powerful growth market, addressed by our Identity and Access Management solutions. And of course government agencies, now confident in their ability to manage secure digital documents and citizens' digital credentials, are poised to extend the initial ePassport roll-outs to eID applications. These bring both significant cost reductions to agencies and convenience to citizens.

So there are many areas ripe for our organic growth. At the same time we continue to seek out bolt-on acquisitions. We look for new technologies, expert teams and new services to enrich the Gemalto offering. Our experience in integration, our global distribution channels and our excellent customer relationships enable us to develop these businesses quickly. Multos, for example, has already almost doubled in size since we acquired it in 2008. In 2009 we made several acquisitions to benefit our different segments: Trusted Logic and O3SIS are helping our Telecom business; Serverside strengthens Secure Transactions; and XIRING will reinforce our eBanking offer in Security.

Sustainability for business success

Trust is fundamental to what we sell. Since our solutions are usually mission-critical for our customers, they need to know that we will be there for them when they need us, and for many years down the road. A responsible attitude is therefore a must externally – and internally too. As an innovative company, we need our people to develop a wide variety of skills in order to imagine and drive forward our offerings for customers. So we ensure that they are clear in their roles, have structured career progression, intellectual freedom to create and propose – and enjoy their work!

Sustainability, more generally, is embedded in Gemalto processes as the best way for us to be successful. Lean manufacturing, innovative biodegradable products, customer listening and satisfaction, prudent risk management and an ethical approach to conducting business, to name but a few, are essential parts of our offer. Our customers and their end-users expect that behavior and leadership from us, so it is both ethically sound and smart for our business. We are building the Company for the long term. That's what our customers want, and what our shareholders want too.

Our businesses in 2009

In 2009, our Mobile Communication segment maintained its good level of profitability by delivering innovative products and services for its customers, and winning important contracts around the world. For example, a major operator in the US that did not previously use SIM cards, took the decision to adopt our UICC(*) technology for the roll-out of its 4G broadband network. That's a huge breakthrough for Gemalto, and for the industry. Yet interestingly, a large number of innovations were first adopted in the new economies, like mobile money in Africa and mobile digital life-style services in Latin America. Our successes in these regions could not fully offset the significant reduction in spending by telecom operators in the most developed economies, but it bodes well for the near-term future.

Our Secure Transactions segment had to handle the crisis faced by its customers in financial services and retail. At the end of 2008 we had limited visibility on what the banking industry would look like just a few months down the line. Prudent management and close proximity with our customers allowed us to get safely through the turmoil, despite the uncertainty, with revenue even slightly increasing at constant exchange rates.

Our Security segment continued to do well, particularly Government Programs which posted a revenue increase of 18% in 2009. Identity and Access Management resisted well, focusing its efforts on the promising eBanking market. The segment reached break-even earlier than we expected, and was profitable in both semesters.

We continued to build on our now established foundations in software and services, and this helped us maintain momentum against the headwinds. Our achievements were acknowledged by many third parties in 2009, including our customers who accorded us record satisfaction ratings and *Business Week* which added Gemalto to its InfoTech 100 ranking of the world's top IT companies.

There were many other notable successes too, including our POS terminals where sales grew 40% in 2009. And our cash management results, which enabled us to help some of our suppliers, invest in equipment for improved productivity, continue our share buy-back program, pay for six acquisitions and still add to our cash pile. All this was possible thanks to our particularly efficient inventory and receivables management, and of course to our strong generation of operational profit. We ended 2009 with €381 million of net cash, compared to €344 million at the end of 2008.

Our strategy

Our objective remains simple: to grow and to be the clear leader in digital security. Thanks to the internet, and to the many objects that simplify our daily lives, the world is already deeply digitalized – and it is also increasingly wireless. We want to make it convenient and safe for people to live in this world and make the most of it.

To do this we will grow beyond the products and services we already offer. That's why a large part of our strategy is about software and value-added services. Gemalto's primary business model was historically 'sell and forget': a cycle of repeated product sales. Of course we will continue to invent, enhance and sell our products in very large volumes worldwide, including in new fields like machine-to-machine (M2M) communication, and with new form factors. But we are now adding 'life-cycle management' software and services for the devices and applications users interact with daily. This will enable us to expand our revenue by building on our unique installed base, on our expertise to develop secure compact software and on our ability to deploy specific services for our customers, on a massive scale. These include Trusted Services Management, secure post-issuance download and activation of applications on cards and devices, and Over-The-Air remote management services for consumer data and for configuration of objects that are already deployed in the field.

We talk a lot about our customers in Gemalto, so a particularly rewarding moment for me in 2009 was receiving the results of our independent customer satisfaction survey, 'Tell Me'. Our remarkably high scores in all segments and regions clearly place Gemalto in the 'world-class' category. Great credit goes to our people for embracing our customer-focused strategy so wholeheartedly.

With this year-end momentum, and management now focused on both revenue growth and profit expansion, I look forward to a period of strong progress for our new 2010-2013 Development Plan.

"With this year-end momentum, and management now focused on both revenue growth and profit expansion, I look forward to a period of strong progress for our new 2010-2013 Development Plan."

Olivier Piou
Chief Executive Officer

(*) Universal Integrated Circuit Card

The Combination: delivering our promises

When Axalto and Gemplus combined in June 2006 (the 'Combination'), we set ambitious targets for the new company. The objective was to have Gemalto fully integrated and delivering for shareholders, customers and employees by 2009. In three years we have not just completed the Combination – we have created the world leader in digital security.

Target for 2009	What happened?
Achieve EBIT margin above 10%.	• EBIT margin was 10.3% in FY 2009. • Our target was reached one year early, with 10.1% EBIT in FY 2008, after operating income for the year doubled to €169m. • All segments are now reporting profits, as a result of strong focus on value creation for our customers, operational efficiency and well-contained operating expenses.
Realize €85m of net synergies.	• Target quickly achieved thanks to effective cost reduction measures and benefits of scale.
Open up higher-value revenue streams.	• Digital Security business transformed beyond smart cards in key high-value markets, not a commodity. • Our internal start-up business, Security, developing high-value solutions for governments and enterprises, reported double-digit growth CAGR over the three years, reaching €248 million in revenue and turning to profit in 2009. • Software and services grew significantly, reaching €164 million in 2009 or 10% of the Company revenue.
Reinforce operational excellence and efficiency.	• Successful consolidation of operations maximizes efficiency of our rationalized global footprint. • Applied best practice in production cost control and sales optimization.
Create a unified organization driven by motivated teams.	• 'One company' culture successfully created, in part due to rapid post-combination integration program. • Employee satisfaction continues to improve; low attrition rate post-combination means we retain key skills and relationships. • Gemalto brand established as a legitimate global leader in digital security markets. • Independent survey shows very high levels of customer confidence in our products; our Government Programs business is particularly highly regarded by customers.

Our strategy: extending the boundaries

Having delivered on our Combination ambitions, we announced our 2010-2013 Development Plan in November 2009.

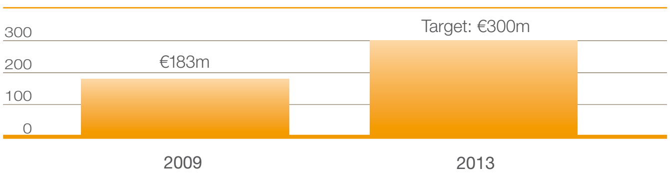
Our mission remains unchanged

To provide trust and convenience to the wireless, digital world.

Our objective

Through revenue growth and margin expansion, our objective is to expand our profit from operations(*) by more than 50% to €300 million in 2013:

Profit from operations
€m



Our strategy

We will achieve our objective by leveraging our core assets to address a larger total market, through five key strategic priorities for profitable growth:

Strategic priorities	Commentary
We will actively replicate successful models across geographies.	• Our core markets are far from being saturated. • We have brought to market solutions with global appeal.
We will capture more value with remote services.	• Gemalto UICC and over-the-air and post-issuance capabilities play an important role in operators' mobile services strategy.
We will speed up commercialization of innovations.	• We will continue to invest in and commercialize new technologies. • We will gain access to, and rapidly assimilate, external technologies.
We will leverage our unique position to serve customers with converging needs.	• Our technology plays a role in industry convergence.
We will leverage our efficient base and expand through bolt-on acquisitions.	• We have established an efficient base with strong cash generation. • We will complement our base plan with disciplined bolt-on acquisitions.

(*) Profit from operations is a non-GAAP measure defined as IFRS operating income adjusted for amortization and depreciation of intangibles resulting from acquisitions, all share-based compensation charges, and restructuring and acquisition-related costs.
In 2009, profit from operations differs from the adjusted EBIT by keeping out the equity-based compensation charges (€12m).

Gemalto Investment Conference 2009 presentation slides. Slide 14 sets out the key assumptions and potential growth accelerators underpinning our plan. For full details on the Development Plan please refer to:
www.gemalto.com/investors

Our plan

Our plan is about extending the boundaries to enable us to operate in a significantly larger total market.

2009

6.7bn people
2.7bn mobile users
1.7bn Internet users

Mobile broadband is driving data usage ...
Secure access is crucial for cloud computing ...
Less than 1/5th of the world's passports are electronic ...
Mobile contactless is only in its infancy ...

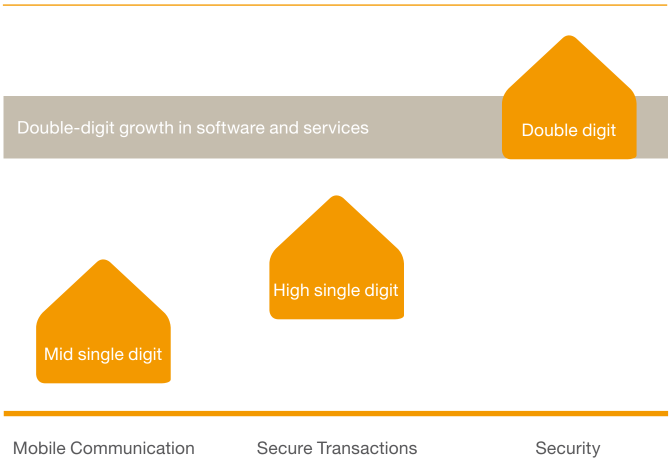
2015

7.3bn people
3.8bn mobile users
2.6bn internet users
15bn connected machines

Source: UN, IWS, Gemalto

- We expect each business segment to grow over the period, with a double-digit revenue increase in Security.
- We also expect a double-digit revenue increase in software and services.
- Growth will be generated by:
  - Developments in wireless offers with new devices and remote services
  - Steady worldwide expansion of payment cards
  - Global spread of new government projects and authentication solutions.
- Further margin improvements will be driven by Secure Transactions and Security.
- We plan to continue to generate strong levels of operating cash flows, which we will re-invest to fuel organic growth and fund bolt-on acquisitions. They will also enable us to enhance return to shareholders via a combination of share buy-back and the newly initiated dividend distribution.
- We plan to continue to tightly manage capital employed, with further ambitions to increase our Return on Capital Employed (ROCE).

2010–2013 Revenue CAGR



The digital security market

Changes in end-user behavior, new business opportunities, technological advances and new threats to identity and security are driving significant growth in both the variety, scope and value of digital security services.

Over
4.4 billion

SIM/UICC installed base[1] worldwide end of 2009

[1] SIM: Subscriber Identity Module;
UICC: Universal Integrated Circuit Card

1.9 billion

EMV cards supplied by all providers over three years to 2009

Source: Eurosmart

500 million

Secure eGovernment documents supplied by all providers over three years to 2009

Driving forces

Demographic trends

Society is increasingly populated by digital natives. People born after the late 1980s have grown up with cashless transactions, mobile communications and virtual reality. They are at home in a digital world, sharing information and projecting their identities online.

In fact, for these people – and for many members of older generations who straddle the digital divide – everything is online. They expect a seamless digital experience. They gravitate towards brands and activities that are consistent with, and respect, their digital lives.

Globalization

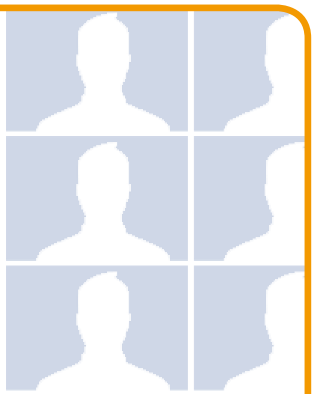
Rapidly emerging economies offer massive organic growth potential in digital security and identity. Indeed, many parts of the developing world are actually leading in digital innovation, leapfrogging 'developed' nations. Adoption of high-speed wireless communications and digital services is a logical choice in large countries where alternative infrastructures are more costly. Many states are moving directly to ePassports. And in parts of Africa, for example, entrepreneurial users of relatively basic technology – such as 2G mobile phones – have created innovative approaches to mobile finance.

Organic growth potential

Country	Population	Mobile subscribers	Penetration
US	307m	282m	92%
China	1,339m	728m	54%
India	1,157m	496m	43%
Brazil	199m	175m	88%

Source: CIA World Factbook 2009; Informa 2009

> "Identity theft and fraud via internet transactions will drive adoption of identity assurance and digital security in the coming years. The need for digital security applies across all industries, verticals and regions worldwide."
>
> IDC 'Event Flash' September 2009



Technological advances

More than a decade after the mass adoption of the World Wide Web, we are still seeing an explosion of digital services, communities and devices. Technology is allowing a range of services, from banking to media, to converge around each individual's digital identity rather than a particular device such as an ATM or TV. We want the provision of all those services to be coordinated and seamless.

Developments in Identity and Access Management (IAM) technology also promise to propel growth in this market. And while contactless card systems have proven invaluable in mass transit systems, their application in other smart card arenas is also growing rapidly. As the size of smart card chips shrinks and their power increases, their value grows for businesses, governments and end-users. High-speed mobile data and multi-function smartphones, for example, are creating demand for more advanced SIM cards allowing users secure access to a host of new applications in sensitive areas such as banking and retail.

Market opportunities

These drivers combine to create significant opportunities in the digital security market. For this world to function, individuals must be able to identify themselves, as well as feel that their privacy is protected in an increasingly exposed environment.

That's why it's simplest to describe our markets in terms of end-users – our customers' customers. Their needs and demands create opportunities for us to help our own client businesses grow and add value.

These markets concern far more than just smart cards. The convergence of different technologies, the need for brands to offer their customers a seamless experience and consumer demand for innovative offerings means that 'digital security' now encompasses a range of hardware (chips, cards and readers), software (particularly encryption and authentication systems) and services (from personalization of cards to consultancy around secure access).

Increasingly, these markets are also demanding solutions that can be updated and upgraded over time to meet changing consumer needs and security threats.

Mobile communication

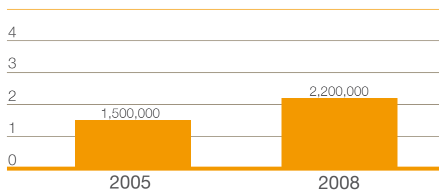
Smartphone adoption has created new markets for wireless services, on top of continued organic growth in areas such as voice and messaging. These ongoing revenue opportunities are supported by a more pervasive digital lifestyle and businesses that now integrate mobile communications into their products and marketing.

Mobile TV, mobile marketing and mBanking are already taking off; cellular operators are developing their roaming options to encourage greater use of their services around the world; and M2M functionality is creating new opportunities in automation.

For mobile consumers, value no longer resides purely in their handset. They expect to be able to access upgrades, applications and content Over-the-Air (OTA), regardless of the device. They also need their digital lives to be protected separately from their phones, safeguarding their contacts, their identities

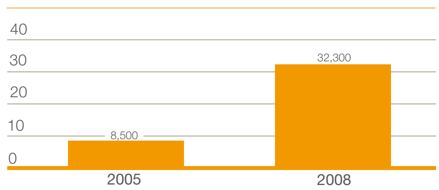
Wireless activity soars, even in 'mature' markets

Voice – US cellphone talk time
million minutes



Source: CTIA

Data – US mobile data revenues
$m



Source: CTIA

Multimedia messages

Year	Picture and video messages sent in the UK	SMS (text) messages sent in the UK
2006	336m	41,800m
2008	553m	78,900m

Source: Mobile Data Association Trends Report

Global smartcard shipments

5.1bn
2009 (est)

Source: Eurosmart

8.8bn
2012 (forecast)

Source: Frost & Sullivan, World Smartcard Market, December 2008

Global IAM market value

$3.4bn
2008 (actual)

$4.8bn
2013 (forecast)

Source: IDC, Worldwide Identity and Access Management 2009-2013, July 2009

and their contents. The SIM card is the only universal and secured application platform working with 100% of handsets.

Financial services and retail

There are already around 800 million EMV(*) cards – banking cards with a microchip – in circulation. Some of the fastest-developing economies in the world (such as Brazil, South Africa and Turkey) already have EMV in place. But huge potential markets such as China, central and eastern Europe and Latin America remain largely untapped.

And there are signs that US issuers – with a base of more than 700 million credit cards and 460 million debit cards – are being won over by chip payment cards' anti-fraud and user benefits, especially as internet and mobile banking become the norm. In the UK, for example, banks such as Barclays are supplying customers with plug-in readers to authenticate their EMV cards on their own computers.

In February 2009, American Express became the fourth member of the EMV consortium, massively expanding its reach. And the Single Euro Payments Area (SEPA) initiative in Europe, designed to encourage easier payments within the Eurozone, could also drive higher uptake, even in this more mature market.

Aside from enhanced security, convenience and transaction costs are key drivers for EMV. Contactless cards and faster, more reliable authentication are delivering in-store efficiencies that create real competitive advantage for retailers.

Identity and access management

Cloud computing – data and applications that are accessed via the internet or virtual private networks – is growing rapidly. IDC expects spending on IT cloud services to reach $42 billion in 2012; by then, it will represent 25% of IT spending growth and nearly a third of growth the following year.[1]

But freedom of access places a huge additional burden on security. It's essential to verify the identity of authorized users without hampering the convenience and efficiency of cloud computing.

At the same time, complex software tends to have more security vulnerabilities, not fewer. This is increasing demand for 'strong' (two- or even three-factor) authentication. For example, a user might need a password as well as a physical component like a fingerprint; or an ultra-secure one-time password generated by a smart card and reader.

Compliance with data protection regulations (which IDC estimated to be responsible for 75% of maintenance revenues for IAM in 2007) and the principles of good corporate governance are also pushing both private and public sector organizations to invest in access control, encryption and identity management.

800 million EMV cards in circulation in countries such as Brazil, South Africa and Turkey as well as Europe.

Potential markets: China, Central & Eastern Europe, Latin America and US.

(*) EMV: EuroPay, MasterCard, Visa: the industry standard for international debit/credit cards.

(1) IDC Press Release October 2008.

Convergence

All the driving forces in the digital security market – technology, demographics, globalization – are pushing services and products together. We are already tantalizingly close to a society where a single device, perhaps a smartphone, acts alongside biometrics and passwords as a universal authenticator. This could allow the user to make payments at a retail outlet, confirm a secure online banking transaction, access a healthcare service, gain entry to a public transport system and securely log on to a corporate network from a public computer.

It's already clear that digital identification is moving away from discrete functions or providers and is now centering on the individual. Consumers demanding mobile banking services, for example, are not interested in whether their bank or their phone provider owns the digital security for their transactions. They simply need it to work.

The opportunity here is for trusted service management that specializes in authentication and digital security to handle identity services for end-users on behalf of their banks, retailers and service providers. Convergence will create both fresh demand for existing digital security offerings – and, crucially, open up brand new markets that offer both businesses and their end-users extremely high utility services.

"The government and identification segment is expected to explode over the near to medium future. The introduction of contactless technology has sparked the convergence of various applications... Having one card for a number of activities is believed to continue to grow, saving issuers' time and money."

Frost & Sullivan, World Smart Card Market, December 2008

Government programs

Governments need systems that offer efficient interactions with their citizens – who in turn demand security and convenience from their authorities. That's why nations around the world are investing heavily in digital identity systems. More than 100 countries already have an ePassport system in place, including the US, Russia, Japan, Nigeria and all the EU states. ePassports offer compelling benefits including enhanced security and greater convenience for travellers and airlines.

Regulatory pressures – for instance, the visa waiver scheme to gain entry to the US, which now mandates biometric passports – are also driving growth in this market. And because they are accredited for fixed periods, there is predictable churn in ePassports, allowing for digital security enhancements as well as maintenance revenues.

ID card schemes go a stage further: here, every citizen, not just international travellers, needs to carry a smartcard. Many governments and other bodies are already deploying them for access to health and social security services, as drivers' licenses, for student ID – and, in many cases, combining functions to derive even more efficiency and convenience for users. The potential here is immense. For example, India, with a population of 1.2 billion, has initiated a scheme to provide multipurpose national identity cards (MNIC) to every citizen by 2011.

Outside the use of digital ID cards, government technology investment is moving increasingly online in an attempt to find similar cost and efficiency benefits as the private sector. A White House report in May called for a transformation of federal IT in the US with the widespread adoption of the cloud delivery model, for example. That will further drive the adoption of an integrated digital identity approach. And in November, Ministers from the EU and EFTA approved a declaration recognizing that eGovernment 'increases efficiency and effectiveness...to constantly improve public services' and setting priorities to be achieved by 2015.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Mobile Communication

Mobile Communication maintained its good level of profitability by delivering innovative products and services for its customers, and winning important contracts around the world.

Users can carry with them a unique set of products and services without thinking about how it all works. And because our solutions address 1.8 billion individuals, we're in a strong position to help the mass evolution of mobile applications.

Our performance

Revenue

€888m

2008: €948m

Down 8% year-on-year at constant exchange rates

Gross profit

€382m

2008: €395m

Gross margin

43.1%

Up 150 basis points

EBIT

€142m

2008: €160m

EBIT margin

16.0%

Down 90 basis points

Resilience in a cautious market environment

- 2009 was marked by a cautious market environment. Some customers delayed innovative projects, weighing on the revenue and the average selling price.
- Gemalto continued to secure new wins in software platforms and operated services contracts. Software and services revenue was up 15% at constant exchange rates.
- Gross margin improved by 150 basis points, reflecting continued focus on value-selling and further improvements in operational efficiency.
- Tight control on operating expenses offset the consolidation of newly acquired activities.

The segmental overview is based on adjusted financial information: non-GAAP measures defined as IFRS financial information adjusted for reorganization charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151.

Our products, software and services

More than 450 operators worldwide benefit from our products, software and services, which include:

Digital Life Management: our solutions put users' valuable data onto any device, from the mobile to the PC via the web. Users can protect, manage, communicate and share this data. We have already deployed these solutions for over 90 operators to help one billion users manage their contacts.

Mobile Marketing Solutions: these include content management and delivery, relationship marketing and mobile advertising. They address operators, content providers, advertising agencies and traditional brands wanting to deliver personalized, rich and relevant content and campaigns via the mobile.

Mobile Financial Services: we provide secure access from a cellphone for banking, payments and money transfer services, enabling banks and operators to provide innovative services, lower costs and reduce fraud.

Trusted Service Manager: being at the heart of the converging worlds of telecommunications, banking and transport, we help mass transit operators, banks, businesses and MNOs offer a range of services to consumers seamlessly and securely via a user's handset.

Roaming Services: our innovative Roaming Director service provides the world's most efficient steering system, helping operators maximize revenues and deliver the optimum performance for subscribers.

Our range of solutions and services also addresses the new markets of mobile TV, Machine-to-Machine (M2M), convergence and others.

Our positioning

- 1.8 billion individuals benefit from at least one of our solutions. Our technology is both at the core of the MNOs' offer and in the hands of consumers, allowing high interactivity.
- Our value propositions span the entire spectrum, enabling mass market services as well as new high-end revenue streams.
- Our expertise in OTA updating for SIMs puts operators in control and offers a platform for new services.
- With 44% market share(*) by volume in advanced economies, Gemalto is firmly positioned to address fast-growing premium markets – such as mobile broadband, mobile contactless transactions, remote management and M2M.
- Gemalto is already rolling out innovative mobile data services in developing economies with considerable growth potential.
- With our considerable R&D investment we are in a strong position to capture emerging trends and satisfy unmet needs.
- Strategic acquisitions have strengthened our hand in both digital life management (O3SIS) and software and contactless services (NXP). These are further bolstering our ability both to extend our offer and propose solutions as a Trusted Service Manager (TSM).
- We are engaged in active partnerships with handset manufacturers to establish seamless solutions.
- We have a strong involvement in organizations and bodies defining standards, setting trends and shaping the industry.
- With our breadth of expertise across a range of markets we are in a unique position to serve customers with converging needs.

(*) Source: Gemalto

More than just connections

Gemalto has been providing services for MNOs since the earliest days of GSM. More than 450 of them benefit from our products, software and services. Our technology has underpinned key shifts in the market over the past 20 years – from getting more people connected, to developing value added services around them, to building deeper connections between them.

That means users are able to carry with them a unique set of products and services without thinking about how it all works. MNOs now have the ability to develop and deliver enhanced offerings that can create new revenue streams while protecting the user experience. And because today our solutions address 1.8 billion individuals, we're in a strong position to help the mass evolution of mobile applications.

The next wave of growth for operators

Gemalto has always aimed to deliver innovative and easy-to-use services. Now, the convergence of different technologies is driving an explosion of new opportunities. Because our solutions can work with almost any platform – older handsets, PCs, 3G modems, connected laptops, smart-phones and so on – we can help operators go beyond their 'native' devices, reinforcing their relationships with subscribers. That is one reason why, in 2009, cable TV operator Videotron selected our 3G SIM card for secure connectivity for its burgeoning wireless phone and data services.

The power of our SIMs is also creating opportunities. For example, our UpTeq™ MultimediaReady SIM card uses Smart Card Web Server (SCWS) technology to enable applications to run directly from the SIM. In 2009, T-Mobile selected Gemalto to develop prototypes of rich media applications built in to a SIM card – which means they will work with any SCWS-compatible handset, broadening access to high-end services.

Our Company played a key role in the deployment of 3G networks, and we continue to support advanced 3G roll-outs. In June 2009, we announced deals to supply our UICC and Removable User Identity Module (R-UIM) cards to the three major mobile operators in China for their 3G launches.

And we are also at the heart of the next generation of networks, known as Long Term Evolution (LTE). Gemalto is helping MNOs deploy new value-added services using LTE's speed and IP connectivity. We are supplying OTA subscriber services and UICC solutions to major LTE projects, such as Verizon Wireless in the US.

Digital Life Management

At the heart of all of these developments is the user's multi-device digital life. Users now expect their content, services and identity to be with them everywhere. Gemalto ensures consumers on the move can protect, access and share any kind of personal data. Our Digital Life Management solutions work with most handsets on the market. We have already deployed them for over 90 operators to help one billion users manage their contacts, for example, with an average adoption rate of 40%.

Our solutions also reflect the latest trends in digital life management. A new offer includes social media enablers, so subscribers can share their data using a unique interface for networks such as Facebook and Twitter. We augmented our own innovations in 2009 with the acquisition of O3SIS AG, a leading provider of personal data management solutions to MNOs that has over 20 blue-chip customers – and handles more than one billion personal data records.

Mobile Marketing

There are 1.8 billion individuals currently benefiting from at least one Gemalto solution. This means we can build interactive, personalized mobile experiences independent of handset model or contract, opening up considerable possibilities in mobile marketing for anyone wanting to deliver personalized, rich and relevant content and campaigns via the mobile. Our solutions offer wide reach and built-in interactivity – improving measurement of return on investment (ROI), profiling and targeting. This represents a major opportunity to engage in real segmentation and meaningful opt-in for marketing messages.

Mobile Financial Services

We provide secure access from a cellphone for banking, payments and money transfer services, enabling banks and operators to provide innovative services, lower costs and reduce fraud. Our expertise in strong authentication means our SIM-based solutions meet the highest security standards while being flexible enough to adapt to a multitude of devices.

Providing solutions for all subscribers is a key objective for Gemalto. We know that the cellphone can play a significant role in digital democracy by spreading the benefits of structured financial services in countries where internet access is limited or people do not have a bank account. MTN Uganda is already using Gemalto for its nationwide mobile payment program – between roll-out in March 2009 and the end of June, around 180,000 mobile payment transactions had already been performed. And in February 2009, we announced a partnership with India's mChek to deliver secure mobile banking via our SIM cards to markets in South Asia.

Roaming Services

Gemalto is innovating for the engine-room of mobile communications, too. In order to negotiate and optimize their inter-operator tariffs (IOT), MNOs need to deploy effective traffic steering solutions with little or no impact for the subscriber. Gemalto's Roaming Director service provides the world's most efficient steering system, helping operators maximize revenues and deliver the optimum performance for subscribers.

Trusted Service Manager

We continue to expand our software and services expertise in high growth areas such as mobile Near-Field Communications (NFC) to reinforce our Trusted Service Manager (TSM) platform. This means we can enable transport operators, banks, businesses and MNOs to offer a range of services to consumers seamlessly and securely via a user's handset. In March 2009, Gemalto acquired the mobile services operations of NXP, giving us additional capabilities in software and service solutions compliant with the MIFARE4Mobile™ interface. This further strengthened our TSM platform, enabling the mobile phone to be used with existing payment and contactless ticketing infrastructures.

Innovation and efficiency

Machine-to-Machine
Billions of people have a unique identity on the network using Gemalto technology – and now millions of machines and portable devices do too. We have developed a dedicated SIM platform for Machine-to-Machine (M2M) applications such as remote management, industrial data collection, surveillance and healthcare. This is proving its worth for automated services such as electricity meter reading, vending machine stock levels and breakdown diagnostics for cars.

Mobile TV
Gemalto also helps operators monetize content with strong authentication and protection of media streamed to users' portable screens. In 2009, for example, our UpTeq™ mobile TV SIM card was the first to earn certification in accordance with the SIMalliance Security Guidelines, which means the cards provide the required level of security for mobile digital TV. We also provide ancillary services for operators and content providers. For example, our solution for mobile TV audience monitoring is used by Médiametrie, the French audience measurement company, helping every part of the mobile TV chain to maximize revenues.

Long-term success

During 2009, Gemalto continued to develop its prospects in the mobile broadband ecosystem. For example, our Over-The-Air (OTA) platforms and Universal Integrated Circuit Cards (UICC) were selected to support the deployment of 4G Long Term Evolution (LTE) mobile broadband by Verizon[*], emphasizing our capability to enable secure and reliable multimedia data connection and global roaming, and to remotely manage applications.

Many other contracts for new applications and services were secured including our SIMessenger solution in Latin America, as well as mobile payment in Uganda and South Asia.

[*] Verizon Wireless is the leader in 4G networks.

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Secure Transactions

In 2009, Gemalto continued to win new contracts that bolstered its leadership position in serving global banking customers.

Our performance

Revenue

€441m

2008: €443m

Up 1% year-on-year at constant exchange rates

Gross profit

€108m

2008: €118m

Gross margin

24.5%

Down 210 basis points

EBIT

€15m

2008: €27m

EBIT margin

3.4%

Down 260 basis points

Consumers appreciate the convenience of credit and debit cards, but unsolicited access to their credentials is their main concern. Gemalto's years of experience in card technology and encryption means we are strongly positioned to address this issue.

Bolstering our leadership position

- Migration to EMV chip payment cards continued to spread around the world, and dual-interface contactless cards gained further success in Europe.
- In January 2010, Gemalto faced an unexpected situation in relation to certain German payment cards, which led the Company to book a special provision of €11.2m to cover consequences for Gemalto.
- Excluding the special provision, gross margin was 27%, up 40 basis points year-on-year, and EBIT margin was 6%, similar to 2008.

The segmental overview is based on adjusted financial information: non-GAAP measures defined as IFRS financial information adjusted for reorganization charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151.

Our products, software and services

Gemalto offers a full range of solutions for secure transactions in financial services, transport and other emerging markets. These include:

Banking cards:

- **Clarista** is our complete EMV card payment solution. It supports all profiles – such as JCB, MasterCard and Visa – in both static (SDA) and the more advanced Dynamic Data Authentication (DDA) systems.

Secure services:

- Our **Allynis** range of secure services includes personalization, packaging, card distribution and activation.
- We apply innovative designs and form factors to payment solutions, as well as eco-friendly biodegradable cards, opening up co-branding and marketing opportunities.
- Our **Dexxis** Instant Issuance solution also allows banks and retailers to issue cards in store.

Contactless solutions: our contactless card solutions offer faster, more convenient ways to make payments, driving up retail activity and simplifying low-cost transactions.

Trusted Service Manager: our TSM solution supports a variety of convergent payment offerings, including mobile contactless payment programs (please refer to page 22).

Transport: mass transit operators need to maximize passenger throughput as well as reduce fraud and create opportunities for marketing and co-branding. Our solutions address all these issues in one clear proposition.

Pay TV: we supply subscriber authentication and rights management cards to large secure-access service providers.

Our positioning

- Gemalto is the world leader in chip payment cards, serving major banks worldwide with 43% market share[*].
- Market demand for EMV and contactless cards is driving our core business, as well as creating the platform to launch more service offers.
- We are leveraging our leadership, scale and global footprint to develop attractive markets ready for EMV – such as Brazil, Mexico, Canada, Russia, Poland and Indonesia.
- Our in-depth relationships with banking clients enable us to deliver a broad range of services.
- The technology used in Secure Transactions is creating strategic synergies with other Gemalto segments, such as online banking, mobile and contactless.
- We have over ten years' experience in contactless technology. We have already delivered more than 100 million contactless cards to customers.
- In the fast-growing US market, Gemalto has supplied more than 15 million cards and is recognized for the technological expertise and high level of support it brings to the major US banks for their contactless and magnetic stripe programs.
- We can update contactless cards Over-The-Air. That means additional security against fraud; the chance to deploy customer reward programs; update credentials and subscriptions on the fly; and seamlessly roll out new services.
- Our contactless smart cards for mass transit operators ensure maximum speed of operation and the highest levels of security for passenger identification and revenue protection.
- Our contactless smart cards and readers are already in use by many major transit authorities, including those in London, Paris, São Paulo and Santiago.

(*) Source: Eurosmart November 2009

Banking cards

Although consumers appreciate the convenience of credit and debit cards, unsolicited access to their credentials remains their number one security concern. New technical and security standards, as well as consumer demand for more choice and convenience, are driving suppliers to look for innovative payment solutions. They want lower costs, better security and innovative platforms to create new revenue streams. Gemalto's years of experience in card technology and expertise in encryption means we are strongly positioned to address these issues.

Adoption of EMV (EuroPay, MasterCard, Visa) standards for smart payment cards is growing. The familiar PIN authentication process makes them easy to use for customers and keeps transaction times low, a crucial factor for retailers. There are now around 800 million EMV cards in circulation worldwide, but market growth potential remains high. Javelin Strategy & Research estimates that $16.6 billion in card fraud in the US alone could be immediately affected by EMV implementation. Gemalto is involved in major EMV programs in Asia, the UK, Turkey, Russia and Canada, amongst others.

Gemalto's latest generation of DDA cards results in a further reduction of fraud, by a factor of two. Visa and MasterCard have mandated DDA for all their EMV cards in Europe by January 2011; similar mandates are expected in the rest of the world soon. And with American Express joining EMV in 2009, the consortium is stronger than ever. Our global presence makes us a logical partner for banks looking to manage EMV migration. In March 2009, for example, RBS selected Gemalto to roll out EMV in three major markets: Indonesia, Taiwan and India. And earlier in the year, we formed an alliance with Corporación Cardtech and Newtech Solutions to spread EMV adoption in Venezuela.

We also supply card readers, software and services to manage the entire payments ecosystem, helping retailers drive down costs. Our consultants and technical experts are on hand to provide advice on any aspect of secure payments – from migrating users to EMV and system design to deployment of new technology. We also train customer employees on technology, standards and strategy.

Secure services

Applying our expertise in handling secure data, we personalize cards for each user then manage their distribution and administration. With the widest range of added-value services in the market and 30 personalization centers around the world, Gemalto is reputed for the flexibility, reliability, speed and security of its issuance services.

We are also innovating in issuance for emerging markets. In November we announced deployment of our Dexxis Instant Issuance offering in Indonesia, where consumers – 90% without bank accounts – require micro-banking services. Dexxis offers them instant, on-the-spot issuance of EMV cards in exchange for cash. The package also includes servers, software, printers and training to deploy the solution over a secure network. And in July, Nigerian secure payments provider InterSwitch chose Dexxis to roll out 30 million EMV cards for its 25 member banks.

Our customization services allow banks and retailers to issue unique designs to enhance their market position. Allynis CardLikeMe lets users add photos to their cards – a powerful marketing and security tool. In May 2009, Le Crédit Lyonnais used Gemalto solutions to issue the first EMV cards in France to be customized with a personal photograph. For more advanced projects, our Optelio range of payment cards includes on-board applications, opening up a number of possibilities for both issuers and customers.

Our biodegradable Eco Card range – launched in 2009, along with more environmentally friendly packaging – means issuers can reinforce their green credentials.

Contactless payments

Gemalto has been supplying contactless technology for over a decade, delivering more than 100 million contactless cards to customers. Users make a payment by simply holding their card near a reader, perhaps while it's still in a wallet or purse. That means we can offer new form factors, such as keyfobs, as payment tokens. It also makes it easier for banks and retailers to create co-branded payment cards.

Our ability to navigate the converging worlds of banking, mobile communications, transport and retailing is also opening up new opportunities for our Secure Transactions business. In 2009, we achieved MasterCard certification for our TSM solution that will support the launch of state-of-the-art contactless payment programs using, for example, NFC enabled cellphones to perform transactions.

By incorporating EMV services into a SIM card, Gemalto has already been able to provide five French banks with a contactless payment system called Payez Mobile, built into users' cellphones. And in June 2009, we teamed up with Citibank and Visa to provide Singaporean users of NFC-equipped cellphones with payment functionality.

We also rolled out several new contactless payment card projects last year. For example, in Taiwan we deployed Secure Access Modules (SAM) into existing EasyCard payment terminals. The upgrade gives 16 million consumers a simple, fast and secure means to make small-sum contactless payments.

Transport

Our smart cards are already being used to access mass transit systems in 30 cities that each have more than one million inhabitants. Passengers appreciate the convenience of our contactless cards while operators value the additional revenue protection. Unauthorized travel is reduced and with our cryptographic expertise, fraud is all but eliminated. STIB, the company managing transport in Brussels, started rolling out Gemalto contactless cards in 2009. With our Celego card, more than 400,000 inhabitants in Brussels will benefit from the speed and convenience of contactless technology when traveling on the subway, busses and trams.

Innovation is critical in all our businesses, including transport. In 2009, we agreed to supply Paris transport company RATP with card readers that allow customers to top up their Navigo passes online. Users can now connect a Gemalto PC Twin Reader to their PC and buy tickets from home. As technologies converge, there is strong potential to bring contactless card functionality onto other devices also secured by Gemalto technology. In June, for example, the operators of public transport services in Paris committed to being able to accept a cellphone payment for transport tickets by the end of 2010. Our Company is uniquely well-positioned to exploit these and other convergence opportunities in the years ahead.

Fast track to reducing fraud

Gemalto is the recognized industry expert in leading banks through their migration to the EMV[*] standard for banking cards. With a key aim of fraud reduction, Royal Bank of Scotland commissioned us to carry out the conversion of their credit cards in Indonesia, India and Taiwan. We completed the project in a record three months with tangible operational savings for RBS.

In addition to successes in EMV migration we also gained market traction with our innovative offers, such as our selection by Nigeria's InterSwitch for our Instant Issuance solution.

[*] EMV: EuroPay, MasterCard, Visa.

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Security

In 2009, Security turned to profit on the back of growth in Government Programs, success in eBanking activities and operational leverage.

Many countries have demonstrated that eID can provide citizens and businesses with real services and benefits, without infringing on new rules for data protection and civil liberties.

Our performance

Revenue

€248m

2008: €216m

Up 14% year-on-year at constant exchange rates

Gross profit

€90m

2008: €66m

Gross margin

36.1%

Up 540 basis points

EBIT

€7m

2008: €(20m)

EBIT margin

2.9%

Turn to profit

Turning to profit

- Strong improvements in gross margin came from better industrialization of projects in Government Programs and higher patent licensing activity.
- Tight control of operating expenses led to a substantial operational leverage.
- Excluding the patent licensing activity contribution, Government Programs and Identity & Access Management combined exceeded the break-even point, in both semesters.

The segmental overview is based on adjusted financial information: non-GAAP measures defined as IFRS financial information adjusted for reorganization charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151.

Our products, software and services

Government Programs

We provide secure documents, identity solutions and services for governments, national printers and integrators. These include:

- Our **Sealys** range of high-quality, secure and durable solutions comprising physical, visual and electronic security for travel documents, national eID, eHealth cards, electronic driver's licenses and registration certificates.
- A complete end-to-end solution for highly secure ePassports.
- A range of solutions for enrolment, issuance, border control and eGovernment.
- Our **Allynis** range of secure operated services including outsourced personalization and delivery, supported by strong industrial and financial engineering capabilities.

Identity and Access Management

We provide secure IAM solutions for enterprises, governments, banks and other organizations, enabling them to better control their physical and IT environments.

- We offer a full suite of products, software and services to protect sensitive company information and prevent data loss, including USB drives with strong levels of built-in security, One Time Password (OTP) tokens and Public Key Infrasructure (PKI) strong authentication with optical devices;
- Our **Protiva** family of multi-function smart cards, smart card readers, secure tokens, software and services are used in a variety of applications such as physical and network access control, encryption, digital signature, converged badges, secure remote access, pre-boot authentication, employee identity verification and biometric authentication;
- **Ezio**, our suite of eBanking solutions, delivers digital signature and secure access to retail and corporate bank networks, eCommerce sites and cloud computing services.

Licensing of intellectual property rights

We have a unique portfolio of proprietary technology and patents, and license use of our rights to other players.

Our positioning

- We have a leading set of ePassport and eDocument references worldwide.
- Our experience is unrivalled in compliance with regulatory requirements for electronic documentation and software.
- We have over 50 projects in enrolment, issuance and applications, enabling us to deliver efficient programs managing a wide variety of interactions between citizen and state.
- The leading security and scalability of our products and solutions is a key differentiating factor.
- Our global footprint and efficient operations enable us to address growing market demand.

- We have long-standing expertise in IAM with a roster of customers that includes many in the Fortune 100, such as Shell, Chevron, Pfizer, Boeing, Schlumberger and Microsoft.
- Our advanced solutions minimize total cost of ownership yet maximize convenience without compromising security, ensuring employees, contractors and others can continue to work easily and securely.
- Our products that conform to the FIPS 201 standard (e.g. dual-interface cards for Personal Identity Verification (PIV) allow the identities of government employees and contractors to be verified electronically, while resisting attempts at fraud, tampering or counterfeiting.
- Gemalto is a global leader in eBanking deployments based on EMV-CAP (Chip Authentication Programs).
- We have already achieved major deployments of our Ezio solutions in China, Italy, France, Hungary, Nigeria, the UK and the US, with over 20 million online banking customers worldwide using our solutions.

Government Programs

We saw steady adoption of ePassports by new entrants during 2009. At least 30 more countries are expected to have moved to electronic travel documents during 2009-2010[1] (from a base of 62 countries at the end of 2008). Uptake was aided by a European Commission directive that required all member states to include digital biometric information for passports issued from June 2009. Gemalto piloted and implemented these second generation ePassports with European customers such as Denmark, Estonia, France, Norway, Portugal and Sweden.

An increasing number of countries deployed electronic ID documents (eID) in 2009, attracted by the security benefits for both the state and the individual. Countries including Sweden, Finland, Estonia, Spain, Portugal, Belgium and Austria have demonstrated that eID can provide citizens and businesses with real services and benefits – without infringing on new rules for data protection and civil liberties.

We reached several eID milestones in 2009, with particular activity in the Gulf region. In January, we announced delivery of another batch of one million eID cards, plus related services, to the Kingdom of Bahrain. The high-end cards combine built-in biometrics and contactless technologies. They can also be used as travel documents in the Gulf Cooperation Council (GCC) countries.

In March 2009 we concluded a deal to continue supplying eID to the Kingdom of Saudi Arabia for three years. In April, we issued the one millionth Gemalto eID in the United Arab Emirates. In June, Kuwait deployed its own eID card program using Gemalto technology, again with a million-strong order for multi-application cards for citizens, and two million more for foreign residents.

Gemalto continued to break new ground in 2009. The ePurse functionality in the eID cards we supplied to Oman was 'post-activated' in July, allowing users to pay administrative fees for certificates, registrations, licenses and visa applications – as well as topping up cellphones and shopping in many stores. This is the first time on-card functionality has been activated post-deployment. The application uses Gemalto's turnkey Coesys ePurse solution.

In Europe, Lithuania's Ministry of Interior commissioned Gemalto to deliver 900,000 Sealys laser-secured cards for the country's national eID program. Portugal became one of the first countries to fulfill the EU requirement for an electronic European Residence Permit (eERP) from 2010. Gemalto will deliver 150,000 cards per year over the next three years and has also supplied INCM, the country's mint, with its Coesys Issuance personalization solution.

In July, Gemalto worked with Australia's Placard Pty Ltd to provide several million Sealys electronic driver licenses to the Department of Transport and Main Roads in Queensland. And in May, Gabon's national healthcare body chose Gemalto to run its new eHealthcare project, supplying a solution including cards, personalization services and an ID verification system.

Identity & Access Management

Gemalto's solutions are used by many public and private organizations to manage access for employees to both physical infrastructure and IT systems. We reach out to markets such as higher education, government, healthcare, banks and corporations.

Higher education is a testing environment for our IAM solutions. At each campus, thousands of staff, students and support workers need secure access to buildings, networks, banking, transportation – even voting in student elections. Our multi-function cards act as a single credential for staff and students that gives them access to their own personal set of services. In 2009, we announced that more than four million students at 200 Santander Universities now use our cards in this way. In Poland more than 115 universities and high schools are issuing our eStudent card, and last year Serbia used Gemalto smart cards to roll out its first eID for students.

Governments make significant demands in matters of IAM. They hold highly personal information about millions of people. Their employees are often engaged on work of great sensitivity. And reliability is paramount – both to protect data and ensure key staff can access secure information and networks wherever they are in the world.

Gemalto's capacity for innovation has been vital in securing government customers. In 2009, we acquired US Federal Information Processing Standard 140-2 level 3 certification for our new Protiva Smart Guardian personal security USB devices. Not only do they prevent intruders from gaining access to critical security parameters, they also meet US 810-F environmental standards and are now available to secure the mobile data of US government employees. In 2009 we announced we had shipped more than 25 million smart card-based identity credentials to the federal government.

Banks have also turned to our solutions. The most valuable assets for financial services firms today aren't held in vaults or safes – they're in databases, and in their employees' ability to perform secure transactions without delay. Using Gemalto smart cards to give employees access to both physical infrastructure and IT systems ensures banks can secure vital data and buildings with world-class encryption systems.

Our corporate clients have also adopted our personal portable security devices (PPSDs) that offer convenient, affordable and secure remote access. Our smart cards are used widely as identity badges, providing the right blend of visible and digital authorization to access buildings, facilities and networks.

Our expertise in issuance and personalization ensures that each user is properly accredited – and that authorizations, from the most senior decision-makers to the freshest recruits, can be managed centrally for maximum efficiency.

And with our partnerships – including new deals concluded in 2009 – with leading IT suppliers, our solutions are easy for corporate IT departments to deploy. For example, our Protiva .NET Bio solution, available for Windows 7, is already delivering increased levels of corporate security by applying multi-factor authentication with biometrics on the smart card.

Some of the largest and most advanced companies are working with Gemalto IAM solutions. Microsoft itself manages physical and logical access control worldwide using our smart cards with .NET technology.

[1] The Keesing Journal, January 2010.

eBanking and eCommerce

Online banking has become popular because of its speed and convenience. eBanking also helps financial institutions reduce transaction costs, strengthen their core business and broaden their offerings to customers. But many people are concerned about the improper use of their bank details on the internet. So banks have to offer two things at once: convenience and security.

Today, thanks to Gemalto technology, banks around the world are doing this for more than 20 million web users. Our Ezio range offers end-to-end solutions in four key areas:

- **Online retail banking:** with solutions using EMV payment cards as well as ultra-secure one-time password tokens;
- **Corporate banking:** securing transactions including payroll and tax payments. Ezio puts strong authentication, transaction signatures and non-repudiation at the heart of corporate finance;
- **eCommerce:** Ezio also offers more secure ecommerce transactions, where users can make online purchases with the security of the EMV banking card;
- **Cloud computing:** cloud customers have access to distributed or hosted IT facilities for their mission-critical applications and data, so security is paramount. That's why a major provider like Amazon Web Services has chosen a Gemalto solution for its cloud customers.

Next generation identity

Highlighting the growing importance of national eID programs alongside ePassport deployments, Gemalto added several wins to its list of government contracts during 2009, notably Kuwait, Lithuania and Saudi Arabia. These included contact/contactless and biometric technologies; and in Oman, Gemalto achieved a world first by enabling holders to activate an ePurse payment application on their existing eID cards.

In IAM, our selection by Vietcombank[*] to safeguard its online banking service illustrates our expertise in strong two-factor authentication combined with EMV-CAP (Chip Authentication Programs) services.

[*] Vietnam's largest bank.

www.gemalto.com/casestudies

Others

Public Telephony and Point-of-Sale Terminals combined enjoyed good success in 2009, reporting a two-fold increase in operating margin.

Our performance

Revenue

€77m

2008: €73m

Up 6% year-on-year at constant exchange rates

Gross profit

€20m

2008: €18m

Gross margin

26.0%

Up 110 basis points

EBIT

€6m

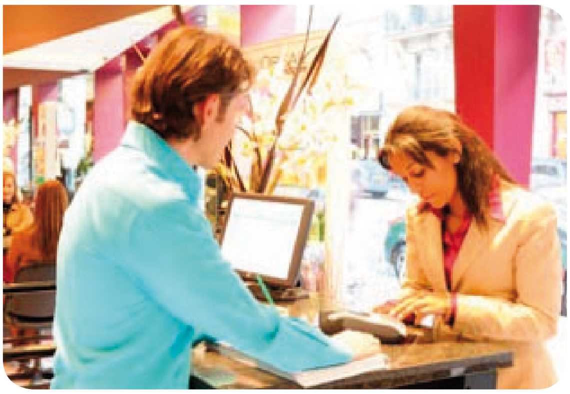
2008: €3m

EBIT margin

7.8%

Up 390 basis points

Our expertise in both card-based authentication and cryptography means we are strongly placed to satisfy both consumers' and merchants' security needs.



Strong efficiency improvement

- Structural revenue decline in Public Telephony was offset by solid growth in POS Terminals.
- Margins substantially increased on the back of efficiency gains and tight management of operating expenses.

The segmental overview is based on adjusted financial information: non-GAAP measures defined as IFRS financial information adjusted for reorganization charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151.

Our products, software and services

Point-of-Sale (POS) terminals

Our secure Point-of-Sale (POS) devices are used to accept payments in retail outlets. Our brands include the Delta, MagIC, MagIC Evolution and MagIC³ families.

- **MagIC³**, our latest range, is designed to be easy to configure and easy-to-use, helping merchants to keep down overheads and enabling customers to quickly authenticate transactions.
- Our range includes wireless, desktop and multi-lane terminals as well as contactless readers and a range of accessories to help merchants optimize the customer experience.
- Our software development kits and training programs enable retailers to tailor their systems to particular circumstances. Our administration software gives them an out-of-the-box option for more conventional POS applications.

Public Telephony

Gemalto provides high-tech, multi-function prepaid cards for public telephony. These enable operators to offer added-value services to customers, for example, when making payments at kiosks and accessing online services.

- Our tamper-proof UniSAM (Security Application Module) system can be installed in payphones or terminals to authenticate prepaid user cards. This offers security against fraud and allows storage of issuers' private information. Since it is built on open standards, it works with almost any legacy system.
- Our cards can be designed for any brand image, with custom shapes, artwork, advertising and additional features such as scratch panels. We even add fragrances to prepaid phone cards.

Our positioning

- Gemalto has nearly 30 years' experience in the development and production of POS systems. Over that period, we have sold more than two million terminals and we now support over 120 terminal management systems in more than 25 countries.
- Our expertise in both card-based authentication and cryptography means we are strongly placed to satisfy both consumers' and merchants' security needs.
- With high levels of investment in software and services across Gemalto, we are able to provide not only the most advanced terminal technology, but also merchant support in the form of applications and consultancy.
- Since our terminals are based on the Linux operating system and open standards, they are adaptable to a range of back-end systems and offer a sound platform for future development.

- Gemalto is the world's leading supplier of prepaid phone cards, with nearly 200 million units shipped in 2009.
- Our phone card solutions offer strong security for both operators and their customers. Our open Key Management System for authenticating card-based activities delivers a combination of security and flexibility.
- With our global footprint and diverse customer base, we support public telephony operators in a wide range of initiatives designed to promote their business.
- By sharing our sales and marketing know-how and our technical knowledge, we help operators develop fresh approaches to the highly mature fixed-line market. This enables them to remain distinctive and relevant in a world increasingly dominated by mobile communication.

Financial review

Gemalto further expanded its profitability in 2009 and posted record operating profit and margin, with all segments now reporting profits, and record operating cash flows.

Income statement

Extract of the adjusted income statement:

€m	2008		2009		
Revenue	1,679.9		1,654.4		(2%)
Gross profit	596.8	35.5%	600.1	36.3%	+0.8 ppt
Operating expenses	429.3	25.6%	433.6	26.2%	+0.6 ppt
EBITDA[1]	218.7	13.0%	224.6	13.6%	+0.6 ppt
Other Income & Expense	1.7		4.0		
Operating income (EBIT)	169.3	10.1%	170.6	10.3%	+0.2 ppt
Net profit	153.0	9.1%	148.1	9.0%	(0.1 ppt)

Earnings per share (€ per share)[2]		
– basic	1.80	1.75
– diluted	1.78	1.73

In accordance with IAS 37 in 2009 Gemalto booked a special provision of €11.2 million to cover the consequences for Gemalto of the situation related to German payment cards identified at the beginning of 2010. This special provision is based on management's best estimate and takes into account expected coverage from insurance. It is reported on the line item 'Cost of sales' in the Secure Transactions segment.

€m	2008		2009		
Operating income (EBIT) before special provision	169.3	10.1%	181.8	11.0%	+0.9 ppt

[1] EBITDA is defined as operating income plus depreciation and amortization expenses. In accordance with the adjusted basis of preparation, these amounts exclude amortization and impairment charges related to the intangible assets identified upon acquisitions pursuant to IFRS 3 'Business Combination'.

[2] The full year 2009 adjusted basic earnings per share were determined on the basis of the weighted average number of Gemalto common shares outstanding during the twelve-month period ended December 31, 2009 (82,519,980 shares) taking into account the effect of the share buy-back on the weighted average number of shares outstanding during the period. The full year 2009 adjusted diluted earnings per share were determined using the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding twelve-month period ended December 31, 2009 (82,519,980 shares) and considering that all outstanding 'in the money' stock options were exercised (5,824,462 options) and the proceeds received from the options exercised (€114,883,551) were used to buy-back shares at the average share price of the year 2009 (4,555,925 shares at €25.22).

The financial review is based on adjusted financial information: non-GAAP measures defined as IFRS financial information adjusted for reorganization charges, amortization & depreciation of intangibles resulting from acquisitions, and acquisitions-related costs. See page 151. Figures in the financial review are at historical exchange rates, except revenue and average selling price variations which are at constant exchange rates, or except where otherwise noted.

Gemalto revenue in 2009 was lower than the previous year by 2% at both historical and constant exchange rates. Revenue from software and services increased by 9% at constant rates to €164 million, accounting for 10% of the Company's full year revenue and representing a 70 basis points improvement on the previous year.

Gross margin increased by 80 basis points to 36.3%, on the back of performance improvements in all three main segments. Excluding the special provision, gross margin was up 150 basis points.

Operating expenses were essentially flat in value. As a percentage of revenue, operating expenses accounted for 26.2% of revenue, compared to 25.6% a year ago. Other income & expense was a profit of €4 million in 2009, compared to €2 million in 2008.

Consequently, operating income was €171 million and the operating margin 10.3%. Excluding the special provision, operating income came in at €182 million and the operating margin at 11%, an increase of 90 basis points year-on-year. In 2009, Gemalto was successful in achieving its objective of above 10% adjusted operating margin that the Company had set for itself in its 2006-2009 Development Plan.

Net interest income was reduced by the significantly lower market yields on short-term investments, and was down €9 million to €0.1 million. Foreign exchange related costs were down €6 million to €1 million. Other financial expenses of €1 million were recorded during the period. As a result, Gemalto reported a net financial expense of €2 million for 2009, compared to a net financial income of €2 million the prior year.

Profit before taxes was therefore €170 million, compared with €174 million the previous year. Net income tax expenses amounted to €22 million.

Consequently the adjusted net profit for the period was €148 million, or €159 million excluding the special provision, compared to €153 million for the same period the previous year. Basic adjusted earnings per share were €1.75 and fully diluted adjusted earnings per share were €1.73.

Mobile Communication

€m	2008		2009		
Revenue	948.2		888.1		(6.3 %)
Gross profit	394.5	41.6%	382.3	43.1%	+1.5 ppt
Operating expenses	233.9	24.7%	242.8	27.3%	+2.6 ppt
Operating income	159.9	16.9%	142.5	16.0%	(0.9 ppt)

At constant exchange rates, full year 2009 Mobile Communication revenue was lower by 8% year-on-year.

2009 was marked by a cautious market environment, some customers postponing the roll-out of certain innovative projects, and Mobile Communication reported revenue of €888 million, lower by 8% at constant exchange rate from the previous year.

Gemalto continued to secure new wins in software platforms and operated service contracts, posting a revenue increase of 15% year-on-year for software and services at constant exchange rates. SIM card average selling price in 2009 was lower by 16% year-on-year at constant rates. This reflects some customer delays in the roll-out of enhanced products and services, resulting in a softer product mix improvement.

Gross profit for 2009 was €382 million leading to a gross margin of 43%, up 150 basis points from that of the previous year. It reflects continued focus on value-selling and further improvements in operational efficiency.

Operating expenses, at €243 million, or 27% of revenue, increased as Gemalto continued its efforts to expand its software and services offers, and started to consolidate newly acquired activities.

Through vigilance on expenses and focus on value-selling, Mobile Communication operating income came in at €142 million, representing an operating margin of 16%.

Secure Transactions

€m	2008		2009		
Revenue	442.8		441.4		(0.3%)
Gross profit	117.9	26.6%	108.2	24.5%	(2.1 ppt)
After special provision of:			*11.2*		
Operating expenses	91.3	20.6%	93.8	21.2%	+0.6 ppt
Operating income	26.8	6.0%	14.9	3.4%	(2.6 ppt)
Operating income before special provision	26.8	6.0%	26.1	5.9%	(0.1 ppt)

At constant exchange rates, full year 2009 Secure Transactions revenue was up 1% year-on-year.

Secure Transactions 2009 revenue was €441 million, up 1% year-on-year at constant rates. Migration to EMV chip payment cards continues to spread around the world, and dual-interface contactless cards gained further success in Europe. Revenue increase was limited by some banking customers shifting from registered to standard mail for their card deliveries. In personalization services, revenue progressed by 4% at constant exchange rates.

In January 2010, Gemalto faced an unexpected situation in relation to certain German payment cards, which led the Company to book a special provision of €11.2 million to cover the consequences for Gemalto. A solution was promptly devised, via a simple data initialization procedure; the cards' software remaining unchanged and their security entirely preserved. This special provision is reported as part of 'Cost of sales' in the segment.

Gross profit for 2009 was therefore lower, at €108 million. Excluding the special provision, however, gross margin was up by 40 basis points to 27% for the full year. Compared to the previous year when stop-and-go production hampered efficiency, the second semester gross margin excluding the special provision improved by 370 basis points to 29%, on the back of product mix improvements and enhanced personalization efficiency.

Operating expenses were well contained in value, even while factoring in the newly acquired activities that were consolidated.

Excluding the special provision, Secure Transactions recorded an operating income of €26 million and operating margin of 6%, similar to the previous year.

Security

€m	2008		2009		
Revenue	215.9		248.1		+14.9%
Gross profit	66.2	30.7%	89.6	36.1%	+5.4 ppt
Operating expenses	87.8	40.7%	82.9	33.4%	(7.3 ppt)
Operating income	(20.2)	(9.4%)	7.1	2.9%	+12.2 ppt

At constant exchange rates, full year 2009 Security revenue was up 14% year-on-year.

Turning to profit in 2009, Security achieved its goal, on the back of growth in Government Programs, success in e-banking activities and operational leverage.

Government Programs recorded a revenue increase of 18% at constant rates over the previous year. Some up-and-down variations were recorded on a quarterly basis as revenues across this segment tend to remain project-based, with varying delivery schedules. Identity & Access Management revenue was slightly lower for 2009, by 2% at constant exchange rates when compared to the previous year: the adverse global economic context of 2009 resulted in indirect distribution channels for enterprise solutions being focused on inventory optimization, while demand for our innovative e-banking solutions remained robust.

Patent licensing revenue for 2009 was up €6.2 million and amounted to €14.3 million, of which €12.8 million was booked in the first semester.

The Security segment's gross margin expanded by 540 basis points to 36%. Strong improvements came from delivery ramp-ups in Government Programs. Higher patent licensing activity also contributed to this sharp increase.

Operational expenses were well under control, slightly down in value, leading to a substantial operational leverage.

Consequently, Security posted an operating profit of €7.1 million and an operating margin of 2.9%. Excluding the patent licensing activity contribution, Government Programs and Identity & Access Management activities taken together also exceeded the break-even point, in both semesters. Operating margin variation between the first and the second semester of 2009 was due to the higher patent licensing revenue in the first semester. Reaching profitability was an important milestone for the Security segment, and for the Company, delivering the return on the technological and commercial investments made, and demonstrating operational leverage in this activity.

Others

€m	2008		2009		
Revenue	73.0		76.8		+5.3%
Gross profit	18.2	24.9%	20.0	26.0%	+1.1 ppt
Operating expenses	16.2	22.2%	14.2	18.4%	(3.8 ppt)
Operating income	2.9	3.9%	6.0	7.8%	+3.9 ppt

At constant exchange rates, full year 2009 revenue for Public Telephony and POS Terminals combined in Others was up 5.7% year-on-year.

Public Telephony revenue declined, in line with expectations and market trends as mobile telephony penetration expands worldwide, while POS Terminals delivered solid growth, following a supplier quality problem that limited deliveries in 2008.

Gross profit increased by 10% to €20 million. Operating expenses were reduced by 3.8 percentage points. As a result, operating margin doubled to 7.8% and operating profit was €6.0 million.

Balance sheet and cash position variation schedule

Extract of the cash position variation schedule:

€m	2008	2009
Cash and cash equivalents, beginning of period	**337**	**367**
Cash generated by operating activities, before cash outflows related to restructuring actions	191	224
Including cash used by working capital increase	*(19)*	*(34)*
Cash used in restructuring actions	(59)	(24)
Cash generated by operating activities	**132**	**200**
Capital expenditure and acquisitions of intangibles	(49)	(53)
Interest received, net	10	2
Cash used by acquisitions	(14)	(74)
Other cash generated by investing activities	0	4
Cash generated by operating and investing activities	**79**	**79**
Cash used by the share buy-back program	(65)	(65)
Other cash provided by financing activities	23	14
Currency translation effect on cash	(8)	8
Cash and cash equivalents, end of period	**367**	**404**
Current and non-current borrowings including finance lease and bank overdraft, end of period	(23)	(23)
Net cash, end of period	**344**	**381**

Bank overdraft amounted to €1.5 million in 2009 and €7.1 million in 2008. Consequently cash and bank overdraft amounted to € 402 million in 2009 and was €360 million in 2008.

In 2009, operating activities generated a cash flow of €224 million before outflows related to restructuring actions. Payments made in connection with restructuring actions linked to the merger amounted to €24 million.

Gemalto took the opportunity of favorable conditions to accelerate the renewal of older and lower productivity equipment during the period. As a result, capital expenditure and acquisition of intangibles were up €4 million over prior year, amounting to €53 million and representing 3.2% of revenue, of which €39 million were incurred for plant, property and equipment purchases net of proceeds from sales.

In line with the Company's policy of responsibility towards its business partners, Gemalto opted to support some of its suppliers looking for cash through ad-hoc rapid payment facilities. The accompanying decrease of account payables was offset by improved management of inventory and customer receivables.

In 2009, Gemalto's share buy-back program used €65 million in cash, the same amount as in 2008, for the purchase of 2,237,313 shares representing 2.5% of Gemalto's share capital. As of December 31, 2009, the Company owned 5,239,631 shares, i.e. 6.0% of its own shares in treasury. The average acquisition price of the shares repurchased on the market and held in treasury as of December 31, 2009 was €24.74. The total number of Gemalto shares issued is 88,015,844. Net of the 5,239,631 shares held in treasury, 82,776,213 shares were outstanding at the 2009 year end.

Acquisition of subsidiaries and businesses, net of cash acquired, used €74 million in cash in 2009.

The proceeds received by the Company from the exercise of stock options by employees amounted to €32 million.

Consequently, Gemalto's net cash position was €381 million at the end of December 2009, a €37 million increase compared to the end of December 2008.

Outlook

Our business has strong fundamentals and prospects. We continue our mission to provide trust and convenience to the wireless and digital world. In 2010 we are focused on growth, actively promoting our expanded product portfolio and delivering more software and services to our customers, in order to further increase our profit, on our way to achieving the objective we have set for ourselves of €300 million profit from operations in 2013.

Principal factors affecting revenue

In the Mobile Communication segment, sales volumes are directly affected by wireless market developments such as the deployment of new wireless standards, subscriber growth rates in emerging wireless market, and worldwide and regional economic conditions. SIM cards selling prices mainly depend on their sophistication and the availability of competing products. Revenue from software and services has rapidly expanded over the last couple of years, and Gemalto will have to win new application platforms and operated service contracts to achieve the same performance in the future.

In the Secure Transactions segment, revenue from traditional magnetic stripe banking cards is volume-driven, and microprocessor banking cards activity is mainly affected by the progressive adoption of the Europay, MasterCard, Visa (EMV) standard. Provision of replacement cards is a key driver for banking cards demand since all financial cards expire on average within two to four years of their issuance. Innovation is another key driver with dual-interface contactless banking cards gaining further success. The higher the demand for banking cards, the higher the personalization services revenue. Finally, Pay TV revenue varies on a yearly basis depending on the orders placed by the five principal customers of this industry, and revenue in the Transportation sector is volume-driven.

In the Security segment, contracts often require significant investment and lead times and are typically offered through public tenders and procurement procedures. While those contracts generally specify delivery of large volumes over long periods of time, revenue from such tenders may significantly vary quarter on quarter and year-on-year, due to the limited number of large projects, their size, the technical content and range of associated services provided, and the fact that we may or may not be part of the winning consortia. Patent licensing revenue may also vary substantially due to the lengthy and complex negotiation process for large licensing contracts, and the non-recurrence of some of the licensing revenue (lump sum payments). The level of licensing activity directly affects the segment's profitability, since cost of revenue in this activity is mainly fixed.

Principal factors affecting gross profit

Profitability in all segments is first affected by sales volumes: the higher the volumes, the lower their main components' purchase price, particularly silicon chip purchasing costs, and the higher the production capacity utilization rates. Product mix is another key factor: sales of higher-end solutions usually yield better gross margins. Since Gemalto constantly renews the sources of chips used in its microprocessor-based products, gross profit is also affected by any delay generated by our suppliers, our supply chain or our customers' acceptance processes. Finally, while Gemalto tightly controls fixed manufacturing costs and permanently adapts its production and procurement processes, a lack of flexibility or quality issues would negatively affect profitability.

Principal risks

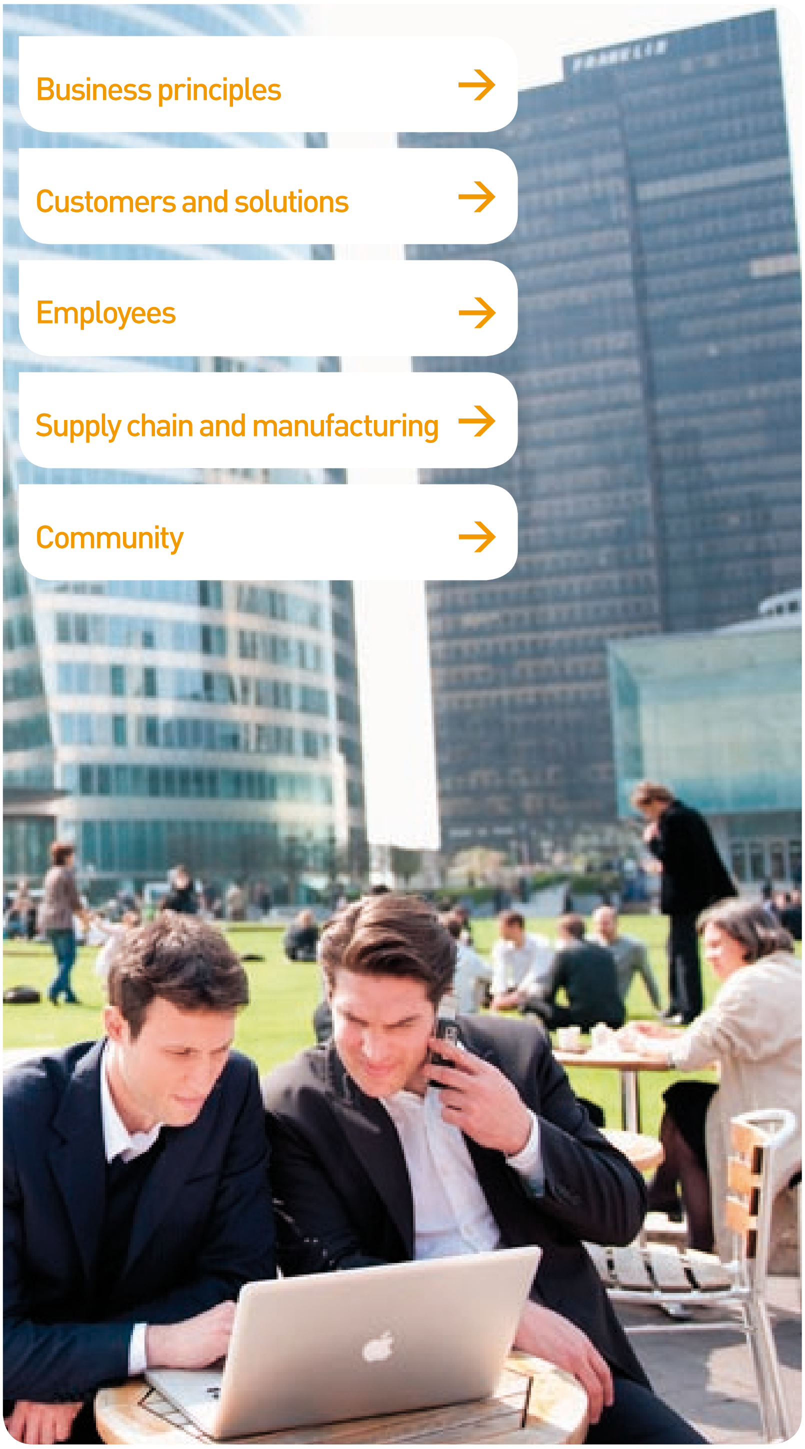
In common with most organizations worldwide, Gemalto is affected by a number of risk factors, not all of which are within our control. Some factors, such as macroeconomic factors, are likely to affect the performance of businesses generally, while others are particular to our operations. This section sets out the risks management believes are the principal risks to Gemalto, most being specific particular to our business. Accordingly, it is not intended to be an extensive list of all the risks that may affect our business.

Risk area	Most important potential impacts on Gemalto	Mitigating actions
Strategic risks		
Lower growth, decrease in activities or increase in competition	Financial	– Capacity of innovation to bring new products and applications to the market. In 2009, Gemalto filed 103 new patent applications. – Focus on creating value to clients. In 2009, overall client satisfaction improved 13% to 715 points (2008: 631) – Strict pricing discipline. – Critical size and global presence
Acquisitions and joint ventures	Financial and operational, loss of key people	– Experience of successful combinations, nine acquisitions since the Combination. – Dedicated M&A team and processes. – M&A Committee with Board Members.
Technology shift	Financial and reputational	– Diversified technology portfolio approach. – Participation in industrial bodies and standardization organizations. Many awards for technological innovations (see www.gemalto.com/companyinfo/about/awards) – Strong Research & Engineering and Market Intelligence teams.
Operational risks		
Business interruption, including crisis mismanagement	Financial, commercial and reputational	– Risk mapping with regular updates. – Crisis management framework. – Contingency plans build-up. – Diversified industrial footprint.
Availability of chips	Financial and commercial	– Multiple sourcing. – Safety stocks management. – Protection clauses in contracts.
Decoding of encryption programs	Financial and reputational	– Strong security and cryptography expertise. – Market Intelligence team. – Six sites with ISO 27001 certification.

Risk area	Most important potential impacts on Gemalto	Mitigating actions
Operational risks continued		
Product defects	Commercial, financial and reputational	– Standardized manufacturing processes. – Quality Management systems. – 27 sites with ISO 9000 certification. – Product liability insurance.
Bidding and execution failures of major contracts	Commercial, financial and reputational	– Project-based organization for government program bids. – Key account managers. – Safety certifications and organization – Crisis management.
Fraud (including fraudulent and illegal acts, misappropriation of assets)	Financial and reputational	– Code of ethics. – Anti-fraud coordination structure and policy. – Strong internal control environment. – Security policies and department. – Awareness and training of employees. – Whistle-blowing.
Exposure to country risk (political, regulatory and trade)	Financial	– Involvement of treasury, tax and legal departments at the early stages of international operations. – Travel intelligence and medical repatriation cover.
Infringement to intellectual property rights (IPR)	Financial and reputational	– Dedicated IPR team. – Protection clauses in contracts. – Internal inventors policy.
Financial risks		
Foreign exchange risk	Financial	– Centralized currency risk management. – Natural hedging (i.e. matching costs and revenue currencies). – Hedging transactions (foreign exchange forward contracts and options recorded as cash flow hedges).
Financial counterparty risk	Financial	– Risk limits set for counterparties. – Usage of plain vanilla hedging instruments and low risk money market investment. – Working with financial institutions of investment grade (deposits, hedging transactions).
Financial reporting risks (revenue recognition process, inventory valuation, taxation and other complex accounting issues)	Financial and reputational	– Financial policies and procedures. – Internal Audit department. – Dedicated team on internal control over financial reporting. – Single financial reporting tool company wide (Hyperion Financial Manager). – Single Enterprise Resource Planning (ERP) under deployment.

Sustainability

Responsible digital security is in Gemalto's DNA. Wherever we do business and whatever the market, we seek to contribute positively to society and to reduce any impact we may have on the environment. This is why responsible corporate social behavior is second nature to us.



Introduction

Gemalto aims to meet the highest standards of Corporate Social Responsibility (CSR). We actively invite examination by external agencies who have monitored our performance several times in a number of areas, and seek to address any opportunities for improvement that they have highlighted. As a result, we have a growing reputation for CSR among our peer group, which includes major corporates from the semiconductor, telecoms and banking sectors.

Business principles

Governance

Gemalto strives to apply the highest ethical standards to the management of its business. Our principles are shaped by a series of codes and charters which form the ethical backbone of its management practices. The Company complies with the principles and best practice provisions of the amended Dutch corporate governance code, dated December 10, 2008, with the exception of the best practice provisions listed in 'Compliance with the Dutch corporate governance code', page 54.

Ethics

Our code of ethics, updated in 2009, provides guidelines for the conduct of all employees with respect to internal controls, financial disclosures, accountability, business practices and legal principles. With regard to its employment practices, Gemalto does not tolerate any kind of harassment or discrimination against job applicants or employees. Our whistle-blower procedure guides the receipt, retention and treatment of complaints received by Gemalto regarding suspected financial irregularities. In addition, Gemalto has charters governing the

"Bringing trust and convenience to this new digital, wireless world is the contribution we've taken upon ourselves to deliver. It is a noble social role."

Olivier Piou
Chief Executive Officer

functioning of the Board and its committees that are reviewed regularly with regard to their appropriateness and effectiveness. It also has a policy on the ownership of and transactions in Gemalto securities. For more information, please refer to 'Corporate governance', pages 54 to 59.

Anti-fraud management

Gemalto's anti-fraud commission comprises the Group Legal Counsel, the EVP Human Resources, the Chief Information Officer, the Security Director and the Internal Audit Director. It was created in 2008, and meets once a quarter to coordinate the various fraud prevention and detection programs. It initiated the anti-fraud policy which was published in 2009 and among its actions it promoted various training sessions on integrity and anti-fraud awareness (please refer to page 61).

Risk assessment

In 2007, Gemalto initiated an enterprise risk assessment and subsequently issued a risk map together with action plans to mitigate the key risks. An update of these action plans was presented to the Audit committee and twice to the Board in 2009. A detailed description is presented in 'Internal risk management and control systems', pages 60 to 62.

Internal control

Gemalto's management regards internal control as a responsibility that is shared by all managers and that is met by implementing a set of processes and procedures within Gemalto intended to provide reasonable assurance that risks are mitigated, financial reporting is reliable, applicable laws and regulations are complied with, and that the objectives of the Board can be attained (please refer to pages 61 and 62).

Global compact

As a business with operations and customers on every continent, we are also signatories to the United Nations Global Compact. This is a strategic policy initiative for those committed to aligning their operations and strategies with ten universal principles in the areas of human rights, labor, environment and anti-corruption. Please refer to www.unglobalcompact.org.

Customers and solutions

Customer focus

We put our customers at the center of our Company strategy. We want to ensure they can rely on every one of their Gemalto contacts as well as our products and services. As a result, we have very high levels of customer confidence in all our businesses around the world.

Every year we commission an independent 'Tell Me' survey, which consists of 470 face-to-face interviews with customers who rate their satisfaction with different aspects of our businesses. Our aggregate score of 715 represents 'best-in-class' against our global peer group, and recent increases in that rating over previous years show our investment in customer focus has paid off.

The survey tells us that our customers value our employees' skills, availability, pro-activity and transparency, as well as the fact that they are well supported by the rest of the organization. Our levels of services are reaching excellence in core card businesses and are challenging the major players in software and solutions. That tells us Gemalto is a trusted company that customers can rely on.

Our improvement initiatives will continue to be driven by customer feedback, and our account managers regularly share yearly action plans with their customers to ensure we are always aligned to their strategic and operational needs. As a result some 60% of our customers now say they wish Gemalto to be their trusted partner to face the opportunities – and challenges – of the future in the digital realm. We also answer any enquiries from customers who wish to maintain a CSR standard throughout their own supply chains.

Security

Security is what we sell – but it is also critical to Gemalto as a source of trust in the market. We aim for excellence in the integrity and confidentiality of assets and data belonging to Gemalto and our customers.

715

Our customers rated their overall confidence in Gemalto as 715 out of 1000, representing a 'best-in-class' score and an increase of 13% against 2008.

Mobile financial services in the developing world

In many parts of the developing world, lack of banking infrastructure is hampering economic growth and entrepreneurialism. As a result, Gemalto has been working with its partners to create entirely new approaches to mobile banking, mobile money transfer and mobile payment.

We work with operators – such as MTN and Mcel in Africa, Telenor in Pakistan, and a host of banks in regions like Latin America and the Gulf – to allow people to use their cellphone as a banking, wallet and transaction system. The uptake has been remarkable. After just seven months in Uganda, we had more than 370,000 users conducting more than one million transactions per month. Most of the transfers are for small values. For instance in Africa, the average amount is around USD15 – workers sending money home or paying bills. But this suddenly opens up myriad life choices for people who might otherwise be tied down to locations where there are few opportunities. Introducing fundamental changes in the way people worldwide carry out transactions, mobile financial services have important socio-economic impacts in these emerging and developing markets where lack of efficiency, transparency and infrastructures hamper development.

www.gemalto.com/casestudies

We achieve this by promoting a security culture. Dedicated programs for all our employees help them maintain the highest levels of both logical and physical security. At the corporate level, we maintain a full risk register that is constantly updated – which means our internal security standards and policies surpass regulatory requirements. These systems are monitored, audited and tested on a regular basis.

Every employee and every site must contribute daily to achieving our objectives of ensuring our customers' security infrastructures are never compromised. We maintain external certifications on all R&D, production and personalization sites – awarded by companies like Visa and MasterCard, and conforming to standards such as ISO 27001. And we use our own leading-edge security technology to protect our own, and our customers', data.

Business continuity

We have plans in place to deal with external events and to ensure as far as possible the continuity of our operations for the benefit of our customers. Our crisis management system, being deployed at all our sites, is based on established response plans. Our key sites have undergone specific risk assessments and special focus was given in 2009 to ensure protection of personnel or preparedness for remote working, in order to cover any pandemic absenteeism.

Greener products

We have worked hard to develop products that enable our customers to offer green solutions to their end-users: degradable cards made from PLA that still meet stringent banking industry specifications; smaller sized cards that reduce the use of materials; readers optimized

Consumer advice

In 2009, 1.1 million people visited our web site JustAskGemalto finding answers to an array of concerns about digital security and helping them to be more at ease with their digital lifestyles.

for ultra-efficient use of plastics and other non-renewables. We are also planning a global roll-out of our compliance with the EU regulations on the use of chemicals (REACH), in conjunction with the implementation of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). That means our suppliers also integrate Gemalto environmental requirements into their own systems.

Support for consumers

ID theft, credit card fraud and lost data always make headlines – and the coverage is usually negative. The general public can easily get the impression that their digital lives are vulnerable and complex. A TNS Sofres survey in 2008, commissioned by Gemalto, confirmed that people have many questions about the security aspects of the digital services they use – but they didn't know who to turn to for answers.

With thousands of experts looking after the safety of banking data, telecom subscriptions and government services, we knew we could help reassure anyone who needs quick and practical advice on these issues. By allaying their fears, we realized we could support our customers as they roll out even more advanced digital services.

We therefore responded to this unanswered need by launching a consumer advice web site www.justaskgemalto.com. This offers FAQ's, articles and a series of 3D animations showing how digital security works. Visitors to the site can ask questions – such as how to choose a good password or safeguard mobile phone contacts – that are answered by Gemalto experts. During 2009 the site had more than 1.1 million visitors.

Employees

Every business understands the need to nurture, develop and safeguard their employees. For Gemalto, a company built on the ingenuity of its people, this is doubly important.

Developing human resources

The digital environment is evolving rapidly. Our customers expect us to be able to innovate and respond to new evolutions in technologies and markets. That means developing our employees is of paramount importance to our corporate sustainability.

That's why Gemalto budgets 2% of its salary costs to training each year. We ensure that everyone in the organization has the skills and knowledge to respond to the needs of our customers and our markets.

We monitor progress through the Gemalto Performance Review which, with a process of management by objectives and annual appraisal, provides a key foundation to our management of our employees' achievements in the short term and career advancement in the mid to long term.

The Human Resources team and management work closely to identify new career moves to support our practice of promotion from within. We encourage mobility across the businesses and between regions – through, for example the Gemalto Technical Ladder, which gives our technical experts a structured career path. Gemalto University, our global leadership development program, has created a worldwide community of key leaders, ensuring we remain well-organized and competitive.

Our employee practices support and conform with the human and labor rights laws in every country in which we do business.

Listening to employees

PeopleQuest, our annual employee survey, tracks satisfaction across our global operations. We use the results to help us create, implement and improve policies and initiatives designed to meet employees' expectations for their working lives. The results of the 2009 survey showed continuing improvement in our employees' overall satisfaction.

Safety at work

Although our operations pose few explicit safety risks, Gemalto regularly benchmarks its Health & Safety Management System (HSMS) against industry best practices. Eleven sites have already got the OHSAS18001 certification, designed to minimize risk to employees, improve health and safety systems, demonstrate diligence and gain assurance. We undergo third-party audits biannually, and review our continuous improvement program annually. As a result, Gemalto's safety record is highly rated in its peer group of companies.

Supply chain and manufacturing

Commitment to quality

Every day, Gemalto's solutions and software allow hundreds of millions of consumers to manage their digital services safe in the knowledge that they are secure. Our customers rely on these products to protect revenues, keep data and buildings secure, and to confirm identity to combat fraud. So it is imperative we operate with the highest levels of quality to ensure we deliver totally reliable services.

In 2009, we merged our teams delivering Quality, Security, Health, Safety and Environment together with our World Class Manufacturing organization. This is now one single unit dedicated to improving customer satisfaction, protecting Gemalto employees and stakeholders, improving quality and anticipating new regulations and standards to ensure Gemalto is always compliant with best practice.

As well as the obvious synergies, this single unit has helped us continue the development of a Lean Six Sigma culture. Our World Class Manufacturing approach has evolved and we are now committed to World Class Enterprise. This continues to contribute to the enhancement of our customer relationships and provides tangible benefits to the Company performance.

Environmental management

Efficient, effective manufacturing processes and responsive supply chain management are critical to Gemalto's success as a global leader in digital security solutions. But as well as satisfying our customers' needs, we need to be sensitive to the world around us. By managing our environmental impact, we can help secure our industry's future. This isn't a recent fad for Gemalto: we have audited our Environment Management System (EMS) for more than ten years now. Twenty-one of our facilities are ISO 14001 certified.

Cleaner manufacturing

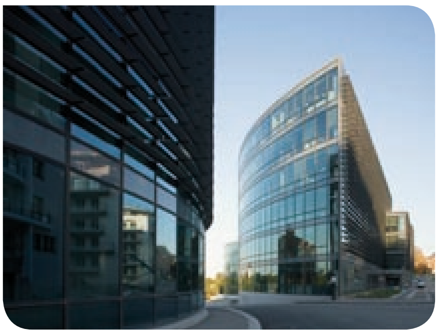
Our commitment goes beyond regulatory compliance. For many years, our production facilities have focused on reducing their consumption of energy, water and hazardous materials. For example, in Shanghai, modified air conditioning has reduced energy consumption by 20%. In Singapore, a new design of pallet reduced transport weight by 25%. Overall, paper consumption at our facilities in Gemenos and La Ciotat has fallen by 56%. In the US, our PVC waste is collected and recycled to produce masts for boats. At Tczew in Poland, waste re-used, recycled, or converted to energy has increased from 41% in 2004 to 68% in 2008.

Our carbon footprint

Gemalto is a pioneer in CO_2 emissions, and we measure the entire Company's carbon footprint. In 2006, our Fareham facility in the UK was audited as carbon neutral by KPMG. We were the first card manufacturer in the world having a CarbonNeutral® offer. In 2008, we produced 4.7 million cards under the initiative – rising to about 9 million in 2009. A carbon reduction program focused on logistics has been embedded into 2010 corporate objectives. And our travel booking tool allows employees to see the carbon footprint of their business trips. With an active travel policy control, we were able to reduce overall business travel by 20% in 2009. For many years our production facilities have focused on reducing their consumption of energy, water and hazardous materials.

Community

Helping to build thriving communities wherever we operate is a vital part of the way we work. We believe in developing the local economy by recruiting and training individuals from the countries in which we do business. Our global Your World program supports employee involvement in non-profit organizations worldwide. These are all chosen through a careful process which excludes any political or trade union body. Over the past two years, 140 local or global organizations have received financial support through the program.



- ISO 14001 (Environment): 21sites
- ISO 9001 (Quality): 27 sites
- ISO 18001 (Health & Safety): 13 sites
- ISO 27001 (Security): 6 sites

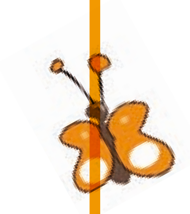
CarbonNeutral.com
CO_2 emissions reduced to net zero in accordance with The CarbonNeutral Protocol

Carbon neutral

In 2009 we produced about 9 million cards under the carbon neutral initiative, nearly double our 2008 figure.

The stories are inspiring. Our support is helping disadvantaged students in France attain engineering qualifications through Cercle Passeport Telecoms; Relay for Life is raising awareness – and funds – for cancer research in the USA; the Oakville Dragon Boat Race helps the Halton Children's Society in Canada; Hands on Shanghai is a scheme for hospitalized children; the Surfrider foundation helps clean beaches in France; Maria Luiza Orphanage cares for children in Buzovgrad – and the list goes on.

Gemalto also backed team initiatives such as Tabitha Cambodia, where a group of Gemalto Singapore employees traveled to Phnom Penh to build houses; or the International Coastal Cleanup, where 35 of our employees helped de-pollute Chek Jawa Cape on Pulau Ubin Island, Singapore.



Eco-friendly products

Gemalto has a long-standing portfolio of eco-friendly products for banking, telecom and government customers worldwide. This was recently expanded, further reducing environmental impact in three key areas:

Reducing hazardous substances

Gemalto actively seeks ways to reduce the use and disposal of hazardous substances during production, e.g.:

- In our advanced Card Center in Pennsylvania, US, we succeeded in eliminating ink jets by replacing them with laser inscription.
- We are treating and recycling rags which were previously discarded in the process of cleaning manufacturing equipment.
- We are increasing the use of vegetable-based inks in the printing process.

Using chlorine-free materials

In 1997 Gemalto began to move to non-chlorine polymers resulting in the majority of our current products being chlorine free. These include:

- PETG[*] based products: a chlorine-free alternative to PVC, PETG can be incinerated without creating harmful gases or air pollution.
- ABS molded cards: these are PVC free and significantly reduce the amount of waste during production.
- PC Twin Reader: the first smart card reader which satisfies eco-design criteria, anticipates legal requirements on hazardous substances and is easier to recycle.
- Small form factor cards: which reduce the amount of material required in production.

[*] Polyethylene Terephthalate Glycol.

Promoting renewable and recycled materials

Gemalto actively promotes renewable and recycled materials, reducing the overall environmental footprint of our production processes, e.g.:

- Polylactic Acid (PLA) card: a new bio-sourced material which is easily recyclable and compostable.
- Paper-based materials for short-term use, such as scratch cards.
- ECOPack: eco-friendly packaging made of 100% recyclable materials for our fulfillment services.
- Recycling production waste to make boat masts.

Governance at a glance

Corporate governance

For more information see pages 54 to 59

Core principles

The Board is responsible for Gemalto's corporate governance structure and for compliance with the amended Dutch corporate governance code dated December 10, 2008, as applicable during the 2009 financial year. The Company complies with the principles and best practice provisions of the Dutch corporate governance code with the exception of the best practice provisions listed on page 54.

Board compliance statement

The Board compliance statement for purposes of compliance with the amended Dutch corporate governance code and in accordance with the implemented European Union Transparency Directive, can be found on page 63.

Board structure

The Company has a one-tier Board comprising:

- One Executive Board member, the CEO.
- Non-executive Chairman.
- Eight further Non-executive Board members.

The Board held nine meetings during 2009, five in person and four by conference call.

The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole. The CEO conducts the day-to-day management of the Company.

The CEO is supported by the senior management team that consists of ten Executive Vice-Presidents, including the Chief Financial Officer.

Board committees

The Board committees are:

- Audit committee – held eight meetings during 2009.
- Compensation committee – held six meetings during 2009.
- Nomination and Governance committee – held five meetings during 2009.
- Strategy and M&A committee – held six meetings during 2009.

Board composition

The members of the Board can be found on pages 64 to 66. Board member changes are set out on page 55 and 56.

Report of the Non-executive Board members

The report of the Non-executive Board members describes the activities of the Board and the different Board committees during 2009. The report can be found on pages 68 and 69.

Internal risk management and control systems

For more information see pages 60 to 62

Core principles

The principal aim of Gemalto's internal risk management structure and control systems is to manage business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Management has put in place a number of key policies, processes and independent controls to provide assurance to the Board as to the integrity of Gemalto's reporting and effectiveness of its systems of internal control and risk management.

Risk assessment

In 2007, Gemalto initiated an enterprise risk assessment and subsequently issued a risk map together with action plans to mitigate the key risks. An update of these action plans was presented to the Audit committee and twice to the Board in 2009. For a detailed description, see page 62.

Internal control

Gemalto's management regards internal control as a responsibility that is shared by all managers and that is met by implementing a set of processes and procedures within Gemalto intended to provide reasonable assurance that risks are mitigated, financial reporting is reliable, applicable laws and regulations are complied with, and that the objectives of the Board can be attained (see pages 61 and 62).

Remuneration

For more information see pages 70 to 77

2009 Remuneration Report of the Board
The 2009 Remuneration Report of the Board, as drawn up by the Compensation committee, contains an account of the manner in which the Remuneration Policy for the CEO was implemented in 2009, and is scheduled to be implemented in 2010 (see pages 70 to 76).

Remuneration Policy for the CEO
The Remuneration Policy for the CEO was adopted by the AGM on May 11, 2005 and was most recently amended by the AGM of May 14, 2008. The Remuneration Policy is published on Gemalto's web site. The Remuneration Policy also serves as a guidance to establish the senior management remuneration (not addressed in this report).

The objectives of the Remuneration Policy and the remuneration policy for the management are to attract, retain and reward talented staff and management, by offering compensation that is competitive in the industry, motivates management to surpass the Company's business objectives and aligns the interests of management with the interests of the shareholders.

Remuneration of the CEO, including his function as Executive Board member
The General Meeting, upon the proposal of the Board, determines the Remuneration Policy for the CEO, including for his function as Executive Board member. The remuneration of the CEO shall, with due observance of the Remuneration Policy, be determined by the Board. For details on the compensation of the CEO for the financial year 2009, see page 73.

Remuneration of the Non-executive Board members
The remuneration of the Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees is determined by the General Meeting. The remuneration is reviewed annually by the Compensation committee. For details on the remuneration structure for the Non-executive Board members, see pages 76 and 77.

Long-term incentive plans – Global Equity Incentive Plan
Gemalto has established a Global Equity Incentive Plan enabling the Board to grant options, restricted shares units and/or share appreciation rights to eligible employees (see page 77).

Long-term incentive plans – Global Employee Share Purchase Plan
Gemalto has established a Global Employee Share Purchase Plan enabling the Board to offer the opportunity to eligible employees to purchase shares in the Company at a discount to the prevailing market price (see page 77).

Corporate governance

This section, which will be presented to the Annual General Meeting of Shareholders ('AGM') of 2010, provides a broad outline of Gemalto's corporate governance structure, its implementation during 2009, and its compliance with the amended Dutch corporate governance code dated December 10, 2008.

General

Gemalto N.V. ('Gemalto N.V.' or the 'Company') is the parent company of the Gemalto group ('Gemalto' or the 'Group'). The Company was incorporated in the Netherlands as a private company with limited liability on December 10, 2002. The Company was formerly named Axalto Holding N.V. and changed its name on June 2, 2006 in connection with the combination with Gemplus International S.A. ('Gemplus'), hereinafter the 'Combination'. The Company's shares have been listed on Eurolist by Euronext Paris S.A. (formerly named *Premier Marché*) (Euronext NL0000400653) since 2004. The corporate seat of the Company is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN, Amsterdam, the Netherlands. The Company is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

The Company is required to comply with, *inter alia*, Dutch law, Dutch corporate governance rules, Dutch AFM rules, French AMF rules and Euronext Paris Stock Exchange rules and related regulations, insofar as applicable to the Company.

Compliance with the Dutch corporate governance code

The Board is responsible for Gemalto's corporate governance structure and for compliance with the amended Dutch corporate governance code dated December 10, 2008, as applicable during the 2009 financial year. The Company complies with the principles and best practice provisions of the Dutch corporate governance code with the exception of the below listed best practice provisions. These deviations are explained in the relevant paragraphs of the Annual Report.

- Provision II.1.7: a whistle-blower procedure has been established compliant with the French legal requirements and as a consequence with a restricted scope. Please refer to 'Internal risk management and control systems', page 55.
- Provision II.2.7: amendment of the vesting date of options granted to Mr. O. Piou as CEO. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 76.
- Provision II.2.8: maximum remuneration in the event of dismissal of Mr. O. Piou as CEO. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 76.
- Provision II.2.10: (ultimum remedium). Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 76.
- Provision II.2.13 (e): content of the Remuneration Report; *i.e.* non-disclosure of the companies of the Comparison Group. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 76;
- Provision III.5.1: until May 28, 2009, non-compliance with the recommendation that not more than one member of the Nomination and Governance committee shall be non-independent. Please refer to 'Report of the Nomination and Governance committee', page 69.
- Provision III.8.1: appointment of the former Executive Chairman as Non-executive Chairman of the Board. Please refer to '(Vice-) Chairman of the Board and Company Secretary', page 57.
- Provision III.8.4: until May 20, 2009, non-compliance with the recommendation that a majority of the Board shall be independent. Please refer to 'Independence', page 68.

The Corporate Governance Code can be found on www.commissiecorporategovernance.nl.

Board of Directors

One-tier Board

The Company has a one-tier Board, comprising one Executive Board member, the CEO, and a majority of Non-executive Board members. The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole. The tasks and functions of the Board, as described in the Articles of Association and the Board charter, include the duties recommended in the Dutch corporate governance code.

The CEO conducts the day-to-day management. The CEO does not require the approval or consent of the Board for any decisions in respect of day-to-day management. The duties and powers of the Board include those matters specified in the Articles of Association. The Board may delegate powers regarding matters that fall outside the area of the day-to-day management to the CEO and consequently these matters do not require a resolution of the Board.

The Articles of Association and the Board charter, as updated in 2009, are published on Gemalto's web site.

Meetings of the Board

The Board meets at least four times per year, including a meeting on the corporate strategy and the main risks of the business, the result of the assessment of the design and effectiveness of the internal risk management and control systems, as well as any significant changes in such matters. The Board discusses at least once a year the evaluation of the performance of the Board and the Board committees, and of the CEO and the individual Non-executive Board members. The Non-executive Board members meet regularly, at least once a year, in the absence of the CEO and members of the management.

Operational and financial objectives and strategy

During 2009, the Board discussed the parameters to be used for measuring performance, adopted Gemalto's 2010-2013 Development Plan and the operational and financial objectives of Gemalto for 2010.

Strategy

The Board discussed at several meetings Gemalto's strategic plans and their implementation, reviewed the development of business activities and various investment opportunities. For more information on the Company's strategy, please refer to 'Our strategy', pages 12 to 13.

Operational and financial objectives — budget

The Board sets the framework and key objectives of the budget, which includes the operational and financial objectives of Gemalto. Budgets are constructed bottom-up, assessed by the Board and adjusted top-down where necessary to meet Gemalto's objectives. The budget for 2009 was approved by the Board at the December 2008 Board meeting. The budget for 2010 was approved by the Board at the December 2009 Board meeting.

Corporate Social Responsibility

The Board is responsible for the corporate social responsibility issues that are relevant to Gemalto. For more information, please refer to 'Sustainability', pages 42 to 49.

Internal risk management and control systems

Gemalto maintains operational and financial risk management systems and procedures and has monitoring and reporting systems and procedures.

Among those procedures, Gemalto has a code of ethics, updated in 2009, which provides guidelines for the conduct of all employees with respect to internal controls, financial disclosures, accountability, business practices and legal principles.

The Board has established a whistle-blower procedure for the receipt, retention and treatment of complaints received by Gemalto regarding suspected financial irregularities. Departing from the Dutch corporate governance code, to be in line with EU and French rules regarding data protection, suspected irregularities of a general or operational nature are not covered by the whistle-blower code, but shall be reported internally to the relevant manager.

Gemalto has a policy on the ownership of, and transactions in Gemalto securities. The code of ethics, the whistle-blower code and the policy on the ownership of and transactions in Gemalto securities are published on Gemalto´s web site.

For more details on the internal risk management and control systems, please refer to 'Internal risk management and control systems', pages 60 to 62. The statement of the Board in accordance with best practice provision II.1.5 of the Dutch corporate governance code can be found in 'Board compliance statement', page 63.

Composition of the Board — (term of) appointment

At the 2007 AGM, the maximum number of Board members was set at eleven to allow the Board to determine from time to time its optimal size. The Board currently consists of ten Board members: nine Non-executive Board members and one Executive Board member, the CEO.

Executive and Non-executive Board members are appointed by the General Meeting of Shareholders ('General Meeting'), whether or not on the binding or non-binding proposal of the Board. If the Board has not made a proposal for appointment, the General Meeting can appoint a candidate by absolute majority of the votes cast in a meeting at which at least one-third of the issued share capital is represented. If the Board has made a non-binding proposal for appointment, the General Meeting can appoint a candidate by absolute majority of the votes cast without a quorum required. If the Board has made a binding proposal, the General Meeting may override the binding nature of such proposal by an absolute majority representing at least one-third of the issued share capital. If the majority has been met, but the quorum not, a second meeting is held at which no quorum is required. So far the Board has not made use of the option to make a binding nomination.

Board members are appointed for a maximum term of four years and may be reappointed, although Non-executive Board members may only be reappointed twice. The Non-executive Board members appoint the Executive Board member as the CEO and can at any time revoke such appointment. If the appointment as CEO of the Executive Board member is revoked, his powers and duties shall be carried out by an 'Acting CEO', temporarily appointed by the Non-executive Board members, whether or not from among their midst. The Board appoints one of its Non-executive Board members as Chairman of the Board.

Absent proposal of the Board, the General Meeting may suspend or dismiss Board members only by an absolute majority of votes cast representing at least one-fourth of the Company's issued share capital. If the quorum is not met, a second meeting can be held at which no quorum is required. If the Board has made a proposal to suspend or dismiss a Board member, a quorum is not required. If Dutch law so permits, the Executive Board member may also be suspended by the Board.

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 Gemalto's web site. With respect to diversity among Non-executive Board members, the objective pursued is to have a variation of age, gender, expertise, social background and nationality.

The present composition of the Board differs from the intended situation, as all Board members were appointed prior to the introduction of this objective. In as much as possible, a balance shall be strived for to achieve the above mentioned variation. At least one of the Non-executive Board members can be regarded as a financial expert within the meaning of best practice III.3.2 of the Dutch corporate governance code.

Although the appointment of a former Executive Board member as Chairman of a one-tier Board is not in line with the Dutch corporate governance code, after Mr. A. Mandl's reappointment by the 2007 AGM as Non-executive Board member as of December 2, 2007, for a first term ending at the end of the 2011 AGM, the Board appointed Mr. A. Mandl as Non-executive Chairman of the Board, as of December 2, 2007. The Board is pleased to be able to capitalize further on the knowledge and experience of Mr. A. Mandl within the Group, which is of particular added value for Gemalto and its stakeholders.

At the 2009 AGM, Messrs. K. Atkinson, D. Bonderman and J. Ormerod were reappointed as Non-executive Board members for a second term ending at the end of the 2013 AGM and Mr. J. Fritz was reappointed as Non-executive Board member for a second term ending at the end of the 2012 AGM. Further to the demise of Mr. J. de Wit, Non-executive Board member, on May 28, 2008, there was one vacancy at the Board. In view hereof, the 2009 AGM appointed Mr. B. Alexander as Non-executive Board member for a first term ending at the end of the 2013 AGM.

At the AGM of May 19, 2010, Mr. D. Bonderman will resign from his position as Non-executive Board member. In view hereof there is one vacancy to be filled on the Board. The Board resolved to propose to the AGM of May 19, 2010, the appointment of Mr. Ph. Alfroid as Non-executive Board member for a first term ending at the end of the AGM to be held in 2014.

In 2009 the Board adopted a new reappointment schedule, published on Gemalto's web site, in order to avoid, as far as possible, a situation in which many Board members retire at the same time.

For more information on the individual Board members, please refer to 'The Board and the management', pages 64 to 66.

Board committees

The Board has formed an Audit committee, a Compensation committee, a Nomination and Governance committee and a Strategy and M&A committee from among the Non-executive Board members. The committees have as their main role to provide a focused analysis and preparation of the subjects within their respective areas of expertise and to report and make recommendations to the Board, subject to the overall responsibility of the Board. The committees do not have executive powers. The duties of each committee are described in their respective charters. Both the Nomination and Governance committee charter, as well as the Strategy and M&A committee charter, were updated in 2009.

Audit committee

The committee assists the Board with respect to the quality and integrity of Gemalto's financial statements, overall internal risk management and control arrangements, compliance with legal and regulatory requirements, the performance, qualifications and independence of the external auditor, and the performance of the internal audit function. The committee consists of four Non-executive Board members and meets at least four times per year. One committee member is considered non-independent. 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

The committee assists the Board with a proposal for a Remuneration Policy for the CEO and for the remuneration of the Non-executive Board members to be adopted by the General Meeting. The committee proposes the remuneration of the CEO within the limits of the Remuneration Policy. Furthermore, the committee oversees the general remuneration policy of Gemalto and discusses the grant of Awards, *i.e.* options, restricted share units and/or share appreciation rights, and the opportunity for eligible employees of Gemalto to purchase shares in the Company at a discount to the prevailing market price. The committee consists of three Non-executive Board members and meets at least three times per year. All committee members are considered independent.

Nomination and Governance committee

The committee assists the Board with respect to overseeing new candidates for service on the Board, as well as new members of the senior management of Gemalto. The committee reviews the corporate governance principles applicable to Gemalto and advises the Board on any changes to these principles as it deems appropriate. The committee consists of three Non-executive Board members and meets at least three times per year. One committee member is considered non-independent.

Strategy and M&A committee

The Strategy and M&A committee assists the Board with respect to Gemalto's strategy and the major features of merger, acquisition and divestiture activities. The Strategy and M&A committee consists of four Non-executive Board members and meets at least twice per year. One committee member is considered non-independent.

Board mandates with third parties

With respect to the number and type of supervisory Board memberships that the Board members may hold, Executive and Non-executive Board members shall comply with the recommendations of the Dutch corporate governance code, as set out in best practice provisions II.1.8 and III.3.4 respectively.

Conflicts of interest

The Articles of Association state the conditions under which potential conflicts of interest exist and Gemalto has formalized rules to avoid conflicts of interests between Gemalto and Board members. For more information on these rules, please refer to article 17 of the Articles of Association.

The Company complied with best practice provisions II.3.2 through II.3.4 and III.6.1 to III.6.3 of the Dutch corporate governance code in relation to conflicts of interest.

For an overview of the related party transactions during 2009, please refer to note 32 of the consolidated financial statements.

Loans or guarantees

Gemalto does not grant personal loans, guarantees, or the like to Board members, and no such loans and guarantees, waivers of loans or guarantees were granted to the Board members in 2009, nor are outstanding as of December 31, 2009.

Indemnification of Board members

To the extent permitted by Dutch law, Board members shall be indemnified by the Company against expenses, such as the reasonable costs of defending claims, as formalized in article 19 of the Articles of Association. Under certain circumstances, such as a claim, issue or matter as to which a Board member has been held liable for gross negligence or willful misconduct in the performance of his duty to the Company, there will be no entitlement to this reimbursement. Gemalto has a liability insurance (Directors & Officers — D&O) for the Board members and corporate officers.

(Vice-) Chairman of the Board and Company Secretary

The Chairman ensures the proper functioning of the Board and the Board committees and acts as the main contact for shareholders regarding the functioning of the Board. The Chairman presides over Board meetings and General Meetings and is responsible for a proper conduct of business at meetings.

In case of the Chairman's absence or inability to act, the committee chairmen will designate among themselves a vice-chairman, who will temporarily assume the position, in line with the recommendation of the Dutch corporate governance code.

The Board is assisted by a Company Secretary, also General Counsel and Central Officer of the Group. Mr. J-P. Charlet was appointed as Company Secretary by the Board in July 2005.

Senior management team

The CEO is supported by the senior management team that consists of ten Executive Vice-Presidents,including the Chief Financial Officer.

For an overview, please refer to 'Members of the senior management', pages 66 and 67.

Shares owned and rights to acquire shares

Board members, including the CEO, hold shares in the Company for the purpose of long-term investment and they are required to comply with the policy on the ownership of, and transactions in Gemalto securities, as posted on Gemalto's web site.

Gemalto shares

Certain Board members are shareholders of the Company. On December 31, 2009, they jointly held 371,300 shares, of which Mr. O. Piou owned 367,000 shares.

At the beginning of 2009, Mr. O. Piou was holding 165,055 shares of the Company, having progressively acquired them since 2004 on the market. During 2009, Mr. O. Piou acquired 274,945 shares: 4,945 shares were acquired on the market, 150,000 shares were acquired through the exercise of options and 120,000 shares were acquired through the exchange of vested restricted share units ('RSU'). Mr. O. Piou sold on the market 73,000 shares, in particular to finance a portion of the options exercise price.

Mr. G. Fink owned 2,800 shares resulting from the exchange of Gemplus shares following the voluntary public exchange offer for the shares of Gemplus (the 'Offer') and Mr. M. Soublin owned 1,500 shares purchased in 2004. During 2009, Mr. J. Ormerod deeded his 1,200 shares, resulting from the exchange of Gemplus shares following the Offer.

FCPE units

On December 31, 2009 Mr. O. Piou owned 3,548.16 units in a FCPE *(Fonds Commun de Placement d'Entreprise)*, which units were purchased by his contribution to the Global Employee Share Purchase Plans in 2004, 2005 and 2008.

Restricted Share Units

On December 31, 2009, Mr. O. Piou held 185,000 RSU. 120,000 vested RSU were exchanged for shares in 2009.

Gemalto options

On December 31, 2009, Mr. O. Piou held 800,000 Gemalto options. He exercised 150,000 Gemalto options during 2009. On December 31, 2009, Mr. A. Mandl (through a company controlled by him) held 200,000 Gemalto options. He did not exercise Gemalto options during 2009.

Gemplus options

On December 31, 2009, the following Board members held Gemplus options: Mr. A. Mandl held 4,520,800 (through a company controlled by him), Mr. D. Bonderman held 11,302 and Mr. J. Fritz held 11,302. At a ratio of 25/2, those Gemplus options can be exercised for Gemplus shares that can be exchanged for Gemalto shares at the same 25/2 ratio, resulting in 361,664 Gemalto shares for Mr. A. Mandl, 904 Gemalto shares for Mr. D. Bonderman and 904 Gemalto shares for Mr. J. Fritz.

During 2009, Mr. A. Mandl exercised 2,291,600 Gemplus options, for which he received 2,291,600 Gemplus shares. Those Gemplus shares were exchanged for 183,328 Gemalto shares at the ratio of 25/2, which Gemalto shares he then sold.

Shares or other Financial Instruments in listed companies other than Gemalto N.V.

Board members are required to comply with regulations concerning the ownership of, and transactions in, securities in listed companies other than Gemalto N.V. This policy is published on Gemalto's web site.

Shareholders and General Meetings

Share capital and shares of the Company

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 of December 31, 2009, the Company's issued and paid-up share capital amounted to €88,015,844, consisting of 88,015,844 ordinary shares, of which 5,239,631 shares were held in treasury; as a consequence of which 82,776,213 shares were in circulation. During 2009, there were no movements in the issued share capital of the Company.

Based upon the authorization of the Board to repurchase shares in the Company's share capital, which authorization was granted by the 2008 AGM and renewed by the 2009 AGM, shares were purchased during 2009 to provide liquidity in the secondary market and to have shares available for employees under the GEIP and the GESPP. As of December 31, 2009, 5,239,631 shares were held in treasury, acquired at an average price of €24.80 with a market value as of December 31, 2009 of €159,808,745.50. There are no voting rights attached to shares when held by the Company in treasury.

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 Eurolist by Euronext Paris S.A. Company shares can be held in two ways:

I. as registered shares, the shareholders being included in the Company's shareholders register, kept by the Company's registrar, Netherlands Management Company B.V.; or
II. in an account with an account holder or intermediary through Euroclear France S.A., these shares then being included in the Company's shareholders register in the name of Euroclear France S.A.

AGM held in 2009

The AGM was held on May 20, 2009. No shareholders exercised their right to place items on the agenda for the AGM. In accordance with the Articles of Association, a registration date for the exercise of voting rights was determined for the 2009 AGM.

At the AGM the following items were dealt with, all as separate agenda items: the 2008 annual report, the adoption of the 2008 financial statements, the Company's dividend policy and the allocation of the 2008 results, (re-) appointment of Non-executive Board members, discharge of the CEO and of the Non-executive Board members for the fulfillment of their respective duties during the financial year 2008, renewal of the authorization of the Board to repurchase shares in the Company's share capital and the reappointment of the external auditor for the year 2009. The minutes of the meeting are published on Gemalto's web site.

All shares carry equal rights of voting at the General Meeting. Votes may be cast directly, or voting proxies or voting instructions may be issued to an independent third party prior to the General Meeting. Unless otherwise required by Dutch law or the Articles of Association, resolutions are adopted by an absolute majority of votes cast in a General Meeting where at least one-tenth of the issued share capital is represented.

A General Meeting shall be held in the Netherlands: in Amsterdam, The Hague, Haarlemmermeer (Schiphol-Airport), Utrecht or Rotterdam.

Authorizations to the Board

The Board has the following authorizations, as granted by the AGM:

- To issue shares or grant rights to acquire shares in the Company, as well as to limit or exclude pre-emptive rights accruing to shareholders, as from March 18, 2009 for a period of five years up to and including March 17, 2014. The authorization relates to all shares that can be issued as allowed by the authorized share capital as expressed in the Articles of Association as they may provide from time to time (as of December 31, 2009, 61,984,156 shares remaining out of the 150,000,000 shares);
- To acquire shares in the share capital of the Company up to the maximum of 10% of the issued share capital of the Company, within the limits of the Articles of Association and within a certain price range, up to and including November 19, 2010. On December 31, 2009, the Company's issued and paid up share capital consisted of 88,015,844 shares, of which 5,239,631 shares were held in treasury, based on which on that date the authorization related to 3,561,953 shares;
- To cancel a number of shares not exceeding 9,101,584 shares, which cancellation may be executed in one or more tranches and the number of shares that may be cancelled (whether or not in one tranche) shall be determined by the Board.

Distribution of profits

The dividend policy of the Company was dealt with and explained as a separate item on the agenda for the first time at the 2005 AGM. The Company's dividend policy is that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. The Company did not pay a dividend in 2009 in respect of the 2008 financial year. With due observance of the dividend policy, the Company will propose to the 2010 AGM to distribute a dividend in cash of €0.25 per share in respect of the 2009 financial year.

Prior to the General Meeting's authority to resolve upon the appropriation of the (remaining) result, the Board has the authority to reserve all or part of the profits made in a financial year. For more information on the distribution of profits or reserves, please refer to articles 32 to 35 of the Articles of Association.

Shareholders' disclosures

During 2009, the Company received notifications from the Dutch market authorities ('AFM') that it had received disclosures of a substantial holding in the share capital of the Company, which disclosures are published on the web site of the AFM (www.afm.nl). As at December 31, 2009, the following disclosures were published on the web site of the AFM, as included in the table here below.

Notification date	Notifier	Disclosure
Oct 7, 2009	Pioneer Asset Management S.A. (held indirectly through Pioneer Funds, Pioneer CIM and Pioneer Investments Global Portfolio SICAV)	5% (4,402,510 shares)
May 28, 2009	TPG Advisors III Inc. (held indirectly through TGP Giant LLC, TPG Partners III L.P., TPG GenPar III L.P. and TPG Parallel III L.P.)	6.53% (5,744,448 shares)
May 28, 2009	Caisse des Dépôts et Consignations (held indirectly through Fonds Stratégique d'Investissment (FSI) and CDC EVM)	8.43% (7,418,500 shares)
Feb 18, 2009	FMR LLC	5.04% (4,432,311 shares)
Sept 18, 2008	Gemalto N.V. (5,239,631 shares were held in treasury by the Company as of December 31, 2009)	5.17%

Specific provisions of the Articles of Association

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

The General Meeting, upon the proposal of the Board, has the authority to amend the Articles of Association, to dissolve the Company, to legally merge, or to legally demerge, by resolutions adopted by a majority of at least two-thirds of the votes cast at such General Meeting at which at least one-third of the issued share capital is represented. Absent such 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. Upon proposal of the Board, the 2009 AGM appointed PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2009. The Board will propose to the 2010 AGM to reappoint PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2010.

Quorum requirement

Unless otherwise provided by law or the Company's Articles of Association of the Company, the General Meeting can only adopt resolutions with an absolute majority in a meeting at which at least 10% of the issued share capital is represented. Absent such quorum, a second meeting can be held at which no quorum is required.

Internal risk management and control systems

Risk management principles

The principal aim of the Group's internal risk management structure and control systems is to manage business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets.

Management has put in place a number of key policies, processes and independent controls to provide assurance to the Board, as to the integrity of Gemalto's reporting and effectiveness of its systems of internal risk management and control.

Risk management organization

The diagram gives a synthetic view of the Gemalto risk management organization, as explained hereafter.

Foundations: Risk management at Gemalto is built on solid foundations, as described in 'Our Strategy', pages 12 and 13, 'Sustainability', pages 42 to 49 and 'Corporate Governance', pages 54 to 59.

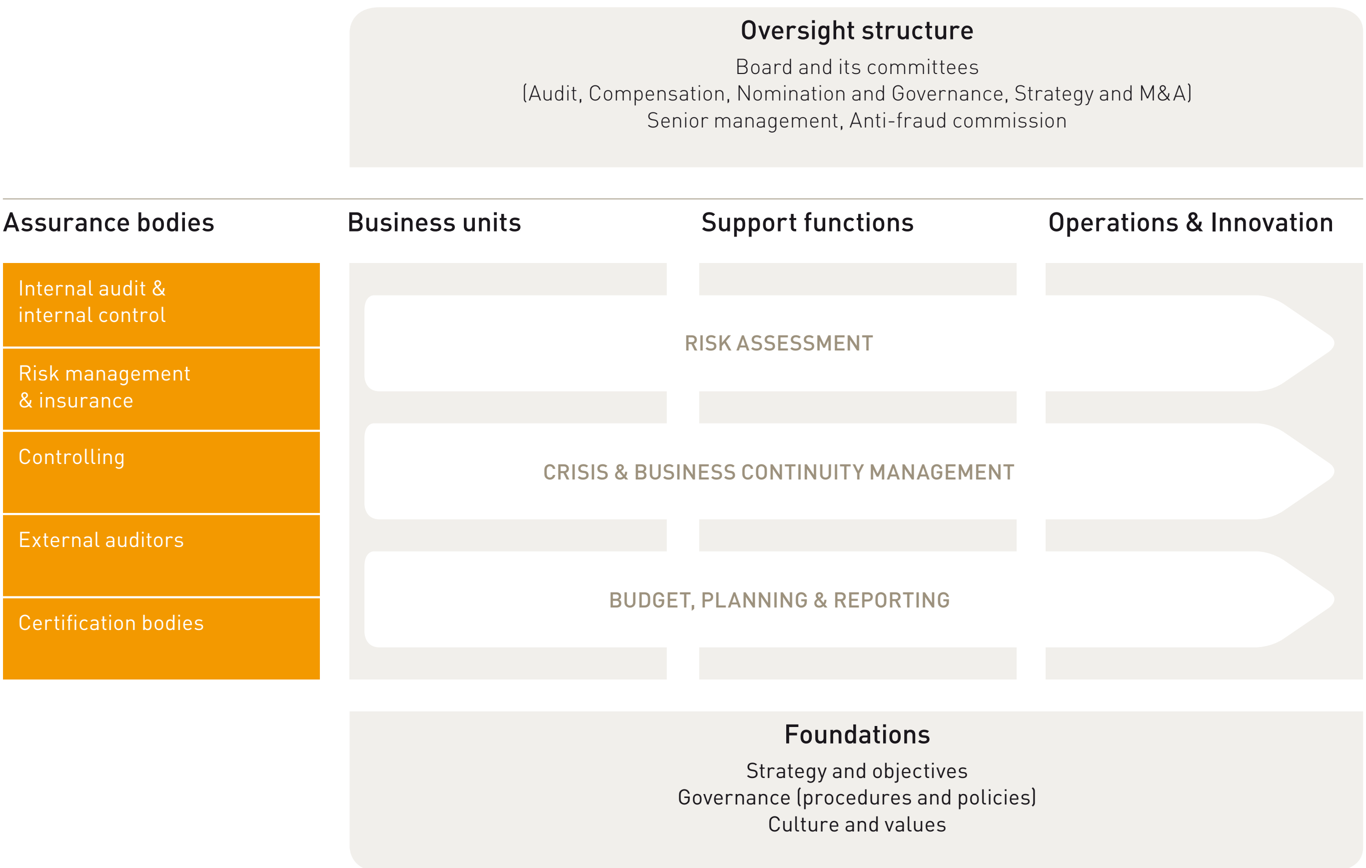
Gemalto has developed three levers to manage its operational and financial risks in a transversal manner throughout the organization:

Risk assessment: Identifying and assessing our major operational and financial risks enables Gemalto to focus on those that matter and align its action plans and resources accordingly.

Crisis and business continuity management: Having a flexible and tested crisis management organization and business continuity responses helps to reduce the impact of events inherent to Gemalto's operations (international scope, emerging markets and changing risk arena) and the type of industries in which Gemalto is engaged.

Budget, planning and reporting: Various complementary reporting systems enable Gemalto to obtain the right information at the right time, facilitating the decision-making processes and the monitoring of the efficiency of the actions with regard to its business

Risk management organization



objectives. Gemalto has also a detailed budget and planning process. For more information, please refer to 'Internal Control over Financial Information', below and on page 61.

Oversight structure

The oversight structure ensures that the organization is geared towards effective risk management.

Business units and Operations & Innovation

Operations and business managers identify and manage risks in their respective sites or scope of responsibilities in line with Group strategy and standards.

Support functions

Support functions (Finance, Security, IT, Quality, Health Safety and Environment, HR, and Legal) analyze risks, define prevention and protection standards, as well as policies and procedures. They monitor implementation of the respective risk policies in their own field of expertise.

Assurance bodies

The assurance bodies provide assurance on the design and effectiveness of the risk management processes and compliance with the relevant standards and norms.

The Group Risk Manager, reporting to the General Counsel and Company Secretary, is in charge of driving the enterprise risk assessment (in close cooperation with the Internal Audit Director) and promoting transversal risk management projects. The Group Risk Manager is also responsible for managing the insurance programs for Gemalto.

Strategy of risk transfer to insurers

The Group policy on insurance cover focuses on optimizing and securing the policies contracted by Gemalto. The aim is to protect the Company against exceptionally large or numerous claims at a cost that does not impair the Group's competitiveness.

The Group does not own or operate any insurance captive.

Gemalto has set up global insurance programs which combine master policies and local insurance policies in countries requiring it. The negotiation and coordination of these programs is carried out centrally for Gemalto with assistance from leading insurance brokers having an integrated international network.

Such an organization facilitates a broad and consistent cover of all Gemalto activities and locations worldwide, cost optimization, global reporting and control, while ensuring compliance with local regulatory requirements. Insurance coverage strategies are periodically reviewed taking into account changes in Gemalto's risk profile (acquisitions, claims and loss events, activities, etc.) and insurance market trends.

Gemalto maintains insurance programs with policies encompassing property damage, business interruption, public, product and professional liability and Directors' and Officers' exposures.

In 2009, the Group continued improvement actions through subscription to multiyear contracts with quality and financially sound insurers.

Internal control environment

Principles

Gemalto's management regards internal control as a responsibility that is shared by all managers and that is met by implementing a set of processes and procedures intended to provide reasonable assurance that the Board's objectives will be attained under the corporate governance rules and respecting local laws and regulations.

It has also defined internal control principles and procedures applicable to its main transaction cycles and to its central functions. Internal control is based on granting extended responsibilities and powers to the managers of subsidiaries, to management bodies and to their functional teams (Legal, HR, Purchasing, etc.).

The Company's internal control system cannot provide absolute assurance. However, while keeping a reasonable balance between cost and assurance, it aims to ensure that realization of objectives is monitored, financial reporting is reliable and, where relevant, applicable laws and regulations are complied with.

Anti-fraud commission

The 2007 anti-fraud assessment project included an inventory of the Company tools and processes covering fraud prevention and detection. Following this, a senior management level operational structure called the 'Anti-fraud commission' was defined and put in place in 2008. Its objective was to coordinate the various programs already in place inside the Company, and the response actions in case of fraud.

This structure comprised the Group General Counsel, the EVP Human Resources, the Chief Information Officer, the Quality Health Safety and Security Director and the Internal Audit Director. Its charter was approved by management on August 18, 2008. The commission meets now on a regular basis and has developed an anti-fraud action plan which, among other things, included the issuance of the Gemalto anti-fraud policy in 2009.

Internal Audit

In order to assess and test the internal risk management and control systems, the Company has a dedicated internal audit team that operates in conformity with a charter approved by the Audit committee and in line with international professional standards (Institute of Internal Auditors). The team is composed of eight auditors (as in the previous two years). It has direct and unlimited access to Group operations, documents and employees. The Internal Audit Director reports directly to the CFO and has an open line of communication with the Audit committee Chairman, as well as regular private sessions with the Audit committee.

Internal Audit conducts its missions according to an audit plan approved once a year by the Audit committee based on a risk assessment. Upon request of the Group's management, Internal Audit also performs several ad-hoc audits on certain aspects of the business. This work is coordinated with the work carried out by the external auditors.

The implementation of recommended and accepted corrective actions is followed up, as and when deemed relevant.

The Internal Audit Director prepares a monthly report which includes a summary of the activity of his department and on the key internal control issues and their status, and submits it to the Chairman of the Audit committee and the CFO.

Internal control over financial information

The production and control of financial information is organized so as to be consistent with Gemalto's operational organization. To ensure the quality and completeness of the financial data produced and reported, Gemalto has set up a process for the production and review of the operating results by management, identified the main risks which have significant impact on the financial statements elements, and implemented preventive and corrective controls so as to mitigate those risks.

Gemalto 2010-2013 Development Plan

A new plan was prepared in 2009 covering the whole Group and in line with the Group objectives and strategy.

Budget and forecast updating process and business reviews

The budget process covers all operational entities and corporate departments, including treasury. The process begins in October and the result is an annual plan for the Group 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 an updated forecast for the Group on the basis of actions undertaken to meet Group objectives. They form a key part of the system to co-ordinate and monitor the Group activity. These reviews are carried out every quarter by regional, segment and product line managers.

Monthly operating and financial results review and reporting processes

Monthly and quarterly operating results are reviewed in detail during meetings or conference calls held in the first days of the following month between Gemalto's Corporate Controller and the President and Controller of each business segment and geographic area, on a date fixed in advance in the monthly or quarterly reporting calendar. These meetings or conference calls are also attended by the Chief Accounting Officer and the Internal Audit Director, and in certain instances by the CFO.

Once validated by each area and segment Controller, operating results are consolidated by the corporate accounting department, reviewed by the Corporate Controller, the Chief Accounting Officer and the Finance Director (in charge of treasury and tax), then presented and discussed with the CFO. They are then presented jointly by the Corporate Controller and the CFO to the CEO.

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

On the basis of the operating results review and of the treasury report, the monthly operating dashboard and accompanying CEO and CFO letter are prepared by the Corporate Controller and CFO, and reviewed by the CEO before they are sent to the Board and circulated to the first line of management. The dashboard and accompanying letter cover the activity of the month by business segment, the updated operating income statement forecast for the current quarter, as well as a review of the cash and debt positions and of the working capital.

A review of the activity of the previous few months and of the expected evolution is presented by the CEO and the CFO at each meeting of the Board.

Pre-close reviews

Quarterly pre-close reviews with each business segment and geographic area are organized by the Corporate Controller and the Chief Accounting Officer in the last days of the quarter. The Internal Audit Director participates in these reviews. They allow prompt identification and communication of any transaction or event which could potentially result in significant impacts on the results or the financial condition of the Group.

Internal Control over Financial Reporting

In 2007, a corporate project was launched with the objective of improving internal control over and above the quality of financial reporting. A self-assessment campaign is now performed each year through a financial risks based scoping exercise following the COSO2 model. The self-evaluations of the controls are tested for some critical processes and entities by internal auditors, as well as by external auditors. This campaign is also aimed at defining remediation plans based on identified deficiencies and to follow up the progress of those plans year-on-year.

An annual report on financial internal control is prepared by the CFO and the Internal Audit Director, approved by the CEO and presented to the Audit committee.

Actions taken in 2009

Enterprise risk assessment: In 2007 Gemalto started conducting an enterprise risk assessment process, mapping its main risks and mitigation processes, including self-evaluation of the key Company risks by a significant group of employees and advice from third parties. Conclusions were reached in 2008, defining a set of objectives and actions for each identified key risk. In 2009 action plans continued and their status was presented to the Audit committee and twice to the Board.

Policies and procedures: Gemalto maintains operational and financial policies and procedures, which are published on Gemalto´s intranet and regularly updated when required. For example, during 2009, the following main policies and procedures were updated or first-time issued: the code of ethics, the anti-fraud policy, the corporate authority limits, the business acquisitions and divestiture policy and the guidelines for evaluating Gemalto projects bids and proposals.

Crisis management: The foundations of a crisis management organization and communication system, defining key processes and responsibilities, were set up and tested. They will be fully deployed Company-wide in 2010.

Business continuity: Beyond improving its business continuity responses (through the standardization of production tools and processes, multi-sourcing strategies and IT availability) Gemalto leveraged on the H1N1 Pandemic flu to strengthen its pandemic preparedness plans.

It was also the opportunity to foster collaboration and knowledge sharing between corporate and local teams, and link business continuity actions. This initiative will be enhanced and widened in 2010. A Business Continuity Management Director was recently appointed to organize and coordinate the numerous existing local plans, under a Company-wide project of demonstrated capabilities through strongly tested business continuity plans.

Board compliance statement

The objectives set for the internal risk management system are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face, to perform a mapping of these risks and to initiate actions to mitigate, reduce, transfer, hedge, keep and manage, or suppress them. The Company's risk profile is reported in 'Principal risks', pages 40 and 41, and the internal risk management and control systems are described on pages 60 to 62.

The Company operates in a dynamic environment and there may be circumstances in which risks occur that had not yet been identified or in which the impact of identified risks is greater than expected. The Company's internal controls are designed to manage these risks within limits acceptable to the Company, but may not always prevent or detect all misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations, neither can they provide certainty as to the achievement of the Company's objectives.

The Board is responsible for reviewing the Company's system of internal risk management and controls and for assessing their effectiveness. The Audit committee reviewed with management and internal audit the Company's system of internal risk management and controls focusing on matters relating to financial reporting and on the main operational risks that have been identified, and on the result of actions that had been previously presented and performed by management.

The Board subsequently considered the results of the Audit committee's review.

For purpose of compliance with the Dutch corporate governance code, to the best of its knowledge, the Board believes that, as regards the risks relating to financial reporting:

- Gemalto's internal risk management and control systems provide a reasonable assurance that its financial reporting does not contain any errors of material importance;
- Gemalto's internal risk management and control systems in relation to financial reporting have worked properly in the year 2009.

In conjunction with the European Union Transparency Directive, as incorporated in chapter 5.3 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*), the Board hereby declares that, to the best of its knowledge:

- the annual financial statements for the year ended December 31, 2009 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 2009 of Gemalto and its affiliated companies of which the data has been included in the financial statements; and
- the annual management report describes the principal risks that Gemalto faces.

The Board

Mr. Alex Mandl
Non-executive Chairman of the Board

Mr. Olivier Piou
Chief Executive Officer

Mr. Buford Alexander
Non-executive Board member

Mr. Kent Atkinson
Non-executive Board member

Mr. David Bonderman
Non-executive Board member

Mr. Geoffrey Fink
Non-executive Board member

Mr. Johannes Fritz
Non-executive Board member

Mr. John Ormerod
Non-executive Board member

Mr. Arthur van der Poel
Non-executive Board member

Mr. Michel Soublin
Non-executive Board member

Amsterdam, March 2, 2010

The Board and the management

Members of the Board

The Board is comprised of the following members[1].

Alex Mandl (1943) American
Non-executive, non-independent Board member, Chairman of the Board.
Appointed: December 2, 2007 for four years until the AGM of 2011 (first term).
Executive Chairman from June 2, 2006 until December 2, 2007.
Chairman of the Nomination and Governance committee.

Board member, chairman of the audit committee and member of the governance committee of Dell Computer Corporation and board member and member of the audit committee of Horizon Lines. Board member and chairman of the leadership and compensation committee of Hewitt Associates and board member and member of the audit committee and of the finance committee of Visteon Corporation.

Prior to June 2, 2006, Alex Mandl served as President and CEO of Gemplus from September 2002 to June 2006. From April 2001 through August 2002, he was a principal in ASM Investments focusing on technology investments. Previously, he served as chairman and CEO of Teligent, a company he started in 1996, offering the business markets an alternative to the local Bell Companies for telecommunication and internet services. From 1991 to 1996, Alex Mandl was with AT&T where he served as President and Chief Operating Officer with responsibility for long distance, wireless, local communications and internet services. Prior to his President/COO position he was AT&T's CFO. Between 1987 and 1991, he was chairman and CEO of Sea-Land Services, Inc., the world's leading provider of ocean transport services. In 1980, he joined Seaboard Coastline Industries, a diversified transportation company, as Senior Vice President and CFO. He began his career in 1969, when he joined Boise Cascade Corp., as a merger and acquisition analyst, and he held various financial positions during the next eleven years.

Alex Mandl holds an MBA from the University of California at Berkeley and a BA in economics from Willamette University in Salem, Oregon.

Olivier Piou (1958) French
Board member with the title of Chief Executive Officer, non-independent.
Appointed: February 17, 2004, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term).

Member of the board of directors of Alcatel-Lucent and of *Institut National de Recherche en Informatique et en Automatique* (INRIA) the French national institute for research in computer science and control.

Olivier Piou has been CEO of Gemalto since its creation on June 2, 2006. He was previously CEO of Axalto, from 2004-2006, and conducted the combination with Gemplus which formed Gemalto. In May 2004, he successfully introduced Axalto, at that time a division of Schlumberger Limited, to the stock market through an IPO. He joined Schlumberger in 1981 as a production engineer, and held numerous management positions across technology, marketing and operations within Schlumberger in France and in the US. He graduated in Engineering from the Ecole Centrale de Lyon in 1980. From 2003-2006 he was President of Eurosmart, the international non-profit association based in Brussels, which represents the chip card industry. Olivier Piou is a knight of the Legion of Honor in France.

Buford Alexander (1949) American
Non-executive, independent Board member.
Appointed: May 20, 2009 for four years until the AGM of 2013 (first term).
Member of the Strategy and M&A committee.

Member of the supervisory board of Cordys Holding B.V. Member of non-profit boards including the Holland America Friendship Foundation (chairman), the American Chamber of Commerce in the Netherlands (president emeritus), Fulbright Commission in the Netherlands, and the Medical Knowledge Institute in Africa.

Until 2008, Buford Alexander was a senior director of McKinsey & Company, where he pursued a consulting career for more than 30 years. He was a leader of McKinsey's European banking practice and later of McKinsey's European high-tech practice, and founded McKinsey's European Corporate Finance practice (restructuring, M&A, turnarounds and post-merger management). He has spent much of the last years designing and leading the transformation of global European multinationals. Amsterdam has served as his European base since 1983.

Buford Alexander holds a Bachelor's degree in mathematics and economics from Rice University in Houston, Texas, as well as a MBA

[1] Situation as of the date of this Annual Report.

degree from the Harvard Business School. In May 2001, Queen Beatrix granted him the Royal Distinction of Officer in the Order of Oranje-Nassau.

Kent Atkinson (1945) British
Non-executive, independent Board member.
Appointed: May 11, 2005, reappointed at the AGM of 2009 for four years until the AGM of 2013 (second term).
Member of the Audit committee and of the Strategy and M&A committee.

Senior independent director and chairman of the audit committee of Coca-Cola HBC SA. Non-executive director and chairman of the group audit, risk and compliance committee of Standard Life plc, and a member of its investment committee. Non-executive director of Millicom International Cellular SA and a member of its audit and compensation committees. Non-executive director of Northern Rock (Asset Management) plc and chairman of its audit committee and a member of its risk committee.

Kent Atkinson originally joined the Bank of London and South America (later acquired by Lloyds Bank) and held a number of senior managerial positions in Latin America and the Middle East before returning to the UK. He was Regional Executive Director for Lloyds TSB's South East Region until he joined the main board as Group Finance Director, a position he held for eight years until his retirement as an executive. He remained on the Lloyds TSB board for a further year as a non-executive director. Until April 2005 Kent Atkinson was the senior independent director, chairman of the audit committee and a member of the remuneration and nominations committees of Cookson Group plc, and until November 2007 he was the senior independent director, chairman of the audit committee and a member of the remuneration and nominations committees of Telent plc (previously Marconi Corporation plc). He was also chairman of Link Plus Corporation Inc until April 2008.

David Bonderman (1942) American
Non-executive Board member, independent as of May 28, 2009.
Appointed: June 2, 2006, reappointed at the AGM of 2009 for four years until the AGM of 2013 (second term).
Member of the Nomination and Governance committee.

Member of the board of directors of the following public companies: Armstrong World Industries, Inc., CoStar Group, Inc. and Ryanair Holdings, plc., of which he is chairman. Member of the boards of the following privately held companies: Energy Future Holdings Corp., General Motors Company, Harrah's Entertainment, Inc., Metro-Goldwyn-Mayer, Inc., Univision Communications, Inc. and XOJET, Inc. Member of the following non-profit boards: The Wilderness Society, The Grand Canyon Trust and the American Himalayan Foundation.

Prior to June 2, 2006, David Bonderman was vice-chairman of the board of directors of Gemplus. David Bonderman is an investor. He is founder of TPG Capital, LP and serves as a partner in the firm. Prior to forming TPG in 1993, he was Chief Operating Officer of the Robert M. Bass Group, Inc. (now doing business as Keystone, Inc.) in Forth Worth, Texas. Prior to joining RMBG in 1983, he was a partner in the law firm of Arnold & Porter in Washington, D.C., where he specialized in corporate, securities, bankruptcy and antitrust litigation. From 1969 to 1970, David Bonderman was a Fellow in Foreign and Comparative Law in conjunction with Harvard University and from 1968 to 1969 he was Special Assistant to the U.S. Attorney General in the Civil Rights Division. From 1967 to 1968, David Bonderman was Assistant Professor at Tulane University School of Law in New Orleans.

He graduated magna cum laude from Harvard Law School in 1966. He was a member of the Harvard Law Review and a Sheldon Fellow. He is a 1963 graduate of the University of Washington in Seattle.

Geoffrey Fink (1969) French
Non-executive Board member, independent as of May 28, 2009.
Appointed: June 2, 2006, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term).
Member of the Compensation committee and of the Strategy and M&A committee.

Director of Eden Springs and of Strauss Coffee B.V.

Geoffrey Fink is a London-based Partner of TPG Capital, LLP, and has been with TPG since December 2000. From May 1998 to December 2000, he was a Vice-President and subsequently Senior Vice-President with Security Capital Group. Between August 1999 and December 2000, Geoffrey Fink was also Chief Operating Officer, head of the Management committee, and board member of Access Space. In 1993 and from 1995 to 1998, he was a Consultant and then Engagement Manager with McKinsey & Company in London. Prior to joining McKinsey, he worked in the M&A departments of both Goldman Sachs in London and PaineWebber in New York. Geoffrey Fink was previously a director of Gemplus until June 2, 2006 and served on the board of Eutelsat S.A.

Geoffrey Fink is a member of the New York Bar. He received a Bachelor of Arts degree summa cum laude from Yale University, a Juris Doctoris degree magna cum laude from Harvard University and a Master's degree focused on international business from the Fletcher School of Law and Diplomacy.

Johannes Fritz (1954) German
Non-executive, non-independent Board member.
Appointed: June 2, 2006, reappointed for three years until the AGM of 2012 (second term).
Chairman of the Strategy and M&A committee and member of the Audit committee.

Head of the Quandt Family office since June 2000.

Johannes Fritz studied at Mannheim University (MBA) and New York University (post-graduate). He then spent two years with Bertelsmann (assistant to CEO) and subsequently five years at KPMG covering financial institutions and industrial companies (CPA). In 1989 he joined the Quandt Family office. From 1990 to June 2000 he was responsible for all financial questions and running the day-to-day-business (managing director). Johannes Fritz was previously a director of Gemplus until June 2, 2006.

John Ormerod (1949) British
Non-executive, independent Board member.
Appointed: June 2, 2006, reappointed at the AGM of 2009 for four years until the AGM of 2013 (second term).
Chairman of the Audit committee and member of the Compensation committee.

Non-executive director of Tribal Group PLC, a UK publicly listed company. Senior independent, non-executive director and

Governance

chairman of the audit committee of Misys, a UK listed software company. Non-executive director and chairman of the audit committee of Computacenter plc, a UK listed company.

Non-executive director of ITV plc, a UK listed company. Trustee of the Design Museum.

John Ormerod is a UK chartered accountant and since 2004 has been a director of a number of private and public companies. He retired as a partner in the UK firm of Deloitte & Touche LLP in 2004 where he was Practice Senior Partner London. After graduating from Oxford University, Mr. Ormerod joined the London office of Arthur Andersen where he remained until he joined Deloitte in 2002. He led the development of the firm's European capability in Telecoms, Media and Technology ('TMT') as industry leader and member of the Global TMT Industry team executive. He was elected Andersen's UK managing partner for 2001-2002. John Ormerod was previously a director of Gemplus until June 2, 2006.

Arthur van der Poel (1948) Dutch
Non-executive, independent Board member.
Appointed: May 1, 2004, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term).
Chairman of the Compensation committee and member of the Nomination and Governance committee.

Chairman of the supervisory board of semiconductor equipment maker ASML and member of the supervisory boards of engineering company DHV and soccer club PSV Eindhoven.

Arthur van der Poel is a graduate of the Eindhoven Technical University. Upon graduation, he worked for the research and development group of Dutch PTT and then went on to work for the International Telecommunication Union in Indonesia. In 1984, he began working at Philips Semiconductors where he held different marketing and management positions and became chairman and CEO in March 1996. In May 1998, he was appointed member of the management board of Royal Philips Electronics. He remained a member of Philips' group management committee until he retired from Philips on April 1, 2004.

Michel Soublin (1945) French
Non-executive, independent Board member.
Appointed: February 17, 2004, reappointed at the AGM of 2007 for four years until the AGM of 2011 (second term).
Member of the Audit committee and of the Strategy and M&A committee.

Chairman of the *Comité de la Charte*, a French non-profit organization and founding member of the *Association Française des Trésoriers d'Entreprises*.

Michel Soublin joined Schlumberger in 1973 and has held several positions in the financial sector and management in Paris, New York and Moscow, including from 1983 to 1990, CEO of Schlumberger's e-Transactions subsidiary (Smart cards, POS terminals, service station equipment and parking divisions), financial director of Oilfield Services from 1996 to 1998, Schlumberger Group Treasurer from 2001 to February 2005 and financial advisor from 2005 to 2007. Michel Soublin retired from Schlumberger in July 2007. Michel Soublin is a graduate of the Institute of Political Studies (IEP) and of the Faculty of Law and Economics in Paris.

Members of the senior management

The senior management is comprised of the following senior managers[2].

Paul Beverly (1962) American
Executive Vice-President, Corporate Marketing & President North America

Paul Beverly began his career as a Marketing Manager within the Schlumberger group. Over the course of his 19 years within Schlumberger, he held various management positions in operations, marketing and sales in North America and in France. From 1999 to 2003, he was Vice-President in Test & Transactions for Schlumberger in North America, while also serving as Chairman of the Smart Card Alliance. He was President of the Americas from April 2003 until June 2006.

Paul Beverly holds Business and Economics degrees from Auburn University and the Management Program at Harvard University.

[2] Situation as of the date of this Annual Report.

Philippe Cabanettes (1955) French
Executive Vice-President, Human Resources

Philippe Cabanettes worked with Schlumberger for 23 years and has held different positions of worldwide responsibility for human resources in the petroleum, industrial and services sectors in France, Italy and the US. From 1997 to 2001, he was Director of Personnel of the Resources Management Services division of Schlumberger. In May 2001, he became the Director of Personnel of Schlumberger's Volume Products business. In May 2004, he became Vice President Human Resources for Axalto. He has been the Executive Vice President Human Resources of Gemalto since July 2006. Since 2002, Philippe Cabanettes has served as President of PartnerJob.com, a non-profit cross-industry organization facilitating Dual Career management.

Philippe Cabanettes is a graduate from *Institut d'Etudes Politiques* in Paris (Sciences-Po) and holds a Master in Economics from Université de Paris X.

Philippe Cambriel (1958) French
Executive Vice-President, Secure Transactions Business Unit

Philippe Cambriel began his career at Aerospatiale in 1983. From 1989 to 1996, he held various sales and marketing positions at Compaq in France and in Germany. From 1996 to 1998, he was General Manager for IPC in France before managing the PC and Intel server unit of Bull. In 1998 he was appointed Chief Officer, sales and marketing at Bull CP8. From 2001 to 2003, he was Vice-President of Schlumberger's e-Transaction Cards business. In April 2003, he was appointed President of Schlumberger's Smart Cards business for Europe, the Middle East and Africa.

Philippe Cambriel is a graduate from the *Ecole Nationale Supérieure de l'Aéronautique et de l'Espace* (Sup'Aéro) and has a Master of Business Administration from INSEAD.

Jean-Pierre Charlet (1953) French
Executive Vice-President, General Counsel and Company Secretary

Jean-Pierre Charlet was admitted to the Bar in Paris where he began his career in law firms in 1974. From 1981 to 1996, he held positions within the Legal Departments of Société Métallurgique Le Nickel-SLN, Schlumberger group, Pinault Printemps Redoute group and Carnaud-Metalbox. He subsequently served as General Counsel of Synthélabo, Deputy General Counsel of Sanofi-Synthélabo and General Counsel of Rexel. He joined Gemalto in June 2005.

Jean-Pierre Charlet 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
Executive Vice-President, Operations

Claude Dahan began his career with the *Office National d'Etudes et de Recherches Aérospatiales* (ONERA) in 1977, and served as Vice-President of a research center until 1982. Between 1982 and 2001, he held various management positions in Schlumberger's many different businesses, including research and engineering, marketing and production in both France and the USA. From 2001 to 2002, he was the Vice-President in charge of marketing and product development for Schlumberger. In January 2003, he became Vice-President of Schlumberger's Smart Cards business.

Claude Dahan 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.

Martin McCourt (1962) Irish
Executive Vice-President, Strategy, Mergers and Acquisitions

Martin McCourt previously served as President of Gemalto's South Asia operations. Prior to this position, he was also President of Gemplus Asia. In this capacity, he was responsible for the whole of Asia. He has 20 years of experience in the Telecom sector, working in Europe, the US and China. He has held leadership roles in R&D, Sales and Marketing, Operations, Strategy and M&A and was Vice President of Corning Cable System's worldwide Project Services business. He is a founding board member of the European Fiber to the Home Council.

Martin McCourt has a Master of Business Administration from INSEAD, a Ph.D in Integrated Optics from the *Institut National Polytechnique* in Grenoble and a Bachelor of Electronic Engineering from University College Dublin.

Christophe Pagezy (1958) French
Executive Vice-President, Corporate Projects

Having joined Schlumberger in 1983 as a project engineer, Christophe Pagezy held various operational, technical and business positions in France and Italy within that company until 2001. Between 2001 and 2002, he was business development manager for Schlumberger's Volume Products and Global Market Segments business. In June 2002, he became Vice-President of Schlumberger's Terminals division and in May 2004 Vice-President Business Development in charge of Mergers and Acquisitions and of the POS Terminal division of Axalto.

Christophe Pagezy is a graduate from the *Ecole Supérieure d'Electricité* (Supelec) and from the Massachusetts Institute of Technology (MIT).

Jacques Sénéca (1959) French
Executive Vice-President, Security Business Unit

Previously, Jacques Sénéca was in charge of Gemalto's European operations. Prior to this appointment, he served as head of the ID & Security Business Unit, as well as head of Business Development Unit. He joined Gemplus in 1989 as Project Manager. He has held several management positions such as Products Department Manager, General Manager for Sales and Manufacturing Operations in Germany, General Manager for the Telecom Business Division, Executive Vice President for Gemplus Marketing & Technology and General Manager of Gemplus' GemVentures Services Unit. He was also a member of the Gemplus Executive committee. Prior to joining Gemplus, he worked with STMicroelectronics where he held various positions in the fields of manufacturing, marketing and business development.

Jacques Sénéca holds a Degree in Engineering from *Ecole Nationale Supérieure d'Arts et Métiers* (ENSAM - Paris, France) and a Business Administration degree from the IAE of Aix-en-Provence in France.

Jacques Tierny (1954) French and Swiss
Chief Financial Officer

Jacques Tierny began his career as a trader. He then spent 23 years in different finance positions at Michelin in France and abroad, where he became the Group Deputy CFO. In 2003 he joined the retail group Casino as Group CFO, later becoming Casino's Executive Deputy General Manager. From January 2007, Jacques Tierny headed the Valuation and Strategic Finance practice at KPMG Corporate Finance in Paris. He joined Gemalto in September 2007.

Jacques Tierny graduated in 1977 from the HEC School of Management in Paris, from the MBA program from New York University and from the Mestrado from Gétulio Vargas in São Paulo.

Philippe Vallée (1964) French
Executive Vice-President, Telecommunications Business Unit

Philippe Vallée was previously Chief Technology Officer of Gemplus, heading the Product and Marketing Center. Prior to this appointment, he had served as Vice-President Marketing and then President of the Telecom Business Unit of Gemplus. He was previously based in Singapore as Executive Vice-President of Gemplus Technologies Asia. He has more than 20 years of experience in the Telecom industry and held various positions within Gemplus in the fields of marketing, product management and sales. Prior to joining Gemplus, he began his career with Matra Communication (now Lagardère Group) in France as a product manager on the first generation of GSM mobile phones.

Philippe Vallée is a graduate from the *Institut National Polytechnique de Grenoble* (Engineering degree) and from the ESSEC Business School.

Report of the Non-executive Board members

Board meetings and activities during 2009

Meetings

The Board held nine meetings: five in person and four by conference call. Each of the Board members attended the majority of the meetings.

The Board addressed in different meetings the following main subjects:

- The corporate strategy (Gemalto 2010-2013 Development Plan) and main risks of the business, the result of the assessment of the design and effectiveness of the internal risk management and control systems, as well as any significant changes in such matters.
- Financial performance of the Group.
- Parameters to be used for measuring performance.
- Annual budget plan for 2010.
- Development of business activities and various investment opportunities.
- Share buy-back and dividend policy;
- Implementation sponsored level 1 ADR program in the US.
- Convocation of the AGM.
- Reports of the Board committees following each of their meetings.
- Performance of the Board, of the committees and of its individual members, including the CEO.
- Succession planning and management development.
- Remuneration of the CEO and the senior management.
- Grants to eligible employees under the Global Equity Incentive Plan, and opportunity for eligible employees to purchase discounted shares under the Global Equity Share Purchase Plan.
- Corporate governance requirements and developments.

The CEO was not present and did not take part in the discussion or decision-making by the Board at the part of meetings in which his remuneration and performance was discussed. The Board members met regularly in the absence of the CEO and of the senior management.

Performance evaluation

The Board evaluated the performance of the Board, of the committees and of its individual members, including the CEO. The Board followed-up on the 2008 evaluation and noted the implementation of several suggestions, including the CEO participating in the board of a major international technology company. Other items discussed included the composition and competencies of the Board, the setup and content of meetings and meeting materials. Also the relationship with the senior management was discussed. Suggestions for improvement either have been fully implemented, or will be implemented as it becomes feasible to do so.

Training

The Board made a visit to one of its factories for training on Gemalto's products and held meetings with managers to further familiarize themselves with the business and the senior management team.

Board composition

For information on the composition of the Board, please refer to 'Composition of the Board', pages 55 and 56. For information on the individual Board members, please refer to 'The Board and the management', pages 64 to 66.

Independence

The Board currently consists of ten Board members: nine Non-executive Board members and one Executive Board member, the CEO. The Board considers that, as of May 20, 2009 (with the appointment of Mr. B. Alexander) five Non-executive Board members are independent, and as of May 28, 2009, seven Non-executive Board members are independent, within the meaning of best practice provision III.2.2; thus the Company complies with best practice provision III.8.4. As of May 28, 2009, the following Non-executive Board members are considered non-independent:

- Mr. J. Fritz, Head of the Quandt Family office.
- Mr. A. Mandl, former Executive Chairman of Gemalto.

Until May 28, 2009, Mr. D. Bonderman, Founding Partner of Texas Pacific Group (TPG), and Mr. G. Fink, a principal of TPG, were considered non-independent, as TPG owned more than 10% of Gemalto's share capital. On May 28, 2009, TPG´s shareholding decreased from 12.24% to 6.53%, as a consequence of which, as of that date, Mr. D. Bonderman and Mr. G. Fink are considered independent.

Report of the Audit committee

The committee consists of four Non-executive Board members, listed in 'The Board and the management', pages 64 to 66. During 2009, the committee held eight meetings. The CEO, CFO, Chief Accounting Officer, the Internal Audit Director and the external auditors were invited to attend the committee meetings. The committee also met on at least one occasion privately with the CFO, the Internal Audit Director, the external auditors and the General Counsel (without other members of management being present).

During 2009, the committee reviewed the 2008 annual financial statements and the related audit report from the external auditors. The committee also reviewed the condensed interim financial statements as of June 30, 2009 and the related report by the external auditors, as well as the announcements of the 2009 quarterly revenue figures. In connection with these reviews, the committee reviewed the Company's accounting policies and compliance with accounting standards.

During the year, the committee received and considered reports on the Company's risk management system and key internal financial control policies and procedures.

With regard to the internal audit, the committee reviewed the revised internal audit charter, the internal audit plan for 2010 and its coverage in relation to the scope of external audit. It also reviewed the effectiveness and independence of the internal audit process. The committee received reports on the work of the internal audit department and considered their significant findings and recommendations.

With regard to the external audit, the committee reviewed the independent auditor's audit plan for the financial year ended December 31, 2009. The committee assessed the performance and independence of the auditors and considered steps taken to ensure their independence, including reviewing the fees paid for non-audit services. For an overview of the aggregate fees billed by the external auditors for professional services rendered for the fiscal year 2009, please refer to note 11 of the company financial statements.

The committee carried out the review and assessment of the effectiveness of internal controls. This included a review of the tax and treasury risks, and the information and communication technology risks. The committee reviewed the Company's insurance coverage program. The committee reviewed the code of ethics and the anti-fraud policy. The committee also reviewed the effectiveness of the whistle-blowing arrangements, received reports on whistle-blowing, significant claims and disputes, including those resulting in litigation, and related party transactions.

Report of the Compensation committee

The committee consists of three Non-executive Board members, listed in 'The Board and the management', pages 64 to 66. During 2009, the committee held six meetings. In these meetings, the committee reviewed the 2008 achievements and associated bonus payments for the CEO and senior management, as well as the 2009 salary increases, objectives and bonus levels. The remuneration for the CEO was determined within the limits of the Remuneration Policy for the CEO. The committee prepared the 2009 Remuneration Report, which report can be found in '2009 Remuneration report of the Board', pages 70 to 76.

The committee made recommendations to the Board on the grant of restricted share units to eligible employees, as well as on the performance conditions relating to such share incentive. Details of the grant of restricted share units to the CEO are disclosed in 'Compensation of the CEO for the financial year 2009', page 73.

The committee also recommended to the Board that eligible employees be offered the opportunity to purchase shares in the Company at a discount of 15% to the prevailing market price within the GESPP, as described in more detail in 'Global Employee Share Purchase Plan', page 77. As part of their duties, the committee requested external advice from Mercer, an independent internationally recognized firm of compensation specialists, which firm does not provide advice to the CEO on senior management compensation.

Report of the Nomination and Governance committee

The committee consists of three Non-executive Board members, listed in 'The Board and the management', pages 64 to 66. During 2009, the committee held five meetings. The committee advised the Board in 2009 on the appointment and reappointment of the following Non-executive Board members: Messrs. B. Alexander, K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod, and reviewed potential candidates to fill future vacancies on the Board, including the proposal to apppoint Mr. Ph. Alfroid as Non-executive Board member. The committee advised the Board on a new reappointment schedule following the (re-)appointment of Board members. The committee monitored the development of senior management and reviewed the succession plan process for the CEO and the senior management.

The committee considered the amendments to the Dutch corporate governance code applicable as of January 1, 2009, coordinated the results of the review performed by each committee and discussed further steps that the Company could take to improve its corporate governance. The committee reviewed the Annual Report, including a chapter on sustainability, and considered the agenda for the 2009 AGM. The committee reviewed the code of ethics. The committee prepared and coordinated with the Chairman of the Board the annual self-assessment of the Board and of the committees, which took place in the second half year of 2009.

As of May 28, 2009, the Company complies with the recommendation of best practice provision III.5.1, as two of the three members of the committee are considered independent within the meaning of best practice provision III.2.2. Prior to this date, only one member of the committee was considered independent. The Company considers that this deviation was justified by the specific circumstances created by the sudden demise of Mr. J. de Wit on May 28, 2008.

Report of the Strategy and M&A committee

The committee consists of five Non-executive Board members, listed in 'The Board and the management', pages 64 to 66. During 2009, the committee held six meetings.

The committee advised and submitted recommendations to the Board on the Board's responsibilities in overseeing and reviewing Gemalto's M&A and divestiture activities, and Gemalto's strategic plans and their implementation. The committee reviewed certain investment and divestiture proposals, including the acquisitions of O3SiS, NamITech South Africa and Trusted Logic, Xiring and a majority equity investment into Serverside.

Financial statements 2009

The financial statements of the Company for 2009, as presented by the Board, have been audited by PricewaterhouseCoopers Accountants N.V., the Company's external auditors. Please refer to the 'Auditor's report', page 148, for PricewaterhouseCoopers' report. All individual Board members have signed the financial statements. The Board proposes that the financial statements for the year 2009 be adopted by the AGM of May 19, 2010 and that the other resolutions proposed to the shareholders be approved.

Finally, we would like to express our thanks to the CEO, the senior management and all employees of the Group for their continued dedication and contribution during the past twelve months, making 2009 a successful year for Gemalto.

The Non-executive Board members
Amsterdam, March 2, 2010

Remuneration

This section consists of the following:
- 2009 Remuneration Report of the Board.
- Remuneration of the Non-executive Board members.
- Long-term incentive plans.

2009 Remuneration Report of the Board

The 2009 Remuneration Report of the Board, as drawn up by the Compensation committee, contains an account of the manner in which the Remuneration Policy for the CEO was implemented in 2009, and is scheduled to be implemented in 2010.

Remuneration of the CEO, including his function as Executive Board member

The General Meeting, upon the proposal of the Board, determines the Remuneration Policy for the CEO, including for his function as Executive Board member. The remuneration of the CEO shall, with due observance of the Remuneration Policy, be determined by the Board.

Remuneration Policy for the CEO

The Remuneration Policy for the CEO was adopted by the AGM on May 11, 2005 and was most recently amended by the AGM of May 14, 2008. The Remuneration Policy is published on Gemalto's web site.

The Remuneration Policy also serves as a guidance to establish the senior management remuneration (not addressed in this report).

The objectives of the Remuneration Policy and the remuneration policy for the management are to attract, retain and reward talented staff and management, by offering compensation that is competitive in the industry, motivates management to surpass the Company's business objectives and aligns the interests of management with the interests of the shareholders. The Company considers that it has a balanced set of clearly defined objectives and performance targets that do not encourage the CEO to take risks that are not in line with the adopted strategy and which are within the Company's risk appetite.

The compensation package of the CEO consists of four elements: (i) base salary, (ii) variable incentive, (iii) long-term or deferred incentive and (iv) a fixed fee as Executive Board member of Gemalto N.V.

The compensation of the CEO is calibrated by comparison to a group of other relevant companies, particularly continental European high-tech and industrial companies (the 'Comparison Group') and surveys are performed by Towers Watson, an independent internationally recognized firm of compensation specialists.

Positioning of the Remuneration Policy

The table opposite (page 71) summarizes the positioning of the Remuneration Policy by comparison with the Comparison Group and applies to the compensation package of the CEO.

Compensation package of the CEO

The table on pages 72 and 73 sets out:
- Key elements of the compensation package of the CEO.
- Compensation of the CEO for the financial year 2009 .

Positioning of the Remuneration Policy

Types of compensation	Policy relating to compensation	
Overall compensation	Assuming that challenging, but achievable targets set by the Board have been met, the overall compensation is set to be about the 60th percentile by comparison with the remuneration practices of the Comparison Group.	In case of exceptional performance, the total compensation is set to be in the upper quartile.
Total Reference Compensation or (TRC), i.e. base salary and a fixed fee as Executive Board member of Gemalto N.V.	The TRC is targeted around 50th percentile by comparison with the Comparison Group.	
Variable incentive	The total variable compensation at 100% (on-target) achievement of all objectives is designed to be clearly above 50th percentile, with an average over the years of about 60th percentile by comparison with the Comparison Group.	
Long-term or deferred incentive	The long-term or deferred incentive part of the total compensation package for the CEO is designed to be clearly above 50th percentile by comparison with the Comparison Group, which may be the upper quartile in case of exceptional performance.	

Compensation package of the CEO

	Key elements of the compensation package of the CEO
Short-term	
Total Reference Compensation	The TRC is fixed and reviewed every year, but not necessarily adjusted every year.
Variable incentive	The variable compensation of the CEO, based on the achievement of personal and financial objectives, ranges from 0 to 180% of the TRC. A variable incentive of 120% of the TRC is payable on achievement of 100% of on-target performance by reference to a predefined set of financial and personal objectives. In case of exceptional performance in excess of the 100% (on-target) achievement of objectives, the variable compensation can be increased so that the total variable compensation can reach up to 180% of the TRC. The financial and non-financial objectives for variable compensation typically relate to short-term (annual) performance targets and are key drivers for value creation and growth in shareholders' value. Part of the variable compensation is related to Gemalto's financial results, *e.g.* revenue, cash flow and operating income, and is determined by the Board on the recommendation of the Compensation committee on an annual basis. The remainder depends on success in achieving a limited number of specific strategic, tactical or individual objectives, also determined annually by the Board on the recommendation of the Compensation committee.
Long-term or deferred incentive	
Global Equity Incentive Plan ('GEIP')	Under the GEIP and the French Sub-Plan, the CEO may receive options, restricted share units and/or share appreciation rights (jointly referred to as 'Awards'). For further information, please see page 74. The Board is authorized to grant to the CEO annually any combination of Awards, including any awards, as defined in the GEIP, similar in substance and/or nature, with a maximum value equivalent to the value of
Global Employee Share Purchase Plan ('GESPP')	Under the GESPP, the Company may offer eligible employees, including the CEO, the opportunity to purchase shares in the Company at a discount to the prevailing market price. The discount of the purchase price of the shares is 15% based on the lesser of the value of the shares on the first and last day of the offering period. The CEO may participate in the GESPP (as well as in any future similar plans), through a '*Fonds Commun de Placement d'Entreprise*'.
Other benefits	
Pension	The CEO does not benefit from any special pension plan provided by Gemalto, other than the mandatory legal pension system in France. There are no agreed arrangements for early retirement of the CEO.
Employee benefits	The CEO enjoys any and all benefits that may be applicable to French employees.

Compensation of the CEO for the financial year 2009

	€653,421 (including a fixed fee as Executive Board member of Gemalto N.V. of €35,000) The TRC of the CEO was not adjusted in 2009.	
Below a minimum performance threshold, the variable compensation for financial performance is zero. The compensation is 120% at target level and at a maximum of 180% at stretch level. This compensation is calculated using two linear interpolation scales from threshold to target and from target to stretch. In exceptional cases, the Board may add a discretionary amount.	€588,640 (75% of on target Variable Incentive, 90% of TRC) For 2009, the CEO's financial targets accounted for 2/3 of the variable compensation and were: • Revenue: 4/15 of the variable compensation. • Adjusted operating income: 4/15 of the variable compensation. • Free cash flow: 2/15 of the variable compensation.	The non-financial targets, accounting for 1/3 of the CEO's variable compensation, depended on his specific responsibilities and were defined as measurable actions linked with the success and development of Gemalto. In accordance with best practice provision II.2.13 (b) of the Dutch corporate governance code, the Compensation committee, and subsequently the Board, analyzed the possible outcomes of the variable compensation components and how they may affect the compensation of the CEO.
250,000 options valued by reference to any of the generally recognized valuation methods applied in a manner as approved by the Board.	Grant of 65,000 RSU, corresponding to a cost of €1,689,377 for Gemalto.	Vesting occurs in October 2012, if both a performance condition and a service condition are met. The performance condition being the Company achieving a target level of adjusted operating profit for 2009.
('FCPE'), in which case the FCPE subscribes to Gemalto shares and the CEO receives in exchange units of the FCPE.	The CEO did not subscribe for GESPP shares in 2009.	
	€61,047	Costs for 2009 for the CEO's mandatory French legal pension scheme.
	The CEO enjoyed any and all benefits that were also applicable to French employees.	

Governance

Global Equity Incentive Plan ('GEIP'): Awards and Conditions

Awards

Options

When granting options, the Board applies performance and vesting conditions, as set out below.

The exercise price of options is equal to the average of the Gemalto share closing price on the Euronext Paris Stock Exchange during the five trading days preceding the grant date. The options do not benefit from any discount.

Any options granted to Mr. O. Piou, CEO, may only be exercised upon expiration of four years after their date of grant and will lapse, if not exercised within nine and a half years of the date of grant.

Restricted share units ('RSU')

A RSU is a right to acquire shares in exchange for the RSU. There is no purchase price to be paid to acquire a RSU. When granting a RSU, the Board applies performance and vesting conditions, as set out below. At any time after the granting of a RSU, the Board may accelerate the vesting of such RSU. Under no circumstances, except in case of death, shall the delivery of shares related to a RSU occur prior to the second anniversary of the date of grant.

Except in case of death, the sale of shares acquired pursuant to the exchange of the RSU may not occur prior to the expiration of a two-year period from the date delivery of the shares.

Share appreciation rights ('SAR')

A SAR is a right to receive the difference between the fair market value of a share on the exercise date and the exercise price of the right being exercised. So far, the Company has not granted SAR to the CEO.

Conditions

Performance factors

Awards may be granted or vest on the basis of the achievement of specified financial or non-financial performance conditions, as included in the Remuneration Policy.

For the first time in 2009, Awards made during the year were subject to the Company achieving a target level of adjusted operating profit for 2009. The Board expects to consider applying similar performance conditions for future grants.

Vesting in certain circumstances

In addition to any performance conditions, Awards have generally been subject to vesting over a specifed future period of time. However, any option rights granted to the CEO will vest automatically upon any decision to terminate the appointment of the CEO and will remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant Sub-Plan, and all other eventual equity-based schemes will continue to vest even after the date of termination. These termination arrangements do not apply where the employment of the CEO with Gemalto International SAS or the Company is terminated for willful misconduct ('*faute lourde*' within the meaning established by the French Supreme Court case law).

Under specific circumstances, the Board has the discretionary power to grant unconditional options (*e.g.* in case of new hire).

The table below summarizes information on Awards granted to the CEO in previous years, in accordance with best practice provision II.2.13 (d) of the Dutch corporate governance code.

Options

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Exercise price (€)
Sept 2005	150,000	€1,099,745	Unconditional (past performance related)	Sept 2009 (4 years after date of grant)	€21,000	Not applicable	30.65
June 2006	200,000	€1,269,781	Unconditional (past performance related)	June 2010 (4 years after date of grant)	Not applicable	Not applicable	23.10
Sept 2008	150,000	€1,049,761	Unconditional (past performance related)	Sept 2012 (4 years after date of grant)	Not applicable	Not applicable	26.44

RSU

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
Sept 2007	The number may vary from 0 to 80,000 with a maximum multiplier of 3	€1,727,828.	Conditional	Dependent on whether thresholds are reached before Dec 31, 2009 or before Dec 31, 2010			
				66% vested in 2008	€1,424,544	2011	Not applicable
				84% vested in 2009 (in total 150%)	€2,026,080	2011	Not applicable
Oct 2009	65,000	€1,689,377	Conditional	Oct 2012	Not applicable	Oct 2014 (if vested)	Not applicable

Contracts of employment
Mr. O. Piou was appointed as CEO in 2004 for a term of four years until the AGM of 2008. He was reappointed on May 14, 2008 as Board member with the title of CEO for a term of four years until the AGM of 2012. Mr. O. Piou has an employment contract (originally dated 1981), not limited in time, governed by French law with Gemalto International SAS, a Gemalto subsidiary. He has a six-month notice period.

If Gemalto terminates Mr. O. Piou's employment contract, he is entitled to a severance payment equal to one year of reference salary. The reference salary used to calculate this payment will be the annual gross salary paid under Mr. O. Piou's employment contract during the twelve months preceding its termination, including bonuses and other discretionary cash incentives, if any, as well as the Board member fees he is entitled to.

The severance payment will be in addition to the indemnities and benefits that would be provided by 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*). In the event of termination of his employment contract, Mr. O. Piou has a recognized seniority since 1981 and is entitled to a six-month notice period indemnity, as well as the dismissal and paid vacation indemnities.

The severance payment will not be due if the employment contract of Mr. O. Piou is terminated for willful misconduct ('*faute lourde*' within the meaning established by the French Supreme Court case law) or upon voluntary resignation of Mr. O. Piou.

Details regarding the compensation of the CEO are also disclosed in note 10 to the company financial statements.

Changes to the compensation of the CEO for the 2010 financial year
The CEO's TRC will be adjusted in 2010.

For 2010, the CEO's financial targets will account for 2/3 of the variable compensation and are:
- Revenue: 4/15 of the variable compensation
- Profit from operations: 4/15 of the variable compensation.
- Free cash flow: 2/15 of the variable compensation.

The non-financial targets for 2010 will account for 1/3 of his variable compensation and will depend on his specific responsibilities and are defined as measurable actions linked with the success and development of Gemalto.

Loans or guarantees
Gemalto does not grant personal loans, guarantees or the like to the CEO, and none were granted to the CEO in 2009, nor are outstanding as of December 31, 2009.

Deviations from the Dutch corporate governance code in terms of remuneration
- Provision II.2.7: amendment of the vesting date of options granted to Mr. O. Piou as CEO. The CEO's Remuneration Policy provides that, unless his employment with Gemalto International SAS or Gemalto N.V. is terminated for willful misconduct, any option rights vest automatically upon decision to terminate the appointment of the CEO and remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant Sub-Plan. All other equity-based schemes will continue to vest even after the date of termination. Although it is not the Company's policy to amend conditions regarding options granted to Executive Board members during the option term, the amendment of the vesting date of the options granted to the CEO is included in the Remuneration Policy adopted by the shareholders, as proposed by the Board, as a result of the execution of the Combination agreement signed between Gemalto N.V. (at that time named Axalto Holding N.V.) and Gemplus International S.A. on December 6, 2005.
- Provision II.2.8: maximum remuneration in the event of dismissal of Mr. O. Piou as CEO. The severance payment for the CEO is not in line with the Dutch corporate governance code, which recommends that the maximum remuneration of one year's salary is based on the fixed remuneration component. However, the severance payment of the CEO reflects his accrued seniority with Gemalto and is included in the Remuneration Policy adopted by the shareholders, as proposed by the Board, as a result of the execution of the Combination agreement signed between Gemalto N.V. (at that time named Axalto Holding N.V.) and Gemplus International S.A. on December 6, 2005.
- Provisions II.2.10 (ultimum remedium). Existing contracts do not specifically include the possibility to adjust the value of conditionally awarded variable compensation if it would produce an unfair result due to extraordinary circumstances. In these cases, the Company will make such adjustments as is feasible under applicable law.
- Provision II.2.13 (e): content of the Remuneration Report, *i.e.* non-disclosure of the companies of the Comparison Group. Although recommended by the Dutch corporate governance code, the Company does not disclose the names of the companies in the Comparison Group. The Company compares the compensation of the CEO to those of a group of other relevant companies, particularly continental European high-tech and industrial companies and surveys are performed by Towers Watson, an independent internationally recognized firm of compensation specialists.

Remuneration of the Non-executive Board members

The remuneration of the Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees is determined by the General Meeting. The remuneration is reviewed annually by the Compensation committee.

The remuneration structure for the Non-executive Board members (per calendar year) is as follows:
- €200,000 for the Non-executive Chairman of the Board.
- €65,000 for each other Non-executive Board member.
- An additional fee of €24,000 for the chairman of the Audit committee and an additional fee of €16,000 for each member of the Audit committee.
- An additional fee of €12,000 for the chairman of the other Board committees, and an additional fee of €8,000 for the other members of those Board committees.

The remuneration of a Non-executive Board member is not dependent on the results of Gemalto.

The Company does not grant shares or rights to acquire shares by way of remuneration to Non-executive Board members. Details regarding the remuneration of the individual Board members are disclosed in note 10 to the company financial statements.

Long-term incentive plans

Global Equity Incentive Plan

In 2004, the General Meeting adopted a Global Equity Incentive Plan ('GEIP') enabling the Board to grant options, RSU and/or share appreciation rights ('Awards') to eligible employees. A total number of 14 million shares have been made available for grant and issue under the GEIP. As of December 31, 2009 the remaining number of shares available amounts to 5,826,032. During 2009, the Board granted 611,500 RSU to eligible employees, including the CEO. For more information on the grant of RSU to the CEO, please refer to 'Compensation of the CEO for the financial year 2009', page 73.

The 2007 AGM approved a stock option plan, further to the undertakings by the Company in the Combination agreement, to exchange options to acquire Gemplus or Gemalto S.A. (formerly named Gemplus S.A.) shares for options to acquire Company shares. A total number of 7 million shares are available for grant and issue under this stock option plan. So far, the Company has not made any grants under this stock option plan.

In the event the Company and/or its affiliates are absorbed by merger and liquidated, or undergo a change of control, and provided no other resolutions are adopted by the Board on such events, and subject to the terms of such resolutions, each outstanding Award not otherwise fully vested shall automatically vest so that each outstanding Award shall, immediately prior the effective date of the event, become exercisable with regards to all or part of the underlying shares and each RSU will be immediately refunded or compensated through the granting of shares, except to the extent such Award is maintained in effect by the Company, or assumed by a successor corporation or otherwise substituted by a plan giving substantially equivalent rights to the employee upon surrender of the Awards.

For more information on the grant of RSU during 2009, please refer to note 25 to the consolidated financial statements.

Global Employee Share Purchase Plan

In 2004, the General Meeting adopted a Global Employee Share Purchase Plan ('GESPP') enabling the Board to offer the opportunity to eligible employees to purchase shares in the Company at a discount to the prevailing market price. A total number of 3.2 million shares have been made available for issue or transfer under the GESPP. As of December 31, 2009 the remaining number of shares available amounts to 2,520,863. In 2009, the Board offered eligible employees the opportunity to participate in the plan and 49,525 shares were purchased by employees.

In order to benefit from preferential tax treatment, employees of Gemalto's French subsidiaries are able to participate in the GESPP through a *Fonds Commun de Placement d'Entreprise* ('FCPE'), in which case the FCPE subscribes to Gemalto shares and employees receive in exchange units of the FCPE. Participation in the FCPE does not give rise to direct ownership of shares or the right to acquire shares in the Company. The FCPE has an independent Board of directors and owns 192,778 shares of Gemalto as of December 31, 2009. The FCPE exercises the voting rights on these shares, without instructions from the employees who participate in the FCPE.

For more information on the participation in the GESPP during 2009, please refer to note 25 to the consolidated financial statements.

Financial statements contents in detail

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2008	2009
Assets			
Non-current assets			
Property, plant and equipment, net	8	215,357	220,005
Goodwill, net	9	552,432	596,602
Intangible assets, net	9	56,065	81,527
Investments in associates	10	10,469	9,970
Deferred income tax assets	29	21,058	24,192
Available-for-sale financial assets, net	11	1,203	1,270
Assets held for sale	11	1,711	1,711
Other non-current assets	12	14,255	18,491
Total non-current assets		**872,550**	**953,768**
Current assets			
Inventories, net	13	161,031	150,621
Trade and other receivables, net	14	447,133	436,372
Derivative financial instruments	20	16,458	17,166
Cash and cash equivalents	15	367,129	403,704
Total current assets		**991,751**	**1,007,863**
Total assets		**1,864,301**	**1,961,631**

In thousands of Euro	Notes	Year ended December 31, 2008	2009
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		88,016	88,016
Share premium		1,214,429	1,215,868
Treasury shares		(114,933)	(129,640)
Fair value and other reserves		56,835	55,101
Cumulative translation adjustments		(39,986)	(22,879)
Retained earnings		84,118	201,226
		1,288,479	**1,407,692**
Minority interest		**14,141**	**11,795**
Total equity		**1,302,620**	**1,419,487**
Liabilities			
Non-current liabilities			
Borrowings	16	11,246	14,946
Deferred income tax liabilities	29	13,502	22,293
Employee benefit obligation	17	25,646	32,706
Provisions and other liabilities	18	60,909	74,010
Total non-current liabilities		**111,303**	**143,955**
Current liabilities			
Trade and other payables	19	381,849	353,911
Current income tax liabilities		9,471	6,370
Borrowings	16	11,900	8,244
Derivative financial instruments	20	14,680	3,650
Provisions and other liabilities	21	32,478	26,014
Total current liabilities		**450,378**	**398,189**
Total liabilities		**561,681**	**542,144**
Total equity and liabilities		**1,864,301**	**1,961,631**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31, 2008	2009
Revenue	22	**1,680,526**	**1,654,247**
Cost of sales		(1,091,220)	(1,054,230)
Gross profit		**589,306**	**600,017**
Operating expenses			
Research and engineering		(94,934)	(97,852)
Sales and marketing		(232,505)	(235,418)
General and administrative		(101,972)	(101,421)
Other income (expense), net	26	1,737	4,026
Combination-related expenses		86	–
Reorganization expenses	5	(20,911)	(9,316)
Amortization of intangible assets	5	(13,743)	(23,699)
Operating result		**127,064**	**136,337**
Financial income (expense), net	27	2,139	(2,246)
Share of profit of associates	10	2,350	1,380
Gain on sale of investment in associate		195	78
Profit before income tax		**131,748**	**135,549**
Income tax expense	29	(16,845)	(17,425)
Profit for the period		**114,903**	**118,124**
Attributable to:			
Equity holders of the Company		111,864	114,796
Minority interest		3,039	3,328
Basic earnings per share	30	1.35	1.39
Diluted earnings per share	30	1.32	1.37
Weighted average number of shares outstanding (in thousands)	30	83,114	82,520
Weighted average number of shares outstanding assuming dilution (in thousands)	30	84,452	83,789

Consolidated statement of comprehensive income

In thousands of Euro	Year ended December 31, 2008	2009
Profit for the period	**114,903**	**118,124**
Gains (losses) recognized directly in equity		
Currency translation adjustments	(16,151)	17,071
Gains (losses) on Treasury shares (liquidity program)	(212)	1,006
Fair value gains (losses)		
– financial assets available-for-sale	(242)	73
– variation of actuarial gains and losses in benefit obligation	(168)	(5,391)
– cash flow hedges	(7,301)	9,638
Other comprehensive income for the year	**(24,074)**	**22,397**
Total comprehensive income for the year, net of tax(*)	**90,829**	**140,521**
Attributable to		
Equity holders of the Company	86,430	137,229
Minority interest	4,399	3,292

(*) No tax has been recognized on other comprehensive income items.

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Consolidated statement of changes in equity

	Number of shares[1]	
In thousands of Euro	Issued	Outstanding
Balance as of January 1, 2008	**91,015,844**	**83,491,578**
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income (loss)		
Share-based compensation expense		
Employee share option scheme		1,840,871
Purchase of Treasury shares, net		(3,036,257)
Capital decrease further to Treasury shares cancellation	(3,000,000)	
Dividend paid/payable to minority interests		
Balance as of December 31, 2008	**88,015,844**	**82,296,192**
Balance as of January 1, 2009	**88,015,844**	**82,296,192**
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income		
Share-based compensation expense		
Employee share option scheme		2,684,452
Purchase of Treasury shares, net		(2,204,431)
Acquisition of minority interest		
Excess of purchase price on SAIT minority interest acquisition		
Correction of the excess of purchase price on subsequent acquisition of Gemplus shares[2]		
Excess purchase price on subsequent acquisition of Serverside Group Limited		
Revaluation further to the acquisition of Trusted Logic S.A.		
Dividend paid to minority interests		
Balance as of December, 2009	**88,015,844**	**82,776,213**

[1] As at December 31, 2009, the difference between the number of shares issued and the number of shares outstanding corresponds to the 5,239,631 shares held in treasury.

[2] As at December 31, 2009, the Company recognized some deferred tax assets that did not meet the recognition criteria at the date of the Combination with Gemplus. As a result, in accordance with the provisions of IFRS 3 and IAS 12, the Company reduced the carrying value of the goodwill and increased the value of the share premium by €3.0 million and €3.8 million respectively.

Attributable to equity holders of the Company						Minority interest	Total equity
Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings		
91,016	**1,247,140**	**(139,932)**	**82,674**	**(22,475)**	**(27,746)**	**11,568**	**1,242,245**
					111,864	3,039	114,903
			(7,923)	(17,511)		1,360	(24,074)
			(7,923)	**(17,511)**	**111,864**	**4,399**	**90,829**
			11,612				11,612
		35,528	(10,605)				24,923
		(64,740)					(64,740)
(3,000)	(32,711)	54,211	(18,923)				(423)
						(1,826)	(1,826)
88,016	**1,214,429**	**(114,933)**	**56,835**	**(39,986)**	**84,118**	**14,141**	**1,302,620**
88,016	**1,214,429**	**(114,933)**	**56,835**	**(39,986)**	**84,118**	**14,141**	**1,302,620**
					114,796	3,328	118,124
			5,326	17,107		(36)	22,397
			5,326	**17,107**	**114,796**	**3,292**	**140,521**
			12,327				12,327
		50,257	(19,387)				30,870
		(64,964)					(64,964)
						(823)	(823)
	(1,937)						(1,937)
	3,843						3,843
	(467)						(467)
					2,312		2,312
						(4,815)	(4,815)
88,016	**1,215,868**	**(129,640)**	**55,101**	**(22,879)**	**201,226**	**11,795**	**1,419,487**

Financial statements

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2008	2009
Cash flows from (used in) operating activities			
Cash generated from operations	31	152,739	223,032
Income tax paid		(20,634)	(22,776)
Net cash provided by operating activities		**132,105**	**200,256**
Cash flows from (used in) investing activities			
Acquisition of subsidiary, net of cash acquired		(13,605)	(37,545)
Acquisition of businesses		–	(30,866)
Purchase of minority interests in subsidiaries		–	(2,760)
Purchase of property, plant & equipment	8	(44,121)	(40,158)
Proceeds from sale of property, plant & equipment		3,798	961
Acquisition and capitalization of intangible assets	9	(8,683)	(14,708)
Proceed from (purchase of) non-current assets		(154)	545
Proceeds from sale of a subsidiary		–	333
Proceeds from sale of investments in associate		195	2,058
Purchase of an investment in associate		–	(2,550)
Interest paid		(1,766)	(1,916)
Interest received		11,704	4,084
Dividends received from investments in associates	10	–	1,125
Net cash used in investing activities		**(52,632)**	**(121,397)**
Cash flows from (used in) financing activities			
Proceeds from exercise of stocks options		24,922	31,827
Purchase of Treasury shares (net)		(65,429)	(64,941)
Proceeds from borrowings		1,204	–
Repayments of borrowings		(7,223)	(7,022)
Dividends paid to minority interests		(1,826)	(4,815)
Net cash used in financing activities		**(48,352)**	**(44,951)**
Net increase in cash and bank overdrafts		31,121	33,908
Cash and bank overdrafts, beginning of period	15	336,815	360,034
Currency translation effect on cash and bank overdrafts		(7,902)	8,232
Cash and bank overdrafts, end of period	15	**360,034**	**402,174**

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 mentioned.

Note 1 General information

Gemalto, the world leader in digital security, is at the heart of our evolving digital society. The freedom to communicate, travel, shop, bank, entertain, and work – anytime, anywhere – has become an integral part of what people want and expect, in ways that are convenient, enjoyable and secure.

Gemalto delivers on the growing demands of billions of people worldwide for mobile connectivity, identity and data protection, credit card safety, health and transportation services, e-government and national security. We do this by supplying to governments, wireless operators, banks and enterprises a wide range of secure personal devices, such as subscriber identification modules (SIM) in mobile phones, smart banking cards, electronic passports, and USB tokens for online identity protection. To complete the solution we also provide software, systems and services to help our customers achieve their goals. The Group has facilities and sells around the world.

The Company 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 was first listed on Eurolist by Euronext Paris on May 18, 2004.

These consolidated financial statements for the period ended December 31, 2009 have been authorized for issue by the Board of the Company on March 2, 2010 and are subject to adoption at the Annual General Meeting of Shareholders on May 19, 2010.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2009 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) at fair value through profit and 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 2.23.

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

2.2.1 Standards, amendments to existing standards and interpretations mandatory for financial statements as at December 31, 2009

a. *Standards which have an impact on the Group's financial statements as at December 31, 2009*

- IAS 1 *Revised Presentation of Financial Statements*
  The statements 'balance sheet' and 'cash flow statement' are now denominated 'statement of financial position' and 'statement of cash flows' respectively. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity now includes only details of transactions with owners, with non-owner changes in equity presented as a single line.

  In addition, the Standard introduces the statement of comprehensive income which presents all items of recognized income and expense, either in one single statement, or in two linked statements (a consolidated income statement and a consolidated statement of comprehensive income). The Company has elected to present two statements: a consolidated income statement and a consolidated statement of comprehensive income.

- IFRS 8 *Operating Segments*
  This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 *Segment Reporting.* Additional disclosures about each of these segments are shown in note 8, including revised comparative information.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The additional disclosures required by the amended standard are shown in note 2.25.

b. *The following standards, amendments to existing standards and interpretations did not have any impact on the Group's financial statements as at December 31, 2009*

- Amendment to IAS 23 *Borrowing Costs*
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of financial statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statement – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- 2008 Improvements to IFRSs (except Improvement to IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations* which was effective as of July 1, 2009)
- Amendment to IAS 39 *Financial instruments: Recognition and measurement* and IFRS 7 *Financial Instruments: Disclosures - Reclassification of Financial Assets*
- Amendment to IAS 39 *Financial instruments: Recognition and measurement* and IFRS 7 *Financial Instruments: Disclosures - Reclassification of Financial Assets – Effective Date and Transition*
- Amendment to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial instruments: Recognition and measurement - Embedded Derivatives*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

2.2.2 Standards, amendments to existing standards and interpretations issued but not mandatory for financial statements as at December 31, 2009 (and not early adopted by the Group)

- IAS 24 (Revised) *Related Party Disclosures*
- IFRS 1 (Revised) *First-Time Adoption of IFRS*
- IFRS 3 (Revised) *Business Combinations*
- IFRS 9 *Financial Instruments*
- Amendment to IAS 39 *Financial instruments: Recognition and Measurement - Eligible Hedged Items*
- 2009 Improvements to IFRSs
- Amendments to IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IFRS1 *First-Time Adoption of IFRS – Additional Exemptions for First-Time Adopters*
- Amendment to IFRS 2 *Share-Based Payment – Group Cash-settled Share-based Payment Transactions*
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The standards, amendments to existing standards and interpretations above are not anticipated to have a material impact on the Group's future financial position or performance. However, IFRS 3 Revised and the amendments to IAS 27 may have a material impact on our future consolidated financial statements, if the Group enters into significant business combinations after January 1, 2010.

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.

The purchase 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, plus costs directly attributable to the acquisition. 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 minority 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 net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.7). For further acquisitions of minority interests, 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. 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.

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.

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 against a 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 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 residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset carrying amount is written down immediately to its recoverable amount if the asset 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 result of operations.

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 charges 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 timing 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'. 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 for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units 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	5-10 years
Capitalized development costs	2-4 years
Other	1-15 years

However, Gemplus Existing Technology recognized upon the Combination with Gemalto in accordance with IFRS 3 is amortized on the basis of its expected pattern of consumption: 64% of the value of this technology was amortized over 19 months and 36% is being amortized over 4 years (till June 30, 2010).

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 (cash-generating units or CGU's). 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 held 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 and 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 twelve 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 cancelled, 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

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, which usually varies between 2 and 4 years. 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

(a) Pension and similar obligations

The Company operates various pension schemes under both defined benefit and defined contribution plans (see note 17).

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustment for past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit 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 the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reported in the statement of comprehensive income.

Past-service costs are recognized immediately in the income statement unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Company 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.

(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. Gemalto recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to 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 (see note 27).

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 and unbilled 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 Use of judgments and estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses (including the classification as reorganization expenses) during the reporting period. On an ongoing basis, Gemalto evaluates its estimates, including those related to doubtful accounts, valuation of inventories and investments, warranty obligations, recoverability of goodwill, intangible assets and property, plant and equipment, income tax provision and recoverability of deferred taxes, contingencies and litigation and actuarial assumptions for employee benefit plans. Gemalto bases its estimates on historical experience and on various other assumptions that, in management's opinion, are reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In respect of provisions and contingencies, the Company booked as at December 31, 2009 a €11.2 million provision to cover the consequences of the situation related to German payment cards identified at the beginning of year 2010. This provision is based on Management's best estimate and takes into account anticipated coverage by insurance (see note 21).

2.24 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 re-measured at their fair value. These instruments are presented under 'Derivative financial instruments' in current assets or liabilities since they are expected to mature within 18 months of the balance sheet date. 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 20. 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 and is recognized 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.

2.25 Estimation of derivative financial instrument fair value

The fair value of financial instruments traded in active markets such as investment funds or available-for-sale assets 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 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 difference between the contract rate and the prevailing accounting 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 difference between the strike rate and the prevailing accounting rate, applied to the notional amount of the contract.

For the available-for-sale assets, they are either quoted on official market prices and classified in Level 1 or conventionally disclosed at historical market price. This latter calculation is not based on up-to-date observable market data and consequently disclosed in the Level 3 of the fair value hierarchy. At year-end, this amount remains non-material at Group level.

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2008:

	Level 1	Level 2	Level 3	Total Balance
Assets				
Derivatives used for hedging	–	16,458	–	16,458
Short term bank deposits and investment funds	266,114	–	–	266,114
Available-for-sale financial assets	198	–	1,005	1,203
Total Assets	**266,312**	**16,458**	**1,005**	**283,775**
Liabilities				
Derivatives used for hedging	–	14,680	–	14,680
Total Liabilities	**–**	**14,680**	**–**	**14,680**

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2009:

	Level 1	Level 2	Level 3	Total Balance
Assets				
Derivatives used for hedging	–	17,166	–	17,166
Short term bank deposits and investment funds	318,812	–	–	318,812
Available-for-sale financial assets	265	–	1,005	1,270
Total Assets	**319,077**	**17,166**	**1,005**	**337,248**
Liabilities				
Derivatives used for hedging	–	3,650	–	3,650
Total Liabilities	**–**	**3,650**	**–**	**3,650**

Note 3. 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.

3.1 Foreign exchange risk

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

The Company attempts in 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 the 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 20).

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

- effect on profit and 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 on the profit and loss do not exceed €0.3 million for any given currency.

	Year ended December 31,			
	2008		2009	
	Change in $/€ exchange rate			
Income/(expense)	**2.50%**	**-2.50%**	**2.50%**	**-2.50%**
Effect of Profit before tax				
– Underlying(*)	(1,307)	1,374	(1,049)	1,102
– Hedges(**)	1,371	(995)	844	(892)
Net	**64**	**379**	**(205)**	**210**
Gain/(loss)				
Effect on Equity				
– Hedges(***)	1,315	(524)	2,757	(2,415)

(*) Effect of revaluation of financial assets and liabilities, excluding hedges
(**) Effect on mark-to-market valuation of fair value hedges
(***) 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.

3.2 Interest rate risk

Financial assets are invested in bank deposits, money market funds and commercial paper 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 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	Variation in interest rate (in basis points)	2008	2009
Income/(expense)			
Borrowings	(50)	115	81
	50	(115)	(81)
Short term deposits and investment funds	(50)	(1,252)	(1,440)
	50	1,252	1,440

3.3 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including the USD 250.0 million syndicated bank loan facility referred to in note 16 (equivalent to €173.6 million based on the USD/EUR accounting exchange rate as of December 31, 2009), which has a maturity date on August 24, 2012, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. With the exception of finance lease liabilities, 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 various guarantees which amount to €232.2 million as of December 31, 2008 and €186.9 million as of December 31, 2009 (see note 33).

	2008			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities(*)	5,366	10,599	1,588	17,553
Other borrowings	7,095	–	–	7,095
Derivative financial instruments	11,978	2,702	–	14,680
Trade & other payables	381,849	–	–	381,849
	406,288	**13,301**	**1,588**	**421,177**

	2009			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities (*)	3,676	8,139	–	11,815
Other borrowings	4,723	7,039	–	11,762
Derivative financial instruments	3,434	216	–	3,650
Trade & other payables	353,911	–	–	353,911
	365,744	**15,394**	**–**	**381,138**

(*) Finance leases are not recognized at the fair value of future cashflows but for their residual capital commitments and related interests.

3.4 Financial counterparty risk

Derivative financial instruments and all short term deposits and investment funds are exclusively held with major counterparties of strong credit rating.

Short term deposits and investment funds are invested in fixed term deposits with banks, money market mutual funds and commercial paper with a maturity of less than 3 months and the objective that no counterparty represents more than 15% of the total at any time. Money market mutual funds consist of open-ended investment companies (French SICAV) authorized by the French AMF. Funds are selected based on the quality of the management company, 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…) and a daily liquidity. A portion of our short term deposits and investment funds can be invested in commercial paper with a credit rating of A1/P1.

The Company also maintains credit lines with various banks. It includes uncommitted short term facilities, short term bonds and guarantee lines, and a committed USD 250.0 million syndicated bank loan facility arranged by a group of seven international banks of strong credit rating referred to in note 16 (equivalent to €173.6 million based on the USD/EUR accounting exchange rate as of December 31, 2009), which has a maturity date on August 24, 2012.

As at December 31, 2009, no financial institution accounted for more than 27% of the notional amount of derivative financial instruments, 11% of the cash and cash equivalents, and 16% of the credit lines (23% including bonds and guarantee lines). Maximum risk with any single counterparty is as follows:

		Year ended December 31, 2008	2009
Borrowings			
Syndicated bank loan(*)	Committed credit line (undrawn)	27,305	26,736
Overdrafts and other short term loans	Uncommitted credit lines (partially drawn)	15,100	16,762
Bonds and guarantee facilities	Uncommitted credit lines (partially drawn)	40,200	40,200
Cumulated borrowing risk with a single counterparty		**82,605**	**74,436**
in % of total borrowing risk for Gemalto		23%	23%
Cash and cash equivalents			
Short term bank deposits and cash at bank and in hand		31,663	43,261
Money market mutual funds		56,465	31,545
Commercial paper		30,000	–
Cumulated cash and cash equivalents risk with a single counterparty		**56,465**	**43,261**
in % of total cash & cash equivalents risk for Gemalto		15%	11%
Derivative financial instruments			
Notional amount		65,979	90,378
in % of total derivative financial instruments risk for Gemalto		22%	27%
Mark-to-market		7,108	4,530
Total risk for any single counterparty		**92,677**	**45,187**
in % of total counterparty risk for Gemalto		12%	11%

(*) USD 250 million syndicated bank loan facility, which has a maturity date on August 24, 2012.

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.

3.5 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 2008 and 2009. 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 customers' financial condition.

As of December 31, 2009, trade receivables of €80,946 were past due but not impaired (2008: €104,455). These relate to a number of independent customers for whom there is no recent history of default and whose credit rating is regularly assessed. The ageing analysis of these trade receivables is as follows:

	Year ended December 31, 2008	2009		
	Carrying amount	Carrying amount	Bad debt reserve	Overdue but not impaired
Overdue by:				
Up to 1 month	51,640	43,042	–	43,042
2 to 3 months	31,690	18,729	–	18,729
4 to 6 months	13,711	8,232	(178)	8,054
Later than 6 months	16,312	19,439	(8,318)	11,121
	113,353	89,442		80,946
Provision for impairment of receivables	(8,898)		(8,496)	
Trade receivables overdue but not impaired	**104,455**			**80,946**

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	Year ended December 31, 2008	2009
As at January 1,	**(10,609)**	**(8,898)**
Provision for impairment of receivables	(3,285)	(3,042)
Receivables written off over the year as uncollectible	1,432	1,158
Unused amounts reversed	3,440	2,546
Reclassification	(58)	(56)
Currency translation adjustment	182	(204)
As at December 31,	**(8,898)**	**(8,496)**
Yearly loss (as a percentage of annual revenue)	(0.00%)	(0.00%)

The other classes within trade and other receivables do not contain impaired assets.The maximum exposure to credit risk as of December 31, 2009 is the trade receivables mentioned in Note 14. The Group does not hold any collateral as security.

Note 4. Acquisitions

During the year ended December 31, 2009, Gemalto entered into a number of acquisitions of businesses and entities. All business combinations have been accounted for using the purchase method of accounting as prescribed by IFRS 3 *Business Combinations* (2004).

The following table summarizes the 2009 acquisitions:

in millions of Euro	Total cost of acquisition[3]	Net assets acquired	Intangible assets recognized	Deferred tax impacts	Goodwill
Trusted Logic[1]	25.3	4.9	17.2	(6.1)	14.4
Xiring	20.1	0.9	7.8	(2.0)	13.4
Serverside Group Ltd[2]	16.2	6.8	5.5	(1.6)	5.1
O3SIS	13.0	(0.7)	5.4	(1.6)	9.9
NamiTech	6.7	5.5	–	–	1.2
NXP	3.9	–	1.3	–	2.6
Total	**85.2**	**17.4**	**37.2**	**(11.3)**	**46.6**

(1) Gemalto acquired 67.96% of the share capital of Trusted Logic.
(2) Goodwill represents the 50.10% shares acquired in SSGL as described below.
(3) Including transaction costs capitalized.

Trusted Logic

On September 1, 2009, Gemalto S.A. completed the acquisition of 67.96% of the share capital of Trusted Logic S.A for €25.3 million. Trusted Logic is a leading independent player in the digital security market, providing secure software for personal portable devices. Founded in 1999, Trusted Logic is a pioneer of the digital security world. With operations in France (Versailles and Sophia Antipolis), Ireland, Singapore and South Africa, Trusted Logic employs approximately 100 people. In 2008, it generated €9.8 million of revenue.

With this transaction, Gemalto, which already held 32.04% of the shares, aims at accelerating the international development of Trusted Logic technologies and expands its offer to security demanding services in Professional and Consumer Devices (PCD) and to a new range of security services. Further to the successes experienced with Multos acquired in 2008, Trusted Logic SST (Smart cards & Secure Tokens) division will also strengthen Gemalto's module offer.

As at the acquisition date, the net assets of Trusted Logic amounted to €4.9 million. Gemalto previously accounted for the 32.04% under the equity method. The effect of the change in the consolidation scope of Trusted Logic resulted in a revaluation of €2.3 million in equity.

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.

The following table summarizes the intangible assets identified as part of the purchase price allocation:

in millions of Euro	Amount	Remaining useful life
Existing technology	9.6	4-5
Capitalized development costs	5.5	6-10
Customer relationship	1.2	9-10
Brand name	0.9	indefinite
	17.2	

The tax effect on the fair value of the intangible assets recognized amounted to €6.1 million. Goodwill, which amounted to €14.4 million, represented the complementary technological expertise, the skills and know-how of the workforce acquired and the synergies expected to be achieved through the integration of Trusted Logic.

Xiring

On December 16, 2009, Gemalto announced that it had completed the exclusive negotiations and signed a binding agreement to acquire the banking activities of Xiring for €20 million. The banking activity of Xiring is a pioneer of EMV-based strong authentication solutions for e-banking and e-commerce, and has developed in ten years an efficient technology and a competitive range of solutions, with more than 12 million already deployed in Europe. The transaction included the current activities of the banking business unit of Xiring. The agreement included the transfer of the technical and sales team and all the associated products, IP and technologies, effective December 31, 2009.

As at the acquisition date, the net assets of Xiring amounted to €0.9 million. 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.

The following table summarizes the intangible assets identified as part of the purchase price allocation:

in millions of Euro	Amount	Remaining useful life
Patents	1.8	10-11
Existing technology	2.8	2-5
Customer relationship	3.2	11
	7.8	

The tax effect on the fair value of the intangible assets recognized amounted to €2.0 million. Goodwill, which amounted to €13.4 million, represented the complementary technological expertise, the skills and know-how of Xiring workforce and the synergies expected to be achieved.

Serverside Group Ltd (SSGL)

On September 1, 2009, Gemalto completed the acquisition of 50.10% of the share capital of SSGL for €10.2 million. The acquisition has been settled by a €8.5 million increase in SSGL share capital and by a €1.7 million payment to shareholders.

SSGL is the global leader in payment card personalization and digital design software, and a provider of innovative online marketing and manufacturing solutions for the financial card industry. SSGL operates under the 'software as a service' business model and provides an internet function to their customers (financial institutions) that allow them to personalize their credit or debit cards with the images of their choice.

Gemalto and SSGL minority shareholders have the option to force the purchase/sell of the remaining 49.9% minority interests into SSGL respectively. As a result, Gemalto has already considered 100% of control and interest in SSGL against a liability to minority shareholders.

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.

The following table summarizes the intangible assets identified as part of the purchase price allocation:

in millions of Euro	Amount	Remaining useful life
Capitalized development costs	0.5	n/a[1]
Patents	3.0	6
Customer relationship	1.5	5
Brand name	0.5	indefinite
	5.5	

[1] Amortization of the capitalized development costs will start when the underlying technology is launched (expected March 2010).

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The tax effect on the fair value of the intangible assets recognized amounted to €1.6 million. Goodwill, which amounted to €5.1 million based on the first completion of 50.10% interest, represented the know-how of SSGL workforce and the synergies expected to be achieved. The effect of the additional 49.9% interest accounted for by Gemalto as at December 31, 2009 has been considered as a decrease in the share premium.

O3SIS

In April 2009, Gemalto completed the acquisition of 100% of the share capital of O3SIS for €13 million. This company is the leading provider of carrier grade Personal Data Management solutions for mobile network operators such as T-Mobile, Vodafone, Telefonica 02, E-Plus, Orange and Mobilkom. With more than one million personal data records managed and more than 300 devices supported, including such popular devices as the iPhone, the G-Phone and BlackBerrys, O3SIS software suite allows consumers to share all kinds of personal data, contact, email, multimedia content, whether they be stored on the handset, a personal computer or 'in the clouds'. O3SIS software suite also provides the 'push email' technology used to notify and transfer email messages to any mobile subscriber's device, whether fixed or mobile. O3SIS, which employs 60 people, is based in Overath, near Cologne, in Germany.

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.

The following table summarizes the intangible assets identified as part of the purchase price allocation:

in millions of Euro	Amount	Remaining useful life
Existing technology	5.0	9
Brand name	0.4	indefinite
	5.4	

The tax effect on the fair value of the intangible assets recognized amounted to €1.6 million. Goodwill, which amounted to €9.9 million, represented the complementary technological expertise, the skills and know-how of O3SIS workforce and the synergies expected to be achieved.

NamITech

In April 2009, Gemalto acquired the NamITech South African business from Allied Technologies Ltd. Gemalto agreed to pay a total of ZAR 83 million (i.e. approximately €6.5 million) for the NamITech business, the leading provider of secure cards and services in the South African area. Gemalto has integrated the newly acquired business into its South African subsidiary Gemalto NamITech (Pty) Ltd, formerly Axalto ZA (Pty) Ltd.

The assets and liabilities acquired matched their fair value and no intangible asset was identified. Goodwill, which amounted to €1.2 million, represented the synergies expected to be achieved.

NXP

In April 2009, Gemalto acquired the mobile services business of NXP, the independent semiconductor company founded by Philips. Gemalto paid a total of €3.9 million for the business based in Sophia Antipolis, France, where it develops and markets software and service solutions compliant with the 'MIFARE4Mobile' interface specifications.

MIFARE is the leading contactless technology, predominantly used within transportation networks, ticketing and access management applications. Adding this MIFARE4Mobile software to Gemalto`s Trusted Service Manager (TSM) platform further strengthens the possibility of linking transport operators, banks and mobile phone operators to enable the use of the mobile phone with existing payment and contactless ticketing infrastructure. The TSM notably makes the entire process of downloading tickets and subscriptions onto the mobile phone more efficient and secure.

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.

The following table summarizes the intangible assets identified as part of the purchase price allocation:

in millions of Euro	Amount	Remaining useful life
Software	1.0	8
Licenses	0.3	6
	1.3	

Goodwill, which amounted to €2.6 million, represented the complementary technological expertise, the skills and know-how of NXP workforce and the synergies expected to be achieved.

Acquisition of 49% of Raidax S.A.

In February 2009, Gemalto acquired for €550 the 49% of the shares of Raidax S.A., a private company based in Switzerland, specialized in acquiring, selling, and generating patents.

The entity has been accounted for using the equity method (see note 10) and goodwill arising on acquisition amounted to €517.

Acquisition of 19.87% of OpenTrust S.A.

In 2009, Gemalto acquired, for €4,000, 19.87% of OpenTrust S.A., a private company based in Paris which provides Identity and Access Management solutions for enterprises.

The entity has been accounted for using the equity method (see note 10) and goodwill arising on acquisition amounted to €2,550.

Acquisition of an additional 31.85% interest in Shanghai Axalto IC Card Technologies Co. Ltd (SAIT)

In May 2009, Gemalto acquired an additional 31.85% interest of SAIT previously owned by Shanghai Posts and Telecommunications Development Company. As a consideration for the minority interest, the former minority shareholder received a cash payment of USD3.8 million (equivalent to €2.8 million). The purchase price was offset against the minority interest of €823 and the balance of €1,937 has been recognized against share premium in equity. As a result of the acquisition, Gemalto now owns 82.85% of the subsidiary.

Impact of the acquisitions on year ended 2009 revenue and operating income

The impacts of the above acquisitions on the reported revenue and adjusted operating income as at December 31, 2009 were €14.6 million and €(4.7) million respectively (see note 6 for a definition of adjusted measures).

Note 5. Additional disclosure on the effect of the business combinations on our financial statements

Due to the Combination with Gemplus and, to a much lesser extent, the acquisitions thereafter, the Company's financial statements have undergone significant changes.

Charges incurred in connection with headcount reductions, with the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio consequent to these transactions, are disclosed under a line named 'Reorganization expenses' in the IFRS income statement for an amount of €9,316 as of December 31, 2009 (€20,911 in 2008). This amount consisted of employee benefits, severance and associated costs for €3,303 (€10,510 in 2008), of property, plant and equipment, intangible asset and inventory write-offs and impairments for €162 (€250 in 2008) and of other costs for €5,851 (€10,151 in 2008).

In 2009, the Company recognized some deferred tax assets that did not meet the recognition criteria at the date of the combination with Gemplus. As a result, in accordance with the provisions of IFRS 3 and IAS 12, the Company reduced the carrying value of the goodwill and increased the value of the share premium by €3.0 million and €3.8 million respectively. These adjustments have been recognized as an expense under the line item 'Amortization of intangible assets' in the consolidated income statement.

The Group also discloses under the line named 'Amortization of intangible assets' the amortization expense for the twelve-month period ended December 31, 2009 related to the acquired intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired. The amortization expense by intangible splits as follows:

	Gemplus	Keycorp	O3SIS	NXP	SSGL	Trusted Logic	Total
Patents and licenses	–	(225)	–	(31)	(169)	–	(425)
Technology	(7,434)	(1,650)	(417)	–	–	(758)	(10,259)
Capitalized development costs	–	–	–	–	–	(210)	(210)
Software	–	(84)	–	(94)	–	–	(178)
Customer contract	(5,550)	(102)	–	–	(100)	(43)	(5,795)
Brand name	–	(14)	–	–	–	–	(14)
Total	**(12,984)**	**(2,075)**	**(417)**	**(125)**	**(269)**	**(1,011)**	**(16,881)**

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. These operating segments have not been modified further to the application of IFRS 8.

Gemalto operates three core activities: Mobile Communication, Secure Transactions, and Security, and sells microprocessor cards (including embedded software), software solutions and services (including device management platforms, services to personalize each device individually), and intellectual property rights licenses. The Company also sells, mostly in the Security segment, other microprocessor based products such as electronic passports and secured USB keys.

Mobile Communication customers are mobile operators. Secure Transactions supply financial cards to financial institutions, transportation cards to large urban mass transit operators, and Pay TV subscriber authentication and right management cards to large secure access service providers. Security offers include secure electronic documents, such as ePassports or eIdentity cards, and issuance related services for governmental agencies; they also include product and solutions based on microprocessor technology for strong user authentication, typically used in a corporate environment or to securely access services over the internet such as e-banking. Revenue, gross and operating profits derived from the licensing of the Group's patent portfolio are included into the Security segment's income statement.

Gemalto also operates a Public Telephony activity, which sells memory cards, and a POS Terminals activity which sells point-of-sale terminals (including embedded software and related servers) and related technical support and maintenance services. For reporting purposes, Public Telephony and POS Terminals activities are combined under the heading 'Other Operating Segments'.

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.

Due to the Combination with Gemplus, and, to a much lesser extent, the acquisitions thereafter, Gemalto's financial statements have undergone significant changes, due in particular to the accounting treatment of these transactions in accordance with IFRS 3 *Business Combinations*. To supplement the financial statements presented on an IFRS basis, the Group presents adjusted financial information which excludes certain business combination accounting entries, and expenses directly incurred in connection with the combinations (reported in the column 'Adjustments' within the tables below). These supplemental adjusted financial measures are used internally to understand, manage and evaluate the business and take operating decisions. These adjusted measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of executives is based in part on the performance of the business based on these adjusted measures.

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.

Operating segments

Compared to the published consolidated financial statements as of December 31, 2008, segment information has been restated for comparative purpose.

	Year ended December 31, 2008						
	Mobile Communication	Secure Transactions	Security	Other Operating Segments	Adjusted financial information	Adjustments	IFRS financial information
Revenue	**948,188**	**442,774**	**215,923**	**72,989**	**1,679,874**	**652**	**1,680,526**
Cost of sales	(553,665)	(324,891)	(149,673)	(54,819)	(1,083,048)	(8,172)	(1,091,220)
Gross profit	**394,523**	**117,883**	**66,250**	**18,170**	**596,826**	**(7,520)**	**589,306**
Operating expenses							
– Research and engineering	(47,588)	(15,690)	(25,328)	(6,323)	(94,929)	(5)	(94,934)
– Sales and marketing	(127,578)	(52,056)	(46,139)	(6,654)	(232,427)	(78)	(232,505)
– General and administrative	(58,731)	(23,553)	(16,375)	(3,259)	(101,918)	(54)	(101,972)
Other income (expense), net	(730)	178	1,365	922	1,735	2	1,737
Adjusted operating result	**159,896**	**26,762**	**(20,227)**	**2,856**	**169,287**	**(7,654)**	
Combination-related expenses							86
Reorganization expenses							(20,911)
Amortization of intangible assets							(13,743)
Operating result (EBIT)							**127,064**
Financial income (expense), net							2,139
Share of profit of associates							2,350
Gain on sale of investment in associate							195
Profit before income tax							**131,748**
Income tax expense							(16,845)
Profit for the period							**114,903**

	Year ended December 31, 2009						
	Mobile Communication	Secure Transactions	Security	Other Operating Segments	Adjusted financial information	Adjustments	IFRS financial information
Revenue	**888,070**	**441,381**	**248,080**	**76,838**	**1,654,369**	**(122)**	**1,654,247**
Cost of sales	(505,730)	(333,218)	(158,480)	(56,802)	(1,054,230)	–	(1,054,230)
Gross profit	**382,340**	**108,163**	**89,600**	**20,036**	**600,139**	**(122)**	**600,017**
Operating expenses							
– Research and engineering	(53,909)	(16,201)	(21,654)	(5,636)	(97,400)	(452)	(97,852)
– Sales and marketing	(125,784)	(54,199)	(49,303)	(6,132)	(235,418)	–	(235,418)
– General and administrative	(63,081)	(23,378)	(11,926)	(2,375)	(100,760)	(661)	(101,421)
Other income (expense), net	2,937	513	435	141	4,026	–	4,026
Adjusted operating result	**142,503**	**14,898**	**7,152**	**6,034**	**170,587**	**(1,235)**	
Combination-related expenses							
Reorganization expenses							(9,316)
Amortization of intangible assets							(23,699)
Operating result (EBIT)							**136,337**
Financial income (expense), net							(2,246)
Share of profit of associates							1,380
Gain on sale of investment in associate							78
Profit before income tax							**135,549**
Income tax expense							(17,425)
Profit for the period							**118,124**

Geographical information

In presenting information on the basis of geographical segment, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Year ended December 31,	
Sales	2008	2009
North and South America	411,338	393,714
Europe, Middle East and Africa	941,152	929,757
Asia Pacific	328,036	330,776
	1,680,526	**1,654,247**

	Year ended December 31,	
Non-current assets excluding Goodwill	2008	2009
North and South America	35,900	47,206
Europe, Middle East and Africa excluding France	92,984	95,338
France	122,359	147,994
Asia Pacific	68,875	66,628
	320,118	**357,166**

Note 7. Financial assets/liabilities by category

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

December 31, 2008	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	–	–	–	1,203	1,203
Other non-current assets	14,255	–	–	–	14,255
Trade and other receivables, net	447,133	–	–	–	447,133
Derivative financial instruments	–	–	16,458	–	16,458
Cash and cash equivalents	101,015	266,114	–	–	367,129
Total	**562,403**	**266,114**	**16,458**	**1,203**	**846,178**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	23,146	23,146
Derivative financial instruments	14,680	–	14,680
Total	**14,680**	**23,146**	**37,826**

December 31, 2009	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	–	–	–	1,270	1,270
Other non-current assets	18,491	–	–	–	18,491
Trade and other receivables, net	436,372	–	–	–	436,372
Derivative financial instruments	–	–	17,166	–	17,166
Cash and cash equivalents	84,892	318,812	–	–	403,704
Total	**539,755**	**318,812**	**17,166**	**1,270**	**877,003**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	23,190	23,190
Derivative financial instruments	3,650	–	3,650
Total	**3,650**	**23,190**	**26,840**

Note 8. Property, plant and equipment

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

	Land	Building & improvement	Machinery & equipment	Total property, plant and equipment
Gross book value as of January 1, 2008	**6,039**	**215,589**	**509,082**	**730,710**
Acquisition of subsidiary and business	–	149	170	319
Additions	–	7,529	36,592	44,121
Reclassification to assets held for sale	–	(12,777)	–	(12,777)
Disposals	–	(1,515)	(32,760)	(34,275)
Currency translation adjustment	103	(2,345)	(9,058)	(11,300)
Gross book value as of December 31, 2008	**6,142**	**206,630**	**504,026**	**716,798**
Accumulated depreciation as of January 1, 2008	**–**	**(110,907)**	**(402,708)**	**(513,615)**
Depreciation charge	–	(12,710)	(25,852)	(38,562)
Reclassification to assets held for sale	–	11,066	–	11,066
Disposals	–	1,254	31,328	32,582
Currency translation adjustment	–	1,202	5,886	7,088
Accumulated depreciation as of December 31, 2008	**–**	**(110,095)**	**(391,346)**	**(501,441)**
Net book value as of December 31, 2008	**6,142**	**96,535**	**112,680**	**215,357**

	Land	Building & improvement	Machinery & equipment	Total property, plant and equipment
Gross book value as of January 1, 2009	**6,142**	**206,630**	**504,026**	**716,798**
Acquisition of subsidiary and business(1)	–	492	3,680	4,172
Additions	3	6,914	33,241	40,158
Reclassification to assets held for sale(2)	(67)	(4,923)	–	(4,990)
Other reclassification	(83)	(782)	553	(312)
Disposals	–	(1,316)	(30,378)	(31,694)
Currency translation adjustment	19	1,569	7,038	8,626
Gross book value as of December 31, 2009	**6,014**	**208,584**	**518,160**	**732,758**
Accumulated depreciation as of January 1, 2009	**–**	**(110,095)**	**(391,346)**	**(501,441)**
Depreciation charge	(39)	(13,049)	(28,696)	(41,784)
Reclassification to assets held for sale(2)	–	4,533	–	4,533
Other reclassification	(353)	353	102	102
Disposals	–	1,241	29,118	30,359
Currency translation adjustment	5	(530)	(3,997)	(4,522)
Accumulated depreciation as of December 31, 2009	**(387)**	**(117,547)**	**(394,819)**	**(512,753)**
Net book value as of December 31, 2009	**5,627**	**91,037**	**123,341**	**220,005**

(1) Acquisition of subsidiary and business refers to the acquisitions of NamITech, O3SIS, Trusted Logic, SSGL and Xiring as detailed in note 4.
(2) Reclassification to asset held for sale relates to the buildings located in Saint-Cyr en Val, France.

For the year ended December 31, 2008, depreciation expense of €30,004 was recorded in cost of sales, €1,870 in research and engineering expenses, €1,446 in sales and marketing expenses, €4,998 in general and administrative expenses, €118 in other income and expenses and €126 in reorganization expenses.

For the year ended December 31, 2009, depreciation expense of €35,190 was recorded in cost of sales, €1,190 in research and engineering expenses, €657 in sales and marketing expenses, €4,698 in general and administrative expenses and €49 in other income and expenses.

Capitalized leases included in Property, Plant and Equipment above, are as follows:

	Year ended December 31,	
	2008	2009
Gross book value	53,968	54,161
Accumulated depreciation	(27,455)	(28,831)
Net book value	**26,513**	**25,330**

As at December 31, 2009, capitalized leases consist mostly of two lease contracts related to facilities sites in France.

Note 9. Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	Goodwill	Patents and technology	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2008	**556,142**	**245,709**	**68,120**	**97,869**	**967,840**
Acquisition of subsidiary and business	8,971	5,587	–	1,080	15,638
Additions	–	–	5,592	3,091	8,683
Disposals	–	–	–	(392)	(392)
Write-offs	–	(113)	(4,204)	(542)	(4,859)
Reclassifications	–	(4,254)	–	4,254	–
Other reclassifications	–	–	–	188	188
Currency translation adjustment	105	(69)	–	(111)	(75)
Gross book value as of December 31, 2008	**565,218**	**246,860**	**69,508**	**105,437**	**987,023**
Accumulated amortization as of January 1, 2008	**(12,311)**	**(223,376)**	**(55,445)**	**(59,162)**	**(350,294)**
Amortization charge	–	(12,237)	(4,116)	(14,794)	(31,147)
Disposals	–	–	–	–	–
Write-offs	–	113	2,980	493	3,586
Reclassifications	–	4,227	–	(4,227)	–
Other reclassifications	–	–	–	(188)	(188)
Currency translation adjustment	(475)	(100)	–	92	(483)
Accumulated amortization as of December 31, 2008	**(12,786)**	**(231,373)**	**(56,581)**	**(77,786)**	**(378,526)**
Net book value as of December 31, 2008	**552,432**	**15,487**	**12,927**	**27,651**	**608,497**

	Goodwill	Patents and technology	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2009	**565,218**	**246,860**	**69,508**	**105,437**	**987,023**
Acquisition of subsidiary and business	46,830	23,024	6,011	8,665	84,530
Additions	–	322	8,739	7,659	16,720
Write-offs	(2,971)	(931)	(474)	(75)	(4,451)
Reclassifications within intangibles	–	1,420	–	(1,420)	–
Other reclassifications	224	–	303	312	839
Currency translation adjustment	(67)	100	(8)	(39)	(14)
Gross book value as of December 31, 2009	**609,234**	**270,795**	**84,079**	**120,539**	**1,084,647**
Accumulated amortization as of January 1, 2009	**(12,786)**	**(231,373)**	**(56,581)**	**(77,786)**	**(378,526)**
Amortization charge	–	(10,935)	(3,644)	(14,590)	(29,169)
Write-offs	–	931	305	57	1,293
Other reclassifications	–	–	(303)	(102)	(405)
Currency translation adjustment	154	112	(1)	24	289
Accumulated amortization as of December 31, 2009	**(12,632)**	**(241,265)**	**(60,224)**	**(92,397)**	**(406,518)**
Net book value as of December 31, 2009	**596,602**	**29,530**	**23,855**	**28,142**	**678,129**

For the year ended December 31, 2008, amortization expense of €16,634 was charged to cost of sales, €294 was recorded in research and engineering expenses, €77 was recorded in selling and marketing expenses, €399 was recorded in general and administrative expenses, €13,743 was recorded in the line named ‘Amortization of intangible assets’ (see note 5).

For the year ended December 31, 2009, amortization expense of €11,126 was charged to cost of sales, €804 was recorded in research and engineering expenses, €44 was recorded in selling and marketing expenses, €315 was recorded in general and administrative expenses, €16,880 was recorded in the line named ‘Amortization of intangible assets’ (see note 5).

Other intangibles include licensing rights to use and distribute licensed technology for €8,458, miscellaneous software for €9,696 and acquired customer relationships (Gemplus, SSGL, and Xiring for €2,313, €1,428, and €3,179 respectively).

Goodwill write-off

As at December 31, 2009, the Company recognized some deferred tax assets that did not meet the recognition criteria at the date of the Combination with Gemplus. As a result, in accordance with the provisions of IFRS 3 and IAS 12, the Company reduced the carrying value of the goodwill and increased the value of the share premium by €3.0 million and €3.8 million respectively. These adjustments have been recognized as an expense under the line item ‘Amortization of intangible assets’ in the consolidated income statement (see note 5).

Goodwill impairment test

The Company has organized its operations and reporting structure into four operating segments and cash generating units: Mobile Communication, Secure Transactions, Security and Other. Long-range planning, operating performance measurement and resource allocation are carried out by management on the basis of this structure.

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

Mobile Communication, Secure Transactions and Security are the cash generating units that include, in their carrying value, a goodwill that is a significant proportion of the total goodwill reported by Gemalto, for €345 million, €138 million and €107 million respectively.

The recoverable amount of the cash generating units 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 10.7% in 2009. The outcome of the computation yields recoverable amounts far above the carrying values of the cash generating units.

No impairment charge was recognized in 2008 or 2009. No impairment charge would be recognized in 2009 if discounted projected cash flows were 15% lower.

Note 10. Investments in associates

Investments in associates consist of the following:

	Year ended December 31, 2008	2009
Investments as of beginning of period	**8,294**	**10,469**
Acquisition of associates[(1)]	–	4,550
Dividends paid by associates[(2)]	–	(1,125)
Share of profit[(3)]	2,350	1,380
Disposals[(4)]	–	(2,208)
Other movements[(5)]	–	(3,224)
Currency translation adjustment	(175)	128
Investments as of end of period	**10,469**	**9,970**

(1) Gemalto acquired 49% and 19.87% of the voting shares of Raidax S.A. and OpenTrust S.A. for €550 and €4,000 respectively. Net assets acquired amounted to €33 and €1,450 respectively. As a consequence, goodwill of €517 and €2,550 have been recognized.
(2) In March 2009, Toppan Gemalto Services Co. Ltd (Japan) paid a dividend of JPY17,500,000 (€140) to Gemalto S.A. In September 2009, AB Svenska Pass paid a dividend of SEK10,000,000 (€985) to Gemalto OY.
(3) The €1,380 mostly consists of Gemalto's shares of AB Svenska Pass, Atchik Realtime and Makxalto Advanced Card Technology Co. 2009 profits of €876, €293 and €282 respectively.
(4) Gemalto sold its investment into Atchik Realtime S.A. in October 2009.
(5) The amount of €(3,224) includes the value of 32.04% of Trusted Logic shares for €(3,054). Further to the acquisition of an additional 67.96% interest in September 2009, the entity is now fully consolidated (see note 4).

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisition. As of December 31, 2009, the net book value of goodwill in associates amounted to €3,067 and related to investments in Raidax S.A. and OpenTrust S.A.

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

	Associates' total			
Year	**Assets**	**Liabilities**	**Revenue**	**Profit/(loss)**
2008[(*)]	93,744	70,170	204,919	(3,328)
2009[(*)]	66,258	63,596	182,048	(1,353)

(*) Previous year financial information is disclosed when current year financial information is not available.

Note 11. Available-for-sale financial assets and assets held for sale

Available-for-sale financial assets consist of the following:

	Year ended December 31, 2008	2009
Available-for-sale financial assets as of beginning of period	**1,445**	**1,203**
Net gains or losses transferred to/from equity	(242)	67
Available-for-sale financial assets as of end of period	**1,203**	**1,270**

Assets held for sale consist of the following:

	Year ended December 31, 2008	2009
Assets held for sale as of beginning of period	**3,479**	**1,711**
Additions	1,711	457
Disposal[(1)]	(3,479)	(457)
Assets held for sale as of end of period[(2)]	**1,711**	**1,711**

(1) In 2009, the Company sold buildings with a net book value of €457 located in Saint-Cyr en Val (France).
(2) Oustanding balance relates to buildings located in Orleans (France).

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Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2008	2009
Loan receivable from former Gemplus Board chairman (net of provision)[1]	8,637	8,488
Long term deposits[2]	3,110	2,636
Tax receivable	1,776	2,831
Other	732	4,536
Total	**14,255**	**18,491**

[1] In 2000, a former chairman of Gemplus Board was granted a loan of €71,900 to finance the exercise of stock 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 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.

[2] The €2,636 carrying value of long term deposits is assessed to be equivalent to their fair value.

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2008	2009
Gross book value		
Raw materials and spares	58,330	48,830
Work in progress	73,415	80,199
Finished goods	50,261	37,928
Total	**182,006**	**166,957**
Obsolescence reserve		
Raw materials and spares	(7,696)	(6,533)
Work in progress	(8,317)	(4,606)
Finished goods	(4,962)	(5,197)
Total	**(20,975)**	**(16,336)**
Net book value	**161,031**	**150,621**

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2008	2009
Trade receivables	356,869	317,766
Provision for impairment of receivables	(8,898)	(8,496)
Trade receivables, net	**347,971**	**309,270**
Prepaid expenses	13,422	16,642
VAT recoverable and tax receivable	29,268	45,331
Advances to suppliers and related	12,956	8,177
Unbilled customers	14,280	32,232
Other	29,236	24,720
Total	**447,133**	**436,372**

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2008	2009
Cash at bank and in hand	101,015	84,892
Short term bank deposits and investment funds	266,114	318,812
Total	**367,129**	**403,704**

The average effective interest rate on short term deposits was 1.42% in 2009 (4.67% in 2008). 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 3 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,	
	2008	2009
Cash and cash equivalents	367,129	403,704
Banks overdrafts	(7,095)	(1,530)
Total	**360,034**	**402,174**

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2008	2009
Non-current portion		
Syndicated bank loan	–	–
Other financial liability(*)	–	7,038
Finance lease liabilities	11,246	7,908
	11,246	14,946
Current portion		
Short term loans	–	3,193
Bank overdrafts	7,095	1,530
Finance lease liabilities	4,805	3,521
	11,900	8,244
Total	**23,146**	**23,190**

(*) Debts related to the anticipated acquisition of an additional 49.9% interest in Serverside, and to Trusted Logic bank loans

The Group has a syndicated bank loan facility of USD 250 million (equivalent to €173.6 million, based on the USD/EUR accounting exchange rate as at December 31, 2009), which has a maturity date on August 24, 2012. The facility was not drawn as at December 31, 2008 or as at December 31, 2009.

The availability of this syndicated bank loan facility is conditioned upon its compliance with a financial covenant linked to the capacity of Gemalto to meet a ratio of Net debt to EBITDA of 2.

To the exception of minor finance leases totaling €0.3 million as at December 31, 2009, the total amount of borrowings is based on floating interest rates.

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

	Year ended December 31,	
	2008	2009
Euro (EUR)	16,439	12,479
Central African Franc (XAF)	21	16
Singapore Dollar (SGD)	3,865	–
Polish Zloty (PLN)	2,821	–
British Pound (GBP)	–	5,973
Arab Emirates Dirham (AED)	–	340
India Rupee (INR)	–	1,190
Chinese Yuan (CNY)	–	3,192
Total	**23,146**	**23,190**

The nominal interest rates as at December 31, 2008 and 2009 were as follows:

		2008								
		Amount	EUR	XAF	SGD	PLN	GBP	AED	INR	CNY
Short term loans and bank overdrafts	Floating rate	7,095	2.99%	–	3.25%	9.05%	–	–	–	–
Finance lease liabilities	Floating rate	15,853	5.72%	–	–	–	–	–	–	–
Finance lease liabilities	Fixed rate	198	11.40%	14.38%	–	–	–	–	–	–

		2009								
		Amount	EUR	XAF	SGD	PLN	GBP	AED	INR	CNY
Other financial liability	Floating rate	7,039	2.65%	–	–	–	n/a	–	–	–
Short term loans and bank overdrafts	Floating rate	4,723	–	–	–	–	–	n/s	10.00%	n/s
Finance lease liabilities	Floating rate	11,170	2.55%	–	–	–	–	–	–	–
Finance lease liabilities	Fixed rate	259	9.14%	14.38%	–	–	9.00%	–	–	–

Finance lease liabilities are split by maturity as follows:

	Year ended December 31, 2008	2009
Finance lease liabilities – minimum lease payments		
Not later than 1 year	5,366	3,676
Later than 1 year and not later than 5 years	10,599	8,139
Later than 5 years	1,588	–
Total	**17,553**	**11,815**
Future finance charges on finance leases	(1,502)	(386)
Present value of finance lease liabilities	**16,051**	**11,429**

The present value of finance lease liabilities is as follows:

	Year ended December 31, 2008	2009
Not later than 1 year	4,805	3,521
Later than 1 year and not later than 5 years	9,686	7,908
Later than 5 years	1,560	–
Total	**16,051**	**11,429**

Note 17. Pension and other benefit plans

The Company operates its principal defined benefit plans in France and in the United Kingdom. The net liabilities as at the periods ended December 31, 2008 and 2009 were as follows:

	Year ended December 31, 2008	2009
France	19,438	22,462
UK	3,369	6,774
Other countries	2,839	3,470
Total	**25,646**	**32,706**

In France, the Company contributes to the mandatory national pension system and other compulsory plans. Pursuant to applicable French law and industry labor agreements, a lump-sum payment is made to employees upon retirement (*'Indemnités de fin de carrière'* or IFC). The amount depends on the length of service on the date the employee reaches retirement age. A lump-sum payment is also made after respectively 20, 30 and 40 years of employment (*'Jubilees'*).

The defined benefit plan that the Company operated in the United Kingdom was closed on March 31, 2007. Employees ceased to accrue benefits under the old defined benefit scheme from that date and joined a defined contribution scheme with effect from April 1, 2007. Other less significant defined benefit plans are applied in other countries such as Finland, Italy, Mexico and Germany.

Actuarial evaluations have been performed as at December 31, 2008 and 2009.

The amounts recognized in the income statement in respect of defined benefit plans are as follows:

	Year ended December 31, 2008	2009
Current year service cost	1,740	1,719
Past service cost	1,237	(12)
Interest cost	3,117	3,022
Expected return on plan assets	(2,389)	(909)
Total pension costs	**3,705**	**3,820**

The amounts recognized in the income statement in respect of defined benefit plans by country are as follows:

	Year ended December 31, 2008	2009
France	3,480	2,594
UK	141	659
Other countries	84	567
Total	**3,705**	**3,820**

The following table sets forth the funded status of defined benefit plans by country:

Year ended December 31, 2008	France	UK	Other countries	Total
Projected benefit obligation	19,257	22,545	5,473	47,275
Plan assets at fair value	–	19,176	2,634	21,810
Projected benefit obligation in excess of plan assets	**19,257**	**3,369**	**2,839**	**25,465**
Past service costs	181	–	–	181
Net liability	**19,438**	**3,369**	**2,839**	**25,646**

Year ended December 31, 2009	France	UK	Other countries	Total
Projected benefit obligation	22,293	32,086	6,649	61,028
Plan assets at fair value	–	25,312	3,179	28,491
Projected benefit obligation in excess of plan assets	**22,293**	**6,774**	**3,470**	**32,537**
Past service costs	169	–	–	169
Net liability	**22,462**	**6,774**	**3,470**	**32,706**

The movement in the projected benefit obligation over the year is as follows:

	Year ended December 31,	
	2008	2009
Beginning of period	**58,142**	**47,275**
Service cost	1,740	1,719
Interest cost	3,117	3,022
Acquisition of subsidiary and business	–	230
Past service cost	1,249	12
Actuarial (gain) and loss	(6,709)	8,561
Benefits paid	(2,215)	(1,538)
Currency translation adjustment	(8,049)	1,747
End of period	**47,275**	**61,028**

The movement in the fair value of plan assets is as follows:

	Year ended December 31,	
	2008	2009
Beginning of period	**32,376**	**21,810**
Actual return on plan assets	(4,489)	4,079
Employer contribution	1,843	1,898
Benefits paid	(1,195)	(810)
Currency translation adjustment	(6,725)	1,514
End of period	**21,810**	**28,491**

The actual return on plan assets amounted to €4,079 in 2009 and €(4,489) in 2008. The assets of the pension scheme have significantly performed, with a significant increase in the UK asset value. This increase in asset value has been offset by an increase in the pension scheme liability as a result of a lower discount rate and a higher inflation rate.

	Year ended December 31,	
Plan asset composition	2008	2009
Equity securities	8,510	12,074
Government bonds	7,532	9,076
Other investments	5,768	7,341
Total plan asset fair value	**21,810**	**28,491**

In France, the regulations do not provide for any obligation to fund the liability arising from IFC which are lump-sum payments made to employees upon their retirement.

In the United Kingdom and Finland, plan assets are comprised of equity securities, corporate bonds and other investments. In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees 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 8 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.

Changes in other comprehensive income are as follows:

	Year ended December 31, 2008	2009
Beginning of period	**4,564**	**4,396**
Recognized during the period	(168)	(5,391)
End of period	**4,396**	**(995)**

The main actuarial assumptions used were as follows:

	Year ended December 31, 2008	2009
France		
Discount rate	5.75%	5.15%
Future salary increase	3.50%	3.50%
Inflation rate	2.00%	2.00%
UK		
Discount rate	6.50%	5.80%
Future salary increase	n/a	n/a
Inflation rate	2.70%	3.40%
Expected rate of return on plan assets	6.36%	6.22%

Discount rate source

The Group uses the i-BOXX index for French plan and the Barclays Global Capital (‘*Barcap*’) for the plan in the United Kingdom as a basis when determining the discount rate to be applied for the liability calculation. Both indexes refer to corporate bonds with AA rating maturing over 10 years. 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 France‘s liabilities for the year ended December 31, 2009 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	(4,164)	4,739
Inflation rate	2,471	(2,159)

Demographic assumptions

Mortality assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TV/TD 2004-2006 for France and (ii) PMA92 MC and the medium cohort improvement factors for the United Kingdom.

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

Year ended December 31, 2008	France	United Kingdom
Longevity at age 65 for current pensioners (years)		
Males	17.8	21.7
Females	22.1	23.7
Longevity at age 65 for current members aged 45 (years)		
Males	17.8	22.6
Females	22.1	25.4

Year ended December 31, 2009	France	United Kingdom
Longevity at age 65 for current pensioners (years)		
Males	17.8	21.7
Females	22.1	23.7
Longevity at age 65 for current members aged 45 (years)		
Males	17.8	22.6
Females	22.1	25.4

Historical data

	Year ended December 31, 2009	2008	2007
Projected benefit obligation	61,028	47,275	58,142
Plan assets at fair value	(28,491)	(21,810)	(32,376)
Deficit/(surplus) in the plan	32,537	25,465	25,766
Experience adjustments arising on plan liabilities	(30)	564	353
Experience adjustments arising on plan assets	(141)	19	306

Note 18. Non-current provisions and other liabilities

	Year ended December 31, 2008	2009
Non-current provisions	28,432	34,776
Other liabilities	32,477	39,234
Total	**60,909**	**74,010**

	Year ended December 31, 2008	2009
Management compensation[1]	8,637	8,489
Government grants	2,342	10,382
Long term payables[2]	21,498	20,363
Total other non-current liabilities	**32,477**	**39,234**

[1] Management compensation relates to former Gemplus Board chairman's termination package conditioned to the refund of a loan granted to him by Gemplus in 2000 (see note 12).
[2] The €20,363 carrying value of long term payables is assessed to be equivalent to their fair value.

Variation analysis of the non-current provisions is as follows:

	Warranty non-current	Restr. & Reorg. Reserves	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2008	**3,669**	**6,033**	**–**	**13,272**	**7,519**	**30,493**
Additional provisions	2,209	1,164	65	1,640	2,465	7,543
Unused amount reversed	(127)	(104)	(3)	(2,343)	(1,538)	(4,115)
Used during the year	(1,178)	(626)	(134)	(340)	(1,678)	(3,956)
Reclassifications	30	(36)	837	36	(539)	328
Cumulative translation adjustment	(21)	(1,448)	(119)	6	(279)	(1,861)
As of December 31, 2008	**4,582**	**4,983**	**646**	**12,271**	**5,950**	**28,432**

	Warranty non-current	Restr. & Reorg. Reserves	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2009	**4,582**	**4,983**	**646**	**12,271**	**5,950**	**28,432**
Additional provisions	1,540	–	1,959	6,189	2,357	12,045
Acquisition of a subsidiary	–	–	30	–	–	30
Unused amount reversed	(57)	(274)	(200)	(2,543)	(959)	(4,033)
Used during the year	(524)	(808)	(22)	(46)	(2,517)	(3,917)
Reclassifications	(138)	64	67	1,185	30	1,208
Cumulative translation adjustment	1	354	82	605	(31)	1,011
As of December 31, 2009	**5,404**	**4,319**	**2,562**	**17,661**	**4,830**	**34,776**

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2008 and 2009 consist of the following:

	Year ended December 31,	
	2008	2009
Trade payables[(1)]	154,919	141,689
Employee related payables	117,285	114,562
Accrued expenses	42,115	39,321
Accrued VAT	17,026	15,097
Deferred revenue	45,524	39,147
Other	4,980	4,095
Total trade and other payables	**381,849**	**353,911**

[(1)] The significant decrease in the trade payables is due to changes in payment terms with some key suppliers and also to the consequence of the European Union directive on payment term conditions applicable to suppliers.

Note 20. Derivative financial instruments

As set out in note 3 'Financial risk management', 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, 2009, the Company held forward and option contracts which were designated as qualifying cash flow hedges of 2010 forecast sales and purchases denominated in US Dollar, Sterling Pound, Japanese Yen, Singapore Dollar and Polish Zloty. 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 Company's financial instruments is recorded in current assets or current liabilities as 'Derivative Financial Instruments' and details as follows (Mark-to-market valuations):

	Year ended December 31,											
	2008						2009					
	USD	GBP	JPY	SGD	PLN	ZAR	USD	GBP	JPY	SGD	PLN	Other
Cash flow hedges												
Forward contracts	2,403	–	–	396	(2,557)	–	7,045	756	27	133	1,831	–
Option contracts	936	4,906	(4,572)	–	(623)	–	–	–	918	–	–	–
Fair value hedges												
Forward contracts	(132)	(12)	148	21	(261)	(22)	760	(18)	(249)	(107)	(87)	(679)
Option contracts	862	1,751	(1,466)	–	–	–	2,845	994	(653)	–	–	–
	4,069	**6,645**	**(5,890)**	**417**	**(3,441)**	**(22)**	**10,650**	**1,732**	**43**	**26**	**1,744**	**(679)**

At the balance sheet date, the above cash flow hedging contracts represented for Gemalto unrecognized pre-tax profits of €10.6 million and losses close to nil which were recorded in equity. Under constant market conditions, these profits and losses would be reclassified as debits or credits to sales or cost of sales over the next eighteen months. The effective portion of Gemalto's cash flow hedges generated a €5.0 million net gain in 2009 (€14.7 million net gain in 2008), recorded in the income statement as a credit of €7.1 million to sales and a debit of €2.0 million to cost of sales. Foreign exchange transactions, fair value and disqualified hedges, and the ineffective portion of Gemalto's cash flow and fair value hedges generated a €1.4 million loss in 2009 (€7.0 million loss in 2008), which was included in financial income.

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31, 2008	2009
Warranty – current	2,881	3,200
Provision for loss on contracts	1,444	1,248
Restructuring and reorganization[1]	18,631	3,790
Other	9,522	17,776
Total current provisions	**32,478**	**26,014**

[1] For the period ended December 31, 2009, severance payments were made in connection with restructuring plans previously accrued for. As a consequence, restructuring and reorganization reserves have been released for €16,969.

	Warranty – current	Provision for loss on contracts	Restr. & Reorg. Reserves[*]	Other	Total
As of January 1, 2008	**6,346**	**560**	**51,883**	**13,782**	**72,571**
Additional provisions	4,137	2,528	–	1,821	8,486
Unused amount reversed	(4,999)	(447)	(249)	(3,192)	(8,887)
Used during the year	(2,520)	(1,563)	(35,739)	(1,926)	(41,748)
Reclassifications	(76)	357	2,763	(1,261)	1,783
Cumulative translation adjustment	(7)	9	(27)	298	273
As of December 31, 2008	**2,881**	**1,444**	**18,631**	**9,522**	**32,478**

	Warranty – current	Provision for loss on contracts	Restr. & Reorg. Reserves[*]	Other	Total
As of January 1, 2009	**2,881**	**1,444**	**18,631**	**9,522**	**32,478**
Additional provisions	2,120	665	2,198	12,762[**]	17,745
Acquisition of a subsidiary	30	–	–	2,333	2,363
Unused amount reversed	(719)	(1,005)	(2)	(6,559)	(8,285)
Used during the year	(854)	(195)	(16,969)	(522)	(18,540)
Reclassifications	(242)	331	(64)	(31)	(6)
Cumulative translation adjustment	(16)	8	(4)	271	259
As of December 31, 2009	**3,200**	**1,248**	**3,790**	**17,776**	**26,014**

[*] Usage consists of severance payments made in connection with restructuring plans.
[**] Including a €11.2 million special provision to cover the consequences for Gemalto of the situation related to some German payment cards identified at the beginning of year 2010 when cardholders became unable to conduct transactions. This provision is based on Management's best estimate and takes into account anticipated coverage by insurance.

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2008	2009
Sales of goods	1,504,028	1,469,115
Revenue from services	154,887	163,799
Others (*)	21,611	21,333
Total	**1,680,526**	**1,654,247**

(*) 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,	
	2008	2009
Depreciation, amortization, impairment charges and write-offs	57,220	49,706
Amortization and impairment charges related to the accounting treatment of the combinations	13,743	23,699
Employee compensation and benefit expense (see note 24)	501,678	517,580
Change in inventories (finished goods and work in progress)	(20,130)	(12,578)
Raw materials used and consumables	623,404	582,521
Freight and transportation costs	57,767	48,820
Travel costs	47,813	37,484
Buildings and office leases	70,858	74,411
Royalties, legal and professional fees	98,013	94,003
Subcontracting and temporary workforce	81,736	87,758
Other	21,360	14,506
Total expenses	**1,553,462**	**1,517,910**

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2008	2009
Wages and salaries (including severance costs incurred in 2008 and 2009 and recorded in reorganization expenses)	430,267	443,047
Pension – Defined benefit plans(1)	2,977	1,707
Pension – Defined contribution plan	18,442	19,357
Share-based compensation	11,612	12,327
Other(2)	38,380	41,142
Employee compensation and benefit expense	**501,678**	**517,580**

(1) Includes mainly the annual charge related to the French IFC which are lump-sum payments made to the French employees upon their retirement.
(2) Compared to the published consolidated financial statements for the year ended December 31, 2008, Other employee compensation and benefit expense has been reclassified to Pension – Defined contribution plan for €8,519.

Note 25. Share-based compensation plan

Stock Option and Restricted Share Unit plans

In 2004, the General Meeting adopted a Global Equity Incentive Plan (GEIP) enabling the Board to grant options, RSU and/or share appreciation rights ('Awards') to eligible employees. A total number of 14 million shares have been made available for grant and issue under the GEIP.

The Board of Gemalto N.V., in its meeting of April 2, 2004, approved the main terms and conditions of the 2004 option grant under the GEIP and authorized to grant options to buy or subscribe for 3,300,000 ordinary shares with an exercise price equal to the initial listing price. 3,196,000 stock options were granted in May 2004 at the IPO listing price, i.e. 14.80 Euro per share. 5,000 stock options were granted in December 2004 at the average market price of previous 5 trading days, i.e. 18.21 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4-year period.

The fair value of each grant is estimated on the date of grant using a stochastic option-pricing model.

For the stock options granted in May 2004, the following assumptions were used: no dividend, expected volatility of 25%, risk-free interest rate of 3%, and expected option life of 4.13 years. For the stock options granted in December 2004, the assumptions were: no dividend, expected volatility of 25%, risk-free interest rate of 3%, and expected option life of 3 years.

In 2005, the Board of Gemalto N.V. approved the main terms and conditions of two grants: 15,000 stock options granted in June 2005 at the average market price of previous 5 trading days, i.e. 22.41 Euro per share and 685,000 stock options granted in September 2005 at the average market price of previous 5 trading days, i.e. 30.65 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4-year period.

To estimate the fair value of the stock options granted in June 2005, the following assumptions were used: no dividend, expected volatility of 27%, risk-free interest rate of 3%, and expected option life of 4.5 years. For the stock options granted in September 2005, the assumptions were: no dividend, expected volatility of 28%, risk-free interest rate of 2.8%, and expected option life of 4.12 years.

In 2006, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 1,600,000 stock options granted in June 2006 at the average market price of previous 5 trading days, i.e. 23.10 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a full vesting after 18 months to a cliff vesting at the end of the 4 year period.

To estimate the fair value of the stock options granted in June 2006, the following assumptions were used: no dividend, expected volatility of 36%, risk-free interest rate of 3.8%, and expected option life of 3.7 years.

In 2007, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 872,000 stock options granted in September 2007 at 20.83 Euro per share, i.e. the average market price during the 5 trading days prior to the grant. The vesting schedule depends on the country of employment of the optionee and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4-year period.

To estimate the fair value of the stock options granted in September 2007, the following assumptions were used: no dividend, and expected option life between 1.5 and 4.5 years depending on the vesting schedule, expected volatility of 28.5% stemming from an historic volatility of 35% and taking into account a negative volatility curve, and risk-free interest rate between 4.01% and 4.15% depending on the expected option life.

In September 2007, the Board of Gemalto N.V. also approved the main terms and conditions of the grant of 560,000 restricted share units. The vesting period ends on December 31, 2010. Vesting conditions are both service-based and market-based. If vesting conditions are met, restricted share units will be exchanged against Gemalto shares and the ratio of exchange will depend on the achievement of share price targets. The Gemalto shares resulting from the exchange, if any, will not be transferred to beneficiaries not employed in the US before the end of a 2-year period starting on grant date, and these beneficiaries are not allowed to trade those shares during the 2-year period starting on the date of the transfer. The beneficiaries employed in the US will not receive the shares before the

4-year period starting on the grant date and are allowed to trade those shares immediately after the transfer. The fair value of this grant of restricted share units was estimated on the date of grant using a binomial model. The following assumptions were used: share price of 20.36 Euro, no dividend, risk-free interest rate of 4.17% and implicit volatility of 28.5% stemming from an historic volatility of 35% and taking into account a negative volatility curve. In addition, the fair value was discounted by 4% for each year of restriction on share trading. On September 25, 2008, the Board recognized that, according to the vesting conditions, 66% of the granted share units had vested on September 9, 2008. Under those conditions, 343,200 share units have been exchanged against Gemalto shares on September 27, 2009 and 26,400 share units will be exchanged against Gemalto shares no sooner than September 27, 2011. On November 13, 2009, the Board recognized that, according to the vesting conditions, an additional 84% of the granted share units had vested on November 6, 2009. Under those conditions, 436,800 share units have been exchanged against Gemalto shares on November 20, 2009 and 33,600 share units will be exchanged against Gemalto shares no sooner than November 20, 2011.

In 2008, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 1,410,000 stock options granted in September 2008 at 26.44 Euro per share, i.e. the average market price during the 5 trading days prior to the grant. The vesting schedule depends on the country of employment of the optionee and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4-year period. 1,399,000 stock options have actually been granted out of the 1,410,000 approved.

The following assumptions were used to estimate September 2008 stock options grant: share price of 26.30 Euro, no dividend, expected option life between of 1.5 and 4.5 years depending on the vesting schedule, expected volatility between 30% and 39% stemming from an historic volatility of 40% and taking into account a negative volatility curve, and risk-free interest rate between 4.02% and 4.17% depending on the expected option life.

In October 2009, the Board of Gemalto N.V. also approved the main terms and conditions of the grant of 611,500 restricted share units. The vesting period ends on October 2, 2012. Vesting conditions are both service-based and performance-based. If vesting conditions are met, restricted share units will be exchanged against Gemalto shares and the ratio of exchange will depend on the achievement of adjusted EBIT margin targets. The Gemalto shares resulting from the exchange, if any, will not be transferred to beneficiaries not employed in the US before the end of a 2-year period starting on the date of the exchange, and these beneficiaries are not allowed to trade those shares during the 2-year period starting on the date of the transfer. The beneficiaries employed in the US will not receive the shares before the 4-year period starting on the grant date and are allowed to trade those shares immediately after the transfer. The fair value of this grant of restricted share units was estimated on the date of grant using the following assumptions: share price of 30.71 Euro, dividend of 0.20 Euro per share, one-year risk-free interest rate of 0.69%, two-year risk-free interest rate of 1.27%, three-year risk-free interest rate of 1.67%. The fair value was discounted by 7.50%, the average borrowing rate for a 2-year personal loan, for each year of trading restriction.

For the stock options granted in 2004, 2005 and 2006, volatility was determined by calculating the historical volatility of the Company's share price returns over the last 360 market days prior to grant date, when enough historical data were available. For the stock options and the restricted share units granted in 2007, and for the stock options granted in 2008, the historical volatility of the Company's share price returns over the last 360 market days prior to the grant date was adjusted to take into account a negative volatility curve.

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 stock option holders the right to exchange their future shares of Gemplus common stock for shares of Gemalto common stock, on the basis of the exchange ratio of the public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares).

The following table summarizes information with respect to Gemplus stock options outstanding as of December 31, 2008 and 2009. The initial numbers and exercise prices of the options for Gemplus International S.A. and Gemplus S.A. shares granted to Gemplus stock options holders have been adjusted for the 0.26 Euro distribution of available reserves to the Gemplus shareholders on June 2, 2006, and converted at the ratio of the public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares).

Upon exercise of Gemplus S.A. or Gemplus International S.A. stock options, the optionee is offered the exchange of shares of these companies with Gemalto shares.

Gemplus S.A. and Gemplus International S.A. stock options

Grant date	Exercise price	Number of options outstanding as of December 31, 2008	Number of options outstanding as of December 31, 2009
17 Dec 97	21.34	2,400	–
22 Apr 99	28.58	441,459	11,844
22 Apr 99	25.25	20,118	904
22 Apr 99	43.88	25,200	25,200
22 Apr 99	38.75	904	904
27 Jul 00	38.75	319,229	295,268
27 Jul 00	38.75	45,208	45,208
08 Dec 00	66.25	77,658	72,789
13 Jun 01	45.75	420	420
13 Jun 01	47.38	7,466	7,205
14 Sep 01	32.00	4,715	4,715
03 Dec 01	35.00	904	904
31 Jan 02	28.75	2,260	2,260
31 Jan 02	29.50	1,040	1,040
29 Jul 02	14.13	9,042	9,042
29 Aug 02	9.25	183,328	–
29 Aug 02	24.88	361,664	361,664
10 Dec 02	12.38	437,157	251,744
29 Apr 03	10.50	1,808	1,808
02 Jun 03	14.13	1,808	–
10 Jul 03	13.75	9,041	–
22 Jul 03	15.50	3,320	2,099
14 Aug 03	13.50	81,374	81,374
14 Aug 03	9.13	90,416	90,416
01 Oct 03	16.75	367,650	199,633
01 Oct 03	16.38	3,617	–
01 Oct 03	16.13	114,731	48,633
21 Apr 04	20.13	10,262	7,262
21 Apr 04	16.00	18,083	18,083
21 Apr 04	19.75	90,416	–
01 Jun 04	17.38	80,416	48,416
03 Nov 04	18.25	10,850	–
18 Apr 05	20.13	36,166	36,166
23 May 05	19.13	85,442	66,455
27 May 05	19.50	172,128	115,688
25 Aug 05	22.00	3,526	3,526
26 Aug 05	22.25	36,166	36,166
10 Apr 06	27.50	9,042	9,042
		3,166,434	**1,855,878**

The fair value of each grant has been calculated as of June 2, 2006. It has been estimated on the date of grant using a stochastic option-pricing model. The following average parameters were used: no dividend, volatility of 32% and risk-free interest rate from 3.71% to 3.97%. Options typically vest in equal amounts over a period of three to four years. The following table summarizes information with respect to Gemalto stock options outstanding as at December 31, 2008 and 2009 (excluding Gemplus stock options).

Gemalto stock options

Grant date	Exercise price	Number of options outstanding as of December 31, 2008	Number of options outstanding as of December 31, 2009
17 May 04	14.80	1,846,471	1,048,697
01 Jun 05	22.41	15,000	15,000
08 Sep 05	30.65	629,500	607,500
02 Jun 06	23.10	1,322,000	1,222,750
27 Sep 07	20.83	854,250	753,400
25 Sep 08	26.44	1,399,000	1,371,750
		6,066,221	**5,019,097**

In the income statement for the period ended December 31, 2009, a compensation expense of €12,026 (€11,135 in 2008) corresponding to the amortization of the fair value of all the outstanding stock options and restricted share units was recorded for €1,543 (€1,855 in 2008) in cost of sales, €461 (€415 in 2008) in research and engineering expenses, €4,150 (€3,743 in 2008) in sales and marketing expenses and €5,872 (€5,122 in 2008) in general and administrative expenses.

Movements in the number of stock options outstanding and their related weighted average exercise price are as follows:

	Year ended December 31,			
	2008		2009	
	Average exercise price	Outstanding options	Average exercise price	Outstanding options
Beginning of the period	**20.08**	**10,201,125**	**22.05**	**9,232,655**
Granted	26.44	1,399,000	–	–
Forfeited	24.03	(622,142)	28.16	(502,968)
Exercised(*)	13.40	(1,745,328)	16.00	(1,854,712)
End of the period	**22.05**	**9,232,655**	**23.25**	**6,874,975**

(*) In 2009, 1,854,712 shares were exercised, of which 215 were not delivered but cash settled as a monetary compensating balance.

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As of December 31, 2009, the average remaining life of the 6,874,975 outstanding options was 5.7 years. It was 6.1 years as of December 31, 2008 for the 9,232,655 options.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

	Year ended December 31,			
	2008		2009	
Expiry date	Average exercise price	Out-standing options	Average exercise price	Out-standing options
2009	28.40	395,253	–	–
2010	41.64	536,920	43.17	452,113
2011	41.13	13,505	41.01	13,245
2012	16.42	994,491	19.72	625,750
2013	14.91	2,178,138	14.67	1,338,162
2014	16.36	567,127	16.14	223,262
2015	25.30	1,676,763	25.53	1,564,335
2016	23.11	617,208	23.12	532,958
2017	20.83	854,250	20.83	753,400
2018	26.44	1,399,000	26.44	1,371,750
		9,232,655		**6,874,975**

Out of the 6,874,975 above mentioned outstanding options as of December 31, 2009, a total of 4,050,466 are vested and exercisable at a 22.65 Euro average exercise price.

Employee Stock Purchase plan 2008

In the period from October 27, 2008 to November 7, 2008, Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing prices for the Gemalto stock on October 27, 2008 and November 7, 2008. 96,178 Treasury shares were subscribed by the employees at 16.88 Euro per share. The compensation expense corresponding to the discount granted to employees under that program of €477 was recorded as a compensation expense in the 2008 income statement: €82 were recorded in cost of sales, €93 in research and development expenses, €150 in sales and marketing expenses and €152 in general and administrative expenses.

Employee Stock Purchase plan 2009

In the period from October 26, 2009 to November 6, 2009, Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing prices for the Gemalto stock on October 26, 2009 and November 6, 2009. 49,525 Treasury shares were subscribed by the employees at 24.06 Euro per share. The compensation expense corresponding to the discount granted to employees under that program of €301 was recorded as a compensation expense in the 2008 income statement: €50 were recorded in cost of sales, €73 in research and development expenses, €85 in sales and marketing expenses and €93 in general and administrative expenses.

Note 26. Other income (expense), net

	Year ended December 31,	
	2008	2009
Fixed assets write-offs and net gains/losses on sales [(1)]	(227)	1,190
Compensation from customers and suppliers, net	1,592	1,146
Other	372	1,690
Total	**1,737**	**4,026**

(1) In 2009, the Company sold buildings located in Saint-Cyr en Val (France) for €1,250. The gain on the sale amounted to €793.

Note 27. Financial income (expense), net

Financial income (expense) details as follows:

	Year ended December 31,	
	2008	2009
Interest expense[(*)]	(2,357)	(4,009)
Interest income[(**)]	11,704	4,084
Foreign exchange transaction gains (losses)[(***)]		
– Foreign exchange gains (losses), net of derivative instruments not designated as hedge accounting	(3,277)	798
– Cash flow hedges	(3,703)	(2,173)
Other financial income (expense), net	(228)	(946)
Financial income (expense), net	**2,139**	**(2,246)**

(*) Other financial liabilities
(**) Assets at fair value through profit and loss
(***) Derivatives used for hedging

Note 28. Net foreign exchange gains (losses)

The exchange differences charged/credited to the income statement are as follows (see note 20):

	Year ended December 31,	
	2008	2009
Net sales	13,547	7,069
Cost of sales	1,157	(2,048)
Financial income (expense), net	(6,980)	(1,375)
Net foreign exchange gains (losses)	**7,724**	**3,646**

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 are recorded in sales if the underlying net exposure is positive (net selling position) and in cost of sales if the underlying net exposure is negative (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,	
	2008	2009
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	9,264	7,733
– Deferred tax asset to be recovered within 12 months	11,794	16,459
	21,058	24,192
Deferred tax liabilities:		
– Deferred tax liabilities due after more than 12 months	(10,135)	(20,528)
– Deferred tax liabilities due within 12 months	(3,367)	(1,765)
	(13,502)	(22,293)
	7,556	1,899

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

	Year ended December 31,	
	2008	2009
Beginning of the period	**7,075**	**7,556**
Acquisition of subsidiary and business	(910)	(11,143)
Credited to income statement	4,120	3,999
Cumulative translation adjustment	(2,729)	1,487
End of the period	**7,556**	**1,899**

Deferred tax assets and liabilities for the years ended December 31, 2008 and 2009 are detailed as follows:

	Year ended December 31,	
	2008	2009
Assets		
Loss carry-forward	3,042	1,280
Excess book over tax depreciation and amortization	4,450	3,077
Employee and retirement benefits	3,933	4,298
Warranty reserves and accruals	1,707	1,575
Other temporary differences	7,926	13,962
Total Assets	**21,058**	**24,192**
Liabilities		
Excess tax over book depreciation and amortization	(12,623)	(19,657)
Other temporary differences	(879)	(2,636)
Total Liabilities	**(13,502)**	**(22,293)**
Deferred tax assets (liabilities), net	**7,556**	**1,899**

Further to the reform of the French business tax effective December 31, 2009, the Company has considered that the component of the future business tax calculated on the value added should be qualified as an income tax and then accounted in accordance with the provisions of IAS 12 *Income Taxes*. Therefore, the Company recognized as at December 31, 2009, a €1.2 million deferred tax liability related to the taxable temporary differences between the carrying value and the tax base of property, plant and equipment in respect of value added.

The income tax credit (expense) is as follows:

	Year ended December 31, 2008	2009
Current tax	(20,965)	(21,424)
Deferred tax	4,120	3,999
	(16,845)	**(17,425)**

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities is as follows:

	Year ended December 31, 2008		2009	
	€	%	€	%
Profit (loss) before income tax	131,748	100.0	135,549	100.0
Tax calculated at domestic tax rate applicable to profits of the consolidated entities	(23,850)	(18.1)	(25,400)	(18.7)
Effect of the reassessment of the recognition of deferred tax assets	494		(923)	
Effect of utilization of tax assets not recognized in earlier years	18,462		26,000	
Effect of unrecognized deferred tax assets arising in the year	(6,394)		(4,917)	
Other permanent differences	(5,557)		(12,185)	
Income tax credit (expense)	**(16,845)**	**(12.8)**	**(17,425)**	**(12.9)**

The Company recorded a tax expense of €17.4 million on a pretax profit of €135.5 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, 2009, Gemalto did not recognize tax assets amounting to €444.0 million[1] (€478.3 million[2] as of December 31, 2008) relating to tax losses and other future tax deductions.

As of December 31, 2009, the Company had total deferred tax assets available of €408.1 million[1] related to tax loss carry forwards amounting to €1,343.3 million[2] of which €1,249.2 million can be used indefinitely. In 2008, those amounts were €445.5 million, €1,437.7 million and €1,357.5 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.

(1) Including €231.2 million (€252.7 million in 2008) related to Gemplus International S.A. (Luxemburg) tax loss carry forwards
(2) Including €808.8 million (€852.7 million in 2008) for Gemplus International S.A. (Luxemburg)

Note 30. Earnings per share

	Year ended December 31, 2008	2009
Basic		
Profit attributable to equity holders of the Company	111,864	114,796
Weighted average number of ordinary shares outstanding (thousands)	83,114	82,520
Basic earnings per share	**1.35**	**1.39**

	Year ended December 31, 2008	2009
Diluted		
Profit attributable to equity holders of the Company	111,864	114,796
Weighted average number of ordinary shares outstanding (thousands)	83,114	82,520
Dilution from share options (thousands)	1,338	1,269
Weighted average number of ordinary shares for diluted earnings per share (thousands)	84,452	83,789
Diluted earnings per share	**1.32**	**1.37**

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 common shares outstanding during the period. Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of common shares outstanding assuming dilution. Dilution is determined assuming that all stock options, which are in the money, are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period.

Note 31. Cash generated from operations

	Notes	Year ended December 31, 2008	2009
Income for the period before minority interest		114,903	118,124
Adjustment for:			
Tax	29	16,845	17,425
Research tax credit		(7,910)	(9,013)
Depreciation	8	38,562	41,784
Amortization	9	31,147	35,982
Gemalto Employee Share Purchase Plan discount	25	477	301
Share-based payment expense		11,135	13,225
Gains and losses on sale of fixed assets and write-offs		3,055	700
Gains and losses on sale of available-for-sale financial assets		–	(795)
Gains and losses on sale of investment in affiliate		–	(182)
Gains and losses on sale of investment in associate		(195)	(78)
Cumulated translation adjustment transferred to financial income upon liquidation of a consolidated entity		961	3,991
Net movement in provisions and other liabilities		(56,703)	(7,042)
Retirement benefit obligation	17	10	(556)
Interest income	27	(11,704)	(4,084)
Interest expense and other financial expense (non-cash)	27	2,357	5,509
Share of profit from associates	10	(2,350)	(1,380)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)			
Inventories		12,227	19,994
Trade & other receivables		(10,449)	33,183
Derivative financial instruments		3,868	(1,684)
Trade & other payables		6,503	(43,372)
Cash generated from operations		**152,739**	**223,032**

Note 32. 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 2008 and 2009 by the Company is summarized as follows:

	Year ended December 31,	
	2008	2009
Salaries and other short term employee benefits	7,695	6,606
Share-based compensation charge	5,368	5,835
Total expenses	**13,063**	**12,441**

b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2009, the Company purchased some €3,893 (€1,428 in 2008) of equipment 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 this transaction.

DataCard Corporation is a related party to certain individual members of the Quandt Family who themselves control entities which have been shareholders of the Company since June 2, 2006. In 2009, the Company purchased some €2,742 of equipment and services under existing agreements (€2,950 in 2008). The members of the Quandt Family entities had no involvement in this transaction.

In 2009, total purchases from associated companies amounted to €255 (€6,609 in 2008).

c) Sales of goods and services

In 2009, total sales to related parties amounted to €0 (€0 in 2008).

In 2009, total sales to associated companies amounted to €7,187 (€10,665 in 2008).

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

	Year ended December 31,	
	2008	2009
Receivables from:		
Associates	3,953	1,430
Related parties	117	0
Total receivables	**4,070**	**1,430**
Payables to:		
Associates	2,666	21
Related parties	1,497	1,264
Total payables	**4,163**	**1,285**

e) Loans receivable from/payable to related parties

As of December 31, 2009, the Company had granted a loan of €5 million to an associate (associated company). The loan has been paid off in January 2010.

Note 33. 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.

Schlumberger residuals

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and the Company agreed to carry out the complete transfer of the Schlumberger group's Cards and POS businesses to the Company or one of its subsidiaries.

These undertakings remain in effect as long as there are contracts, assets or liabilities falling within the scope of the Company's business that have not been transferred at the time of the Separation. This also applies to contracts, assets or liabilities falling within the scope of Schlumberger's business that have not been transferred at that same time.

Until the date of transfer of these contracts, assets or liabilities to the Company or to Schlumberger or in the event that they could not be transferred or shall not be transferred as agreed by the parties, Schlumberger and the Company have agreed to cooperate and execute the contracts or manage the assets and liabilities in the name of and for the account of the other party, pursuant to the instructions of such party, who will receive all profits and bear all losses resulting from these contracts, assets and liabilities.

Therefore, the activities, assets and liabilities pertaining to Schlumberger activities falling under the provisions of the Master Separation Agreement are not disclosed in the accompanying consolidated financial statements of the Company nor is the associated payable from the Company to Schlumberger or the associated receivable by the Company from Schlumberger.

However, two legal actions are reported here below. Any liability arising from those actions will be assumed by Schlumberger under the applicable provisions of the Master Separation Agreement. Accordingly the Company has not made any provision in respect of those matters.

In 2002, a €12.5 million claim was brought against Gemalto in front of the Brussels commercial court by a distributor for damages suffered and costs incurred resulting from the Company's alleged failure to deliver POS terminal software on time and to provide agreed specifications. The court ordered a report by a technical expert. The expert's final report issued in July 2007 established damages at €2,376.

In 2006, a subsidiary of Gemalto in Asia was ordered by a commercial court to pay €10.9 million in connection with the disposal by Schlumberger of assets owned by this subsidiary and related to other activities of Schlumberger which were not transferred to Gemalto. In February 2009, Gemalto sold that subsidiary to Schlumberger with all liabilities related to said litigation. In March 2009, a final settlement decision ended the litigation.

As of December 31, 2009, the balance of the assets and liabilities belonging to Schlumberger was a net liability of €1.5 million.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2009, are as follows:

	Year ended December 31,	
	2008	2009
Not later than 1 year	12,374	19,333
Later than 1 year and not later than 5 years	40,546	55,375
Later than 5 years	39,084	36,976
	92,004	111,684

Bank guarantees

As at December 31, 2009, bank guarantees, mainly performance and bid bonds, amounted to €42 million. These guarantees have been issued as part of the Company's normal operations in order to secure the Company's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Company.

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, 2009, the commitments to purchase these safety stocks valued at the average purchase price amounted to €28,439 (€33,967 in 2008).

Gemalto N.V. guarantees

Gemalto N.V. has issued various guarantees to a maximum of €186.9 million in respect of:

- the USD250 million (equivalent to €173.6 million, based on the USD/EUR accounting exchange rate as of December 31, 2009) undrawn syndicated facility referred to in note 16;
- a guarantee of GBP12 million (equivalent to €13.3 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Shanghai Axalto IC Card Technologies Co., Ltd commitment

Gemalto holds a 82.85% interest in Shanghai Axalto IC Card Technologies Co., Ltd, a Chinese joint venture. This joint venture is fully consolidated within Gemalto. In 2005, Gemalto and the joint venture partner agreed that Gemalto guaranteed the profit of the joint venture would not be less than Chinese renminbi 25 million (approximately €2.6 million) for 2008 and 2009. In exchange, Gemalto was granted and shall exercise control of the joint venture until December 31, 2009.

This commitment has been fair valued, and the liability will be re-valued at the end of each reporting date. To date, management estimated that the fair value of the guarantee is not material.

Note 34. Post-closing events

On January 5, 2010, Gemalto subscribed to a capital increase in Netsize, with an option to potentially acquire the company outright at a later date. Through this capital increase, Gemalto increased its shareholding in Netsize from 24% to over 85%. Netsize offers mobile payment solutions based on operator billing (through premium SMS, MMS and WAP for example) for 100 mobile operators in 28 countries, reaching over 1 billion billable subscribers worldwide, and provides mobile messaging, with SMS and MMS delivery to over 200 countries.

On February 3, 2010, Gemalto acquired Valimo. Valimo enables mobile phone users to securely authenticate themselves, digitally sign documents and confirm legally binding transactions simply by entering a self-chosen passphrase or a PIN code. Valimo Mobile ID solution facilitates secure online banking, mobile payments, governmental services, electronic and mobile commerce, and identify and access rights management for enterprise applications.

Note 35. Consolidated entities

The consolidated financial statements as of December 31, 2009 include the accounts of Gemalto N.V. and the following entities:

Country of incorporation	Company name	Percentage of Group voting rights
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
Australia	LM Gemplus Pty Ltd	100%
Australia	Multos International Pty Ltd	100%
Belgium	Gemplus N.V.	100%
Belgium	Gemventures 1 N.V.	100%
Brazil	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	100%
British Virgin Islands	Axalto Technology Ltd	100%
Canada	Gemalto Canada, Inc	100%
Canada	Solutions Fides(*)	49%
China	Axalto Smart Cards Technology Co. Ltd	100%
China	Gemalto Technologies (Shanghai) Co. Ltd	100%
China	Gemplus (Beijing) Electronics Research and Development Co. Ltd	100%
China	Gemplus International Trade (Shanghai) Co. Ltd	100%
China	Gemplus (Tianjin) New Technologies Co. Ltd	100%
China	Zhuhai Goldpac SecurCard Co. Ltd	67%
China	Shanghai Axalto IC Card Technologies Co. Ltd	83%
China	Tianjin Gemplus Smart Cards Co. Ltd	51%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Czech Republic	Gemplus S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Egypt	Makxalto Advanced Card Technology Co.(*)	34%
Finland	Gemalto Nordic Oy	100%
Finland	Gemalto Oy	100%
France	Axalto Participations S.A.S.	100%
France	Bantry Technologies S.A.S.	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	Gkard S.A.S.(*)	50%
France	Netsize S.A.(*)	24%
France	OpenTrust S.A.(*)	20%
France	Setelis S.A.(*)	22%
France	SLP S.A.S.	100%
France	Trusted Labs S.A.S.U.	100%
France	Trusted Logic S.A.	100%

Country of incorporation	Company name	Percentage of Group voting rights
Germany	Gemalto GmbH	100%
Germany	Celo Communications GmbH	100%
Germany	CLM GmbH(*)	50%
Germany	CLM GmbH & Co. KG(*)	50%
Germany	O3SIS Information Technologies AG	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Technologies Asia Ltd	100%
Hong Kong	Gemplus Goldpac Group Ltd	67%
Hong Kong	Goldpac Datacard Solutions Co. Ltd	67%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
India	Gemalto Digital Security 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	Bantry Technologies Ltd	100%
Ireland	Celocom Ltd	100%
Italy	Gemalto SPA	100%
Japan	Gemalto KK	100%
Japan	SPOM Japan Co.Ltd	100%
Japan	Toppan Gemalto Services Co. Ltd(*)	50%
Luxemburg	Gemplus International S.A.	100%
Malaysia	Axalto (M) Sdn Bhd	100%
Malaysia	Axalto International Ltd	100%
Malaysia	Gemalto Sdn Bhd	100%
Mexico	Conrena S.A. de CV(*)	20%
Mexico	CP8 Mexico S.A. de CV	100%
Mexico	Gemalto Mexico S.A. de CV	100%
The Netherlands	Gemalto B.V.	100%
The Netherlands	Celo Communications B.V.	100%
The Netherlands	Gemplus B.V.	100%
Netherlands Antilles	Cards & Terminals N.V.	100%
New Zealand	Serverside Graphics (NZ) Ltd	50%
Norway	Gemalto Norge AS	100%
Philippines	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Poland	Gemplus Sp. z o.o	100%
Russia	Gemalto LLC	100%
Senegal	Gemalto Senegal S.A.R.L.	100%
Singapore	Gemalto Holding Pte Ltd	100%
Singapore	Gemplus Asia Pacific Pte Ltd	100%
Singapore	Gemplus Microelectronic Asia Pte Ltd	100%
Singapore	Gemalto Pte Ltd	100%
Singapore	Multos International Pte Ltd	100%
Singapore	Trusted Logic Asia (Pte) Ltd	100%
Singapore	V3 Teletec Pte Ltd(*)	21%

Country of incorporation	Company name	Percentage of Group voting rights
South Africa	Gemalto Namitech (Pty) Ltd	100%
South Africa	Gemalto Southern Africa Pty Ltd	70%
South Africa	Trusted Logic Africa (Pty) Ltd	100%
Spain	Gemalto SP S.A.	100%
Spain	Gemplus Card International Espana S.A.	100%
Sweden	AB Svenska Pass(*)	50%
Sweden	Axalto AB	100%
Sweden	Gemalto Sverige AB	100%
Sweden	Gemalto AB	100%
Switzerland	Gemplus Management and Trading S.A.	100%
Switzerland	Raidax Technology S.A.(*)	49%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Gemalto (Thailand) Ltd	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
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	Serverside Group Ltd	50%
United Kingdom	Step Nexus Ltd	100%
United States of America	Card Partner, Inc	50%
United States of America	Gemalto Inc.	100%
United States of America	Serverside Graphics, Inc	50%
Venezuela	Gemplus Card International de Venezuela C.A.	100%

(*) Associated companies accounted for according to the equity method

For all companies listed above, the percentage of ownership interest equals the percentage of voting rights with the exception of Serverside Graphics (NZ) Ltd (New Zealand), Serverside Group Ltd (United Kingdom), Card Partner, Inc (United States of America), Serverside Graphics, Inc (United States of America) and Gemalto Southern Africa Pty Ltd (South Africa), for which ownership interest is 100%.

Company statement of financial position

In thousands of Euro Before appropriation of the result for the period	Notes	Year ended December 31, 2008	2009
Assets			
Non-current assets			
Goodwill	2	535,621	538,233
Property, plant and equipment	3	189	300
Investments in subsidiaries and associates	4	1,345,280	649,761
Long term loans to subsidiaries	4	7,688	20,071
Total non-current assets		**1,888,778**	**1,208,365**
Current assets			
Short term loans to subsidiaries	4	28,803	217,281
Receivables due from subsidiaries		5,582	4,323
Other receivables	7	2,897	2,790
Cash and cash equivalents	5	2,144	3,363
Total current assets		**39,426**	**227,657**
Total assets		**1,928,204**	**1,436,122**
Equity			
Issued and paid in share capital	6	88,016	88,016
Share premium	6	1,214,429	1,215,868
Legal reserves	6	4,447	7,461
Other reserves	6	(102,531)	(104,879)
Retained earnings	6	(27,746)	86,430
Net income (loss) for the period	6	111,864	114,796
Total equity		**1,288,479**	**1,407,692**
Liabilities			
Non-current liabilities			
Long term debt	8	–	5,921
Provisions on investments in subsidiaries and associates	4	26,230	12,904
Total non-current liabilities		**26,230**	**18,825**
Current liabilities			
Short term borrowing from a subsidiary		559,793	–
Payables to subsidiaries		44,378	5,582
Other payables		9,025	3,688
Bank overdraft		299	335
Total current liabilities		**613,495**	**9,605**
Total liabilities		**639,725**	**28,430**
Total equity and liabilities		**1,928,204**	**1,436,122**

Company income statement

In thousands of Euro	Year ended December 31, 2008	2009
Loss after taxes	(38,740)	(32,769)
Income from subsidiaries	150,604	147,565
Net income for the period	**111,864**	**114,796**

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Company statement of changes in shareholders' equity

	Number of shares[1]	
In thousands of Euro	Issued	Outstanding
Shareholders' equity as of January 1, 2008	**91,015,844**	**83,491,578**
Movements in fair value and other reserves:		
Currency translation adjustments		
Gain/(losses) on Treasury shares		
Fair value gains/(losses), net of tax:		
– Financial assets available-for-sale		
– Variation of actuarial gains and losses in benefit obligation		
– Cash flow hedges		
Net income/(expense) recognized directly in equity		
Net income for the period		
Total recognized income for 2008		
Reclassification from/to retained earnings		
Share-based compensation expense		
Employee share option scheme		1,840,871
Purchase of Treasury shares, net		(3,036,257)
Capital decrease further to Treasury shares cancellation	(3,000,000)	
Balance as of December 31, 2008	**88,015,844**	**82,296,192**
Shareholders' equity as of January 1, 2009	**88,015,844**	**82,296,192**
Movements in fair value and other reserves:		
Currency translation adjustments		
Gain/(losses) on Treasury shares		
Fair value gains/(losses), net of tax:		
– Financial assets available-for-sale		
– Variation of actuarial gains and losses in benefit obligation		
– Cash flow hedges		
Transfer from Legal reserves to Other reserves		
Transfer from Other reserves to Legal reserves		
Net income/(expense) recognized directly in equity		
Net income for the period		
Total recognized income for 2009		
Share-based compensation expense		
Employee share option scheme		2,684,452
Purchase of Treasury shares, net		(2,204,431)
Excess of purchase price on SAIT minority interest acquisition		
Correction of the excess of purchase price on subsequent acquisition of Gemplus shares[2]		
Excess of purchase price on subsequent acquisition of Serverside Group Limited		
Revaluation further to the acquisition of Trusted Logic SA		
Balance as of December 31, 2009	**88,015,844**	**82,776,213**

[1] As of December 31, 2009, the difference between the number of shares issued and the number of shares outstanding corresponds to the 5,239,631 shares held in treasury.

[2] As at December 31, 2009, the Company recognized some deferred tax assets that did not meet the recognition criteria at the date of the Combination with Gemplus. As a result, in accordance with the provisions of IFRS 3 and IAS 12, the Company reduced the carrying value of the goodwill and increased the value of the share premium by €3.0 million and €3.8 million respectively.

Attributable to equity holders of the Company					
Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
91,016	**1,247,140**	**(11,859)**	**(66,762)**	**(28,858)**	**1,230,677**
		22,475	(39,986)		(17,511)
			(212)		(212)
		184	(426)		(242)
		(168)			(168)
		(5,073)	(2,228)		(7,301)
		17,418	(42,852)		(25,434)
				111,864	111,864
		17,418	**(42,852)**	**111,864**	**86,430**
		(1,112)		1,112	–
			11,612		11,612
			24,923		24,923
			(64,740)		(64,740)
(3,000)	(32,711)		35,288		(423)
88,016	**1,214,429**	**4,447**	**(102,531)**	**84,118**	**1,288,479**
88,016	**1,214,429**	**4,447**	**(102,531)**	**84,118**	**1,288,479**
			17,107		17,107
			1,006		1,006
			73		73
			(5,391)		(5,391)
			9,638		9,638
		(4,396)	4,396		–
		7,410	(7,410)		–
		3,014	19,419		22,433
				114,796	114,796
		3,014	**19,419**	**114,796**	**137,229**
			12,327		12,327
			30,870		30,870
			(64,964)		(64,964)
	(1,937)				(1,937)
	3,843				3,843
	(467)				(467)
				2,312	2,312
88,016	**1,215,868**	**7,461**	**(104,879)**	**201,226**	**1,407,692**

Notes to the Company financial statements

The Company financial statements should be read in conjunction with the consolidated financial statements.

The notes here below are an integral part of the Company financial statements.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The Company financial statements of Gemalto N.V. with its statutory seat in Amsterdam ('the 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 Company financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

The 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 statements are presented in condensed form.

1.2 Investments

Subsidiaries are all entities (including special purpose entities) over which the 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 Company controls another entity. Associates are all entities over which the 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 Company calculates the net asset value using the accounting policies as described in note 2 to the consolidated accounts. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Company and including goodwill for subsidiaries indirectly owned by the Company, plus the Company's share in income and losses since acquisition, less dividends received. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The 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 assets value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Company only if the 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).

Note 2. Intangible assets

	Goodwill
January 1, 2009	**535,621**
Acquisition of subsidiaries[1]	5,586
Write-off[2]	(2,971)
Currency translation adjustment	(3)
December 31, 2009	**538,233**

[1] This amount includes the goodwill on the acquisition by Gemalto N.V. of Serverside Group for €5,069 and a minority shareholding in Raidax for €517.
[2] As at December 31, 2009, the Company recognized some deferred tax assets that did not meet the recognition criteria at the date of the Combination with Gemplus. As a result, in accordance with the provisions of IFRS 3 and IAS 12, the Company reduced the carrying value of the goodwill and increased the value of the share premium by €3.0 million and €3.8 million respectively.

Note 3. Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2009	
Gross book value	278
Accumulated depreciation	(89)
Net book value	**189**
2009 movements	
Additions	194
Depreciation	(83)
December 31, 2009	
Gross book value	472
Accumulated depreciation	(172)
Net book value	**300**

Note 4. Investments and loans

	Year ended December 31, 2008	2009
Investments in subsidiaries and associates	1,345,280	649,761
Provisions on investments in subsidiaries and associates	(26,230)	(12,904)
Net investments in subsidiaries and associates	**1,319,050**	**636,857**

An overview of the movements in investments and loans is presented below:

	Net Investments in subsidiaries	Investments in associates	Long term loans to subsidiaries	Short term loans to subsidiaries	Total
January 1, 2009	**1,317,605**	**1,445**	**7,688**	**28,803**	**1,355,541**
2009 movements					
Acquisitions of subsidiaries and associates	10,698	33			10,731
Contributions to subsidiaries	26,466				26,466
GISA:					
– Share capital increase	24,110				24,110
– Share buy back	(782,597)				(782,597)
– Share capital reduction	(79,451)				(79,451)
– Sale of a subsidiary to the Company	(3,710)				(3,710)
Purchase of minority interest in a subsidiary	821				821
Revaluation further to the acquisition of Trusted Logic S.A.	2,312				2,312
Correction of the excess of purchase price on subsequent acquisition of Gemplus shares	3,843				3,843
Sale of a subsidiary	(4,806)				(4,806)
Fair value gains	4,320				4,320
Dividends	(49,566)				(49,566)
Net result from subsidiaries	147,565				147,565
Net result from associates		282			282
Transfer from short term loans to long term loans			1,736	(1,736)	–
Refund of loans				(25,647)	(25,647)
New loans			9,316	217,281	226,597
Currency translation adjustment	17,510	(23)	1,331	(1,420)	17,398
December 31, 2009	**635,120**	**1,737**	**20,071**	**217,281**	**874,209**

Financial statements

Loans to subsidiaries

Year Ended December 31, 2009

Subsidiaries	Short Term Loans	Long Term Loans
Existing Loans at January 1, 2009		
Gemalto Digital Securitry Ltd		6,815
Gemalto LLC		2,500
2009 new loans		
Gemalto LLC		900
Gemalto Namitech Pty Ltd		9,127
PT Gemalto Smart Cards Indonesia		729
Gemplus International S.A.	81,021	
Gemalto Treasury Services S.A.	136,260	
Total	**217,281**	**20,071**

On April 2, 2004, the Company financed its Indian subsidiary, Gemalto Digital Security Ltd, with two interest-bearing loans denominated in US Dollars. The first loan, with a maximum facility of USD3 million, has a three-year maturity and was drawn for USD2.5 million as of December 31, 2009 and 2008. The equivalent in Euro as at December 31, 2009 was €1.8 million (€1.8 million as at December 31, 2008). The final repayment date of this loan was extended. The second loan, with a maximum draw capacity of USD8 million, has a three and a half-year maturity and was drawn for USD7.3 million as of December 31, 2009 and 2008. The equivalent in Euro as at December 31, 2009 was €5.1 million (€5.2 million as at December 31, 2008). The final repayment date of this loan was extended.

On May 1, 2004, the Company financed its Mexican subsidiary, Gemalto Mexico SA de CV, with an interest-bearing loan denominated in US Dollars. The loan, with a maximum facility of USD17 million, had a one-year maturity extended to December 31, 2009. The loan was repaid in November 2009. The balance as of December 31, 2008 amounted to USD4.1 million equivalent to €2.9 million.

On June 26, 2008, the Company financed a new Russian subsidiary, Gemalto LLC, with an interest-bearing loan denominated in Euro. The loan, with a maximum facility of €3.4 million, has a five-year maturity till June 2013. The balance as at December 31, 2009 amounted to €3.4 million (€2.5 million as at December 31, 2008).

On April 1, 2008, the Company entered into an agreement with its Panama based subsidiary, Axalto Eastern Holding Inc (AEH), whereby all rights and obligations of loans granted by AEH were assigned to the Company resulting in following loan positions:

a. an interest-bearing loan denominated in US Dollars with a maximum facility of USD10 million to Axalto Cards & Terminals Ltd with a maturity on April 4, 2009. As at December 31, 2008, the balance amounted to USD9.5 million (€6.7 million). The loan was repaid in September 2009;
b. an interest-bearing loan denominated in US Dollars with a maximum facility of USD10 million to Axalto Technology Ltd with a maturity on March 30, 2009. As at December 31, 2008, the balance amounted to USD2 million (€1.4 million). The loan was repaid in September 2009; and
c. an interest-bearing loan denominated in US Dollars with a maximum facility of USD10 million to Gemalto Cards & Terminals NV with a maturity on December 31, 2009. As at December 31, 2008, the balance amounted to USD5.4 million (€3.8 million). The loan was repaid in June 2009.

In 2008, the Company granted short term advances to Gemplus International S.A. (GISA) which were refunded in GISA shares for €12,2 million. In December 2009, GISA reduced its share capital by €79,451 resulting in a loan payable to the Company for the same amount and GISA was granted new short term advances for €1,570.

On March 18, 2009, the Company financed its South African subsidiary with a non-interest-bearing loan denominated in South African Rand (ZAR). The loan, with a maximum facility of ZAR110 million, has a five-year maturity till March 18, 2014. The balance as at December 31, 2009 amounted to ZAR97.2 million (€9.1 million).

On July 28, 2009, the Company financed its Indonesian subsidiary with an interest-bearing loan denominated in US Dollars (USD). The loan, with a maximum facility of USD1,050 thousand has a five-year maturity till July 28, 2014. The balance as at December 31, 2009 amounted to USD1,050 thousand (€0.7 million).

Effective November 1, 2008, the Company started to operate a new Treasury Center based in Meudon in a new entity, Gemalto Treasury Services S.A. ('GTS') replacing the Swiss entity, Gemplus International Swiss Branch ('Swiss

Branch'). The new entity has taken over the role of the former cash pool entity. The Company agreed to borrow from or lend to GTS. The agreement is valid for a time period of one year, automatically renewable for further periods of one year, if not cancelled. As at December 31, 2009, the amount borrowed from the Company amounted to €136.3 million (as at December 31, 2008, €113.1 million were borrowed by the Company).

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2008	2009
Cash at bank and in hand	–	264
Short term bank deposits and investment funds	2,144	3,099
Total	**2,144**	**3,363**

The average effective interest rate on short term deposits was 0.31% in 2009 (4.27% in 2008). These deposits are invested in the form of overnight and fixed term deposits.

Note 6. Equity

Share capital

The authorized share capital of the Company amounted to €150 million as at December 31, 2009 and consisted of 150 million ordinary shares with a nominal value of €1.

Issued and fully paid-in share capital amounted to €88,015,844 as at December 31, 2009 and 2008 and consisted of 88,015,844 ordinary shares with a nominal value of €1.

Share premium

As at December 31, 2009, the share premium amounted to €1,215,868 (€1,214,429 as at December 31, 2008). In 2009, share premium decreased by €2,404 due to the excess purchase prices on SAIT minority interest acquisition (€1,937) and on subsequent acquisition of Serverside Group Ltd (€467) (see note 4 to the consolidated financial statements) and increased by €3,843 due to the correction of the excess purchase price on subsequent acquisition of Gemplus shares (see footnote 2 to the Company statement of changes in shareholders' equity).

Legal reserves

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

	Cash flow hedge reserve	Undistributable results of Group companies	Total
January 1, 2009	**–**	**4,447**	**4,447**
2009 movements			
Additions/Transfers, net	7,410	(4,396)	3,014
December 31, 2009	**7,410**	**51**	**7,461**

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 (including pension reserves) and cash flow hedges (if their balances are positive) are legal reserves. The movement in non-distributable results of Group companies is mainly due to the transfer to 'Other reserves' of the reserves for actuarial gains and losses in benefit obligations (as they became negative in 2009) and to the transfer from 'Other reserves' of cash flow hedge reserve (as it became positive in 2009).

Other reserves

As at December 31, 2009, 'Other reserves' consisted of Treasury shares for €(129,640) (€(114,933) as at December 31, 2008), a stock option reserve amounting to €66,992 (€74,049 as at December 31, 2008), net gains (losses) on Treasury shares in connection with the liquidity program for €868 (€(138) as at December 31, 2008), the reserve for actuarial gains and losses in benefit obligations for €(995), the cumulative translation adjustment amounting to €(22,879) (€(39,986) as at December 31, 2008), a fair value loss in relation to financial assets available-for-sale for €(302) (€(375) as at December 31, 2008) and a loss on Treasury shares cancelled for the share capital reduction in 2008 for €(18,923).

Retained earnings (including net income for the period)

Retained earnings amounted to €201,226 as at December 31, 2009 (€84,118 as at December 31, 2008).

Note 7. Other Receivables

The account 'Other Receivables' includes the receivable from Schlumberger, per the terms of the Master Separation Agreement for €964 (2008: €5,543 payable to Schlumberger).

Note 8. Long term debt

	Year ended December 31, 2008	2009
Other financial liability	–	5,921
Total	**–**	**5,921**

This debt relates to the anticipated acquisition of an additional 49.9% interest in Serverside (SSGL). Please refer to note 4 to the consolidated financial statements.

Note 9. Employees

The average number of staff employed by the Company during 2009 was 9 (2008: 9). None of these employees was employed abroad (2008: nil).

Note 10. Information relating to the Board

Amounts in this note are stated in Euro.

Remuneration of the Board

The Board currently consists of ten Board members; nine Non-executive Board members and one Executive Board member, the CEO.

At the AGM of May 14, 2008, Mr. O. Piou was reappointed as Board member with the title of CEO for a term ending at the end of the AGM to be held in 2012 and Messrs. G. Fink and A. van der Poel were reappointed as Non-executive Board members for a second term ending at the end of the AGM to be held in 2012.

At the AGM of May 20, 2009, Mr. Buford Alexander was appointed as new Non-executive Board member for a first term ending at the end of the AGM to be held in 2013.

At the AGM of May 20, 2009, Messrs. K. Atkinson, J. Ormerod and D. Bonderman were reappointed as Non-executive Board members for a second term ending at the end of the AGM to be held in 2013 and Mr. J. Fritz was reappointed as Non-executive Board member for a second term ending at the end of the AGM to be held in 2012.

Gemalto Board		Board member fee per annum	Board committee fee per annum	Remuneration from January 1 until December 31, 2008
Fiscal year 2008				
Alex Mandl	Non-executive Chairman	200,000	3,213	203,213
Olivier Piou	Chief Executive Officer	35,000	–	35,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
David Bonderman	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
Michel Soublin	Non-executive Board member	65,000	24,000	89,000
John de Wit	Non-executive Board member	65,000	20,000	85,000
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Total		**755,000**	**175,213**	**930,213**

Gemalto Board		Board member fee per annum	Board Committee fee per annum	Remuneration from January 1 until December 31, 2009
Fiscal year 2009				
Alex Mandl	Non-executive Chairman	200,000	12,000	212,000
Olivier Piou	Chief Executive Officer	35,000		35,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
David Bonderman	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
Michel Soublin	Non-executive Board member	65,000	24,000	89,000
Buford Alexander	Non-executive Board member	40,247	4,953	45,200
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Total		**730,247**	**168,953**	**899,200**

The remuneration of the Non-executive Board members, including the remuneration of the Chairman and the members of the Board committees, is determined by the General Meeting of Shareholders. The remuneration is reviewed annually by the Compensation Committee.

The remuneration structure for the Non-executive Board members is as follows:

- €200,000 per calendar year for the Non-executive Chairman of the Board;
- €65,000 per calendar year for each other Non-executive Board member;
- an additional fee of €24,000 per calendar year for the chairman of the Audit committee and an additional fee of €16,000 per calendar year for each member of the Audit committee;
- an additional fee of €12,000 per calendar year for the chairman of the other Board committees and an additional fee of €8,000 per calendar year for the other members of those Board committees.

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €18,119 in 2009.

The remuneration paid by the Company or by companies of the Group to the CEO, Mr. O. Piou for the 2009 financial year is as follows:

	Total Reference Compensation	Bonus (percentage of At target Variable Incentive)	Total gross compensation paid for 2009
O. Piou(*)	653,421	75%	**1,242,061**

(*) Including Board member fees

Mr. O. Piou was appointed as CEO in 2004 for a term of four years ending at the end of the AGM of May 14, 2008. He was reappointed as Board member with the title of CEO for a term of four years until the AGM of 2012. Mr. O. Piou has an employment contract (originally dated 1981), not limited in time, governed by French law with Gemalto International S.A.S., a Gemalto subsidiary and he enjoys any and all benefits that may be applicable to French employees. He has a six-month notice period.

Stock options granted to Board members

Stock options have been attributed under the Global Equity Incentive Plan as described in note 25 to the consolidated financial statements.

	Date of attribution	Number	Exercise price (€)	Fair value of stock options granted (€)	Date of exercise
Alex Mandl	June 2006	200,000	23.10	1,052,000	18 months after the attribution
Olivier Piou	May 2004	600,000	14.80	2,230,662	4 years after the attribution
	Sept. 2005	150,000	30.65	1,099,745	4 years after the attribution
	June 2006	200,000	23.10	1,269,781	4 years after the attribution
	Sept. 2008	150,000	26.44	1,049,761	4 years after the attribution

On September 27, 2007, the Board granted restricted share units to Mr. O. Piou with a performance criteria based on the stock market value of the Gemalto shares. The number of restricted share units may vary from 0 up to 80,000 with a maximum multiplier of three in case of exceptional performance. On September 25, 2008, the Board recognized that, according to the vesting conditions, 66% of the granted restricted share units had vested on September 9, 2008. On November 13, 2009, the Board recognized that, according to the vesting conditions, an additional 84% of the granted share units had vested on November 6, 2009.

In October 2009, the Board of Gemalto N.V. granted to Mr. O. Piou 65,000 restricted share units. The vesting period ends on October 2, 2012. Vesting conditions are both service-based and performance-based. If vesting conditions are met, restricted share units will be exchanged against Gemalto shares and the ratio of exchange will depend on the achievement of adjusted EBIT margin targets. The Gemalto shares resulting from the exchange, if any, will not be transferred to Mr. O. Piou before the end of a 2-year period starting on the date of the exchange, and he is not allowed to trade those shares during the 2-year period starting on the date of the transfer. On March 2, 2010, the Board recognized that the performance-based vesting condition has been met.

The gross compensation paid for 2009 (disclosed in section 'Remuneration of the Board' of this note) excludes stock compensation charge.

Stock compensation charge related to Mr. O. Piou's stock options amounted to €1,563,504 in 2009 (€1,275,240 in 2008). No charge was recorded during the period in relation with Mr. A. Mandl's stock options (no charge in 2008 neither). There is no forfeited stock option in 2009.

The stock compensation charge recognized in 2009 for the restricted shares grant is €118,769 (€467,783 in 2008).

Gemalto shares held by Board Members

Certain Board members are shareholders of the Company. On December 31, 2009, they jointly held 371,300 shares of which Mr. O. Piou owned 367,000. At the beginning of 2009, Mr. O. Piou was holding 165,055 shares of the Company, having progressively acquired them since 2004 on the market. During 2009, Mr. O. Piou acquired 274,945 shares: 4,945 shares were acquired on the market,150,000 shares which were acquired through the exercise of options and 120,000 shares were acquired through the exchange of vested restricted share units ('RSU's'). To finance a portion of this options exercise, Mr. O. Piou sold on the market 73,000 shares, in particular to finance a portion of the options exercise price. Mr. G. Fink received 2,800 shares resulting from the exchange of Gemplus shares following the Offer, Mr. J. Ormerod received 1,200 shares resulting from the exchange of Gemplus shares following the Offer and Mr. M. Soublin purchased 1,500 shares in 2004. During 2009, Mr J. Ormerod deeded his 1,200 shares.

On December 31, 2009, Mr. O. Piou owned 3,548.16 units in a FCPE (*Fonds Commun de Placement d'Entreprise*), which units were purchased by subscription to the Global Employee Share Purchase Plans 2004, 2005 and 2008.

Note 11. Auditors' fees

The aggregate fees billed by the external auditors, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2008 and 2009 were are follows:

2008	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	100	2,367	2,467
Other audit procedures	–	447	447
Fees relating to tax advices	–	54	54
Other non-audit fees	–	23	23
Total	**100**	**2,891**	**2,991**

2009	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	100	2,194	2,294
Other audit procedures	41	419	460
Fees relating to tax advices	–	34	34
Other non-audit fees	1	45	46
Total	**142**	**2,692**	**2,834**

Note 12. Guarantees granted by the Company

Gemalto N.V. guarantees

Gemalto N.V. has issued various guarantees to a maximum of €186.9 million in respect of:

- the USD250 million (equivalent to €173.6 million based on the USD/EUR accounting exchange rate as of December 31, 2009) undrawn syndicated facility referred to in the note 16 to the consolidated financial statements;
- a guarantee of GBP12 million (equivalent to €13.3 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, 2009, are as follows:

	2009
Not later than 1 year	250
Later than 1 year and not later than 5 years	925
Later than 5 years	732
	1,907

The Board

Mr. Alex Mandl
Non-executive
Chairman of the Board

Mr. Olivier Piou
Chief Executive Officer

Mr. Buford Alexander
Non-executive Board member

Mr. Kent Atkinson
Non-executive Board member

Mr. David Bonderman
Non-executive Board member

Mr. Geoffrey Fink
Non-executive Board member

Mr. Johannes Fritz
Non-executive Board member

Mr. John Ormerod
Non-executive Board member

Mr. Arthur van der Poel
Non-executive Board member

Mr. Michel Soublin
Non-executive Board member

Amsterdam, March 2, 2010

(A signed version of the Annual Report is available at the Company's office)

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 2009 financial statements of Gemalto N.V., Amsterdam as set out in pages 80 to 145. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 balance sheet as at 31 December 2009, the company income statement for the year then ended and the notes.

Management's responsibility

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 2009, 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 Netherlands 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 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report included in this annual report, which comprises of the sections Introduction, Segmental Review, Group Financial and Operating Review and Governance, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, 3 March, 2010

PricewaterhouseCoopers Accountants N.V.

Original signed by Fernand Izeboud RA

Appropriation of profit

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the 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 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 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 of Shareholders.

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 Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting of Shareholders 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 of Shareholders 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 of Shareholders.

Appropriation of result

The Board has determined with due observance of the Company's policy on additions to reserves and on distributions of profits to propose to the 2010 General Meeting of Shareholders to distribute a dividend in cash of €0.25 per share in respect of the 2009 financial year and to allocate the remaining result for the period to reserves.

Post-closing events

Post-closing events

On January 5, 2010, Gemalto subscribed to a capital increase in Netsize, with an option to potentially acquire the company outright at a later date. Through this capital increase, Gemalto increased its shareholding in Netsize from 24% to over 85%. Netsize offers mobile payment solutions based on operator billing (through premium SMS, MMS and WAP for example) for 100 mobile operators in 28 countries, reaching over 1 billion billable subscribers worldwide, and provides mobile messaging, with SMS and MMS delivery to over 200 countries.

On February 3, 2010, Gemalto acquired Valimo. Valimo enables mobile phone users to securely authenticate themselves, digitally sign documents and confirm legally binding transactions simply by entering a self-chosen passphrase or a PIN code. Valimo Mobile ID solution facilitates secure online banking, mobile payments, governmental services, electronic and mobile commerce, and identify and access rights management for enterprise applications.

Adjusted measures

The Company provides additional financial information on an adjusted basis. The non-GAAP income statement excludes one-off expenses and reorganization charges incurred in connection with the Combination with Gemplus and the acquisitions realized thereafter, and charges resulting from the accounting treatment of the Combination with Gemplus and the acquisitions realized thereafter.

Following the Combination with Gemplus and acquisitions realized thereafter, Gemalto's financial statements have undergone significant changes, due in particular to the accounting treatment of these transactions in accordance with IFRS 3 'Business combination'. To supplement the financial statements presented on an IFRS basis, the Group presents adjusted financial information (unaudited and not in conformity with IFRS) which excludes certain business combination accounting entries and expenses directly incurred in connection with the Combination with Gemplus and following the acquisitions realized thereafter.

The Group believes that this information is helpful in understanding its past financial performance and its future results. Adjusted 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 consolidated financial statements prepared in accordance with IFRS. Management regularly uses these supplemental adjusted financial measures internally to understand, manage and evaluate the business and take operating decisions. These adjusted measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of executives is based in part on the performance of the business based on these adjusted measures

Adjustments to IFRS income statement

Combination-related charges

In 2006, Gemalto incurred material expenses in connection with the Combination with Gemplus, which it would not have otherwise incurred. Combination-related charges consist of professional advisory services incurred in connection with the integration, new Gemalto brand and logo creation and worldwide registration, as well as impairment charges related to capitalized development costs on projects which are redundant having regard to existing products or technologies available in Gemplus. Gemalto also determined that its investment in a listed company was impaired as a consequence of the Combination with Gemplus. The related impairment charge was recorded in Financial income (loss) in the first half of 2006.

Reorganization charges

Charges incurred in connection with headcount reductions in the support functions, the consolidation of manufacturing and office sites (including property, plant and equipment, intangible asset and inventory write-offs and impairment, asset transfer costs, under-absorption costs linked to plant closure, employee benefits, severance and associated costs, lease termination and building refurbishment cost) and the rationalization and harmonization of IT systems and of the product and service portfolio.

Amortization and depreciation of intagible assets

Amortization and depreciation of intangible assets recognized as a result of the Combination with Gemplus and the acquisitions thereafter have been excluded from the adjusted profit for the period. Investors should note that the use of intangible assets contributed to revenue earned during the period and will contribute to future revenue generation and that these amortization expenses will be recurring.

Additional stock-based compensation

Additional stock-based compensation specifically due to the accounting treatment of the Combination: as prescribed by IFRS 2 'Share-based payment' and IFRS 3 'Business Combination', vested and unvested stock options or awards granted by an acquirer in exchange for stock options or awards held by employees of the purchased company, or any substantially equivalent commitment by the acquirer to assume the obligations of the acquiree with regards to stock options granted to the latter's employees, as is the case for Gemalto under the Combination Agreement, shall be considered to be part of the purchase price for the acquirer, and the fair value (at the effective date of the acquisition or merger) of the new (acquirer) awards shall be included in the purchase price. It leads to an increase in the compensation charge related to stock-options granted by Gemplus prior to the acquisition. The adjustment, eliminating the additional stock-based compensation charge, is intended to reflect the compensation charge that Gemplus would expense if the company had continued to operate on a standalone basis. The Group believes this adjustment is useful to investors as a measure of the ongoing performance of its business.

Reconciliation between IFRS and adjusted income statement

In thousands of Euro	**IFRS income statement for the 12 month period**	Adjustment relating to Combination-related expenses	Adjustment relating to reorganization charges	Adjusting relating to amortization and impairment of intangible assets and inventory step-up	Other adjustments	**Adjusted income statement for the 12 month period**
			Year ended December 31, 2009			
Sales	**1,654,247**				**122**	**1,654,369**
Cost of sales	(1,054,230)					(1,054,230)
Gross profit	**600,017**				**122**	**600,139**
Research & Engineering expenses	(97,852)				452	(97,400)
Sales & Marketing expenses	(235,418)					(235,418)
General & Administrative expenses	(101,421)				661	(100,760)
Other operating expenses	4,026					4,026
Combination-related expenses						–
Reorganization expenses	(9,316)		9,316			–
Amortization and impairment of intangible assets	(23,699)			23,699		–
Operating income	**136,337**		**9,316**	**23,699**	**1,235**	**170,587**
Financial income	(2,246)					(2,246)
Share of profit of associates	1,380					1,380
Gain on sale of an investment in associate	78					78
Profit before taxes	**135,549**		**9,316**	**23,699**	**1,235**	**169,800**
Income tax	(17,425)			(4,222)		(21,651)
Profit for the period	**118,124**		**9,316**	**19,478**	**1,235**	**148,149**
			Year ended December 31, 2008			
Sales	**1,680,526**		**(652)**			**1,679,874**
Cost of sales	(1,091,220)		7,984	150	34	(1,083,052)
Gross profit	**589,306**		**7,332**	**150**	**34**	**596,822**
Research & Engineering expenses	(94,934)				3	(94,931)
Sales & Marketing expenses	(232,505)				77	(232,428)
General & Administrative expenses	(101,972)				44	(101,928)
Other operating expenses	1,737					1,737
Combination-related expenses	86	(86)				–
Reorganization expenses	(20,911)		20,911			–
Amortization and impairment of intangible assets	(13,743)			13,743		–
Operating income	**127,064**	**(86)**	**28,243**	**13,893**	**158**	**169,272**
Financial income	2,139					2,139
Share of profit of associates	2,350					2,350
Gain on sale of an investment in associate	195					195
Profit before taxes	**131,748**	**(86)**	**28,243**	**13,893**	**158**	**173,956**
Income tax	(16,845)			(4,130)		(20,975)
Profit (loss) for the period	**114,903**	**(86)**	**28,243**	**9,763**	**158**	**152,891**

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 aimed at informing shareholders in a timely and detailed way 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 AGM's, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual 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 features road shows and participates in conferences for institutional investors. These contacts help Gemalto to get a clear picture of investors' and analysts' 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 'black out' periods during which no road shows and interviews with potential or current investors take place. 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 of December 31, 2009 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 5,239,631 shares were held in treasury. 82,776,213 shares were in circulation on December 31, 2009.

Stock exchange listing – 2009 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Eurolist by Euronext Paris S.A. 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. Among other stock indices, Gemalto is part of the SBF 120 (FR0003999481),
NEXT20 (QS0010989109) and
Dow Jones STOXX 600 Index (EU0009658202).
Mnemonic: GTO
Exchange: NYSE Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.PA
Bloomberg: GTO:FP

Share price evolution

- Average daily trading volume in 2009: 376,957 shares
- Market capitalization as of December 31, 2009: €2,684,483,242

ADR (American Depositary Receipt)

Gemalto established a sponsored Level I American Depository Receipt (ADR) Program in the US in November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollars and have full voting rights. The dividends are the same as for Gemalto's shares and are paid to investors in US dollars. Dividends are converted into US dollars by the depositary bank at the prevailing rate.

Structure: Sponsored Level I ADR
Mnemonic: GTOMY
Exchange: OTC
Ratio (ORD:DR): 1:2
DR ISIN: US36863N2080
DR CUSIP: 36863N 208

Shareholders' disclosures

For further information, please refer to Shareholders' disclosures, page 58.

Notification date	Notifier	Disclosure
October 7, 2009	Pioneer Investments	5.00%
May 28, 2009	TPG Advisors III Inc	6.53%
May 28, 2009	Caisses des Depots et Consignations (CDC)	8.43%
Feb 18, 2009	FMR LLC	5.04%
Sept 18, 2008[1]	Gemalto N.V	5.17%

[1] 5,239,631 shares were held in treasury by Gemalto as of December 31, 2009.

Geographic spread of share holdings

Geographical spread of identified shareholding as of July 2009

North America	36%
UK and Ireland	15%
Continental Europe	48%
Other	1%

Dividend

The Company did not pay a dividend in 2009 in respect of the 2008 financial year. With due observance of the Company's dividend policy the Board will propose to the 2010 AGM to distribute a dividend in cash of €0.25 per share in respect of the 2009 financial year. For more information on the dividend policy, please refer to Distribution of profits, page 58.

Share buy-back program

The 2009 AGM has renewed the Company share buy-back program up to November 19, 2010. During the full year 2009, the Company used €65 million to purchase Gemalto shares within this program. For further information on the share buy-back program, please refer to Authorizations to the Board, page 58.

Financial calendar 2010

Important dates of financial calendar	
March 4, 2010	Publication of 2009 Fourth Quarter and Full Year Results
April 29, 2010	Publication of 2010 First Quarter Revenue
May 19, 2010	AGM
August 26, 2010	Publication of 2010 Second Quarter Revenue and First Half Results
October 21, 2010	Publication of 2010 Third Quarter Revenue

2010 AGM

Gemalto N.V. will hold its 2010 AGM at the Sheraton Amsterdam Airport Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG Schiphol Airport, the Netherlands on Wednesday, May 19, 2010 at 10 a.m. CET.

For the AGM on May 19, 2010 a record date (being April 21, 2010) will apply: those persons, who on April 21, 2010 hold shares in the Company and are registered as such in a register designated thereto by the Board for the AGM, will be entitled to participate and vote at that meeting.

Investor Relations contact:
Gemalto shareholders service
Tel: +33 1 55 01 50 96
Fax: +33 1 55 01 51 20
Email: investor@gemalto.com
Investor Center: www.gemalto.com/investors
Contact us at: http://www.gemalto.com/php/contactus.php

Contact details for ADR holders:
Deutsche Bank Shareholder Services
American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
New York, NY 10272-2050
Email: DB@amstock.com
Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137

Gemalto's registrar
Netherlands Management Company B.V.
Visiting address: Parnassustoren, Locatellikade 1,
1076 AZ Amsterdam, the Netherlands
P.O. Box 75215, 1070 AE Amsterdam, the Netherlands
Tel: +31 20 57 57 124 / fax +31 20 42 06 190
Email: registrar.and.shareholder.services@tmf-group.com

gemalto
security to be free