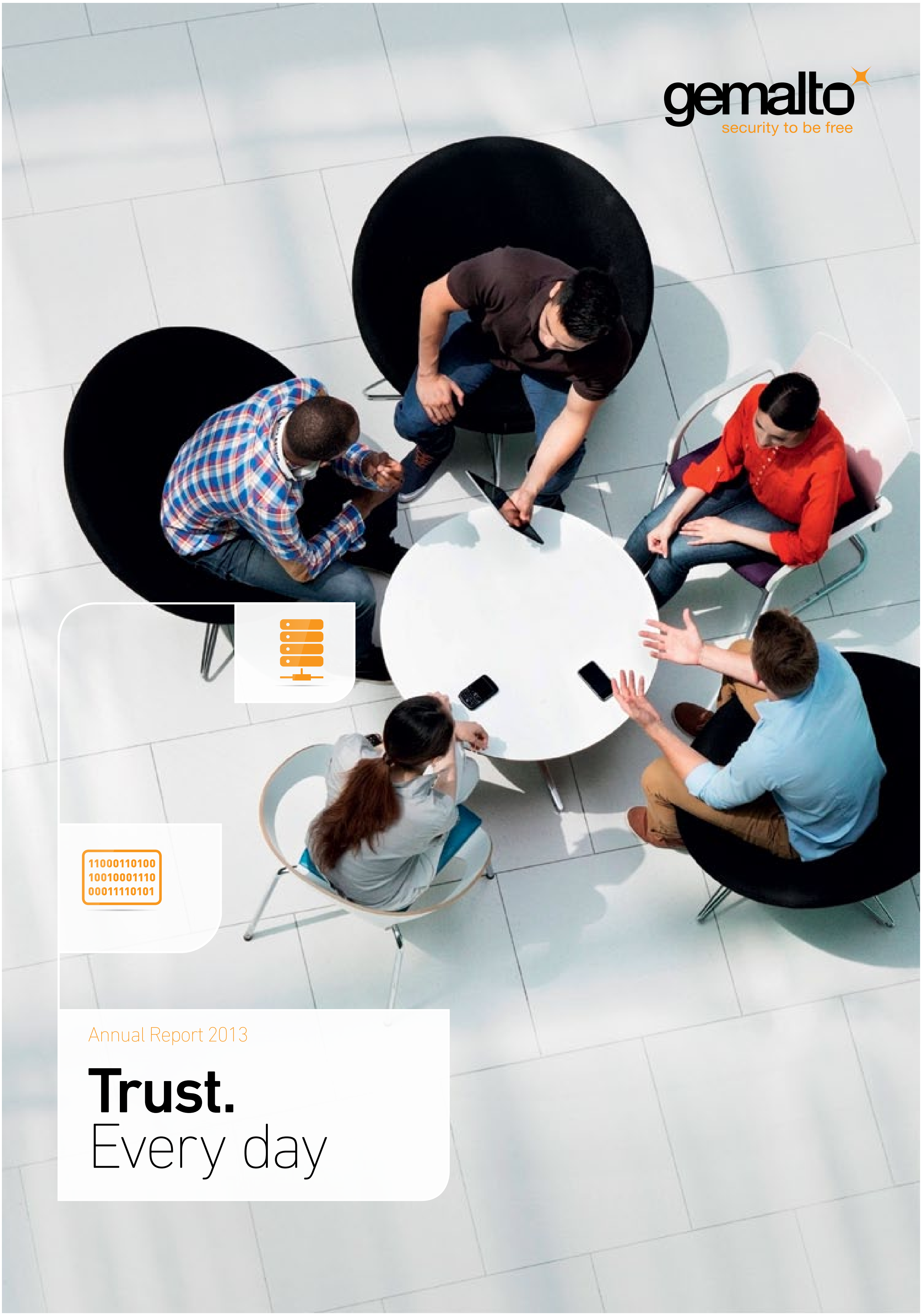


gemalto
security to be free

Annual Report 2013

Trust.
Every day

In this report

Overview

How we create value

Segmental review

Sustainability

Financial review and Risk management

Governance

Financial statements

Other information

For more information visit our website
www.gemalto.com

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

Every day, billions of people around the world use our products, platforms and services

They're all benefiting from digital security technologies we've made convenient and reliable. Our business is about enabling organizations and individuals to interact with confidence and security; and, ultimately, it's about providing **trust.** Every day.

A strong performance, once again

Revenue all operations

€2,389m

+6% at historical exchange rates
+10% at constant exchange rates

IFRS net profit

€258m

+29%

Net cash

€449m

+27%

Profit from ongoing operations

€348m

+14%

Adjusted basic earnings per share[1]

€3.68

+17%

Cash generated from operations

€322m

2012: **€323m**

Profit margin from ongoing operations

14.6%

Up **100** basis points

Cash dividend per share

€0.38

+12%

Return on Capital Employed (ROCE)[1]

17.9%

Up **80** basis points

[1] Adjusted financial information for all operations.

Chairman's statement

Making a habit of success

"Gemalto has again shown why it enjoys such strong investor support."

ALEX MANDL
CHAIRMAN

Investors can trust Gemalto to deliver

With yet another strong performance, Gemalto has again shown why it enjoys such strong investor support. From its formation, the Company has consistently delivered on its promises.

In 2013, profit from operations was €348 million – 16% above the target set at the end of 2009. Continued strong revenue growth (up 10% in 2013 and up 44% vs. 2009) indicates that this performance is sustainable. The Board and management's confidence is reflected in dividend payments that have increased in double digits every year since 2009. And investors' confidence is reflected in a share price that in 2013 increased by +18%, in line with the CAC 40 and AEX indices in which Gemalto features, after the outstanding performance of 2012.

Appropriately ambitious new targets

This year the Company begins its next multi-year development plan. The targets for 2017 are bold and clear. We are aiming for €600 million in profit from operations – double the 2012 result. And as we bring both sides of the business into balance, we expect our Platforms & Services revenues to pass €1 billion – more than double the 2013 figure.

These goals are ambitious, and wholly credible. The strategy for the next four years is built on what the Company has already achieved. It has emerged from robust discussion between management and Board (see Governance on page 46). And it reflects the fact that Gemalto's vision – of enabling the trust on which the digital world depends – is one whose time has come.

The right strengths for the future

The Company's leadership in both mobile and security services gives it unique strength in these fast-growing markets. Building on its expertise and innovation, it has been able to deliver precisely what customers need – earning a market position which is in itself a powerful competitive strength.

The management team deserves credit for its achievements. Its effectiveness continues to grow. And the new multi-year development plan is a clear declaration of its intention to maintain strong financial performance, value creation and long-term thinking. Gemalto has earned its stakeholders' trust, and will continue to earn it in the future.

Alex Mandl Chairman

Chief Executive's review

Evolving business, consistent vision

"We are in the right place at the right time, with the right technologies and business model."

Our 2017 target for Profit from operations

€600m

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

Confident in our ambitions

In 2013, we continued our development along the path we mapped out some years ago. Though economic conditions were not easy, we over-achieved on our objectives. The main drivers for the Company's expansion remain in place – so we enter 2014 and our new multi-year development plan, with confidence.

Earning customers' and employees' trust

Enabling trust is our business, and it is also central to the way we work.

We earn our customers' trust by focusing on their satisfaction, and always perfecting what we deliver. We do not interfere with their business models or their relationships with their end-users. We operate behind the scenes, respecting their ownership of their data and helping safeguard their brand reputations.

Gemalto's success is also our employees' success, and we strive to engage and develop them. In 2013 our annual listening survey had record levels of participation (80%) and satisfaction (81%). I want to thank them here for their commitment, enthusiasm and focus on our objectives.

Evolving, with a consistent formula

Our new multi-year development plan anticipates continuing rapid growth. Our mission – to bring convenience and trust to the digital world – is more relevant than ever. And our unique assets and positioning suit the market's needs. We are in the right place at the right time, with the right technologies and business model.

Our Platforms & Services business has been growing fast in recent years, and this is expected to continue as part of Gemalto's ongoing evolution. There are also plenty of growth drivers for our Embedded software & Products business. Our new products require platforms and services to be managed and maximized once they are in use in the field. These platforms and services in turn enable the deployment and success of even more advanced features inside our new products. So both parts of the Company help each other, and expand together in a virtuous circle.

To handle this rapid development we have reinforced our Senior Management team – recreating the position of Chief Operating Officer to steer our development and sales activities, and promoting from within in accordance with our values. During this new plan our central formula will not change: we will remain frugal, carefully balancing investment and profit generation, and earning trust by delivering on our promises to customers, employees, shareholders and other stakeholders.

Olivier Piou Chief Executive Officer

Trust. Every day

That's what enables Japanese shoppers to pay simply by waving their cellphones – thanks to Gemalto's Trusted Service Management (TSM) platform.

IN 2013, SOFTBANK MOBILE BECAME THE SECOND JAPANESE MOBILE OPERATOR TO ADOPT OUR CONTACTLESS PAYMENT SOLUTION.

USING OUR TRUST INFRASTRUCTURE, SOFTBANK MOBILE CAN EASILY OPEN THE ECOSYSTEM TO NEW PROVIDERS, CREATING A RICH PORTFOLIO OF SERVICES.

The world of digital security has **immense potential**

The digital world holds more promise for users and providers than ever before. The potential is immense – and the opportunities are everywhere.

1.5bn
Users already covered by TSM infrastructure[8]

Smart cards to be shipped to the US in 2018[1]
1bn

Worldwide IAM market growth rate in 2013[4]
10%

LTE connections by 2017[5]
1bn

Connected machines by 2017[9]
4.5bn

People with a national eID card by 2015[2]
2.5bn

Cloud-based security services growth rate 2013[6]
26%

NFC capable devices in use in H1 2014[10]
500m

eCommerce transactions in 2014[3]
34bn

Smart secure devices shipped in 2013[7]
7.2bn

Mobile payment transactions in 2014[11]
28bn

1 ABI Research; Smart Cards In North America Oct 2013
2 Acuity; 2011-08 Acuity the Global National eID Industry Report
3 Capgemini/RBS; World Payments Report 2013
4 IDC; Worldwide IAM 2013–2017 Forecast
5 Gartner; Forecast Analysis: Mobile Connections by Technology, Worldwide, 2010-2017
6 Gartner; Market Trends: Cloud-Based Security Services Market, Worldwide, 2014
7 Eurosmart; Press Release 19 November 2013
8 Gemalto
9 Ericsson; "More than 50bn Connected Devices" White Paper Feb 2011
10 ABI Research; NFC Devices, Strategies, and Form Factors Report
11 Capgemini/RBS; World Payments Report 2013

Trust is fundamental to realizing the opportunities

Trust in the digital world is founded on the confidence in the identities people use to access services.

End-users

...need to show their unique digital IDs to service providers

People need a way of proving their identity – a **'client'** ID – which can take any number of forms.

client

Embedded software & Products

In addition, there needs to be a way of verifying that ID and managing its life-cycle – software in the **'back-end'** server (a platform) and related services do this.

back-end

Platforms & Services

Service providers

...need to be sure that end-users' IDs are valid and properly managed in order to offer their service in full confidence.

CORP

That's our role. To answer these core needs by protecting, verifying and managing digital identities and interactions. And to **enable Trust.**

Our **business model** addresses these core digital security needs

We secure and manage the two end points of the Trust chain:

client
to issue and protect IDs

+

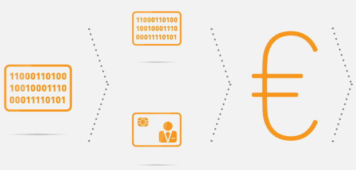
back-end
to manage IDs and grant access

Embedded software & Products (E&P)

Secure devices with our embedded software.

Sell products
Software and hardware bundles

Sell licenses
Software only



€ Increasingly advanced software content

Drawing on our expertise in security and cryptography, we develop and embed secure software in a wide range of products. We personalize these devices with the credentials of our clients and the identities of their customers across hundreds of networks.

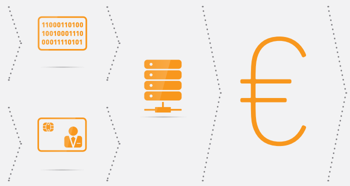
+

Platforms & Services (P&S)

Platforms protecting customer data in the field and management systems running on secure servers in our data centers.

Sell licenses
Pay per user

Operate Platforms & Services
Pay per usage



€ Increasing demand for trusted services

We ensure these digital devices are continuously monitored and properly managed while they are in the field. We verify the identities that are presented and perform the transactions required.

Innovation underpins all our activities across the Trust chain

€143m
Investment in R&D in 2013

110+
Patents for new inventions filed in 2013

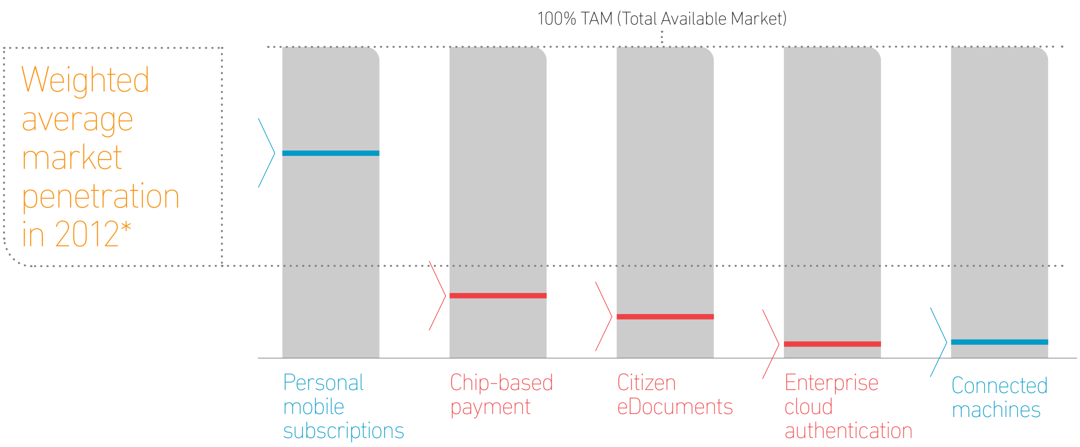
It already enables us to bring Trust to five **global markets**

Mobile Communication	Machine-to-Machine	Electronic payment	eGovernment	Enterprise security
800*	10,000+*	12,000+*	193*	200,000+*
Mobile carriers	Manufacturers and distributors	Financial institutions	Governments	Large companies & system integrators

* total of addressable clients per market (approximate)

In all these markets, our customers have already deployed our solutions in order to protect their investments and reputations, improving the confidence of their users.

These markets are expanding rapidly and have plenty of room for further growth...



...and other markets have just started implementing our solutions (e.g. retail, automotive, etc.)

*Sources: GSMA, EMVCo, National Gold Card Foundation, Nilson Report, ABI Research, Gartner, Ericsson, Gemalto

We have **unique assets** and strong customer focus

Our success is founded on our dedication to satisfying our customers, our attention to developing our people, and on two unique assets: our technological expertise and our market neutrality.

Technology

Our technology to secure digital identities and access services has proven to be an unmatched combination of security, scalability and cost efficiency

Market neutrality

So that our clients can preserve a trusted, direct and confidential relationship with their customers, we operate behind the scenes.

Customer satisfaction

86%

We work in partnership with our clients to shape our development. In 2013, in our annual customer survey, a large majority of them said they were satisfied or very satisfied with Gemalto – a world-class rating.

Employee engagement

81%

Our annual employee survey shows a remarkably high level of commitment to Gemalto, with 81% saying they were satisfied with the Company in 2013.

R&D leadership

110+

We get award-winning results with our proactive innovation program and business incubation structure. In 2013 we filed patents for over 110 new inventions.

Scaled infrastructure

1.3bn

Our Platforms & Services setup is scaled for our ambitions. We now have fully operational data centers on three continents with platforms handling some 1.3 billion subscribers.

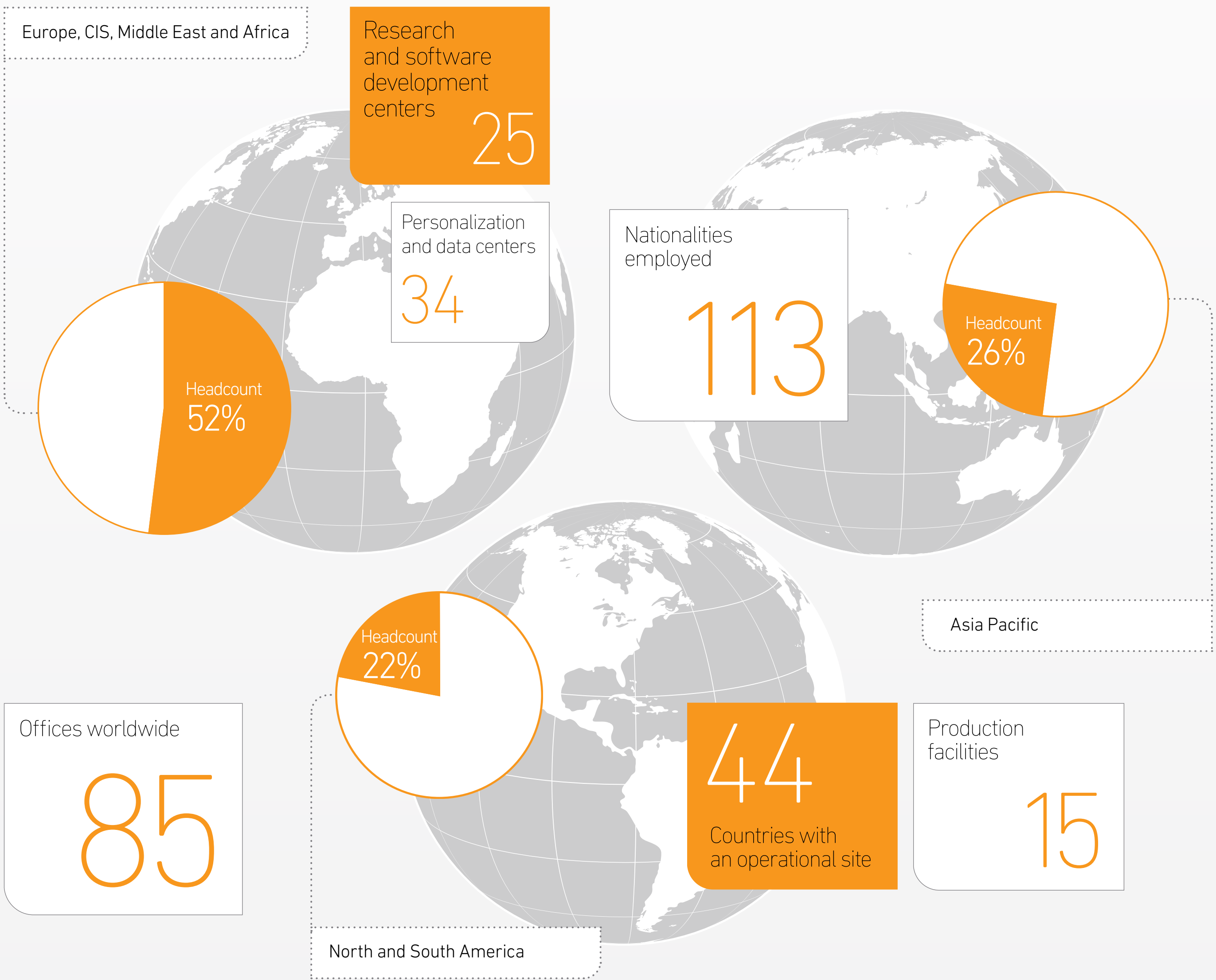
People in place

80

We have been preparing our teams in growing regions and businesses. In the past three years we have continued to recruit a broad and diverse group of employees, of 80 nationalities, 42% of whom work in P&S activities.

We operate **globally** where our clients need us

We are a truly international company with clients from some 190 countries. They are served by our employees of over 110 nationalities operating from a worldwide network of R&D sites, personalization and data centers and production facilities. And we systematically share our expertise through a series of client-focused forums addressing the opportunities in growth markets on different continents.

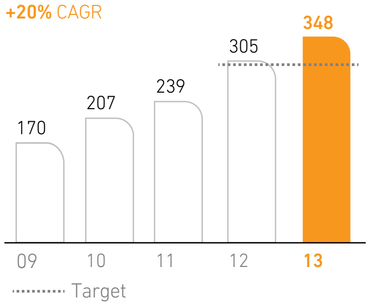


We **successfully concluded** our previous development plan

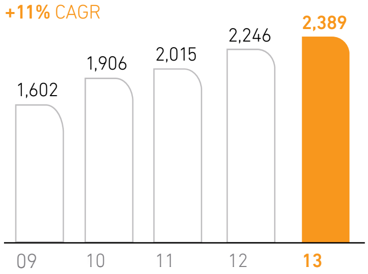
We achieved our 2010–2013 long-range plan objective one year early, with growth in every segment, and in both our Embedded software & Products, and our Platforms & Services activities.

Our 2013 PFO objective was €300m: we exceeded our PFO increase target by 37%

Profit from ongoing operations €m

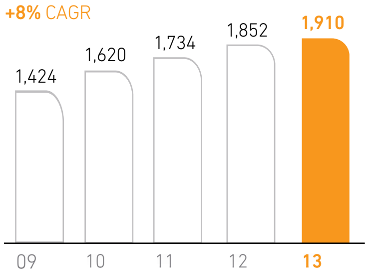


Revenue €m

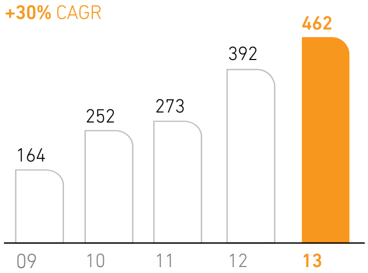


Per activity

Revenue Embedded software & Products €m

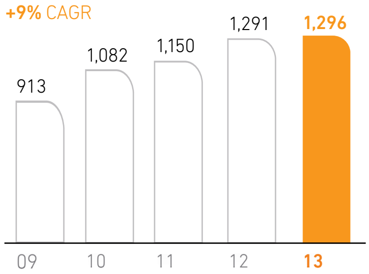


Revenue Platforms & Services €m

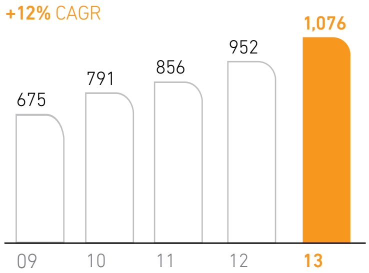


Per sector

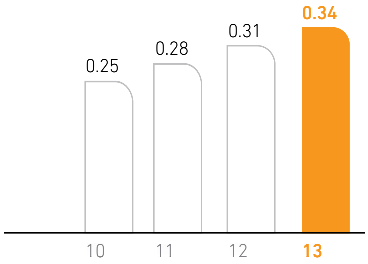
Revenue Mobile €m



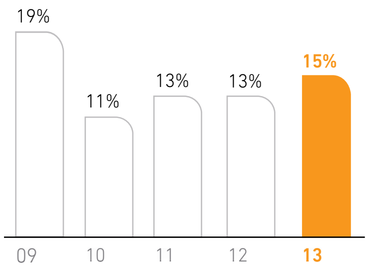
Revenue Payment & Identity €m



Dividend €



Net cash as part of total assets %



- 2009 figures as presented in the 2010 annual report.
- "Mobile" includes the Mobile Communication and Machine-to-Machine segments, "Payment & Identity" includes the Secure Transactions and Security segments.
- Mobile Communication includes the contribution from Public Telephony.

We've set new, **ambitious targets** for the future

In September 2013 we launched our 2014–2017 development plan. With it, we announced a new set of Simple, Measurable, Ambitious, Reachable, Time-defined (SMART) targets.

We will double our profit from operations by 2017

€600m

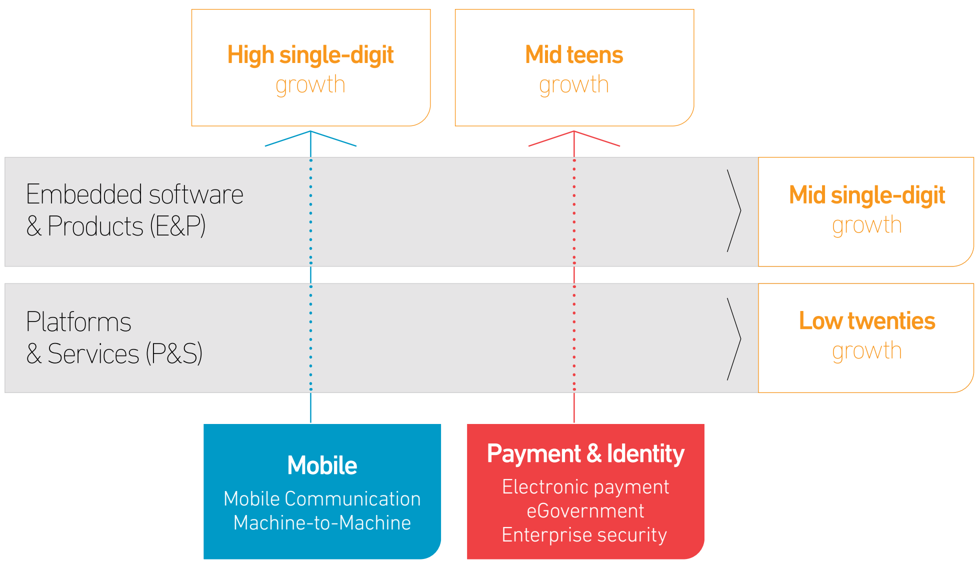
+

we will generate

€1bn

revenue in Platforms & Services by 2017

A new plan founded on growth across all our main activities



Providing further solid improvements in our financial performance, due to better:

Revenue mix

- Lower proportion of hardware
- More platforms usage and users
- Richer embedded software

+

Scale effect

- Replication of projects and higher utilization of infrastructure
- Wider distribution of products
- Better absorption of G&A

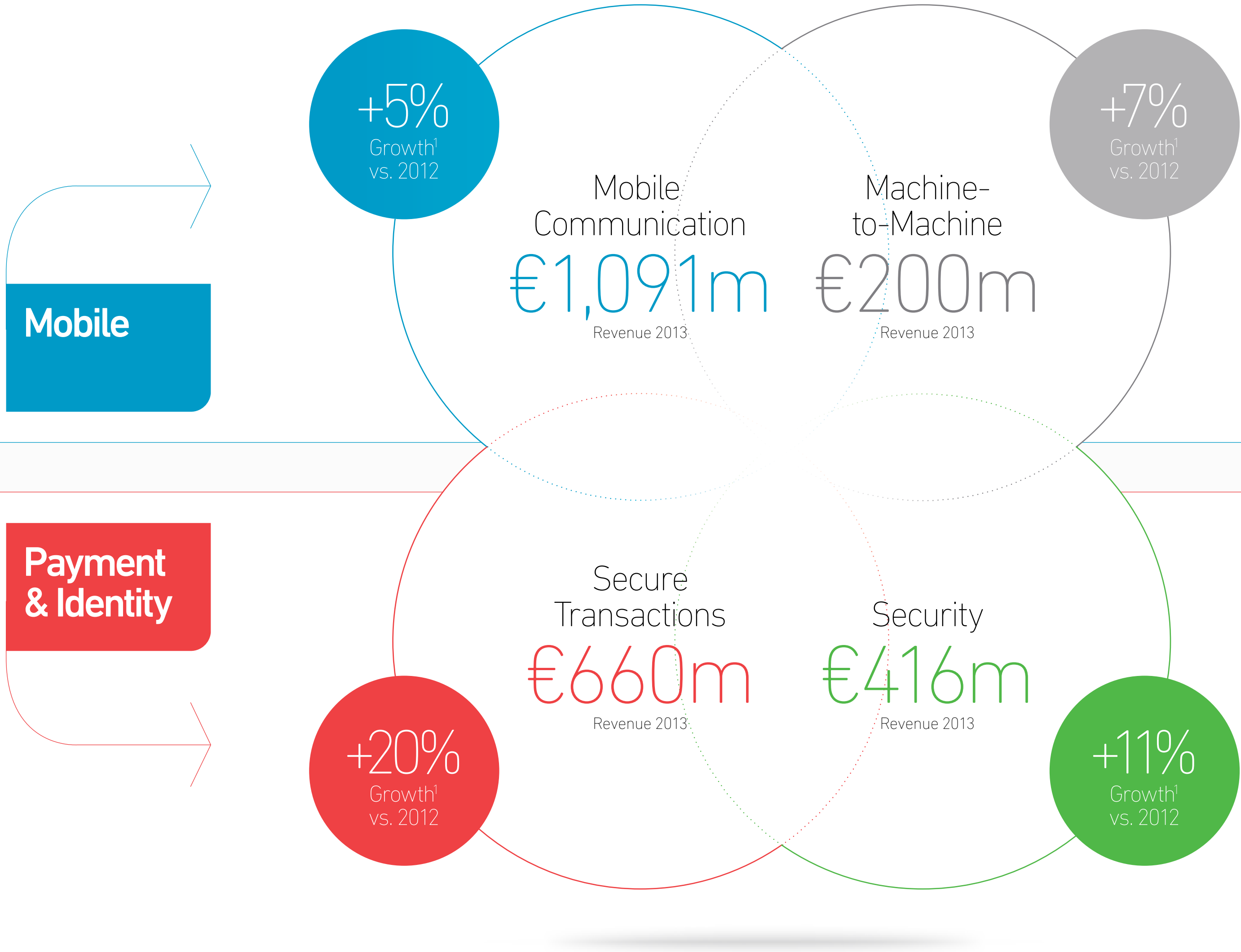
Trust. Every day

That's how the Brazilian Environmental Protection Agency is fighting illegal deforestation in the Amazon rainforest – using Gemalto's Cinterion M2M technology.

RUGGED, DISCREET SENSORS WITH HIGH-PERFORMANCE WIRELESS CONNECTIVITY ARE INSTALLED IN TREES AND SEND ALARMS IF REMOVED FROM PROTECTED AREAS, ENABLING OFFICIALS TO TRACK THEM BEFORE THEY ARE SOLD.

CONFIRMING OUR EXPERTISE IN THE INTERNET OF THINGS, THE SOLUTION WON A 'SESAME' AWARD FOR ITS IMPACTFUL INNOVATION AT THE 2013 CARTES INTERNATIONAL TRADESHOW.

In 2013, our four main segments saw **strong growth**



We report our performance in four main business segments, each of which contains Embedded software & Products and Platforms & Services activities. Since our markets and technologies are inter-related, some products, platforms or services can potentially be sold in more than one segment. In such cases, it is the market of the primary client that determines the attribution of the activity to a segment.

[1] In the segmental review, revenue variations are at constant exchange rates and all other figures are at historical exchange rates except where otherwise noted

And their future is driven by **ten major opportunities**

Embedded software & Products

SIM cards and embedded secure clients

Mobile connections are proliferating

Mobile penetration continues to grow in developing countries, and in the developed world people often have several mobile devices using our secure technology. Multi-tenant SIMs and built-in secure elements mean more embedded software and multiple opportunities per device, and rapid innovation encourages regular upgrades.

M2M modules and MIMs

Things are getting connected too

The next decade will see a huge upsurge in machines using wireless networks to communicate with one another, e.g. in the health, energy and automobile sectors. We have market-leading solutions for both ends of the connection, and for managing both operators' and industrial customers' systems.

Electronic payment cards

Card payment is still growing

Global card payment has grown far faster than total consumer spending over the past decade[4]. And the switch to Chip & PIN still has a long way to go: some major countries have only just begun an initial migration that typically takes five to six years. The opportunities to sell both advanced cards and services are huge.

Online access for users

You don't always need a branch to bank in

In the five years to 2017 we expect the number of people banking from a PC to rise 84% and those banking from a mobile to rise 340% – to make a total of some 3 billion[5]. And we are leaders in online banking security.

eGovernment documents

Administration goes digital too

For governments, eID systems offer several benefits. They increase security and cut fraud, take paper out of the system and can improve service to citizens. ePassport deployments will continue to increase, while penetration of other eGovernment credentials will more than triple by 2017[6].

Platforms & Services

Trust infrastructure

Digital interactions need trusted connections

A new shared and trusted global infrastructure, the Trusted Service Manager (TSM) network, is enabling consumers to connect securely to all sorts of online services – and we are at the heart of it. In ten years, TSM could be linking 5 billion consumers to at least two services each[1].

Core back-end services

More users, more usage, more services

Our secure management services to mobile network operators continue to grow, boosted by new capabilities like activating 4G subscriptions and enabling consumers to pay for online purchases via their phone bill – particularly valuable in developing countries where many subscribers lack bank accounts.

Payment platforms and services

Consumers want more ways to pay

Today there are 9 billion card-based payment accounts[2]. And increasingly, consumers want more ways to pay using at least two other connected devices[3]. Potentially that's 27 billion payment credentials to issue, secure and manage, with contactless and NFC technologies as further growth drivers.

Accessing online services

We're taking our own devices to work

The strong authentication technology we use for banks works just as well for enterprises. They're moving more of their data to the cloud, and letting employees access corporate networks from their own personal devices. In ten years we foresee a tenfold increase in demand for cloud authentication services.

eGovernment platforms and services

eID opens the door to new services for citizens

Behind eDocuments we build automated systems. These can enable you to complete and digitally sign forms as well as access government services online conveniently and securely. They can also check your passport ID against relevant databases and automatically open border gates, for example, or allow online issuance and management of visas. We are leaders in this industry.

[1] Gemalto
[2] Nilson Report, National Gold Card Foundation, EMVCo
[3] Cisco VNI
[4] Moody's Analytics, Euromonitor International Merchant Segment Study 2012
[5] Gemalto
[6] ICAO, ABI Research

Segmental review

Mobile Communication

"Mobile Communication recorded annual revenue of €1.09 billion, up +5% at constant exchange rates, posting another solid performance on top of the +10% year-on-year expansion recorded the previous year."

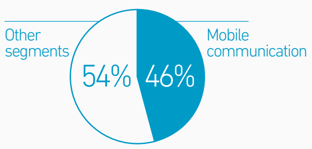
Mobile Communication highlights (€m)

Revenue

€1,091m

2012: **€1,090m**

Revenue



Gross profit

€497m

2012: **€471m**

Gross margin

45.5%

(up **230** basis points)

Profit from operations

€205m

2012: **€193m**

Profit margin from operations

18.8%

(up **110** basis points)

Performance review

Mobile Communication recorded annual revenue of €1.09 billion, up +5% at constant exchange rates, posting another solid performance on top of the +10% year-on-year expansion recorded the previous year. Both Embedded software & Products and Platforms & Services activities contributed to revenue growth.

In Embedded software & Products (E&P), deployment of LTE and multi-tenant secure elements drove mix improvement. Revenue grew by +1% after the +6% increase recorded in 2012. The revenue decrease in entry-range Qipso prepaid 2G products lowered the growth of this E&P activity by 3 percentage points, as the Company intentionally limited its market presence in this segment particularly affected by a strong market contraction in India. At the other end of the product portfolio, the increasing penetration of LTE networks and the roll-outs of multi-tenant SIM cards designed to secure third-party mobile services drove a strong sales increase of the Company's UpTeq high-end products.

Platforms & Services (P&S) grew by +19% year-on-year on the back of the continuing deployment of LTE subscription management platforms, trust infrastructure, and other remote management services. In the fourth quarter, a lower growth in this activity was observed, resulting from a change in the revenue accounting methodology in the Netsize/IPX consolidated entity, which reduced Platforms & Services and the total segment revenue by (€8) million net. Activity remained intense throughout the entire year with the ongoing deployment phase of secure mobile services and the number of signed contracts covering Trusted Service Management services and Gemalto Mobile Payment Platforms increased faster than the number of contracts delivered, maintaining a solid delivery pipeline.

Gross margin improved by +2.3 percentage points to 46%, supported by the improved product mix and despite the extensive system integration work engaged in the P&S activity to deploy large-scale high-availability service platforms.

Operating expenses, higher by +5% on the previous year, accounted for 27% of the revenue, a figure up by +1.2 percentage points on the previous year, now including the year-on-year impact of investments made in the second part of 2012 to accompany the strong expansion in the Platforms & Services activity.

As a result of the above, the segment's profit from operations rose by +€12 million to €205 million, up by +6% and accounting for 19% of the segment's revenue.

CASE STUDY

NFC payment Brazil

Paying with a wave? **Trust** us to make it happen

NFC technology offers a new level of convenience for on-the-go payments like buying a coffee or a bus ticket. Just wave your NFC-equipped device close to a payment terminal, and the bill's paid.

We're bringing NFC payment to Brazil with our SIM technology and Trusted Services Management platform. Our clients include mobile operator TIM Brasil, with 70 million subscribers, and Banco Itaú, one of the world's largest banks.

THEY'RE PILOTING THE SYSTEM WITH OVER 100 POPULAR RESTAURANTS, COFFEE SHOPS AND LOCAL STORES. AS THE PROGRAM EXPANDS WE'LL USE OVER-THE-AIR TECHNOLOGY TO SECURELY INSTALL A WIDE RANGE OF NFC SERVICES – INCLUDING PUBLIC TRANSPORT TICKETING – ONTO USERS' DEVICES.

Opportunities continue to expand

Although the number of mobile subscriptions now nearly equals the world population[1] the mobile market still offers numerous opportunities. In developing countries, many people are still buying their first handsets or are beginning to exchange their basic phones for low-priced smartphones[2]. Elsewhere – particularly in three of the high-growth BRIC[3] markets – consumers increasingly own multiple devices[4]. For Gemalto, this is particularly significant when the average replacement cycle of our products is two years[5]. These include secure operating systems embedded in SIM and UICC cards, authenticating every user and opening the door to mobile services.

Beyond this, smart devices with internet browsers, and the initial deployment of multi-tenant SIMs, are enabling users to benefit from new kinds of service from a wide range of providers. All this is driving strong growth in mobile data volumes[6] and contributing to the demand for next generation LTE/4G networks. New technologies such as Near-Field Communication (NFC) are also creating new possibilities for secure value-added services using mobile devices.

Increasing need for trust

For Gemalto, this means sustained demand for our portfolio of Embedded software & Products as well as our Platforms & Services offers. The proliferation of always-connected devices performing valuable transactions is also increasing the requirement for trust infrastructures – a market in which our Trusted Service Management (TSM) and Mobile Payment services are pre-eminent. In Japan, for example, network operator SoftBank Mobile recently chose Gemalto technology for the commercial launch of its NFC payment offering.

1 6.6 billion mobile subscriptions Q3 2013: Ericsson Mobility Report Nov 2013
2 Ericsson Mobility Report Nov 2013
3 BRIC: Brazil, Russia, India, China
4 Nielsen Newswire Feb 2013 (http://www.nielsen.com/us/en/newswire/2013/multiple-phone-use-is-rising-in-bric-markets.html)
5 Gemalto
6 Mobile data traffic forecast growth 13x 2012–2017: Cisco Visual Networking Index (VNI) Global Mobile Data Traffic Forecast Update Feb 2013

Segmental review

Machine-to-Machine

"Machine-to-Machine posted revenue of €200 million, an increase of +7% compared to the previous year, a solid performance."

Performance review

Machine-to-Machine posted revenue of €200 million, an increase of +7% compared to the previous year, evidencing a solid performance since the global industrial sectors' growth was limited. The automotive sector, a wider usage of secure elements dedicated to machine identification, and new service contracts drove the annual sales increase.

The segment's gross profit was up by +13%, due to the increase in sales and a temporary uplift in gross margin of +2.8 percentage points.

Operating expenses remained under tight control and internal efficiency improved through a better alignment of resources on targeted end-markets.

Consequently, profit from operations rose sharply to €22 million, up +57% on the previous year, to account for 11% of the segment's revenue.

Things get connected

Personal phones and tablets are not the only devices connected to mobile networks. Secure mobile communication is now playing a major role in the 'internet of things' – a role that is set to grow exponentially over the next decade[1]. Machine-to-Machine (M2M) communication turns objects into manageable assets and it already has thousands of industrial applications, bringing improved efficiency and new business opportunities to sectors including automotive, utilities, healthcare, payment, security, logistics and transport.

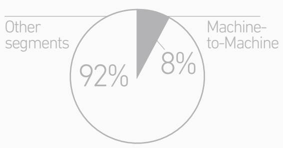
Machine-to-Machine highlights (€m)

Revenue

€200m

2012: **€192m**

Revenue



Gross profit

€72m

2012: **€64m**

Gross margin

36.0%

(up **280** basis points)

Profit from operations

€22m

2012: **€14m**

Profit margin from operations

11.0%

(up **370** basis points)

[1] M2M shipments to grow 24% CAGR to 2018: Berg Insight The Global Wireless M2M Market Oct 2013

CASE STUDY

Personal locator US/global

Trusted to safeguard vulnerable people

People who care for sufferers of autism, dementia and Alzheimer's can't supervise them all the time. Keeping tabs on them is a challenge – unless they're wearing the innovative new TRiLOC™ GPS personal locator wristwatch.

This uses an ultra-slim Gemalto M2M module to provide 24/7 GPS tracking and communication with a carer's PC or cellphone. It can also connect to medical monitoring equipment and has an SOS button to call for help.

SO NOW PEOPLE WITH SPECIAL NEEDS CAN BE SAFEGUARDED WHILE INCREASING THEIR INDEPENDENCE – AN ATTRACTIVE PROSPECT FOR OVER 60 MILLION CARERS WORLDWIDE.[2]

Positioned for growth

Often, mobile networks are the simplest way to make connections between things. To use them for machines and objects, they need an M2M module – similar to the electronics in a cellphone – plus a SIM-like chip, known as a MIM. These connections need to be highly secure – given the critical nature of the data involved from power grids, medical services and so on. Gemalto's expertise in secure embedded software is vital to our clients, and we are the leader[1] in this growing market.

In addition, our back-end services ensure our solutions are not only secure but simple to use. For a company such as an auto manufacturer managing the subscriptions of hundreds of thousands of M2M-equipped vehicles around the world could potentially be a complex task. Alongside our cloud-based M2M application enablement platform, our installed base of Trusted Service Manager and Over-the-Air subscription management systems enables us to provide solutions which considerably simplify the undertaking for our clients. As a result, both our Products and also our Platforms & Services businesses are well positioned to benefit as mobile M2M takes off globally.

1 IHS Cellular M2M Market Tracker May 2013

2 Autism Wandering Awareness Alerts Response Education (AWAARE) and American Health Assistance Foundation (AHAF)

Segmental review

Secure Transactions

Financial Services, Transport

"Secure Transactions posted revenue of €660 million, expanding by a remarkable +20% at constant exchange rates in comparison to 2012."

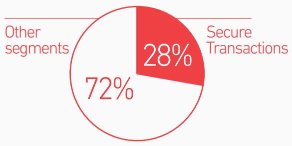
Secure Transactions highlights (€m)

Revenue

€660m

2012: **€568m**

Revenue



Gross profit

€206m

2012: **€183m**

Gross margin

31.2%

(down **100** basis points)

Profit from operations

€77m

2012: **€62m**

Profit margin from operations

11.6%

(up **60** basis points)

Performance review

Secure Transactions posted revenue of €660 million, expanding by a remarkable +20% at constant exchange rates in comparison to 2012. The segment's growth was driven by the increasing adoption of dual interface payment cards – adding the benefit of NFC contactless tap-and-pay to the traditional chip-based secure payment card experience – and by the accelerating migration to EMV in Asian countries. The multiple ongoing initiatives at financial institutions and retailers for mobile payment also contributed to the expansion of the segment's Platforms & Services activities revenue to €122 million, up by +9%.

Gross profit increased by +13%, to €206 million representing a gross margin of 31%. Improvement over the course of the year in operational efficiency of new facilities built to support high growth regions offset the increasing integration work related to mobile payment projects. This led to a slight increase in gross margin year-on-year in the second semester after a lower performance in the first semester.

Operating expenses increased by +7% to support expanding operations and they reduced by (2) percentage points in proportion to sales to represent 20% of revenue.

Significant gross profit expansion and controlled development of the segment's operating costs led to further profit margin improvement, which reached 12% of sales, and increased profit from operations to €77 million, up by +23% versus 2012.

CASE STUDY

Innovative transactions Singapore

Bringing a richer user **experience** for payment and online banking

Standard Chartered Bank wanted their customers to have an enhanced facility for both card payment and eBanking – but with no compromise between security and convenience.

Gemalto's PAD & PAY solution was the perfect answer – an innovative two-in-one card featuring a small LCD display combining EMV payment with a One-time Password and transaction signing for eBanking. Card personalization is performed in Gemalto's own certified facilities, providing the highest level of security.

AS PART OF AN END-TO-END OFFERING, GEMALTO IS ALSO PROVIDING THE AUTHENTICATION SERVER, CARD PERSONALIZATION, FULFILLMENT AND PROJECT IMPLEMENTATION.

More ways to pay

The world's preferred payment method looks set to become digital. Card payment, at some $10 trillion annually[1], already accounts for about a third of all payments globally[2] and is itself growing faster than the overall payments market. And the emerging mobile payments market is spreading even more rapidly[3] with strong growth forecast for the coming years.

Card issuers worldwide are continuing to adopt EMV[4], the global standard for chip-based cards. With some major nations now starting their migration to EMV, we expect this market to grow substantially by 2017. Meanwhile, banks have begun to issue cards with contactless technology pushing total shipments up 41% against 2012[5] such that by 2017 we expect half of all cards shipped to be contactless[6]. In this context, consumers' payment options continue to proliferate and Gemalto is a major and innovative supplier to this market, securing digital transactions across many different interfaces including cards, cellphones and other devices.

Mobile opportunities multiply

As mobile payment opportunities multiply, the number of credentials needing to be secured is growing exponentially. This is a major driver for our Platforms & Services business. And with the arrival of NFC[7] technology, mobile devices are going contactless too with some 500 million NFC-enabled devices expected to be in use in early 2014[8]. As well as securing payments, we also secure online banking services – a market expected to be well over 1 billion users by 2017[9].

1 Moody's Analytics: The Impact of Electronic Payments on Economic Growth February 2013
2 Moody's Analytics (idem)
3 Global mobile transaction volume/value to grow 35% p.a. 2012–2017: Gartner
4 EMV: Europay, MasterCard, Visa
5 Eurosmart PR Nov 2013
6 Gemalto
7 NFC: Near-Field Communication
8 ABI Research: Tapping in to NFC Growth September 2013
9 Gemalto

Segmental review

Security

Government, Identity & Access Management

"Security recorded +11% growth at constant exchange rates on top of the +19% growth delivered the previous year, to reach €416 million. Both Government Programs and Identity & Access Management posted double-digit expansion in sales."

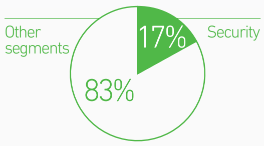
Security highlights (€m)

Revenue

€416m

2012: **€384m**

Revenue



Gross profit

€148m

2012: **€142m**

Gross margin

35.5%

(down **160** basis points)

Profit from operations

€41m

2012: **€45m**

Profit margin from operations

9.8%

(down **190** basis points)

Performance review

Security recorded +11% growth at constant exchange rates on top of the +19% growth delivered the previous year, to reach €416 million. Both Government Programs and Identity & Access Management posted double-digit expansions in sales.

Across the segment, Platforms & Services revenue rose by +42% to €93 million, representing 22% of total segment revenue, driven by the delivery of larger global projects to governments and by the growing sales of strong authentication servers to enterprises and banking institutions.

In Government Programs, business activities developed well, with multiple global projects related to border management and integration of electronic identity into governmental services. Passports, national IDs and driving licenses further supported the increase in sales.

Identity & Access Management continued to expand with organizations that realize how critical cloud and network users' identification has become to their business and reputation. The investment made towards reinforcing Gemalto's portfolio of strong authentication solutions for on-premise and outsourced cloud infrastructures led to a particularly strong growth in Platforms & Services, complementing the expansion in authentication products for online banking security.

Gross profit increased to €148 million, up +4%. As planned, operational performance steadily improved throughout the year in newly opened facilities to support growth in Government Programs and in the second semester, gross margin returned to about the same level as the previous year.

In order to accompany the segment growth, investments in operations were sustained. The increase in operating expenses was slightly higher in the second semester compared to 2012 since the second semester of 2012 benefited from a €2 million gain in Other income. Operating expenses grew this year essentially in line with sales, adding +10% to 2012 figures.

As a result of these investments, profit from operations was €41 million for the full year 2013 compared to €45 million in 2012, and represented 10% of the segment's revenue.

CASE STUDY

Electronic ID South Africa

Consolidating **trust** in citizenship

Citizenship and identity matter deeply in South Africa. So it was a significant moment when the surviving defendants of the historic Rivonia trial – Nelson Mandela, Denis Goldberg, Ahmed Kathrada and Andrew Mlangeni – were among the first people to receive the country's new 'smart' ID cards in 2013.

The Department of Home Affairs says that the card program is part of efforts by the government to consolidate the restoration of national identity, citizenship and dignity.

GEMALTO WAS CHOSEN BECAUSE OF ITS ABILITY TO PROVIDE THE SMART ID CARDS WITH SECURE EMBEDDED SOFTWARE, ITS EXPERTISE IN CONTACTLESS TECHNOLOGY, AND ITS CAPACITY TO DELIVER THE DURABLE POLYCARBONATE DOCUMENTS WITHIN AN AMBITIOUS SCHEDULE.

Governments broaden eDocumentation

Governments are embracing eDocuments to enhance security, cut costs, combat document and benefit fraud, and improve services. Penetration of ePassports is expected to rise from 40% today to some 50% by 2017[1], with Gemalto providing both products and back-end services. By then we also expect to see 2.7 billion other eDocuments in circulation[2] including drivers' licenses and eID, eHealth and eVoter cards. We are also working with 20 governments to put such documents onto mobile devices. In addition, we offer an extensive portfolio of eGovernment applications including online voting, tax payment, vehicle registration and so on. Procurement in this sector is reference driven and our leadership, with over 80 projects worldwide, is a major competitive advantage.

In 2013, for example, we were appointed as prime contractor by Ghana Immigration Service to supply a secure electronic visa and border management solution. This is part of 'eGhana', a project backed by the World Bank to create a modern IT infrastructure able to support the country's sustainable development plans.

Cloud drives corporate need for ID

Two trends in the way enterprises work are increasing demand for strong authentication. First, applications are moving to the Cloud, allowing employees to access them from anywhere. Second, employees increasingly want to access corporate resources from their own mobile devices – at work, at home and on the move (BYOD). Our existing technical architecture enables us to meet this demand and develop specialized vertical market offers for groups such as doctors, financial traders and security forces. Now smaller companies are also able to adopt this technology that has traditionally been reserved for 'big enterprise', opening up a significant new market.

[1] ABI Research "Government and Healthcare Citizen ID Cards 2012-18"
[2] ABI Research "Government and Healthcare Citizen ID Cards 2012-18"

Trust. Every day

That's how millions of people in Bangladesh are gaining access to banking services for the first time.

OUR SMARTCARD-BASED SOLUTION BRINGS SECURE MICROFINANCE FACILITIES TO PEOPLE WHO CONVENTIONAL BANKS CAN'T REACH.

IT'S PART OF THE PRIME CASH PROGRAM WHICH IS CONTRIBUTING TO THE DIGITAL BANGLADESH CAMPAIGN.

Our approach to **sustainability**

> "Sustainability is second nature to Gemalto. With our leadership in digital security, the very essence of our work, providing trust to the digital world, means we fulfill **a noble social role**."

Highlights

Investment in R&D in 2013

€143m

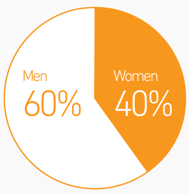
Number of employees' nationalities

113
in 44 countries

Signed supplier's charter

87%
of Tier 1 corporate suppliers

Diversity



ISO 14001 certifications

22
sites

Further information about our sustainability policies and performance can be found at www.gemalto.com/companyinfo/sustainability and in our Sustainability Report (published May 2014).

Strategic direction

Sustainability is an integral part of the way we run our company – one that we recognize is central to the prosperity and resilience of our own and our clients' businesses.

The Gemalto Board has overall responsibility for the Company's sustainability vision. This responsibility is incorporated into the Board charter, and our sustainability management is organized accordingly.

In 2013 we established the Sustainability Board as a forum for reviewing our strategy in this area. It is chaired by the CEO and comprises those Executive Vice-Presidents (EVPs) who report directly to him. Three of these EVPs supervise a Steering committee, comprising representatives of each main department of the Company, which coordinates our sustainability policy and activities.

What we stand for

Sustainability is second nature to Gemalto. With our leadership in digital security, our solutions touch billions of people's lives. From supporting remote healthcare services to enabling financial inclusion, the very essence of our work means we fulfill a 'noble social role'.

In addition, as a long-term signatory to the United Nations Global Compact, we benchmark our policies and performance against world-class companies and review them annually against the Compact's ten principles on human and labor rights, anti-corruption and the environment.

Our approach to sustainability also reflects our values. These are combined in a robust ethical framework which underpins our sustainability activities and focuses them on our strategic priorities (see next page).

How we comply

Our sites – and management systems – are compliant with a range of ISO standards and they are subject to numerous assessments and external certifications. These standards include: Quality (ISO 9001), Environment (ISO 14001), Health and Safety (OHSAS 18001) and Security (ISO 27001). In addition we comply with ISO 14040-44, as well as ROHS, Reach and WEEE regulations. We are also committed to the UN's Universal Declaration of Human Rights, and to the International Labor Organization's standards.

In addition, our systems comprise robust processes for the management and control of risk; and they are subject to rigorous internal audit and reporting procedures. To reinforce our compliance, protection and security with respect to data, we appointed a Director of Global Data Privacy in 2013. His role is to establish and maintain Gemalto's institutional knowledge of laws and requirements, provide training to ensure compliance, advise and implement policies and practices, strengthen our control of privacy risks and promote privacy protection in all our activities.

Our sustainability priorities

1 Supporting our customers

We put customers' evolving needs at the heart of our activities, in the products and platforms we create and the services we offer. By consistently innovating, we retain the loyalty of existing customers, attract new ones, broaden our commercial opportunities, and have a positive impact on the end-users' digital lives.

2 Reducing our environmental impact

By managing our energy and water consumption, monitoring our waste and transport, and reducing our environmental footprint, we are able to minimize our costs, support our business strategy and enhance our reputation.

3 Valuing our people

As a world-leading digital security business we need a committed, motivated and innovative workforce that reflects the diversity of our business and our customers. We have clear human resources priorities and systems to attract, nurture and retain the best talent – because fundamentally, Gemalto is built on the ingenuity and dedication of its people.

4 Managing our business responsibly

Good governance and business ethics are essential to enhancing investor and customer confidence, and build trust. We actively manage our risks; have robust, certified anti-fraud systems; and apply our ethical standards throughout our value chain.

"By building a highly reputable organization with a strong ethical foundation and a respected culture of innovation, we attract and retain talented people who recognize that Gemalto fits their own personal values and aspirations."

Olivier Piou
Chief Executive Officer

Sustainability in focus

"As the world mobilizes and digitizes, we innovate so our clients can offer more ways of enhancing the security and convenience of their end-users' digital lives. And in so doing, we aim to achieve our vision of helping people to trust one another in an increasingly connected digital world."

CASE STUDY
Bio-sourced payment cards Lebanon

Byblos Bank is deeply committed to the development of a sustainable environment in Lebanon. Seeking to express this throughout its operations, in 2013 Byblos turned to Gemalto to supply bio-sourced banking cards – a first in the Middle East.

Authorized by MasterCard and Visa, the cards use renewable materials that are easily recyclable and compostable. Furthermore, their outstanding green credentials have been achieved without compromising security or durability.

Thus Gemalto's green solutions are helping banks to put their environmental values in practice, reduce business overheads and enhance customer communications.

Supporting our customers

Gemalto's purpose is to enable our clients to offer trusted and convenient digital services to billions of individuals. We do this in many ways, including:

Innovating for the long term

Innovation is one of our three core values, and continuous innovation is essential if we are going to sustainably serve our customers with technologies that both enhance digital security and have a positive impact on society and the environment.

We have 2,000 engineers based in 25 research and software development centers worldwide. This represents an exceptional pool of talent to develop the products and services that help our customers to deliver safe, positive, sustainable solutions to their end-users. This includes offering more environmentally-friendly products using our eco-design techniques, and services that aid global social inclusion.

Delivering responsible solutions

Amongst the responsible solutions we provide, one focus is on financial inclusion. Around the world there are 2.5 billion people over the age of 15 who do not have bank accounts[1]. By offering secure alternatives that can even be used on basic mobile phones, we are providing access to financial services to nearly one billion people, often in remote and deprived communities.

In Kenya, for example, we are contributing to the M-Pesa solution which is used by over 80% of the population. By facilitating secure, convenient financial flows between urban and rural areas, it can increase household incomes and have a positive effect on the entire economy.

Offering eco-design products and services

Historically, we've developed eco-friendly products for clients in three of our main markets: Financial Services, Mobile Communication and Government. They are based on our quest for ways of balancing both the marketability and the sustainability of our solutions.

Our designs are underpinned by two main principles: reducing the volume of material that we use; and developing and using alternative materials that are more environmentally friendly.

Significant achievements have included introducing plug-only SIM cards, bank card bodies based on bio-sourced material (polylactic acid) and work with customers to recycle cards when they expire.

Additionally, we have pioneered tools such as our carbon footprint modeling, which not only enable us to quantify the environmental impact of our manufacturing, but also help customers to calculate the CO_2 emissions associated with specific products.

[1] The Global Findex Database, Measuring Financial Inclusion, April 2012

Our strategic approach to Human Resources

Reducing our environmental impact

There are three main elements to the management and control of our environmental impacts. These are:

- ISO 14001 international certification – which requires an annual review of our environmental risks and actual impacts.
- Compliance with national and international regulations – which often relate to the management of hazardous substances.
- Manufacturing processes and our supply chain – responding to customer requests for details of our environmental performance.

Auditing our systems

22 of our sites are certified ISO 14001. This represents 77% of our main sites and 95% of our employees. The sites are audited at least once a year by ISO 14001-accredited companies. They assess the effectiveness of our Environmental Management Systems, reviewing their risk and impact analyses, and the relevance and efficiency of any improvement plans.

External advisors are also used to evaluate our monitoring of legal requirements and our response to changes in regulation.

Managing our actions

The principal impacts of our operations are managed through site action plans. These focus on consumption of energy, water, and materials; management of waste; and reduction of greenhouse gas (GHG) emissions. Many of our customers encourage us in these actions through their own strategies for climate change management, and their interest in the CO_2 footprint of the products we supply.

Valuing our people

Our Human Resources strategy is founded on eight key pillars, two of which relate to recruitment and diversity. We believe that the makeup of our workforce should reflect the global spread of our clients, so we have continued to recruit from around the world and our geographical headcount broadly matches our geographical revenue distribution. Our employees now comprise some 113 nationalities.

Promoting diversity

By promoting diversity, we aim to create cross-functional and cross-national networks of people. This year, for example, we formed a professional women's network – Gemalto Connected Women – as a forum for the exchange of best practice, learning opportunities and contacts for female managers in our company.

We are also putting an increasing emphasis on developing women in managerial positions. In 2013, our R&D Software Director won the French Women of Industry award. She oversees the work of 500 engineers from 30 nationalities in 11 countries. And as of 1 January 2014, two women were promoted to the Senior Management team, reporting to our CEO.

In May 2013 we also appointed our third female Board member, Dr Homaira Akbari. We now have three women on the Board.

Increasing confidence

Overall, the strength of our Human Resources strategy was reflected in the results of our latest employee survey. Trust in Gemalto's future continued at a remarkably high level – 81% up 3 points vs. 2012, with 80% response rate.

Feedback on a wide range of subjects is used to create action plans for the year ahead, especially in areas where scores are lower.

High participation levels in the survey suggest that employees understand the link with their role within Gemalto.

Managing our business responsibly

One of the fundamental ways in which we create and maintain trust in Gemalto is by managing it responsibly, in three broad areas:

Sound management and planning founded on ethical values, strong corporate governance, vigilant risk management, prudent continuity planning and responsible financial practices.

Assiduous approach to suppliers and products with responsible regulation of what we buy and who we buy from; and determination that what we sell is of excellent quality and reliability.

Strict attention to laws, guidelines and security by ensuring we comply with or exceed applicable rules and guidelines; confirming our standards through external certifications; and implementing rigorous data protection and security practices.

Trust. Every day

That's how Audi is putting its cars online on the road, with its industry-leading Audi connect LTE/4G infotainment system.

OUR M2M TECHNOLOGY ENABLES HIGH-SPEED WEB SERVICES, WI-FI, MULTIMEDIA STREAMING AND ENHANCED NAVIGATION.

IT'S FAST: CONNECTIVITY IS OPTIMIZED TO FAVOR LTE/4G NETWORKS AND MAXIMIZE 3G SPEEDS WHEN 4G IS UNAVAILABLE.

- Double-digit expansion in profit from operations and revenue, at €348 million and €2,384 million respectively, delivering a 14.6% operational margin
- Platforms & Services revenue up +21% and Embedded software & Products revenue up +8%
- Free cash flow generation accelerated over the year with €163 million in the second semester
- Dividend increase to 38 cents per share will be proposed to the General Meeting of shareholders

Group **financial** review

Basis of preparation of financial information
In this section, the information for the full year of both 2013 and 2012 is presented for "Ongoing operations" and under the 2013 format of segment reporting unless otherwise specified.

Adjusted income statement and profit from operation (PFO) non-GAAP measure
The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

As required by IFRS 8 Operating segments, the Group reports the performance of its operating segments using the same metric that is internally reported to the Chief Operating Decision Maker for the purpose of making decisions about allocating resources to the segments and assessing their performance. This key metric used to evaluate the business and make operating decisions over the period 2010–2013 and 2014–2017 is the Profit from operations.

Profit from operations (PFO) is a non-GAAP measure defined as the IFRS operating result adjusted for the amortization and depreciation of intangibles resulting from acquisitions, for share-based compensation charges, and for restructuring and acquisition-related expenses. These items are further explained on page 121.

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

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

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

For further explanation and reconciliation to IFRS numbers see pages 121-123.

Ongoing operations
For a better understanding of the current and future year-on-year evolution of the business, the Company provides an adjusted income statement for "ongoing operations" for both 2013 and 2012 reporting periods.

The adjusted income statement for ongoing operations excludes, as per the IFRS income statement, the contribution from discontinued operations to the income statement, and also the contribution from assets classified as held for sale and from other items not related to ongoing operations.

For the year 2013 and 2012, reported figures for ongoing operations only differ from figures for all operations by the contribution from non-strategic assets held for sale including the gain recognized upon sale of some of these assets.

Historical exchange rates and constant currency figures
Revenue variations are at constant exchange rates, except where otherwise noted.

All other figures in this section are at historical exchange rates, except where otherwise noted.

The Company sells its products and services in a very large number of countries and is commonly remunerated in other currencies than the euro. Fluctuations in these other currencies exchange rates against the euro have in particular a translation impact on the reported euro value of the Company revenues. Comparisons at constant exchange rates aim at eliminating the effect of currencies translation movements on the analysis of the Group revenue by translating prior-year revenues at the same average exchange rate as applied in the current year.

Adjusted financial information for all operations

In this section, financial information is presented for all operations. In comparison to the adjusted income statement for ongoing operations, the adjusted income statement for all operations also includes:

- For 2012, the contribution from non-strategic assets and from the assets that were contributed to the joint venture Trustonic Ltd, in November 30, 2012.
- For 2013, the contribution from non-strategic assets, that were disposed of in June 2013.

Revenue for all operations of the Company reached €2.39 billion, up by +10% at constant exchange rates and by +6% at historical rates. All business segments contributed positively to growth with an especially strong improvement in Secure Transactions, which represented half of the yearly revenue increase. All regions increased their revenue, with a particularly strong performance in the Americas and Asia. Since the beginning of the 2010-2013 long-term development plan, revenue for all operations of the Company increased by €735 million (€1,654 in 2009), or +44%.

Across all segments, Platforms & Services activities grew by +21%, to account for revenue of €462 million in 2013, generating 36% of the total Company growth and further increasing their share of the Company's revenue. Contributions from both the Mobile sector (subscriber services, trust infrastructure) and Payment & Identity sector (payment platforms, government projects, and authentication services) were similar in proportion.

Gross profit for the Company was up +8%, or €72 million to €936 million, expanding in all segments. This represents a gross margin of 39.2%, higher by +0.7 percentage points compared to 2012. This gross margin improvement came from a better product mix in the Mobile Communication and Machine-to-Machine segments. Improvement in these two segments more than offset both the temporary impact of startup costs for new operations for Secure Transactions and Security that occurred during the first semester and the additional resources expended by Gemalto service delivery teams on the high contract backlog in Platforms & Services.

The increase in operating expenses was +5% with the year-on-year expansion occurring during the first semester. As anticipated, the step-up in investments in operations put in place in the second half of 2012 caused the strong semester-on-semester profit seasonality observed in 2013.

Other income was a charge of (€2) million in 2013 compared to a positive non-recurring contribution of +€9 million in 2012, hence slightly reducing the year-on-year expansion in profit from operations, which came in at €347 million, up +13% on the previous year. All segments contributed significantly to the profit increase, except Security that incurred additional costs in 2013 related to major capacity upgrades. Profit margin from operations for all operations of the Company hence reached 14.5% of revenue, adding +0.9 percentage points on 2012's figure and delivering progress in line with the expected annual gains needed to reach the new long-term objective of €600 million profit from operations in 2017.

Financial income was a charge of €7 million for the year. Net interest income was a charge of €1 million and the foreign exchange transactions and hedging instruments re-evaluation at year-end generated a charge of €11 million. Remaining income mainly came from cumulative translation adjustments recorded upon the sale or liquidation of held-for-sale non-strategic entities.

Share of profit of associates came in at €18 million essentially due to a non-recurring profit relating to associates, mostly generated by the recognition of a gain linked to capital restructuring and IPO of a minority affiliate.

Consequently, adjusted profit before income tax increased by +21%, to €358 million.

Income tax expense was €43 million, resulting in an effective tax rate stable compared to last year and lower than anticipated as a result of the one-off recognition in 2013 of additional deferred tax assets and of a tax credit related to 2012 activities.

As a result, adjusted net profit of the Company for all operations was €315 million in 2013, a +21% increase when compared to €262 million in 2012, and the adjusted net profit margin increased to 13.2%.

Basic adjusted earnings per share for all operations came in at €3.68, up +17%, and fully diluted adjusted earnings per share for all operations settled at €3.57, up +19%.

Adjusted financial information for all operations

	Full year 2013		Full year 2012			
Extract of the adjusted income statement for all operations	**€ in millions**	**As a % of revenue**	€ in millions	As a % of revenue	Year-on-year variation at historical exchange rates	Year-on-year variation at constant exchange rates
Revenue	**2,388.6**		2,245.5		+6%	+10%
Gross profit	**936.2**	**39.2%**	864.4	38.5%	+0.7 ppt	
Operating expenses	**(588.8)**	**(24.7%)**	(558.1)	(24.9%)	+0.2 ppt	
EBITDA	**434.8**	**18.2%**	381.3	17.0%	+1.2 ppt	
Profit from operations	**347.4**	**14.5%**	306.3	13.6%	+0.9 ppt	
Net profit	**315.5**	**13.2%**	261.6	11.7%	+1.6 ppt	
Basic Earnings per share (€)	**3.68**		3.14		+17%	
Diluted Earnings per share (€)	**3.57**		3.00		+19%	

Platforms & Services

Revenue from ongoing operations in Platforms & Services activities (€ in millions)	**2013**	2012	Year-on-year variations at constant exchange rates	Year-on-year variations at historical exchange rates
Mobile	**247**	210	+21%	+18%
Payment & Identity	**215**	181	+21%	+18%
Total	**462**	**392**	**+21%**	**+18%**

Group financial review continued

Cash position variation schedule

€ in millions	Full year 2013	Full year 2012
Cash and cash equivalent, beginning of period	**363**	**330**
Cash generated by operating activities, before changes in working capital	**332**	**311**
Cash provided (used) by working capital decrease (increase)	(76)	(18)
Cash used in restructuring actions	(2)	(8)
Cash generated by operating activities	**255**	**285**
Capital expenditure and acquisitions of intangibles	(103)	(125)
Free cash flow	**152**	**160**
Interest received, net	1	2
Cash used by acquisitions	(30)	(73)
Other cash provided by investing activities	13	5
Currency translation adjustments	(9)	(4)
Cash generated (used) by operating and investing activities	**127**	**89**
Cash used by the share buy-back program	(23)	(45)
Dividend paid to Gemalto shareholders	(29)	(26)
Other cash provided by financing activities	19	14
Cash and cash equivalent, end of period	**456**	**363**
Current and non-current borrowings including finance lease and bank overdrafts, end of period	(7)	(10)
Net cash, end of period	**449**	**353**

Statement of financial position and cash position variation schedule

For the full year 2013, Gemalto generated a cash flow from operating activities before changes in working capital of €332 million compared to €311 million in 2012. Changes in working capital decreased cash flow by (€76) million compared to (€18) million in 2012. The change, which entirely occurred during the first semester, is primarily due to the longer cash collection cycle associated with specific businesses in Asia.

Capital expenditures and acquisition of intangibles amounted to €103 million, or 4.3% of revenue and down from last year's figure of €125 million. Purchases of property, plant, and equipment represented €62 million, versus €68 million in 2012, as investments were made in personalization centers and other facilities to support future growth in the Payment & Identity sector. Capitalized development costs decreased in 2013 to €27 million from €36 million in 2012. Total acquisition and capitalization of intangible assets amounted to €41 million, or 1.7% of sales, down from €57 million in 2012.

Due to the strong variation in working capital observed for the first part of the year, cash conversion demonstrated significant seasonality in 2013, with a positive free cash flow for the full year 2013 of +€152 million composed of a free cash inflow for the second semester of +€163 million and a (€12) million outflow for the first semester relating to rapidly growing businesses in Asia.

Net cash flow from financial income elements was €1 million, corresponding to interest received net. The net impact from investing activities related to acquisitions was €30 million in 2013 down from €73 million in 2012. This consideration corresponds to cash payments made for business combinations completed during the year.

Gemalto's share buy-back program used €23 million in cash in 2013 for the purchase of 336,163 shares, net of the liquidity program. As at December 31, 2013, the Company held 1,743,212 of its own shares in treasury, representing 1.98% of its issued and paid up share capital. The total number of shares issued and paid up remained unchanged during 2013 compared to the end of 2012 at 88,015,844 shares. Net of the 1,743,212 shares held in treasury, 86,272,632 shares were outstanding as at December 31, 2013. The average acquisition price of the shares repurchased on the market as part of the Company's buy-back program and held in treasury as at December 31, 2013 was €50.46.

On May 31, 2013, Gemalto paid a cash dividend of €0.34 per share in respect to the fiscal year 2012. This distribution used €29 million in cash compared to €26 million distributed in 2012, an increase of +13%. Other financing activities generated €19 million, including €32 million received from employees from the exercise of share options and €11 million remitted for the repayment of borrowings.

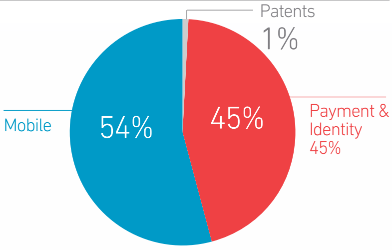
Consequently, Gemalto's cash and cash equivalents as at December 31, 2013 were €456 million. Current and non-current borrowings reduced to €7 million from €10 million in 2012, resulting in a net cash position of €449 million, an increase of +€97 million when compared to December 31, 2012.

For the year 2013, plant, property and equipment assets net book value was stable compared to 2012, at €237 million. Total assets grew by +8% or +€204 million to €2,919 million as at December 31, 2013, compared to €2,715 million as at December 31, 2012, due to the increase of current assets, balanced between trade receivables and cash in relation to the Company's increased business activities.

Shareholders' equity increased by +11%, or +€221 million, to €2,153 million as at December 31, 2013 compared to €1,932 million as at December 31, 2012. The increase was mainly the result of the positive net profit generation, partly offset by the 2012 dividend distribution.

Revenue by sector (%)

Mobile	54%
Payment & Identity	45%
Patents	1%



Full year 2013

Revenue contributions by sector and activity (€ in millions, ongoing operations)	Mobile	Payment & Identity	Total four main segments	Embedded software & Products	Platforms & Services	Total four main segments
Revenue	1,292	1,076	2,368	1,905	462	2,368
As a percentage of total revenue	54%	45%	99%	80%	19%	99%
Year-on-year variations at constant exchange rates	+5%	+16%	+10%	+8%	+21%	+10%
As a percentage of total revenue growth at constant exchange rates	28%	66%	94%	59%	35%	94%

Segment information

In this section, for a better understanding of Gemalto's business evolution, comments and comparisons refer to ongoing operations. Revenue variations are expressed at constant currency exchange rates unless otherwise noted.

In 2013, revenue for ongoing operations, including the four main segments and the Patents activity, came in at €2,384 million, growing +11% on the previous year at constant exchange rates. The Mobile sector grew by +5% and contributed to 28% of total Company growth. The Payment & Identity sector, backed by the outstanding performance in Secure Transactions, generated 66% of total Company growth.

Business development across activities showed a strong performance in Embedded software & Products compared to the expected trend of the new multi-year development plan, with +8% in 2013 – slightly above the mid-single digit compound annual growth rate (CAGR) expected for the new plan – and a very solid performance in Platforms & Services, with +21% in 2013, in line with the low twenties CAGR anticipated in the new plan.

From a geographical perspective, the Americas and Asia-Pacific surpassed Europe–Middle East–Africa in terms of absolute contribution to total growth, accounting for 46%, 34% and 20% of total Company revenue expansion respectively. The United States of America was the largest revenue generating country, with €361 million, or 15% of Gemalto's total revenue, up from €270 million and 12% of total Company revenue in 2012.

In 2013, variations in major currency exchange rates against the Euro created a meaningful adverse translation effect, lowering recorded revenue figures for the full year by (4) percentage points. Most impactful currency variations, in terms of absolute value impact to the Company, were recorded on the US Dollar, Japanese Yen, and Brazilian Real. Growth at constant exchange rates was +11% and +7% at historical exchange rates. This negative impact was particularly important in the second part of the year, as revenue variations observed at historical exchange rates were (6) percentage points lower than variations at constant exchange rates in the second semester.

Profit from operations came in at €348 million, up +14% on the previous year. Since the beginning of the 2010–2013 long-term development plan, profit from operations increased by +€178 million, 37% more than the €130 million increase initially targeted to reach the Company's €300 million objective in 2013. Cash-flow hedging progressively put in place during the plan mitigated a large part of the adverse impact of currencies variations on profit from operations, reducing the negative impact recorded for the full year 2013 to (€8) million.

Over the fourth quarter of 2013, total revenue increased by +7% at constant exchange rates. Year-on-year variations showed different evolutions among segments. In particular, Secure Transactions recorded an outstanding +27% growth, capturing substantial business in Asia, and Mobile Communication's revenue for the fourth quarter was adversely affected by a negative one-off (€8) million net impact from the change in revenue recognition in its Netsize/IPX consolidated entities. In the second semester, all segments contributed to the +9% revenue expansion at constant exchange rates. And for the full year, all segments grew at rates between mid single-digit and low-twenty percent at constant exchange rates.

As anticipated, the Company did not record any significant revenue in its Patents activity in the second semester of 2013. For the full year 2013, patent revenue came in at €16 million, up by €14 million compared to 2012 due to the renewal of a set of licensing agreements signed in the second quarter.

Operating expenses were essentially flat year-on-year resulting in a profit from operations of €3.1 million, compared to a loss of €9.8 million in 2012.

The appeals process of the ongoing litigation initiated by the Company in the United States is expected to wind down in the first semester of 2014.

Outlook

For the full year 2014, Gemalto anticipates double-digit expansion in both profit from operations and revenue at constant exchange rates.

Risk management and control

Trusted to manage our risks

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

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

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

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

> "We see effective risk management as part of our responsibility to customers, as well as to investors, employees and other stakeholders. Our customers trust us to make it integral to our service and our culture."
>
> **Olivier Piou**
> Chief Executive Officer

The foundations of our approach

- Our overall strategy and objectives set the parameters within which we identify and manage risk. They are described on pages 06–13
- Our culture and values shape the manner in which risk management policies and internal control procedures are implemented. They form part of our wider approach to sustainability.
- Our control environment is governed by charters, as well as operational and financial policies and procedures, that set risk management and control standards for the Group's worldwide operations. They are published on our intranet and updated as required.

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

What we focused on during the year

We continue to drive improvements to our risk management process and the quality of risk information generation, whilst at the same time maintaining a simple and practical approach.

During the year we focused on a number of key areas:

- Mitigating group and IT risks.
- Performing risk assessments on new business areas.
- Increasing employees' anti-fraud awareness.

What we plan to do in the future

We will continue to evolve and build on our existing risk management framework, enhancing risk management culture across the business in line with best practices. Our next set of priorities includes:

- Strengthening our resilience to business interruption.
- Performing a new Enterprise Risk Assessment for the 2014–2017 Development Plan.

How we share our risk management responsibilities

We regard risk prevention and management and internal control as part of our culture; a responsibility that is shared by management throughout the organization. We have made sure that Gemalto is set up in such a way as to optimize our ability to manage risks.

The Board

Sets strategic objectives and defines risk appetite.

Reviews the Company's risk management and internal control systems and assesses their effectiveness through its Audit committee.

Senior Management

Oversees suitable design and sustainable implementation of Enterprise Risk Management (ERM) and internal control systems across the Company.

Business and operations management

Identifies and manages risks for their scope of responsibility.

Maintains effective internal control day-to-day.

Business support functions

Defines internal control systems in their scope of expertise ensuring their continuous appropriateness to the Company's risks.

Develops risk management culture and awareness of those internal control systems.

Risk prevention and management and internal control department

Develops and promotes the ERM framework to support management in the identification, assessment, management, monitoring and reporting of risks.

Facilitates consistent and periodic reviews of the design and implementation of internal control systems.

Internal audit

Provides independent assurance on the effectiveness of the management of enterprise risks across the organization.

Key processes

1. Budgeting, planning and reporting
See page 40
2. Risk assessment and mitigation
See page 41
3. Crisis and business continuity management
See page 41
4. Fraud risk management
See page 42
5. Transfer to insurance
See page 42

Foundations

Our processes are underpinned and informed by:

- Strategy and objectives
- Culture and values
- Internal control
- Sustainability

Risk management and control continued

How we address risk management

Our principal risks, together with the main mitigating actions are explained on pages 44–45.

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

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

1. Budgeting, planning and reporting

Our processes ensure that our decision-makers have the data they need to support informed and timely decisions. We maintain detailed budget and planning processes based on a number of complementary reporting systems. The relevance of these processes, as well as their Key Performance Indicators (KPIs), are regularly reviewed by the Audit committee.

Our 2014–17 Development Plan, prepared in line with Group objectives and strategy, encompasses the whole Group.

The planning process includes an analysis of our ecosystem and of the competition across our different activities, as well as an evaluation of our Strengths, Weaknesses, Opportunities and Threats (SWOT).

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

Our operating and financial results are reported and reviewed monthly and quarterly. Operating results are reviewed in detail in the first days of the following month by our Group Controller and the Executive Vice-President and/or Controller of each segment and geographic area, on a date fixed in advance in the reporting calendar.

These reviews are also attended periodically by the CFO and the Internal Audit Director. Once validated, operating results are consolidated by the Corporate Accounting department, reviewed by the Group Treasurer, Group Tax Director and Group Controller, and presented to the CFO for review. The Group Controller and CFO then present them jointly to the CEO.

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

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

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

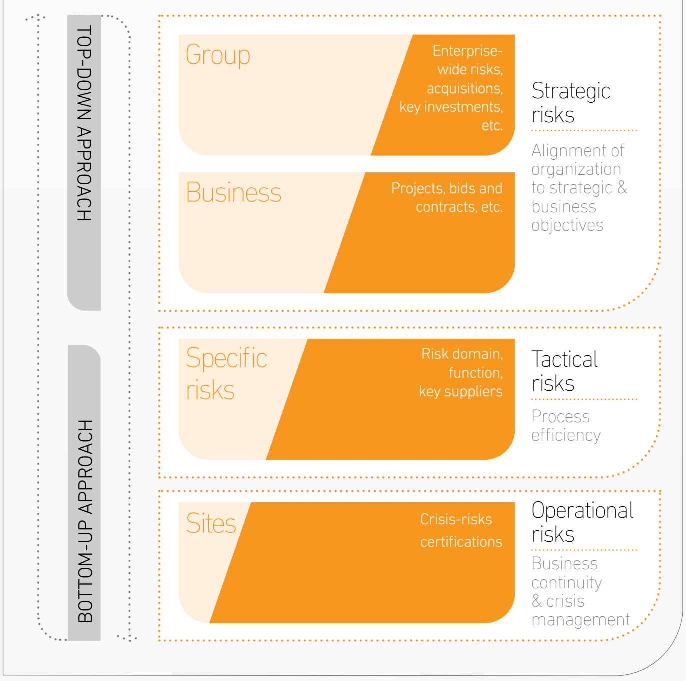
2. Risk assessment and mitigation

Our risk management process involves:

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

Identifying and assessing our major risks enables us to focus on those that matter and to align our action plans and resources accordingly. Risk assessment is carried out at all management levels as shown in the chart below, and is supported by the use of an ERM software solution.

Our aims per risk assessment level



- Group level: major new investments, like major assets, acquisitions and developments, are analyzed from a risk perspective, and reviewed with the segments. Following the publication of each new multi-year development plan, new enterprise-wide risk assessments (ERA) are conducted either at the Group level or per segment.
- Business level: risk assessments are performed on major bids and contracts as well as on new activities.
- Specific risk level: risk assessments are performed on risk domain (e.g. fraud), function (e.g. IT) or suppliers considered as key to the Company.
- Site level: sites perform crisis risk assessments in line with the Gemalto crisis management framework. In addition, production and personalization sites assess their security and industrial risks. This contributes to some certification requirements like ISO 27000 and ISO 14000.

As per our Group Risk Assessment framework, risks are assessed according to different criteria (categories of impact, likelihood, level of control, speed of impact and time frame of occurrence).

Key risks selected are officially assigned by the Sponsor (e.g. the CEO for the Group ERA) to risk owners responsible for developing action plans linked to the budget and reporting on their progress on a quarterly basis. Risk owners get a personal objective linked to their yearly bonus.

The outcomes of risk assessments are communicated to the employees concerned (e.g. all employees for the Group Enterprise Risk Assessment). Empowerment, Accountability, Communication and monitoring of Efficiency are thus strong principles of our approach.

3. Crisis management and business continuity

Since we cannot identify all the risks we may face, our crisis management processes and business continuity responses are there to improve our resilience to unforeseen events.

This proactive approach enabled us to respond effectively to issues when they arose, minimizing their impact on our stakeholders and reputation.

Our Crisis Management Framework encompasses basic escalation and communication rules, guidelines for anticipation and action, and clear roles and responsibilities.

Over 100 crisis management leaders are in place worldwide and trained through simulation exercises.

In 2013, we continued to update and refine our Crisis Management Framework and plans.

Risk management and control continued

We have also developed business continuity responses to avoid or minimize disruption to customers and our business in the event of a crisis. These measures include greater standardization of production tools and processes for greater flexibility between sites; multi-sourcing strategies so that we are not dependent on a single supplier; and the creation of redundancy in our infrastructure so that support is available in the event of a problem.

We reinforce this by storing certain types of key information in back-up sites, so enabling our operations to continue uninterrupted even in the face of difficulties. In 2013, we started to build a central business continuity organization, framework and templates with the objective of making our business continuity initiatives across the Company even more consistent and ingrained.

4. Fraud risk management

The Anti-fraud framework aims at preventing, detecting, deterring and responding to fraudulent activities. The Gemalto Anti-fraud commission oversees this framework. It comprises the Group General Counsel; the EVP Human Resources; the Chief Information Officer; the Quality, HSE, Security and World-Class Enterprise (WCE) Director; the Internal Audit Director; and, from 1 January 2014, the Compliance, Governance and Central Officer. Its objectives encompass continuous fraud risk assessment, anti-fraud policy and procedures, and action in response to actual or suspected frauds.

In 2013, some 730 key personnel received anti-fraud or anti-bribery training; and newsletters including these topics were sent to over 2000 employees.

The Anti-fraud policy requires all managers to inform the Anti-fraud commission of any suspicion of fraud. Employees can also use the whistle-blowing line to raise any financial irregularities to a confidential advisor.

Managers are primarily responsible for investigating and responding to any suspected fraud cases in their own department. Following a fraud, he or she must make appropriate corrective changes to systems, controls, education and procedures to prevent re-occurrence of a similar fraud. The Anti-fraud commission monitors the effectiveness of such actions.

The main investigated fraud cases are reported periodically to the CEO, the CFO, the External auditor and the Audit committee.

5. Transfer to insurance

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

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

Our insurance programs encompass property damage, business interruption, public, product and professional liability, and directors' and officers' exposures.

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

How we monitor effectiveness

Risk management

The Risk, Internal Control & Trade Compliance department reporting both to the General Counsel and the CFO has a global view of risks since its responsibilities encompass several key processes from Enterprise Risk Assessments to transfer to Insurance including Internal Control, Crisis management and Business Continuity. This transversal view is a strong asset in the understanding of the risk and the Company's capabilities to manage it.

It facilitates the development of a pragmatic overall risk management approach.

Internal control

Gemalto has established a strong framework of internal control across all of its business areas and functions. This framework is based upon a clear statement of ethical business principles, established procedures and training of the key personnel who are responsible for implementing and overseeing it.

Our internal control system was implemented according to a risk based approach, taking the COSO model as the reference. Updated yearly, it will continue to evolve in line with the new recommendations of the COSO 2013 and according to needs induced by the Company's development.

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

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

The Anti-fraud Commission ensures that proper controls are enforced on potential fraud areas.

Our Internal Control team develops awareness on internal control matters in the Company and uses yearly risk-based self-assessment campaigns to ensure that the proper level of internal control is maintained and regularly enhanced.

The production and control of financial information is structured to be consistent with our segments. To ensure the quality and completeness of the financial data produced and reported, we have set up a process for the production and management review of operating results, identified the main risks which significantly impact the financial statements, and implemented preventive and corrective controls to mitigate those risks.

To improve internal control, the annual self-assessment campaign is run. It mostly addresses financial risks, IT/IS risks, resilience capabilities and some legal and governance matters (e.g. ethics, sustainability). For a number of our most critical processes and entities, the self-evaluations of the controls are tested by internal auditors.

This process helps us to define plans for remedying identified deficiencies and to follow up the progress of those plans year-on-year, with a special focus on newly acquired companies.

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

Financial control

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

How we provide independent assurance on effectiveness

Internal audit

To assess and test our internal risk management and control systems we have a dedicated and certified Internal Audit department operating under a charter approved by the Audit committee (updated in 2012). Its work conforms to the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors (IIA). Consisting of eight auditors based in Amsterdam, it has direct and unlimited access to Group operations, documents and employees. The Internal Audit Director reports directly to the CFO and has an independent line of communication with the Audit committee Chairman and with the CEO, as well as regular private sessions with the Audit committee.

In December 2013, the committee approved a new three-year plan covering the period 2014-16. It drew on the findings of the Enterprise Risk Assessment (ERA), the yearly financial risk mapping, discussions with management and regular audits of major sites.

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

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

In December 2013, the *Institut Français de l'Audit et du Contrôle Internes* (IFACI), the French representative of the Institute of Internal Auditors (IIA), renewed the professional certification of Gemalto's internal audit team, processes and activities.

External certifications

Because of the nature of our activities, we maintain a number of certifications, some of which (including EMV, GSM SAS, ISO 9001, ISO/TS 16949, ISO 14001, OHSAS 18001 and ISO 27001) are necessary for the conduct of our business. These vary from site to site and by business type, according to local regulations and customer requirements. The effectiveness of our Quality and HSE management systems is constantly challenged by external and internal audits. Both look for continuous improvement through identification of sensitive areas and deployment of best practices.

External auditor

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

The Audit committee assesses the work of the external auditor at least once a year. The external auditor provides an independent opinion on the financial results of the Group, and its report is available on page 120.

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

Principal risks

Strategic risks

Risk area	Main mitigating actions	
Lower growth and profitability (Changes in business environment, decrease in activities and/or increase in competition, etc.)	• 2014–2017 Development Plan. • Diversified portfolio of activities. • Focus on innovation: Gemalto filed 113 new patent applications in 2013.	• Focus on creating value to clients: High overall customer confidence in the annual 'Tell Me' survey. • Global presence in 44 countries.
Acquisitions and/or joint ventures (Wrong selection and/ or integration)	• Dedicated team manages corporate development plan and M&A. • Formal process to manage acquisitions and integrations.	• Review by Strategy and M&A committee. • Post-acquisition integration audits with performance monitored by Management and the Board.
Technology shift (Market moving to alternative technologies)	• Competitive and market intelligence program. • Diversified technology portfolio (including through M&A). • Strong R&D and standardization teams.	• Participation in industrial bodies and standardization organizations. • Innovation process leading to many innovation awards.

Legal and compliance risks

Risk area	Main mitigating actions	
Intellectual property rights risks (Failure to protect Gemalto's proprietary technology and IP rights, third-party claims for alleged infringement of their IP rights)	• Dedicated and qualified internal IP team organized by technology. • Internal IP department and internal inventor policies.	• Patent committee. • Patent management database and third-parties' patents search. • Contract reviews on IP clauses.
Internal fraud and non-ethical behavior (Worldwide activities and in digital security)	• Policies and procedures, code of ethics, whistle-blowing tool, etc. • Anti-fraud commission. • Security certifications and organization.	• Training/e-learning: security, business principles, anti-fraud. • Internal audits on all suspected frauds. • Investigation process and tools.
Changes in regulatory environment (Data privacy and protection laws, tax, trade regulations and export controls)	• Legal organization in regions and by activity. • Training on tax and other regulations. • Tax department with regional antennas.	• Participation in standardization committees. • Advice from law firms, tax advisors and authorities where we operate.

Operational risks

Risk area	Main mitigating actions	
Business interruption and crisis (Any internal or external event which would materialize unexpectedly and significantly affect the Company's operations and/or reputation)	• Risk mapping with regular updates (both at site and Group levels). • Crisis Management framework and worldwide training program. • Diversified industrial footprint.	• Continued investment to improve and secure manufacturing activities. • Business continuity responses build-up. • Regular internal and external audits of facilities (including on Crisis Management and Business Continuity plans).
Sourcing risks and dependency on suppliers (Lack of supplier resilience to disaster, insolvency, non-compliance with ethical standards, etc.)	• Business intelligence on suppliers. • Multiple sourcing strategy. • Safety stocks management and protection clauses in contracts.	• Responsible purchasing program. • Supplier selection, qualification and monitoring process. Audits of some key suppliers.
Bidding and execution failures of major contracts (Amount, duration, technology and commitments)	• Bid and contract reviews with approval process according to limits of authority. • Risk assessment performed for major deals.	• Project-based organization for Government Programs and software, solutions and services contracts.

Key: Main potential impacts

Financial · Organizational · Reputational · Legal

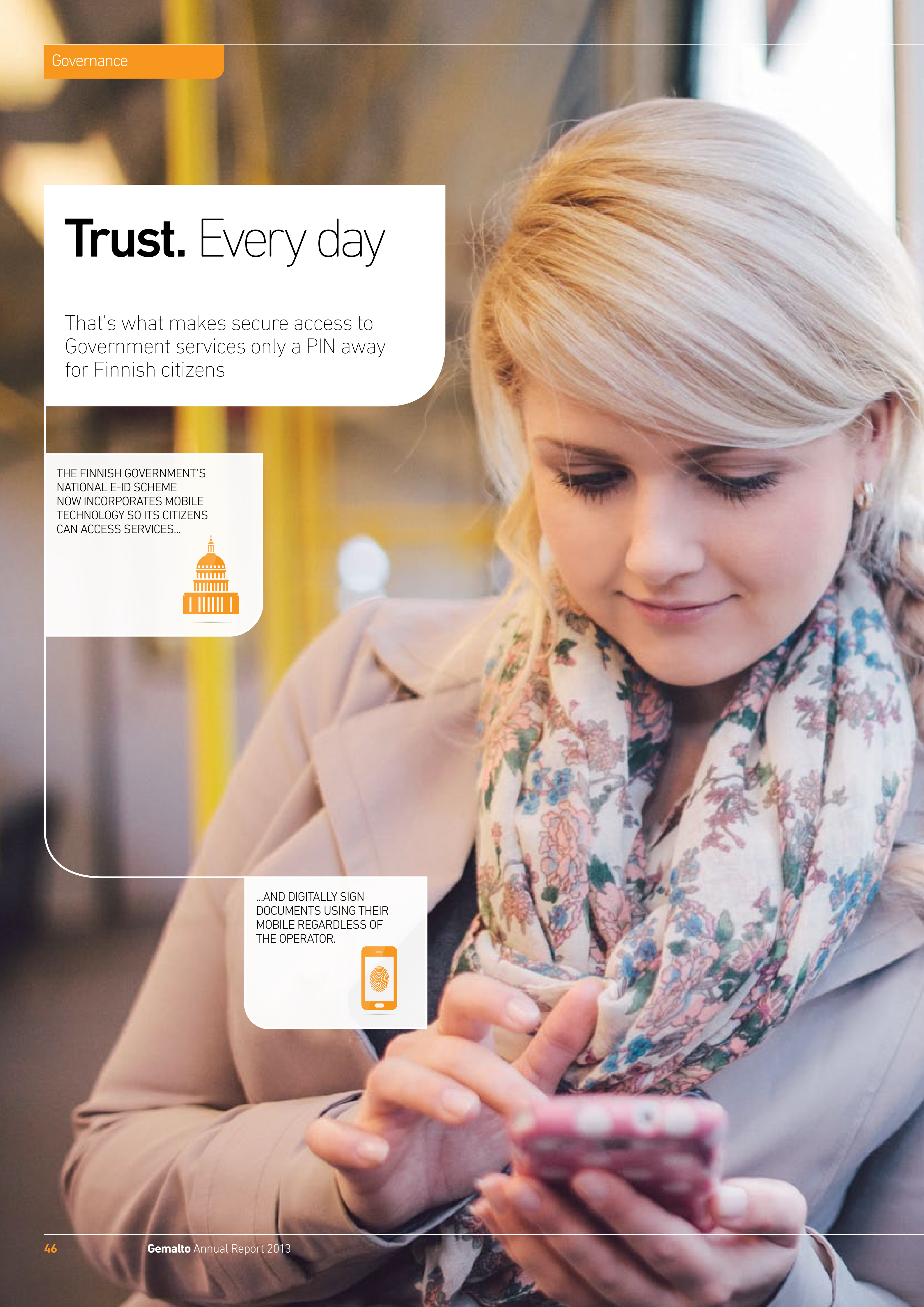
Operational risks continued

Risk area	Potential impacts	Main mitigating actions	
Defective products and/or service failures (Manufacturing, personalization services and development of software)	Financial, Reputational	• Standardized manufacturing processes. • Quality Management system and World-Class Enterprise organization. • 28 sites with ISO 9001 certification in 2013. • Participation in standardization committees. • Advice from law firms, tax advisors and authorities where we operate.	• Dedicated organization for software, products, platforms and services. • Product and Professional Liability insurance. • High overall customer confidence in annual survey ('Tell Me').
Exposure to country risk (Political, regulatory and trade exposure impacting our staff, footprint and receivables)	Financial, Organizational	• Involvement of treasury, tax and legal departments at the early stages of international operations. • Medical assistance and repatriation insurance.	• Agreements with specialized security consulting companies. • Country risk alert monitoring and communication. • Travel policy and travel security policy.
Confidential data mismanagement (Leakage and/or loss of customers' or Gemalto's confidential data resulting, for example, from cyber attacks)	Financial, Reputational	• Security and cryptography expertise. • Extensive set of security and IT policies with regular training sessions. • Worldwide security organization with security officers in all important sites and regional/corporate security support.	• Appointment of a Director of Global Data Privacy. • Security certifications by third-parties (including ISO 27001, EMV, GSM, SAS, etc.). • Internal security audits (extended to IT subcontractors). • Anti-fraud commission.
Dependence on key managers and employees (Competition for talent is intense)	Organizational, Reputational	• Comprehensive Human Resources strategy. • Focus on recruitment, management by objectives, compensation and benefits.	• Focus on diversity, ethics and community. • Focus on training, promotion from within, and mobility.
Customer retention (Ability to maintain relationships with existing customers and to identify, attract and retain new customers)	Financial, Reputational	• Diversified portfolio of clients in about 190 countries, operations from worldwide locations. • No customer represents more than 10% of Group's annual revenue.	• Focus on creating value to clients: High overall customer confidence in the annual 'Tell Me' survey. • Key account management.

Financial risks[1]

[1] For further information about other financial risks that do not fall into this section (i.e. interest rate risk, liquidity risk and credit risk) and the relevant mitigating actions, see Note 4 Financial risk management pages 84–87.

Risk area	Potential impacts	Main mitigating actions	
Foreign exchange risk (Manufacturing footprint, portfolio of receivables, future cash flows and competition)	Financial	• Centralized currency risk management by the Treasury department with regional antennas, and currency reporting. • Treasury committee and Treasury policies.	• Hedging strategies including natural hedging (i.e. matching costs and revenue currencies) and transaction hedging (foreign exchange forward contracts and options recorded as cash flow hedges).
Financial counterparty risk (Long-term contracts, terms of payment and cash deposit)	Financial	• Risk limits set for counterparties and regularly reviewed. • Treasury committee. • Use of plain vanilla hedging instruments and low-risk money market investment.	• Working with financial institutions of investment grade (deposits, hedging transactions). • Set-off provisions in financial contracts.
Financial reporting risks (Revenue recognition process, relevance of planning, budgeting and reporting, inventory valuation, taxation and other complex accounting issues)	Financial, Reputational	• Financial policies and procedures. • Single financial reporting tool Company-wide and single Enterprise Resource Planning under continuing deployment. • Revenue recognition process. • Consolidation department with dedicated specialists. • Regular balance sheet analysis.	• Tax, Controlling and Treasury departments with regional antennas. Dedicated Internal Control and Audit departments. • Specific reviews performed by the Internal Audit department. • Regular reviews by the Audit committee. • Audit by external renowned independent audit firm.



Trust. Every day

That's what makes secure access to Government services only a PIN away for Finnish citizens

THE FINNISH GOVERNMENT'S NATIONAL E-ID SCHEME NOW INCORPORATES MOBILE TECHNOLOGY SO ITS CITIZENS CAN ACCESS SERVICES...

...AND DIGITALLY SIGN DOCUMENTS USING THEIR MOBILE REGARDLESS OF THE OPERATOR.

As at December 31, 2013

Our Board

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

Board committee key

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

Alex Mandl 1943

American

N

Non-executive, independent
Chairman of the Board

Initial appointment: 2006

Current term: 2011–2015 (second term)

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

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

Olivier Piou 1958

French

Executive,
Chief Executive Officer

Initial appointment: 2004

Current term: 2012–2016 (third term)

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

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

Johannes Fritz 1954

German

A S

Non-executive, independent

Initial appointment: 2006

Current term: 2012–2016 (third term)

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

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

John Ormerod 1949

British

A C

Non-executive, independent

Initial appointment: 2006

Current term: 2013–2015 (third term)

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

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

Homaira Akbari 1961

American/
French

A S

Non-executive, independent

Initial appointment: 2013

Current term: 2013–2017 (first term)

Other current appointments: Non-executive Director of Landstar System Inc. (NASDAQ: LSTR), Chair of the Johns Hopkins University Physics and Astronomy Advisory Council.

Experience: Homaira Akbari has extensive experience and deep domain knowledge in mobile, software and security spaces. From 2007 to 2012, she was the President, Chief Executive Officer and a Director of SkyBitz, Inc., a leading provider of remote asset tracking and security solutions. Prior to SkyBitz, she held senior managerial roles with significant responsibilities in very large publicly-traded companies: Microsoft (NASDAQ: MSFT), Thales, SA (Euronext: HO), and TruePosition, a wholly-owned subsidiary of Liberty Media Corporation (NASDAQ: LMCA). She holds a Ph.D. in particle physics from Tufts University and an MBA from Carnegie Mellon Tepper School of Business.

Arthur van der Poel 1948

Dutch

C N

Non-executive, independent

Initial appointment: 2004

Current term: 2012–2016 (third term)

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

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

Buford Alexander 1949

American

N S

Non-executive, independent

Initial appointment: 2009

Current term: 2013–2017 (second term)

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

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

Drina Yue 1957

American

A C

Non-executive, independent

Initial appointment: 2012

Current term: 2012–2016 (first term)

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

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

Michel Soublin 1945

French

N S

Non-executive, independent

Initial appointment: 2004

Current term: 2011–2015 (third term)

Other current appointments: None.

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

Philippe Alfroid 1945

French

A C

Non-executive, independent

Initial appointment: 2010

Current term: 2010–2014 (first term)

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

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

Yen Yen Tan 1965

Singaporean

N S

Non-executive, independent

Initial appointment: 2012

Current term: 2012–2016 (first term)

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

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

As at January 1, 2014

Our Senior Management

From January 1, 2014 we continued the transformation of the Company by adapting the structure of the Senior Management Team to address the demands and opportunities of the new multi-year development plan.

This involved creating a new position of Chief Operating Officer to lend further support to our multi-faceted growth; promoting from within, globally across the Company, a new generation of managers who had proven their strengths through their contributions to the previous plan; and strengthening our dedication to ethics, compliance and governance.

Paul Beverly 1962 — American

EVP Marketing

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

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

Eke Bijzitter 1974 — Dutch

Compliance, Governance and Central Officer

Eke Bijzitter has held her current position since January 2014. Prior to this she was Group Corporate Counsel and Deputy Company Secretary of Gemalto (2005-2013). Before joining Gemalto she held different positions as corporate counsel in the Netherlands.

Eke Bijzitter is a graduate in law from the University of Groningen and a postgraduate in Corporate Structures from the *Grotius Academie*.

Isabelle Marand 1966 — French

EVP Corporate Communication

Isabelle Marand has held her current position since January 2014. Prior to this she was VP Corporate Communication (2010–2013) and VP Branding and Internal Communication (2006–2010) for Gemalto. Isabelle previously headed Axalto's communication department (2003–2006) and spent seven years in different marketing communication positions within Schlumberger. Before this she held various marketing and communication positions at Alcatel Business Systems (1989–1996). Isabelle Marand is a graduate of the France Business School (Grande école program) and holds a degree in foreign languages from la Sorbonne Nouvelle University.

Martin McCourt 1962 — Irish

EVP Strategy and Innovation

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

Philippe Cabanettes 1955 — French

EVP Human Resources

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

Jean-Pierre Charlet 1953 — French

EVP General Counsel, Risk Prevention and Management, Company Secretary

Jean-Pierre Charlet has held his current position since 2005. Since January 2014 he has also taken responsibility for Risk Prevention and Management. Prior to this he was General Counsel of Rexel (2003–2005), Deputy General Counsel of Sanofi-Synthélabo (1999–2002), and General Counsel of Synthélabo (1996–1999). From 1981 to 1996 he held positions within the Legal Departments of Carnaud-Metalbox, PPR group, Schlumberger group and Société Métallurgique Le Nickel-SLN. Jean-Pierre was admitted to the Bar in Paris in 1974 where he began his career in various law firms.

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

Jacques Tierny 1954 — Swiss/French

EVP Chief Financial Officer

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

Philippe Vallée 1964 — French

EVP Chief Operating Officer

Philippe Vallée has held his current position since January 2014. Prior to this he was EVP Telecommunications Business Unit (2007–2013). He previously served Gemalto and Gemplus in a number of roles including heading the Product and Marketing Center; CTO; VP Marketing and then President of the Telecom BU; and VP Gemplus Technologies Asia based in Singapore. Before that he held a number of positions in marketing, product management and sales in Europe and in Asia, and has over 23 years' experience in the Telecom industry. He began his career with Matra Communication (now Lagardère Group) as a product manager on the first generation of GSM mobile phones. Philippe has a degree in Engineering (Telecom and Microelectronics) from the *Institut National Polytechnique de Grenoble* and is a graduate of the ESSEC Business School.

The 2010–2013 Senior Management team

During our 2010–2013 Development Plan, our Senior Management team was as follows. It is in large part due to their remarkable abilities that Gemalto was able to achieve the objective of its previous plan one year early, and we sincerely thank them for their contributions.

Paul Beverly
EVP Marketing & President North America

Philippe Cabanettes
EVP Human Resources

Philippe Cambriel
EVP Secure Transactions Business Unit

Jean-Pierre Charlet
EVP General Counsel and Company Secretary

Claude Dahan
EVP Operations

Martin McCourt
EVP Strategy, Mergers and Acquisitions

Christophe Pagezy
EVP Corporate Projects

Jacques Sénéca
EVP Security Business Unit

Jacques Tierny
EVP Chief Financial Officer

Philippe Vallée
EVP Telecommunications Business Unit

ALEX MANDL
CHAIRMAN

An **interview** with the Chairman

Q. What were the Board's main priorities in 2013?

A. High quality corporate governance always contributes to a company's long-term success. So every year it's vital to ascertain that our Board has the right mix of skills to provide expert oversight and sound decision-making.

Then a key priority is to ensure Gemalto meets its very ambitious objectives – not only financial, but also for customer satisfaction and employee engagement. And in 2013 another was to make sure the new Long Range Plan (LRP) was developed robustly – involving us in deep dialogue with Management to be certain our views and expectations were in line.

Q. How do you ensure the Board's effectiveness?

A. First of all, by having a rich blend of experience around the table to give us real insights into the global, technological environment Gemalto addresses. Over the years we've spent a lot of time assessing the skillsets we need and ensuring we have the right balance to maintain success into the future.

For a start, the Board needs top management and operating experience, as well as a deep understanding of financial and reporting matters. It's important as well to have a solid grasp of Gemalto's underlying technologies and markets – so a majority of the Board needs to be tech-savvy. We've also grown stronger by improving our gender balance and regional spread. The Company operates in a great many markets worldwide, so it's valuable to have a rich cultural mix among our members.

Always looking to the future, we review our range of expertise every year because in a rapidly changing context we need to keep evolving in all these areas.

Q. How has the Board supported Gemalto's strategic objectives?

A. Overseeing the development of the new LRP has been a key task – a constructive and very successful 15-month process involving a series of updates with Management. The Board helped review the opportunities and potential risks to make sure that the vision for the Company's direction was shared and the plans were in line with its capabilities.

Q. How would you describe the Board's decision-making culture?

A. It's a blend of challenge and support. We have great respect for Management's abilities – and the share price suggests that the investor community does too. That said, we must never lose touch with the realities of our business landscape and the constantly evolving competition, opportunities and markets. So we ensure Management takes these into account and then give our backing to the final decisions – an approach which I think they appreciate.

Q. What did you take away from the Board's evaluation exercise?

A. A Board is a living entity and we have to keep evolving. Annual evaluations are part of the way we do this. The 2013 exercise showed progress in all the areas reviewed and gave us some to focus on going forward. We've made great strides in expanding the composition of the Board but we need to keep enhancing our skillsets – particularly in understanding the new industries we serve and their key trends, so that we can make sound judgment calls.

We also insist that the development of key employees is effectively organized. We must keep growing our many talented people so that we maintain deep management strength going forward. Good succession planning is vital to staying on top of all the opportunities.

Q. What are the Board's objectives for the coming year?

A. We want to be instrumental in building one of the world's leading companies. With the LRP in place, our priority now is to ensure it's effectively implemented. The focus areas I've mentioned will be critical: keep expanding the Board's experience and ensure Gemalto continues to grow its management capabilities. In all this, we must set our sights on what's needed for the future. We cannot rely on what's worked in the past in such a fast-paced and rapidly changing world.

Our Board during 2013

Board composition 2013

Reappointments:

- Buford Alexander was reappointed as non-executive Board member until 2017.
- John Ormerod was reappointed as non-executive Board member until 2015.

Appointments:

- Homaira Akbari was appointed as non-executive Board member until 2017.

Expiration of mandate:

- Kent Atkinson did not stand for reappointment as non-executive Board member.

Committee composition changes:

- Drina Yue was appointed member of the Compensation committee.
- Homaira Akbari was appointed member of the Audit committee and of the Strategy and M&A committee.
- Yen Yen Tan was appointed member of the Nomination and Governance committee.

The Board's focus during the year

The Board held seven meetings: four in person and three by conference call. The overall attendance rate at the Board meetings during 2013 was in excess of 90%.

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

- Agenda for the AGM.
- Annual budget plan for 2014.
- CEO and senior management remuneration.
- Corporate governance structure and developments.
- Corporate strategy: new Gemalto 2014–2017 multi-year development plan.
- Design and effectiveness of risk management and internal control systems and any significant changes to them.
- Development of business activities, investment and M&A opportunities, as well as competitive environment.
- Grants to employees under the Global Equity Incentive Plan.
- Group financial performance and disclosures.
- Long-term evolution of Board and committee composition, including chairmanship.
- Main risks to the business.
- New organizational structure.
- Opportunities for employees to buy discounted shares under the Global Employee Share Purchase Plan.
- Performance and functioning of the Board, the Board committees and the individual Board members, including the CEO.
- Prospectus for the dual-listing and admission to trading on NYSE Euronext Amsterdam, being market of reference.
- Share buy-back and dividend policy.
- Succession planning for the CEO and Senior Management, and related management development.
- Training on Gemalto's products and services, and training on crisis management.

Independence

As of December 31, 2013, all our non-executive Board members met the independence requirements of the Dutch corporate governance code's best practice provision III.2.2. The Company is hence compliant with best practice provision III.8.4.

Our Board during 2013 continued

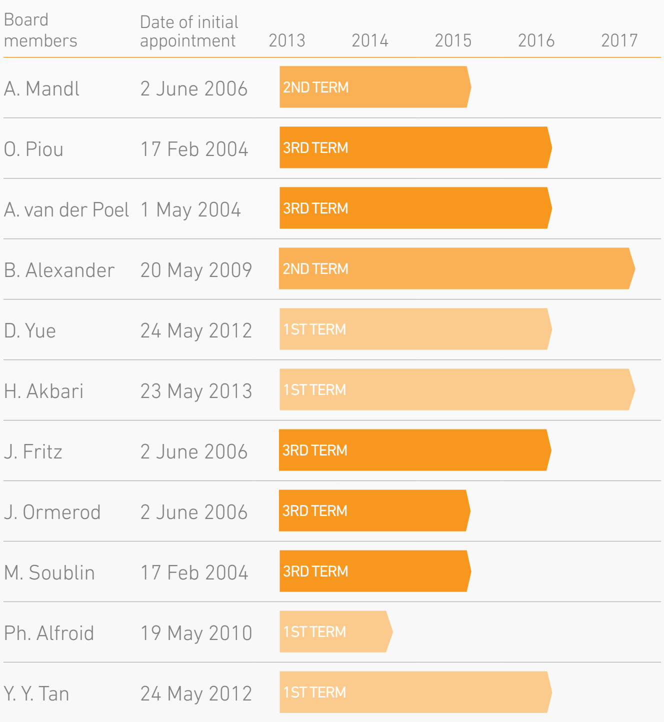
Our induction program

As is our usual practice, we ran an induction program for the new non-executive Board member, Homaira Akbari. Presentations from the CEO, EVP General Counsel and EVP Human Resources provided detailed information about the Gemalto Group's structure, activities, products and operations. Our new non-executive Board member participated in the annual training program for Board members on Gemalto's products and services.

Board reappointment schedule

The Board adopted a reappointment schedule, which is published on our website. The table here below lists the members of the Board and their terms in office. A term is maximum four years. Non-executive Board members may be reappointed for two additional terms. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of maximum two years each. The executive Board member has no limit in the number of terms, but is limited by the age of 65. The Board will propose certain amendments to the Articles of Association. If so adopted by the 2014 AGM, length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years.

Board reappointment schedule



How the Board is performing

In 2013, the Board performed a self-assessment to benchmark and evaluate the effectiveness of the Board and its committees, including the Chairman and the CEO. The evaluation took into account the conclusions and recommendations from the assessment performed in 2012 by an external expert, Dr Tracy Long, PhD, of Boardroom Review. The evaluation process comprised written questionnaires and one-on-one interviews with all Board members. These covered key areas such as: strategy; risk management and internal controls; performance management; shareholder communication; Board culture and dynamics; Board composition, with particular reference to balance of skills, experience, independence, knowledge of the Group, and diversity; and the Board and committee calendar, agendas, materials and support. The completed questionnaires were available to the Chairman only, who prepared a written report which was discussed by the Board as a whole. While it was clear that the Board is effective and operates well, this evaluation exercise raised valuable points that will form part of the agenda for the Board and its committees for the coming period.

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

Board committee reports

Report of the Audit committee

Committee members (all being independent as of December 31, 2013)	
John Ormerod (Chairman)	Johannes Fritz
Drina Yue	Philippe Alfroid
Homaira Akbari	
Number of committee meetings in 2013	6

The committee meets during the year at times which are based on the Company's financial reporting calendar. The committee normally invites the CFO, the Company's external auditors, the Internal Audit Director and the Chairman of the Board to attend its meetings. Others, including the CEO, attend from time to time in order to participate in specific discussions or agenda items. The committee regularly meets in separate executive sessions with the CFO, EVP General Counsel, Internal Audit Director and the external auditors.

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

In carrying out its work, the committee challenges management on significant risks and mitigating decisions, on the levels of exposures, on policies and authority limits, especially in 2013 in relation to increased foreign currency fluctuations, and on the adequacy of judgmental based assumptions and sensitivity analysis used in valuations of assets and liabilities.

In particular, during 2013, the committee reviewed and reported to the Board on the following:

- Annual financial statements and the related detailed report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements. Areas of focus were the appropriate application of revenue recognition policies, in particular in relation to new areas of business; provisions for tax across the range of countries in which the Company operates; impairment testing of intangible assets; provisions for credit risk; and the overall presentation of the financial statements.
- Condensed semi-annual financial statements and the related report by the external auditor, as well as the announcements of the interim management statements, including quarterly revenue figures.
- Prospectus (composed of Registration Document, Securities Note, and Summary) for the dual-listing and admission to trading on NYSE Euronext Amsterdam in 2013, being the market of reference.
- The Company's financial and risk management system and key internal financial control policies and procedures, to help the Board review and assess the effectiveness of internal controls. These included a review of the cash management, counterparty risk, and outstanding credit facilities, tax and treasury risks, including hedging, and information and communication technology risks. As an annual topic, a presentation on Information Solutions and Services ("ISS") plans and risks was given to the committee by the CIO.
- Reports on whistle-blowing, significant claims and disputes – including those resulting in litigation – and related party transactions.
- Internal audit charter, the internal audit plan for the next three years and its coverage in relation to external audit. The committee also reviewed reports on the effectiveness and independence of the internal audit process, considered their findings and recommendations and monitored management's follow-up actions.
- External auditor's plan for the yearly audit.
- Performance and independence of the external auditor. Having considered the steps taken to ensure their continued independence, including reviewing the fees paid for audit and non-audit services, the committee recommended their reappointment. Taking into account developments of Dutch law on the rotation of external auditors, it developed a selection process to be executed in 2014 in view of proposing new auditors at the 2015 AGM, to be effective January 1, 2016.
- Evolution of the Internal Audit department, with the appointment of a new Internal Audit Director, and the responsibility for internal control processes being transferred to the Risk Prevention and Management and Internal Control Department, as such continuing to improve the independence of the Internal Audit function.

Board committee reports continued

Report of the Nomination and Governance committee

Committee members (all being independent as of December 31, 2013)	
Alex Mandl (Chairman)	Michel Soublin
Arthur van der Poel	Yen Yen Tan
Buford Alexander	
Number of committee meetings in 2013	4

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

Based on the committee's advice, the Board recommended the reappointment of the members of the Board who stood for reappointment at the 2013 AGM. Kent Atkinson opted not to seek reappointment when his mandate expired at the close of the AGM, because of his other obligations. After a thorough selection process supported by a leading executive search firm, the committee proposed to put forward Homaira Akbari as new non-executive Board member. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and CEO. Homaira Akbari was appointed at the 2013 AGM as non-executive Board member until 2017.

Following the rejection of certain proposed resolutions at the 2013 AGM, the committee analyzed the outcome and will propose revised resolutions to the 2014 AGM. The committee prepared and coordinated with the Chairman of the Board the self-assessment of the Board and the committees. Other topics addressed during the year included the sustainability report, governance sections of the Annual Report and the agenda for the AGM. The committee received regular updates on developments in Dutch corporate law.

Report of the Compensation committee

Committee members (all being independent as of December 31, 2013)	
Arthur van der Poel (Chairman)	John Ormerod
Drina Yue	Philippe Alfroid
Number of committee meetings in 2013	5

As in previous years, the committee received a survey from Towers Watson, an internationally recognized firm of compensation specialists, benchmarking the compensation package of the CEO.

The committee requested Mercer, another internationally recognized firm of compensation specialists, selected by the committee and independent from management, to perform a similar analysis. As a result of both surveys the committee concluded there was no need to change the remuneration policy or the execution thereof.

During 2013, Mercer benchmarked the compensation of the Non-executive Board members, including the Chairman of the Board. Following this analysis, the committee recommended increasing the individual compensation, which changes were adopted by the 2013 AGM.

It reviewed the achievement of the performance targets and objectives set by the committee for 2012 and the resulting variable compensation payments for the CEO and Senior Management, and proposed the 2013 targets. The 2013 Remuneration Report is set out on pages 57–60.

Upon proposal by the CEO and Senior Management, the committee recommended to the Board granting restricted share units to eligible employees in 2013. It defined the grant characteristics and the performance and service vesting conditions that should apply.

Having taken independent advice from Mercer, the committee designed the terms of the LTI grant to be made in 2014. This award will be aligned to the achievement of the LRP presented in September 2013. As in previous years, the committee recommended that Gemalto employees in more than 30 countries should have the opportunity to buy shares in the Company at 15% below the market price (the '2013 Global Employee Share Purchase Plan').

Report of the Strategy and M&A committee

Committee members (all being independent as of December 31, 2013)	
Johannes Fritz (Chairman)	Michel Soublin
Buford Alexander	Yen Yen Tan
Homaira Akbari	
Number of committee meetings in 2013	4

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

The committee dedicated a substantial amount of time to supervising the development of the new Gemalto 2014–2017 development plan, which was adopted by the Board. This plan was publicly released on September 5, 2013.

Remuneration report

This report describes the remuneration policy for the CEO and the individual compensation paid to the CEO and non-executive Board members in 2013.

Introduction

The Board determines the CEO's compensation with reference to the remuneration policy, which also provides guidance on Senior Management compensation (though the latter is not addressed in this report). The policy is approved by the shareholders – it was most recently amended by the 2008 AGM – and is published on our website. It complies with the Dutch corporate governance code apart from a few exceptions which are explained on page 61.

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

Remuneration policy

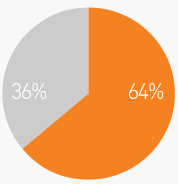
Our remuneration policy aims to attract, retain and reward talented staff and management by offering compensation that is competitive in Gemalto's industry, motivates management to meet or surpass the Company's business objectives, and aligns managers' interests with those of shareholders.

Compensation for CEO Olivier Piou in 2013

Base salary	€800,000	Unchanged since 2011, includes a fixed fee as executive Board member of Gemalto N.V. of €35,000.
Variable incentive	€1,027,669	128% of base salary.
Conditional multi-year share-based plan	from 0 to 50,000 RSUs	Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 50,000 RSUs. The grant is accounted for an equity-based compensation at a charge that may vary from €0 to €3,050,000, which will be expensed over 31 months.
Pension contributions	€75,993	Cost of the mandatory plan required by law in France. No supplemental pension plan is provided.

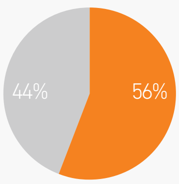
2012

Variable compensation	64%
Fixed compensation	36%



2013

Variable compensation	56%
Fixed compensation	44%



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

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

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

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

Compensation elements

The CEO's compensation package consists of:

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

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

Base salary (fixed part of the annual cash compensation)

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

The CEO's salary of €800,000 includes a fixed fee of €35,000 for his role as executive Board member of Gemalto N.V. It is reviewed annually by the Compensation committee and was not changed in 2013. It will be changed in 2014.

Remuneration report continued

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

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

The CEO's variable incentive is based on achieving short-term (annual) financial and personal targets proposed by the Compensation committee and approved by the Board each year. For 2013, as in previous years, the targets were:

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

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

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

The CEO's targets for 2014 will be along the same structure as for 2013 and will be linked to the objectives of the new multi-year development plan. The personal targets include customer satisfaction and employee satisfaction.

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

The performance of the CEO and of the Company in 2013 led to a result of 107% for the CEO variable incentive. The variable incentive for the CEO is €1,027,669, i.e. 128% of his base salary.

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

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

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

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

Restricted share units (RSUs)

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

During 2013 the CEO received 50,000 RSUs. Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 50,000 RSUs. The RSUs will vest only if the following conditions are met:

- Performance vesting condition: reaching a certain cumulative profit from operations for the period 2013–2015, in line with the objectives of the new multi-year development plan.
- Service vesting condition: being an employee of Gemalto on December 31, 2015.

The grant is accounted for an equity-based compensation at a charge that may vary from €0 to €3,050,000, which will be expensed over 31 months. Associated with this grant, some social levies, accounted for as an equity-based expense at a charge that may vary depending on both, the above mentioned performance as well as the share price upon delivery will be expensed over 36 months.

Share options

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

Benefits and pension contributions

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

These include the ability to participate in the Gemalto Employee Share Purchase Plan. In 2013, employees were offered the opportunity to buy shares in Gemalto N.V. at a 15% discount to the market price, based on the lesser of the share values on the first and last day of the offering period. French employees participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE), a fund which subscribes to the Gemalto shares and gives the employee units of the FCPE in exchange. The CEO did not participate in the GESPP in 2013.

For 2013, the CEO's pension contribution costs to the mandatory pension plan in France amounted to €75,993. The CEO does not benefit from any special pension plan provided by Gemalto, other than the plan required by law in France.

Employment contract

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

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

Long-term incentive plan awards granted to the CEO

Valuation of the long-term incentive plan awards made to the CEO: overview of awards over which he did not yet have unrestricted control at the start of the year 2013.

Restricted Share Units

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date[1]	End of lock-up	Value at end of lock-up
October 2009	May vary from 0 to 65,000	€1,689,377[2]	Conditional	October 2012 Performance vesting condition was met in 2010 so number of RSUs is defined: 65,000	€4,498,000	October 2014	Not applicable
March 2010	May vary from 0 to 32,500 with a potential maximum multiplier of two	€877,104[2]	Conditional	March 2013 Performance vesting condition was met in 2011 so number of RSUs is defined: 58,000	€4,043,760	March 2015	Not applicable
March 2011	May vary from 0 to 150,000	€3,390,133[3]	Conditional	Dependent on when various market-related thresholds are reached; in all cases before the 2014 AGM The five vesting conditions were successively met so number of RSUs is defined: 150,000	€7,035,900	Two years from date of shares delivery, and in no event before March 2015	Not applicable
March 2012	50,000	€1,908,000[2]	Conditional	December 2014	Not applicable	January 2017 (if vested)	Not applicable
May 2013	May vary from 0 to 50,000	€3,050,500[3]	Conditional	AGM 2016	Not applicable	Not applicable	Not applicable

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

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

Remuneration report continued

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

The severance payment will not be due if the employment contract is terminated for wilful misconduct (*faute lourde* under French Supreme Court case law) or by his voluntary resignation. Any option rights granted to the CEO will vest automatically on the decision to terminate his contract and will remain exercisable for the full option term, and all other equity-based schemes will continue to vest after the date of termination. These arrangements do not apply if the contract is terminated for wilful misconduct. The severance payment arrangements are a deviation of provision II.2.8 of the Dutch corporate governance code (see page 61).

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

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2013, and none were outstanding at December 31, 2013.

Remuneration of non-executive Board members

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

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

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

The remuneration for 2013 is calculated on a pro rata basis as from January 1 until June 30, 2013 on the basis of the "former" remuneration structure, and on a pro rata basis as from July 1, 2013 on the basis of the "new" remuneration structure.

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

Gemalto does not offer non-executive Board members personal loans, guarantees or similar benefits. None were granted in 2013, and none were outstanding at December 31, 2013.

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

The remuneration of each non-executive Board member for the year 2013 is detailed in the table below and also disclosed in note 9 to the statutory financial statements of the Holding Company.

This table includes the 2013 remuneration of Board members in office on December 31, 2013

	2013 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	Strategy and M&A committee (€)
Alex Mandl	238,717	225,205	–	13,512	–	–
Olivier Piou	35,000	35,000	–	–	–	–
Arthur van der Poel	89,033	67,521	–	8,000	13,512	–
Buford Alexander	83,521	67,521	–	8,000	–	8,000
Drina Yue	89,987	67,521	16,000	–	6,466[1]	–
Johannes Fritz	97,033	67,521	16,000	–	–	13,512
John Ormerod	102,546	67,521	27,025	–	8,000	–
Michel Soublin	83,521	67,521	–	8,000	–	8,000
Philippe Alfroid	91,521	67,521	16,000	–	8,000	–
Yen Yen Tan	81,987	67,521	–	6,466[1]	–	8,000
Homaira Akbari[1]	47,885	42,055	964	–	–	4,866
Total	1,040,751	842,428	75,989	43,978	35,978	42,378

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

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2013, and its compliance with the Dutch corporate governance code.

Corporate information and background

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

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

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

Compliance with the Dutch corporate governance code

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

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

- **Provision II.1.7:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities of a general, operational and financial nature to a confidential advisor. Gemalto has established a complaints-related procedure relating only to the reporting of alleged financial irregularities. We depart from the code in exempting alleged irregularities of a general or operational nature from this procedure in order to comply with EU and French data protection rules. They must be reported internally to the relevant manager.
- **Provision II.2.7:** this provision recommends that option conditions shall not be modified during the term of the options. We depart from the code, as in 2006 the vesting conditions of options granted to the CEO, Olivier Piou were amended as follows: If his appointment as CEO is terminated, unless for wilful misconduct, his options rights will vest automatically. They will then remain exercisable for the full term of the option, regardless of any early termination provisions in the Gemalto Equity Incentive Plan and relevant Sub-Plan. All other equity-based schemes will continue to vest even after the date of termination. It is not our policy to amend the conditions attached to executive Board members' options during the term; in this special case the amendment was adopted by the 2006 Extraordinary General Meeting ('EGM') as part of the Axalto-Gemplus combination. It is included in the remuneration policy approved by the shareholders at the 2008 AGM.
- **Provision II.2.8:** this provision recommends that severance payment in the event of dismissal may not exceed one year's salary, being the fixed compensation component. We depart from the code, as the severance payment for the CEO is one year of reference salary, being fixed and variable compensation, and reflects his accrued seniority with Gemalto. This arrangement was adopted by the 2006 EGM approving the Axalto-Gemplus combination and is included in the remuneration policy approved by the shareholders at the 2008 AGM.
- **Provision II.2.10:** this provision recommends that the Board has the power to adjust the value of conditionally awarded variable compensation where extraordinary circumstances would produce an unfair result. We depart from the code, as the CEO's employment contract does not specifically include such scope. However, in such a case, the Company would make whatever adjustments were feasible under applicable law.
- **Provision II.2.13 (e):** this provision recommends that we disclose the names of the individual companies in the comparison group used for benchmarking Senior Management remuneration. We depart from the code, as we do not disclose the names. Instead we disclose that they are relevant organizations, primarily continental European high-tech and industrial companies. The surveys are performed by Towers Watson, an internationally recognized firm of independent compensation specialists.
- **Provision III.8.1:** this provision recommends that the Chairman of the Board may not have been an executive Board member. We depart from the code, as our Chairman, Alex Mandl, was executive Chairman of Gemalto from June 2006 to December 2007. However, the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders.

Our governance structure continued

Board of Directors

One-tier Board

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

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

This specifically includes:

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

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

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

Composition

The composition of the Board aims to ensure that its members can act critically and independently of one another and any particular interests. The profile setting out the desired expertise and background of the non-executive Board members was updated by the Board in October 2009 and is published on our website. We seek to achieve diversity of age, gender, expertise, social background and nationality on the Board. Following the appointment of Homaira Akbari at the 2013 AGM, there are currently three women out of 11 Board members. We consider that there is no substantive deviation from the Dutch Bill on Management and Supervision regarding gender diversity.

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

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

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

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

Appointments

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

Board members are appointed for a term of maximum four years. Non-executive Board members may be reappointed for two additional terms. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of maximum two years each. The executive Board member has no limit in the number of terms, but is limited by the age of 65. The Board will propose certain amendments to the Articles of Association. If so adopted by the 2014 AGM, length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years. The executive Board member is appointed as the CEO by the non-executive Board members. They can revoke the appointment at any time – in which case they will appoint an acting CEO with the same powers and duties.

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

Other Board appointments

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

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

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

Conflicts of interest

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

Conflicts of interest, potential or actual, between the Company and members of the Board are governed by the Articles of Association and the Board charter. The Board must approve any decision to enter into a transaction where a Board member has conflicts of interest that are material to the Company or the individual Board member. Any such transaction will be declared in the Annual Report for the relevant year with a declaration that we have complied with best practice provisions II.3.2-4 and III.6.1-3 of the Dutch corporate governance code. If a significant conflict exists and cannot be resolved, the Board member must step down temporarily or resign. In 2013, no transactions were reported where a Board member had a conflict of interest that was material to the Company. There were, however, related-party transactions: for an overview, please see note 31 of the consolidated financial statements.

Indemnification of Board members

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

Board committees

The Board has four committees comprising non-executive Board members: Audit, Compensation, Nomination and Governance, and Strategy and M&A. They do not have executive powers and are subject to the Board's overall responsibility. Their main role is to provide focused analysis and insight in their respective areas, reporting on their deliberations and making recommendations to meetings of the full Board. The duties of each committee are described in their respective charters.

Audit committee

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

Compensation committee

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

Nomination and Governance committee

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

Strategy and M&A committee

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

Risk management and internal control systems

Gemalto maintains operational and financial risk management systems backed by systems and procedures for monitoring and reporting. A separate internal control function ensures compliance with our internal control requirements. Our risk management and

Our governance structure continued

internal control systems are explained in detail on pages 38–45, and the Board's statement on internal risk management and control systems is shown on page 67.

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

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

In 2013 we appointed a Director of Global Data Privacy whose role is to establish and maintain institutional knowledge of laws and requirements, provide training to ensure compliance, advise and implement policies and practices, promote privacy protection in all our activities, and focus on privacy risks prevention.

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

These policies are published on our website.

Shares owned and rights to acquire shares

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

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

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

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital of €150,000,000 is divided into 150,000,000 ordinary shares with a nominal value of €1 each. As at December 31, 2013, the Company's issued and paid-up share capital amounted to €88,015,844. This consisted of 88,015,844 ordinary shares, of which 1,743,212 were held in treasury and 86,272,632 were in circulation. During 2013 there were no changes in the Company's issued share capital.

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

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

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2013

Name	Shares	Maximum (unvested) Restricted Share Units	Employee options	Units in a *Fonds Commun de Placement d'Entreprise*
Alex Mandl			80,000[1]	
Olivier Piou	273,000[2]	100,000[3]	150,000[3]	4,243.81[4]
Michel Soublin	1,500[5]			

1 Through a company controlled by him.
2 Progressively acquired since 2004.
3 Progressively granted since 2005.
4 Progressively purchased through participating in Global Employee Share Purchase Plans.
5 Purchased in 2004.

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

The 2012 AGM gave the Board authorization, renewed by the 2013 AGM, to repurchase Company shares. This allowed us to buy shares in 2013 to provide liquidity, to grant shares to employees and to fund external growth. At December 31, 2013, 1,743,212 shares with a market value of €139,474,392 were held in treasury, acquired at an average price of €50.47 per share. Shares held in treasury carry no voting rights.

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

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

2013 AGM

The AGM was held on May 23, 2013. No shareholders exercised their right to add items to the AGM agenda.

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

- 2012 Annual Report.
- Adoption of the 2012 financial statements.
- Dividend policy and proposed cash dividend of €0.34 per share for 2012.
- Discharge of the CEO and non-executive Board members for the fulfilment of their respective duties during 2012.
- (Re)appointment of three non-executive Board members.
- Amendment of the remuneration structure for non-executive Board members.
- Amendment of the Articles of Association of the Company.
- Renewal of the Board's authorization to repurchase Company shares.
- Extension of the Board's authorization to issue shares and to grant rights to acquire shares in the share capital of the Company and to limit or exclude pre-emption rights.
- Reappointment of the external auditor for 2013.

All resolutions were adopted, except for the following ones:

- Amendment of the Articles of Association of the Company.
- Extension of the Board's authorization to issue shares and to grant rights to acquire shares in the share capital of the Company and to limit or exclude pre-emption rights.

The minutes of the meeting are available on our website.

Voting rights

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

Authorizations granted to the Board

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

- To issue shares or grant rights to acquire shares in the Company, and to limit or exclude shareholders' pre-emption rights.
  This authorization runs for five years up to and including March 17, 2014 and covers all shares that can be issued within the authorized share capital as set out in the Articles of Association. At December 31, 2013, out of the authorized 150,000,000 shares, 61,984,156 remained unissued.
- To acquire up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including November 22, 2014. On December 31, 2013 the Company's issued share capital consisted of 88,015,844 shares, of which 1,743,212 were held in treasury: on that basis the authorization covered up to 7,058,372 shares.
- To cancel up to 9,101,584 shares, in one or more tranches, as the Board sees fit.

Distribution of profits

Our dividend policy was addressed as a separate agenda item for the first time at the 2005 AGM. It states that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2013 we paid a cash dividend of €0.34 per share for 2012.

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

Our governance structure continued

Shareholders' disclosures published on the AFM website as at December 31, 2013

December 4, 2013:	Amundi	3.05% capital interest and voting rights
August 8, 2013:	Capital Group International Inc.	14.97% voting rights
August 8, 2013:	Capital Research and Management Company	14.97% voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
July 1, 2013:	J.M. Quandt née Bruhn	3.02% capital interest and voting rights
July 1, 2013:	S.H.U. Klatten née Quandt	3.24% capital interest and voting rights
July 1, 2013:	S.N. Quandt	4.23% capital interest and voting rights
April 8, 2013:	EuroPacific Growth Fund	5.16% capital interest
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2013 due to the following:
- Once a shareholder has disclosed a substantial shareholding to the AFM, additional disclosures are only required in case of exceeding or falling below a threshold;
- Shareholders who disclosed a substantial shareholding to the AFM above 3% and below 5% prior to July 1, 2013 and (i) held less than 3% on July 1, 2013, or (ii) held between 3% and 5% after July 1, 2013, were not required to make an additional disclosure to the AFM.

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

Shareholders' disclosures

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in Gemalto's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% (whether because of an acquisition or disposal of shares or other instruments, or because of a change in the total voting rights or capital issued). Disclosures must be made to the AFM immediately. Under new Dutch law, which entered into force on July 1, 2013, the 5% threshold was reduced to 3%. The table above lists the substantial shareholdings in Gemalto N.V. on record in the AFM register on December 31, 2013, published on the AFM website at **www.afm.nl**.

Specific provisions of the Articles of Association

Required majorities and quora

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

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

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

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2013 AGM approved a Board proposal to appoint PricewaterhouseCoopers Accountants N.V. as the external auditor for 2013.

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

Two sections of this Annual Report – 'Board of Directors' on pages 62–64 and 'Shareholders and General Meetings' on pages 64–66 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Gemalto Equity Incentive Plan – awards granted to employees

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

Gemalto Employee Share Purchase Plans – FCPE: system of control

In 2013, like in previous years, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries can participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE) which offers tax benefits against long-term holding. The FCPE buys the Gemalto shares and in exchange employees receive units of the FCPE. Participation in the FCPE does not give rise to direct ownership of Gemalto shares or the right to acquire them. The FCPE has an independent board of directors and owned 162,558 shares of Gemalto on December 31, 2013. It exercises its voting rights on these shares independently, without instructions from participating employees.

Board statements

The objectives of our internal risk management process are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face; to map these risks; and to initiate actions that mitigate, reduce, transfer, hedge, keep and manage, or suppress them. The Company's risk profile is reported in 'Principal risks' on pages 44–45 with a description of principal risks, their most significant impact and the main mitigation actions. Our internal risk management and control systems are described on pages 38–43.

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

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

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

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

- The annual financial statements for the year ended December 31, 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of Gemalto and its consolidated companies.
- The annual management report gives a true and fair view of the position as per the balance sheet date and the state of affairs during the 2013 financial year of Gemalto and its affiliated companies of which the data has been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch corporate governance code)

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

- Gemalto's internal risk management and control organization provides reasonable assurance that its financial reporting does not contain any error of material importance.
- Gemalto's internal risk management and control processes in relation to financial reporting have worked properly in 2013.

Alex Mandl
Non-executive Chairman of the Board

Arthur van der Poel
Non-executive Board member

Homaira Akbari
Non-executive Board member

Michel Soublin
Non-executive Board member

Olivier Piou
Executive Board member and Chief Executive Officer

Buford Alexander
Non-executive Board member

Johannes Fritz
Non-executive Board member

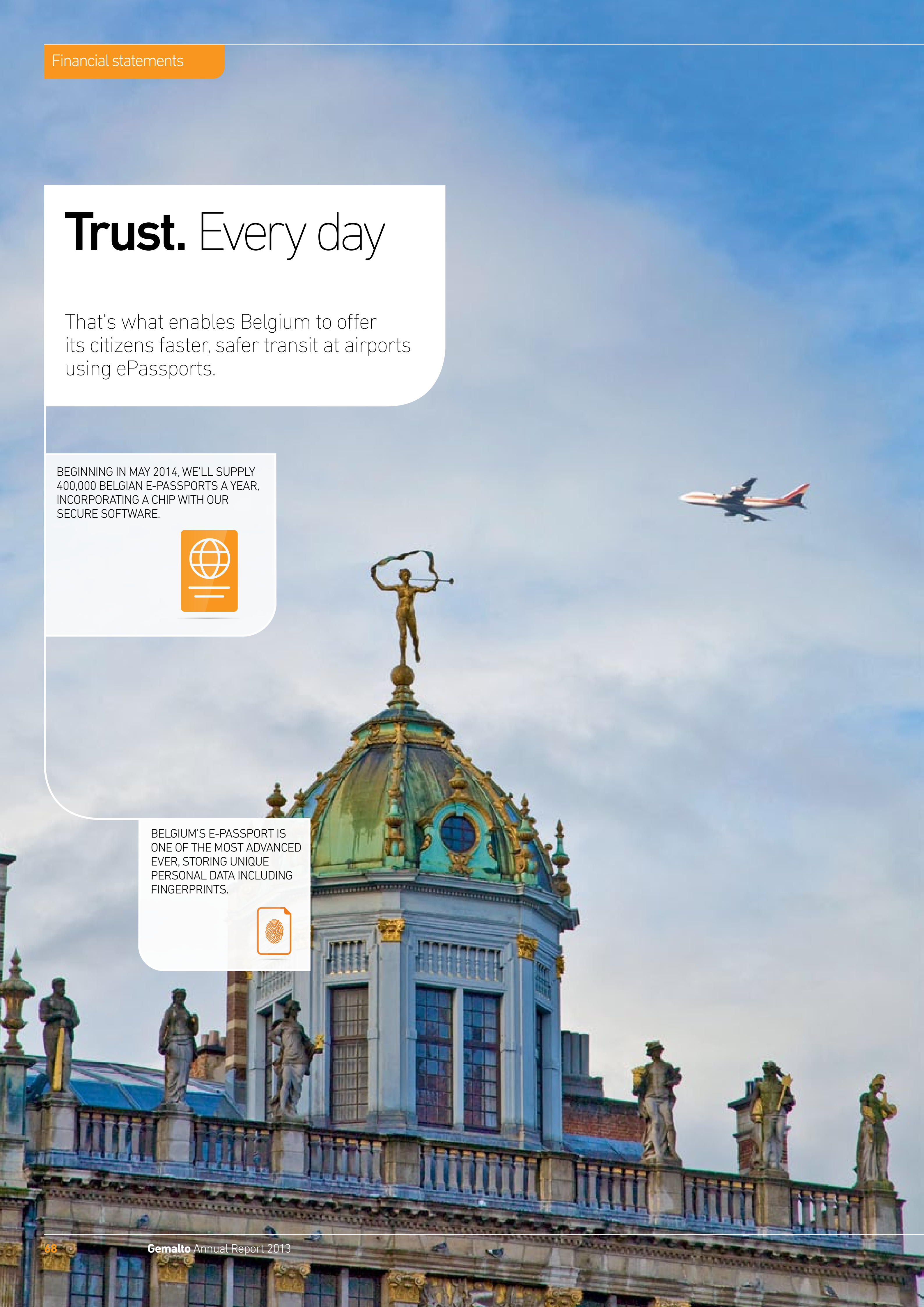
Philippe Alfroid
Non-executive Board member

Drina Yue
Non-executive Board member

John Ormerod
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Amsterdam, March 4, 2014



Trust. Every day

That's what enables Belgium to offer its citizens faster, safer transit at airports using ePassports.

BEGINNING IN MAY 2014, WE'LL SUPPLY 400,000 BELGIAN E-PASSPORTS A YEAR, INCORPORATING A CHIP WITH OUR SECURE SOFTWARE.

BELGIUM'S E-PASSPORT IS ONE OF THE MOST ADVANCED EVER, STORING UNIQUE PERSONAL DATA INCLUDING FINGERPRINTS.

Consolidated financial statements and notes

Consolidated financial statements

Notes to the consolidated financial statements

Statutory financial statements and notes of the Holding Company

Statutory financial statements of the Holding Company

Notes to the Statutory financial statements of the Holding Company

Other information

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31 2013	2012
Assets			
Non-current assets			
Property, plant and equipment, net	8	237,320	237,444
Goodwill, net	9	850,600	852,240
Intangible assets, net	9	202,581	198,660
Investments in associates	10	49,035	25,697
Deferred income tax assets	29	101,289	108,027
Available-for-sale financial assets, net		–	–
Other non-current assets	12	47,360	48,883
Derivative financial instruments	7	11,044	14,290
Total non-current assets		**1,499,229**	**1,485,241**
Current assets			
Inventories, net	13	204,393	185,535
Trade and other receivables, net	14	737,824	652,752
Derivative financial instruments	7	21,363	19,340
Cash and cash equivalents	15	456,370	358,610
Total current assets		**1,419,950**	**1,216,237**
Assets held for sale	11	**–**	**13,210**
Total assets		**2,919,179**	**2,714,688**
Equity			
Share capital		88,016	88,016
Share premium		1,206,914	1,207,195
Treasury shares		(87,962)	(151,753)
Fair value and other reserves		99,396	123,388
Cumulative translation adjustments		(41,489)	81
Retained earnings		883,525	654,795
Capital and reserves attributable to the owners of the Company		**2,148,400**	**1,921,722**
Non-controlling interests		**5,053**	**10,590**
Total equity		**2,153,453**	**1,932,312**
Liabilities			
Non-current liabilities			
Borrowings	16	3,098	3,674
Deferred income tax liabilities	29	25,474	31,994
Employee benefit obligations	17	82,972	80,039
Provisions and other liabilities	18	43,708	84,439
Derivative financial instruments	7	791	277
Total non-current liabilities		**156,043**	**200,423**
Current liabilities			
Borrowings	16	3,812	6,564
Trade and other payables	19	558,065	539,401
Current income tax liabilities		32,472	23,218
Provisions and other liabilities	21	10,649	6,990
Derivative financial instruments	7	4,685	4,803
Total current liabilities		**609,683**	**580,976**
Liabilities associated with assets held for sale	11	**–**	**977**
Total liabilities		**765,726**	**782,376**
Total equity and liabilities		**2,919,179**	**2,714,688**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31 2013	2012
Revenue	22	**2,388,607**	**2,245,500**
Cost of sales		(1,459,484)	(1,387,599)
Gross profit		**929,123**	**857,901**
Operating expenses			
Research and engineering		(143,420)	(141,139)
Sales and marketing		(332,860)	(316,451)
General and administrative		(139,153)	(147,730)
Gain on sale of assets held for sale	11	1,128	–
Gain on sale of investment		–	5,584
Other income (expense), net	26	(1,938)	9,490
Restructuring and acquisition-related expenses	20	(3,469)	(7,911)
Amortization and depreciation of intangibles resulting from acquisitions		(26,912)	(20,985)
Operating profit		**282,499**	**238,759**
Financial income (expense), net	27	(6,732)	(11,433)
Share of profit of associates	10	(2,298)	1,801
Non-recurring profit relating to associates, net	10	19,962	–
Profit before income tax		**293,431**	**229,127**
Income tax (expense)	29	(35,230)	(28,206)
Profit for the period		**258,201**	**200,921**
Attributable to:			
Owners of the Company		257,896	201,041
Non-controlling interests		305	(120)
Earnings per share			
Basic earnings per share	30	3.01	2.41
Diluted earnings per share	30	2.92	2.31
Weighted average number of shares outstanding (in thousands)	30	85,590	83,310
Weighted average number of shares outstanding assuming dilution (in thousands)	30	88,311	87,130

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31 2013	2012
Profit for the period		**258,201**	**200,921**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		(39,839)	(9,265)
Currency translation adjustments: transfer to financial income (expense), net		(2,969)	1,007
Effective portion of gains and losses on cash flow hedging		(534)	33,914
Deferred tax on cash flow hedging gains and losses		700	(11,150)
Currency translation differences on other comprehensive income items		344	(284)
Other comprehensive income that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	17	547	(10,676)
Deferred tax on actuarial gains and losses		(823)	5,178
Total other comprehensive income for the period, net of tax		**(42,574)**	**8,724**
Total comprehensive income for the period, net of tax		**215,627**	**209,645**
Attributable to:			
Owners of the Company		216,560	210,002
Non-controlling interests		(933)	(357)

Consolidated statement of changes in equity

In thousands of Euro	Number of shares[1]		Attributable to owners of the Company						Non-controlling interests	Total equity
	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings		
Balance as at January 1, 2013	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**(151,753)**	**123,388**	**81**	**654,795**	**10,590**	**1,932,312**
Profit for the period								257,896	305	258,201
Other comprehensive income (loss)						234	(41,570)		(1,238)	(42,574)
Total comprehensive income						**234**	**(41,570)**	**257,896**	**(933)**	**215,627**
Share-based compensation expense						31,399				31,399
Employee share option plans		2,523,474			91,983	(60,419)				31,564
Purchase of Treasury shares, net		(336,163)			(28,192)	4,794				(23,398)
Dividend paid/payable to owners of the Company[2]								(29,166)		(29,166)
Dividend paid to non-controlling interests									(340)	(340)
Excess of purchase price on subsequent acquisition of non-controlling interests				(281)					(934)	(1,215)
Sale of non-strategic assets held for sale									(3,330)	(3,330)
Balance as at December 31, 2013	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**(87,962)**	**99,396**	**(41,489)**	**883,525**	**5,053**	**2,153,453**
Balance as at January 1, 2012	**88,015,844**	**83,019,536**	**88,016**	**1,209,216**	**(156,531)**	**87,006**	**8,102**	**480,702**	**4,225**	**1,720,736**
Profit for the period								201,041	(120)	200,921
Other comprehensive income (loss)						16,982	(8,021)		(237)	8,724
Total comprehensive income						**16,982**	**(8,021)**	**201,041**	**(357)**	**209,645**
Share-based compensation expense						35,411				35,411
Employee share option plans		1,924,809			56,732	(23,304)				33,428
Purchase of treasury shares, net		(868,137)			(52,250)	7,090				(45,160)
Shares delivered on acquisition		9,113			296	203				499
Dividend paid/payable to owners of the Company								(25,840)		(25,840)
Dividend paid to non-controlling interests									(168)	(168)
Excess of purchase price on subsequent acquisition of non-controlling interests				(2,021)					6,890	4,869
First time application of IAS 19 Amended								(1,108)		(1,108)
Balance as at December 31, 2012	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**(151,753)**	**123,388**	**81**	**654,795**	**10,590**	**1,932,312**

[1] The difference between the number of shares issued and the number of shares outstanding corresponded to the shares held in treasury. As at December 31, 2013, the number of treasury shares was 1,743,212 (3,930,523 as at December 31, 2012).

[2] See note 33.

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31 2013	2012
Profit for the period including non-controlling interests		**258,201**	**200,921**
Adjustment for:			
Tax	29	35,230	28,206
Research tax credit		(10,690)	(11,278)
Depreciation, amortization and impairment	8, 9	114,306	96,000
Share-based payment expense		31,999	35,411
Gains and losses on sale of fixed assets and write-offs		1,378	1,374
Gains and losses on sale of investment / assets held for sale		(1,128)	(5,584)
Remeasurement to fair value of assets held for sale		–	1,571
Cumulated translation adjustment transferred to financial income (expense), net		(2,969)	1,007
Net movement in provisions and other liabilities		(10,549)	(11,956)
Employee benefit obligations		3,777	5,880
Interest income	27	(3,269)	(3,478)
Interest and other financial expense		(1,387)	5,035
Share of profit from associates	10	2,298	(1,801)
Non-recurring profit relating to associates, net	10	(19,962)	–
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(25,705)	(6,558)
Trade and other receivables		(77,464)	(72,792)
Derivative financial instruments		(1,472)	(483)
Trade and other payables		29,077	61,349
Cash generated from operations		**321,671**	**322,824**
Income tax paid		(66,893)	(37,728)
Net cash provided by operating activities		**254,778**	**285,096**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(26,289)	(67,936)
Purchase of property, plant and equipment		(63,406)	(70,031)
Proceeds from sale of property, plant and equipment		1,084	2,157
Acquisition and capitalization of intangible assets		(40,566)	(56,898)
Proceeds from sale of non-current assets		9,134	1,751
Loan to investments in associate		–	2,765
Proceeds from sale of a subsidiary		–	5,485
Proceeds from sale of assets held for sale net of cash disposed		1,202	–
Purchase of, contribution to, investments in associate		(4,536)	(10,593)
Interest paid		(1,563)	(1,391)
Interest received		2,739	3,412
Dividends received from investments in associates		3,516	137
Net cash used in investing activities		**(118,685)**	**(191,142)**
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests in subsidiaries		(1,174)	(2,709)
Proceeds from exercise of share options		31,564	33,428
Purchase of treasury shares, net		(23,398)	(45,160)
Repayments of borrowings		(11,475)	(16,056)
Dividends paid to owners of the Company	33	(29,166)	(25,840)
Dividends paid to non-controlling interests		(340)	(168)
Net cash used in financing activities		**(33,989)**	**(56,505)**
Cash and bank overdrafts, beginning of period	**15**	**363,040**	**330,069**
Net increase (decrease) in cash and bank overdrafts		**102,104**	**37,449**
Currency translation effect on cash and bank overdrafts		(9,046)	(4,478)
Cash and bank overdrafts, end of period	**15**	**456,098**	**363,040**

Notes to the consolidated financial statements

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

Note 1. General information

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

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

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

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2013 have been authorized for issue by the Board on 4 March 2014 and will be submitted to the AGM of May 21, 2014 for adoption.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments used for hedging) at fair value through profit or loss. The preparation of consolidated financial statements in compliance with IAS/IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except as noted below.

2.2 Changes in accounting policies and disclosures

(a) Standards, amendments to existing standards and interpretations mandatory for financial statements as at December 31, 2013

- IAS 12 *Income Taxes (Amended) – Recovery of Underlying Assets;*
- IFRS 7 *Financial Instruments: Disclosures (Amended) – Offsetting Financial Assets and Financial Liabilities*
- IFRS 13 *Fair Value Measurement*
- Amendments to IFRSs Improvements to IFRS (2009 – 2011)
- IFRIC 20 *Stripping costs in the production phase of a surface mine*

These amendments to the standard did not have any impact on the Group's financial statements as at December 31, 2013.

(b) The following standards issued but not yet mandatory for financial statements as at December 31, 2013 have been early adopted by the Group

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 10, IFRS 11, IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
- IAS 27 *Separate Financial Statements (Revised)*
- IAS 28 *Investments in Associates and Joint Ventures (Revised)*
- Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

The application of the above mentioned standards did not have any impact on the Group's financial statements as at December 31, 2013.

(c) The following standards, amendments to existing standards and interpretation have been issued but not mandatory for financial statements as at December 31, 2013 (and not early adopted by the Group)

- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- IAS 36 *Impairment of Assets (Amended) – Recoverable amount disclosures for non-financial assets*
- IAS 39 *Financial Instruments: Recognition and Measurement (Amended) Novation of derivatives and continuation of hedge accounting*
- IFRIC – Interpretation 21 Levies
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

- IAS 19 *Employee Benefits (Amended) – Employee contributions*
- IFRS 9 *Financial instruments – Classification and measurement of financial assets and financial liabilities*

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

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

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

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

The Group recognizes non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amount of acquiree's identifiable net assets. For further acquisitions of non-controlling interest, the excess of the cost of acquisition over the carrying value of the Group's additional share of the identifiable net assets acquired, is recorded against the share premium in the equity. If control is achieved in stages, the fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Adjustments to the fair value of the assets acquired and liabilities and contingent liabilities assumed can occur during a period of twelve months following the date of acquisition. When the Group ceases to have control, any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognized in the income statement.

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

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

(b) Associates

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

(c) Group companies

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

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

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

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

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

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

2.7 Goodwill and intangible assets

(a) Goodwill

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

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

(b) Brand names

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

(c) Other intangible assets

Other intangible assets have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of other intangible assets over their estimated useful lives as follows:

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

2.8 Impairment of non-financial assets

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

2.9 Investments and financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

Investments representing less than 20% of the equity of the investee are classified as available-for-sale financial assets.

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

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

2.10 Inventories

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

2.11 Trade receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

2.15 Taxes on income

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

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

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

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

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

2.16 Research tax credits and government grants

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

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

2.17 Research and development costs

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

2.18 Employee benefits

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

(a) Pension and similar obligations

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

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

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

Past service costs are recognized immediately in the income statement.

(b) Termination benefits

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

(c) Profit-sharing and bonus plans

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

2.19 Share-based payment

(a) Share-based compensation

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

(b) Share-based transaction

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

2.20 Provisions

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

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

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently regularly remeasured at their fair value. These instruments, which are expected to mature within 3 years after the balance sheet date, are presented under 'Derivative financial instruments' in current or non-current assets or liabilities depending on their maturity. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument for accounting purposes and, if so, on the nature of the item being hedged. Some of the derivative financial instruments used to hedge the Company's foreign exchange exposure qualify as cash flow hedges since they reduce the variability in cash flows attributable to the Company's forecasted transactions and qualify to the requirements of the standard.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

For derivatives qualified as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of the derivative instruments used for hedging purposes are disclosed in note 4.6. Movements on the hedging reserve are shown in the consolidated statement of comprehensive income.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income. The gain or loss

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

relating to the ineffective portion is recognized immediately in the income statement within the foreign exchange gains and losses. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss.

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

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

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

2.24 Estimation of financial instrument fair value

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

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

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

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

For the available-for-sale financial assets, they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at December 31, 2013, the value of Level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

In accordance with IFRS 13, the counterparty's credit risk has been measured when valuing uncollateralized derivative assets. The probability of default has been determined based on both historical default rates issued by credit rating agencies and a recovery ratio estimated to 40%.

As at December 31, 2013 and December 31, 2012, the credit and debit value adjustment (CVA and DVA) are not material and do not modify the global fair valuation of financial instruments.

2.25 Offsetting financial instruments

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

As at December 31, 2013, the fair value of the equity swap cash-settled contracted in May 2013 and its related margin call are offset in the statement of financial position in this end for (0.1) M€ (see note 4.2).

Note 3. Critical judgments and estimates

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

3.1 Presentation of the income statement

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

(i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provision of IAS 37 (e.g. sale or termination of a business, closure of a plant), and consequent costs;

(ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio, and the integration of IT systems, consequent to a business combination; and

(iii) transaction costs (such as fees paid as part of the acquisition process).

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

3.2 Revenue recognition

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

3.3 Goodwill

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

3.4 Intangible assets

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

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

3.5 Impairment tests

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

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

3.6 Share-based payments

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

3.7 Employee benefit obligations

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

3.8 Income taxes

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

Notes to the consolidated financial statements continued

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

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

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

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

Foreign exchange forward contracts and options that hedge a portion of subsidiaries' known or forecasted commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in the income statement. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred in the settlement of balance sheet items not denominated in the relevant subsidiary's functional currency, are not qualified in hedge accounting (see 4.7).

The following table shows the sensitivity of the Group's results as at December 31, to some reasonably possible changes in the US Dollar exchange rate against the Euro, all other variables being held constant, split between:

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

The impacts of other currencies to similar fluctuations for any given currency do not exceed €0.8 million on the profit or loss for 2013 (€0.3 million in 2012) and €2.1 million on the statement of financial position as at December 31, 2013 (€2 million in 2012).

	Year ended December 31,			
	2013		2012	
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect of profit before tax				
– Underlying[3]	(2,167)	2,278	(1,805)	1,897
– Hedges[4]	2,961	(4,126)	1,664	(1,749)
Net	**794**	**(1,848)**	**(141)**	**148**
Gain/(loss)				
Effect on equity				
– Hedges[5]	6,062	(6 687)	8,353	(11,100)

[3] Effect of revaluation of financial assets and liabilities, excluding hedges.

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

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

The impacts of translation of foreign currency financial statements from their functional currency to the Company's reporting currency are not included in the above computation.

4.2 Market risk

In May 2013, Gemalto has contracted an equity swap cash-settled ending in May 2016 for 150,000 Gemalto shares.

The financial instrument has been contracted so as to hedge the changes in the social levies associated with the share based compensation plan granted in May 2013 which shall vest in 2016.

To ensure adequate collateral is posted during the life of the equity swap, a margin call mechanism is in place.

As at December 31, 2013, the fair value of the equity swap cash-settled amounted to €2.2 million. The related net margin call received in cash by Gemalto amounted to €2.3 million.

The following table shows the sensitivity of the Group's results linked to some reasonably possible changes in the Gemalto stock share value, all other variables being held constant and excluding the impact on the margin call mechanism:

	Year ended December 31,			
	2013		2012	
	Change in Gemalto share value			
	+10%	-10%	+10%	-10%
Income/(expense)				
Effect of profit before tax				
– Underlying[6]	(283)	283	n/a	n/a
– Hedges[7]	233	(233)	n/a	n/a
Net	**(50)**	**50**	**n/a**	**n/a**
Gain/(loss)				
Effect on equity				
– Hedges[8]	967	(967)	n/a	n/a

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

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

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

4.3 Interest rate risk

Financial assets are invested in bank deposits and money market funds with maturities no longer than three months, classified as cash and cash equivalents. Financial liabilities are mainly floating rate finance leases. Financial income (expense) can therefore be sensitive to interest rate fluctuations. The Company, however, considers that this risk may not have a significant impact on its financial situation in the short term and does not use derivative financial instruments to hedge interest rate risk. The following table shows the sensitivity of the Group's results to some reasonably possible changes in the interest rates, all other variables being held constant. There is no effect on the Group's equity.

Effect on profit before tax Income/(expense)	Variation in interest rate (in basis points)	2013	2012
Borrowings	(50)	30	28
	50	(61)	(31)
Short-term deposits and investment funds	(50)	(1,242)	(1,203)
	50	1,242	1,203

4.4 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €445 million bilateral credit facilities referred to in note 16, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table for 2013 are the contractual undiscounted cash flows. With the exception of finance lease liabilities and derivative financial instruments, the balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

In addition to the below liabilities, Gemalto N.V. has issued a guarantee which amounted to €21.3 million as of December 31, 2013 and €21.6 million as of December 31, 2012 (see note 32).

2013	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Finance lease liabilities	2,116	431	–	2,547
Other borrowings	1,735	2,665	–	4,400
Derivative financial instruments	4,548	1,012	–	5,560
Trade and other payables	558,065	–	–	558,065
	566,464	**4,108**	**–**	**570,572**

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

4.5 Financial counterparty risk

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

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

The Company also maintains credit lines with various banks. It includes facilities for derivative financial instruments, uncommitted short-term facilities, short-term bonds and guarantee lines, and also a series of committed bank bilateral credit facilities totalling €445 million arranged with international banks of strong credit rating referred to in note 16. The maturities of these facilities are comprised between December 9, 2014 and November 12, 2018.

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

	Year ended December 31, 2013	2012
Borrowings		
in % of total borrowing risk for Gemalto	18%	19%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	22%	21%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	14%	12%
Total risk for any single counterparty[9]		
in % of total counterparty risk for Gemalto	**16%**	**14%**

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

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

4.6 Credit risk

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2013 and 2012. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of countries and customers' financial condition.

As of December 31, 2013, trade receivables of €120,024 were past due but not impaired (€116,558 in 2012). These relate to a number of independent customers for whom there is no recent history of default and whose credit standing is regularly assessed. The ageing analysis of these trade receivables is as follows:

	Year ended December 31,			
	2013			2012
Overdue by	Carrying amount	Bad debt reserve	Overdue but not impaired	Carrying amount
Up to 1 month	57,084	(18)	57,066	64,971
2 to 3 months	36,064	(587)	35,477	34,583
4 to 6 months	15,262	(889)	14,373	11,444
Later than 6 months	22,169	(9,061)	13,108	16,097
	130,579		**120,024**	**127,095**
Provision for impairment of receivables		(10,555)		(10,537)
Trade receivables overdue but not impaired			**120,024**	**116,558**

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

	Year ended December 31,	
	2013	2012
As at January 1,	**(10,537)**	**(9,546)**
Acquisition of subsidiaries	(126)	(1,167)
Provision for impairment of receivables	(3,674)	(3,500)
Receivables written off over the year as uncollectible	1,499	1,870
Unused amounts reversed	1,947	1,709
Currency translation adjustment	336	97
As at December 31,	**(10,555)**	**(10,537)**
Yearly loss (as a percentage of annual revenue)	0.00%	0.00%

4.7 Foreign exchange derivative financial instruments

Gemalto enters into foreign exchange contracts as cash flow hedges and fair value hedges in order to manage its foreign currency exposure incurred in the normal course of business.

As at December 31, 2013, the Group held forward and option contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in US Dollar, Sterling Pound, Japanese Yen, Singapore Dollar and Polish Zloty. It also held forward and option contracts not qualified in hedge accounting and recognized through income statement at fair value, denominated in the same currencies and in South African Rand, Brazilian Real, Swiss Franc and Chinese Yuan.
The fair value of the Group's financial instruments is recorded in current or non-current assets and liabilities, as 'Derivative financial instruments' and details as follows (mark-to-market valuations):

	Year ended December 31, 2013								Year ended December 31, 2012							
	USD	GBP	JPY	SGD	PLN	ZAR	BRL	Other	USD	GBP	JPY	SGD	PLN	ZAR	SEK	Other
Cash flow hedges																
Forward contracts	23,349	(724)	4,995	(3,687)	984	–	–	–	17,323	(587)	8,863	182	1,462	–	–	–
Option contracts	–	–	–	–	–	–	–	–	(1,100)	–	120	–	–	–	–	–
Fair value hedges																
Forward contracts	1,761	(2)	293	33	(19)	99	103	61	1,425	43	705	(28)	(10)	285	16	6
Option contracts	–	–	–	–	–	–	(168)	(8)	–	–	–	–	–	–	–	–
Disqualified hedges																
Forward contracts	–	–	–	6	–	–	–	–	–	–	–	–	–	–	(155)	–
	25,110	**(726)**	**5,288**	**(3,648)**	**965**	**99**	**(65)**	**53**	17,648	(544)	9,688	154	1,452	285	(139)	6

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

	2013		
	Total amount recognized in Other Comprehensive Income (1)+(2)	**Amount to be transferred in sales or cost of sales within one year (1)**	**Amount to be transferred in sales or cost of sales beyond one year (2)[10]**
Effective portion	28,608	15,832	12,776

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

	2012		
	Total amount recognized in Other Comprehensive Income (1)+(2)	Amount to be transferred in sales or cost of sales within one year (1)	Amount to be transferred in sales or cost of sales beyond one year (2)[11]
Effective portion	30,889	14,918	15,971

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

Note 5. Business combinations

In 2013, Gemalto undertook a number of business combinations for a total consideration of €29.8 million, paid in cash. The main acquisition concluded by Gemalto was Avalon Biometrics, S.L., a leading provider of software solution for border management systems, Visa management systems and document verification. These business combinations have been accounted for under the acquisition method as prescribed by IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). They have been included in the Group's consolidated financial statements as of the date the Group obtained control.

Identifiable assets and liabilities at the date of acquisition:

In thousands of Euro	
Assets	
Non-current assets	17,244
Current assets	528
Cash and cash equivalents	765
Total assets	**18,537**

In thousands of Euro	
Liabilities	
Non-current liabilities	3,882
Borrowings (current)	847
Current liabilities	640
Total liabilities	**5,369**
Fair value of identifiable net assets	**13,168**
Purchase consideration	29,774
Goodwill	16,606
Analysis of cash flows on acquisitions:	
Purchase consideration settled in cash	(29,774)
Net cash acquired	721
Net cash flows used in acquisitions	**(29,053)**

In most instances, Gemalto management, assisted by independent qualified experts, provisionally identified and allocated the combination value to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquiree. Tax effects on the fair value of the intangible assets recognized amounted to €5.3 million.

Notes to the consolidated financial statements continued

Note 5. Business combinations continued

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

In thousands of euros	2013 acquisitions Fair Value	2013 acquisitions Remaining useful life	2012 acquisitions Fair Value	2012 acquisitions Remaining useful life
Existing technologies	15,997	7 years	4,788	5 years
Customer relationships	862	1 year	2,758	5 years
Brand name	–	–	–	–

Note 6. Segment information

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

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

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

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

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

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

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

To supplement the financial statements presented on an IFRS basis, and to better assess its past and future performance, the Group also prepares an additional income statement where the key metric used to understand, evaluate the business and take operating decisions over the period 2010 to 2017 is the Profit from operations ("PFO"). Profit from operations is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses; and (iii) all equity-based compensation charges and associated costs (reported in the column 'Adjustments' within the tables below). This supplemental non-GAAP measure is used internally to understand, manage and evaluate business and take operating decisions. It is among the primary factors management uses in planning for and forecasting future periods, and compensation of executives is based in part on the performance of the business based on this non-GAAP measure.

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

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

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

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

	Ongoing operations							Year ended December 31, 2013		
In thousands of Euro	Mobile Communication	Machine-to-Machine	Secure Transactions	Security	Patents	Adjusted financial information for ongoing operations	Reconciling items[12]	Adjusted financial information	Adjustments[13]	IFRS financial information
Revenue	**1,091,336**	**200,334**	**659,840**	**416,119**	**16,306**	**2,383,935**	**4,672**	**2,388,607**	**–**	**2,388,607**
Cost of sales	(594,733)	(128,285)	(453,683)	(268,456)	(1,706)	(1,446,863)	(5,505)	(1,452,368)	(7,116)	(1,459,484)
Gross profit	**496,603**	**72,049**	**206,157**	**147,663**	**14,600**	**937,072**	**(833)**	**936,239**	**(7,116)**	**929,123**
Operating expenses										
Research and engineering	(67,475)	(14,964)	(21,778)	(25,230)	(9,829)	(139,276)	–	(139,276)	(4,144)	(143,420)
Sales and marketing	(154,235)	(23,069)	(79,105)	(64,743)	325	(320,827)	(353)	(321,180)	(11,680)	(332,860)
General and administrative	(72,181)	(12,119)	(26,009)	(16,829)	(260)	(127,398)	(143)	(127,541)	(11,612)	(139,153)
Gain on sale of assets held for sale	–	–	–	–	–	–	1,128	1,128	–	1,128
Other income (expense), net	2,745	63	(2,705)	73	(1,733)	(1,557)	(381)	(1,938)	–	(1,938)
Profit from operations	**205,457**	**21,960**	**76,560**	**40,934**	**3,103**	**348,014**	**(582)**	**347,432**		
Restructuring and acquisition-related expenses										(3,469)
Amortization and depreciation of intangibles resulting from acquisitions										(26,912)
Operating profit										**282,499**

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

[12] Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to 'Ongoing operations'.

[13] The amounts reported in the column 'Adjustments' refer to equity-based computed compensation charges and associated costs. The total amount for 2013 was €34,552 (€38,622 in 2012).

Notes to the consolidated financial statements continued

Note 6. Segment information continued

Geographical information

The tables below show revenue and non-current assets (excluding goodwill) attributed to geographic areas, on the basis of the location of the customers and the location of the assets, respectively:

	Year ended December 31, 2013	2012
Revenue		
Europe, Middle East and Africa	1,155,828	1,125,700
Asia Pacific	479,502	438,124
North and South America excluding the United States of America	391,850	412,088
United States of America	361,427	269,588
Total	**2,388,607**	**2,245,500**

	Year ended December 31, 2013	2012
Non-current assets excluding goodwill (net)		
France	265,875	240,454
Europe, Middle East and Africa excluding France and Germany	114,620	149,314
Asia Pacific	111,215	84,091
North and South America	84,365	83,356
Germany	72,554	75,786
Total	**648,629**	**633,001**

Note 7. Financial assets/liabilities by category

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

December 31, 2013	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
Assets					
Other non-current assets	47,360	–	–	–	47,360
Trade and other receivables, net	737,824	–	–	–	737,824
Derivative financial instruments	–	–	32,407	–	32,407
Cash and cash equivalents	96,111	360,259	–	–	456,370
Total	**881,295**	**360,259**	**32,407**	**–**	**1,273,961**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	6,910	6,910
Derivative financial instruments	5,476	–	5,476
Total	**5,476**	**6,910**	**12,386**

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

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

Fair value estimation

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2013 (see note 2.24):

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Derivatives used for hedging	–	32,407	–	32,407
Short-term bank deposits and investment funds	360,259	–	–	360,259
Available-for-sale financial assets	–	–	–	–
Total Assets	**360,259**	**32,407**	**–**	**392,666**
Liabilities				
Derivatives used for hedging	–	5,476	–	5,476
Total Liabilities	**–**	**5,476**	**–**	**5,476**

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

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

Notes to the consolidated financial statements continued

Note 8. Property, plant and equipment

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

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2013	**5,596**	**216,203**	**564,800**	**786,599**
Acquisition of subsidiary and business	–	–	223	**223**
Additions	–	22,193	43,823	**66,016**
Disposals and write-offs	–	(11,323)	(37,046)	**(48,369)**
Currency translation adjustment	(196)	(4,259)	(14,695)	**(19,150)**
Gross book value as of December 31, 2013	**5,400**	**222,814**	**557,105**	**785,319**
Accumulated depreciation as of January 1, 2013	**(33)**	**(141,582)**	**(407,540)**	**(549,155)**
Depreciation charge	(18)	(13,646)	(43,660)	**(57,324)**
Disposals and write-offs	–	10,955	35,534	**46,489**
Currency translation adjustment	15	2,195	9,781	**11,991**
Accumulated depreciation as of December 31, 2013	**(36)**	**(142,078)**	**(405,885)**	**(547,999)**
Net book value as of December 31, 2013	**5,364**	**80,736**	**151,220**	**237,320**

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

Capitalized leases included in property, plant and equipment:

	Year ended December 31,	
	2013	2012
Gross book value	53,499	54,622
Accumulated depreciation	(32,445)	(33,679)
Net book value	**21,054**	**20,943**

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

	Year ended December 31,	
	2013	2012
Cost of sales	45,949	43,384
Research and engineering expenses	3,817	3,149
Sales and marketing expenses	679	638
General and administrative expenses	6,879	6,326
Total depreciation expenses by destination	**57,324**	**53,497**

Note 9. Goodwill and intangible assets

Goodwill and intangible assets, net consist of the following:

	Goodwill	Patents and technology	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2013	**865,536**	**317,724**	**154,522**	**181,181**	**1,518,963**
Acquisition of subsidiary and business	4,320	20,791	–	4,212	**29,323**
Additions	–	73	27,019	11,984	**39,076**
Write-offs	–	(33)	(782)	(2,025)	**(2,840)**
Other reclassification	–	1,591	359	(2,034)	**(84)**
Currency translation adjustment	(6,290)	(908)	(109)	(2,730)	**(10,037)**
Gross book value as of December 31, 2013	**863,566**	**339,238**	**181,009**	**190,588**	**1,574,401**
Accumulated amortization as of January 1, 2013	**(13,296)**	**(282,183)**	**(65,150)**	**(107,434)**	**(468,063)**
Amortization charge	–	(15,498)	(22,719)	(18,765)	**(56,982)**
Write-offs	–	33	782	1,664	**2,479**
Other reclassification	–	6	(143)	221	**84**
Currency translation adjustment	330	291	8	633	**1,262**
Accumulated amortization as of December 31, 2013	**(12,966)**	**(297,351)**	**(87,222)**	**(123,681)**	**(521,220)**
Net book value as of December 31, 2013	**850,600**	**41,887**	**93,787**	**66,907**	**1,053,181**

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

Notes to the consolidated financial statements continued

Note 9. Goodwill and intangible assets continued

Other intangibles mainly consist of:

	Year ended December 31, 2013	2012
Licensing rights to use and distribute licensed technology	8,795	9,392
Acquired customer relationship	29,780	35,683
Acquired brand names	10,593	11,305
Miscellaneous software and other intangibles	17,739	17,367
Total	**66,907**	**73,747**

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

	Year ended December 31, 2013	2012
Cost of sales	28,380	20,527
Research and engineering expenses	679	380
Sales and marketing expenses	69	21
General and administrative expenses	942	590
Amortization and depreciation of intangible resulting from acquisition	26,912	20,985
Total	**56,982**	**42,503**

Goodwill impairment test

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

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

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

In millions of Euro CGU	Year ended December 31, 2013	2012
Mobile Communication	400	414
Machine-to-Machine	116	116
Secure Transactions	137	138
Security	198	184
Total	**851**	**852**

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations use projected cash flows after tax derived from management plans as of the date the review was carried out. Cash flows beyond management plans horizon are extrapolated using a 2% growth rate for each CGU. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 8.6% in 2013 (8.6% in 2012). The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2013 nor in 2012. Further, no impairment charge would be recognized in 2013 if discounted projected cash flows were 20% lower.

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

Investments in associates consist of the following:

	Year ended December 31, 2013	2012
Investments as of beginning of period	**25,697**	**13,783**
Acquisition, contribution of/to associates	3,735	11,963
Reclassification from dividend receivable	2,740	–
Change in consolidation method	–	(37)
Reclassification (to) from assets held for sale	1,263	(1,263)
Dividends paid by associates	(1,109)	(137)
Share of profit	(2,298)	1,801
Non-recurring profit, net	19,962	–
Currency translation adjustment	(955)	(413)
Investments as of end of period	**49,035**	**25,697**

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2013, the net book value of goodwill in associates amounted to €427 (in 2012 €7,611).

During the year 2013, the financial situation of some of our associates has declined, the recovery from these associates is considered uncertained by Gemalto and the carrying value and the related goodwill of these investments were impaired. The overall impact is a charge of approximately €8 million which has been recognized through the income statement on the line item "non-recurring profit relating to associates, net"

End of 2013, our associate Goldpac Group Limited went into several capital restructuring, ending with an IPO on the Hong Kong stock exchange on December 4, 2013. The major consequence for Gemalto was a decrease in our shareholding from 20% to 18.43% and a gain of approximately €28 million, primarily relating to the dilution, which has been recognized through the income statement on the line item "non-recurring profit relating to associates, net". Notwithstanding the dilution of our shareholding, Gemalto remains a substantial shareholder in Goldpac Group Limited with one non-executive board member. The market value of our shareholding in Goldpac Group Limited, on the Hong Kong stock exchange, was €109 million as at December 31, 2013.
As at December 31, 2013 the carrying value of our investment was €42 million.

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

Year 2013	Associates' total Assets	Liabilities	Revenue	Profit/(loss)
Goldpac Group Limited	262,406	114,988	101,680	15,178
Other associates	59,922	25,517	31,882	(23,073)
Total Associates	**322,328**	**140,505**	**133,562**	**(7,895)**

Year 2012	Associates' total Assets	Liabilities	Revenue	Profit/(loss)
Goldpac Group Limited	94,192	65,707	82,077	12,744
Other associates	45,784	10,209	6,026	(4,400)
Total Associates	**139,976**	**75,916**	**88,103**	**8,344**

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

Note 11. Assets held for sale

In 2013, Gemalto concluded the sale of most of its non strategic assets classified as held for sale.

	Year ended December 31,	
	2013	2012
Assets held for sale as of beginning of period	**13,210**	**1,711**
Additions	2,977	23,422
Reassessment to fair value	–	(1,571)
Disposals	(15,198)	(10,208)
Reclassification to investments in associates	(1,263)	–
Currency translation adjustment	274	(144)
Assets held for sale as of end of period	**–**	**13,210**

	Year ended December 31,	
	2013	2012
Liabilities held for sale as of beginning of period	**977**	**–**
Additions	7,404	7,698
Disposals	(8,402)	(6,709)
Currency translation adjustment	21	(12)
Liabilities held for sale as of end of period	**–**	**977**

	Year ended December 31,
	2013
Net assets disposed of	6,796
Cancellation of non-controlling interests	(3,330)
Total Gemalto share in net assets disposed of	**3,466**
Consideration received in cash	4,594
Gain on sale of assets held for sale	**1,128**

The currency translation adjustment reserve, related to the assets disposed off on the period has been recognized in the line item, other financial income (expense), net, for €1.5 million.

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2013	2012
Research tax credit	15,047	3,642
Long-term deposits, net[14]	3,175	2,828
Tax receivable	12,803	11,228
Other	16,335	31,185
Total	**47,360**	**48,883**

[14] The €3,175 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,	
	2013	2012
Gross book value		
Raw materials and spares	67,449	50,895
Work in progress	103,548	106,001
Finished goods	45,942	43,138
Total	**216,939**	**200,034**
Obsolescence reserve		
Raw materials and spares	(4,852)	(5,065)
Work in progress	(5,182)	(6,594)
Finished goods	(2,512)	(2,840)
Total	**(12,546)**	**(14,499)**
Net book value	**204,393**	**185,535**

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2013	2012
Trade receivables	533,729	478,279
Provision for impairment of receivables	(10,555)	(10,537)
Trade receivables, net	**523,174**	**467,742**
Prepaid expenses	22,516	23,654
VAT recoverable and tax receivable	73,151	64,282
Advances to suppliers and related	11,950	9,902
Unbilled customers	84,491	60,002
Other	22,542	27,170
Total	**737,824**	**652,752**

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2013	2012
Cash at bank and in hand	96,111	130,320
Short-term bank deposits and investment funds	360,259	228,290
Total	**456,370**	**358,610**

The average effective interest rate on short-term deposits was 1.31% in 2013 (1.44% in 2012). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds or in commercial paper, with maturities of less than three months.
The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	Year ended December 31,	
	2013	2012
Cash and cash equivalents	456,370	358,610
Cash and cash equivalents classified as assets held for sale	–	4,578
Banks overdrafts	(272)	(148)
Total	**456,098**	**363,040**

Notes to the consolidated financial statements continued

Note 16. Borrowings

Borrowings consist of the following:

	Year ended December 31, 2013	2012
Non-current portion		
Other financial liability	2,665	1,557
Finance lease liabilities	433	2,117
Total non-current portion	**3,098**	**3,674**
Current portion		
Short-term loans	1,463	2,509
Bank overdrafts	272	148
Other financial liability	–	1,370
Finance lease liabilities	2,077	2,537
Total current portion	**3,812**	**6,564**
Total	**6,910**	**10,238**

The Group has signed a series of bilateral committed revolving credit lines, arranged with first rank banks. The total amount is €445 million and the maturities fall between December 9, 2014 and November 12, 2018. None of the bilateral credit lines were drawn as at December 31, 2013 and 2012 respectively. There are no financial covenants (ratio) concerning our financial structure in the documentation of these facilities. The carrying amounts of Gemalto's borrowings are denominated in the following currencies:

	Year ended December 31, 2013	2012
Euro (EUR)	5,969	6,063
Polish Zloty (PNL)	48	–
Philippino Peso (PHP)	525	–
Arab Emirates Dirham (AED)	–	50
Chinese Yuan (CNY)	368	2,109
US Dollar (USD)	–	2,016
Total	**6,910**	**10,238**

The nominal interest rates as at December 31, 2013 and 2012 were as follows:

2013		Amount	EUR	USD	PHP	PLN	CNY
Other financial liability	Floating rate	2,665	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	1,735	n/s	–	4.59%	–	n/s
Finance lease liabilities	Floating rate	1,997	1.22%	–	–	–	–
Finance lease liabilities	Fixed rate	513	3.70%	–	–	5.40%	–
Total		**6,910**					

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

n/a: not applicable. No specific interest rate as it relates to the liabilities for additional compensation/guaranteed dividend payable to non-controlling interests.

n/s: not significant.

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

Finance lease liabilities are split by maturity as follows:

	Year ended December 31, 2013	2012
Finance lease liabilities minimum lease payments		
Not later than 1 year	2,116	3,675
Later than 1 year and not later than 5 years	431	1,049
Later than 5 years	–	–
Total	**2,547**	**4,724**
Future finance charges on finance leases	(37)	(70)
Present value of finance lease liabilities	**2,510**	**4,654**

The present value of finance lease liabilities is as follows:

	Year ended December 31, 2013	2012
Present value of finance lease liabilities		
Not later than 1 year	2,077	2,536
Later than 1 year and not later than 5 years	433	2,118
Later than 5 years	–	–
Total	**2,510**	**4,654**

Note 17. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31, 2013	2012
Present value of obligations	132,669	127,302
Fair value of plan assets	(49,697)	(47,263)
Net defined benefit liability	**82,972**	**80,039**

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

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

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

In the UK, the arrangement consisted of a funded salary pension under which retired employees draw their benefits as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme based on defined contributions was put in place. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

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

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

Movement in the net defined benefit obligation

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

	Present value of obligation	Fair value of plan assets	Total
Balance as at January 1, 2013	**127,302**	**(47,263)**	**80,039**
Current service costs	8,197	–	8,197
Interest expense	5,546	(2,006)	3,540
Curtailment	(720)	–	(720)
Amount recognized in the income statement	**13,023**	**(2,006)**	**11,017**
Return on plan assets	–	409	409
Actuarial (gain) and loss arising from changes in demographic assumptions	(1,275)	–	(1,275)
Actuarial (gain) and loss arising from changes in financial assumptions	(749)	–	(749)
Actuarial (gain) and loss due to experience	1,068	–	1,068
Amounts recognized in other comprehensive income	**(956)**	**409**	**(547)**
Contributions to the plan by the employer	–	(3,405)	(3,405)
Payments	(5,757)	1,922	(3,835)
Reclassifications to liabilities held for sale	–	–	–
Acquisition of subsidiaries	–	–	–
Currency translation adjustment	(943)	646	(297)
Balance as at December 31, 2013	**132,669**	**(49,697)**	**82,972**

	Present value of obligation	Fair value of plan assets	Total
Balance as at January 1, 2012	**93,199**	**(41,729)**	**51,470**
Past service costs recognized in equity[15]	1,816	–	1,816
Reclassifications from short-term employee benefit to long-term upon early application of IAS 19 Amended	9,087	–	9,087
Current service costs	7,298	–	7,298
Interest expense	6,201	(2,054)	4,147
Curtailment	(266)	–	(266)
Amount recognized in the income statement	**13,233**	**(2,054)**	**11,179**
Return on plan assets	–	(2,196)	(2,196)
Actuarial (gain) and loss arising from changes in demographic assumptions	(102)	–	(102)
Actuarial (gain) and loss arising from changes in financial assumptions	12,126	–	12,126
Actuarial (gain) and loss due to experience	848	–	848
Amounts recognized in other comprehensive income	**12,872**	**(2,196)**	**10,676**
Contributions to the plan by the employer	–	(2,447)	(2,447)
Payments	(4,490)	1,638	(2,852)
Reclassifications to liabilities held for sale	(121)	–	(121)
Acquisition of subsidiaries	884	–	884
Currency translation adjustment	822	(475)	347
Balance as at December 31, 2012	**127,302**	**(47,263)**	**80,039**

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

Net defined benefit obligation by geographical situation

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

					December 2013
	France	UK	Germany	Other countries	Total
Projected benefit obligation	58,911	44,528	14,853	14,377	132,669
Plan assets at fair value	–	(36,582)	(6,992)	(6,123)	(49,697)
Net defined benefit obligation	**58,911**	**7,946**	**7,861**	**8,254**	**82,972**

					December 2012
	France	UK	Germany	Other countries	Total
Projected benefit obligation	56,134	41,837	15,185	14,146	127,302
Plan assets at fair value	–	(35,711)	(5,420)	(6,132)	(47,263)
Net defined benefit obligation	**56,134**	**6,126**	**9,765**	**8,014**	**80,039**

Plan assets

In France, the regulations do not provide for any obligation to fund the liability arising from the lump-sum payments made to employees upon their retirement. In the UK, Germany and Finland, plan assets are comprised of equity securities, debt instruments and other investments. The plan assets are composed of the following:

	Year ended December 31,	
	2013	2012
Equity securities	21,468	20,937
Debt instruments (Government and corporate bonds)	15,202	14,960
Other investments	13,027	11,366
Total plan asset fair value	**49,697**	**47,263**

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

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2013	2012
Eurozone		
Discount rate	3.50%	3.00%
Future salary increase	3.50%	3.26%
Inflation rate	2.00%	1.96%
UK		
Discount rate	4.50%	4.50%
Future salary increase	n/a	n/a
Inflation rate	3.50%	2.75%
Expected rate of return on plan assets	4.50%	4.50%

Discount rate source

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

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.

Notes to the consolidated financial statements continued

Note 17. Employee benefit obligations continued

Sensitivity analysis

The following table shows the sensitivity of the UK and French liabilities for the year ended December 31, 2013 to reasonable changes in main assumptions used, all other variables being held constant:

Increase/(Decrease) in the liability	0.5 percentage point increase	0.5 percentage point decrease
Discount rate	(6,127)	9,716
Inflation rate	4,082	(1,209)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2009–2011 for France and (ii) SAPS S1PxA tables with a 1% long term trend-rate for the UK.

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

	Year ended December 31, 2013	
	France	UK
Longevity at age 65 for current pensioners (years)		
Men	18.6	23.1
Women	22.7	26.4
Longevity at age 65 for current members aged 45 (years)		
Men	18.6	25
Women	22.7	28.5

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

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2014 is €8,700. The weighted average duration of the defined benefit obligation is 15.3 years.

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

	Cash outflow		
	2014	2015	2016
Net defined benefit obligation	3,983	3,995	4,985

Note 18. Non-current provisions and other liabilities

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

	Year ended December 31, 2013	2012
Non-current provisions	22,980	52,076
Other non-current liabilities	20,728	32,363
Total	**43,708**	**84,439**
Government grants	289	3,100
Long-term payables[16]	20,439	29,263
Total other non-current liabilities	**20,728**	**32,363**

[16] The €20,439 carrying value of long-term payables is assessed to be equivalent to their fair value (€29,263 in 2012).

Variation analysis of the non-current provisions is as follows:

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2013	**7,671**	**–**	**9,745**	**30,138**	**4,522**	**52,076**
Additional provisions	1,101	–	739	106	1,966	**3,912**
Acquisition of subsidiaries[17]	–	–	–	(4,769)	–	**(4,769)**
Unused amount reversed	(1,541)	–	(2,863)	(1,410)	(129)	**(5,943)**
Used during the period	(28)	–	(46)	(16,014)	(528)	**(16,616)**
Reclassifications	(555)	–	(4,500)	(121)	–	**(5,176)**
Cumulative translation adjustment	(23)	–	(75)	(206)	(200)	**(504)**
As of December 31, 2013	**6,625**	**–**	**3,000**	**7,724**	**5,631**	**22,980**

[17] A contingent tax risk of €4.8 million associated with one of our 2012 acquisitions has been released during the adjusting period with the related goodwill as counterpart.

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

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2013 and 2012 consist of the following:

	Year ended December 31, 2013	2012
Trade payables	247,073	207,600
Employee related payables	154,770	165,986
Accrued expenses	78,110	78,993
Accrued VAT	22,811	31,633
Deferred revenue	52,657	51,406
Other	2,644	3,783
Total trade and other payables	**558,065**	**539,401**

Notes to the consolidated financial statements continued

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

The Group reported 'Restructuring and acquisition-related expenses' (see note 3.1) for €3,469 as at December 31, 2013 (€7,911 in 2012), which detailed as follows:

	Year ended December 31,	
	2013	2012
Severance and associated costs	390	3,288
Transaction costs on acquisition	575	1,453
Write-offs and impairments	1,661	1,428
Other costs (income), net	843	1,742
Total restructuring and acquisition-related expenses	**3,469**	**7,911**

Amortization and depreciation of intangibles resulting from acquisitions amounted to €26,912 for the year ended December 31, 2013 (€20,985 on December 31, 2012).

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2013	2012
Warranty	1,986	3,482
Provisions for loss on contracts	1,429	293
Restructuring and reorganization	663	978
Other	6,571	2,237
Total current provisions and other liabilities	**10,649**	**6,990**

	Warranty	**Provision for loss on contracts**	**Restructuring and reorganization reserves**	**Other**	**Total**
As of January 1, 2013	**3,482**	**293**	**978**	**2,237**	**6,990**
Additional provisions	947	1,414	–	3,422	**5,783**
Unused amount reversed	(1,574)	–	(143)	(318)	**(2,035)**
Used during the year	(401)	(271)	(157)	(5,047)	**(5,876)**
Reclassifications	(441)	–	–	6,474	**6,033**
Cumulative translation adjustment	(27)	(7)	(15)	(197)	**(246)**
As of December 31, 2013	**1,986**	**1,429**	**663**	**6,571**	**10,649**

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

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2013	2012
Sales of goods	1,884,688	1,856,612
Revenue from Platforms and Services	462,563	392,049
Others	41,356	(3,161)
Total	**2,388,607**	**2,245,500**

'Others' includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments (see note 28).

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,	
	2013	2012
Depreciation, amortization, impairment, write-offs and other provisions	89,431	76,048
Amortization and depreciation of intangibles resulting from acquisitions	26,912	20,985
Employee compensation and benefit expense (see note 24)	756,294	743,866
Change in inventories (finished goods and work in progress)	(5,184)	(18,432)
Raw materials used and consumables	829,700	789,603
Freight and transportation costs	56,005	62,307
Travel costs	51,738	49,864
Buildings and office leases	83,460	87,601
Royalties, legal and professional fees	134,686	133,898
Subcontracting and temporary workforce	101,329	90,359
Gain on sale of investment / assets held for sale	(1,128)	(5,584)
Others	(17,135)	(23,774)
Total expenses	**2,106,108**	**2,006,741**

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2013	2012
Wages and salaries (including severance costs recorded in restructuring and acquisition related expenses)	629,134	614,268
Pension – Defined benefit plans	7,477	7,032
Pension – Defined contribution plans	29,681	27,679
Share-based compensation expense	33,952	34,797
Others	56,050	60,090
Employee compensation and benefit expense	**756,294**	**743,866**

Notes to the consolidated financial statements continued

Note 25. Share-based compensation plans

All share and exercise prices are expressed in Euro.

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

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

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

Gemalto share options

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

			Year ended December 31,	
Grant date	Share options granted	Exercise price (Euro)	Number of options outstanding as of December 31, 2013	Number of options outstanding as of December 31, 2012
May-04	3,196,000	14.80	26,800	126,250
Sep-05	685,000	30.65	76,660	271,410
Jun-06	1,600,000	23.10	232,827	541,350
Sep-07	872,000	20.83	152,450	218,878
Sep-08	1,399,000	26.44	678,554	1,021,301
Total	**7,752,000**		**1,167,291**	**2,179,189**

Gemplus S.A. and Gemplus International S.A. share options

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on 6 December 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the combination public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

The following table summarizes the outstanding share option plans:

			Year ended December 31,	
Grant date (year)	Weighted average exercise price (Euro)	Number of options outstanding as of 2013	Weighted average exercise price (Euro)	Number of options outstanding as of 2012
2003	–	–	12.64	188,035
2004	–	–	16	18,083
2005	20.24	60,599	19.81	109,418
Total	**20.24**	**60,599**	**15.32**	**315,536**

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

			Year ended December 31,	
	Weighted average exercise price (Euro)	Number of options outstanding as of 2013	Weighted average exercise price (Euro)	Number of options outstanding as of 2012
Beginning of the period	**23.69**	**2,494,725**	**22.99**	**3,963,920**
Granted	–	–	–	–
Forfeited	16.77	(2,858)	18.42	(37,372)
Exercised	22.61	(1,263,977)	22	(1,431,823)
End of the period	**24.81**	**1,227,890**	**23.69**	**2,494,725**

As of December 31, 2013, the average remaining life of the 1,227,890 outstanding options is 3.7 years. It was 4 years as of December 31, 2012 for the 2,494,725 options.

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

	Year ended December 31,			
Expiry date	**Weighted average exercise price (Euro)**	**Number of options outstanding as of 2013**	Weighted average exercise price (Euro)	Number of options outstanding as of 2012
2013			13.30	269,943
2014	14.80	26,800	15.15	62,423
2015	26.19	132,534	25.46	717,092
2016	23.08	237,552	23.07	205,087
2017	20.83	152,450	20.83	218,878
2018	26.44	678,554	26.44	1,021,302
Total	**24.81**	**1,227,890**	**23.69**	**2,494,725**

The above outstanding options are all vested as of December 31, 2013.

Gemalto Restricted Share Units (RSUs)

On May 23, 2013, the Board of Gemalto N.V. granted performance and service-based RSUs to eligible employees worldwide. The following are the characteristics of the plan:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
May-13	954,500	Dec 2015	Vesting conditions are both performance and service based. RSU will vest if Group PFO reaches a cumulative target value for the years 2013 – 2015 and the employee is employed by the company as at December 31, 2015.	Share price of €62.69 Risk free rate from Year 1 to Year 4 being 0.10% to 0.52% Share price discount of €1.68 per share.	none

Under the GEIP, some Gemalto employees in China were granted RSUs in 2013.

Year ended December 31, 2013, the following RSUs granted by the Company were outstanding:

Grant date	Amount granted including variability upon performance	Amount vested	Amount forfeited	Outstanding	Remaining vesting conditions	End of vesting period
Mar-10	615,218	(528,022)	(87,196)	–	service	n/a
Mar-11	199,500	–	(19,000)	180,500	service	Mar–14
Mar-12	1,363,635	–	(101,135)	1,262,500	service	Dec–14
May-13	954,500	–	(30,000)	924,500	performance and service	Dec–15
Total	**3,132,853**	**(528,022)**	**(237,331)**	**2,367,500**		

Gemalto Employee Share Purchase Plans

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

Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing share price of October 28, 2013 or November 8, 2013. 43,060 Treasury shares were subscribed by the employees at a price, net of discount, of €69.45 per share. In China, the share purchase price paid by the employees is currently held by the local employer and the finalization of the transaction with the local employees is subject to approval of the State Administration of the Foreign Exchange.

Share-based compensation expense in the income statement

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

	Year ended December 31,	
	2013	2012
Cost of sales	7,116	6,510
Research and engineering	4,144	3,502
Sales and marketing	11,680	14,144
General and administrative	11,612	14,466
Total	**34,552**	**38,622**

Notes to the consolidated financial statements continued

Note 25. Share-based compensation plans continued

The associated costs amounted to €2,553 (in 2012 €3,211) and mainly include the accrual of French Social levies associated with the RSU granted in 2013.

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

Cash proceeds received from employees having exercised share options in 2013 was €31,564 (€33,428 in 2012).

Note 26. Other income (expense), net

	Year ended December 31,	
	2013	2012
Fixed assets write-offs and net gains/losses on sales	798	522
Compensation from customers and suppliers, net	(1,870)	2,015
Release of a tax risk and related interests	–	7,290
Other	(866)	(337)
Total	**(1,938)**	**9,490**

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2013	2012
Interest expense	(4,159)	(4,494)
Interest income	3,269	3,478
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(9,105)	(4,413)
Ineffective part of derivative instruments designated as cash flow hedges	(1,712)	(309)
Other financial income (expense), net	4,975	(5,695)
Financial income (expense), net	**(6,732)**	**(11,433)**

Other financial income (expense) are mainly composed of:

(i) reassessment to fair value of several financial liabilities, including liabilities related to commitments to non-controlling interests in 2012; and

(ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries in 2013 and 2012.

Note 28. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2013	2012
Net sales	25,050	(5,293)
Cost of sales	(273)	3,214
Financial income (expense), net	(10,817)	(4,722)
Net foreign exchange gains (losses)	**13,960**	**(6,801)**

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

Note 29. Taxes

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

	Year ended December 31,	
	2013	2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	76,821	80,015
Deferred tax asset to be recovered within 12 months	24,468	28,012
Total	**101,289**	**108,027**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(25,045)	(21,490)
Deferred tax liabilities due within 12 months	(429)	(10,504)
Total	**(25,474)**	**(31,994)**
Deferred tax assets (liabilities), net	**75,815**	**76,033**

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

	Year ended December 31,	
	2013	2012
Beginning of the period	**76,033**	**65,916**
Acquisition of subsidiary and business	(4,361)	(4,705)
Reclassification to assets/liabilities held for sale	(1)	625
Credited to income statement	6,436	19,629
Tax credit (debit) recognized in other comprehensive income	(123)	(5,972)
Tax credit on past service costs recognized in equity	–	708
Cumulative translation adjustment	(2,169)	(168)
End of the period	**75,815**	**76,033**

Deferred tax assets and liabilities for the years ended December 31, 2013 and 2012 detail as follows:

	Year ended December 31,	
	2013	2012
Assets		
Loss carry-forwards	64,754	61,214
Excess book over tax depreciation and amortization	25,274	19,924
Employee and retirement benefits	17,839	17,725
Warranty reserves and accruals	1,253	1,166
Other temporary differences	39,666	44,841
Total assets	**148,786**	**144,870**
Liabilities		
Excess tax over book depreciation and amortization	(51,923)	(49,904)
Other temporary differences	(21,048)	(18,933)
Total liabilities	**(72,971)**	**(68,837)**
Deferred tax assets (liabilities), net	**75,815**	**76,033**

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2013	2012
Current tax	(41,666)	(47,835)
Deferred tax	6,436	19,629
	(35,230)	**(28,206)**

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the tax rate applicable in the country of incorporation of the Holding Company, i.e. the Netherlands, is as follows:

	Year ended December 31,			
	2013		2012	
	€	**%**	€	%
Profit (loss) before income tax	293,431		229,127	
Tax calculated at the rate of the Holding Company	(73,358)	(25.0)	(57,282)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	9,890		9,874	
Effect of the reassessment of the recognition of deferred tax assets	11,239		24,951	
Effect of utilization of tax assets not recognized in prior years	3,834		13,181	
Effect of unrecognized deferred tax assets arising in the year	(5,064)		(7,840)	
Other permanent differences	18,229		(11,090)	
Income tax credit (expense)	**(35,230)**	**(12.0)**	**(28,206)**	(12.3)

In 2013, the Company recorded an income tax charge of €35.2 million on a pretax profit of €293.4 million. Deferred income tax assets are recognized for tax loss carry-forwards and other future deductions to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of December 31, 2013, Gemalto did not recognize tax assets amounting to €321.0 million (€321.3 million as of December 31, 2012) relating to tax losses and other future tax deductions. Of this amount, €293.3 million[18] related to tax loss carry-forwards amounting to €1,026.4 million[19] of which €914.8 million can be used indefinitely. In 2012 those amounts were €294.8 million, €1,028.2 million and €918.3 million respectively. Deferred income tax liabilities have been recognized for withholding taxes and other tax payables according to applicable laws on the unremitted earnings of subsidiaries when Gemalto does not intend to reinvest its earnings and when such taxes cannot be recovered. Deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

18 Including €221.4 million (€227.5 million in 2012) related to Gemplus International S.A. (Luxemburg) tax loss carry-forwards.
19 Including €774.4 million (€795.7 million in 2012) for Gemplus International S.A. (Luxemburg).

Note 30. Earnings per share

	Year ended December 31,	
	2013	2012
Profit attributable to Owners of the Company	**257,896**	**201,041**
Weighted average number of ordinary shares – basic	85,590	83,310
Effect of dilution from share options	2,721	3,820
Weighted average number of ordinary shares – diluted	88,311	87,130
Basic earnings per share	**3.01**	**2.41**
Diluted earnings per share	**2.92**	**2.31**

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

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

Notes to the consolidated financial statements continued

Note 31. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2013 and 2012 is summarized as follows:

	Year ended December 31,	
	2013	2012
Salaries and other short-term employee benefits	8,848	10,101
Share-based compensation charge	5,562	19,436
Total expenses	**14,410**	**29,537**

b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2013, the Company purchased some €6,077 (€1,642 in 2012) of equipment under existing agreements. Mr. Alex Mandl, who has been the Company's non-executive Chairman of the Board of Directors since December 2, 2007, is also a director of Dell Computer Corporation. Mr. Mandl had no involvement in this transaction.

In 2013, the Company purchased €4,110 worth of equipment and services (€4,452 in 2012) under existing agreements from DataCard Corporation. Mr. Johannes Fritz heads the Quandt / Klatten Family office, and certain members of the Quandt / Klatten Family own the majority of DataCard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2013, total purchases from associated companies was €4,059 (in 2012 €353).

c) Sales of goods and services

In 2013, total sales to related parties amounted to €139 (€470 in 2012).

In 2013, total sales to associated companies amounted to €53,709 (€15,550 in 2012).

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

	Year ended December 31,	
	2013	2012
Receivables from:		
Associates	29,711	12,566
Related parties	101	177
Total receivables	**29,812**	**12,743**
Payables to:		
Associates	210	28
Related parties	1,373	263
Total payables	**1,583**	**291**

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

Note 32. Commitments and contingencies

Legal proceedings

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

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2013, are as follows:

	Year ended December 31,	
	2013	2012
Not later than 1 year	27,546	22,939
Later than 1 year and not later than 5 years	53,660	63,546
Later than 5 years	14,676	15,495
Total	**95,882**	**101,980**

Bank guarantees

As at December 31, 2013, bank guarantees, mainly performance and bid bonds, amounted to €79 million. These guarantees have been issued as part of the Group's normal operations in order to secure the Group's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Group.

Microprocessor chip purchase commitments

Gemalto is committed by contracts with its suppliers of chips to purchase the whole quantity of products in safety stocks within a period of time of one year from the availability date of the safety stocks. As at December 31, 2013, the commitments to purchase these safety stocks valued at the average purchase price amounted to €67 million (€50 million in 2012).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.3 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Note 33. Dividends

The AGM of May 23, 2013 has approved the distribution of a €29,166,258 dividend in respect of the financial year 2012. This represents a dividend of €0.34 per share.

Note 34. Post-closing events

To management's knowledge, there is no significant event that occurred since December 31, 2013 which would materially impact the consolidated financial statements.

Note 35. Consolidated entities

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

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

Notes to the consolidated financial statements continued

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Asia Holding Limited	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
	Netsize KFT	97%
India	Cinterion Wireless Modules India Private Limited	100%
	Gemalto Digital Security Private Ltd	100%
	Gemalto Terminals India Private Ltd	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Indonesia	100%
	PT Gemalto Smart Cards	100%
Israel	Gemalto Israel Ltd	100%
Italy	Gemalto Cards srl	100%
	Gemalto SPA	100%
	Gemalto Systems & Cards srl	100%
	IPX Italia Srl	100%
Japan	Gemalto KK	100%
Luxemburg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	CP8 Mexico S.A. de CV	100%
	Gemalto Mexico S.A. de CV	100%
	GTOMX, S.A. de C.V.	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc	100%
New Zealand	Serverside Graphics (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Portugal	Ezybill – Comunicaçoes Eletronicas LDA	100%
Russia	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Senegal	Gemalto Senegal S.A.R.L.	100%
Singapore	Data Security Systems Solutions Pte Ltd	100%
	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Internet Payment Exchange PTE LTD	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%
South Africa	Gemalto Pty Ltd	100%
	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
	Trusted Logic Africa Pty Ltd	100%
Spain	Gemalto SP S.A.	100%
	Avalon Biometrics S.L.U	100%
	Internet Payment Exchange SL	100%
	Netsize Espana SL	100%

Country of incorporation	Company name	Gemalto's interest
Sweden	AB Svenska Pass	100%
	Netsize Internet Payment Exchange AB	100%
	Gemalto AB	100%
	Netsize Sverige AB	100%
Switzerland	Gemplus Management & Trading S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Data Security Systems Solutions (Thailand) Co. Ltd	100%
	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
	Plastkart	65%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Gemalto Terminals Ltd	100%
	Gemalto UK Ltd	100%
	Gemplus Ltd	100%
	Maosco Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
	Gemalto Inc.	100%
	Netsize Inc.	100%
	Serverside Graphics, Inc.	100%
	Trivnet Inc.	100%

For the above listed entities, the percentage of voting rights equals the percentage of ownership interest, with the exception of Trusted Labs S.A.S., Gemalto Southern Africa Pty Ltd and Plastkart for which the percentage of voting rights are 49%, 70% and 98% respectively.

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	22%
Germany	CLM GmbH Co. KG	50%
	CLM GmbH	50%
Hong Kong	Goldpac Group Ltd	18%
Japan	Toppan Gemalto Services Co. Ltd	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletec Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%
United Kingdom	Trustonic Ltd	30%
United States of America	Macheen, Inc	16%

Statement of financial position of the Holding Company

In thousands of Euro	Notes	Year ended December 31 2013	2012
Assets			
Non-current assets			
Goodwill	2	648,873	643,635
Property, plant and equipment, net	3	21	98
Investments in subsidiaries and associates	4	1,339,192	994,857
Long-term loans to subsidiaries		–	283,097
Other non-current assets		–	58
Total non-current assets		**1,988,086**	**1,921,745**
Current assets			
Short-term loans to subsidiaries	7	2,094	–
Receivables due from subsidiaries		62,452	562
Other receivables		2,172	1,828
Cash and cash equivalents	5	97,885	11,490
Total current assets		**164,603**	**13,880**
Total assets		**2,152,689**	**1,935,625**
Equity			
Issued and paid in share capital	6	88,016	88,016
Share premium	6	1,206,914	1,207,195
Legal reserves	6	17,369	17,336
Other reserves	6	(47,424)	(45,620)
Retained earnings	6	625,629	453,754
Net income for the period	6	257,896	201,041
Total equity		**2,148,400**	**1,921,722**
Liabilities			
Non-current liabilities			
Long-term borrowing from subsidiaries	7	1,106	–
Other long-term liabilities		600	–
Provisions on investments in subsidiaries and associates		–	2,486
Total non-current liabilities		**1,706**	**2,486**
Current liabilities			
Short-term borrowing from subsidiaries		–	5,163
Payables to subsidiaries		17	694
Short-term debt		–	3
Other payables		2,566	5,557
Total current liabilities		**2,583**	**11,417**
Total liabilities		**4,289**	**13,903**
Total equity and liabilities		**2,152,689**	**1,935,625**

Income statement of the Holding Company

In thousands of Euro	Year ended December 31, 2013	2012
Loss, net of tax	(36,142)	(53,711)
Share of profit of subsidiaries, net of tax	294,038	254,752
Net profit for the period	**257,896**	**201,041**

Statement of changes in shareholder's equity of the Holding Company

	Number of shares		Attributable to equity holders of the Holding Company					
In thousands of Euro	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
Shareholders' equity as of January 1, 2013	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**17,336**	**(45,620)**	**654,795**	**1,921,722**
Movements in fair value and other reserves:								–
Currency translation adjustments					(41,570)			(41,570)
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						(276)		(276)
– Cash flow hedges, net of deferred tax					166			166
– Currency translation adjustments on fair value gains/(losses)						344		344
Transfer from Other reserves to Legal reserves					41,437	(41,437)		–
Net income recognized directly in equity					**33**	**(41,369)**		**(41,336)**
Net profit for the period							257,896	257,896
Total recognized income for 2013					**33**	**(41,369)**	**257,896**	**216,560**
Share-based compensation expense						31,399		31,399
Employee share option plans		2,523,474				31,564		31,564
Purchase of Treasury shares, net		(336,163)				(23,398)		(23,398)
Excess of purchase price on subsequent acquisition of non-controlling interests				(281)				(281)
Dividends paid/payable to shareholders							(29,166)	(29,166)
Balance as of December 31, 2013	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**17,369**	**(47,424)**	**883,525**	**2,148,400**
Shareholders' equity as of January 1, 2012	**88,015,844**	**83,019,536**	**88,016**	**1,209,216**	**8,761**	**(70,184)**	**480,702**	**1,716,511**
Movements in fair value and other reserves:								–
Currency translation adjustments					(8,021)			(8,021)
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						(5,498)		(5,498)
– Cash flow hedges, net of deferred tax					22,764			22,764
– Currency translation adjustments on fair value gains/(losses)						(284)		(284)
Transfer from Other reserves to Legal reserves					(6,168)	6,168		–
Net income recognized directly in equity					**8,575**	**386**		**8,961**
Net profit for the period							201,041	201,041
Total recognized income for 2012					**8,575**	**386**	**201,041**	**210,002**
Share-based compensation expense						35,411		35,411
Employee share option plans		1,924,809				33,428		33,428
Purchase of Treasury shares, net		(868,137)				(45,160)		(45,160)
Excess of purchase price on subsequent acquisition of non-controlling interests				(2,021)				(2,021)
Shares delivered on acquisition		9,113				499		499
Dividends paid/payable to shareholders							(25,840)	(25,840)
Change in consolidation method							(1,108)	(1,108)
Balance as of December 31, 2012	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**17,336**	**(45,620)**	**654,795**	**1,921,722**

Notes to the statutory financial statements of the Holding Company

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

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ('the Holding Company' or 'Gemalto'), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

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

1.2 Investments

Subsidiaries are all entities (including special purpose entities) over which the Holding Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Holding Company controls another entity. Associates are all entities over which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Holding Company calculates the net asset value using the accounting policies as described in note 2 to the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Holding Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Holding Company only if the Holding Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the Holding Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Holding Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Holding Company will recognize a provision.

Amounts due from investments are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate.

1.3 Goodwill

Presentation of goodwill depends on the structuring of the acquisition. Goodwill is presented separately in the statutory financial statements if this relates to an acquisition performed by the Holding Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Note 2. Goodwill

	Goodwill
January 1, 2013	**643,635**
Acquisition of Avalon Biometrics SL	6,927
Acquisition of ISSM S.A.S.	9,679
Change in the identifiable assets of 2012 acquisitions	(6,985)
Currency translation adjustment	(4,383)
December 31, 2013	**648,873**

Note 3. Property, plant and equipment

January 1, 2013	Leasehold improvements and office furniture and equipment
Gross book value	518
Accumulated depreciation	(420)
Net book value	**98**
2013 movements	
Additions	3
Depreciation	(80)
December 31, 2013	
Gross book value	521
Accumulated depreciation	(500)
Net book value	**21**

Notes to the statutory financial statements of the Holding Company continued

Note 4. Investments and loans

	Year ended December 31, 2013	2012
Investments in subsidiaries and associates	1,339,192	994,857
Provisions on investments in subsidiaries and associates	–	(2,486)
Net investments in subsidiaries and associates	**1,339,192**	**992,371**

An overview of the movements in investments and loans is presented below:

	Net Investments in subsidiaries	Investments in associates	Long-term loans to subsidiaries	Total
January 1, 2013	**984,475**	**7,896**	**283,097**	**1,275,468**
2013 movements				
Acquisition of Avalon Biometrics SL	8,073			8,073
Transfer to associates	(1,008)	1,008		–
Adjustment on 2012 acquisitions	4,223			4,223
Contributions to subsidiaries and associates	124,931	3,487		128,418
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	18,788			18,788
Capital reduction of investments	(63,043)			(63,043)
Impairment of associates		(1,531)		(1,531)
External disposal of investments by the Holding company	(105)			(105)
Liquidation of subsidiaries	(4,152)			(4,152)
Excess of purchase price on subsequent acquisitions	934			934
Movement provision on loans from subsidiaries	658		(658)	–
Fair value gains and losses	234			234
Dividends	(4,054)			(4,054)
Net result from subsidiaries	298,294			298,294
Net result from associates		(4,256)		(4,256)
Refund of loans			(203,789)	(203,789)
Transfer to short term loans and deposits			(78,063)	(78,063)
Revaluation through Profit and Loss			(196)	(196)
Currency translation adjustment	(35,487)	(173)	(391)	(36,051)
December 31, 2013	**1,332,761**	**6,431**	**–**	**1,339,192**

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2013	2012
Cash at bank and in hand	19,928	11,490
Short-term deposits	77,957	–
Total	**97,885**	**11,490**

The average effective interest rate on short-term deposits was 0.00% in 2013 (0.00% in 2012).

Note 6. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2013 and consisted of 150 million ordinary shares with a nominal value of €1. Issued and fully paid-in share capital amounted to €88,016 as at December 31, 2013 and 2012, and consisted of 88,015,844 ordinary shares with a nominal value of €1.

Share premium

As at December 31, 2013, the share premium amounted to €1,206,914 (€1,207,195 as at December 31, 2012).

Note 6. Equity continued

Legal reserves

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

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

	Income recognized directly in equity	Undistributable results of Group companies	Total
January 1, 2013	**17,285**	**51**	**17,336**
2013 movements	(41,404)	–	(41,404)
Additions/Transfers, net	41,488	(51)	41,437
December 31, 2013	**17,369**	**–**	**17,369**

As at December 31, 2013, 'Income recognized directly in equity' consisted of:

	2013
Cumulative translation adjustment	–
Reserve for cash flow hedge	16,761
Fair value adjustments on financial assets available-for-sale	608
Total	**17,369**

Other reserves

As at December 31, 2013, 'Other reserves' consisted of:

	2013
Treasury shares	(87,962)
Share option reserve	101,265
Net gains on Treasury shares in connection with the liquidity program	13,883
Reserve for actuarial gains and losses on benefit obligations	(12,883)
Associated cumulative translation adjustments	(1,367)
Cumulative translation adjustment	(41,488)
Treasury shares cancelled	(18,923)
Other	51
Total	**(47,424)**

Note 7. Loans and borrowings with subsidiaries

Short-term loans with subsidiaries

Short-term loans with subsidiaries consist of the following:

	Year ended December 31, 2013
Subsidiaries	Short term loans
Avalon Biometrics S.L.U.	825
PT Gemalto Smart Cards Indonesia	106
Gemalto Arabia Ltd	1,163
Total	**2,094**

The Holding Company financed its subsidiaries with the following terms:

	Avalon Biometrics S.L.U.	PT Gemalto Smart Cards Indonesia	Gemalto Arabia Ltd
Effective date	March 27, 2013	July 28, 2009	December 15, 2012
Type of loan	interest-bearing loan	interest-bearing loan	interest-bearing loan
Maximum facility	EUR 0.8 million	USD 1.1 million	SAR 20 million
Maturity	15 months	five-year	two-year

Loans from subsidiaries

	Year ended December 31, 2013
	Long-term Borrowings
Gemalto (Thailand) Ltd	1,106
Total	**1,106**

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

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010
Type of borrowing	interest-bearing loan
Maximum facility	THB 50 million
Maturity	five-year

Note 8. Employees

The average number of staff employed by the Holding Company during 2013 was 13 (12 in 2012). None of these employees was employed abroad (none in 2012).

Note 9. Information relating to the Board

Amounts in this note are stated in Euro.

Based on the Nomination and Governance committee's advice, the Board recommended the reappointment of the members of the Board who stood for reappointment at the 2013 AGM. Kent Atkinson opted not to seek reappointment when his mandate expired at the close of the 2013 AGM, because of his other obligations.

After a thorough selection process, supported by a leading executive search firm, the committee proposed to put forward Homaira Akbari as new non-executive Board member. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and CEO. Homaira Akbari was appointed at the 2013 AGM as non-executive Board member until 2017.

At the 2014 AGM, the term of Philippe Alfroid will end. The Board will recommend his reappointment for a second term at the AGM.

Notes to the statutory financial statements of the Holding Company continued

Note 9. Information relating to the Board continued

The total cost incurred for the remuneration of the board details as followed:

Remuneration of the Board

Gemalto Board		Board membership remuneration	Salary and Social Security	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2013							
Alex Mandl	Non-executive Chairman	238,717	–	–	–	–	238,717
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	765,000	75,993	1,027,669	1,492,686	3,396,348
Arthur van der Poel	Non-executive Board member	89,033	–	–	–	–	89,033
Buford Alexander	Non-executive Board member	83,521	–	–	–	–	83,521
Drina Yue	Non-executive Board member	89,987	–	–	–	–	89,987
Johannes Fritz	Non-executive Board member	97,033	–	–	–	–	97,033
John Ormerod	Non-executive Board member	102,546	–	–	–	–	102,546
Kent Atkinson	Non-executive Board member	35,112	–	–	–	–	35,112
Michel Soublin	Non-executive Board member	83,521	–	–	–	–	83,521
Philippe Alfroid	Non-executive Board member	91,521	–	–	–	–	91,521
Yen Yen Tan	Non-executive Board member	81,987	–	–	–	–	81,987
Homaira Akbari	Non-executive Board member	47,885	–	–	–	–	47,885
Total		**1,075,863**	765,000	75,993	1,027,669	1,492,686	4,437,211

Gemalto Board		Board membership remuneration	Salary and Social Security	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2012							
Alex Mandl	Non-executive Chairman	212,000	–	–	–	–	212,000
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	765,000	72,520	1,440,000	3,120,712	5,433,232
Arthur van der Poel	Non-executive Board member	85,000	–	–	–	–	85,000
Buford Alexander	Non-executive Board member	77,852	–	–	–	–	77,852
Drina Yue	Non-executive Board member	49,131	–	–	–	–	49,131
Geoffrey Fink	Non-executive Board member	32,090	–	–	–	–	32,090
Johannes Fritz	Non-executive Board member	93,000	–	–	–	–	93,000
John Ormerod	Non-executive Board member	97,000	–	–	–	–	97,000
Kent Atkinson	Non-executive Board member	89,000	–	–	–	–	89,000
Michel Soublin	Non-executive Board member	81,000	–	–	–	–	81,000
Philippe Alfroid	Non-executive Board member	85,852	–	–	–	–	85,852
Yen Yen Tan	Non-executive Board member	44,278	–	–	–	–	44,278
Total		**981,203**	765,000	72,520	1,440,000	3,120,712	**6,379,435**

Mr. Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM. His employment contract (originally dated 1981), is with Gemalto International S.A.S., a Gemalto subsidiary: it is not time-limited, is governed by French law and carries a six-month notice period. He enjoys any and all benefits that may be applicable to French employees of the Company.

Pension costs refer to the legally mandatory pension plan in France. The Company does not provide any supplemental pension plan to the CEO nor to the Board Members.

The bonus and profit sharing are related to the performance in the year reported, which is paid out in the subsequent year. Financial targets are accounting for 2/3 of the variable incentive, and personal targets are accounting for 1/3 of the variable incentive. The performance of the CEO and of the Company in 2013 led to a result of 107% for the CEO variable incentive. The variable incentive in 2013 for the CEO is 128% of his base salary. For more details on bonus and profit sharing, see the remuneration report included in this annual report (starting at page 57).

The cost of restricted share units recorded by the Company is based on accounting standards and does not reflect the value of restricted share units at the grant date, nor the value at the vesting date nor the value at the end of the blocking periods if these performance-conditioned and service-conditioned restricted share units vest and become available.

Remuneration of non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees, is approved by the shareholders. The remuneration is reviewed periodically by the Compensation committee. The current annual remuneration for non-executive Board members as approved by the 2013 AGM is:

- €250,000 for the non-executive Chairman of the Board;
- €70,000 for each other non-executive Board member;
- An additional €16,000 for each member of the Audit committee and €30,000 for the committee chairman;
- And an additional €8,000 for each member of every other Board committee and €15,000 for the committee chairman.

The annual remuneration for non-executive Board members for the period January 1, 2013 until June 30, 2013 was:

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

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €5,950 in 2013.

Share options and RSU's granted to Board members

Share options have been attributed under the Global Equity Incentive Plan as described in note 25 to the consolidated financial statements:

	Grant Date	Share options granted	Exercise price (€)	**Number of options outstanding as of December 31, 2013**	Number of options outstanding as of December 31, 2012
Alex Mandl	Jun 2006	200,000	23.10	80,000	80,000
Olivier Piou	Sep 2005	150,000	30.65	–	150,000
	Jun 2006	200,000	23.10	–	200,000
	Sep 2008	150,000	26.44	150,000	150,000

During the year ended December 31, 2013, the Board of Gemalto N.V. granted performance and service conditioned restricted share units (RSUs) to the CEO, Olivier Piou.

The following are the characteristics of the plan:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
May 2013	50,000	Dec 2015	Vesting conditions are both performance and service based. RSU will vest if Group PFO reaches a cumulative target value for the years 2013-2015 and the service vesting condition is being an employee of Gemalto on December 31, 2015	Share price of EUR 62,69. Risk free rate from Year 1 to Year 4 being 0,10% to 0,52%. Share price discount of EUR 1.68 per share.	none

Notes to the statutory financial statements of the Holding Company continued

Note 9. Information relating to the Board continued

The fair value of the grant expensed over the vesting period in the income statement has been calculated using the stochastic option-pricing model. Vesting conditions are both performance and service based.

Year ended December 31, 2013, the following RSUs granted to Olivier Piou are outstanding:

Grant date	Number granted	Number vested	Number forfeited	RSU's outstanding as at December 31,2013	Outstanding vesting conditions	End of vesting period
Mar 2010	65,000	(58,000)	(7,000)	–	n/a	n/a
Mar 2012	50,000	–	–	50,000	service	Dec 2014
May 2013	50,000	–	–	50,000	performance and service	Dec 2015

Gemalto shares and rights to acquire Gemalto shares held by Board Members

	Gemalto shares	FCPE units[1]	RSUs[2]	Gemalto share options
As at December 31, 2013	Number of shares held	Number of units purchased	Maximum number of RSUs held	Number of shares options held
Olivier Piou	273,000	4,244	100,000	150,000
Alex Mandl	–	–	–	80,000
Michel Soublin	1,500	–	–	–
Total	**274,500**	**4,244**	**100,000**	**230,000**

[1] FCPE ('Fonds commun de Placement d'Entreprise'), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

[2] Subject to performance and service conditions.

Note 10. Auditor's fees

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2013 and 2012 were as follows:

2013	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	118	2,522	2,640
Other audit procedures	–	562	562
Fees relating to tax advice	–	67	67
All other fees	–	120	120
Total	**118**	**3,271**	**3,389**

2012	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	115	2,485	2,600
Other audit procedures	15	519	534
Fees relating to tax advice	–	22	22
Total	**130**	**3,026**	**3,156**

Note 11. Guarantees granted by the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.3 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-cancellable operating leases, primarily real estate and office facilities in effect as of December 31, 2013, are as follows:

	2013
Not later than 1 year	212
Later than 1 year and not later than 5 years	704
Later than 5 years	–
Total	**916**

The Board

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
Executive Board member and Chief Executive Officer

Arthur van der Poel
Non-executive Board member

Buford Alexander
Non-executive Board member

Drina Yue
Non-executive Board member

Homaira Akbari
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Michel Soublin
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Amsterdam, March 4, 2014
(A signed copy of the Annual Report is available at the Holding Company's office).

Other information

Independent auditor's report

To: the general meeting of shareholders of Gemalto N.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of Gemalto N.V., Amsterdam as set out on pages 68 to 119. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2013, the consolidated income statement, the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at December 31, 2013, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Board of directors' responsibility

The board of directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board of directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at December 31, 2013, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Gemalto N.V. as at December 31, 2013, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report as included in the accompanying annual report as set out on pages 1 to 67, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

The Hague, March 4, 2014

PricewaterhouseCoopers Accountants N.V.
Original signed by W.A. Schouten RA

Further information

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

The Board has determined with due observance of the Holding Company's policy on additions to reserves and on distributions of profits to propose to the 2014 AGM to distribute a dividend in cash of €0.38 per share in respect of the 2013 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

To management's knowledge, there is no significant events that occurred since December 31, 2013 which would materially impact the statutory financial statements of the Holding Company.

Adjusted income statement and profit from operations non-GAAP measure

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards. To better assess its past and future performance, the Company also prepares an adjusted income statement where the key metric used to evaluate the business and take operating decisions over the period 2014 to 2017 is the Profit from operations.

Profit from operations (PFO) is a non-GAAP measure defined as the IFRS operating result adjusted for equity-based compensation charges and associated costs, for restructuring and acquisition-related expenses, and for the amortization and depreciation of intangibles resulting from acquisitions. These items are further explained as follows:

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

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

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

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

Return on capital employed (ROCE) is defined as after-tax PFO divided by capital employed.

Adjusted income statement for ongoing operations

For a better understanding of the current and future year-on-year evolution of the business, the Company also provides an adjusted income statement for the ongoing operations.

Ongoing operations

The adjusted income statement for ongoing operations not only excludes, as per the IFRS income statement, the contribution from discontinued operation to the income statement, but also the contributions from assets classified as held for sale and from other items not related to ongoing operations.

Assets held for sale

For the year 2013 and 2012, reported figures for ongoing operations only differ from figures for all operations by the contribution from non-strategic assets held for sale including the gain recognized upon sale of these assets.

Further information continued

Reconciliation from adjusted financial information to IFRS

In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items[1]	Adjusted financial information for all operations	Adjustments	IFRS financial information
					Year ended December 31, 2013
Revenue	**2,383,935**	**4,672**	**2,388,607**	**–**	**2,388,607**
Cost of sales	(1,446,863)	(5,505)	(1,452,368)	(7,116)	(1,459,484)
Gross profit	**937,072**	**(833)**	**936,239**	**(7,116)**	**929,123**
Operating expenses					
Research and engineering	(139,276)	–	(139,276)	(4,144)	(143,420)
Sales and marketing	(320,827)	(353)	(321,180)	(11,680)	(332,860)
General and administrative	(127,398)	(143)	(127,541)	(11,612)	(139,153)
Gain on sale of investment / assets held for sale	–	1,128	1,128	–	1,128
Other income (expense), net	(1,557)	(381)	(1,938)	–	(1,938)
Profit from operations	**348,014**	**(582)**	**347,432**		
Share-based compensation charges and associated costs				(34,552)	
Restructuring & acquisition-related expenses				(3,469)	(3,469)
Amortization and depreciation of intangibles resulting from acquisitions				(26,912)	(26,912)
Operating profit				**(64,933)**	**282,499**
Financial income (expense), net	(8,245)	1,513	(6,732)	–	(6,732)
Share of profit of associates	(2,298)	–	(2,298)	–	(2,298)
Non-recurring profit relating to associates, net	19,962	–	19,962	–	19,962
Profit before income tax	**357,433**	**931**	**358,364**	**(64,933)**	**293,431**
Income tax (expense)	(42,892)	–	(42,892)	7,662	(35,230)
Profit for the period	**314,541**	**931**	**315,472**	**(57,271)**	**258,201**
Attributable to:					
Owners of the Company	314,294	723	315,017	(57,121)	257,896
Non-controlling interests	247	208	455	(150)	305
Earnings per share (€ per share)					
Basic	3.67		3.68		3.01
Diluted	3.56		3.57		2.92

[1] 'Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to ongoing operations.

In thousands of Euro	Mobile Communication	M2M	Secure Transactions	Security	Patents	Full year 2013 ongoing operations	Reconciling items[1]	Full year 2013 all operations
	Ongoing operations:							Year ended December 31, 2013
Revenue	**1,091,336**	**200,334**	**659,840**	**416,119**	**16,306**	**2,383,935**	**4,672**	**2,388,607**
Gross profit	**496,603**	**72,049**	**206,157**	**147,663**	**14,600**	**937,072**	**(833)**	**936,239**
Operating expenses	(291,146)	(50,089)	(129,597)	(106,729)	(11,497)	(589,058)	251	(588,807)
Profit from operations	**205,457**	**21,960**	**76,560**	**40,934**	**3,103**	**348,014**	**(582)**	**347,432**

Reconciliation from adjusted financial information to IFRS

In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items[1]	Adjusted financial information for all operations	Adjustments	IFRS financial information
					Year ended December 31, 2012
Revenue	**2,235,936**	**9,564**	**2,245,500**	–	**2,245,500**
Cost of sales	(1,373,670)	(7,419)	(1,381,089)	(6,510)	(1,387,599)
Gross profit	**862,266**	**2,145**	**864,411**	**(6,510)**	**857,901**
Operating expenses					
Research and engineering	(133,926)	(3,711)	(137,637)	(3,502)	(141,139)
Sales and marketing	(299,759)	(2,548)	(302,307)	(14,144)	(316,451)
General and administrative	(132,998)	(266)	(133,264)	(14,466)	(147,730)
Gain on sale of investment / assets held for sale	–	5,584	5,584	–	5,584
Other income (expense), net	9,455	35	9,490	–	9,490
Profit from operations	**305,038**	**1,239**	**306,277**		
Share-based compensation charges and associated costs				(38,622)	
Restructuring and acquisition-related expenses				(7,911)	(7,911)
Amortization and depreciation of intangibles resulting from acquisitions				(20,985)	(20,985)
Operating profit				(67,518)	**238,759**
Financial income (expense), net	(11,494)	61	(11,433)	–	(11,433)
Share of profit of associates	2,009	(208)	1,801	–	1,801
Profit before income tax	**295,553**	**1,092**	**296,645**	**(67,518)**	**229,127**
Income tax (expense)	(34,902)	(103)	(35,005)	6,799	(28,206)
Profit for the period	**260,651**	**989**	**261,640**	**(60,719)**	**200,921**
Attributable to:					
Owners of the Company	260,365		261,635		201,041
Non-controlling interests	286		5		(120)
Earnings per share (€ per share)					
Basic	3.13		3.14		2.41
Diluted	2.99		3.00		2.31

[1] 'Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to ongoing operations.

Adjusted income statement by business segment

In thousands of Euro	Mobile Communication	M2M	Secure Transactions	Security	Patents	Full year 2012 ongoing operations	Reconciling items[1]	Full year 2012 all operations
	Ongoing operations:							Year ended December 31, 2012
Revenue	**1,089,591**	**192,211**	**568,008**	**383,995**	**2,131**	**2,235,936**	**9,564**	**2,245,500**
Gross profit	**471,022**	**63,753**	**183,231**	**142,434**	**1,826**	**862,266**	**2,145**	**864,411**
Operating expenses	(277,713)	(49,784)	(120,866)	(97,241)	(11,624)	(557,228)	(906)	(558,134)
Profit from operations	**193,309**	**13,969**	**62,365**	**45,193**	**(9,798)**	**305,038**	**1,239**	**306,277**

Investor information

Investor relations policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's investor relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price sensitive information is disseminated without delay through press releases and web site updates.

In addition to the General Meetings, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, sustainability reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls or investor meetings. In addition, Gemalto regularly performs road shows and participates in conferences for institutional investors. These activities further Gemalto's understanding of investor and analyst opinions. Relevant information for potential and current shareholders may be found on the Gemalto web site under the link 'Investor Relations' **www.gemalto.com/investors.**

Gemalto also observes quiet periods during which investor meetings of any kind are discouraged and financial aspects of the business are not discussed externally. For interim and annual publications, this covers at least fifteen days prior to the publication date.

Corporate seat

Gemalto N.V. is the holding company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As at December 31, 2013 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 1,743,212 shares were held in treasury. Hence, 86,272,632 shares were in circulation as at December 31, 2013.

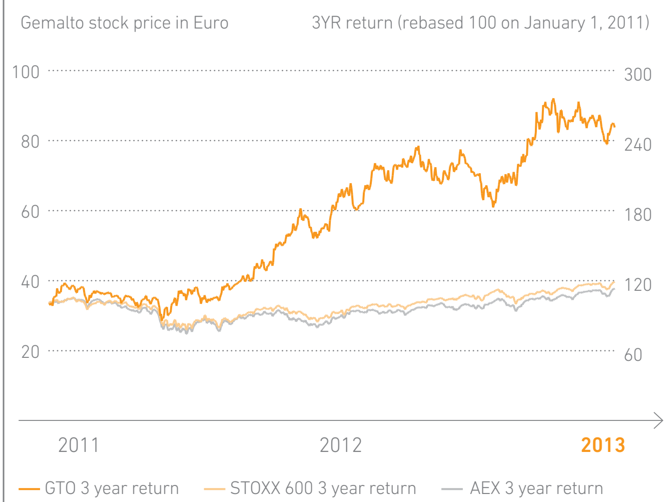
Stock exchange listing – 2013 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Amsterdam and Euronext Paris in Compartment A (Large Caps). Gemalto changed its market of reference to Euronext Amsterdam effective April 30, 2013. As a result of the change of market of reference, Gemalto's shares are no longer eligible for the French "Service à Réglements Différés" (SRD), a deferred settlement service for individual shareholders residing in France, as of April 25, 2013. SRD trades were possible until April 24, 2013.

Mnemonic: GTO
Exchange: NYSE Euronext Amsterdam, NYSE Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.AM, GTO.PA
Bloomberg: GTO:NA, GTO:FP
Among other stock indices, Gemalto is part of the: AEX (NL0000000107), CAC 40 (FR0003500008), MSCI Standard Europe and STOXX 600 Index (EU0009658202).

During 2013, Gemalto's industry classification was changed by two separate entities. Gemalto is now part of the "Application Software" sub-industry within the "Information technology" industry of Morgan Stanley's Global Industry Classification Standard (GICS). Gemalto is now also part of the "Software" sub-sector within the "Technology" industry of Industry Classification Benchmark (ICB). These new categorizations accompany the continuing transformation of Gemalto's business.

Share price evolution



- Average daily trading volume on Euronext exchanges in 2013: 450,344
- Market capitalization as at December 31, 2013: €7,042,147,678

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depository Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollar and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in US dollar, after being converted into US dollar by the depository bank at the prevailing rate.

Structure: Sponsored Level I ADR
Mnemonic: GTOMY
Exchange: OTC
Ratio (ORD:DR): 1:2
DR ISIN: US36863N2080
DR CUSIP: 36863N 208

Shareholders' disclosures made to the AFM and published on the AFM website as at December 31, 2013

The following shareholding threshold disclosures were applicable as at December 31, 2013. For further information, please refer to Shareholders' disclosures, page 66.

December 4, 2013:	Amundi	3.05% capital interest and voting rights
August 8, 2013:	Capital Group International Inc.	14.97% voting rights
August 8, 2013:	Capital Research and Management Company	14.97% voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
July 1, 2013:	J.M. Quandt née Bruhn	3.02% capital interest and voting rights
July 1, 2013:	S.H.U. Klatten née Quandt	3.24% capital interest and voting rights
July 1, 2013:	S.N. Quandt	4.23% capital interest and voting rights
April 8, 2013:	EuroPacific Growth Fund	5.16% capital interest
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2013 due to the following:

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

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

Geographic spread of shareholdings

Geographical spread of identified shareholding as of November 2013

	% of outstanding capital
North America	29%
UK and Ireland	13%
Continental Europe	54%
Other	4%

Financial calendar 2014

Important dates of financial calendar

March 6, 2014	Publication of 2013 Fourth Quarter Revenue and Full Year Results
April 24, 2014	Publication of 2014 First Quarter Revenue
May 21, 2014	2014 Annual General Meeting of shareholders
August 28, 2014	Publication of 2014 Second Quarter Revenue and First Semester Results
October 23, 2014	Publication of 2014 Third Quarter Revenue

2014 Annual General Meeting of Shareholders

Gemalto N.V. will hold its 2014 AGM at the Sheraton Amsterdam Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG Schiphol Airport, the Netherlands on Wednesday, May 21, 2014 at 2 p.m. CET.

The persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights after the close of trading on the relevant NYSE Euronext stock exchange on April 23, 2014 (the "Record Date") in Gemalto's shareholders register, or in a register of a financial institution affiliated to Euroclear France S.A., regardless of whether they are shareholders at the time of the AGM.

Dividend

In 2010, the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, 2012 and 2013, it paid a cash dividend of €0.28, €0.31 and €0.34 for the financial years of 2010, 2011, and 2012 respectively. With due observance of the Company's dividend policy, the Board will propose a cash dividend of €0.38 per share in respect of the 2013 financial year at the 2014 AGM. For more information on the dividend policy, please refer to Distribution of profits, page 65.

Share buy-back program

As authorized by the 2013 AGM, the Company has renewed its share buy-back program up to and including November 22, 2014. During the full year 2013, the Company used €23 million to purchase Gemalto shares, net of its liquidity program. As at December 31, 2013, the Company held 1,743,212 shares in treasury, which were repurchased on the market at an average acquisition price of €50.46. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 65.

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Glossary of digital security terms

3FF (Third Form Factor): A very small SIM card, also known as a 'micro-SIM', for use in small mobile devices.

3G (Third Generation): The broadband telecommunications systems that combine high-speed voice, data and multimedia.

4G: The 4th generation of wireless standards offering a comprehensive, secure all-IP based mobile broadband solution to smartphones, laptop computer wireless modems and other mobile devices.

Back-end: Here, describing a remote platform or server that stores and processes data without direct access by the user; whereas 'front-end' refers to an application or interface accessed directly by the user.

Big data: A collection of data sets so large and complex that they are difficult to process with traditional applications.

Bluetooth: A short-range wireless technology that simplifies communication and synchronization between the internet, devices and other computers.

BYOD (Bring Your Own Device): Using one's personal device (e.g. smartphone, laptop, tablet etc.) for professional purposes in the workplace.

CAC (Common Access Card): A US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

Cell/cellular: The technology behind mobile communication; in general use, synonymous with 'mobile'.

Client: A software application that runs on a personal device and relies on a server to perform some operations (see 'thin client').

Cloud computing: Computing by using servers, storage and applications that are accessed via the internet.

Contactless: A device that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

CRM: Customer Relationship Management.

DDA (Dynamic Data Authentication): An authentication technology that allows banks to approve transactions at the terminal in a highly secure way.

DI (Dual-Interface): A device that is both contact and contactless.

Digital signature: An electronic signature created with a public-key algorithm that can be used by the recipient to authenticate the identity of the sender.

Dongle: Any small piece of hardware that plugs into a computer.

EAC (Extended Access Control): A mechanism enhancing the security of ePassports whereby only authorized inspection systems can read biometric data.

eBanking: Accessing banking services via the internet.

eCommerce: Buying and selling goods and services via the internet.

eDocument: Any of a range of electronic documents, including electronic ID cards, Drivers' Licences, Health cards etc.

eGovernment: The use of digital technologies (often via the internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: Personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: The industry standard for international debit/ credit cards established by Europay, MasterCard and Visa.

ePassport: An electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

ePurse: A small portable device that contains electronic money and is generally used for low-value transactions.

eTicketing: Electronic systems for issuing, checking and paying for tickets, mainly for public transport.

FIPS 201 (Federal Information Processing Standard): A US federal government standard that specifies personal identity verification requirements for employees and contractors.

GSM (Global System for Mobile communications): A European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): The global association for mobile phone operators.

HSPD-12 (Homeland Security Presidential Directive-12): Orders all US federal agencies to issue secure and reliable forms of identification to employees and contractors, with a recommendation in favor of smart card technology.

IAM: Identity and Access Management.

ICAO (International Civil Aviation Organization): The UN agency which standardizes machine-readable and biometric passports worldwide.

IM (instant messaging): Using text on a mobile handset to communicate in real time.

IP (Internet Protocol): A protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

Java: A network oriented programming language invented by Sun Microsystems and specifically designed so that programs can be safely downloaded to remote devices.

LTE (Long Term Evolution): The standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): Technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

mBanking (mobile banking): Conducting various banking and financial transactions through a mobile device connected to the internet.

mCommerce (mobile commerce): Buying and selling goods and services using a mobile device connected to the internet.

MFS (Mobile Financial Services): Banking services such as transfer and payment available via a mobile device.

Microfinance: A means of offering a range of financial services to economically poor people who do not have bank accounts and so enabling financial inclusion.

MIM (Machine Identification Module): The equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MMS (Multimedia Messaging Service): A standard way of sending messages that include multimedia content (e.g. photographs) to and from mobile phones.

MNO (Mobile Network Operator): A company that provides services for mobile phone subscribers.

Module: The unit formed of a chip and a contact plate.

mPayment (mobile payment): Using a mobile handset to pay for goods and services.

Multi-tenant SIM: A device capable of carrying multiple IDs and shared by multiple service providers.

NFC (Near-Field Communication): A wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OMA (Open Mobile Alliance): A body that develops open standards for the mobile phone industry.

OS (Operating System): Software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): A method of distributing new software updates to cellphones which are already in use.

OTP (One-Time Password): A password that is valid for only one login session or transaction.

PC: Personal computer.

PIN (Personal Identification Number): A secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): The software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

Platform: A system's underlying software that enables a service.

Server: A networked computer.

SIM (Subscriber Identity Module): A smart card for GSM systems.

SMS (Short Message Service): A GSM service that sends and receives messages to and from a mobile phone.

Glossary of digital security terms continued

Thin client: A software application designed to be especially small so that the bulk of the data processing occurs on a central server. By contrast, a fat client does as much local processing as possible.

TSM (Trusted Service Manager): A third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): A high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

UMTS (Universal Mobile Telecommunications System): One of the 3G mobile telecommunications technologies which is also being developed into a 4G technology.

USB (Universal Serial Bus): A standard input/output bus that supports very high transmission rates.

USIM (Universal Subscriber Identity Module): A SIM with advanced software that ensures continuity when migrating to 3G services.

VPN (Virtual Private Network): A private network often used within a company or group of companies to communicate confidentially over a public network.

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