



**Uniquely positioned
to deliver the promise
of the digital world**

Highlights

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

Performance highlights

Revenue

€2,015m

+6%

(2010: €1,906m)

Profit from operations¹

€256m

+19%

(2010: €216m)

Profit margin from operations¹

12.7%

up 140 basis points

(2010: 11.3%)

Net cash

€309m

+21%

(2010: €255m)

Cash generated by operating activities

€211m

+21%

(2010: 174m)

Cash returned to shareholders (share buy-back plus dividend)

€84m

+41%

(2010: €60m)

IFRS net profit

€161m

[4%]

(2010: €167m)

Adjusted basic earnings per share¹

€2.73

+6%

(2010: €2.56)

Return on Capital Employed (ROCE)¹

16.7%

up 70 basis points

(2010: 16.0%)

Operational highlights

“In 2011, halfway through our strategic plan, we clearly outperformed our objectives.

Secure Transactions and Security have become double-digit profit margin businesses, with strong growth and scale effects. Mobile Communication is back to revenue and profit expansion, benefitting from our investments in software and services.

Consequently, the combined profit from operations of our four main segments¹ grew by 28% in 2011. These results provide a strong base for the second part of our plan.

We will continue along our strategy of transformation and expansion in the growing market of digital security, and have confidence in reaching our €300 million profit from operations target in 2013.”

Olivier Piou

Chief Executive Officer

¹ Adjusted financial information.



For more information see
pages 147-149

The Board report comprises the following sections: ‘Business overview’, ‘Segmental review’, ‘Group financial and operating review’, and ‘Governance’.

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

02	Our business profile
04	Our segments
06	Our global presence
08	Chairman's statement
09	Chief Executive's review
12	Our strategy
14	Our opportunity

22	Mobile Communication
26	Machine-to-Machine
30	Secure Transactions
34	Security

40	Financial review
44	Principal risks
46	Sustainability

50	Governance at a glance
52	Corporate Governance
56	The Board
58	The Senior Management
60	Report of the Non-executive Board members
62	Remuneration
70	Internal risk management and control systems
77	Board compliance statement

80	Consolidated financial statements and notes
129	Company financial statements and notes of Gemalto N.V.

144	Auditor's report
145	Appropriation of profit
146	Post-closing events
147	Adjusted measures
150	Investor information
152	Glossary of digital security terms

Further information

Links to further information are illustrated with the following markers:



For more information visit
www.gemalto.com



For more information see
pages XX-XX

Our business profile

Gemalto's expertise spans the entire process for creating digital security solutions that embed the trust of our clients and their customers. We develop secure operating systems and run them on trusted devices which we assemble and personalize. We deploy the software for managing these, and the services they enable, throughout their life-cycle. And we innovate so our clients can offer more ways of enhancing the convenience and security of their end-users' digital lives.

Innovation

€152m
invested in R&D in 2011¹

1,500+

Digital scientists

Gemalto's internationally renowned team of security and cryptography experts plays a leading role in the invention, design and development of new products, solutions and applications certified to the highest standards.

4,200

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

107

New inventions first filed in 2011

14

R&D centers around the world

Intellectual property

With the aim of promoting digital security and convenience, we have for many years developed a number of fair, reasonable and non-discriminatory licensing programs based on our patent portfolio, including our latest innovations.

Solutions, software and services

Software and services

€273m

Value of software and services sold in 2011

Gemalto's know-how and field experience mean we are uniquely placed to support our clients in the delivery to end-users of trusted solutions for the digital and wireless world. We do this by offering them a wide range of software and services that support and enable mobile financial transactions, mobile marketing, digital life management, international roaming and many other applications; plus the secure issuance of digital identity, rights and credentials, personalization and authentication. We also offer our clients a wide range of training, consulting, marketing and integration services.

Secure remote device management

To ensure that end-users always enjoy the latest services, our secure server software can connect with their devices when they are in the field and activate, update or de-activate them. For cellphones, this is done via Over-the-Air (OTA) platforms. ID badges, banking cards and USB tokens can be updated when they are connected to an ATM or a computer, often via a smart card reader. The result is that these connected devices can continue to evolve throughout their life-cycle.

We also offer to operate these services on behalf of our clients, through managed services or profit-sharing contracts.

Personalization

28

remote and local personalization facilities worldwide

Gemalto is the trusted partner for the individual personalization of millions of secure personal devices every single day, carried out under various security certification schemes at our 28 personalization facilities worldwide.

These devices include SIMs, banking cards, ePassports, eID cards and so on. Particularly in the financial services sector, our personalization activity is gaining momentum as the worldwide deployment of cards increases and financial institutions look to outsource this activity.

Production

3%

ratio of capital expenditure over revenue²

We embed our software in a wide range of secure personal devices at our 15 production sites worldwide. Both these and our 28 personalization facilities are very frugal on capital requirements. In 2011, capex spent on plant, property and equipment was €53.7 million.

¹ Research and engineering plus capitalized development costs.

² Ratio of capital expenditure on property, plant and equipment over revenue.

The digital security market addresses the need to protect digital interactions by securing identity and transactions.

Markets

Telecommunications

Machine-to-Machine

Financial services and retail

Transport

Pay TV

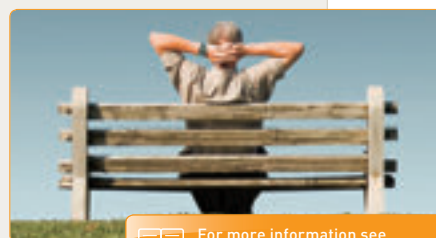
Government programs

Online authentication
eBanking and eCommerce

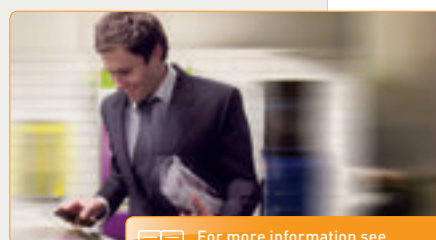
Consumers



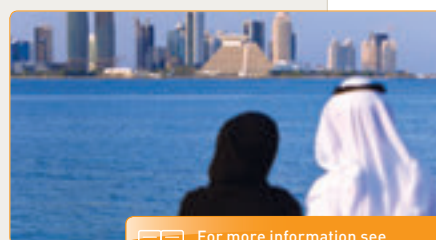
For more information see
pages 22-25



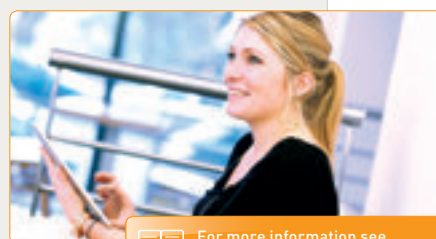
For more information see
pages 26-29



For more information see
pages 30-33



For more information see
pages 34-36



For more information see
pages 34-37

Our segments

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

Segments

Mobile Communication



For more information see pages 22-25

Solutions, software and services

Secure operating systems and applications embedded in a wide range of SIM and UICC cards; client-server software to remotely manage mobile devices; and services including roaming optimization, mobile money, mobile payment, mobile marketing and personal data management.

Markets

The mobile communication industry and over 450 of the world's Mobile Network Operators (MNOs).

Machine-to-Machine (M2M)



For more information see pages 26-29

A wide range of products and services including wireless M2M modules and Machine Identification Modules (MIM), plus MIM personalization and application and device management platforms.

Equipment manufacturers, integrators and MNOs supplying diverse vertical markets including automotive, tracking and tracing, industrial mobile computing, metering and smart grid, payment systems, healthcare, security systems and more.

Secure Transactions



For more information see pages 30-33

Secure operating systems and applications embedded in electronic modules and a wide range of chip card and contactless payment solutions and services, plus mobile financial solutions.

Contactless electronic ticketing (eTicketing) solutions for public transport.

Pay TV subscriber authentication and rights management solutions.

Financial institutions, banks, retailers and other payment and loyalty card issuers.

Mass transit authorities in many of the world's major cities.

Pay TV service providers.

Security



For more information see pages 34-37

ePassports and secure electronic documents for eID, eHealth, eDriving license, eVoting and other eGovernment initiatives, as well as services such as enrollment and issuance.

Identity and Access Management (IAM) solutions, using secure software embedded in various forms of connected and unconnected electronic ID badges and portable devices. Strong online authentication solutions, offering secure access and control of digital and physical resources.

Multi-factor authentication and transaction solutions for online banking and commerce.

Governments and government service providers.

Enterprises, governments, banks and other organizations.

Banks and online commerce operators.

Patents

Licensing of our intellectual property rights.

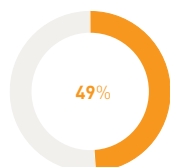
Other participants in the digital security market, as well as third parties needing access to our technology or intellectual property for their applications.

We report by destination. The sale of a solution or service (like Trusted Service Management) that can be destined to multiple types of client is reported in the segment serving this particular client e.g. a mobile operator, a financial institution or a government agency.

Revenue¹

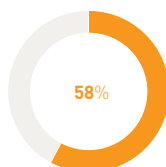
€976m

(2010: €1,000m)

Profit from operations¹

€138m

(2010: €120m)

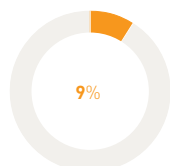


Highlights

- Return to revenue and profit expansion in the second half of the year;
- Improvement in product mix from fourth generation networks (LTE) and contactless services (NFC);
- Software and Services revenue grew to €161 million on the back of commercial deployments of mobile solution.

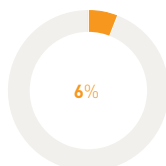
€174m

(2010: €81m)²



€14m

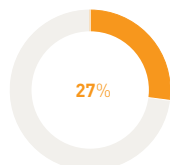
(2010: €7m)²



- Stable revenue when compared to pro-forma 2010 revenue despite the adverse effects of an uncertain global macroeconomic environment, catastrophic natural events in Japan and Thailand, and unfavorable currency exchange rates;
- Improved gross margin to 34.7% up 2.1 ppt;
- M2M is in investment phase, building a comprehensive offer.

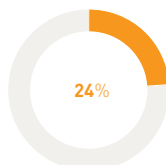
€531m

(2010: €462m)



€58m

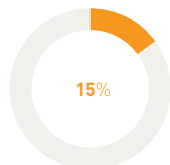
(2010: €41m)



- Growth driven by EMV migrations in rapidly-developing regions and upgrades to contactless dual-interface in Western economies;
- Continued improvement in product mix and higher personalization activity resulted in further improvement in gross margin;
- Operating expenses incurred in preparation for growth in countries that are expected to migrate to EMV in the near future;
- Profit margin from operations at 10.9%, outperforming the single-digit profit margin objective set as part of the 2010-2013 Development Plan.

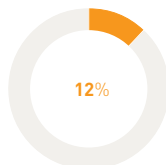
€310m

(2010: €285m)



€30m

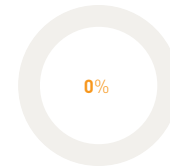
(2010: €19m)



- Security surpassed the €300 million revenue mark by posting another year of double-digit growth;
- Government Programs grew by 11% and backlog increased substantially;
- Supported by strong operational leverage of its top line growth, Security's profit margin from operations grew to 9.6%, easily reaching the intermediate milestone objective of single-digit profit margin set as part of the 2010-2013 Development Plan.

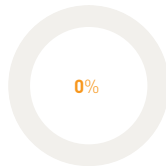
€9m

(2010: €33m)



€0m

(2010: €20m)



- Lower revenue in relation to the patent litigation initiated by the Company in the US.

¹ The financial information and highlights are based on adjusted financial information for Ongoing operations.

² 2010 figures mainly comprise the contribution of Cinterion for the 5 month period starting August 1, 2010.



For more information see
pages 147-149

Our global presence

Gemalto's global presence is key to the way we serve our clients, with sites and facilities strategically spread across every continent. Beyond this, it's our 10,000+ employees of some 100 nationalities and our worldwide network of partners who make the difference. So wherever our clients are based, we're not far away and we speak their language.

Nationalities of our customers

190+

Nationalities of our employees

100

Countries worldwide with a site in operation

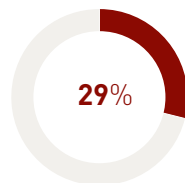
43

Headcount

10,000+

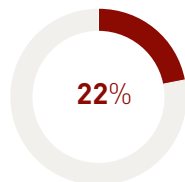
North and South America

Revenue¹



Argentina	●
Brazil	● ● ● ●
Canada	● ● ● ● ●
Colombia	●
Mexico	● ● ● ● ●
USA	● ● ● ● ● ● ● ●

Headcount



Key

● Sales and Marketing offices	74
● Personalization facilities	28
● Production sites	15
● Research & Development centers	14

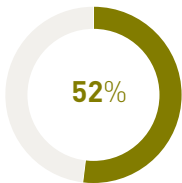


Europe, CIS, Middle East and Africa

Revenue¹



Headcount



Europe

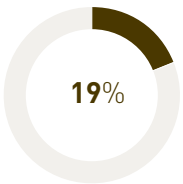
Czech Republic	<div><div></div><div></div><div></div></div>
Denmark	<div><div></div><div></div><div></div></div>
Finland	<div><div></div><div></div><div></div><div></div></div>
France	<div><div></div><div></div><div></div><div></div><div></div></div>
Germany	<div><div></div><div></div><div></div><div></div><div></div></div>
Hungary	<div><div></div></div>
Italy	<div><div></div></div>
Israel	<div><div></div><div></div></div>
the Netherlands	<div><div></div></div>
Norway	<div><div></div></div>
Poland	<div><div></div><div></div><div></div></div>
Slovenia	<div><div></div></div>
Spain	<div><div></div><div></div><div></div></div>
Sweden	<div><div></div><div></div><div></div><div></div></div>
Turkey	<div><div></div></div>
UK	<div><div></div><div></div><div></div></div>

CIS, Middle East and Africa

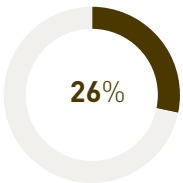
Gabon	<div><div></div></div>
Kazakhstan	<div><div></div></div>
Oman	<div><div></div></div>
Russia	<div><div></div><div></div><div></div></div>
Saudi Arabia	<div><div></div></div>
Senegal	<div><div></div></div>
South Africa	<div><div></div><div></div></div>
UAE	<div><div></div></div>

Asia Pacific

Revenue¹



Headcount



Australia	<div><div></div><div></div></div>
Bangladesh	<div><div></div></div>
China	<div><div></div><div></div><div></div><div></div></div>
India	<div><div></div><div></div></div>
Indonesia	<div><div></div><div></div></div>
Japan	<div><div></div></div>
Korea	<div><div></div></div>
Malaysia	<div><div></div><div></div></div>
Philippines	<div><div></div></div>
Singapore	<div><div></div><div></div><div></div><div></div></div>
Taiwan	<div><div></div><div></div></div>
Thailand	<div><div></div></div>
Vietnam	<div><div></div></div>



Full details of all our sites can be found at www.gemalto.com/php/office_search.php

¹ Revenue is based on adjusted financial information for Ongoing operations.

For more information see pages 147-149

For more information visit www.gemalto.com

“One outstanding aspect of these results is that every segment is doing well. This means that the company now stands soundly on well-balanced foundations – a compelling trait for our customers.”



Chairman's statement

A remarkable year

2011 was a strong year for Gemalto. In terms of revenue growth, margin improvement and cash flow, the company did very well – even though the economic environment was challenging. A number of factors contributed to that performance.

Positioned in growth markets

Gemalto is a global company that addresses its markets in highly competitive ways. This is vital when trends are uneven around the world. It has also positioned itself in core businesses that are all on clear growth paths – involving, for example, the uptake of smartphones, the shift to online banking or the spread of electronic identity.

For all our customers and end-users, whether governments, corporations or individuals, questions of security are paramount. Society is dependent on digital technologies and if people's trust in them is compromised, the implications are huge. Gemalto's role in creating confidence is crucial.

Strength in breadth

In spite of the diversity of our profile, one outstanding aspect of these results is that every segment is doing well. We've seen very good performances in Secure Transactions and in Security. Mobile Communication continues to develop and diversify. And M2M is already realizing some of its huge potential. This means that the company now stands soundly on well-balanced foundations – a compelling trait for our customers. They see that our robustness enables us to invest in innovation, and to commit to long-term contracts with complete assurance.

It also testifies to the strength of the management team's mid-term strategy which I'm pleased to say is progressing well. Amongst other developments, recent acquisitions have been effectively integrated during 2011 and are delivering as planned.

Management continuity

While the Board is pleased with the company's progress, we continue to challenge the Management team – giving perspective to their objectives and supporting them to make astute decisions. This is part of our wider governance role, striving to benchmark ourselves against the best in the world.

Our work is greatly helped by the expertise and continuity at the top. Olivier Piou has been CEO since 2006 and almost the entire Senior Management team has been with him since then. The consistency and experience they bring to the company and to our markets are important contributors to the success we're seeing – and are major assets for Gemalto.

Satisfying our customers

Our Management rightly focus on ensuring the satisfaction of our clients. This is one of our core values and it's deeply rooted. Throughout the organisation, Gemalto's teams understand the potential of our technologies and strive to gratify our customers – who reward us with their continuing loyalty. Gemalto delivers for them in very cost-effective ways and, as annual surveys show, also earns their confidence. The feedback they give us is, quite simply, that they like doing business with our people.

That trust makes all the difference, especially in such a rapidly evolving industry. Our markets can shift decisively in short periods of time. To succeed takes vigor, agility and anticipation. These are all qualities that underpin Gemalto's results.

Alex Mandl
Chairman

“We look ahead to 2012, and further on, with quiet confidence. We have positioned ourselves exactly along the path we chose and are ahead in reaching our milestones.”



Chief Executive's review

Our strategy continues to bear fruit

In November 2009, we announced the Gemalto 2010-2013 Development Plan. This is our strategy to have the company at the heart of the digital ecosystem and deliver a 50% increase in operating profits to €300 million by 2013. After integrating the acquisitions we made in 2010 and maintaining our track record of delivering compelling new products, services and software, I can report that we are ahead of schedule.

We continued to benefit from several megatrends – such as global connectivity, mobile data proliferation, online services expansion, cloud computing, and privacy and identity protection. These all make demands on the digital security market, which addresses the need to protect digital interactions by securing identity and transactions. Our role, of providing trust and security, has never been in so much need.

The rapid evolution of the digital and wireless space underpins this success. The world's population has become connected, smartphones are commonplace, the internet has gone mobile – and with it commerce, banking and many other industry sectors. Digital services are increasingly integrated into everyday life – and Gemalto plays a crucial part in delivering them. In doing so, we take to heart our responsibility to deploy best practices and provide all the experience we have accumulated around the world. Protecting users' privacy and providing the trust, security and convenience essential to digital services is a noble social role – which we pursue with passion!

At Gemalto we have the technology and know-how to realize this mission. Our smart card technology is the digital security foundation for much that underlies our

lifestyle: our SIMs and UICCs protect our mobile devices; our ePassports and other government-issued credentials secure our identities and travels; our EMV credit cards and other secure cryptography-based devices enable mobile money, eCommerce, mobile banking, network access and many other applications. We remotely manage these solutions over-the-air and over-the-internet, ensuring a high quality user experience and protecting confidential data. Our professional and managed services enable our clients to focus on their core activities and deliver more advanced technology to their own customers. We are confident in our solutions and ready to share the risks and rewards with our clients in performance-based agreements.

We are proud to be their low-risk, most reliable choice for digital security solutions. Whether it's coordinating an NFC project for a group of banks, mobile operators and transport providers in the role of trusted service manager (TSM); managing a nationwide voters' enrolment program; efficiently deploying a large EMV payment card system; operating the 24/7 mission-critical fully-redundant digital security credentials management of fourth generation (4G) Long-Term Evolution (LTE) networks; or securing access to cloud services, where we are the first level of defence of the network. As services become digital and mobile, blue-chip companies and leading governmental agencies turn to Gemalto to ensure they benefit from the most comprehensive, field-proven expertise.

Resilient in tough times

Our industry wasn't immune to the economic turmoil during 2011. Nevertheless, while credit card spending may have reduced in developed markets, we have the global presence to benefit from the rapid rise in card numbers and usage in emerging economies. And wherever they are,

customers and banks need to trust that their payments are secure. In mobile telephony, the number of subscriptions worldwide continued to climb due to the proliferation of tablets and other new wireless objects, and to the expansion of machine-to-machine wireless connections. The superior human interface of smartphones has finally brought the convenience we had all been looking for in order to interact anytime/anywhere with the digital world.

Many government clients are facing financial difficulties. Our eID and eGovernment services are designed to deliver greater efficiency, reduce costs and combat fraud. We help them improve the distribution of benefits, save costs and offer secure services 24/7 for their citizens, who appreciate this progress.

The catastrophic natural events in Japan and Thailand, and the political unrest in many countries, made 2011 another year of high tension for our customer service and logistical chains. We've redeployed our resources and adapted to these events with agility. As a result, we have the peace of mind of knowing that our risk management practices were tested, and that the megatrends in our sector tend to rapidly override short-term bad news and uncertainties.

Delivering positive results

Consequently we can report strong results for 2011 – in particular in our software and services businesses, where we've won more than 45 major projects in trusted services management. These include the publicly announced programs in Singapore, where the government has assembled all the service providers around a nationwide digital trust infrastructure, and in the US where the Isis NFC program enables the nation's largest telecom operators to reach the vast majority of its citizens. We're managing a significant upgrade to the National ID program in Oman, to boost

its economy and provide efficient support to its enterprises. And we've won a long-term contract extension to the National ID system in Sweden, one of the largest contracts of this nature ever awarded.

We also took advantage of the migration to EMV banking cards in multiple territories, and gained market share with our innovative dual interface products and instant issuance services. And while many mobile operators focused on business and regulatory issues rather than on innovation in the first half of 2011, as the months went by we progressively saw renewed interest in new mobile services and this was reflected in robust telecoms revenues in the second half. As a result, in 2011 our Company revenue exceeded the 2 billion euro mark for the first time ever, and our return on capital employed continued to rise, reaching 16.7%.

Innovation for success

In this dynamic context, our capacity for innovation is crucial. Efficient selection of Research and Development projects is an important part of our Plan, and we have a lot to choose from. We are determined to invest in new areas. And our teams produce a remarkable number of good ideas. All are tested rigorously against ultra-strict marketing and financial return criteria. We are focusing on four main domains: Digital Money; Cloud Computing Security; Smart Cities; and Digital Life Management. Keeping a strong pipeline ensures Gemalto is ready to adapt quickly in its fast-moving environment.

Making the right acquisitions

That frugal approach to the use of our shareholders' money applies to M&A deals, too. When we embarked on our Plan we knew what kind of companies and expertise we were interested in acquiring. The recent years' downturn in the economy made the targets accessible and more economical. With the

support of our Board, we moved quickly. Our acquisitions are aligning their performances with Gemalto standards faster than we initially expected. And as a consequence of this quick start, only two small acquisitions were needed in 2011, SensorLogic and MCTel.

Software and services are key

The software and services we provide extend the value and range of our offer and lead to a deeper degree of partnership with our clients. When countries and banks want to upgrade their payment programs, they come to us for our experience, design and issuance services as well as for our EMV and dual interface cards.

Most of the value in our products, and what clearly differentiates Gemalto's offering, is the software embedded in them and the services associated with them. Software and services enable us to be involved in the full life of the devices, after their issuance, when they're out in the field and in the pockets of their users. There are now nearly one billion secure objects in circulation that are remotely managed by Gemalto and its software. That's a massive installed base. Our clients talk to us more and more about the business case and added value they can offer to that base of users thanks to our innovations.

That transformation – from a company that sells devices to one that underpins the digital ecosystem with its software and services – is a fundamental part of our strategy.

The new era of mobile internet

2011 was the year the mobile internet came of age. With the massive arrival of smartphones and higher speed mobile connectivity, data traffic surpassed voice traffic by the end of the year, sales of tablets surpassed sales of personal computers and the number of people accessing the internet via their mobile devices continued to grow exponentially.



“We took advantage of the migration to EMV banking cards in multiple territories, and gained market share with our innovative dual interface products and instant issuance services.”

Users now expect to be able to access all their services 24/7, wherever they are, on their mobile. Service providers now see the mobile as a key channel too. That means they're using it for precious data and sensitive transactions. Our solutions ensure that a range of different services can be channelled via the mobile and that users really get the seamless experience they so much expect and value. And that's why Gemalto's expertise in digital identity and security is so valuable.

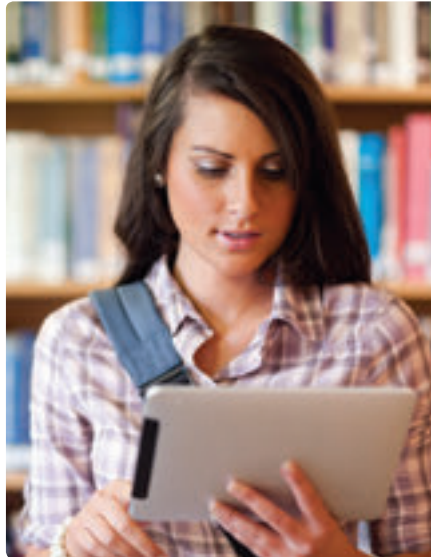
The next stage for mobile internet is via fourth generation LTE networks. Gemalto's technology – in identity modules, traffic steering management, security, and over-the-air device activation and management – is already in use by pioneering operators in the US, Japan and Korea. We are helping them embed superior experience and value for their end-users, and differentiating their services. LTE offers such a huge increase in perceived mobile service quality that it is opening up a host of new opportunities for service providers and operators.

NFC technology adds to our mobile devices the ability to interact instantly with our local environment, with rich contextual knowledge. Having the right mix of technologies and solutions reassures our clients that Gemalto can provide the new services they want to offer. As a result, we can be confident that LTE and NFC will be major growth areas for Gemalto in the coming years.

From people to machines

Machine-to-Machine (M2M) exploits today's ubiquitous network coverage, combined with the fact that wireless devices can now be routinely embedded in everyday machinery. This gives companies unprecedented information and control over their infrastructure, wherever it's located. In reusing the existing infrastructure to carry a whole new class of network traffic, M2M also generates value for mobile operators at minimum cost.

In 2011 we augmented our product range, which offers security and privacy for communications between devices, and grew our M2M client base after the acquisition of Cinterion in 2010. We also added remote management and services capabilities. And we bought SensorLogic to offer a 'cloud-based' platform, for industrial customers to directly connect their M2M devices into their ERP and other systems. This rounds out the M2M ecosystem and makes the decision to invest and deploy much simpler.



Exceptional people, confident clients

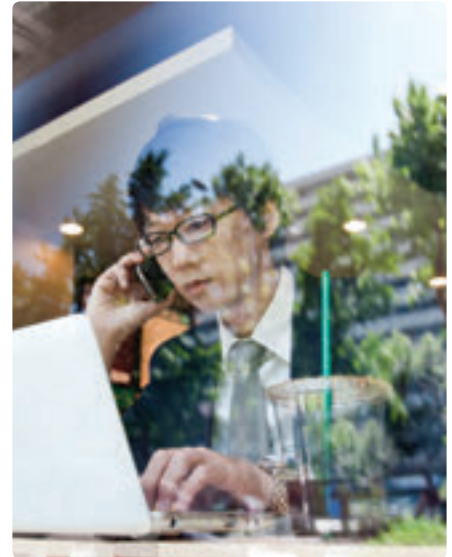
We are glad to report that 2011 was another year of improving client and employee satisfaction, measured again using independent surveys. We're known for delivering on our clients' expectations. And we are proud to have committed and creative teams to keep doing that, no matter how diverse their requirements.

Hence we have business opportunities in our grasp simply by more systematically developing the ways we serve our existing clients. For example, financial institutions know us for our cards and associated services. We also offer them a range of applications around those cards, like in-branch instant issuance. We authenticate transactions of their trading desks and branch offices. We secure their network access and support their building management. And we help the secure deployment of mobile services for their customers by creating and sending individual transaction security codes or forgotten PIN code reminders by secure SMS. So there is still plenty of room to grow by serving our existing client base even better.

A bright future

So we look ahead to 2012, and further on, with quiet confidence. We have positioned ourselves exactly along the path we chose and are ahead in reaching our milestones.

We know we have to be ready for major market extensions, whether LTE, NFC, eID, EMV, M2M and others like Mobile Money, Cloud Computing Security and Online Authentication. In the US, the world's largest card market will



soon make the switch away from magnetic stripe cards. Visa is pushing for the adoption of EMV chip cards to significantly reduce the billions of dollars of fraud today paid by consumers, and has recently been joined by MasterCard. We are ready to provide our best consulting experts, technology and services to lead this change for the better.

Change in the digital realm can happen quickly but we are well positioned to gain from these developments. Our aim is to ensure our clients are always able to deliver innovations that create benefits for their end-users, and value and revenue for them, as soon as possible.

We are encouraged by the progress we made this year. And that's why we've reaffirmed our target of €300 million profit from operations by 2013. We also know well that every next mile in a marathon is tough. So we will stay vigilant and prudent. Nevertheless, I'm confident that our plan is unfolding nicely.

2011 was definitely a great year for Gemalto.

Olivier Piou

Chief Executive Officer

Our strategy

We provide secure software and management solutions for the identity credentials needed to safely gain access to, perform transactions on, and enjoy the benefits of global digital networks.

Our ambition: to harness growth and lead the convergence of our markets.

Our objective

In November 2009 we announced our 2010-2013 Development Plan: through revenue growth and margin expansion, our objective is to deliver €300 million in profit from operations¹ by the end of 2013.

In 2011, profit from operations¹ was €256 million, an increase of 41% over the first two years of our plan.

Where we stand:

Growth

Expand in markets supported by solid growth drivers:

- More connections to cellular networks for people and machines
- More payment transactions in developed and fast-growing economies
- More citizens on earth benefitting from digital identities
- More businesses seeking a convenient and secure way to connect their employees and clients to the network

Enhance our portfolio in solutions and services to create comprehensive and differentiating offers for our customers.

Increased profit margin

Because we focus our growth on organic and highly synergistic developments, we benefit from economies of scale which improve our profitability.

Multiple sources of revenue and profit

We balance our activity across functional and geographical markets for an improved long-term perspective and lower volatility. No country represents more than 10% of our annual revenue, allowing Gemalto to harness the growth of emerging markets while maintaining a diversified and stable basis of performance.

The strong leverage of the Security business line, which surpassed the break-even point in 2009, as well as the worldwide development of EMV have significantly changed the segment composition of contribution to profit from operations.

Balanced use of cash

Use our strong operating cash flows to equally fund:

- Investment to fuel organic growth
- Bolt-on acquisitions
- Provide returns to shareholders

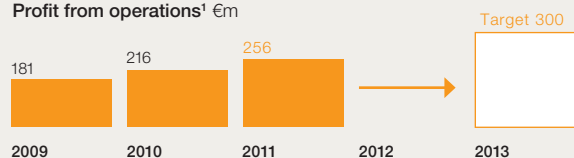
¹ Profit from operations is a non-GAAP measure defined as the IFRS operating result adjusted for all equity-based compensation charges and associated costs, amortization and depreciation of intangibles resulting from acquisitions, and restructuring and acquisition-related expenses.

² Fast-growing refers to countries with GDP growth of 5% per annum or greater. Source: United Nations Statistics, 2005-2010 CAGR.

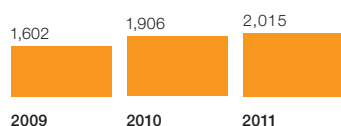
³ Capital expenditure and acquisition of tangibles.



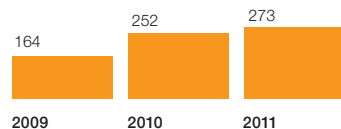
Progress

Profit from operations¹ €m

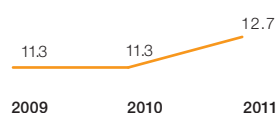
Total revenue €m



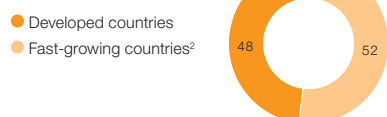
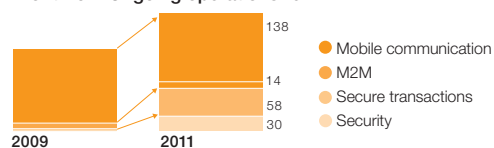
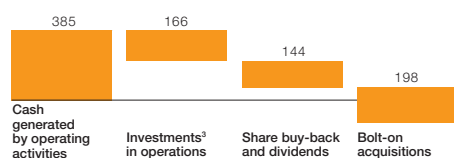
Software and services revenue €m



Profit margin from operations %



Revenue %

Profit from Ongoing operations¹ €mUse of operating cash flow €m
Cumulative 2010 – 2011

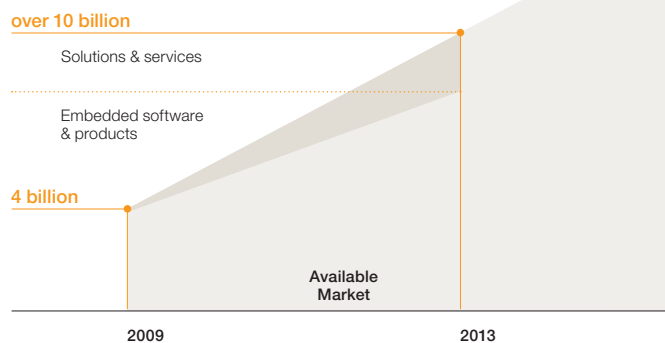
Looking ahead:

The second half of our 2010-2013 Development Plan

- The 2011 achievements provide a strong basis to enter this second period. We will continue along our strategy of expansion in the market of digital security.
- Secure software embedded in more and more devices, solutions and services to manage sensitive data will drive the development of all our segments of business.

Digital security market

One third of the growth of our available market coming from solutions and services



Outlook 2012

For the full year 2012 Gemalto expects another year of expansion in revenue and profit from operations, with all main segments increasing their revenue and profit, limited revenue from Patents, and less seasonality in Mobile Communication, on its way towards its target of €300 million in profit from operations in 2013.

Our opportunity

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



“The continuing growth, ubiquity, and evolution of online and mobile technology are having a transformative influence on people’s lives all over the world – and it’s presenting innumerable market opportunities.”

Paul Beverly

EVP Corporate Marketing

The digital market: resilience and growth

The economic climate is clearly challenging for many sectors and many parts of the world. But companies operating with a global footprint and a diversified portfolio are able to offset economic slowdown in some regions by their presence in faster growth markets.

According to the IMF forecast, January 2012, the Eurozone GDP is expected to fall 0.5% during the year. On the other hand, it forecasts growth over 8% for China, 7% for India and 3% for Brazil. Thus on average, developing economies are forecast to grow above 5% in 2012.

And even in economies where GDP is static there is continuing – often accelerating – adoption of digital services. This is frequently aimed at meeting market opportunities or introducing efficiencies, and promises to boost many technology subsectors. In emerging economies with less legacy infrastructure, the uptake of new digital services is even faster.

This ongoing evolution of the digital space can't be underestimated as a market driver. At the United Nations, for example, internet access is now recognized as a fundamental issue of

human rights. The ability to connect with anyone, anywhere is a given – and the move to connect the whole world, even areas that lack other elements of basic infrastructure, continues unabated.

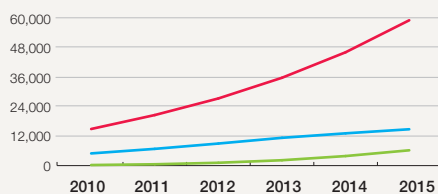
In the social media age this raises critical questions about the protection of digital citizens' personal data and identities. One thing is certain: trust is of paramount importance. Solutions offering different forms of digital security are at least part of the answer. No wonder more than 6 billion microprocessor-based smart secure devices were shipped in 2011, with double-digit growth in government, telecoms and banking sectors set to continue in 2012.¹

The digital realm is seeing growth in many other areas too – each of which offers significant potential for both existing services and new, innovative solutions. It is these megatrends that define Gemalto's market opportunities.

3 billion
internet users by 2015¹.

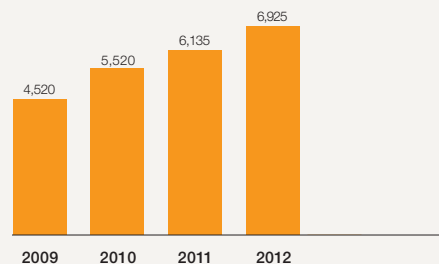
6.1 billion
smart secure devices shipped globally in 2011².

Global IP traffic
Petabytes per month*



Source: Cisco® Visual Networking Index 2011. *Petabyte = 10¹⁵ bytes
 — Fixed internet — Managed IP — Mobile data

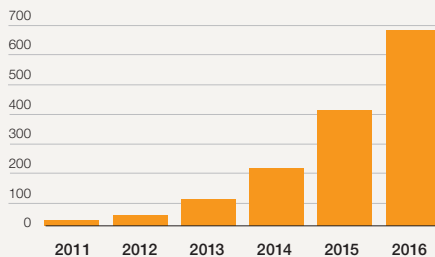
Smart secure devices: shipments
millions



Source: Eurosmart 2011

¹ Cisco VNI Global IP Traffic Forecast 2010-2015 (Feb 2011).

² Eurosmart (Nov 2011).

LTE subscribers
millions

Source: Informa



6.7 billion
gigabytes per month of mobile data
traffic by 2015¹.

Global mobile – more connections, higher speeds

At the end of 2000, around 360 million people were accessing the internet. By March 2011, it was roughly 2 billion³. And by 2015, it will be 3 billion – with the total number of network connections (including Machine-to-Machine and mobile devices) topping 15 billion¹.

In the decade to 2011, growth in internet access in North America was 150%. In the same period, access in Africa grew 2,500%. But even with 118 million users, penetration there remains just 11%. In Asia, 922 million users represents just 24% penetration. So the potential for new connections still remains substantial.

Growth in mobile subscriptions is equally impressive, rising from one billion worldwide in 2001 to 6 billion today⁴. By 2015, this will be well over 7 billion. In 2010, total mobile revenues exceeded \$930 billion – and are forecast to rise to \$1.14 trillion by 2015⁵.

This uptake is so universal that there are already 32 countries where more people have access to a mobile phone than their own electricity supply². But despite this penetration there remains massive growth potential. In India, for example, only half the population had a mobile phone subscription in 2010; by 2020, subscribers there will top 1.1 billion⁶.

But growth is not only being fueled by the basic provision of mobile networks. Another of today's major drivers comes from demands for higher speed, higher quality services. As a result, the number of mobile broadband subscriptions (including 3G and faster) is set to grow from 900 million at the end of 2011 to nearly 5 billion by 2016⁷. This means people are increasingly using their handsets, tablets and connected devices for purposes previously reserved for their computers, such that by 2016 some 780 million users will only access the internet via their mobile device².

When it comes to ultra-fast broadband, 4G/LTE networks will grow from 16 million subscribers in 2011 to some 370 million by 2015⁸ and we consider this to be one of our market's key drivers.

Key market driver 1

Long-Term Evolution (LTE) 4G

Mobile broadband has been nothing short of a revolution. 3G has allowed users to access rich content, created significant revenue streams for operators and opened up numerous opportunities for service providers.

But users have an insatiable appetite for bandwidth. It's becoming common to stream high-definition video, for example, over fixed-line internet connections – and the latest generation of smartphones and tablets is more than capable of playing this content at full quality.

That's where LTE or 4G cellular networks come in. They offer download speeds of up to 100Mbps⁹ (as opposed to 10Mbps from the typical home broadband package) creating a whole new class of opportunities, from streaming movies to attending virtual conferences.

Perhaps more importantly, LTE offers permanent IP connectivity and very low latency – so as well as offering vastly superior bandwidth, networks respond much quicker. Instant access to the internet, on a par with the fastest fixed-line connections, is a compelling proposition for users.

LTE is becoming the 4G standard in all markets, such that 248 operators in 87 countries are already investing in it. It enables service deployment such as NFC to be lightning quick. And using Universal Integrated Circuit Cards (UICC) to manage subscriber information, it also becomes easier to transfer subscriptions, contacts and preferences between devices, as well as to secure access to LTE networks.

With LTE-capable handsets now on the market from several manufacturers, and more set to launch in 2012, both the networks and devices are becoming mass market. LTE revenues are expected to grow from \$2.3 billion in 2010 to \$262 billion in 2015¹⁰.

The world of hyperconnectivity and network ubiquity is just dawning. It will liberate businesses and users from restrictions over time and location – and allow users the complete digital experience from inside their pockets.

³ Internetworldstats.com.⁴ GSMA (2011).⁵ Gartner Mobile Services, Worldwide, 2009-2015 (Dec 2011).⁶ Euromonitor (May 2011).⁷ Ericsson, Traffic and Market Data report (Nov 2011).⁸ ABI research (May 2011).⁹ 4G Americas.¹⁰ MarketsandMarkets (May 2011).

\$1 billion

spent on mobile display and search advertising in 2011¹⁴.

300 million

smartphones worldwide with NFC functionality by 2014¹².

Mobile: hub of interactions

The success of two technologies has recently made convergence a reality. The smartphone allows for consumption and creation of any kind of data – from a conversation or a video to a game or a spreadsheet. And mobile broadband means users are beginning to have access to the whole internet, anywhere – fueling in them an insatiable appetite for services blending voice, video, data and any other opportunities to share and experience their virtual lives. That's why the mobile has become the main point of interaction in the digital world. It's convenient, context-aware and hugely diverse in its functionality.

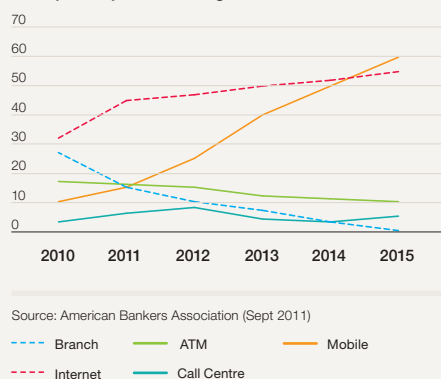
Even SMS continues widespread popularity through new and enhanced uses – so that more than 8 trillion messages were sent in 2011¹¹. By 2016, the number of instant messaging (IM) users will triple to 1.3 billion¹².

Beyond the opportunities this offers for social activities like chatting and gaming, consumer-oriented and location-based services including commerce and marketing are also proving their worth. Mobile advertising, for example, generated \$1.6 billion revenue in 2010 – forecast to rise to \$3.3 billion in 2011 and an estimated \$20.6 billion by 2015¹³.

Within this environment we consider Near-Field Communication (NFC) and mobile financial services to be key market drivers.

Mobile banking

% of consumers preferring each channel for day-to-day retail banking interactions.



Key market driver 2

NFC and mobile financial services

Near-Field Communication (NFC) technology enables adapted mobile phones to transact with readers when in close range. The uses are manifold: paying in convenience stores, fast-food restaurants and theaters; accessing premises; acting as door keys; and even reading smart posters. In particular, the number of people using NFC to buy tickets on public transport is predicted to grow fivefold between 2010 and 2015, by then reaching 500 million¹². To make this possible, sales of NFC-enabled phones are set to rise from 834,000 in 2010 to 151 million in 2014¹⁴; and NFC transactions to leap from \$27 million in 2010 to \$40 billion in 2014¹⁵.

More generally, mobile financial services are revolutionising banking, eCommerce and location-based services. In fact mobile has become such a channel of interest for financial institutions that banks in Spain and the Netherlands have launched mobile operating arms¹⁶ while operators in South Korea, Japan and Austria have bought banks. It's estimated that payments via mobile phones represented more than €100 billion in 2011, and that by the end of 2015 around one billion users will be spending close to €1 trillion this way¹⁷.

In developing markets, particularly those with little banking infrastructure, mPayments are changing the lives of the unbanked – even without high-speed connections or high-quality handsets. Markets like Kenya and the Philippines have shown how quickly this way of transferring money between individuals can become a standard form of transaction. With 15 million users (over 70% of the country's adult population) Kenya's M-Pesa system represents 20% of the country's GDP and is now processing more transactions than traditional transfer agencies do globally¹⁸. Such mobile money services will make up more than 5% of total operator revenue across Africa by 2015.



For more information see pages 24-25

Finance: instant, online, personal

Not so long ago, banks held an apparently immutable place on any high street. Not any more. Internet banking is becoming the default around the world. In the UK, 77% of people with an account now bank online while just 69% use branches¹⁹. The trend in fast-growth economies is similar: China already has over 100 million eBanking users²⁰. And in Brazil, a quarter of all bank transactions are internet based²¹.

By 2015 there will be about one billion eBanking customers²². To serve their needs, there will have been a concomitant investment in technology, reaching \$9.7 billion by 2015²³. Some of this will have been aimed at reassuring users through the deployment of strong authentication systems: 80% say they want their banks to provide elevated online security²⁵.

The numbers for eCommerce are even higher. In 2011, one billion shoppers spent €450 billion online. There was a further €100 billion in transactions via mobiles – expected to grow at 50% year-on-year over 2011-2014¹⁷. Security and identity remain key factors here, too. 99% of internet users in India who choose not to shop online gave "lack of trust" as the reason²⁴.

eCommerce has by definition boosted non-cash payments – as has the rising use of cards, particularly of the 'chip and pin' EMV standard. Global EMV shipments topped 1 billion during 2011², and will overtake magnetic stripe cards by 2015⁸. With progressive adoption of EMV-type cards in China, India and the US we see this migration as another key market driver.

The look of cards is changing, too, to reflect a broader trend for 'hyper-personalization' – where products and services are specifically tailored to users' preferences. Bank and access cards featuring a user's self-selected picture or security code are part of an increasingly customized digital experience.

Contactless technology is also growing. Contactless smart card shipments – including government ID and transport – stood at 225 million in 2011 and will soon represent 25% of all smart payment cards².

¹¹ Portio Research (Jan 2011).

¹² Juniper Research (May 2011).

¹³ Gartner, cited in mobithinking.com (June 2011).

¹⁴ The Netsize Guide (Dec 2011).

¹⁵ Yankee Group (Feb 2011).

¹⁶ Informa telecoms and media (Nov 2011).

¹⁷ Informa mCommerce forecasts

2010-2016 (Nov 2011).

¹⁸ International Monetary Fund (Oct 2011).

¹⁹ Nationwide Building Society (Oct 2011).

²⁰ ICBC May 2011.

²¹ www.febraban.org.br.

²² Forrester.

²³ Datamonitor (Jan 2011).

²⁴ I Cube, cited in www.imediainconnection.in (2009).

²⁵ Vanson Bourne 2009.

Key market driver 3

EMV migration

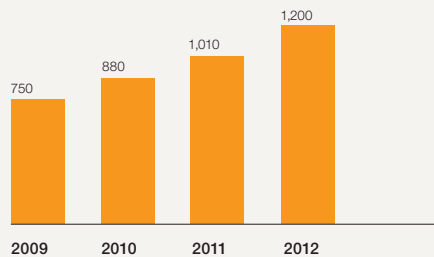
EMV (Europay, MasterCard, Visa) is the widely-accepted standard that ensures security and global interoperability for credit and debit payment cards. Compared with traditional magnetic stripe cards, 'chip and pin' EMV payment cards offer a higher degree of security and convenience at point of sale. They protect users from fraud. And they offer better control for financial services providers. In several regions – such as Europe – EMV is already the dominant technology for payment cards, underpinning a step-change in fraud prevention and identity protection.

There is massive potential for EMV in markets that have yet to make a wholesale switch – including three of the largest in the world. China's central bank, the People's Bank of China, announced last year that all 2.3 billion magnetic-stripe bank cards in the country will be replaced with chip based cards by the end of 2015. By 2016, it may therefore account for over 30% of worldwide Integrated Circuit (IC) payment card shipments, up from just 2% in 2010⁸.

In India, the sheer number of people entering the banking system is a major driver for EMV adoption: over the next six years the payment card installed base is set to increase by 43%⁸.

And in the US, where EMV uptake has been relatively slow, there are signs that chip based cards are on the brink of wider adoption. Visa and MasterCard have introduced both back-office security measures and incentives for merchants – by 2015, they will be liable for the costs of counterfeit-related fraud – and these will vastly increase the attractiveness of EMV over the next three years. And in a sign of its growing popularity, Wal-Mart now has EMV-capable terminals in all its 4,400 US stores²⁶.

These trends are noticeable in many other territories – such as Brazil, where the installed base on smart cards is set to rise to 450 million by the end of 2016²⁷. Global EMV shipments are expected to top 1.2 billion in 2012, up from 750 million in 2009².

EMV card shipments
millions

Source: Eurosmart 2011

1 billion

payment and banking smart cards
shipped in China by 2016²⁷.

33%

growth in investment in eBanking
technology 2010-2015²⁴.

\$4.3 billion

worldwide spend on security products for public
and private Cloud environments in 2015²⁸.

Security, trust and the Cloud

The explosion in the number of people and objects connected together – and in the diversity of the activities built around those connections – has made it more important than ever to deploy reliable ways of proving identities, assigning permissions and ensuring privacy. Users understand their personal data is an asset – and want it protected.

High-profile network breaches, some exposing tens of millions of user accounts, have increased awareness of the duties of service providers. Phone hacking cases have highlighted the need for mobile security. And the commercialization of social networks has raised privacy fears. This is the context for a massive increase in the number of secure devices, access software and services.

This is compounded by the constant arrival of new technologies such as mobile broadband and cloud-computing. Ubiquitous, high-speed connectivity has made the cloud a compelling option for many organisations. Storing data and hosting applications remotely means users can access any service or information, from any location, at any time.

In 2008, just 12% of global server workload was virtualized (i.e. distributed to different locations via the internet, not tied to one machine). This is expected to rise to 60% by 2014²⁹. A year later, cloud services will be worth at least \$150 billion³⁰.

But for enterprises moving to cloud-based systems security is still the number one concern³¹. The worldwide market for security products sold into cloud environments will grow from \$1.2 billion in 2010 to \$4.3 billion in 2015²⁸.

For organizations, this question of security relates not only to their digital assets – like customer data and valuable IP – but also to their physical assets and sites. That's why technologies like multi-factor authentication (e.g. a smart card with a password or fingerprint) for validating access to both buildings and networks are becoming increasingly prized. The value of the global identity and access management market is set to rise from around \$3.95 billion in 2010 to over \$6 billion by 2015³².

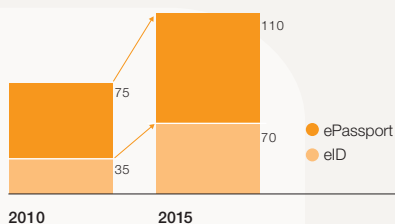
For more information see
pages 32-33²⁶ Americanbanker.com.²⁷ IMS research (Oct 2011).²⁸ IDC (Nov 2011).²⁹ Gartner forecast
2009-2014 (Jul 2010).³⁰ Gartner and Merrill Lynch
(cited at Businesscloudnews.com).³¹ CDW Cloud Computing Tracking
Poll (2011).³² IDC (June 2011).

eGovernment: efficient, secure, trustworthy

Many governments are trying to reduce fiscal deficits while simultaneously addressing demands for better health, security and social inclusion. One solution to this apparent conundrum lies broadly under the heading of eGovernment. Citizens certainly see benefits from eGovernment services: better access to information, more efficient management and improved interactions with state agencies³³. It is more convenient and more engaging for users – and can reduce costs and fraud for administrations.

EU nations are committed to increasing the use of eGovernment services by citizens to 50%, and by businesses to 80%, by 2015³⁴. And in fast-growth nations with fewer legacy issues, there is rapid growth in the use of national eID, ePassport and electronic cards for services such as healthcare and drivers' licenses². So eID is another significant driver in the digital security market.

Secure eDocuments countries¹



¹ Number of countries adopting eDocuments
Source: Gemalto

Key market driver 4

Electronic identity (eID)

Anyone with a mobile phone subscription or an internet connection already has an electronic identity. Most people in mature economies have dozens of them, usually centred around commercial relationships and web activity. They often find this confusing and are looking for ways to simplify and harmonize them.

Governments too are looking to consolidate and secure the identity of their citizens, and electronic technologies are providing the answers. Thus we are now on the verge of a mass transition of basic, often paper-based IDs – from passports and drivers' licenses to social security and student cards – into smart electronic IDs (eIDs).

The logic is compelling. For governments, eID brings added security and easier integration with access control, authentication and administration systems. And for citizens, it increases convenience – by speeding up their interactions with government; simplifying their associated ID requirements; and allowing them to access a wide range of services like eHealthcare and eGovernment.

Roll-outs of eID are happening all over the world. In 2011 alone, 240 million eID documents were delivered². By the end of 2011, 75 countries had already issued 380 million ePassports³⁵, and by 2016, 90% of passports will incorporate some kind of smart chip³⁶.

In Europe, 33 of the 47 nations will have national eID programs by 2015. India and China together will be issuing 400 million electronic credentials in 2015.

As well as massive organic growth in well-established markets like biometric and contactless passports, new opportunities are emerging in the eID space. For example, the US National Strategy for Trusted Identities in Cyberspace (NSTIC) has declared that basic passwords are a “broken system” and is recommending a voluntary, private sector initiative to supply smart ID cards for verifying digital identities online³⁶.

R&D in different security technologies – such as laser engraving, 3D imagery and biometrics – is delivering unprecedented levels of assurance to governments demanding the highest standards. Those administrations are also embracing the cloud and big data (i.e. extremely large datasets). So as single cards are adapted for more functions, the opportunity presented by eID multiplied is considerably. It's a market with huge potential, especially as governments around the world seek to do more with less.

For more information see pages 36-37



³³ United Nations E-Government Survey (2010).

³⁴ Europa.eu.

³⁵ ICAO (2011).

³⁶ IMS Research (Sept 2011).

³⁷ Nist.gov/nstic/.

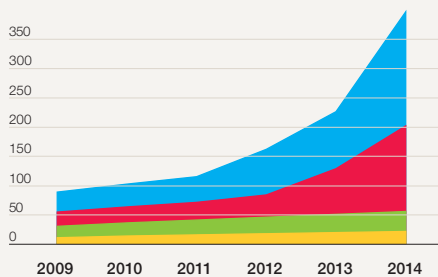


Connecting things globally, efficiently, conveniently

The 'Internet of Things' refers very broadly to different types of communication between things, people and machines. In the case of Machine-to-Machine (M2M), industrial devices are communicating remotely with little or no human intervention across a vast spectrum of use-cases, from remote engine management to smart power-plant control systems. These interactions are growing as applications deliver financial and humanitarian results.

In this burgeoning environment, the total number of connected devices is expected to rise from about 9 billion today to more than 24 billion in 2020. Within that, mobile connected devices will grow from 6 billion today to 12 billion in 2020³⁸. By this time, M2M will represent a \$1.2 trillion revenue opportunity for mobile operators³⁹. In such a context, it's hardly surprising that we see M2M as another key market driver.

Global revenues from M2M technologies
\$000 million



Source: Harbor Research

Value-added services Network services
System application Enablement

12 billion

mobile connected devices in 2020⁴⁰.

Key market driver 5

Machine-to-Machine

Increases in the number of connections between people may only be surpassed by the potential growth in communication between machines. The rise of smart appliances that generate information about their status and that can be monitored and controlled remotely, is a major driver for mobile operators and service providers.

Smart metering, for example, allows utilities to maintain live connections to customers' meters, helping them manage energy consumption as part of the smart grid. That's increasingly important in an era of high commodity prices and pressure to reduce emissions. So by 2020, there are likely to be 240 million smart meters in European homes alone – and \$80 billion will have been spent there between 2010 and 2020 on smart grids⁴¹.

Many other applications, including eHealth, eCall for vehicles and intelligent traffic systems are also on the verge of major breakthroughs.

In addition, the associated services have the potential to grow from \$50 billion in 2009 to over \$200 billion in 2014.

Given the nature of this industry, M2M devices often have to cope with being installed in harsh environments – inside engines, for example, industrial equipment, cars or wind turbines. So they must be highly durable and require low maintenance. The same is true for the platforms needed to securely update the software on board over long periods and in gruelling conditions.

And as critical installations – like water processing plants, medical devices, alarm systems and factories – are added to the network, security is paramount. Protection from hacking, data loss and downtime are all crucial. The fundamental ingredients enabling M2M to realize its potential are reliability and confidence.

As the design of M2M devices – and the software and services that support them – responds to these issues, the possibilities start to seem limitless. This convergence of the physical and virtual worlds through M2M has even been called “the largest organic growth opportunity in the history of business”⁴⁰.

Challenges and opportunities

This unprecedented movement in the world of digital security certainly provides opportunities, but it also raises considerable challenges. It's the very scale of it that creates the greatest hurdles: the extraordinary speed of change; the sudden emergence of new technologies; and the development of huge markets for quite novel demands.

To thrive in this sector, organizations need to be agile. They have to combine a well-considered vision with a structured way of harvesting innovative ideas. They need a deep understanding of diverse technologies as well as an openness to what's new and disruptive. They need a global presence, a multicultural workforce, and a knack of adapting best international practice to precise local conditions.

There aren't many companies that fit the bill. But Gemalto is one of them. And that's why we're quietly confident about our future.



For more information see
pages 28-29

³⁸ GSMA (Jan 2012).

³⁹ GSMA, cited in
www.totaltele.com
(Oct 2011).

⁴⁰ Harbor Research, cited in
Intel/National Taiwan
University (2011).

⁴¹ Pike Research (Mar 2011).



Giving access to financial services in Zimbabwe

People living in even the most remote areas of Zimbabwe are enjoying access to banking services thanks to a project by Gemalto and NetOne, one of the country's leading mobile network operators. During 2011, NetOne started deploying our Mobile Money Transfer solution which works on 100% of handsets. This enables its subscribers to use their phones to make secure and easy peer-to-peer money transfers, pay everyday bills and top up their prepaid phone cards. It also enables them to have their salaries paid directly onto their phones – an innovative feature that greatly empowers the unbanked by providing them with a secure and convenient digital wallet.



For more information visit
www.gemalto.com



For more information see
page 24

- 22 Mobile Communication
- 26 Machine-to-Machine
- 30 Secure Transactions
- 34 Security

Mobile Communication

Mobile Communication is set to enter a new phase with faster access to data and massive growth in mobile applications. In 2011, Gemalto demonstrated again that it is at the forefront of these changes and is delivering significant returns from its ongoing investment in innovative technology.

Our performance¹

Revenue

€976m

(2010: €1,000m)

Stable year-on-year at constant exchange rates

Gross profit

€393m

(2010: €380m)

Gross margin

40.3%

(up 230 basis points)

Profit from operations

€138m

(2010: €120m)

Profit margin from operations

14.1%

(up 210 basis points)

- Return to revenue and profit expansion in the second half of the year
- Improvement in product mix from fourth generation networks (LTE) and contactless services (NFC)
- Software and Services revenue grew to €161 million on the back of commercial deployments of mobile solution

¹ Adjusted financial information for Ongoing operations.



For more information see
pages 147-149

Our products, software and services

More than 450 Mobile Network Operators (MNOs) worldwide trust us with the development and implementation of their mobile services – and have done ever since the birth of GSM.

Advanced Connectivity (LTE/4G)

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

Mobile Financial Services (MFS)

We offer financial institutions and MNOs a complete range of software applications, devices and services. With over 50 clients across a broad spectrum of developed and developing markets, our successes in 2011 reinforced our MFS leadership.

- **Mobile Payment:** enabling people to use their handsets to pay for physical and digital goods and services, whether in-store or online;
- **Mobile Banking:** allowing people in developed and developing markets to gain secure access to banking services with any mobile device; and helping banks to deliver those services at lower cost, even without branches or internet coverage;
- **Mobile Money:** providing secure banking and payment services for unbanked people with any handset in developing and semi-developed markets (see page 21).

Near-Field Communication (NFC)

We enable people to benefit from the simplicity of NFC technology for day-to-day transactions involving payments, transport ticketing and loyalty programs (see page 16).

- As a **Trusted Service Manager (TSM)** we enable MNOs, banks and service providers to deploy secure and seamless NFC solutions.

Digital Life Management (DLM)

Users now expect their digital content and services to be with them everywhere. We ensure that they can protect, manage, organize and share their personal data (contacts, photos, etc.) on any platform – on their mobile, on their computer or in the Cloud – and link it to social networks. Our solutions work on more than 1,000 different devices, and our DLM services manage over 3 billion contacts.

Mobile Marketing Services (MMS)

Our MMS help operators to improve their CRM¹ strategies through efficient, personalized opt-in collection and qualification of details on their databases. With our unique Smart Message channel, our MMS provide wide reach, true dialogue and built-in interactivity with users. They improve profiling, targeting and ROI² measurement, and offer superior response rates of on average 10%.

Operator Billing

Mobile commerce needs a variety of mobile payment methods. Our world leading Operator Billing solutions, spanning 50 countries and 136 wireless networks, offer device manufacturers, application stores, online communities and e-commerce players an ideal means of revenue generation.

Roaming Services

With the rapid increase in data roaming, assigning users to preferred networks can make a real difference to MNOs' costs. Our solutions deliver up to 95% successful traffic steering and ensure MNOs can seamlessly connect subscribers to their preferred partners.

Device Management

MNOs are facing growing complexity of handsets and increasing use of applications. Yet subscribers want simplicity, right out of the box. Our Device Manager is an essential tool to help operators manage seamless set-up for mobiles throughout their life-cycle.

Our offers and brands

Secure personal devices

UpTeq™

New form factors

Software

LinQUs™

Software for operators

Services

Allynis™

Global service offer

¹ CRM: Customer Relationship Management.

² ROI: Return on Investment.

Supporting network operators in the new mobile value chain



“Some 5.5 billion people are now using mobile devices¹. And at the same time, mobile data volumes are growing exponentially. This represents an unprecedented explosion of communication that is affecting almost every business and individual.

In this context, network operators are evolving into a strategic mediation channel between service providers on one side and the ever growing user population on the other. Brands, transport authorities, governments, banks, retailers, entertainment companies and others are planning a mobile screen touchpoint, or a mobile connectivity reach channel.

To position operators in this new value chain, we've developed solutions comprising a vast selection of SIM, MIM, eUICC, NFC-SIM, software, services and personalized secure devices. They're adaptable to every situation: any level of security; all user interfaces, rich or basic; and every handset, high-end or low.

With these capabilities, we help our clients develop new user experiences and incremental revenues, optimize networks and reduce costs. Being at the forefront of mobile technology, we enable them to make the most of all that's offered by 4G-LTE networks. And we connect them to markets beyond the traditional telecoms ecosystem such as M2M communications.

For end-users, we ensure that their mobile experience is as personal, secure and convenient as possible; that they get new services quickly, whatever their device; and that overall they're able to make the most of their mobile lives.”

Philippe Vallée
Executive Vice-President
Telecommunications Business Unit



Advanced Connectivity (LTE/4G)

Gemalto is a leader in enabling the deployment of LTE/4G technology, and thus brings ultra-fast broadband to an increasing number of subscribers and connected devices.

During 2011 we continued our pioneering work with Verizon Wireless, the leading US operator with the most advanced 4G network in the country. In January, our newly integrated Over-the-Air (OTA) Advanced platform and Advanced Universal Integrated Circuit Cards (UICC) performed the activation of millions of subscribers and opened the way for Verizon to deliver even faster speeds, more personalized services, more applications and increased security. Then in April we were selected by NTT DOCOMO to support the roll-out of Japan's first LTE service (see next page).

With these and other achievements, including ten further Advanced Connectivity projects in deployment, we went on to win 'Best contribution to LTE standards' and 'Best enabling technology' awards at the 2011 Informa LTE World Summit: and "Most Innovative Network Deployment" at the 2011 4G World Conference.

Mobile Financial Services (MFS)

Throughout 2011 we saw considerable interest in our range of MFS solutions including Mobile NFC/TSM (see below), Mobile Payment, Mobile Banking, and Mobile Money. The latter enables people with limited or no access to banking services – some 2.5 billion people worldwide – to use their handsets to transfer money, pay bills and make purchases. Typical of this was the deployment of our solutions in 2011 by NetOne in Zimbabwe (see page 21).

Near-Field Communication (NFC) and Trusted Service Manager (TSM)

A major category within our overall MFS offer relates to NFC and TSM. NFC enables devices to communicate and transact over distances of less than 10cm. People use this for many purposes including, for example, paying for public transport, in convenience stores, fast-food restaurants and theaters; accessing buildings, parks and other facilities; and even for reading smart posters which allow them to interact with advertisements.

¹ The Netsize Guide, Dec 2011.



Success in Japan: rolling out advanced connectivity

In April 2011, Gemalto was selected to support the roll-out of Japan's first LTE service, called Xi™. LTE (Long-Term Evolution) or LTE/4G, is the new standard for wireless networks designed to support ultra high-speed multimedia and data applications (for more on LTE/4G see page 15).

Xi™ is being deployed by NTT DOCOMO, the predominant mobile phone operator in Japan, to provide ultra high-speed mobile Internet and full IP network connectivity. The service covers the major urban centers of Tokyo, Nagoya and Osaka, and is planned to reach 70% of the Japanese population by March 2015.

Gemalto's Advanced Connectivity offer was deployed with Universal Integrated Circuit Cards (UICC) tailored to DOCOMO's stringent quality and performance specifications. The solution enhances the security and reliability of DOCOMO's value-added multimedia services offered to its LTE network customers. Over the next three years, more than 15 million DOCOMO subscribers will progressively be equipped with the LTE UICC.

With 50 NFC projects already deployed around the world, 2011 saw several further successes. In January, Softbank Mobile, one of Japan's leading operators, selected us to support its latest NFC pilot. This program was the first in Asia to enable NFC transactions from a choice of credit card accounts.

By the summer, we had also been chosen by PTK Centertel, an Orange group affiliate, to collaborate in deploying Poland's largest NFC program. In October, we were chosen by Infocomm Development Authority (IDA) of Singapore as TSM to deploy its nationwide NFC program in 2012. And at the year-end we announced that we had been selected to secure an innovative platform in the US launched by Isis, a joint venture between AT&T Mobility, T-Mobile USA and Verizon Wireless, that is destined to transform the way people shop, pay and save.

Digital Life Management (DLM)

With the flurry of new devices and online communications services available, users find themselves with an increasing amount of data and address books. With our DLM solutions mobile operators can help users protect and unify all this and drive increased usage of their own voice and data services.

Early in 2011, we launched our Facebook¹ for SIM solution. Being compatible with 100% of SIM-compliant phones, this brings the network to millions of subscribers regardless of their handset. It gives them easy access to core Facebook features as well as many other unique functions. This was soon adopted in South America by Personal Argentina, with the aim of deploying it to its 17 million customers.

Our Mobile Instant Messaging solution also saw success in 2011. It was the first Microsoft-certified UICC application to enable mobile chatting through any handset, and offers subscribers an experience of Windows Live Messenger similar to that via their PC. By February, AIS (Thailand's largest operator) had adopted it to launch Asia's first 'Chat SIM', giving customers unlimited, anytime chat from any handset. Only a month later, a similar service was being rolled out by INWI in Morocco.

Network optimization

Behind the scenes, we also help operators to optimize their networks and logistics. For example, early in 2011 we were selected by Claro Brazil, the largest operator in the Americas, for deployment of our number management solution. Now, Claro only activates SIMs when they are first used and no longer needs to stock them in pre-activated form. This improves their network capacity,

enables more effective marketing initiatives and offers significant cost reductions.

We also expanded our roaming solution in order to give operators a customized global Wi-Fi offer, and hence generate opportunities for new revenue streams for smartphones and tablets.

Innovation/CSR

At Gemalto, we are committed to continuously improving our CSR performance and helping our clients do the same (see page 46). In this context, we marked a unique achievement in 2011 when we enabled the world's first commercial roll-out of a bio-sourced SIM. This helps Mobily, Saudi Arabia's leading operator, to support its sustainable development plan without diminishing its subscribers' experience. The product is fully compliant with telecoms and its card body is compliant with EN 13432:2000², two features that make it unique in the market.

Acquisition of MCTel

We acquired MCTel, an innovative provider of core network solutions to mobile operators. This is a new step in developing our mobile software and services offers by enabling us to increase the efficiency of our existing device management, messaging and roaming solutions.

¹ Facebook® is a registered trademark of Facebook Inc.

² Certified by Organic Waste System.

Machine-to-Machine

In the 'internet of things', Machine-to-Machine (M2M) communication makes objects intelligent by enabling them to share data over mobile networks – wherever they are and whatever the environment.

Our performance¹

Revenue

€174m

(2010: €81m)²

Stable compared to pro-forma 2010 revenue

Gross profit

€60m

(2010: €27m)²

Gross margin

34.7%

(up 210 basis points)²

Profit from operations

€14m

(2010: €7m)²

Profit margin from operations

7.9%

(lower by 90 basis points)²

- Stable revenue when compared to pro-forma 2010 revenue despite the adverse effects of an uncertain global macroeconomic environment and unfavorable currency exchange rates
- Improved gross margin to 34.7% up 2.1 ppt
- M2M is in investment phase, building a comprehensive offer

¹ Adjusted financial information for Ongoing operations.

² 2010 figures mainly comprise the contribution of Cinterion for the 5 month period starting August 1, 2010.



For more information see
pages 147-149

Our products, software and services

Gemalto, with its company Cinterion, is an industry pioneer and market leader in Machine-to-Machine (M2M). Through expertise, security, simplicity and partnership it gives its customers the confidence to excel in a complex M2M ecosystem. Its products and services allow machines, equipment, vehicles and other assets to securely communicate over wireless networks, helping enterprises simplify operations, increase efficiency and establish new business models.

Secure, robust solutions

We have a wide range of fully certified, high-quality solutions that are easy to understand and implement. They are also highly durable. Built for everything the real world can throw at them, our modules can withstand extremes of cold, moisture, heat and vibration so they can remain in service for many years. We also provide the software and services to manage M2M communication and applications, as well as leading-edge support for worldwide integration, from design and delivery to life-cycle management. Gemalto solutions add the security that M2M solutions require against the threats of tomorrow.

Wide-ranging applications

There are literally hundreds of use cases for M2M communication including automotive, metering, remote maintenance, mHealth, eToll systems, Point-of-Sale, routers and gateways, ruggedized PDAs, tracking and tracing as well as security systems. Some of the most promising are outlined below.

Health

In the health sector, our customers can simply connect their solutions to provide services that work out-of-the-box and are securely connected, everywhere – so they can offer convenient, trusted services at lower costs, helping people get on with their daily lives and healthcare providers increase outpatient services.

Tracking and tracing

In logistics, we help ensure that our customers' vehicles, parcels and staff are safe and constantly tracked – so they are more efficient in delivery and better at managing risk. As a result, their end-users are confident that their data is private and they'll receive their parcels on time.

Smart energy

We help energy utilities to manage their resources in real-time according to actual supply-and-demand and enable efficient, secure, simple remote metering. We also help suppliers offer simple electric vehicle charging and billing. End-users appreciate this because it means they can control their energy use, and can drive an electric car without fear of running out of power.

Automotive

We help our automotive customers by ensuring their end-users are securely connected, everywhere – which means they don't need to worry about meeting new regulations for safer vehicles. End-users are confident that the emergency services will be alerted if they have an accident and that their vehicle can be tracked if it's stolen.

What is M2M?

- M2M (Machine-to-Machine) technology enables communication between machines for applications such as smart meters, mobile health solutions and many more.
- An M2M module effectively has the functionality of a cellphone although it has none of the normal appearances (i.e. it has no display, keypad, battery, etc). It cannot authenticate itself or connect to the mobile network without a MIM.
- A MIM (Machine Identification Module) is the equivalent of a SIM (Subscriber Identity Module) with specific features such that it can be used in machines and enable authentication. Machine Identification Module (MIM)[™] is a Gemalto registered trademark in certain countries.

Our offers and brands

Secure personal devices

Cinterion[™]

Wireless modules

Gemalto

Machine Identification Module (MIM)[™]

Software

Cinterion[™]

Secure machine software

Gemalto

Machine Identification Module (MIM)[™] audit

Services

Allynis[™]

Global service offer

SensorLogic[™]

Service delivery platform

Discovering the power of M2M to save money and increase efficiency

The Machine-to-Machine (M2M) segment is part of the Telecommunications Business Unit.

“In the ‘internet of things’, M2M communication makes objects intelligent by enabling them to share data securely over mobile networks – wherever they are and in whatever environment they are operating.

There are thousands of existing applications and the potential is almost limitless. M2M plays a key role in fleet management, automotive, ruggedized PDAs, point-of-sale, metering, eTolling systems, remote maintenance and control, security systems, healthcare, environmental monitoring, object tracking-and-tracing, and more.

Businesses around the world are discovering the power of M2M to save money and generate new sources of income. Governments are turning to it to reduce expenditure, increase efficiency and meet carbon emission targets. And the aging population wishing to live an independent and healthy lifestyle is driving growth in mobile healthcare applications.

Legislation on a global scale and in many different ways further drives the adoption of M2M, such as the use of M2M in automotive emergency calls for eCall and ERA-GLONASS, aimed at saving lives and increasing road safety; CO₂ reduction through smart metering and grid control, stolen vehicle recovery for insurances and intelligent traffic systems with eTolling.

M2M is becoming all-pervasive. And with Gemalto-Cinterion’s combined experience in mobile and machine communications, we are geared to bringing the right expertise, security know-how and simple products to our partners in the complex M2M ecosystem. Together, we’re providing new value for mobile operators and building our industrial customers’ trust to excel in this rapidly developing domain, connecting and managing machines with confidence.”

Norbert Muhrer

Senior Vice-President

M2M segment



Confidence connected

The M2M market is seeing rapid growth as well as significant diversification of its applications. With the purchase in 2010 of Cinterion Wireless Modules GmbH, Gemalto became the leader in this sector and subsequently notched up a number of successes in 2011.

First, the US firm Ayantra began integrating a miniaturized version of our modules into their new asset management solution, FleetWare. This is an innovative system for tracking assets that do not have a power source such as shipping containers, fertilizer tanks, agricultural storage sheds and others. Currently, monitoring remote, non-powered assets is a challenge and requires a careful compromise between device size and battery life. Using our highly compact modules, FleetWare now offers a durable solution that’s easy to install even in the most constrained spaces. It monitors data and uses the module to reliably and securely send updates over cellular networks from anywhere in the world. Authorized users can log on anytime to view the status of assets and manage out-of-sight equipment.

Automotive innovation

In the automotive sector, we announced with our partner Deutsche Telekom that BMW is embedding our M2M solution into its latest series cars to enable emergency call (eCall) services. Wide-scale deployment started in 2009 and over 200,000 BMW cars across Europe are already equipped. The solution enables a reliable connection to BMW’s assistance and information service which dispatches help in emergencies. When a car’s crash sensors are activated, they trigger an automatic call and report the car’s exact position. The solution is part of Deutsche Telekom’s Connected Car business targeting safer and more efficient driving, plus more economic and ecological fleet management. Considering that there are over 350 million cars in Europe alone, it sees huge market opportunities in this area.

In the same sector we announced with our partner Digital Communications Technologies (DCT) the first roll-outs of our intelligent fleet management, tracking, tracing, and stolen vehicle reporting solution. For example, in the

Success in Europe: award-winning smart energy solution

In July 2011 the RWE Smart-Station eCar charging solution was recognized with the Connected World Magazine's prestigious Value Chain Award. The solution was developed by Cinterion's partners RWE Effizienz GmbH and INSYS icom. The award honors the most successful corporate adopters of M2M technology as well as the solution providers that make their success possible.

The Smart-Station provides convenient charging for electric vehicles at six times the speed of traditional electric outlets, and three times faster than competing charging stations. The M2M controller automatically facilitates refueling tasks and data communications including vehicle authentication and authorization, charging activation, meter reading, billing and consumer communications. Smart-Stations are currently being deployed throughout Europe in public spaces, parking lots and at customers' homes and businesses.

The partnership was honored for its collaborative efforts to apply innovative M2M technology in order to help revolutionize world transportation systems and solve the growing threat of climate change.



UK, this is being deployed for 4-wheel drive vehicles and agricultural equipment, improving drivers' sense of safety on the road while bolstering theft-prevention capabilities.

Home-based healthcare

Another significant market for M2M solutions is healthcare. In 2011 our presence in this sector was highlighted when we won the 'Connected World' magazine's prestigious gold Value Chain Award in the home health category, along with our partner Aerotel Medical Systems. The solution is aimed at home-based chronic disease management applications. It automatically collects data from wired and Bluetooth® enabled medical sensing devices and securely sends data over cellular networks to a health monitoring center. Authorized doctors and clinicians can log on at anytime and from anywhere in the world to access health measurements and determine approaches to treatment.

We also supported our partner TZ medical in developing and launching a lightweight and cost-effective mobile heart arrhythmia monitoring device (see page 39).

Acquisition of SensorLogic

We ended the year on another powerful note with the acquisition of the US-based SensorLogic platform. SensorLogic has developed a cloud-based M2M service delivery platform which allows customers to build, deploy and manage solutions in a broad range of applications. This takes the complexity out of M2M deployments and enables providers to bring services to market at a fraction of the cost of a traditional in-house development.



Secure Transactions

In 2011, Gemalto continued to win new contracts that bolstered its leadership position in serving global financial institutions.

Our performance¹

Revenue

€531m

(2010: €462m)

Up 17% year-on-year at constant exchange rates

Gross profit

€168m

(2010: €140m)

Gross margin

31.7%

(up 130 basis points)

Profit from operations

€58m

(2010: €41m)

Profit margin from operations

10.9%

(up 200 basis points)

- Growth driven by EMV migrations in rapidly-developing regions and upgrades to contactless dual-interface in western economies
- Continued improvement in product mix and higher personalization activity resulted in further improvement in gross margin
- Operating expenses incurred in preparation for growth in countries that are expected to migrate to EMV in the near future
- Profit margin from operations at 10.9%, outperforming the single-digit profit margin objective set as part of the 2010-2013 Development Plan

¹ Adjusted financial information for Ongoing operations.



For more information see
pages 147-149

Our products, software and services

Complete EMV payment card solutions

EMV (Europay, MasterCard and Visa) is the widely-accepted standard that ensures security and global interoperability for credit and debit payment cards. More and more programs based on EMV ('Chip-and-Pin') are being phased in worldwide – and for financial institutions wishing to deploy EMV, we are able to provide complete, tailor-made solutions. Our brands support all profiles as well as advanced authentication (DDA) systems and loyalty programs. Our associated range of value-added services is the widest on the market and includes:

- **Personalization:** with 20 expert centers around the world, close to our customers and certified by Visa and MasterCard, we've long been reputed for our flexibility, reliability and speed in personalizing cards. When banks prefer to perform the personalization and issuance themselves, we support them with our specialized software and services.
- **Hyper-personalization:** using our software, financial institutions and transport operators can create innovative designs to enhance their market position. They can also enable their end-users to make cards that are uniquely their own by incorporating a favorite photo. We can even help users choose their own PIN codes.
- **Issuance:** our Distributed Issuance solution offers the benefits of a central infrastructure to issue cards in multiple locations. This lowers costs, and means that EMV-ready bureaus can be opened regionally without necessarily having full EMV expertise. With Instant Issuance, we enable banks and retailers to issue cards immediately in stores and branches.

Contactless payment

With contactless technology, users simply hold their payment device near a reader, even if it's still in their wallet. This enables faster, more convenient ways of paying – especially for low-value amounts – reducing cash and creating competitive advantage for retailers. It allows us to offer innovative designs and forms, such as stickers; and means that issuers can easily combine different services, such as payment and transport.

Mobile financial services

Mobile payment

As technologies rapidly converge, people increasingly expect to bank by mobile and online. With our combined experience in financial services, mobile communications, authentication, transport and retailing, we've established a strong position in this field. By incorporating EMV services and a travel ticket application into a SIM card, for example, we're building contactless NFC payment systems into users' cellphones.

Mobile banking

We are also helping banks to deliver a rewarding mobile banking experience for their users, strengthening customer relationships while reducing operational costs. In developed markets this enables them to introduce countless value-added services accessible 24/7 via the handset which is becoming the central device for people's social and administrative life. In developing markets, they can harness the penetration of mobile phones to deliver banking services at lower costs, without branches or internet coverage.

Transport

Our contactless cards are used to access mass transit systems in 30 of the world's major cities. Passengers appreciate their convenience while operators value the extra revenue protection. Unauthorized travel is reduced and fraud is all but eliminated. The transport sector is also benefitting from the opportunities provided by increasing technological convergence. For example, operators are combining with the mobile industry to put both payment and ticketing on mobile handsets using Near-Field Communication (NFC) technology.

eBanking

Our complete secure eBanking offer and activities during 2011 are presented in the Security segmental report (see pages 35-37).

Our offers and brands

Secure personal devices

Clarista™
Entry-level payment cards
Optelio™
Advanced payment cards
Desineo™
Custom payment cards
Celego™
Travel passes

Software

Dexxis™
Personalization and issuance

Services

Allynis™
Global service offer

Providing innovative platforms to create new revenue streams



“The world of payment is changing fast. Consumers are demanding greater safety, convenience and choice, including mobile and web applications. And banks want better security and more innovative platforms to create new revenue streams.

Meanwhile, people are using more and more payment cards. Consumers like them because they’re so convenient. Add in the high levels of trust and security enjoyed by EMV chip cards, and it’s not surprising that there’s now over one billion¹ of them in circulation.

For issuers, there are further benefits. When users have a payment card in their wallet, they’ve got a part of their bank with them – the only piece of its infrastructure that they always carry around. So the card is vitally important to its relationship with its users, which is why issuers want them to be even more convenient, personalized, trusted and differentiated.

They also want this sense of loyalty to cross over to new platforms – and to be strengthened by them. The opportunity is ripe: people increasingly want to do their banking online and on-mobile, and with the right partner, banks can deliver highly personalized, convenient services. With Gemalto’s world leadership in both financial services and mobile communications, plus our local knowledge and capacity for innovation, we’re ideally placed to support these diverse demands.”

Philippe Cambriel
Executive Vice-President
Secure Transactions Business Unit

EMV: trust and convenience

Banks are adopting the EMV standard for their payment cards in more and more countries worldwide. For some, like India, China, Brazil and the US, the potential for growth is substantial (see ‘Our opportunity’ page 17).

One compelling reason for doing so is that EMV cards are accepted globally. By contrast, travelers often find they cannot use magnetic stripe cards abroad because of fraud concerns. This was a critical factor for the US Silicon Valley Bank (SVB) when it selected us to provide EMV cards for its customers – as well as consulting services, personalization and card delivery. By migrating to EMV, SVB is able to address this growing issue for its cardholders, many of whom travel frequently.

Multiple benefits

It will see further benefits too – like those revealed by a study undertaken in 2011 for another of our US clients, the United Nations Federal Credit Union (UNFCU). They launched our chip cards in 2010 and after five months in circulation, revolving balances rose 20%, card applications were up over 150% and booked credit lines soared over 380%. In response, UNFCU is slated to launch another EMV product in the first quarter of 2012.

Contactless speed

Meanwhile in South America, Banco Santander Brasil, one of the largest financial institutions in the world, selected us to deploy the country’s first contactless EMV payment system for university students. This represents the evolution of the University Smart Card, which already has 5 million users in over 200 universities worldwide. Contactless payment offers exceptional speed and convenience especially for low-value transactions. In addition, it provides a stepping stone to more advanced payment programs, such as those using contactless NFC technology in cellphones.



¹ Source: Eurosmart.

Success in Italy: contactless payment

In June 2011, Intesa Sanpaolo began rolling out our specially designed contactless prepaid cards for tourists. Intesa Sanpaolo is among the top banking groups in the Eurozone and a leading bank in Italy, offering its services to more than 11 million customers.

The Carta Esperienza cards offer EMV-compliant transactions, speedy contactless payments and fast-track access to public transport and cultural venues, all in one product.

Tourists celebrating the 150th anniversary of Italy's unification enjoyed the speed and convenience of contactless payments in shops, as well as the security of EMV for conventional payments and online purchases. They were also offered speedy access to museums and cultural events.

Gemalto was selected because of our expertise in EMV contactless payment worldwide, as well as our extensive experience across the banking, transport and access control sectors.



Also in South America, we were later selected by Colsubsidio, the major compensation fund in Colombia, to supply them with the country's first multi-application EMV cards (see further details on page 49).

These successes can be partly attributed to the support we offer the EMV industry behind the scenes. For example, in early 2011 we became MasterCard's preferred emergency card replacement vendor worldwide. The service enables premium cardholders to receive their new card within 24 hours, even when on the move, anywhere in the world. Once notified of a lost or stolen card, MasterCard taps into our network of banking service centers and securely communicates the cardholder's information. We then do everything necessary to supply a replacement, even if this means delivering it by hand.

Mobile payment

Payment using a mobile handset is growing fast, but is naturally constrained by the number of handsets adapted for this use. One quick solution comes in the form of stickers which are attached to the back of any mobile phone.

In 2011, UniCredit Slovakia selected our contactless stickers for its first commercial mobile payment deployment. The microprocessor-based devices are certified by MasterCard and

once stuck to a handset can be used to make contactless payments under €20 (larger amounts require a PIN code).

Micro-finance

The end of the year was marked by the remarkable announcement that some 10 million customers of FINO (Financial Inclusion Network & Operations) in India are now using multiple micro-banking applications on our smart cards. More than half of India's adults today are not served or are under-served by the finance sector¹, creating an immense need among its population of 1.2 billion. FINO is a business and banking technology platform combined with an extensive delivery service, and has some 42 million customers in India.

Our smart cards are part of FINO's branchless banking program. Transactions undergo biometric authentication, and are processed by FINO's business correspondents who travel by bicycle or motorbike to deliver doorstep services using a smart card reader. Each FINO card can store up to 15 types of application such as deposit remittances, savings, loans, insurance and ePurses. FINO's solution has already enabled the implementation of various social and Government schemes, and Gemalto is committed to supporting them and growing this new business potential.

Transport

Our contactless mass transit payment cards are extensively used in major conurbations around the globe. In 2011, our portfolio was enhanced with the world's first customized picture card for travel for Stockholm public transport (SL). Around 700,000 commuters use SL services every day.

With our solution, they can create a highly personalized card with their own photo. By using our interface on SL's website, they can upload their chosen photo, select a visual and order their card. This pleasurable, easy and convenient solution has enjoyed very high adoption rates.

¹ 55% of India's adults are not served or under-served by the finance sector. Source: 'The Socio-Economic Impact of Mobile Financial Services, Analysis of Pakistan, Bangladesh, India, Serbia and Malaysia' The Boston Consulting Group (April 2011).

Security

The Security segment is characterized by growth and diversification. We are producing an increasing range of software, services and solutions for an ever-expanding number of markets, from governments and their agencies to organizations and enterprises.

Our performance¹

Revenue

€310m

(2010: €285m)

Up 10% year-on-year at constant exchange rates

Gross profit

€118m

(2010: €100m)

Gross margin

38.1%

(up 320 basis points)

Profit from operations

€30m

(2010: €19m)

Profit margin from operations

9.6%

(up 290 basis points)

- Security surpassed the €300 million revenue mark by posting another year of double-digit growth.
- Government Programs grew by 11% and backlog increased substantially
- Supported by strong operational leverage of its top line growth, Security's profit margin from operations grew to 9.6%, easily reaching the intermediate milestone objective of single-digit profit margin set as part of the 2010-2013 Development Plan

¹ Adjusted financial information for Ongoing operations.



For more information see
pages 147-149

Our products, software and services

Government programs

Gemalto provides a comprehensive range of solutions and services for diverse eGovernment programs.

- **eDocuments for travel, ID, health and driving:** we provide physical and electronic security for ePassports, eID documents, eHealth cards and eDriving licenses. We are currently powering over 20 ePassport programs around the globe with services and products. Our eID cards are increasingly multi-purpose, being used for identification, as well as visa applications, commercial registration, energy bill payments or eVoting.
- **eID services:** we offer a growing range of services and solutions for enrollment, issuance, border control and eGovernment. These include personalization and delivery, plus engineering and financial capabilities.
- **eHealth:** our solutions help governments manage their healthcare services more efficiently, helping to reduce benefit fraud, provide healthcare to the right patients and ensure only authorized people can access data.

Online authentication

Our range of software, solutions and services for enterprises, banks, governments and other organizations enables them to protect and manage their logical, physical, and cloud-based data assets. Our strong multi-factor authentication solutions support a range of form factors and authentication methods providing the highest level of protection.

- **Government:** reflecting our expertise in ID programs, especially with the US Government and Department of Defense, we offer a unique family of certified, high-quality authentication solutions. These are aimed at Government employees needing access to premises or networks, as well as businesses accessing eGovernment services. They also include eID readers for use with national ID programs.
- **Enterprise:** we provide a range of solutions for large corporations and SMEs wishing to secure access to their physical and digital resources, especially where this includes remote network access. In the same vein, our strong authentication solutions help organizations to secure their cloud usage – whether they're IT departments delivering mobile services from a centralized location, or online communities with cloud-based accounts and assets.
- **University campus:** our software and multi-function cards act as a single credential, giving staff, students and support workers secure access to buildings, networks, banking, transport and other services.
- **Social media and gaming:** we enable gaming companies to implement strong authentication for players without having to deal with token fulfillment, user ordering or authentication servers.

eBanking and eCommerce

Gemalto is the only truly global provider of strong authentication for eBanking and eCommerce. With our worldwide footprint we help our clients to offer tailored solutions that deliver maximum confidence in their customers' online transactions without compromising convenience.

- **Trusted solutions:** our solutions comprise digital signature and secure access to home and mobile banking services (from account access to fund transfers), retail and corporate bank networks, eCommerce sites and cloud computing services. We provide a wide range of tokens and card readers, as well as mobile applications and authentication servers.
- **Expert services:** our services range from consultancy and back-end server integration, to design, production, personalization, distribution, communication, fulfillment, integration and hosted authentication.

Our offers and brands

Secure personal devices

Sealys™

Secure ID documents

Protiva™ devices

Cards and tokens for authentication

Ezio™ devices

Secure eBanking devices

Software

Coesys™

ID management solutions

Ezio™ suite

Secure eBanking software

Services

Protiva™ services

Authentication and ID management

Ezio™ services

Secure eBanking services

Allynis™

Global service offer

Exploiting the security, efficiency and convenience of digital technologies



“The Security segment covers a vast range of solutions, software and services focused on the authentication and protection of identities and assets.

Our clients are governments, online service providers and enterprises who are seeking to exploit the efficiency and convenience of digital technologies, while at the same time increasing security and privacy for the end-users.

With our experience in this field, we can help them find the right balance of effectiveness and convenience for each project’s specific requirements; we can help hard-pressed governments and organizations to deliver more services, and at the same time realize savings and reduce their carbon footprint.

In enabling them to achieve these win-win results we play a number of different roles: we deliver a range of secure personal devices for end-users, like electronic ID documents, USB keys and readers; we implement the issuer’s infrastructure through bespoke software and equipment such as enrollment stations, servers and document issuance systems, enabling strong authentication and verification; and we offer a variety of services to ensure the smooth end-to-end deployment of programs.”

Jacques Sénéca
Executive Vice-President
Security Business Unit



Government

In many regions of the world there is a widespread move towards eGovernment. In South America, the Digital Mercosur Project aims to promote cross-border communication and trade, while in Europe, Ministers have agreed that eGov “increases efficiency and effectiveness to constantly improve public services” and set priorities to be achieved by 2015.

As one of the cornerstones of these programs, governments need to build a secure civil register on which they can rely for the delivery of their public services. Using a future-proof digital platform, they can create secure, up-to-date eID (electronic identity) documents for their people.

By significantly helping to combat fraud, these provide citizens with a guarantee that their data are protected and can be exchanged in confidence. As a result, they increase national and international trust and ensure compliance with global standards for identity and travel documents.

Gemalto is a leading player in this movement. To date, our products, solutions and services are deployed as part of 60 government programs worldwide, including 36 issuance and 16 enrollment projects.

ePassports and eID

During 2011 we continued to win contracts in different parts of the world including Korea, with the delivery of our ePassport solution to the country’s national printer (see page 79). In Sweden, the National Police Board renewed its agreement with us for the supply of travel documents including the European Residence Permit. The contract includes the enrollment solution for registering applicants’ personal and biometric data, as well as issuance services.

Meanwhile, in the US we were honored to win a Government Security News Homeland Security award for our Mobile Enrollment solution. The award for the ‘Best Biometric Identification Device’ appreciated the convenience, design and performance of the unit, which contains all the data capture and enrollment technology in a robust and easy-to-transport field case.



Success in Qatar: securing eGovernment

Qatar's Supreme Council of Information and Communication Technology selected Gemalto in 2011 to deploy an even more secure and convenient eGovernment solution. The aim is to ease the deployment of a strong authentication solution and to increase the use of its government services, which are planned to integrate more than 50 eGov initiatives over the next few years.

Qatari citizens with a national eID card, and residents holding an electronic identity document, are able to use these devices for strong authentication. Once they have entered their personal code, they can enjoy easy access to eGovernment services from the comfort of their homes. They can also

perform administrative procedures such as visa applications, commercial registration, electricity bill payments and health card renewal. In addition, users are able to digitally sign official documents and forms on the web. Gemalto is also providing the associated services including software integration, training, support and maintenance.

Gemalto's pioneering technology allows web applications running in a standard web browser to seamlessly access a smart card connected to the user's computer, thereby enhancing their security and usability. This also enables the Qatar eGov portal to dynamically deploy and update its services in a way that's hassle-free for its citizens.

Online Authentication

We understand how essential it is for organizations to protect their IT resources and user identities, and at the same time be able to grant their mobile workers secure remote access to networks, applications and data. Data protection for stored, mobile and transferred documents is vital to prevent loss and comply with regulations.

In particular, the widespread and rapid growth of "cloud computing" – where data and applications are accessed via the internet or virtual private networks – is having a major impact in this area. The freedom to access data at any moment from a variety of devices places a significant burden on security. Our solutions help to verify the identity of authorized users without hampering the convenience and efficiency of cloud computing. And since static passwords are simply not secure enough, enterprises need a more sophisticated way of safeguarding their assets.

As we saw in 2011, even the most respected, high-profile names can be the victims of hacking and other breaches. So one of the significant challenges they face is the need for strong security controls and an audit trail of all access events.

In this context, Gemalto and its partners provide advanced solutions for the most demanding security, identity and access management needs. Some of the world's major brands in defense, online and other sectors already benefit from our innovative

and highly secure systems. In 2011, Swedbank, the leading bank in the Baltic countries, deployed our corporate security solution across its organization as well as in 60 savings banks in Sweden. The result: a global identity management system for their networks and cloud resources. This offers secure access to data networks and physical access for 20,000 employees, irrespective of their country, branch or IT system.

In a different context, many hospitals in Europe and the US also started implementing our security solutions and services. At the Seattle Children's Hospital, for example, 4,500 clinicians and IT administrators are getting secure authentication and access to its servers, networks and VPNs. They can use either one-time passwords or public key infrastructure (PKI) as the underlying authentication technology, and also benefit from our solution's capacity to enable digital signatures. Since these cannot be repudiated, they help any organization to improve efficiency and productivity.

eBanking and eCommerce

eBanking is becoming part of our everyday lives – because it's simply so convenient for consumers.

It's beneficial for banks too. It lets branches and call centers focus on high-value relationship contacts. It enables new services such as electronic invoicing by utility companies. It saves money, cutting costs by 75%¹. And it makes customers up to 76% more loyal.

But given the risks from cyber criminals, people only bank online with a brand they trust. 80% of internet users say they want their banks to provide strong security, but they also want to be able to access their banking services from their mobiles – and possibly from several different devices. So the challenges are considerable. By reinforcing their eBanking offer, banks not only increase the loyalty and usage of their customers, they also arm themselves better against their competitors.

Our solutions in this sector are now used and trusted by over 50 million people worldwide, including customers of major institutions like Nordea, Barclays and China Construction Bank. In 2011, Allied Irish Banks plc (AIB) began deploying our online banking solution to provide additional security features to its existing offer. As part of the multi-year contract, we are delivering a future-proof solution including strong authentication software, multiple devices, EMV card readers and consulting services. ING Belgium is also deploying our strong authentication solutions to deliver increased security to its 1 million online banking customers (see page 143).

Our capacity for innovation in technology and design was also recognized by Sparkasse Suedholstein, part of the Sparkassen Finanzgruppe, the leading banking group in Germany. To better protect its online customers, the bank selected our strong authentication optical reader – a slim, portable device the size of a banking card.

¹ Compared with those banking offline.



Improving the lives of millions suffering heart arrhythmias

Four million people in the US alone suffer from abnormal heart beats, or cardiac arrhythmia. But they and others around the world could progressively benefit from a monitoring device launched in 2011 by Gemalto-Cinterion's partner TZ Medical. By wearing this comfortable, cost-effective device they can improve the detection of arrhythmias during day-to-day activities and over long periods of time. It securely communicates diagnostic data over cellular networks and the internet, providing patients and physicians with rapid 24/7 monitoring of symptoms. Authorized caregivers can securely view the data at anytime, from anywhere in the world, to determine treatment. This helps reduce hospital stays and healthcare costs, while improving care and protecting the privacy of patients' data.



For more information visit
www.gemalto.com



For more information see
page 29

40	Financial review
44	Principal risks
46	Sustainability

Financial review

Gemalto delivered a strong performance in 2011. Secure Transactions and Security profit margins reached double-digits and Mobile Communication profit from operations returned to expansion.

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

Extract from the adjusted income statement for all operations

	Year ended December 31,				
	2010		2011		
	As a % of revenue		As a % of revenue		Year-on-year variation
Revenue	1,905.6		2,015.4		+8%
Gross profit	689.4	36.2%	751.5	37.3%	+1.1 ppt
Operating expenses¹	(473.7)	(24.9%)	(515.1)	(25.6%)	(0.7 ppt)
Gain on JV restructuring	–		19.2		
EBITDA²	277.2	14.5%	319.8	15.9%	+1.3 ppt
Profit from operations	215.7	11.3%	255.6	12.7%	+1.4 ppt
of which Ongoing operations	207.5	10.9%	238.6	11.8%	+1.0 ppt
of which other operations	8.2		17.1		
Net profit	216.4	11.4%	227.7	11.3%	(0.1 ppt)
Earnings per share in €³					
Basic	2.56		2.73		+6%
Diluted	2.52		2.65		+5%

¹ In the adjusted income statement, operating expenses are defined as the sum of Research and Engineering, Sales and Marketing and General and Administrative expenses, and Other income (expense) net.

² EBITDA is defined as Profit from Operations (PFO) plus depreciation and amortization expenses, excluding the amortization and depreciation of intangibles resulting from acquisitions.

³ The full year 2011 adjusted basic earnings per share is determined on the basis of the weighted average number of Gemalto shares outstanding during the twelve-month period ended December 31, 2011, i.e. 83,086,000 shares, which takes into account the effect of the share buy-back program. The full year 2011 adjusted diluted earnings per share is determined by using 85,383,267 shares corresponding to the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding and considering that all outstanding 'in the money' share based instruments were exercised (5,282,966 instruments) and the proceeds received from the instruments exercised (€101,483,909) were used to buy back shares at the average share price of the full year 2011 (2,985,699 shares at €33.99).

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

For a better understanding of Gemalto's year-on-year business evolution, financial information and comments in the 'Segment information' paragraph address the Ongoing operations which excludes the following items from the income statement: contributions from discontinued operations, assets classified as held for sale and other items not related to Ongoing operations. The 2011 segment presentation accounts for the following changes compared to 2010:

- the patent licensing activity, previously reported as part of the segment Security, is reported separately, in a new segment "Patents".
- The public telephony activity, which is reaching end of life as it is now almost fully substituted by mobile telephony, previously reported in the segment Others, is included in the segment Mobile Communication.

The financial information for 2010 is then presented pro-forma on the 2011 basis of presentation.

Revenue variations are at constant exchange rates, except where otherwise noted. All other figures in this financial review are at historical exchange rates, except where otherwise noted. The Company sells its products and services in a very large number of countries and is commonly remunerated in other currencies than the Euro. Fluctuations in these other currencies' exchange rates against the Euro have a translation impact on the reported Euro value of Group 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.



For more information see pages 147-149

Revenue of the Company for all its operations was up by +8% at constant rates, to €2,015 million. Expansion was supported by strong growth in the Secure Transactions and Security segments. The Mobile Communication segment revenue was stable with increasing activity in the second part of the year.

Gross profit for the Company was up €62 million or +9% to €752 million. This represents a gross margin of 37.3%, higher by +1.1 percentage point than the previous year. Gross margin increased in all main segments as a result of favorable product mix evolutions, increasing contribution of Software and Services due to larger software sales and delivery optimization, and productivity gains.

Operating expenses increased to €515 million, up +0.7 percentage point to 25.6% of revenue. Lower revenue in Patents led to a higher ratio of operating expenses to revenue in this segment and Machine-to-Machine increased its expenses to prepare for anticipated growth. Other income included €19 million from the one-off gain on remeasurement to fair value of Gemalto's investment in a Chinese JV following a shareholding restructuring transaction.

Full-year 2011 profit from operations came in at €256 million or 12.7% of revenue. The year-on-year variation benefited from the positive developments in Ongoing operations and from the gain on JV restructuring. For Ongoing operations, profit grew from €207 million to €239 million, up +15%. The Company achieved this strong increase despite a €21 million year-on-year decrease in Patents' contribution to its profit. The increase was supported by initial deployments of fourth generation networks (LTE) and mobile contactless services (NFC) in Mobile Communication, sustained global migration to EMV and contactless payment in Secure Transactions, continuing growth in Security, materialization of synergies from acquired companies and by profitability improvements in Software and Services activities as usage has picked up and efficiency from replication has kicked-in.

Financial income was a charge of €(13) million for the year. Foreign exchange transactions and hedging instruments reevaluation at year-end accounted for a charge of €(7) million. The remaining charges were mainly linked to the reassessment at fair value of several financial liabilities. Share of profit of associates increased by €4 million, to €6 million. Consequently, adjusted profit before income tax was €249 million. It was €218 million in 2010.

Income tax expense was €(20) million, down from an income of €0.6 million in 2010, due to higher current tax and the recognition of less deferred tax assets when compared to 2010.

In 2011, the Company also recorded a €(1.5) million charge from discontinued operations in relation to the disposal of the Point-of-Sale activity at the end of 2010.

As a result, adjusted net profit for all operations of the Company was €228 million in 2011, a +5% increase when compared to €216 million in 2010, and adjusted net profit margin increased to 11.3%. Basic adjusted earnings per share came in at €2.73 and fully diluted adjusted earnings per share at €2.65, increasing respectively by 6% and 5%.

Segment information

Ongoing operations	Mobile Communication	Machine-to-Machine	Secure Transactions	Security	Four main segments	Patents	Total Gemalto
Revenue							
Full year 2010	1,000	81	462	285	1,829	33	1,862
Full year 2011	976	174	531	310	1,991	9	2,000
Year-on-year variations				At historical rates At constant rates	9% 11%		7% 9%
PFO							
Full year 2010	120	7	41	19	187	20	207
Full year 2011	138	14	58	30	239	0	239
Year-on-year variations				At historical rates	28%		15%

In 2011, revenue and profit posted a strong increase in the main segments, and the reduction of activity in Patents was related to the ongoing litigation initiated by the Company in the US. In the main segments, revenue increased by +11% and profit from operations grew by +28%, benefitting from the rise in revenue and gross margin improvements. Revenue increased by +9% and profit from operations increased by +15% at historical rates when taking into account the contribution of Patents.

The Machine-to-Machine segment mainly includes the activity of Cinterion, which was acquired in July 2010 and consolidated as at August 1, 2010. Excluding its contribution, revenue growth in the main segments was +6% at constant rates in 2011.

Segment contribution to Gemalto ongoing results	Mobile Communication	Machine-to-Machine	Secure Transactions	Security	Patents	Total
As a percentage of revenue	49%	9%	27%	15%	0%	100%
As a percentage of ongoing PFO	58%	6%	24%	12%	0%	100%

The four main segments of activities, which are comprised of Mobile Communication, Machine-to-Machine, Secure Transactions and Security, represented close to 100% of Gemalto's revenue and profit from operations in 2011.

The contribution of the Secure Transactions, Security and Machine-to-Machine segments progressed rapidly to account for 51% of Gemalto revenue and 42% of its profit from operations (PFO). These segments represented 44% of revenue and 33% of profit from operations for the year 2010.

Mobile Communication

- Return to growth at year-end generated solid increase in profit from operations;
- Investments in Software and Services from previous semesters are paying off.

	Year ended December 31,			
	2010		2011	
	As a % of revenue		As a % of revenue	
				Year-on-year variation
Revenue	1,000.4		976.0	0%
Gross profit	380.3	38.0%	393.0	40.3%
Operating expenses	(260.4)	(26.0%)	(255.2)	(26.2%)
Profit from operations	119.9	12.0%	137.8	14.1%

Mobile Communication posted annual revenue of €976 million, stable at constant rates. As anticipated, seasonality was strong with fourth quarter revenue accelerating to +6%. Hence, second semester revenue grew to €532 million, up +2% year-on-year at constant rates.

Software and Services revenue grew to €161 million in 2011, up +7%. Seasonality was also marked with fourth quarter revenue growing by 17% on the back of commercial deployments of mobile solutions despite the trimming of non-strategic activities in acquired companies. Important additional contracts related to future commercial launches of mobile payment and mobile NFC services were signed during the fourth quarter.

Product mix improved gradually in the second half of the year with a few operators in the Americas and Asia launching fourth generation networks (LTE) and contactless services (NFC). This change in trend resulted in +4% year-on-year increase in product revenue recorded in the fourth quarter.

As a result of these positive developments, the segment's gross margin grew +2.3 percentage points over the period to account for 40.3% of 2011 revenue. This increase was driven by the improvement in the product mix and by the surge in profitability of the Software and Services business. Software and Services crossed the break-even point during the second semester after a period of investments done both organically and through several bolt-on acquisitions.

Operating expenses were slightly up at 26.2% when expressed as percentage of revenue and decreased by €5 million for the year. The bulk of the decrease occurred during the first semester, when synergies from acquired businesses more than offset the resources the Company deployed to support strong demand from its customers for more field trials of new mobile financial services and mobile contactless services.

Profit from operations came in at €138 million for the segment, an increase of €18 million on the previous year. Profit margin from operations grew by +2.1 percentage points to 14.1% of revenue. With high-end deployments of products and services starting in developed countries, the Company recorded €107 million in profit from operations in the second semester. Profit margin from operations at 20% was up +5 percentage points on 2010's comparable period.

Machine-to-Machine (M2M)

- Investment phase, building a comprehensive offer;
- Resilience in a period marked by natural disasters and slower activity in industrial sectors.

	2010		Year ended December 31,		
	(5 months)		2011		
	As a % of revenue		As a % of revenue		Year-on-year variation
Revenue	81.3		174.3		+120%
Gross profit	26.5	32.6%	60.4	34.7%	+2.1 ppt
Operating expenses	(19.4)	(23.9%)	(46.7)	(26.8%)	(2.9 ppt)
Profit from operations	7.1	8.7%	13.7	7.9%	(0.8 ppt)

The Machine-to-Machine (M2M) segment posted revenue of €174 million. This figure was stable compared to pro-forma 2010 revenue at historical rates despite the adverse effects of unfavorable currency exchange rates, an uncertain global macroeconomic environment, and two natural disasters that affected the key markets and sources of Japan and Thailand in 2011.

The segment's gross margin continued to improve throughout the year settling at 34.7%, up by +2.1 percentage points when compared to the previous year's initial consolidation period of August-December 2010.

Operating expenses were €47 million, as R&D investments in new products and services were sustained and supplemental marketing efforts were deployed throughout the year to support the newly integrated offerings.

As a result, profit from operations for the segment came in at €14 million, or 7.9% when expressed as a percentage of 2011 revenue.

On December 20, 2011, Gemalto announced it had acquired SensorLogic, based in the US. The Cloud-based, M2M service delivery platform offered by Sensor Logic will augment Cinterion's market-leading range of M2M modules, MIM cards, Over-The-Air device management and security solutions. As of December 20, 2011, Sensor Logic activities have been included in the Machine-to-Machine reporting segment.

Secure Transactions

- Development of EMV in fast-growing regions and dual interface cards boost revenue and profit;
- Favorable announcements related to future migration to EMV in the US.

	2010		Year ended December 31, 2011		
	As a % of revenue		As a % of revenue		Year-on-year variation
Revenue	462.1		531.4		+17%
Gross profit	140.2	30.3%	168.2	31.7%	+1.3 ppt
Operating expenses	(99.0)	(21.4%)	(110.5)	(20.8%)	+0.6 ppt
Profit from operations	41.2	8.9%	57.7	10.9%	+2.0 ppt

Secure Transactions posted a record performance in 2011, growing revenue by +17% at constant exchange rates to €531 million. This market outperformance, initiated in the second half of 2010, was extended to a particularly dynamic first semester in 2011 as a series of rapidly-developing regions accelerated their migration to EMV and financial institutions in developed economies upgraded to contactless dual interface payment cards. Revenue growth stood at +13% in the second semester, reflecting a more challenging comparative base and the anticipated return towards market-growth averages. The yearly improvement in product mix, the better absorption of fixed costs in

high-growth areas and higher personalization activity associated with this strong organic expansion led to a gross margin increase of +1.3 percentage points on the previous year, at 31.7% of revenue.

The share in revenue of operating expenses drew down once again by (0.6) percentage points to 20.8%. Expenses increased by €11 million in value over the year to €110 million as investments were made in the second semester in the development of software for mobile financial services for banks and in preparation for growth in new countries that are expected to migrate to EMV in the near future.

The segment's profit from operations for the period reached €58 million, up +40% on 2010's figure. This corresponds to double-digit profit margin of 10.9%, up +2.0 percentage points on 2010, outperforming the objective set for 2011 as part of the Company's long-range Development Plan in 2009.

Supported by the current worldwide wave of migration to EMV payment technology, the 2011 results posted by Secure Transactions confirm the sustained improvement of this segment's performance. The segment's long-term prospects were considerably reinforced in the second part of 2011 by the positive strategic shifts in favor of EMV in the US. The effects of this migration are expected to become material for the segment towards the end of 2013.

Security

- Major contracts wins all year long in Government Programs lead to increased revenue and backlog;
- Profitability exceeds objectives set for the segment as part of Company's 2010-2013 Development Plan.

				Year ended December 31,	
		2010		2011	
		As a % of revenue		As a % of revenue	Year-on-year variation
Revenue	285.0		309.9		+10%
Gross profit	99.5	34.9%	118.0	38.1%	+3.2 ppt
Operating expenses	(80.3)	(28.2%)	(88.2)	(28.5%)	(0.3 ppt)
Profit from operations	19.2	6.8%	29.8	9.6%	+2.9 ppt

Security passed the €300 million mark in revenue, posting another year of double-digit revenue growth at constant exchange rates. Government Programs, which accounts for approximately two-thirds of the segment's revenue, grew by 11% on the back of new eDocuments and eGovernment services deployments, and it substantially increased its backlog at year-end. Revenue growth in Identity Access and Management (IAM) was slower in the first semester due to security issues not related to the Company that weighed on the whole industry. Growth accelerated over the second semester to +13%, driven by more deployments of security solutions for eBanking and internet access for cloud computing applications.

The segment's gross profit margin reached 38.1%, an improvement of more than 3 percentage points and gross profit reached €118 million. This was achieved through the increasing sales activity, and additional productivity gains.

Operating expenses remained tightly controlled at €88 million or 28.5% of revenue, down 0.3 percentage points on 2010.

Supported by the strong operational leverage of its top line growth, Security's profit from operations grew by +55% to €30 million or 9.6% profit margin from operations, easily reaching the intermediate 2011 milestone objective of high single-digit profit margin set as part of Gemalto's 2010-2013 Development Plan.

Patents

- Temporary postponement of the signing of new licenses.

					Year ended December 31,		
					2010	2011	
					As a % of revenue	As a % of revenue	Year-on-year variation
Revenue	33.0			8.8		(73%)	
Gross profit	29.5	89.3%		7.5	85.4%	(4.0 ppt)	
Operating expenses	(9.4)	(28.5%)		(8.0)	(90.4%)	(61.9 ppt)	
Profit from operations	20.1	60.8%		(0.5)	(5.0%)	(65.9 ppt)	

Patent revenue settled at €9 million, confirming the anticipated effect of the public patent litigation the Company has initiated in the US to protect its intellectual property. During this litigation period, the Company and potential licensees have favored postponing the signing of new intellectual property licenses until fair, reasonable and non-discriminatory terms can be established.

This lower revenue translated directly into reduced gross profit for the segment as many of the segments' costs are fixed. Operating expenses however decreased by €1.5 million with disciplined management of expenses in the face of lower revenue.

As a result, Patents profit from operations was close to the break-even point in 2011, in line with expectations for the year.

Balance sheet and cash position variation schedule

	Year ended December 31,	
	2010	2011
Net cash, beginning of period	404	275
Cash generated by operating activities, before cash outflows related to restructuring actions	183	219
Including cash provided (used) by working capital decrease (increase)	(38)	(2)
Cash used in restructuring actions	(9)	(8)
Cash generated by operating activities	174	211
Capital expenditure and acquisitions of intangibles	(73)	(93)
Free cash flow	101	118
Interest received, net	2	2
Cash used by acquisitions	(198)	(0)
Other cash provided by investing activities	9	10
Currency translation adjustments	9	2
Cash provided (used) by operating and investing activities	(77)	131
Cash used by the share buy-back program	(39)	(61)
Dividend paid to Gemalto shareholders	(21)	(23)
Other cash provided (used) by financing activities	8	28
Change in cash and cash equivalent due to change in consolidation method	0	(19)
Cash and cash equivalents, end of period	276	330
Current and non-current borrowings including finance lease and bank overdrafts, end of period	(20)	(21)
Net cash, end of period	255	309

For the full year 2011, operating activities generated a cash flow before restructuring actions of €219 million versus €183 million in 2010. Cash used in working capital on December 31, 2011 was up by €2 million when compared to the closing of 2010. Cash used in restructuring actions was €8 million. Capital expenditure and acquisition of intangibles amounted to €93 million versus €73 million in 2010, of which €53 million was incurred for Property, Plant and Equipment versus €44 million in 2010 mainly due to renewal of personalization equipment in acquired subsidiary. Capital expenditures also included capitalized R&D for an amount of €34 million in 2011 versus €25 million in 2010 mainly due to the full year consolidation period of Cinterion versus a five-month period in 2010. Net impact from investing activities related to acquisitions and divestitures was non-material.

Gemalto's share buy-back program used €61 million in cash for the purchase of 1,808,943 shares over the full year 2011. As at December 31, 2011, the Company owned 4,996,308 shares, i.e. 5.68% of its own shares in treasury. The total number of Gemalto shares issued remained unchanged, at 88,015,844 shares. Net of the 4,996,308 shares held in treasury, 83,019,536 shares were outstanding as at December 31, 2011. The average acquisition price of the shares repurchased on the market and held in treasury as at December 31, 2011 was €31.33.

On May 31, 2011, Gemalto paid a cash dividend of €0.28 per share in respect of the fiscal year 2010. This distribution used €23 million in cash. Other financing activities generated €28 million in cash, including €34 million of proceeds received by the Company from the exercise of stock options by employees.

As a result of these elements, the deconsolidation of assets held for sale and variations in current and non-current borrowings, Gemalto's net cash position as at December 31, 2011 was €309 million, an increase of €54 million when compared with December 31, 2010.

Outlook

For the full year 2012 Gemalto expects another year of expansion in revenue and profit from operations, with all main segments increasing their revenue and profit, limited revenue from Patents, and less seasonality in Mobile Communication, on its way towards its target of €300 million in profit from operations in 2013.

Principal risks

In common with most organizations worldwide, Gemalto is affected by a number of risk factors not all of which are within our control. Some such as macroeconomic factors are likely to affect the performance of businesses generally, while others are particular to our operations. This section sets out the risks that Gemalto's management believes are the principal risks to the Company. Accordingly, it is not intended to be an exhaustive list of all the risks that may affect our business, but aims at reporting on the main identified risks that stem from our activity and the actions developed in order to mitigate them.

Risk area	Main potential impacts	Main mitigating actions
Strategic risks		
Lower growth and profitability (Changes in business environment, decrease in activities and/or increase in competition, etc.)	Financial	<ul style="list-style-type: none"> • Global presence (see page 6). • 2010-2013 Development Plan. • Diversified portfolio of activities. • Focus on innovation: Gemalto filed 107 new patent applications. • Focus on creating value to clients: overall Increased customer confidence with a satisfaction index of 723 in 2011 in the 'Tell Me' survey (see page 46).
Acquisitions and/or joint ventures (Wrong selection and/or integration)	Financial and organizational	<ul style="list-style-type: none"> • Single dedicated team manages Corporate Development plan and M&A. • Formal process to manage acquisitions and integrations. • Review by Strategy and M&A committee. • Post integration acquisitions Audits with performance monitored by Management and Board.
Technology shift (Market moving to alternative technologies)	Financial and reputational	<ul style="list-style-type: none"> • Competitive and market intelligence program. • Diversified technology portfolio approach (including through M&A). • Participation in industrial bodies and standardization organizations. • Strong Research & Development and standardization teams. • Business innovation process. Many awards for technological innovations (see http://www.gemalto.com/companyinfo/about/awards.html).
Legal and compliance risks		
Intellectual Property Rights risks (R&D is an important part of our activity)	Legal, financial and reputational	<ul style="list-style-type: none"> • 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 behaviour (Worldwide activities and in digital security)	Financial and reputational	<ul style="list-style-type: none"> • Policies and procedures, starting with a code of ethics. • Anti-fraud commission. • Security certifications and organization. • Training sessions on security, business principles and anti-fraud. • Internal audits on all suspected frauds.
Changes in regulatory environment (Data privacy and protection laws, Tax, Trade regulations and Export Controls)	Legal, financial and reputational	<ul style="list-style-type: none"> • Legal organization in the regions as well as by type of activity. • Training sessions on Tax and other regulations. • Tax department with regional antennas. • Participation in standardization committees. • Advice from law firms, tax advisors and authorities in the countries we operate in.
Operational risks		
Business interruption and crisis (Any internal or external event which would materialize unexpectedly and significantly affect the Company's operations and/or reputation)	Organizational, reputational and financial	<ul style="list-style-type: none"> • 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).

Risk area	Main potential impacts	Main mitigating actions
Sourcing risks and dependency on suppliers in chips, materials, equipment and services (Lack of supplier resilience following a disaster, supplier insolvency, non-compliance with ethical standards, etc.)	Organizational, reputational and financial	<ul style="list-style-type: none"> • Business intelligence on suppliers. • Multiple sourcing strategy. • Responsible purchasing program. • Supplier selection, qualification and monitoring process. Audits of some key suppliers. • Safety stocks management and protection clauses in contracts.
Defective products and/or service failures (Manufacturing, personalization services and development of software)	Financial and reputational	<ul style="list-style-type: none"> • Standardized manufacturing processes. • Quality Management system and World-Class Enterprise organization. 27 sites with ISO 9001 certification in 2011. • Dedicated organization for software, services and solutions. • Product and Professional liability insurance. • Overall Increased customer confidence with a satisfaction index of 723 in 2011 in the 'Tell Me' survey (see page 46).
Bidding and execution failures of major contracts (Amount, duration, technology, commitments)	Financial, Legal and reputational	<ul style="list-style-type: none"> • Bid and contract reviews with approval process according to limits of authority. • Risk assessment performed for major deals. • Project-based organization for Government Program and software, solutions and services contracts.
Exposure to country risk (Political, regulatory and trade exposure impacting our staff, footprint and receivables)	Financial and organizational	<ul style="list-style-type: none"> • Involvement of treasury, tax and legal departments at the early stages of international operations. • Travel policy and travel security policy. • Medical assistance and repatriation insurance. • Agreements with specialized security consulting companies. • Country risk alert monitoring and communication.
Sensitive data mismanagement (Leakage and/or loss of customers' or Gemalto's sensitive data)	Financial and reputational	<ul style="list-style-type: none"> • Strong 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 support from regional and corporate security. • Security certifications by third parties (including ISO 27001, EMV, GSM SAS, etc.). • Internal security audits (extended to IT subcontractors). • Anti-fraud commission.
Financial risks		
Foreign exchange risk (Manufacturing footprint, portfolio of receivables, future cash flows, competition)	Financial	<ul style="list-style-type: none"> • Centralized currency risk management by the Central Treasury department with regional antennas, and currency reporting. • Treasury committee and specific treasury policies. • Hedging strategies which include 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, cash deposit)	Financial	<ul style="list-style-type: none"> • Risk limits set for counterparties and regularly reviewed. • Treasury committee. • Usage of plain vanilla hedging instruments and low risk money market investment. • Working with financial institutions of investment grade (deposits, hedging transactions). • Set-off provisions in financial contracts.
Financial reporting risks (Revenue recognition process, inventory valuation, taxation and other complex accounting issues)	Financial and reputational	<ul style="list-style-type: none"> • Financial policies and procedures. • Single financial reporting tool Company-wide and single Enterprise Resource Planning (ERP) under continuing deployment. • Revenue Recognition process. • Consolidation department with dedicated specialists. Tax department with regional antennas. Dedicated team with internal control over financial reporting. Internal Audit department. • Regular reviews by the Audit Committee.

Sustainability: our approach

We've been working towards business excellence for many years and in so doing we've formalized our approach to sustainability, integrating it into our management systems and structures to help improve our performance as a responsible company.

Our values

The way we manage sustainability closely reflects our values. These are combined in a robust ethical framework which underpins all sustainability activities by focusing on:

Customers

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

People

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

Innovation

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



Managing sustainability

Gemalto has a strong background in sustainability. We continually challenge our practices through external evaluation and certification. We benchmark them against best-in-class companies. And we're always working to meet our key stakeholders' expectations of corporate citizenship.

In 2009, Gemalto's Board demanded that we give a higher priority to our sustainability performance and reporting. We therefore consolidated existing corporate responsibility activities in a coordinated framework. We also established a more systematic approach to managing sustainability within Gemalto.

In September 2009, we signed up to the United Nations Global Compact (UNGC). This enables us to benchmark our policies and results against world-class standards. It also means we can verify how current practices reflect the Compact's ten principles on human and labor rights, anti-corruption and the environment.

Multidisciplinary Steering committee

Our corporate responsibility (CR) management structure comprises a multidisciplinary Steering committee. This is supervised by our three Executive Vice-Presidents of Human Resources, Marketing and General Counsel. The committee met six times in 2011 to validate the year's objectives, monitor progress and review the results. The program comprised six main projects and numerous other actions.

Communicating our CR activities

All our stakeholders want transparent information about Gemalto's CR approach and performance. That's why, in 2010, we produced our first stand-alone Sustainability report based on 2009 data; and then in 2011 we produced a second, more detailed report based on 2010 data. This report is available at www.gemalto.com/companyinfo/sustainability.

Our next Sustainability report, based on 2011 data, will be published in June 2012.

Materiality

We aim to tackle the sustainability issues that matter most to Gemalto and our stakeholders. That's why we're prioritizing our main projects based on our experience and knowledge, the requests of customers and other stakeholders, and HSE (Health, Safety and Environment) regulations.

Dialoguing with our stakeholders

We communicate regularly with our key stakeholders, and invite their views on our performance. Whether they're investors, customers, suppliers, employees or local communities, their opinions are of great importance to us.

Our investors

The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. We've therefore designed our investor relations policy to inform shareholders about Gemalto's developments fully and promptly.

In addition to General Meetings, we use a wide range of communication tools to keep investors regularly informed and to encourage feedback. When we publish interim and annual financial statements, we hold conference calls and investor meetings. We host frequent road shows and take part in conferences for institutional investors. We also regularly run independent external surveys to gather investors' perceptions of our Company's financial communication. All these actions help us to get a clear picture of investors' and analysts' opinions (see page 150).

Our customers

Our annual 'Tell Me' survey enables us to independently assess customer satisfaction. It also allows us to answer queries from customers who want to improve corporate responsibility standards in their own supply chains. Another key opportunity for customer dialogue on sustainability comes at the point of tender. This is when we answer customer questions, and can describe in detail our main management systems and practices. On request, we also complete customer-specific questionnaires demonstrating how we meet expectations for sustainable products and services.

Our suppliers

For our biggest suppliers, we hold Quarterly Business Review meetings. This is when we discuss commercial and technical matters relating to the supply chain, product quality and our customer relationship.

Our employees

Our internal annual employee survey – PeopleQuest – helps management and HR to track employee satisfaction across our global operations.

We also communicate regularly with employees about Gemalto's sustainability through established internal channels. Every year we share our HSE and Sustainable Development Strategic Agenda. We also communicate about current sustainability projects; and we issue a bi-monthly newsletter on internal control and risk management.

Communities

We regularly engage with people in the local areas where we operate, addressing any issues on a site-by-site basis.

Caring for our planet

Environmental sustainability has always been at the core of our Company ethos. Since 2000, we have been developing ways to reduce the environmental impact of our operations.

Identifying risks, impacts and opportunities

Three factors are especially important for our work supporting environmental sustainability:

- ISO 14001 international certification which requires continuous review to identify all environmental risks and actual impacts;
- National and international regulations which clearly identify priority areas and timelines for compliance. These directives often come from the European Union and address hazardous substances management in particular;
- Increasingly specific customer enquiries, for example about manufacturing processes and the material content of the products we make.

Certified management systems

Certifying Gemalto's Environment Management System (EMS) was our first step towards ensuring best practice and continuous improvement.

For over a decade, we progressively worked through an ISO 14001 road map. This first targeted main production sites. It then addressed personalization centers and our biggest non-manufacturing facilities at Meudon and La Ciotat in France.

In 2010, we were awarded an additional ISO 14001 certificate at Meudon. This brought our total to 22 certified sites, including joint ventures.

All of these worldwide sites are audited once or twice a year by ISO 14001-accredited companies. They assess the effectiveness of our EMS by reviewing its risk and impact analysis, plans and results versus objectives.

Many sites are also certified through national schemes, for example Montgomeryville, US ('KEMA'), and our plant at Cuernavaca, Mexico ('Clean Industry').

We use site action plans to address the main potential environmental risks and actual impacts. These relate to reducing consumption (e.g. of energy, water, paper and manufacturing materials) and waste management. Another important area is printing technology – especially when it involves solvents and Volatile Organic Compound (VOC) emissions.

Legal framework

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

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

Our 2010 Sustainability report is available at www.gemalto.com.

Our 2011 report will be published in June 2012.



For more information visit www.gemalto.com

Compliance

To ensure best practice in key areas, we comply with:

- The Universal Declaration of Human Rights
- International Labor Organization (ILSO) Standards.

We have also signed the United Nations Global Compact charter.

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

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

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

- Dutch corporate law
- The Dutch Act on Financial supervision
- Dutch corporate governance rules (see page 52 for details)
- French AMF regulations.

The Dutch AFM is the supervising authority of the Company.





Delivering multi-application EMV cards to Colombia

Members of Colsubsidio, the major compensation fund in Colombia, recently started benefitting from the country's first multi-application, contactless EMV cards. These combine the security of EMV payment with an ePurse application and admittance to recreational parks, sport and convention centers. The contactless feature of the card also provides easy access to public transportation in the city of Bogota.

Overall, this offers users a more convenient and enjoyable experience, where they can 'wave' their way onto public transport, access venues and securely pay for goods and services, all with one single solution.



For more information visit
www.gemalto.com



For more information see
page 33

50	Governance at a glance
52	Corporate Governance
56	The Board
58	The Senior Management
60	Report of the Non-executive Board members
62	Remuneration
70	Internal risk management and control systems
77	Board compliance statement

Governance at a glance

Core principles

The Board is responsible for Gemalto's corporate governance structure and for compliance with the Dutch corporate governance code, as applicable during the 2011 financial year.

The Company complies with the principles and best practice provisions of the Dutch corporate governance code with the exception of the best practice provisions listed on page 52.

Board structure

The Company has a one-tier Board comprising:

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

The Board held seven meetings during 2011, four in person and three by conference call.

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

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

Board committees

The Board committees are:

- Audit committee – held seven meetings during 2011;
- Compensation committee – held five meetings during 2011;
- Nomination and Governance committee – held four meetings during 2011;
- Strategy and M&A committee – held five meetings during 2011.

Board changes

Board member changes are set out on page 53.

Other information

Further information can be found as follows:

- Corporate governance – pages 52-55;
- The Board – pages 56-57;
- The Senior Management – pages 58-59;
- Report of the Non-executive Board members – pages 60-61;
- Remuneration – pages 62-69;
- Internal risk management and control systems – pages 70-76.

“The Company is required to comply with, inter alia, Dutch corporate law, the Dutch Act on Financial Supervision, Dutch corporate governance rules and French AMF regulations, insofar as they are applicable to the Company. The Dutch AFM is the supervising authority of the Company.”

The table below details the members of the Board and their terms in office. Each term is for a maximum term of four years. Board members may be reappointed for subsequent four-year periods. Non-executive Board members may only be reappointed twice. However, there is no limitation in the number of reappointments for the Executive Board member.

Board reappointment schedule

Director	Date of initial appointment	2011	2012	2013	2014	2015
Olivier Piou	Feb 17, 2004					
Michel Soublin	Feb 17, 2004					
Arthur van der Poel	May 1, 2004					
Kent Atkinson	May 11, 2005					
Alex Mandl	June 2, 2006					
Geoffrey Fink	June 2, 2006					
Johannes Fritz	June 2, 2006					
John Omerod	June 2, 2006					
Buford Alexander	May 20, 2009					
Philippe Alfroid	May 19, 2010					

- First term
- Second term
- Third term

2011 Remuneration Report of the Board

The 2011 Remuneration Report of the Board, as drawn up by the Compensation committee, contains an account of the manner in which the Remuneration Policy for the CEO was implemented in 2011, and is scheduled to be implemented in 2012 (see pages 62-69).

Remuneration of the Non-executive Board members

The remuneration of the Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees is determined by the General Meeting. The remuneration is reviewed annually by the Compensation committee. For details on the remuneration structure for the Non-executive Board members, see page 69.

Remuneration of the CEO

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

The Remuneration Policy for the CEO was adopted by the AGM of May 11, 2005 and was amended by the AGM of May 14, 2008.

The Remuneration Policy is published on Gemalto's website. The Remuneration Policy also serves as guidance to establish the Senior Management remuneration approach.

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

For details on the compensation of the CEO for the financial year 2011, see page 65.

Long-term incentive plans – Global Equity Incentive Plan

Gemalto has established a Global Equity Incentive Plan enabling the Board to grant options, restricted shares units and/or share appreciation rights to eligible employees (see page 69).

Long-term incentive plans – Global Employee Share Purchase Plan

Gemalto has established a Global Employee Share Purchase Plan enabling the Board to offer the opportunity to eligible employees to purchase shares in the Company at a discount to the prevailing market price (see page 69).

Internal risk management and control systems

Risk management and internal controls are critical to the stability of the Company. The aim of our internal risk management is to expand our ability to achieve our objectives by:

- Safeguarding assets, cash flows and reputation;
- Effectively constraining threats to acceptable levels;
- Making informed decisions;
- Enhancing our capacity to exploit opportunities, while trying to protect our stakeholders' interests and our shareholders' investments.

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

Board compliance statement

The Board compliance statement for purposes of compliance with the Dutch corporate governance code and the implemented European Union Transparency Directive can be found on page 77.

Corporate Governance

General

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

The Company is required to comply with, inter alia, Dutch corporate law, the Dutch Act on Financial Supervision, Dutch corporate governance rules and French AMF regulations, insofar as they are applicable to the Company. The Dutch AFM is the supervising authority of the Company.

Compliance with the Dutch corporate governance code

The Board is responsible for Gemalto's corporate governance structure and for compliance with the Dutch corporate governance code, as applicable for the 2011 financial year. The Company complies with the principles and best practice provisions of the Dutch corporate governance code with the exception of the below listed best practice provisions. These deviations are explained in the relevant sections of the Annual Report.

- Provision II.1.7: a whistle-blower procedure has been established, compliant with the French legal requirements, and as a consequence with a restricted scope. Please refer to 'Internal risk management and control systems', pages 70-76;
- Provision II.2.7: amendment of the vesting date of options granted to Mr. O. Piou as CEO. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 68;
- Provision II.2.8: maximum remuneration in the event of dismissal of Mr. O. Piou as CEO. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 68;

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2011, and its compliance with the Dutch corporate governance code.

- Provision II.2.10: (*ultimum remedium*). Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 68;
- Provision II.2.13 (e): content of the remuneration report; i.e. non-disclosure of the companies of the Comparison Group. Please refer to 'Deviations from the Dutch corporate governance code in terms of remuneration', page 68;
- Provision III.8.1: appointment of the former Executive Chairman as Non-executive Chairman of the Board. Please refer to 'Composition of the Board – (term of) appointment', page 53.

Board of Directors

One-tier Board

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

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

For information on the Board meetings held and the activities performed by the Board during 2011, please refer to 'Board meetings and activities during 2011', page 60.

The Articles of Association and the Board charter are published on Gemalto's website.

Operational and financial objectives and strategy

During 2011, the Board discussed the parameters to be used for measuring performance and adopted the operational and financial objectives of Gemalto for 2012.

The Board discussed at several meetings Gemalto's strategic plans and their implementation, reviewed the development

of business activities and various investment opportunities. For more information on the Company's strategy, please refer to 'Our strategy', pages 12-13.

The Board sets the framework and key objectives of the budget, which includes the operational and financial objectives of Gemalto. Budgets are constructed bottom-up, assessed by the Board and adjusted top-down where necessary to meet Gemalto's objectives. The budget for 2011 was approved by the Board at the December 2010 Board meeting. The budget for 2012 was approved by the Board at the December 2011 Board meeting.

Corporate Social Responsibility

The Board is responsible for the Corporate Social Responsibility issues that are relevant to Gemalto. For more information, please refer to 'Sustainability: our approach', pages 46-47.

Internal risk management and control systems

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

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

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

Gemalto has a policy on the ownership of, and transactions in Gemalto securities.

The code of ethics, the whistle-blower procedure and the policy on the ownership of and transactions in Gemalto securities are published on Gemalto's website.

For more details on the internal risk management and control systems, please refer to 'Internal risk management and control systems', pages 70-76. The statement of the Board in accordance with best practice provision II.1.5 of the Dutch Corporate Governance Code can be found in 'Board compliance statement', page 77.

Composition of the Board – (term of) appointment

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

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

Board members are appointed for a maximum term of four years and may be reappointed for subsequent four-year periods. Non-executive Board members may only be reappointed twice. However, there is no limitation in the number of reappointments for the Executive Board member. The Non-executive Board members appoint the Executive Board member as the CEO and can at any time revoke such appointment. If the appointment as CEO of the Executive Board member is revoked, his powers and duties shall be carried out by an 'Acting CEO', temporarily appointed by the Non-executive Board members, whether or not from among their midst. The Board appoints one of its Non-executive Board members as Chairman of the Board.

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

If the Board has made a proposal to suspend or dismiss a Board member, a quorum is not required. The Executive Board member may be suspended by the Board.

The profile setting out the desired expertise and background of the Non-executive Board members was updated by the Board in October 2009 and is published on Gemalto's website. With respect to diversity among Non-executive Board members, the objective pursued is to have a variation of age, gender, expertise, social background and nationality. The present composition of the Board differs from the intended situation, as the majority of Board members were appointed prior to the introduction of this objective. In as much as possible, the Company strives for a balance to achieve the above-mentioned variation.

The Company believes that at least one of the Non-executive Board members can be regarded as a financial expert within the meaning of best practice III.3.2 of the Dutch corporate governance code.

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

At the 2011 AGM, the terms of Messrs. A. Mandl and M. Soublin ended. Upon proposal by the Board, the 2011 AGM, reappointed Mr. A. Mandl as Non-executive Board member for a second term and reappointed Mr. M. Soublin as Non-executive Board member for a third term, both terms ending at the close of the 2015 AGM.

In 2011, the Board adopted a new reappointment schedule, published on Gemalto's website, in order to avoid, as far as possible, a situation in which many Board members retire at the same time.

For information on the members of the Board, please refer to 'The Board', pages 56-57.

Board committees

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

For information on the committee meetings held and the activities performed by the committees during 2011, please refer to the respective committee reports in 'Report of the Non-executive Board members', pages 60-61.

Board mandates with third parties

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

Ethics/Conflicts of interest

The Board expects its members to act ethically at all times. The Board members are bound by the Gemalto code of ethics. The Articles of Association state the conditions under which potential conflicts of interest exist and Gemalto has formalized rules to avoid conflicts of interests between Gemalto and Board members. If a significant conflict exists and cannot be resolved, the Board member should step down temporarily or resign. For more information on these rules, please refer to the Board charter and article 17 of the Articles of Association.

During 2011, the Company complied with best practice provisions II.3.2 through II.3.4 and III.6.1 to III.6.3 of the Dutch corporate governance code in relation to conflicts of interest.

For an overview of the related party transactions during 2011, please refer to note 31 of the consolidated financial statements.

Loans or guarantees

Gemalto does not grant personal loans, guarantees, or the like to Board members, including the CEO and no such loans and guarantees, waivers of loans or guarantees were granted to the Board members in 2011, nor are outstanding as of December 31, 2011.

Indemnification of Board members

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

Chairman of the Board and Company Secretary

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

In case of the Chairman's absence or inability to act, the committee chairmen will designate among themselves a vice-chairman who will temporarily assume the position.

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

Senior Management team

The CEO is supported by the Senior Management team, which consists of ten Executive Vice-Presidents, including the Chief Financial Officer. For more information, please refer to 'The Senior Management', pages 58-59.

Shares owned and rights to acquire shares

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

Gemalto shares

Certain Board members are shareholders of the Company. On December 31, 2011, they jointly held 671,300 shares, of which Mr. O. Piou owned 667,000 shares, which he progressively acquired since 2004. Mr. G. Fink owned 2,800 shares resulting from the exchange of Gemplus shares following the voluntary public exchange offer for the shares of Gemplus in 2006 and Mr. M. Soublin owned 1,500 shares purchased in 2004.

FCPE units

On December 31, 2011, Mr. O. Piou owned 4,243.81 units in a FCPE (*Fonds Commun de Placement d'Entreprise*), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

Restricted Share Units (RSUs)

On December 31, 2011, Mr. O. Piou held a maximum of 273,000 RSUs, subject to performance and service conditions.

Gemalto share options

On December 31, 2011, Mr. O. Piou held 500,000 Gemalto share options, and Mr. A. Mandl (through a company controlled by him) held 200,000 Gemalto share options.

Gemplus share options

On December 31, 2011, the following Board members held Gemplus share options: Mr. A. Mandl held 437,500 (through a company controlled by him) and Mr. J. Fritz held 11,302. Those Gemplus share options can be exercised for Gemplus shares that can be exchanged for Gemalto shares at a ratio of 25/2, resulting in 35,000 Gemalto shares for Mr. A. Mandl and 904 Gemalto shares for Mr. J. Fritz.

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

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

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As at December 31, 2011, the Company's issued and paid-up share capital amounted to €88,015,844, consisting of 88,015,844 ordinary shares, of which 4,996,308 shares were held in treasury; as a consequence of which 83,019,536 shares were in circulation. During 2011, there were no changes in the amount of the issued share capital of the Company.

Based upon the authorization of the Board to repurchase shares in the Company's share capital, which authorization was granted by the 2010 AGM and renewed by the 2011 AGM, shares were purchased during 2011 with the objective to provide liquidity in the secondary market, to grant shares to employees and to fund external growth. As at December 31, 2011, 4,996,308 shares were held in treasury, acquired at an average price of €31.33 per share with a market value as at December 31, 2011 of €187,761,254.64. There are no voting rights attached to shares when held by the Company in treasury.

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

- in an account in a bank, a financial institution, an account holder or an intermediary, these shares then being included in the Company's shareholders register in the name of Euroclear France S.A. ("Euroclear"); or
- listed in the shareholder's own name in the Company's shareholders register.

AGM held in 2011

The AGM was held on May 18, 2011. No shareholders exercised their right to place items on the agenda for the AGM. In accordance with Dutch law, a mandatory registration date of 28 days prior to the AGM for the exercise of voting rights was determined for the 2011 AGM.

At the AGM the following items were dealt with, all as separate agenda items: the 2010 Annual Report, the adoption of the 2010 financial statements, the Company's dividend policy and a proposal for a dividend in cash of €0.28 per share for the 2010 financial year, discharge

of the CEO and of the Non-executive Board members for the fulfilment of their respective duties during the financial year 2010, reappointment of two Non-executive Board members, renewal of the authorization of the Board to repurchase shares in the Company's share capital and the reappointment of the external auditor for the year 2011. The minutes of the meeting are published on Gemalto's website.

All shares carry equal rights of voting at the General Meeting. Votes may be cast directly, or voting proxies or voting instructions may be issued to an independent third party prior to the General Meeting. Unless otherwise required by Dutch law or the Articles of Association, resolutions are adopted by an absolute majority of votes cast in a General Meeting where at least one-tenth of the issued share capital is represented. General Meetings shall be held in the Netherlands: in Amsterdam, The Hague, Haarlemmermeer (Schiphol-Airport), Utrecht or Rotterdam.

Authorizations to the Board

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

- To issue shares or grant rights to acquire shares in the Company, as well as to limit or exclude pre-emptive rights accruing to shareholders, as from March 18, 2009 for a period of five years up to and including March 17, 2014. The authorization relates to all shares that can be issued as allowed by the authorized share capital as expressed in the Articles of Association as they may provide from time to time. As at December 31, 2011, 61,984,156 shares were remaining out of the 150,000,000 shares;
- To acquire shares in the share capital of the Company up to the maximum of 10% of the issued share capital of the Company, within the limits of the Articles of Association and within a certain price range, up to and including November 17, 2012. On December 31, 2011, the Company's issued and paid up share capital consisted of 88,015,844 shares, of which 4,996,308 shares were held in treasury, based on which on that date the authorization related to 3,805,276 shares. The Board will propose to the 2012 AGM to renew this authorization to the Board up to and including November 23, 2013;

- To cancel a number of shares not exceeding 9,101,584 shares, which cancellation may be executed in one or more *tranche* and the number of shares that may be cancelled (whether or not in one *tranche*) shall be determined by the Board.

Distribution of profits

The dividend policy of the Company was dealt with and explained as a separate item on the agenda for the first time at the 2005 AGM. The Company's dividend policy is that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2011, the Company paid a dividend in cash of €0.28 per share for the 2010 financial year. With due observance of the dividend policy, the Company will propose to the 2012 AGM to distribute a dividend in cash of €0.31 per share in respect of the 2011 financial year.

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

Shareholders' disclosures

During 2011, the Company was notified by the Netherlands Authority for the Financial Markets ('AFM') of disclosures of substantial holding evolutions in the share capital of the Company, which disclosures are published on the website of the AFM (www.afm.nl).

As at December 31, 2011, the following disclosures were published on the website of the AFM, as included in the table here below.

Specific provisions of the Articles of Association

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

The General Meeting, upon the proposal of the Board, has the authority to amend the Articles of Association, to dissolve the Company, to legally merge, or to legally demerge, by resolutions adopted by a majority of at least two-thirds of the votes cast at such General Meeting at which at least one-third of the issued share capital is represented. Absent such quorum, a second meeting can be held at which no quorum is required.

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. Upon proposal of the Board, the 2011 AGM appointed PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2011. The Board will propose to the 2012 AGM to reappoint PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2012.

Quorum requirement

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

Notification date	Notifier	Disclosure (% of capital)
Oct 19, 2011	FMR LLC (held indirectly through Fidelity Management & Research Company, Pyramis Global Advisors Trust Company, Pyramis Global Advisors LLC)	9.83% (8,652,263 shares)
May 28, 2009	Caisse des Dépôts et Consignations (held indirectly through Fonds Stratégique d'Investissement (FSI) and CDC EVM)	8.43% (7,418,500 shares)
Sept 18, 2008	Gemalto N.V. (4,996,308 shares (5.68%) were held in treasury by the Company as of Dec 31, 2011)	5.17% (4,549,965 shares)

The Board



Alex Mandl (1943) American
Non-executive, non-independent Board member,
Chairman of the Board.

Appointed: December 2, 2007, reappointed at the AGM of 2011 for four years until the AGM of 2015 (second term). Executive Chairman from June 2, 2006 until December 2, 2007. Chairman of the Nomination and Governance committee.

Lead director, chairman of the audit committee and member of the governance committee of Dell Inc and non-executive chairman and chairman of the nomination and governance committee of Horizon Lines. Member of the board of directors of Arise Virtual Solutions.

Prior to June 2, 2006, Alex Mandl served as President and CEO of Gemplus from September 2002 to June 2006. From April 2001 through August 2002, he was a principal in ASM Investments focusing on technology investments. Previously, he served as chairman and CEO of Teligent, a company he started in 1996, offering the business markets an alternative to the local Bell Companies for telecommunication and internet services. From 1991 to 1996, Alex Mandl was with AT&T where he served as President and Chief Operating Officer with responsibility for long distance, wireless, local communications and internet services. Prior to his President/COO position he was AT&T's CFO. Between 1987 and 1991, he was chairman and CEO of Sea-Land Services, Inc., the world's leading provider of ocean transport services. In 1980, he joined Seaboard Coastline Industries, a diversified transportation company, as Senior Vice President and CFO. He began his career in 1969, when he joined Boise Cascade Corp., as a merger and acquisition analyst, and he held various financial positions during the next eleven years. Until September 2010, Alex Mandl was board member and chairman of the leadership and compensation committee of Hewitt Associates and board member and member of the audit committee and of the finance committee of Visteon Corporation.

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



Olivier Piou (1958) French
Executive Board member and Chief Executive Officer, non-independent.

Appointed: February 17, 2004, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term).

Member of the board of directors of Alcatel-Lucent.

Olivier Piou has been CEO of Gemalto since its creation in 2006. He was previously CEO of Axalto, from 2004 to 2006. In 2004 he successfully introduced Axalto, at that time a division of Schlumberger Limited, to the stock market through an IPO, and in 2006 conducted the merger of Gemplus and Axalto which formed Gemalto. He graduated in Engineering from the Ecole Centrale de Lyon, in 1980, joined Schlumberger in 1981, and held numerous positions across technology, marketing and operations in France and in the US until 2004. He has been in charge of the smart cards business since 1998. From 2003 to 2010, he was a member of the Board of directors of INRIA, the French national institute for research in computer science and control. From 2004 to 2006, Mr. Piou was a member of the board of directors of Axalto, and from 2003 to 2006 was President of Eurosmart, the international non-profit association based in Brussels, which represents the chip card industry.

Mr. Piou is a knight of the Legion of Honor in France.



Johannes Fritz (1954) German
Non-executive, non-independent Board member.

Appointed: June 2, 2006, reappointed at the AGM of 2009 for three years until the AGM of 2012 (second term). Chairman of the Strategy and M&A committee and member of the Audit committee.

Head of the Quandt Family office since June 2000.

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



Buford Alexander (1949) American
Non-executive, independent Board member.

Appointed: May 20, 2009 for four years until the AGM of 2013 (first term). Member of the Strategy and M&A committee.

Chairman of the supervisory board of the Amsterdam Institute of Finance. Member of non-profit boards including the Holland America Friendship Foundation (chairman), the American Chamber of Commerce in the Netherlands (president emeritus), and the Fulbright Commission in the Netherlands.

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

Buford Alexander holds a Bachelor's degree in mathematics and economics from Rice University in Houston, Texas, as well as a MBA degree from the Harvard Business School. In May 2001, Queen Beatrix granted him the Royal Distinction of Officer in the Order of Oranje-Nassau.



John Ormerod (1949) British
Non-executive, independent Board member.

Appointed: June 2, 2006, reappointed at the AGM of 2009 for four years until the AGM of 2013 (second term). Chairman of the Audit committee and member of the Compensation committee.

Chairman of Tribal Group PLC, a UK listed company. Senior independent, non-executive director and chairman of the audit committee of Misy plc and director and chairman of the audit committee of Computacenter plc, UK listed companies. Non-executive director and chairman of the audit committee of ITV plc, a UK listed company.

John Ormerod is a UK chartered accountant and since 2004 has been a director of a number of private and public companies. He retired as a partner in the UK firm of Deloitte & Touche LLP in 2004 where he was Practice Senior Partner London. After graduating from Oxford University, Mr. Ormerod joined the London office of Arthur Andersen where he remained until he joined Deloitte in 2002. He led the development of the firm's European capability in Telecoms, Media and Technology ('TMT') as industry leader and member of the Global TMT Industry team executive. He was elected Andersen's UK managing partner for 2001-2002. John Ormerod was previously a director of Gemplus until June 2, 2006. Until February 2012, he was a trustee of the Design Museum.



Philippe Alfroid (1945) French
Non-executive, independent Board member.

Appointed: May 19, 2010 for four years until the AGM of 2014 (first term). Member of the Audit committee.

Chairman of the supervisory board of Faiveley Transport. Board member of Essilor International and Eurogerm.

Until mid 2009, Philippe Alfroid was Chief Operating Officer of Essilor International, the world leader in ophthalmic optics. He joined the company when it was created in 1972 and has held several operational and senior management positions, including that of group CFO. In the 1990's, he was chairman and CEO of Sperian, a leader in personal protective equipment.

Philippe Alfroid is an engineering graduate from ENSEHRMA Grenoble and holds a Master of Science from the Massachusetts Institute of Technology.



Arthur van der Poel (1948) Dutch
Non-executive, independent Board member.

Appointed: May 1, 2004, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term). Chairman of the Compensation committee and member of the Nomination and Governance committee.

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

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



Kent Atkinson (1945) British
Non-executive, independent Board member.

Appointed: May 11, 2005, reappointed at the AGM of 2009 for four years until the AGM of 2013 (second term). Member of the Audit committee and of the Strategy and M&A committee.

Senior independent director and chairman of the audit committee of Coca-Cola HBC SA. Senior independent director, chairman of the audit committee and a member of the risk committee of UK Asset Resolution Limited (which includes Northern Rock (Asset Management) plc and Bradford & Bingley plc), and a non-executive director and member of the audit and risk committees of Bank of Ireland Group.

Kent Atkinson originally joined the Bank of London and South America (later acquired by Lloyds Bank) and held a number of senior managerial positions in Latin America and the Middle East before returning to the UK. He was Regional Executive Director for Lloyds TSB's South East Region until he joined the main board as Group Finance Director, a position he held for eight years until his retirement as an executive. He remained on the Lloyds TSB board for a further year as a non-executive director. Until April 2005 Kent Atkinson was the senior independent director, chairman of the audit committee and a member of the remuneration and nominations committees of Cookson Group plc, and until November 2007 he was the senior independent director, chairman of the audit committee and a member of the remuneration and nominations committees of Telent plc (previously Marconi Corporation plc). He was also chairman of Link Plus Corporation Inc until April 2008. He was non-executive director of Millicom International Cellular SA and a member of its audit and compensation committees until May 2010, and until December 2011 he was a Non-executive director and chairman of the group audit and compliance committee of Standard Life plc, and a member of its risk & capital committee and its investment committee.



Geoffrey Fink (1969) French
Non-executive, independent Board member.

Appointed: June 2, 2006, reappointed at the AGM of 2008 for four years until the AGM of 2012 (second term). Member of the Compensation committee and of the Strategy and M&A committee.

Geoffrey Fink is based in Dubai where he is a Managing Partner and Head of Investments for Delta Partners Group, a leading emerging markets-focused TMT advisory firm. From December 2000 through September 2010 he was a London-based Partner of TPG Capital, LLP. From May 1998 to December 2000, he was a Vice-President and subsequently Senior Vice-President with Security Capital Group. Between August 1999 and December 2000, Geoffrey Fink was also Chief Operating Officer, head of the Management committee, and board member of Access Space. In 1993 and from 1995 to 1998, he was a Consultant and then Engagement Manager with McKinsey & Company in London. Prior to joining McKinsey, he worked in the M&A departments of both Goldman Sachs in London and PaineWebber in New York. Geoffrey Fink was previously a director of Gemplus until June 2, 2006 and has served on the board of Eutelsat S.A., Eden Springs Ltd., and various private companies.

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



Michel Soublin (1945) French
Non-executive, independent Board member.

Appointed: February 17, 2004, reappointed at the AGM of 2011 for four years until the AGM of 2015 (third term). Member of the Nomination and Governance committee and of the Strategy and M&A committee.

Director, Ligue Nationale contre le Cancer.

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

Michel Soublin is a graduate of the Institute of Political Studies (IEP) and of the Faculty of Law and Economics in Paris.

The Senior Management



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

Paul Beverly is the Executive Vice-President, Marketing and President North America since 2006. Prior to that, he was President of the Americas from April 2003 until June 2006. From 1999 to 2003, he was Vice-President in Test & Transactions for Schlumberger in North America. Within Schlumberger, he held various management positions in operations, marketing and sales in North America and in France, having begun his career as a Marketing Manager within the Schlumberger group.

Paul is deeply involved in the high-tech industry, serving previously as chairman of the Smart Card Alliance and presenting frequently at industry events and in the media. Paul also serves on the board of the Austin Technology Incubator, a not-for-profit division of the University of Texas that fosters technology entrepreneurship, job creation and innovation, and is also involved in his community through Susan G. Komen and Habitat for Humanity.

Paul Beverly holds a Business and Economics degree from Auburn and Business Management from Harvard University.



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

Philippe Cabanettes is the Executive Vice-President, Human Resources, a position he has held since July 2006. Prior to the creation of Gemalto, he was Vice President Human Resources for Axalto, starting in May 2004. He was the Director of Personnel of Schlumberger's Volume Products business from 2001 to 2004, and Director of Personnel of the Resources Management Services division of Schlumberger from 1997 to 2001. Earlier in his career at Schlumberger, Philippe held different positions of worldwide responsibility for Human Resources in the petroleum, industrial and services sectors and was based in France, Italy and the US.

Since 2002, Philippe Cabanettes has served as President of PartnerJob.com, a non-profit, cross-industry organization facilitating Dual Career management.

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



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

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

Philippe Cambriel is a graduate from the Ecole Nationale Supérieure de l'Aéronautique et de l'Espace (Sup'Aéro) and has an MBA from INSEAD.



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

Jean-Pierre Charlet is the Executive Vice-President, General Counsel and Company Secretary. Prior to joining Gemalto in 2005, he served as General Counsel of Rexel, Deputy General Counsel of Sanofi-Synthelabo and General Counsel of Synthelabo. From 1981 to 1996, he held positions within the Legal Departments of Société Métallurgique Le Nickel-SLN, Schlumberger group, PPR group and Carnaud-Metalbox. He was admitted to the Bar in Paris in 1974 where he began his career in law firms.

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



Claude Dahan (1947) French
Executive Vice-President, Operations

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

Claude Dahan is a graduate from the Ecole des Mines de Paris, has a PhD in physics and fluid mechanics, and holds an advanced management degree from INSEAD.



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

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

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



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

Christophe Pagezy is the Executive Vice-President in charge of Corporate Projects since May 2007. Prior to his current role, he was Executive Vice-President, Mergers and Acquisitions of Gemalto and before Vice-President Business Development in charge of Mergers and Acquisitions of Axalto, a position he held starting in 2004. In June 2002, he was appointed Vice-President and General Manager of Schlumberger's Terminals division. Christophe held various operational, technical and business positions while located in France and Italy within Schlumberger from 1983 to 2002.

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



Jacques Tierny (1954) French and Swiss
Executive Vice-President, Chief Financial Officer

Jacques Tierny is the Chief Financial Officer of Gemalto. Before joining Gemalto in 2007, Jacques was heading the Valuation and Strategic Finance practice at KPMG Corporate Finance in Paris. In 2003 he joined the retail group Casino as Group CFO, later becoming Casino's Executive Deputy General Manager until 2006. Prior to that he spent 23 years in different finance positions at Michelin in France and abroad, where he became the Group Deputy CFO. Jacques began his career as a trader.

Jacques Tierny graduated in 1977 from the HEC School of Management in Paris and also from the International Management Program from New York University and the Mestrado from Gétulio Vargas in São Paulo.



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

Jacques Sénéca is the Executive Vice-President, Security Business Unit. Prior to his mission as the head of the Security Business Unit, he was EVP Europe for Gemalto, EVP Gemplus EMEA, served as head of the ID & Security Business Unit, as well as head of Business Development Group. He joined Gemplus in 1989 and has held several management positions such as Products Department Director, General Manager for Sales and Manufacturing Operations in Germany, General Manager for the Telecom Business Division, Executive Vice President for Gemplus Marketing & Technology and General Manager of GemVentures Services Unit, the Management company of Gemplus' Corporate Investment fund. Prior to joining Gemplus, he worked with STMicroelectronics where he held various positions in the fields of manufacturing, marketing and business development in Europe and in Asia.

Jacques Sénéca represents Gemalto Group at the Board of Keynectis, a leader in the field of PKI (Public Key Infrastructure) and has been the Chairman of Eurosmart (2006-2008), the Brussels based non-profit international organization representing the smart card industry.

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



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

Philippe Vallée is the Executive Vice-President, in charge of the Telecom Business Unit. He was previously Chief Technology Officer of Gemplus, heading the Product and Marketing Center. Prior to this appointment, he had served as Vice-President Marketing and then President of the Telecom Business Unit of Gemplus. He was previously based in Singapore as Executive Vice-President of Gemplus Technologies Asia. He has more than 23 years of experience in the Telecom industry and held various positions within Gemplus in the fields of marketing, product management and sales. Prior to joining Gemplus, he began his career with Matra Communication (now Lagardère Group) in France as a product manager on the first generation of GSM mobile phones.

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

Report of the Non-executive Board members

Board meetings and activities during 2011

Meetings

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

The Board addressed in particular the following main subjects:

- Corporate strategy
- Main risks of the business and the result of the assessment of the design and effectiveness of the internal risk management and control systems
- Financial performance of the Group
- Parameters to be used for measuring performance
- Annual budget plan for 2012
- Development of business activities and various investment opportunities
- Share buy-back and dividend policy
- Convocation of the AGM and matters to be put on the agenda
- Reports of the Board committees following each of their meetings
- Performance of the CEO
- Long-term Board and committee composition evolution, including chairmanship and memberships
- Succession planning for the CEO and for Senior Management, and related management development
- Remuneration of the CEO and the Senior Management

- Opportunity for eligible employees to purchase discounted shares under the Global Equity Share Purchase Plan
- Grants to eligible employees under the Global Equity Incentive Plan
- Corporate governance requirements and developments
- Training on Gemalto's new products and services
- Training on IFRS evolution, and practical applications for Gemalto

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

Performance evaluation

In 2011, the Board followed up on the 2010 Board and committee self-evaluation, which included feedback from the Senior Management. Items discussed included priorities for the Board in 2011, the composition and performance of the Board, interaction with the Senior Management, succession planning and management development, post-acquisition performance of acquired businesses, relationship and communication with shareholders. The Board noted the implementation of several suggestions. Suggestions for improvement either have been fully implemented, or will be implemented as it becomes feasible to do so.

At the end of 2011, the Board hired an outside independent consultant for the evaluation of the functioning of the Board and the committees, which will be performed during 2012.

Training

The Board made a visit to several factories for training on Gemalto's products and services, held meetings with clients and managers to further familiarize themselves with the business and the Senior Management team.

Board composition

For information on the composition of the Board, please refer to 'Composition of the Board – (term of) appointment', page 53. For information on the individual Board members, please refer to 'The Board', pages 56-57.

Independence

The Board currently consists of ten Board members: one Executive Board member, the CEO, and nine Non-executive Board members. The Board considers that during 2011 seven of the nine Non-executive Board members are independent, within the meaning of best practice provision III.2.2; thus the Company complies with best practice provision III.8.4.

During 2011, the following Non-executive Board members are non-independent:

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

Report of the Nomination and Governance committee

Amongst other items, the committee has the following duties: advising the Board for identifying and nominating candidate Board members under the criteria approved by the Board; preparing the selection criteria and appointment procedures for members of the Board, and advising the CEO regarding the appointment and resignation of the first line management of the Group, directly reporting to the CEO. The committee also guides the Board through the annual self-evaluation process. Another duty includes the review of the corporate governance principles applicable to Gemalto and advising the Board on any changes to these principles as it deems appropriate.

The committee consists of three Non-executive Board members, listed in 'The Board', pages 56-57. One committee member is non-independent.

During 2011, the committee held four meetings. The committee discussed the long-term Board and committee composition evolution, including chairmanship and memberships. In this context, the committee advised the Board on the

reappointment of Messrs. A. Mandl and M. Soublin as Non-executive Board members, and on a new Board reappointment schedule. Also the committee assisted the Board in hiring an outside independent consultant to increase diversity of gender, age, nationality, social background and expertise among Non-executive Board members, towards a progressive evolution of the Board composition.

Other topics addressed during the year included: discussing further steps that the Company could take to improve its corporate governance, and reviewing the governance sections of the Annual Report and the agenda for the AGM. Regular updates on developments in Dutch corporate law were provided to the committee. In view of new Dutch regulations, including the proposed Bill on Management and Supervision, the committee considered amendments to the Articles of Association and Board charter. The committee assisted the Board in hiring an outside independent consultant for the evaluation of the functioning of the Board and the committees, which will be performed during 2012.

Report of the Strategy and M&A committee

The Strategy and M&A committee advises the Board with respect to Gemalto's strategy and the major features of its merger, acquisition and divestiture activities.

The committee consists of five Non-executive Board members, listed in 'The Board', pages 56-57. One committee member is non-independent.

During 2011, the committee held five meetings. The committee reviewed all material investment and divestiture proposals. It advised and submitted recommendations to the Board on Gemalto's M&A and divestiture activities, and Gemalto's strategic plans and their implementation. The committee also reviewed the post-acquisition performance of some of the acquired businesses.

Report of the Audit committee

The committee assists the Board with oversight of: the quality and integrity of Gemalto's financial statements; risk management and internal control arrangements; compliance with legal and regulatory requirements; the performance, qualifications and independence of the external auditor; and the performance of the internal audit function.

The committee consists of four Non-executive Board members, listed in 'The Board', pages 56-57. During 2011, one committee member is non-independent. 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.

During 2011, the committee held seven meetings. The Chairman, CEO, CFO, Chief Accounting Officer, the Internal Audit Director and the external auditor were invited to attend the committee meetings. The committee also met with only committee members being present, as well as privately with the CFO, the Internal Audit Director, the external auditor, the Chief Accounting Officer and the General Counsel (without other members of management being present).

Amongst other items, in 2011, the committee reviewed the 2010 annual financial statements and the related detailed report from the external auditor of the results of their audit work. This review included consideration of the Company's accounting policies and the key judgements made by management in preparing the financial statements. The committee also reviewed the condensed interim financial statements as of June

30, 2011 and the related report by the external auditor, as well as the announcements of the 2011 quarterly revenue figures. Key areas of focus for the committee during the year have been the accounting principles and practices in relation to revenue recognition as the nature of the Company's business and contractual arrangements develop; accounting for the partial disposal of the Company's investment in a JV; and the application of judgement in areas such as taxation and provisions for restructuring.

The Committee also reviewed the external auditor's plan for the audit for the financial year ended December 31, 2011. The committee assessed the performance and independence of the external auditor and considered steps taken to ensure their independence, including reviewing the fees paid for non-audit services. The Committee also began the planning for a change of reporting audit partner in 2012 when the current reporting partner rotates off the engagement. For an overview of the aggregate fees billed by the external auditor for professional services rendered for the fiscal year 2011, please refer to note 11 of the company financial statements. The Committee considered these and other factors in concluding its recommendation to the Board for the reappointment of the external auditor.

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

With regard to the internal audit, the committee reviewed the internal audit charter, the internal audit plan for 2012 and its coverage in relation to the

scope of external audit. The committee considered the resources and skills available to execute the internal audit plan and noted the involvement of external consultants in a limited number of reviews requiring specialist skills. It also reviewed the effectiveness and independence of the internal audit process. The committee received reports on the work of the internal audit department and considered their significant findings and recommendations and the follow up actions by management.

The committee received and considered reports to assist the Board with its review and assessment of the effectiveness of internal controls. This included a review of the tax and treasury, including hedging risks, and the information and communication technology risks. The committee also received reports on whistle-blowing, significant claims and disputes, including those resulting in litigation, and related party transactions.

During 2010, the committee reviewed the effectiveness of its performance with input from all Board members. During 2011, as a result of this process, the committee arranged with the full Board a repeat of a technical accounting update presentation and discussion led by the technical staff of the external auditor, focusing on recent and planned developments in accounting and reporting which are most likely to affect the Company. The committee also continued to focus on risk and internal controls.

Report of the Compensation committee

The committee proposes to the Board a Remuneration Policy for the CEO, which is reviewed annually as well as a remuneration proposal for the Non-executive Board members, which is reviewed from time to time, to be adopted by the General Meeting. The committee proposes the remuneration of the CEO within the limits of the Remuneration Policy. Furthermore, the committee oversees the general remuneration policy of Gemalto and discusses the grant of long-term Awards, i.e. options to acquire shares, restricted share units and/or share appreciation rights, and the opportunity for eligible employees of Gemalto to purchase shares in the Company at a discount to the prevailing market price.

The committee consists of three Non-executive Board members, listed in 'The Board', pages 56-57. All committee members are independent.

During 2011, the committee held five meetings. In these meetings, the committee reviewed the 2010 financial and non-financial objectives achievements and associated variable compensation payments for the CEO and Senior Management. The committee received surveys from Towers Watson, an independent internationally recognized firm of compensation specialists, on the remuneration of the CEO and the Senior Management and reviewed the 2011 salary increases, financial and non-financial objectives and bonus levels in light of the survey data. The remuneration for the CEO was

determined within the limits of the Remuneration Policy for the CEO. The committee prepared the 2011 Remuneration Report, which report can be found in '2011 Remuneration Report of the Board', page 62.

The committee made recommendations to the Board on the grant of restricted share units to eligible employees, as well as on the performance conditions relating to such share incentive. The grant of restricted share units consists of a grant for new grantees based on a service vesting condition and a grant for Senior Management based on both a performance and a service vesting condition. Details of the grant of restricted share units to the CEO for the financial year 2011, page 65.

The committee also recommended to the Board that all eligible employees located in thirty countries be offered, this year again, the opportunity to purchase shares in the Company at a discount of 15% to the prevailing market price within the Global Employee Share Purchase Plan ('GESPP'), as described in more detail on page 64.

As part of their duties, the committee requested external advice from Mercer, an independent internationally recognized firm of compensation specialists, which firm did not provide advice on remuneration trends and policies to management, but only to the Board via the committee.

Financial statements 2011

The financial statements of the Company for 2011, as presented by the Board, have been audited by PricewaterhouseCoopers Accountants N.V., the Company's external auditor. Please refer to the 'Auditor's report', page 144. All individual Board members have signed the financial statements. The Board proposes that the financial statements for the year 2011 be adopted by the AGM of May 24, 2012 and that the other resolutions proposed to the shareholders be approved.

Finally, we would like to express our thanks to the CEO, the Senior Management and all employees of the Group for their continued dedication and contribution during the past twelve months, making 2011 a successful year for Gemalto.

The Non-executive Board members
Amsterdam, March 6, 2012

Remuneration

This section consists of the following:

- 2011 Remuneration Report of the Board.
- Remuneration of the Non-executive Board members.
- Long-term incentive plans.

2011 Remuneration Report of the Board

The 2011 Remuneration Report of the Board, as drawn up by the Compensation committee, contains an account of the manner in which the Remuneration Policy for the CEO was implemented in 2011, and is planned to be implemented in 2012.

Remuneration of the CEO

The General Meeting, upon the proposal of the Board, determines the Remuneration Policy for the CEO, including for his function as an Executive Board member. The remuneration of the CEO shall, with due observance of the Remuneration Policy, be determined by the Board. The Remuneration Policy for the CEO was adopted by the AGM on May 11, 2005 and was amended by the AGM of May 14, 2008. The Remuneration Policy is published on Gemalto's website.

The Remuneration Policy for the CEO also serves as guidance to establish the Senior Management remuneration approach (not addressed in this report) and to attract, retain and reward talented staff and management, by offering compensation that is competitive in the industry, motivates management to meet or surpass the Company's business objectives and aligns the interests of management with the interests of the shareholders. The Company considers that it has a balanced set of clearly defined objectives and performance targets that encourage the CEO to take only such risks that are in line with the adopted strategy and which are within the Company's risk appetite.

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

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

Positioning of the Remuneration Policy

The table opposite (page 63) summarizes the positioning of the Remuneration Policy by comparison with the Comparison Group and applies to the compensation package of the CEO.

Compensation package of the CEO

The table on pages 64-65 sets out:

- Key elements of the compensation package of the CEO.
- Compensation of the CEO for the financial year 2011.

Positioning of the Remuneration Policy

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

Compensation package of the CEO

Key elements of the compensation package of the CEO

Short-term

Total Reference Compensation ('TRC')

The TRC is fixed and reviewed every year, but not necessarily adjusted every year.

Variable incentive

The variable compensation of the CEO, based on the achievement of personal and financial objectives, ranges from 0 to 180% of the TRC. A variable incentive of 120% of the TRC is payable on achievement of 100% of on-target performance by reference to a predefined set of personal and financial objectives.

In case of exceptional performance in excess of the 100% (on-target) achievement of objectives, the variable compensation can be increased so that the total variable compensation can reach up to 180% of the TRC.

The personal and financial objectives for variable compensation typically relate to short-term (annual) performance targets and are key drivers for value creation and growth in shareholders' value. Part of the variable compensation is related to Gemalto's financial results, e.g. revenue, cash flow and operating income, and is determined by the Board on the recommendation of the Compensation committee on an annual basis. The remainder depends on success in achieving a limited number of specific strategic, tactical or individual objectives, also determined annually by the Board on the recommendation of the Compensation committee.

Below a minimum performance threshold, the variable compensation for financial performance is zero. The compensation is 120% of the TRC at target level and at a maximum of 180% at stretch level. This compensation is calculated using two linear interpolation scales from threshold to target and from target to stretch.

In exceptional cases, the Board may add a discretionary amount.

Long-term or deferred incentive

Global Equity Incentive Plan ('GEIP')

Under the GEIP and the French Sub-Plan to the GEIP, the CEO may receive options to acquire shares, restricted share units and/or share appreciation rights (jointly referred to as 'Awards'). For further information, please see page 66.

The Board is authorized to grant to the CEO annually any combination of Awards, including any Awards, as defined in the GEIP, similar in substance and/or nature, with a maximum value equivalent to the value of 250,000 options valued by reference to any of the generally recognized valuation methods applied in a manner as approved by the Board.

Global Employee Share Purchase Plan ('GESPP')

Under the GESPP, the Company may offer eligible employees, including the CEO, the opportunity to purchase shares in the Company at a discount to the prevailing market price. The discount of the purchase price of the shares is 15% based on the lesser of the value of the shares on the first and last day of the offering period.

The CEO may participate in the GESPP (as well as in any future similar plans), through a '*Fonds Commun de Placement d'Entreprise*' ('FCPE'), in which case the FCPE subscribes to Gemalto shares and the CEO receives in exchange units of the FCPE.

Other benefits

Pension

The CEO does not benefit from any special pension plan provided by Gemalto, other than the mandatory legal pension system in France.

There are no agreed arrangements for early retirement of the CEO.

Employee benefits

The CEO enjoys any and all benefits that may be applicable to French employees.

Compensation of the CEO for the financial year 2011

The TRC of the CEO was adjusted effective February 1, 2011 to €800,000 (including a fixed fee as Executive Board member of Gemalto N.V. of €35,000).

€1,274,452 (135% of on-target Variable incentive, 161% of TRC).

For 2011, the CEO's financial targets accounted for $\frac{2}{3}$ of the variable compensation and were:

- Revenue: $\frac{4}{15}$ of the variable compensation.
- Profit from Operations: $\frac{4}{15}$ of the variable compensation.
- Free cash flow: $\frac{2}{15}$ of the variable compensation.

The personal targets, accounting for $\frac{1}{3}$ of the CEO's variable compensation, depended on his specific responsibilities and were defined as measurable actions linked with the success and development of Gemalto.

In accordance with best practice provision II.2.13 (b) of the Dutch corporate governance code, the Compensation committee, and subsequently the Board, analyzed the possible outcomes of the variable compensation components and how they may affect the compensation of the CEO.

Grant of 150,000 RSUs, if conditions allow for 100% vesting. Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 150,000 RSUs.

This corresponds to a cost of €2,474,797 for Gemalto depending on the percentage of vesting of the RSUs conditions. The cost will be expensed over 36 months.

Vesting occurs only if both a performance condition and a service condition are met, and no vesting occurs after the date of the 2014 AGM.

Vested RSUs will be exchanged for shares, which are subject to a lock-up period of two years from the date of delivery of the shares. In all cases, shares will not be delivered before March 2013.

The CEO did not participate in the 2011 GESPP.

€68,722

Costs for 2011 for the CEO's mandatory French legal pension scheme.

The CEO enjoyed any and all benefits that were also applicable to French employees.

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

Awards

Options to acquire Gemalto shares

When granting options, the Board applies performance and vesting conditions, as set out below. The price to be paid to acquire the shares is called the exercise price.

The exercise price of options to be paid to the Company is equal to the average of the Gemalto share closing price on the Euronext Paris Stock Exchange during the five trading days preceding the grant date. The options to acquire the shares, if performance and vesting conditions are satisfied, do not benefit from any discount.

Restricted share units ('RSUs')

A RSU is a right to acquire Gemalto shares in exchange for the RSU. There is no purchase price to be paid to acquire RSUs. When granting RSUs, the Board applies performance and vesting conditions, as set out below.

Under no circumstances, except in case of death, shall the delivery of shares related to a RSUs occur prior to the second anniversary of the date of grant. Except in case of death, the sale of shares acquired pursuant to the exchange of the RSUs may not occur prior to the expiration of a two-year period from the date of delivery of the shares.

Share appreciation rights ('SARs')

A SAR is a right to receive the difference between the fair market value of a share on the exercise date and the exercise price of the right being exercised.

So far, the Company has not granted any SARs to the CEO.

Conditions

Performance factors

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

In 2011, Awards made were subject to Company share price targets, in average for a period.

Vesting in certain circumstances

In addition to performance conditions, Awards have generally been subject to vesting over a specified future period of time. However, any option rights granted to the CEO will vest automatically upon any decision to terminate the appointment of the CEO and will remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant Sub-Plan, and all other eventual equity-based schemes will continue to vest even after the date of termination.

These termination arrangements do not apply where the employment of the CEO with Gemalto International SAS or the Company is terminated for wilful misconduct ('faute lourde' within the meaning established by the French Supreme Court case law).

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

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

Options

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Exercise price (€)
Sep 2008	150,000	€1,049,761	Unconditional (previous year performance related)	Sep 2012 (4 years after date of grant)	Not applicable	Not applicable	€26.44 per share

RSUs

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date	End of lock-up	Value at end of lock-up
Sep 2007	The number may vary from 0 to 80,000 with a maximum multiplier of 3	€1,727,828	Conditional	Dependent on whether thresholds are reached before Dec 31, 2009 or before Dec 31, 2010 66% vested in 2008 84% vested in 2009 (in total 150%) As at Dec 31, 2010, the remainder of the RSUs did not vest and hence were forfeited	€1,424,544 €2,026,080	2011 2011	€1,879,152 (based on the average Company share as per the end of the lock-up) €2,277,408 (based on the average Company share as per the end of the lock-up)
Oct 2009	The number may vary from 0 to 65,000	€1,689,377	Conditional	Oct 2012 Due to reaching the performance vesting condition in 2010, the maximum number of RSUs is defined: 65,000	Not applicable	Oct 2014 (if vested)	Not applicable
March 2010	The number may vary from 0 to 32,500 with a maximum multiplier of 2	€877,104	Conditional	March 2013 Due to reaching the performance vesting condition in 2011, the maximum number of RSUs is defined: 58,000	Not applicable	March 2015 (if vested)	Not applicable
March 2011	The number may vary from 0 to 150,000	€3,390,133	Conditional	Dependent on when market thresholds are reached; in all cases before the 2014 AGM No RSU vested on December 31, 2011 and 40,000 RSUs vested between December 31, 2011 and the date of publication of this Annual Report	€1,624,000	2 years from the date of delivery of shares, and in no event before March 2015 (if vested)	Not applicable

Contracts of employment

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

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

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*). In the event of termination of his employment contract, Mr. O. Piou has a recognized seniority dating from 1981 and is entitled to a six-month notice period indemnity, as well as the dismissal and paid vacation indemnities.

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

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

Changes to the compensation of the CEO for the 2012 financial year

The CEO's TRC will not be adjusted in 2012.

For 2012, the CEO's financial targets will account for $\frac{2}{3}$ of the variable compensation and, as in previous years, are:

- Revenue: $\frac{4}{15}$ of the variable compensation.
- Profit from operations: $\frac{4}{15}$ of the variable compensation.
- Free cash flow: $\frac{2}{15}$ of the variable compensation.

The personal targets for 2012 will account for $\frac{1}{3}$ of his variable compensation. They depend on his specific responsibilities and are defined as measurable actions linked with the success and development of Gemalto.

Loans or guarantees

Gemalto does not grant personal loans, guarantees or the like to the CEO, and none were granted to the CEO in 2011, nor are outstanding as of December 31, 2011.

Deviations from the Dutch corporate governance code in terms of remuneration

- Provision II.2.7: amendment of the vesting date of options granted to Mr. O. Piou as CEO. The CEO's Remuneration Policy provides that, unless his employment with Gemalto International SAS or Gemalto N.V. is terminated for wilful misconduct, any option rights vest automatically upon decision to terminate the appointment of the CEO and remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant Sub-Plan. All other equity-based schemes will continue to vest even after the date of termination. Although it is not the Company's policy to amend conditions regarding options granted to Executive Board members during the option term, the amendment of the vesting date of the options granted to the CEO is included in the Remuneration Policy adopted by the shareholders, as proposed by the Board, as a result of the execution of the Combination agreement signed between Gemalto N.V. (at that time named Axalto Holding N.V.) and Gemplus International S.A. on December 6, 2005.

- Provision II.2.8: maximum remuneration in the event of dismissal of Mr. O. Piou as CEO. The severance payment for the CEO is not in line with the Dutch corporate governance code, which recommends that the maximum remuneration of one year's salary is based on the fixed remuneration component. However, the severance payment of the CEO reflects his accrued seniority with Gemalto and is included in the Remuneration Policy adopted by the shareholders, as proposed by the Board, as a result of the execution of the Combination agreement signed between Gemalto N.V. (at that time named Axalto Holding N.V.) and Gemplus International S.A. on December 6, 2005.
- Provisions II.2.10 (*ultimum remedium*). Although recommended by the Dutch corporate governance code, the existing employment contract of the CEO does not specifically include the possibility to adjust the value of conditionally awarded variable compensation if it would produce an unfair result due to extraordinary circumstances. In these cases, the Company will make such adjustments as is feasible under applicable law.
- Provision II.2.13 (e): content of the Remuneration Report, i.e. non-disclosure of the companies of the Comparison Group. Although recommended by the Dutch corporate governance code, the Company does not disclose the names of the companies in the Comparison Group. The Company compares the compensation of the CEO to those of a group of other relevant companies, particularly continental European high-tech and industrial companies and surveys are performed by Towers Watson, an independent internationally recognized firm of compensation specialists.

Remuneration of the Non-executive Board members

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

The remuneration structure for the Non-executive Board members (per calendar year) is as follows:

- €200,000 for the Non-executive Chairman of the Board;
- €65,000 for each other Non-executive Board member;
- An additional fee of €24,000 for the chairman of the Audit committee and an additional fee of €16,000 for each member of the Audit committee;
- An additional fee of €12,000 for the chairman of the other Board committees, and an additional fee of €8,000 for the other members of those Board committees.

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

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

Long-term incentive plans

Global Equity Incentive Plan

In 2004, the General Meeting adopted a Global Equity Incentive Plan ('GEIP') enabling the Board to grant options, RSUs and/or SARs ('Awards') to eligible employees. A total number of 14 million shares have been made available for grant and issue under the GEIP. As of December 31, 2011 the remaining number of shares available amounts to 3,915,498. During 2011, the Board granted 1,189,500 RSUs to eligible employees, including to the CEO. For more information on the grant of RSUs to the CEO, please refer to 'Compensation of the CEO for the financial year 2011', page 65.

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

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

For more information on the grant of RSUs during 2011, please refer to note 25 to the consolidated financial statements.

Global Employee Share Purchase Plan

In 2004, the General Meeting adopted a Global Employee Share Purchase Plan ('GESPP') enabling the Board to offer the opportunity to employees to purchase shares in the Company at a discount to the prevailing market price. A total number of 3.2 million shares have been made available for issue or transfer under the GESPP. As at December 31, 2011 the remaining number of shares available amounts to 2,436,086. In 2011, the Board offered eligible employees the opportunity to participate in the plan and 45,072 shares were purchased by employees.

In order to benefit from preferential tax treatment, employees of Gemalto's French subsidiaries are able to participate in the GESPP through a *Fonds Commun de Placement d'Entreprise* ('FCPE'), in which case the FCPE subscribes to Gemalto shares and employees receive in exchange units of the FCPE. Participation in the FCPE does not give rise to direct ownership of shares or the right to acquire shares in the Company. The FCPE has an independent board of directors and owns 170,800 shares of Gemalto as of December 31, 2011. The FCPE exercises the voting rights on these shares, without instructions from the employees who participate in the FCPE.

For more information on the participation in the GESPP during 2011, please refer to note 25 to the consolidated financial statements.

Internal risk management and control systems

“Risk management and internal controls are critical to the stability of the Company. The aim of our internal risk management is to expand our ability to achieve our objectives.”

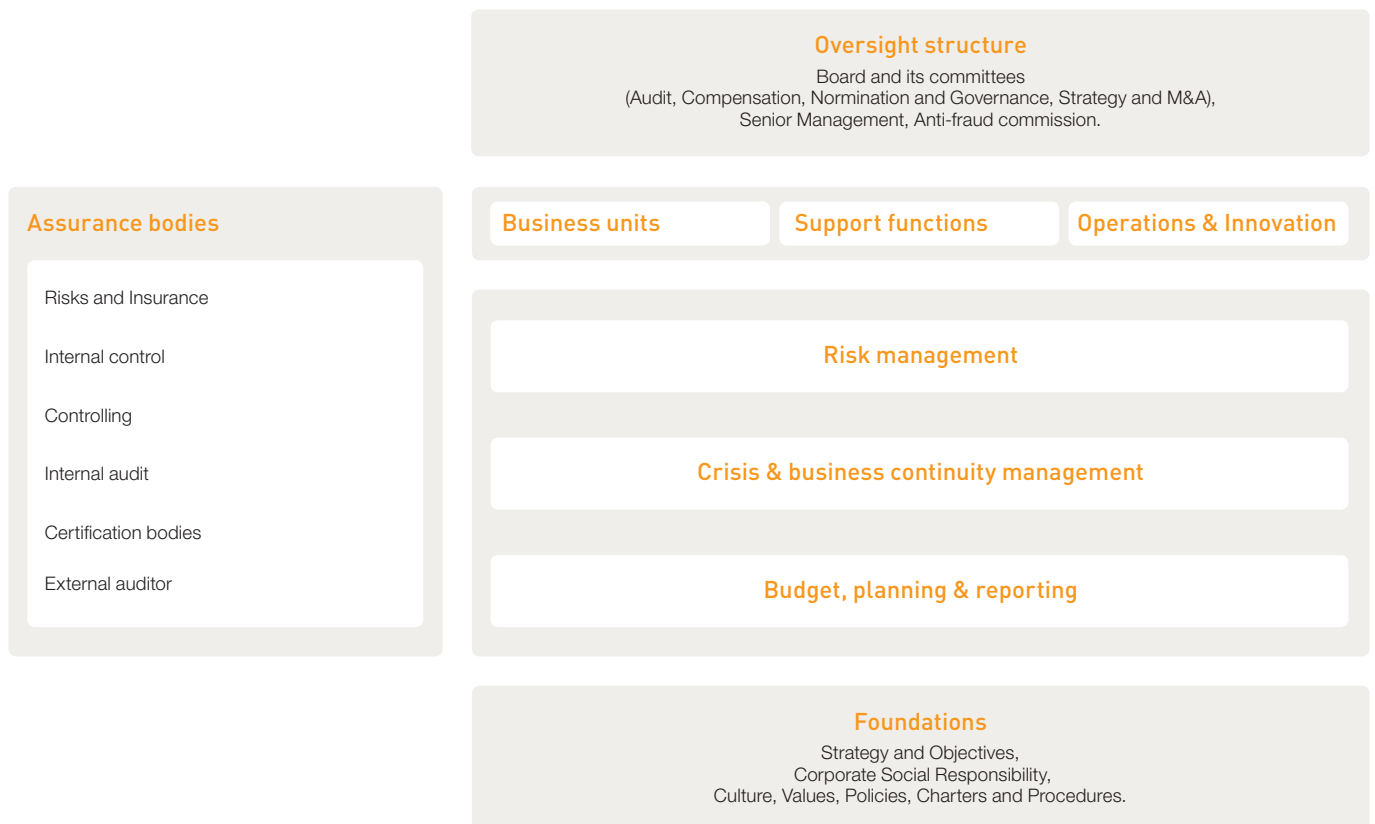
The Company operates in a dynamic environment and there may be circumstances in which risks occur that had not yet been identified or in which the impact of identified risks is greater than expected.

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

and control. However, they may not always prevent or detect all misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations; neither can they provide certainty as to the achievement of the Company’s objectives.

The diagram below summarizes the way we approach risk management and internal control systems. It is followed by detailed explanations on each component.

Risk management organization



What are the foundations of our risk management and internal control approach?



Strategy and objectives: they are described at the beginning of this report on pages 12-13.

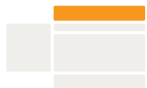
Corporate Social Responsibility: see page 52.

Culture and values: see page 46.

Policies and procedures: Gemalto maintains operational and financial policies and procedures. These policies set out risk management and control standards for the Group's worldwide operations. They are published on Gemalto's intranet and regularly updated when required.

To promote the above, regular training and awareness sessions are organized throughout the Company on various topics, such as security, internal control, ethics, anti-fraud, authority limits, contract management, trade compliance and competition rules.

What is our oversight structure?



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

Board and its committees: the Board is responsible for reviewing the Company's system of internal risk management and controls and for assessing their effectiveness. The Audit committee regularly reviews with management and internal audit the Company's system of internal risk management and controls focusing on financial reporting matters, on main operational risks and on the results of improvement actions. The Board subsequently considers the outcome of the Audit committee's review.

Senior Management: Senior Management oversees implementation of control systems and the existence and appropriateness of internal control and risk management monitoring systems across all businesses and locations. It promotes corporate social responsibility, group values and culture.

Anti-fraud commission: the anti-fraud commission operates as a Senior Management level structure. Its objectives encompass the continuous fraud risk assessment, anti-fraud policy and procedures, and response actions in case of actual or suspected fraud. This structure comprises the Group General Counsel, the EVP Human Resources, the Chief Information Officer, the Quality, HSE¹, Security and WCE² Director and the Internal Audit Director. Its charter was approved by management on August 18, 2008. It meets formally on a quarterly basis and on an ad hoc basis in between. It has developed an anti-fraud action plan which, among other things, included the issuance of the Gemalto anti-fraud policy in 2009, the implementation in 2010 of a frame agreement with two forensic specialized firms, and the issuance of a fraud investigation protocol in 2011.

¹ HSE: Health, Safety & Environment.

² WCE: World-Class Enterprise.

How do we share risk management responsibilities?



Gemalto's management regards risk management and internal control as a responsibility that is shared by all in the organization, from Senior Management to each employee. External stakeholders are also associated when required.

Business units and Operations & Innovation: Operations and Business managers are responsible for setting up an internal control organization, identifying and managing risks in their respective sites and/or scope of responsibilities in line with Group strategy, policies and standards. They are helped by the Support functions in risk analysis and response.

Support functions: support functions (Finance, Purchasing, IT, Security, Quality, Health Safety and Environment, HR, and Legal) analyze risks; define prevention and protection standards as well as policies and procedures, inform and train employees and relevant stakeholders, and monitor the implementation of the risk policies in their respective field of expertise.

How do we manage our risks?



A summary of our principal risks, together with associated main mitigating actions is shown on pages 44-45. Gemalto has developed three levers to manage its risks in a transversal manner throughout the organization.

Risk management

The process involves (i) analyzing and foreseeing the main identifiable risks; (ii) prioritizing them against the Group's strategy and its appetite for risk; (iii) allocating ownership for risks; (iv) developing and implementing mitigation plans that are proportionate to the risks involved; (v) communicating key control objectives to employees; and (vi) regularly checking the process's effectiveness.

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

- Group risk assessment: in line with the Company's strategy and objectives, the last Group risk mapping was launched in 2010 and completed in 2011 with a review of the Audit committee. We introduced enhanced risk analysis criteria while improving our risk assessment methodology and the representativeness of managers involved. The CEO, as sponsor of the overall approach, strengthened the empowerment of Risk Owners, who are responsible for the progress of the mitigating actions, giving them a cross-Business Unit and organization-wide responsibility. Each key risk is sponsored by a member of the Senior Management. Time frame and costs for action plans were embedded in the budget for 2012. The key outcomes of the Group risk assessment were communicated to all employees.
- At Corporate level, new assets and acquisitions are analyzed from a risk perspective, a risk mapping is performed and action plans identified and followed.
- At Business Unit level, risk assessments are performed on major bids and contracts. Management reviews performance quarterly.
- At site level: sites perform crisis risk assessment in line with the Gemalto Crisis Management framework. Production and personalization sites assess their security and industrial risks.

“Gemalto has developed business continuity responses helping to minimize disruptions to our customers.”

Crisis and business continuity management

Having a flexible and tested crisis management organization and business continuity responses helps to reduce the impact of events which may materialize unexpectedly, either externally driven or inherent to Gemalto's operations.

Crisis Management: Gemalto has deployed a Crisis Management framework which encompasses basic escalation and communication rules, guidelines for anticipation and action, and clarified roles and responsibilities. 97 Crisis Management leaders around the globe have been appointed and trained through simulation exercises. Crisis Management training with simulations is available in the Gemalto training catalogue for local Crisis Management teams.

Business continuity: through the enhancement of the standardization of production tools and processes, multi-sourcing strategies, IT availability and redundancy infrastructure, Gemalto has developed business continuity responses helping to minimize disruptions to our customers and our business. The capability of Gemalto to provide business continuity response is strengthened by improved centralization of pertinent data and of relevant architecture for the seamless distribution of those data to back-up sites.

This proactive approach to crisis management and business continuity enabled us to respond to unforeseen events (such as the catastrophic disasters that happened in Asia in 2011), minimizing their impact on our stakeholders and reputation.

Budget, planning and reporting

Gemalto maintains detailed budget and planning processes based on various complementary reporting systems. It enables Gemalto to obtain the right information when required, facilitating decision-making.

Gemalto 2010-2013 Development Plan: this plan was prepared in 2009 encompassing the whole Group and in line with its objectives and strategy.

Budget and forecast updating process and business reviews: the budget process covers all operational entities and corporate departments, including Treasury. The process begins in October and the result is an annual budget for the Group presented to the Board in December for the following year. Whenever changes in activity justify it, current-quarter and current-year forecasts are reviewed, and consolidated into an updated forecast for the Group on the basis of actions undertaken to meet Group objectives. They form a key part of the system to coordinate and monitor the Group activity.

Monthly operating and financial results review and reporting processes: monthly and quarterly operating results are reviewed in detail in the first days of the following month between Gemalto's Corporate Controller and the President and/or Controller of each segment and geographic area, on a date fixed in advance in the monthly or quarterly reporting calendar. The Chief Accounting Officer and the Internal Audit Director attend, and from time to time the CFO. Once validated, operating results are consolidated by the corporate accounting department, reviewed by the Corporate Controller, the Chief Accounting Officer and the Finance Director (in charge of treasury and tax), then presented and discussed with the CFO. They are then presented jointly by the Corporate Controller and the CFO to the CEO.

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

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

A review of the activity is presented by the CEO and the CFO at each meeting of the Board.

Quarterly pre-close reviews with each Business Unit and geographic area are organized by the Chief Accounting Officer in the last days of the quarter. They allow prompt identification and communication of any transaction or event which could potentially result in significant impacts on the results or the financial condition of the Group.

How do we monitor effectiveness?



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

Risk and Insurance

The Group Risk and Insurance manager, reporting to the General Counsel and Company Secretary and to the CFO, has a diverse range of responsibilities which facilitate a good understanding of the Company-wide exposure to risks and management risk transfer solutions to the insurance market.

The Risk and Insurance department is responsible for (i) driving the risk management process across the Company; (ii) managing the insurance programs; (iii) monitoring prevention action plans to reduce our industrial risks at our facilities, and is involved in crisis management. The Group Risk and Insurance, Internal Audit and Internal departments share information on a regular basis.

Insurance

The Group policy on insurance cover focuses on optimizing and securing the policies contracted by Gemalto. The aim is to protect the Company against exceptionally large or numerous claims, at a cost that does not impair the Group's competitiveness. The Group does not own or operate any captive insurance. Gemalto has set up global insurance programs with only quality and financially sound insurers and which combine master policies and local insurance policies in countries requiring it. The negotiation and coordination of these programs is carried out centrally with assistance from leading insurance brokers having an integrated international network.

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

Gemalto maintains insurance programs with policies encompassing property damage, business interruption, public, product and professional liability and directors' and officers' exposures. In 2011, we increased our focus on the insurance covering IT and data management related risks.

“The Company’s internal control system aims to ensure that realization of objectives is monitored, financial reporting is reliable and applicable laws and regulations are complied with.”

Internal control

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

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

Gemalto has a dedicated Security and QHSE (Quality, Health, Safety and Environment) department with representatives spread throughout the Group, and which promotes the appropriate culture and performs regular audits. The anti-fraud commission (AFC) ensures that proper controls are enforced on potential fraud areas.

Through yearly self-assessment campaigns, a dedicated department on internal control over financial reporting (ICFR) works at ensuring that the proper level of internal control is maintained and regularly rehearsed.

Internal control over financial information (ICFR): the production and control of financial information is organized so as to be consistent with Gemalto’s operational organization. To ensure the quality and completeness of the financial data produced and reported, Gemalto has set up a process for the production and review of the operating results by management, identified the main risks which have a significant impact on the financial statements, and implemented preventive and corrective controls so as to mitigate those risks. With the objective of improving internal control over and above the quality of financial reporting, a self-assessment campaign is performed each year through a scoping exercise based on financial risks (including IT/IS) following the COSO2 model. The self-evaluations of the controls are then tested for some critical processes and entities by internal auditors, as well as to some extent by the Company’s external auditor. This campaign is also aimed at defining remediation plans to identified deficiencies and at following up the progress of those plans year-on-year.

In 2011, the CEO and the CFO communicated to all employees on the importance of a sound internal control, on every employee’s responsibility towards internal control, and in particular on the criticality of the yearly exercise of self-assessment. They also requested that all newly acquired companies be included in the campaign. An annual report on financial internal control and on internal audit activity is prepared by the Internal Audit Director, reviewed and agreed by the CFO, approved by the CEO and presented to the Audit committee as part of the review process of the annual accounts.

Controlling

Financial controllers are responsible for carrying controls over the Group’s earnings and operating performance. They participate in drawing up the budget and the quarterly business reviews (QBR) and 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.

“In order to assess and test the internal risk management and control systems, the Company has a dedicated internal audit team.”

Internal audit

In order to assess and test the internal risk management and control systems, the Company has a dedicated internal audit team that operates in conformity with a charter approved by the Audit committee (updated in 2010) and in line with international professional standards (Institute of Internal Auditors). The team is composed of eight auditors based in Amsterdam in the Netherlands. It has direct and unlimited access to Group operations, documents and employees. The Internal Audit Director reports directly to the CFO and has an open independent line of communication with the Audit committee Chairman, as well as regular private sessions with the Audit committee.

The Group Internal Audit yearly plan is approved by the Audit committee in December for the following year. It is based on the combination of the results of the Enterprise Risk Assessment, the yearly financial risk mapping, discussions with management and external auditor, and regular audits of major sites. For each audit, a formal report is issued and circulated. It includes recommendations for corrective actions with a planning for implementation and the comments of the auditees. The implementation of accepted corrective actions is systematically followed up and is the subject of a formal follow-up report. The Internal Audit department performs post-reviews of acquisitions upon request of the management, of the Audit committee or of the Strategy and M&A committee.

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

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

Certification bodies

Because of the nature of its activities Gemalto receives several certifications, some of which are compulsory to perform its business (e.g. EMV, GSM SAS, ISO 27001). Those certifications vary from site to site and by business type, depending on regulations and customer requirements. The effectiveness of Gemalto's Quality and HSE Management systems is constantly challenged by external audits (both ISO/OHSAS standards and market specific) and internal audits. Both look for continuous improvement actions through identification of sensitive topics 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 with the Audit committee on a regular basis, is invited to all the Audit committee meetings, with regular private sessions. The Audit committee assesses the work of the external auditor at least once a year. The external auditor provides an independent opinion on the financial results of the Group, and its report is included in the Gemalto Annual Report.

Board compliance statement

The objectives set for the internal risk management process are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face, to perform a mapping of these risks and to initiate actions to mitigate, reduce, transfer, hedge, keep and manage, or suppress them. The Company's risk profile is reported in 'Principal risks', pages 44-45, with a description of principal risks, their most important impact on the Company and the main mitigation actions, and the internal risk management and control systems are described on pages 70-76.

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

The Board is responsible for reviewing the Company's organization of internal risk management and controls and for assessing their effectiveness. The Audit committee, together with management and internal audit, has therefore reviewed the Company's internal risk management and control 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 also reviewed the results of actions performed by management aimed at improving the organization of the Company's internal risk management and control processes.

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

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

- Gemalto's internal risk management and control organization provide a reasonable assurance that its financial reporting does not contain any error of material importance;
- Gemalto's internal risk management and control process in relation to financial reporting have worked properly in the year 2011.

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

- the annual financial statements for the year ended December 31, 2011 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 2011 financial year of Gemalto and its affiliated companies of which the data has been included in the consolidated financial statements; and
- the annual management report describes the principal risks that Gemalto faces.

The Board

Mr. Alex Mandl

Non-executive Chairman of the Board

Mr. Olivier Piou

Executive Board member
and Chief Executive Officer

Mr. Buford Alexander

Non-executive Board member

Mr. Philippe Alfroid

Non-executive Board member

Mr. Kent Atkinson

Non-executive Board member

Mr. Geoffrey Fink

Non-executive Board member

Mr. Johannes Fritz

Non-executive Board member

Mr. John Ormerod

Non-executive Board member

Mr. Arthur van der Poel

Non-executive Board member

Mr. Michel Soublin

Non-executive Board member

Amsterdam, March 6, 2012



Delivering ePassports in Korea

Korean citizens are being increasingly equipped with ePassports supplied by Gemalto through its local partner LG CNS. In particular, we are providing our highly-secure, high-performance ePassport Operating System which has been certified against the international "Common Criteria" security evaluation process. It speeds up border control and also offers an extremely high level of security for the protection of citizens' personal information. Our solution also increases personalization performance which in turn significantly reduces the cost of issuance. In Korea, the Operating System and application software are embedded in our highly durable electronic covers.



For more information visit
www.gemalto.com



For more information see
pages 36-37

- 80 Consolidated financial statements and notes
- 129 Company financial statements and notes of Gemalto N.V.

Consolidated financial statements and notes

Consolidated financial statements

81	Consolidated statement of financial position
82	Consolidated income statement
83	Consolidated statement of comprehensive income
84	Consolidated statement of changes in equity
86	Consolidated cash flow statement

Notes to the consolidated financial statements

87	Note 1. General information
87	Note 2. Summary of significant accounting policies
96	Note 3. Financial risk management
100	Note 4. Business combinations
100	Note 5. Additional information on specific line items of the income statement
101	Note 6. Segment information
103	Note 7. Financial assets/liabilities by category
104	Note 8. Property, plant and equipment
106	Note 9. Goodwill and intangible assets
107	Note 10. Investments in associate and available-for-sale financial assets
108	Note 11. Assets held for sale and discontinued operation
110	Note 12. Other non-current assets
110	Note 13. Inventories
110	Note 14. Trade and other receivables
110	Note 15. Cash and cash equivalents
111	Note 16. Borrowings
112	Note 17. Employee benefit obligations
115	Note 18. Non-current provisions and other liabilities
116	Note 19. Trade and other payables
116	Note 20. Derivative financial instruments
117	Note 21. Current provisions and other liabilities
118	Note 22. Revenue
118	Note 23. Costs of sales and operating expenses by nature
118	Note 24. Employee compensation and benefit expense
119	Note 25. Share-based compensation plans
122	Note 26. Other income (expense), net
122	Note 27. Financial income (expense), net
122	Note 28. Net foreign exchange gains (losses)
122	Note 29. Taxes
123	Note 30. Earnings per share
124	Note 31. Related party transactions
124	Note 32. Commitments and contingencies
125	Note 33. Dividends
125	Note 34. Post-closing events
126	Note 35. Consolidated entities

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31,	
		2010	2011
Assets			
Non-current assets			
Property, plant and equipment, net	8	217,211	222,892
Goodwill, net	9	798,993	812,959
Intangible assets, net	9	152,561	159,223
Investments in associate	10	10,934	13,783
Deferred income tax assets	29	51,318	89,721
Available-for-sale financial assets, net	10	1,667	–
Other non-current assets	12	33,335	44,014
Derivative financial instruments	20	7,451	7,006
Total non-current assets		1,273,470	1,349,598
Current assets			
Inventories, net	13	155,254	172,667
Trade and other receivables, net	14	537,099	558,757
Derivative financial instruments	20	7,937	8,426
Cash and cash equivalents	15	256,110	330,384
Total current assets		956,400	1,070,234
Assets held for sale	11	57,183	1,711
Total assets		2,287,053	2,421,543
Equity			
Share capital		88,016	88,016
Share premium		1,209,437	1,209,216
Treasury shares		(132,046)	(156,531)
Fair value and other reserves		79,962	87,006
Cumulative translation adjustments		5,879	8,102
Retained earnings		344,302	480,702
Capital and reserves attributable to the owners of the Company		1,595,550	1,716,511
Non-controlling interests		14,757	4,225
Total equity		1,610,307	1,720,736
Liabilities			
Non-current liabilities			
Borrowings	16	14,772	5,762
Deferred income tax liabilities	29	19,213	23,805
Employee benefit obligations	17	43,587	51,470
Provisions and other liabilities	18	71,712	76,228
Derivative financial instruments	20	764	9,704
Total non-current liabilities		150,048	166,969
Current liabilities			
Borrowings	16	5,423	15,261
Trade and other payables	19	463,094	467,215
Current income tax liabilities		15,754	22,331
Provisions and other liabilities	21	13,710	10,083
Derivative financial instruments	20	8,929	18,948
Total current liabilities		506,910	533,838
Liabilities associated with assets held for sale	11	19,788	–
Total liabilities		676,746	700,807
Total equity and liabilities		2,287,053	2,421,543

Consolidated income statement

		Year ended December 31,	
In thousands of Euro (except earnings per share)	Notes	2010	2011
Continuing operations			
Revenue	22	1,905,568	2,015,384
Cost of sales		(1,218,720)	(1,266,802)
Gross profit		686,848	748,582
Operating expenses			
Research and engineering		(104,612)	(118,092)
Sales and marketing		(267,545)	(288,895)
General and administrative		(127,621)	(137,299)
Gain on remeasurement to fair value of an investment in associate	11	–	19,240
Other income (expense), net	26	8,406	33
Restructuring and acquisition-related expenses	5	(9,268)	(15,374)
Amortization and depreciation of intangible assets resulting from acquisitions	5	(22,792)	(24,813)
Operating profit		163,416	183,382
Financial income (expense), net	27	796	(12,504)
Share of profit of associates ¹	10	1,717	5,714
Profit before income tax		165,929	176,592
Income tax credit (expense)	29	3,871	(13,670)
Profit from continuing operations		169,800	162,922
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	11	(2,422)	(1,554)
Profit for the period		167,378	161,368
Attributable to:			
Owners of the Company		163,920	160,115
Non-controlling interests		3,458	1,253
Earnings per share			
Basic earnings per share	30	1.97	1.93
Diluted earnings per share	30	1.94	1.88
Earnings per share – continuing operations			
Basic earnings per share		2.00	1.96
Diluted earnings per share		1.97	1.91
Weighted average number of shares outstanding (in thousands)	30	83,031	83,086
Weighted average number of shares outstanding assuming dilution (in thousands)	30	84,400	85,388

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

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31,	
		2010	2011
Profit for the period		167,378	161,368
Other comprehensive income items that can be reclassified to income statement:			
Currency translation adjustments		30,426	4,252
Currency translation adjustments: transfer to income statement (financial income) upon loss of control		(197)	(1,952)
Revaluation of available-for-sale financial assets	10	808	–
Transfer to income statement (financial expense) on disposal of available-for-sale financial assets		764	–
Transfer of accumulated fair value on available-for-sale financial assets to investments in associate upon change in consolidation method		–	(662)
Effective portion of gains and losses on cash flow hedging		1,071	(14,649)
Currency translation differences on other comprehensive income items		(938)	(492)
Other comprehensive income items that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	17	(3,654)	(4,044)
Deferred tax on actuarial gains and losses		1,252	288
Total other comprehensive income for the period, net of tax		29,532	(17,259)
Total comprehensive income for the period, net of tax		196,910	144,109
Attributable to:			
Owners of the Company		191,981	142,823
Non-controlling interests		4,929	1,286

Consolidated statement of changes in equity

	Number of shares ²	
In thousands of Euro	Issued	Outstanding
Balance as of January 1, 2010	88,015,844	82,776,213
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income		
Share-based compensation expense		
Employee share option plans		836,289
Purchase of Treasury shares, net		(1,281,254)
Treasury shares used for the acquisition of Todos AB		800,000
Excess of purchase price on subsequent acquisition of Netsize S.A.		
Minimum dividend payable to SAIT non-controlling interests		
Dividend paid/payable to owners of the Company		
Dividend paid to non-controlling interests		
Balance as of December 31, 2010	88,015,844	83,131,248
Profit for the period		
Other comprehensive income (loss)		
Total comprehensive income		
Share-based compensation expense		
Employee share option plans		1,697,231
Purchase of Treasury shares, net		(1,808,943)
Excess of purchase price on subsequent acquisition of non-controlling interests		
Dividend paid/payable to owners of the Company ³		
Dividend paid to non-controlling interests		
Change in consolidation method ⁴		
Balance as of December 31, 2011	88,015,844	83,019,536

² As at December 31, 2010 and 2011, the difference between the number of shares issued and the number of shares outstanding corresponded to the 4,884,596 and 4,996,308 shares held in treasury, respectively.

³ See note 33.

⁴ See note 11.

Attributable to owners of the Company							
Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings	Non-controlling interests	Total equity
88,016	1,215,868	(129,640)	55,101	(22,879)	201,226	11,795	1,419,487
					163,920	3,458	167,378
			(697)	28,758		1,471	29,532
			(697)	28,758	163,920	4,929	196,910
			19,447				19,447
		14,940	664				15,604
		(39,279)	580				(38,699)
		21,933	4,867				26,800
	(6,431)					(34)	(6,465)
						(1,064)	(1,064)
					(20,844)		(20,844)
						(869)	(869)
88,016	1,209,437	(132,046)	79,962	5,879	344,302	14,757	1,610,307
					160,115	1,253	161,368
			(19,515)	2,223		33	(17,259)
			(19,515)	2,223	160,115	1,286	144,109
			29,346				29,346
		37,186	(3,338)				33,848
		(61,671)	551				(61,120)
	(221)						(221)
					(23,275)		(23,275)
						(1,589)	(1,589)
					(440)	(10,229)	(10,669)
88,016	1,209,216	(156,531)	87,006	8,102	480,702	4,225	1,720,736

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31,	
		2010	2011
Profit for the period including non-controlling interests		167,378	161,368
Adjustment for:			
Tax	29	(3,871)	13,670
Research tax credit		(12,305)	(11,492)
Depreciation, amortization and impairment	8,9	85,289	88,984
Share-based payment expense		19,447	29,346
Gains and losses on sale of fixed assets and write-offs		638	5,513
Gains and losses on sale of available-for-sale financial assets		730	–
Gains and losses on remeasurement to fair value of an investment in associate	11	–	(19,240)
Operating profit from subsidiary classified as held for sale		–	(3,287)
Loss on sale of a discontinued operation, net of tax	11	3,087	142
Cumulated translation adjustment transferred to financial income upon loss of control		(197)	(1,952)
Net movement in provisions and other liabilities		(25,994)	(1,332)
Employee benefit obligations		1,164	3,436
Interest income	27	(6,989)	(3,203)
Interest expense and other financial expense		4,419	7,896
Share of profit of associates	10	(1,717)	(5,714)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Changes in inventories		(4,390)	(15,768)
Changes in trade & other receivables		(46,632)	11,090
Changes in derivative financial instruments		4,160	4,243
Changes in trade & other payables		8,727	(1,160)
Cash generated from operations		192,944	262,540
Income tax paid		(19,260)	(51,453)
Net cash provided by operating activities		173,684	211,087
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	4	(195,325)	(16,660)
Acquisition of business		(856)	–
Purchase of property, plant & equipment	8	(44,214)	(53,074)
Proceeds from sale of property, plant & equipment		786	1,207
Acquisition and capitalization of intangible assets	9	(29,438)	(41,081)
Proceeds from sale of non-current assets		246	76
Proceeds from sale of investments in associate		–	18,000
Loan to investments in associate		–	(2,886)
Proceeds from sale of an available-for-sale financial asset		430	–
Purchase of investments in associate		(2,000)	(1,407)
Proceeds from sale of a discontinued operation		7,374	–
Interest paid		(1,513)	(1,334)
Interest received		3,332	3,197
Dividends received from investments in associate	10,11	1,502	12,340
Net cash used in investing activities		(259,676)	(81,622)
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests		–	(352)
Proceeds from exercise of share options		15,604	33,848
Purchase of Treasury shares (net)		(38,713)	(61,120)
Repayments of borrowings		(5,322)	(4,099)
Dividends paid to owners of the Company	33	(20,844)	(23,275)
Dividends paid to non-controlling interests		(869)	(1,920)
Net cash used in financing activities		(50,144)	(56,918)
Net increase (decrease) in cash and bank overdrafts		(136,136)	72,547
Cash and bank overdrafts, beginning of period	15	402,174	275,301
Change in cash and cash equivalent due to change in consolidation method		–	(19,403)
Currency translation effect on cash and bank overdrafts		9,263	1,624
Cash and bank overdrafts, end of period	15	275,301	330,069

Notes to the consolidated financial statements

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

Note 1. General information

Gemalto, the world leader in digital security, is at the heart of our evolving digital society. Billions of people worldwide increasingly want the freedom to communicate, travel, shop, bank, entertain, and work – anytime, anywhere, 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, and managed services to wireless operators, banks, enterprises and government agencies.

Gemalto is 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) in 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 platforms, consulting, training, and managed services to help its customers achieve their goals.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Barbara Strozilaan 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, 2011 have been authorized for issue by the Board on March 6, 2012 and will be submitted to the AGM of May 24, 2012 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, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: www.ec.europa.eu/internal_market/accounting/ias/index_en.htm). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The preparation of financial statements

in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.2.e. 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, 2011

- IAS 24 *Related Party Disclosures (Amended)*
- IAS 32 *Financial Instruments: Presentation (Amended)* – *Classification of Rights Issues*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended)* – *Limited Exception from Comparative IFRS 7 Disclosures for First-time Adopters*
- 2011 Improvements to IFRS (for those effective for periods beginning after January 1, 2010 and on or before January 1, 2011)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The above amendments to existing standards and interpretation did not have any impact on the Group's financial statements as at December 31, 2011.

(b) The following amendment to existing standard issued but not mandatory for financial statements as at December 31, 2011 has been early adopted by the Group

- IAS 1 *Presentation of Financial Statements (Amended)* – *Presentation of Items of Other Comprehensive Income*

This amended standard requires to group together within Other Comprehensive Income items that may be reclassified subsequently to the income statement.

(c) The following standards, amendments to existing standards and interpretation have been issued but not mandatory for financial statements as at December 31, 2011 (and not early adopted by the Group)

- IAS 12 *Income Taxes (Amended) – Recovery of Underlying Assets*
- IAS 19 *Employee Benefits (Amended)*
- IAS 27 *Separate Financial Statements (Revised)*
- IAS 28 *Investments in Associates and Joint Ventures (Revised)*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- IFRS 7 *Financial Instruments: Disclosures (Amended) – Transfers of Financial Assets*
- IFRS 9 *Financial Instruments: Classification and Measurement*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IFRIC 20 *Stripping costs in the production phase of a surface mine*

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

(d) Presentation of the income statement

The Group reports under the line 'Restructuring and acquisition-related expenses' (as detailed in note 5):

- (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).

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.

(e) Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities (including the classification of assets and liabilities as held for sale – see note 11), disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses (including the classification as restructuring and acquisition-related expenses, see note 2.2.d) during the reporting period.

On an ongoing basis, Gemalto evaluates its estimates, including those related to doubtful accounts, valuation of investments and inventories, warranty obligations, recoverability of goodwill, intangible assets and property, plant and equipment, income tax provision and recoverability of deferred taxes, contingencies and litigations, and actuarial assumptions for employee benefit plans. Gemalto bases its estimates on historical experience and on various other assumptions that, in management's opinion, are reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all entities over which Gemalto has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Gemalto controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Gemalto. They are deconsolidated from the date that control ceases.

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

The Group recognizes non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amount of acquiree's identifiable net assets. For further acquisitions of non-controlling interest, the excess of the cost of acquisition over the carrying value of the Group's additional share of the identifiable net assets acquired, is recorded against the share premium in the equity. If the acquisition 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 IAS39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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

(b) Associates

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

2.6 Property, plant and equipment

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are reflected in the 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 charges so as to achieve a constant rate of interest on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other borrowings (and classified as current or non-current items depending on the timing of expected cash outflows). The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

2.7 Goodwill and intangible assets

(a) Goodwill

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

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

(b) Brand names

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

(c) Other intangible assets

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

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

2.8 Impairment of non-financial assets

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

2.9 Investments and financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

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

2.10 Inventories

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

2.11 Trade receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

2.15 Taxes on income

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

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

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

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

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

2.16 Research tax credits and government grants

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

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

2.17 Research and development costs

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

2.18 Employee benefits

(a) Pension and similar obligations

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

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustment for past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reported in the statement of comprehensive income.

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

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

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Gemalto recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Profit-sharing and bonus plans

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

2.19 Share-based payment

(a) Share-based compensation

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

(b) Share-based transaction

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

2.20 Provisions

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

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

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. These instruments, which are expected to mature within 24 months after the balance sheet date, are presented under 'Derivative financial instruments' in current or non-current assets or liabilities depending on their maturity. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument for accounting purposes and, if so, on the nature of the item being hedged. Some of the derivative financial instruments used to hedge the Company's foreign exchange exposure qualify as cash flow hedges since they reduce the variability in cash flows attributable to the Company's forecasted transactions.

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

For derivatives qualified as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of the derivative instruments used for hedging purposes are disclosed in note 20. Movements on the hedging reserve are shown in the consolidated statement of comprehensive income.

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

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

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

2.24 Estimation of derivative financial instrument fair value

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

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

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

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

For the available-for-sale financial assets, they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at December 31, 2011, the value of Level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

Note 3. Financial risk management

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

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

3.1 Foreign exchange risk

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

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

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

Foreign exchange forward contracts and options that hedge a portion of subsidiaries' known or forecast commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in the income statement. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred in the settlement of balance sheet items not denominated in the relevant subsidiary's functional currency, are not qualified in hedge accounting (see note 20).

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

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

The impacts of other currencies to similar fluctuations for any given currency do not exceed €0.3 million on the profit or loss for 2011 (€0.4 million in 2010) and €2.2 million on the balance sheet as at December 31, 2011 (€1.4 million in 2010).

	Year ended December 31,			
	2010		2011	
	Change in \$/€ exchange rate			
	2.50%	-2.50%	2.50%	-2.50%
Effect on profit or loss before tax				
Income/(expense)				
– Underlying ⁵	(1,233)	1,297	(1,282)	1,348
– Hedges ⁶	1,385	(1,456)	980	(1,029)
Net	152	(159)	(302)	319
Effect on equity				
Gain/(loss)				
– Hedges ⁷	6,816	(7,166)	8,281	(10,300)

⁵ Effect of revaluation of financial assets and liabilities, excluding hedges.

⁶ Effect on mark-to-market valuation of fair value hedges.

⁷ Effect on intrinsic value of cash flow hedges.

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

3.2 Interest rate risk

Financial assets are invested in bank deposits and money market funds with maturities no longer than three months, classified as cash and cash equivalents. Financial liabilities are mainly floating rate finance leases. Financial income (expense) can therefore be sensitive to interest rate fluctuations. The Company however considers that this risk may not have a significant impact on its financial situation in the short term, and does not use derivative financial instruments to hedge interest rate risk. The following table shows the sensitivity of the Group's results to 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 or loss before tax – income/(expense)	Variation in interest rate (in basis points)	2010	2011
Borrowings	(50)	54	43
	50	(54)	(43)
Short-term deposits and investment funds	(50)	(1,065)	(988)
	50	1,065	988

3.3 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €300 million bilateral credit facilities referred to in note 16, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table for 2011 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 €20.7 million as of December 31, 2010 and €21.2 million as of December 31, 2011 (see note 32).

	2010			Total
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	
Finance lease liabilities	2,450	5,918	–	8,368
Other borrowings	3,086	9,423	–	12,509
Derivative financial instruments	8,929	764 ⁸	–	9,693
Trade & other payables	463,094	–	–	463,094
	477,559	16,105	–	493,664

⁸ The amounts reported for derivative financial instruments are discounted but the difference with the contractual undiscounted cash flows is not material.

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

3.4 Financial counterparty risk

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

Short-term deposits and investment funds are invested in fixed-term deposits with banks and money market mutual funds with a maturity of less than 3 months and the objective that no counterparty represents more than 15% of the total at any time. Money market mutual funds consist of open-ended investment companies (French SICAV) authorized by the French AMF. Funds are selected based on the 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.), the quality of the management company and 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 uncommitted short-term facilities, short-term bonds and guarantee lines, and also a series of committed bank bilateral credit facilities totaling €300 million arranged with international banks of strong credit rating referred to in note 16. The maturities of these facilities are comprised between December 9, 2014 and February 16, 2016.

As at December 31, 2011, no financial institution accounted for more than 20% of the credit lines (including bonds and guarantee lines and facilities for derivatives financial instruments) and 12% of the cash and cash equivalents. 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. Maximum risk with any single counterparty is as follows:

		Year ended December 31,	
		2010	2011
Borrowings – maximum risk with a single counterparty:			
Bilateral credit facilities	<i>Committed credit line (undrawn)</i>	75,000	75,000
Finance lease liabilities	<i>Drawn</i>	7,802	5,722
Overdrafts and other short-term loans	<i>Uncommitted credit lines (partially drawn)</i>	16,766	43,598
Bonds and guarantee facilities	<i>Uncommitted credit lines (partially drawn)</i>	40,200	40,200
Of which cumulated borrowing risk with a single counterparty		97,700	97,700
in % of total borrowing risk for Gemalto as at December 31, 2010 and 2011		27%	19%
Derivative financial instruments – maximum risk with a single counterparty:			
Notional amount		144,093	240,004
Derivative financial instruments (foreign exchange) facilities		30,000	50,000
In % of total derivative financial instruments risk for Gemalto ⁹		16%	22%
Mark-to-market		2,509	258
Cash and cash equivalents – maximum risk with a single counterparty:			
Short-term bank deposits and cash at bank and in hand		22,883	40,310
Money market mutual funds		19,591	24,445
Of which cumulated cash and cash equivalents risk with a single counterparty		22,883	40,310
in % of total cash and cash equivalents risk for Gemalto as at December 31, 2010 and 2011		9%	12%
Total overall risk with any single counterparty¹⁰		102,506	109,276
in % of total counterparty risk for Gemalto		16%	13%

⁹ Compared to the published consolidated financial statements as of December 31, 2010, the % of total derivative financial instruments risk is based on the total amount of derivative financial instruments (foreign exchange) facilities.

¹⁰ Marked to market for derivatives financial instruments.

3.5 Credit risk

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2010 and 2011. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of customers' financial condition.

As of December 31, 2011, trade receivables of €97,954 were past due but not impaired (2010: €97,474). 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,			
	2010	2011		
	Carrying amount	Carrying amount	Bad debt reserve	Overdue but not impaired
Overdue by:				
Up to 1 month	55,858	67,016	(527)	66,489
2 to 3 months	26,343	20,138	(902)	19,236
4 to 6 months	10,435	7,364	(1,188)	6,176
Later than 6 months	13,414	12,982	(6,929)	6,053
	106,050	107,500		97,954
Provision for impairment of receivables	(8,576)		(9,546)	
Trade receivables overdue but not impaired	97,474			97,954

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

	Year ended December 31,	
	2010	2011
As at January 1,	(8,496)	(8,576)
New provision for impairment of receivables	(3,204)	(4,643)
Receivables written off over the year as uncollectible	3,756	2,219
Unused amounts reversed	1,406	1,467
Reclassification	30	206
Currency translation adjustment	(534)	122
Acquisition of subsidiary	(1,708)	(341)
Reclassification to assets held for sale	174	–
As at December 31,	(8,576)	(9,546)
Yearly loss (as a percentage of annual revenue)	(0.00%)	(0.00%)

Note 4. Business combinations

AB Svenska Pass

AB Svenska Pass (ABSP) was established in 1997 to manufacture, personalize and distribute the Swedish passport to the National Swedish Police Board. ABSP is based in Tumba, Sweden.

Pursuant to a binding share purchase agreement signed on January, 19, 2011, Gemalto took control over ABSP on March, 8, 2011. This company, in which Gemalto already held a 50% ownership interest, was previously accounted for using the equity method. This transaction, which consisted in the acquisition by the Group of the 50% ownership interest held in ABSP by its partner has been settled in December 2011 and gave rise to €3 million goodwill. The remeasurement to fair value at acquisition date of the 50% interest held prior to obtaining control gave rise to a €4.2 million gain presented in the line item 'share of profit of associate' in the consolidated income statement.

The incremental contributions of ABSP to the Group's revenue and net profit as of December 31, 2011 were €16 million and €(1) million, respectively.

MCTel

On October 20, 2011, Gemalto acquired a 100% ownership interest in MCTel. MCTel is an innovative provider of messaging solutions to mobile operators. MCTel's core know-how is network-based solutions around SS7 signaling, which is very complementary to many SIM and OTA-based solutions. This will in particular enable Gemalto to increase the efficiency of its existing device management, messaging or roaming solutions. In addition, leveraging MCTel's present product portfolio and customer base will enhance Gemalto's capability to address the so-called 'long tail' segment of the market with entry range, fully packaged offers around messaging, roaming and device management.

This acquisition is a new step in developing our software and services offers for mobile operators, enlarging the addressable market we can serve with a complementary range of solutions, and at the same time enabling to improve our existing solutions to better serve the part of the market we had so far concentrated on.

Had the acquisition occurred on January 1, 2011, the Group estimates that revenue from MCTel would have been €2 million and net profit €(5) million.

Intangible assets identified as part of the purchase price allocation

In most instances, Gemalto management, assisted by independent qualified experts, provisionally identify and allocate the combination value to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquiree.

The table below summarizes the provisional estimated fair value of the intangible assets acquired and their remaining useful life at the date of the acquisition:

In millions of Euro	ABSP	
	Fair value	Remaining useful life
Customer relationships	10,840	43% amortized until December 2011, 7 years for the remaining 57%

The tax effect on the fair value of the intangible assets recognized amounted to €2.8 million.

Allocation of MCTel combination value will be performed in 2012.

Goodwill for ABSP and MCTel, which provisionally amounted to €14.9 million, represented the complementary technological expertise, the skills and know-how of the workforce acquired and the synergies expected to be achieved through the integration of our acquisitions.

Analysis of cash flows on acquisitions

	Total
Purchase consideration settled in cash	(23,099)
Net cash acquired	6,439
Net cash flow used in acquisitions	(16,660)

Note 5. Additional information on specific line items of the income statement

The Group reported 'Restructuring and acquisition-related expenses' (see note 2.2.d) for €15,374 as at December 31, 2011 (€9,268 in 2010), which detailed as follows:

	Year ended December 31,	
	2010	2011
Severance and associated costs	3,893	8,519
Write-offs and impairments	321	5,412
Transaction costs	3,972	342
Other costs	1,082	1,101
Restructuring and acquisition-related expenses	9,268	15,374

Amortization and depreciation of intangibles resulting from acquisitions amounted to €24,813 for the year ended December 31, 2011 (€22,792 for the year ended December 31, 2010).

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, software, services (including device management platforms and 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 software and services including roaming, mobile payment, mobile marketing and personal data management. The Public Telephony activity, which was previously reported in the segment 'Others', has been included in Mobile Communication starting January 1, 2011.

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

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

Security customers include governments and government service providers, enterprises, and banks and other organizations providing online and eBanking services. The solutions comprise ePassports and other secure electronic identity documents 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'. In 2010 published consolidated financial statements, this activity was included under the segment 'Security'. For comparison purposes, 2010 financial information has been restated accordingly.

To supplement the financial statements presented on an IFRS basis, and to better assess its past and future performance, the Group also prepares an additional income statement where the key metric used to understand, evaluate the business and take operating decisions over the period 2010 to 2013 is the *Profit from operations*. Profit from operations is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses (see note 5); 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 (see note 11), but also the contributions from assets held for sale (see note 11) and from items not related to Ongoing operations reported in the column 'Reconciling items'.

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

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

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

Year ended December 31, 2010

Ongoing operations										
In thousands of Euro	Mobile Communication ¹¹	Machine-to-Machine	Secure Transactions	Security	Patents ¹¹	Adjusted financial information for Ongoing operations	Reconciling items ¹²	Adjusted financial information	Adjustments ¹³	IFRS financial information
Revenue	1,000,446	81,329	462,072	285,020	32,975	1,861,842	43,726	1,905,568	–	1,905,568
Cost of sales	(620,181)	(54,798)	(321,879)	(185,484)	(3,477)	(1,185,819)	(30,389)	(1,216,208)	(2,512)	(1,218,720)
Gross profit	380,265	26,531	140,193	99,536	29,498	676,023	13,337	689,360	(2,512)	686,848
Operating expenses										
Research and engineering	(58,262)	(2,941)	(17,252)	(18,486)	(6,605)	(103,546)	(255)	(103,801)	(811)	(104,612)
Sales and marketing	(136,293)	(7,995)	(57,307)	(54,335)	(292)	(256,222)	(4,146)	(260,368)	(7,177)	(267,545)
General and administrative	(68,051)	(8,562)	(24,971)	(12,813)	(2,670)	(117,067)	(867)	(117,934)	(9,687)	(127,621)
Other income (expense), net	2,203	67	500	5,376	131	8,277	129	8,406	–	8,406
Profit from operations	119,862	7,100	41,163	19,278	20,062	207,465	8,198	215,663		
Restructuring and acquisition-related expenses										(9,268)
Amortization and depreciation of intangibles resulting from acquisitions										(22,792)
Operating profit										163,416

Year ended December 31, 2011

Ongoing operations										
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	975,997	174,267	531,362	309,870	8,793	2,000,289	15,095	2,015,384	–	2,015,384
Cost of sales	(582,959)	(113,844)	(363,177)	(191,845)	(1,292)	(1,253,117)	(10,721)	(1,263,838)	(2,964)	(1,266,802)
Gross profit	393,038	60,423	168,185	118,025	7,501	747,172	4,374	751,546	(2,964)	748,582
Operating expenses										
Research and engineering	(54,943)	(12,709)	(20,105)	(21,170)	(7,135)	(116,062)	(79)	(116,141)	(1,951)	(118,092)
Sales and marketing	(136,914)	(19,015)	(65,405)	(53,790)	(512)	(275,636)	(895)	(276,531)	(12,364)	(288,895)
General and administrative	(64,915)	(15,128)	(24,243)	(16,818)	(317)	(121,421)	(1,081)	(122,502)	(14,797)	(137,299)
Gain on remeasurement to fair value of an investment in associate							19,240	19,240	–	19,240
Other income (expense), net	1,547	154	(729)	3,549	9	4,530	(4,497)	33	–	33
Profit from operations	137,813	13,725	57,703	29,796	(454)	238,583	17,062	255,645		
Restructuring and acquisition-related expenses										(15,374)
Amortization and depreciation of intangibles resulting from acquisitions										(24,813)
Operating profit										183,382

¹¹ Compared to the published consolidated financial statements as of December 31, 2010, the Public Telephony activity and the patent licensing activity have been reclassified from 'Others' to 'Mobile Communication' and from 'Security' to 'Patents', respectively.

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' correspond to the €20,187 and €32,076 equity-based compensation charges and associated costs for 2010 and 2011 respectively.

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,	
	2010	2011
Revenue		
Europe, Middle East and Africa	1,008,744	1,026,389
North and South America	487,773	588,862
Asia Pacific	409,051	400,133
Total	1,905,568	2,015,384

	Year ended December 31,	
	2010	2011
Non-current assets excluding goodwill (net)		
France	195,519	215,907
Europe, Middle East and Africa excluding France and Germany	83,352	106,633
Asia Pacific	64,828	78,286
Germany	72,135	71,658
North and South America	58,643	64,155
Total	474,477	536,639

Note 7. Financial assets/liabilities by category

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

December 31, 2010	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial assets	Total
Assets					
Available-for-sale financial assets, net	–	–	–	1,667	1,667
Other non-current assets	33,335	–	–	–	33,335
Trade and other receivables, net	537,099	–	–	–	537,099
Derivative financial instruments	–	–	15,388	–	15,388
Cash and cash equivalents	98,345	157,765	–	–	256,110
Total	668,779	157,765	15,388	1,667	843,599

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	20,195	20,195
Derivative financial instruments	9,693	–	9,693
Total	9,693	20,195	29,888

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

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

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2010 (see note 2.24):

	Level 1	Level 2	Level 3	Total balance
Assets				
Derivatives used for hedging	–	15,388	–	15,388
Short-term bank deposits and investment funds	157,765	–	–	157,765
Available-for-sale financial assets	–	–	1,667	1,667
Total Assets	157,765	15,388	1,667	174,820
Liabilities				
Derivatives used for hedging	–	9,693	–	9,693
Total Liabilities	–	9,693	–	9,693

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

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

Note 8. Property, plant and equipment

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

	Land	Building & improvement	Machinery & equipment	Total property, plant and equipment
Gross book value as of January 1, 2010	6,014	208,584	518,160	732,758
Acquisition of subsidiary and business	–	196	4,665	4,861
Additions	–	4,326	39,888	44,214
Discontinued operation	–	(77)	(5,636)	(5,713)
Reclassification to assets held for sale	(400)	(4,249)	(14,940)	(19,589)
Other reclassifications	–	1,112	(1,581)	(469)
Disposals and write-offs	–	(3,256)	(27,698)	(30,954)
Currency translation adjustment	153	4,943	20,177	25,273
Gross book value as of December 31, 2010	5,767	211,579	533,035	750,381
Accumulated depreciation as of January 1, 2010	(387)	(117,547)	(394,819)	(512,753)
Depreciation charge	(35)	(14,102)	(33,850)	(47,987)
Impairment charge	–	–	(204)	(204)
Discontinued operation	–	7	3,814	3,821
Reclassification to assets held for sale	232	1,238	9,513	10,983
Other reclassifications	–	268	(115)	153
Disposals and write-offs	–	2,986	26,679	29,665
Currency translation adjustment	(43)	(2,478)	(14,327)	(16,848)
Accumulated depreciation as of December 31, 2010	(233)	(129,628)	(403,309)	(533,170)
Net book value as of December 31, 2010	5,534	81,951	129,726	217,211

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

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

	Year ended December 31,	
	2010	2011
Cost of sales	38,071	37,496
Research and engineering expenses	2,108	2,855
Sales and marketing expenses	1,001	641
General and administrative expenses	5,898	6,413
Other income (expense), net	49	–
Discontinued operation	860	–
Total	47,987	47,405

Capitalized leases included in property, plant and equipment, are as follows:

	Year ended December 31,	
	2010	2011
Gross book value	54,129	53,994
Accumulated depreciation	(30,738)	(32,087)
Net book value	23,391	21,907

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, 2010	609,234	270,795	84,079	120,539	1,084,647
Acquisition of subsidiary and business	207,438	33,899	8,668	31,800	281,805
Additions	–	1,277	24,793	6,385	32,455
Disposal and write-offs	–	(10)	(2,605)	(3,032)	(5,647)
Discontinued operation	(3,879)	–	(942)	(239)	(5,060)
Reclassification to assets held for sale	(5,800)	–	–	–	(5,800)
Other reclassifications	–	202	(20)	478	660
Currency translation adjustment	5,255	997	57	650	6,959
Gross book value as of December 31, 2010	812,248	307,160	114,030	156,581	1,390,019
Accumulated amortization as of January 1, 2010	(12,632)	(241,265)	(60,224)	(92,397)	(406,518)
Amortization charge	–	(13,675)	(5,108)	(17,006)	(35,789)
Disposal and write-offs	–	10	1,298	3,030	4,338
Discontinued operation	–	–	942	203	1,145
Other reclassifications	–	(202)	25	(204)	(381)
Currency translation adjustment	(623)	(366)	(7)	(264)	(1,260)
Accumulated amortization as of December 31, 2010	(13,255)	(255,498)	(63,074)	(106,638)	(438,465)
Net book value as of December 31, 2010	798,993	51,662	50,956	49,943	951,554

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

Other intangibles mainly consist of acquired customer relationships for €22,092, acquired brand names for €10,741 and miscellaneous software and other intangibles for €13,355.

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

	Year ended December 31,	
	2010	2011
Cost of sales	11,636	15,191
Research and engineering expenses	575	783
Sales and marketing expenses	141	15
General and administrative expenses	645	669
Amortization and depreciation of intangible resulting from acquisitions	22,792	24,813
Total	35,789	41,471

Goodwill impairment test

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

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

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

In millions of Euro	Year ended December 31,	
	2010	2011
Mobile Communication	390	403
Machine-to-Machine	119	117
Secure Transactions	137	122
Security	153	171
Total	799	813

The recoverable amount of the CGUs is determined based on projected cash flows after tax derived from management plans as of the date the review was carried out. Cash flows beyond management plans horizon are extrapolated using a growth rate, which does not exceed the average growth rate for the industry in which Gemalto operates. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 8.7% in 2011. The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2010 nor 2011. Further, no impairment charge would be recognized in 2011 if discounted projected cash flows were 20% lower.

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

Investments in associate consist of the following:

	Year ended December 31,	
	2010	2011
Investments as of beginning of period	9,970	10,934
Acquisition of associate	–	1,429
Share of profit	1,717	1,534
Remeasurement to fair value of previously held interest in ABSP	–	4,180
Change in consolidation method of ABSP	–	(8,766)
Guaranteed dividend receivable from associate	–	(3,498)
Reclassification from assets held for sale	–	8,601
Impact of Opentrust sale and Keynectis capital increase	–	(654)
Dividends paid by associates	(1,502)	(131)
Currency translation adjustment	749	154
Investments as of end of period	10,934	13,783

On May 3, 2011, Gemalto increased its interest in Keynectis S.A. from 15% to 22%. As a consequence of Gemalto's significant influence over Keynectis S.A.'s financial and strategic policies, the investment is no longer classified as an available-for-sale financial asset but accounted for using the equity method. Keynectis develops digital certificates based on Public Key Infrastructures and services for applications such as digital identification using smart card, ePassports and electronic national ID applications.

The fair value of Keynectis as an available-for-sale financial asset was €1,667. Its value under the cost approach, amounted to €1,392 and included a goodwill of €554 at the date Gemalto acquired the additional 7%.

On May 11, 2011, Gemalto contributed to the creation of Newcard S.A.S.U. Gemalto owns 49% of the voting rights of Newcard S.A.S.U. and the investment is classified as an investment in associate. Newcard S.A.S.U. develops a server solution allowing connected eBanking readers to make EMV payments for online commerce.

In July 2011, the investment in associate Opentrust S.A. was sold by one of our subsidiaries to Keynectis S.A. for €4.0 million. This transaction has been financed by Keynectis S.A., whereby Gemalto contributed to a capital increase for €3.3 million.

Pursuant to the completion of the sale of a 47% interest in a former subsidiary, reported as a disposal group held for sale in the 2010 consolidated financial statements (see note 11), the remaining 20% ownership interest was reclassified from investment in associate held for sale to investment in associate for €9 million. This value has been subsequently decreased by €3 million to account for the right to receive a minimum dividend in the future.

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

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

Year	Associates' total ¹⁴			
	Assets	Liabilities	Revenue	Profit/(loss)
2010	28,330	9,407	34,658	1,187
2011	57,610	21,254	54,681	5,185

¹⁴ Previous year financial information is disclosed when current year financial information is not available.

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

	Year ended December 31,	
	2010	2011
Available-for-sale financial assets as of beginning of period	1,270	1,667
Net gains transferred to equity	808	–
Disposals	(411)	–
Change in consolidation method of Keynectis S.A.	–	(1,667)
Available-for-sale financial assets as of end of period	1,667	–

Note 11. Assets held for sale and discontinued operation

Assets held for sale

On March 29, 2011, Gemalto and its partner in a joint venture signed a restructuring deed pursuant to which Gemalto made official its will to immediately transfer its power to govern the financial and operating policies of the joint venture to its partner. The major consequence of this change of control, without any transfer of legal ownership, was the change in the consolidation method applied to this joint venture as Gemalto's 67% ownership interest in the former subsidiary has been reported as an equity investment held for sale from that date till September 1, 2011, when a 47% interest was transferred to our partner.

Therefore, from March 29, 2011 to September 1, 2011, the Group's investment in associate held for sale was presented at its fair value (€46 million). The fair value retained was based on the consideration Gemalto was entitled to receive upon the completion of the restructuring deed, increased by all dividends receivable with respect to financial years 2008 to 2010. The recognition of the equity investment at fair value gave rise to a €19 million gain presented in the line item 'Gain on remeasurement to fair value of an investment in associate' in the consolidated income statement.

Year ended December 31,	
	2011
Impact of the change of control:	
Fair value of the investment in associate classified as held for sale	45,810
Less Gemalto's share in the carrying value of the joint venture	(26,570)
Difference arising from the remeasurement to fair value	19,240

On August 24, 2011, the value of our investment in associate held for sale was decreased by €12 million corresponding to the cash inflow received with respect to the dividends for the financial years 2008 to 2010. On September 1, 2011, the ownership interest in the associate held for sale has been reduced to 20% upon the sale of a 47% interest to the partner for €25 million.

The value of our remaining 20% interest in the associate (€9 million) has been reclassified from asset held for sale to investment in associate (see note 10).

Year ended December 31,		
	2010	2011
Assets held for sale as of beginning of period	1,711	57,183
Additions	55,058	5,346
Reclassification from liabilities held for sale	–	(21,076)
Cancellation of non-controlling interests in the joint venture	–	(10,229)
Reassessment to fair value	–	19,240
Dividend received	–	(12,209)
Disposal	–	(25,000)
Reclassification to investment in associate	–	(8,601)
Currency translation adjustment	414	(2,943)
Assets held for sale as of end of period¹⁵	57,183	1,711

Year ended December 31,		
	2010	2011
Liabilities held for sale as of beginning of period	–	19,788
Additions	19,636	2,499
Reclassification to assets held for sale	–	(21,076)
Currency translation adjustment	152	(1,211)
Liabilities held for sale as of end of period	19,788	–

¹⁵ As at December 31, 2011, the assets held for sale related to a building located near Orleans (France).

Discontinued operation

In 2011, Gemalto incurred some residual costs relating to its former POS solutions business, which was discontinued on December 31, 2010. All these costs have been classified under the line item 'Profit (loss) from discontinued operation (net of income tax)' in our consolidated income statement. The net gain/(loss) from discontinued operation comprises the following:

Year ended December 31,		
In thousands of Euro (except earnings per share)	2010	2011
Revenue of discontinued operation	50,776	–
Cost of sales	(36,199)	(7)
Gross profit of discontinued operation	14,577	(7)
Operating expenses	(13,912)	(1,405)
Operating profit (loss) of discontinued operation	665	(1,412)
Financial income (expense), net	–	–
Profit before income tax of discontinued operation	665	(1,412)
Income tax expense	–	–
Profit (loss) from discontinued operation	665	(1,412)
Loss on sale of discontinued operation	(2,969)	(142)
Income tax on loss on sale of discontinued operation	(118)	–
Profit (loss) from discontinued operation (net of income tax)	(2,422)	(1,554)
Attributable to:		
– Owners of the Company	(2,422)	(1,554)
– Non-controlling interests	–	–
– Weighted average number of shares outstanding (in thousands)	83,031	83,086
– Weighted average number of shares outstanding assuming dilution (in thousands)	84,400	85,383
Earnings per share – discontinued operation		
Basic earnings per share	(0.03)	(0.02)
Diluted earnings per share	(0.03)	(0.02)

Note 12. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2010	2011
Loan receivable from former Gemplus Board chairman (net of provision)	9,097	9,296
Research tax credit	10,940	10,214
Long-term deposits ¹⁶	3,583	2,660
Tax receivable	7,013	6,468
Other ¹⁷	2,702	15,376
Total	33,335	44,014

¹⁶ The €2,660 carrying value of long-term deposits is assessed to be equivalent to their fair value.

¹⁷ "Other" includes a €7,000 deferred consideration receivable related to the sale of an investment in associate held for sale.

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

Note 13. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2010	2011
Gross book value		
Raw materials and spares	41,877	61,712
Work in progress	86,875	89,374
Finished goods	40,503	39,657
Total	169,255	190,743
Obsolescence reserve		
Raw materials and spares	(4,645)	(6,524)
Work in progress	(4,981)	(7,121)
Finished goods	(4,375)	(4,431)
Total	(14,001)	(18,076)
Net book value	155,254	172,667

Note 14. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2010	2011
Trade receivables	398,367	404,140
Provision for impairment of receivables	(8,576)	(9,546)
Trade receivables, net	389,791	394,594
Prepaid expenses	13,521	17,576
VAT recoverable and tax receivable	51,761	62,260
Advances to suppliers and related	8,756	11,579
Unbilled customers	42,198	53,482
Other	31,072	19,266
Total	537,099	558,757

Note 15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2010	2011
Cash at bank and in hand	98,345	93,678
Short-term bank deposits and investment funds	157,765	236,706
Total	256,110	330,384

The average effective interest rate on short-term deposits was 1.61% in 2011 (1.43% in 2010). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds or in commercial paper, with maturities of less than three months at the balance sheet date.

The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	Year ended December 31,	
	2010	2011
Cash and cash equivalents	256,110	330,384
Bank overdrafts	(212)	(315)
Cash included in assets classified as held for sale	19,403	–
Total	275,301	330,069

Note 16. Borrowings

Borrowings consist of the following:

			Year ended December 31,	
			2010	2011
Non-current portion				
Other financial liability			8,997	2,121
Finance lease liabilities			5,775	3,641
Total non-current portion			14,772	5,762
Current portion				
Short-term loans			2,875	2,140
Bank overdrafts			212	315
Other financial liability			–	10,443
Finance lease liabilities			2,336	2,363
Total current portion			5,423	15,261
Total			20,195	21,023

In 2010 and 2011, the Group refinanced its back-up credit facilities by arranging a series of bilateral committed revolving credit lines, arranged with first rank banks. The total amount is €300 million and the maturities fall between December 9, 2014 and February 16, 2016.

The nominal interest rates as at December 31, 2010 and 2011 were as follows:

		2010								
		Amount	EUR	XAF	SGD	PLN	GBP	AED	INR	CNY
Other financial liability	Floating rate	10,297	2.27%	–	0.78%	–	n/a	–	–	n/a
Short-term loans and bank overdrafts	Floating rate	1,787	–	–	–	–	–	n/s	–	n/s
Finance lease liabilities	Floating rate	7,804	1.50%	–	–	–	–	–	–	–
Finance lease liabilities	Fixed rate	307	n/s	–	–	–	9.00%	–	–	–

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

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.

The syndicated bank loan facility of USD250 million was cancelled on October 21, 2010.

None of the bilateral credit lines were drawn respectively at December 31, 2010 and December 31, 2011.

To the exception of minor finance leases totaling €0.3 million as at December 31, 2011, the total amount of borrowings is based on floating interest rates.

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

	Year ended December 31,	
	2010	2011
Euro (EUR)	10,255	7,388
British Pound (GBP)	6,419	10,443
Arab Emirates Dirham (AED)	22	42
Chinese Yuan (CNY)	2,562	2,240
US Dollar (USD)	937	910
Total	20,195	21,023

Finance lease liabilities are split by maturity as follows:

	Year ended December 31,	
	2010	2011
Finance lease liabilities		
– minimum lease payments		
Not later than 1 year	2,450	2,474
Later than 1 year and not later than 5 years	5,918	3,720
Total	8,368	6,194
Future finance charges on finance leases	(257)	(190)
Present value of finance lease liabilities	8,111	6,004

The present value of finance lease liabilities is as follows:

	Year ended December 31,	
	2010	2011
Not later than 1 year	2,336	2,362
Later than 1 year and not later than 5 years	5,775	3,642
Total	8,111	6,004

Note 17. Employee benefit obligations

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

In addition to the above, the Group has defined benefit plans consisting of final retirement salary, committed pension payments, long service awards (jubilees) and other type of schemes. The primary defined benefit plans are situated in France and the UK.

In France, the labor law and specific industry labor agreements require that final retirement salary is made to all French employees upon retirement. The amount depends on the length of service on the date the employee reaches retirement age. Long service awards are also granted. In the UK, the arrangement consists of a funded salary pension under which retired employees draw their benefits as an annuity. This scheme was terminated on March 31, 2007 and the Group ceased to accrue benefits, and a new scheme was put in place. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan effective from April 1, 2007.

Other less significant defined benefit plans are applied in other countries such as Germany, Finland, Italy, Mexico, Poland and South Africa.

Actuarial evaluations have been performed and the net obligations as at December 31, 2010 and 2011 were as follows:

	Year ended December 31,	
	2010	2011
France	27,555	32,460
UK	7,181	8,813
Other countries	8,851	10,197
Total	43,587	51,470

The amounts recognized in the income statement in respect of defined benefit plans are as follows:

	Year ended December 31,	
	2010	2011
Current period service cost	2,975	4,635
Past service cost	581	405
Interest cost	3,520	4,166
Expected return on plan assets	(777)	(1,721)
Curtailment	(138)	(408)
Total	6,161	7,077

The following table sets forth the funded status of defined benefit plans by country:

Year ended December 31, 2010	France	UK	Other countries	Total
Projected benefit obligations	29,995	36,370	18,213	84,578
Plan assets at fair value	–	29,189	9,362	38,551
Projected benefit obligations in excess of plan assets	29,995	7,181	8,851	46,027
Past service costs	(2,440)	–	–	(2,440)
Net liability	27,555	7,181	8,851	43,587

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

The amounts recognized in the income statement in respect of defined benefit plans by country are as follows:

	Year ended December 31,	
	2010	2011
France	4,059	4,126
UK	719	419
Other countries	1,383	2,532
Total	6,161	7,077

Projected benefit obligations

Changes in the projected benefit obligations over the year are as follows:

	Year ended December 31,	
	2010	2011
Beginning of period	61,028	84,578
Current period service cost	3,280	4,414
Interest cost	3,520	4,171
Acquisition of subsidiary and business	8,196	271
Past service cost	3,158	405
Reclassifications	595	380
Actuarial loss recognized	5,852	3,465
Benefits paid	(2,348)	(2,678)
Discontinued operation	(595)	–
Gain on curtailment	(139)	(408)
Currency translation adjustment	2,031	869
End of period	84,578	95,467

Plan assets

Changes in the fair value of the plan assets are as follows:

	Year ended December 31,	
	2010	2011
Beginning of period	28,491	38,551
Actual return on plan assets	2,976	1,142
Acquisition of subsidiary and business	4,842	–
Contribution to the plan	2,083	1,897
Reclassifications	–	466
Benefits paid	(1,340)	(1,134)
Currency translation adjustment	1,499	807
End of period	38,551	41,729

In France, the regulations do not provide for any obligation to fund the liability arising from IFC which are lump-sum payments made to employees upon their retirement. In the UK, Germany and Finland, plan assets are comprised of equity securities, corporate bonds and other investments. The plan assets are composed of the following:

	Year ended December 31,	
	2010	2011
Equity securities	17,518	18,193
Government bonds	11,464	12,423
Other investments	9,569	11,113
Total plan asset fair value	38,551	41,729

Return on plan assets

The actual return on plan assets amounted to €1,142 in 2011 and €2,976 in 2010. In addition to the above, the benefit obligation liability experienced an increase as a result of a lower discount rate and a stable inflation rate within the Eurozone plans.

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.

Changes in other comprehensive income are as follows:

	Year ended December 31,	
	2010	2011
Beginning of period	(995)	(4,649)
Recognized during the period	(3,654)	(4,044)
End of period	(4,649)	(8,693)

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2010	2011
France		
Discount rate	4.75%	4.50%
Future salary increase	3.50%	3.50%
Inflation rate	2.00%	2.00%
UK		
Discount rate	5.45%	4.70%
Inflation rate	3.50%	3.00%
Expected rate of return on plan assets	6.86%	6.55%

Discount rate source

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

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

Sensitivity analysis

The following table shows the sensitivity of the UK and French liabilities for the year ended December 31, 2011 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	(5,862)	6,678
Inflation rate	3,116	(2,711)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TV/ TD/TV 2006-2008 for France and (ii) Px92 with Medium Cohort Improvement, 1% floor for the UK.

Assumptions regarding future longevity are based on published statistics and longevity tables. The current longevity assumptions underlying the values of the liabilities in the defined benefit plans are as follows:

Year ended December 31, 2010	France	UK
Longevity at age 65 for current pensioners (years)		
Males	18.1	22.7
Females	22.4	26.0

Longevity at age 65 for current members aged 45 (years)		
Males	18.1	24.7
Females	22.4	28.1

Year ended December 31, 2011	France	UK
Longevity at age 65 for current pensioners (years)		
Males	18.2	22.7
Females	22.4	26.0

Longevity at age 65 for current members aged 45 (years)		
Males	18.2	24.7
Females	22.4	28.1

Historical data

	Year ended December 31,		
	2010	2009	2008
Projected benefit obligations	84,578	61,028	47,275
Plan assets at fair value	(38,551)	(28,491)	(21,810)
Deficit/(surplus) in the plan	46,027	32,537	25,465
Experience adjustments arising on plan liabilities	1,191	(30)	564
Experience adjustments arising on plan assets	1,154	(141)	19

Note 18. Non-current provisions and other liabilities

	Year ended December 31,	
	2010	2011
Non-current provisions	37,116	43,353
Other non-current liabilities	34,596	32,875
Total	71,712	76,228

Other liabilities consist of the following:

	Year ended December 31,	
	2010	2011
Former management compensation ¹⁸	9,098	9,297
Government grants	8,473	8,288
Long-term payables ¹⁹	17,025	15,290
Total other non-current liabilities	34,596	32,875

¹⁸ Former management compensation relates to former Gemplus Board chairman's termination package conditioned to the refund of a loan granted to him by Gemplus in 2000 (see note 12).

¹⁹ The €15,290 carrying value of long-term payables is assessed to be equivalent to their fair value.

Variation analysis of the non-current provisions is as follows:

	Warranty non-current	Restr. & Reorg. Reserves	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2010	5,404	4,319	2,562	17,661	4,830	34,776
Additional provisions	1,267	332	311	2,985	791	5,686
Acquisition of a subsidiary	–	–	1,406	6,770	317	8,493
Unused amount reversed	(475)	(2,177)	(882)	(6,646)	(961)	(11,141)
Used during the period	(129)	(832)	(1,376)	(255)	(1,356)	(3,948)
Discontinued operation	(28)	–	–	–	(160)	(188)
Reclassifications	182	120	355	56	546	1,259
Cumulative translation adjustment	35	266	37	1,697	144	2,179
As of December 31, 2010	6,256	2,028	2,413	22,268	4,151	37,116

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

Note 19. Trade and other payables

Trade and other payables for the years ended December 31, 2010 and 2011 consist of the following:

	Year ended December 31,	
	2010	2011
Trade payables	188,106	188,792
Employee related payables	148,076	151,574
Accrued expenses	54,371	59,689
Accrued VAT	22,177	22,497
Deferred revenue	45,201	41,320
Other	5,163	3,343
Total trade and other payables	463,094	467,215

Note 20. Derivative financial instruments

As set out in note 3 'Financial risk management', Gemalto enters into foreign exchange contracts as cash flow hedges and fair value hedges in order to manage its foreign currency exposure incurred in the normal course of business.

As at December 31, 2011, 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 designated as fair value hedges of assets and liabilities denominated in the same currencies and in South African Rand.

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

	Year ended December 31,													
	2010							2011						
	USD	GBP	JPY	SGD	PLN	ZAR		USD	GBP	JPY	SGD	PLN	ZAR	Other
Cash flow hedges														
Forward contracts	9,879	(539)	(1,684)	232	866	–		4,316	(574)	(2,063)	1,875	(1,385)	–	7
Option contracts	–	–	(904)	–	–	–		(10,453)	(288)	(1,504)	–	–	–	–
Fair value hedges														
Forward contracts	(913)	(192)	33	(43)	(40)	(465)		(2,011)	(68)	(138)	47	(62)	(164)	–
Option contracts	–	–	(535)	–	–	–		–	–	(755)	–	–	–	–
	8,966	(731)	(3,090)	189	826	(465)		(8,148)	(930)	(4,460)	1,922	(1,447)	(164)	7

At the balance sheet date, the above cash flow hedging contracts represented for Gemalto unrecognized pre-tax profits of €8.6 million and losses of €11.6 million which were recorded in equity. Under constant market conditions, these profits and losses would be reclassified as debits or credits to sales or cost of sales over the next 24 months.

The effective portion of Gemalto's cash flow hedges generated a €10.6 million net gain in 2011 (€2.3 million net loss in 2010). Foreign exchange transactions, fair value and disqualified hedges, and the ineffective portion of Gemalto's cash flow and fair value hedges generated a €6.8 million loss in 2011 (€1.0 million loss in 2010, see note 27).

Note 21. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2010	2011
Warranty – current	4,527	2,809
Provisions for loss on contract	534	106
Restructuring and reorganization	2,141	5,090
Other current liabilities	6,508	2,078
Total current provisions and other liabilities	13,710	10,083

	Warranty – current	Provisions for loss on contract	Restr. & Reorg. Reserves	Other current liabilities	Total
As of January 1, 2010	3,200	1,248	3,790	17,776	26,014
Additional provisions	1,281	468	1,315	1,094	4,158
Acquisition of a subsidiary	2,302	342	1,359	767	4,770
Unused amount reversed	(858)	(1,108)	(852)	(2,762)	(5,580)
Used during the period	(1,265)	(416)	(3,363)	(9,211)	(14,255)
Discontinued operation	(127)	–	–	–	(127)
Reclassifications to liabilities held for sale	–	–	–	(792)	(792)
Other reclassifications	(107)	–	(120)	(492)	(719)
Cumulative translation adjustment	101	–	12	128	241
As of December 31, 2010	4,527	534	2,141	6,508	13,710

	Warranty – current	Provisions for loss on contract	Restr. & Reorg. Reserves	Other current liabilities	Total
As of January 1, 2011	4,527	534	2,141	6,508	13,710
Additional provisions	755	–	4,224	1,094	6,073
Acquisition of a subsidiary	–	50	–	–	50
Unused amount reversed	(1,379)	(52)	(152)	(1,872)	(3,455)
Used during the period	(566)	(412)	(1,278)	(3,615)	(5,871)
Reclassifications	(512)	4	19	–	(489)
Cumulative translation adjustment	(16)	(18)	136	(37)	65
As of December 31, 2011	2,809	106	5,090	2,078	10,083

Note 22. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2010	2011
Sales of goods	1,624,472	1,723,140
Revenue from services	253,557	272,875
Others	27,539	19,369
Total	1,905,568	2,015,384

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

Note 23. Costs of sales and operating expenses by nature

The costs of sales and operating expenses by nature are as follows:

	Year ended December 31,	
	2010	2011
Depreciation, amortization, impairment charges and write-offs	61,595	76,369
Amortization and impairment charges related to the accounting treatment of the combinations	22,792	24,828
Employee compensation and benefit expense (see note 24)	615,659	673,697
Change in inventories (finished goods and work in progress)	(12,860)	3,423
Raw materials used and consumables	700,625	704,019
Freight and transportation costs	53,622	54,109
Travel costs	41,794	44,073
Building and office leases	72,518	74,893
Royalties, legal and professional fees	114,495	117,097
Subcontracting and temporary workforce	82,713	80,080
Gain on remeasurement to fair value of an investment in associate	–	(19,240)
Other	(10,801)	(1,346)
Total expenses	1,742,152	1,832,002

Note 24. Employee compensation and benefit expense

	Year ended December 31,	
	2010	2011
Wages and salaries (including severance costs incurred in 2010 and 2011 and recorded in restructuring and acquisition-related expenses)	522,422	565,638
Pension – Defined benefit plans	3,418	4,632
Pension – Defined contribution plans	21,847	24,076
Share-based compensation expense	18,645	28,673
Other	49,327	50,678
Employee compensation and benefit expense	615,659	673,697

Note 25. Share-based compensation plans

All share and exercise prices, as well as dividend amount 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 main characteristics of the share option plans granted by the Board of Gemalto N.V. since 2004.

Share options granted	Grant date	Exercise price (Euro)	Valuation assumptions used (stochastic models)
3,196,000	May 04	14.80	<ul style="list-style-type: none"> • No dividend • Expected volatility of 25% • Risk-free interest rate of 3% • Expected option life of 4.13 years
5,000	Dec 04	18.21	<ul style="list-style-type: none"> • No dividend • Expected volatility of 25% • Risk-free interest rate of 3% • Expected option life of 3 years
15,000	Jun 05	22.41	<ul style="list-style-type: none"> • No dividend • Expected volatility of 27% • Risk-free interest rate of 3% • Expected option life of 4.5 years
685,000	Sep 05	30.65	<ul style="list-style-type: none"> • No dividend • Expected volatility of 28% • Risk-free interest rate of 2.8% • Expected option life of 4.12 years
1,600,000	Jun 06	23.10	<ul style="list-style-type: none"> • No dividend • Expected volatility of 36% • Risk-free interest rate of 3.8% • Expected option life of 3.7 years
872,000	Sep 07	20.83	<ul style="list-style-type: none"> • No dividend • Expected volatility of 28.5% • Risk-free interest rate between 4.01% and 4.15% • Expected option life between 1.5 and 4.5 years
1,399,000	Sep 08	26.44	<ul style="list-style-type: none"> • No dividend • Expected volatility between 30% and 39% • Risk-free interest rate between 4.02% and 4.17% • Expected option life between 1.5 and 4.5 years

For all the share option plans listed in the table above (except for the June 2006 plan), the vesting schedule differs, depending on the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4-year period. For the June 2006 plan, the vesting schedule varied from a full vesting after 18 months to a cliff vesting at the end of the 4-year period.

For the share options granted in 2004, 2005 and 2006, volatility was determined by calculating the historical volatility of the Company's share price returns over the last 360 market days prior to the grant date, when enough historical data were available. For the share options and the restricted share units granted in 2007, and for the share options granted in 2008, the historical volatility of the Company's share price returns over the last 360 market days prior to the grant date was adjusted to take into account a negative volatility curve.

The following table summarizes information with respect to Gemalto share options outstanding as at December 31, 2010 and 2011 (excluding Gemplus share options):

Grant date	Exercise price (Euro)	Number of options	Number of options
		outstanding as of December 31, 2010	outstanding as of December 31, 2011
17 May 04	14.80	798,994	344,332
01 Jun 05	22.41	15,000	–
08 Sep 05	30.65	575,500	461,500
02 Jun 06	23.10	1,092,152	867,730
27 Sep 07	20.83	683,250	452,278
25 Sep 08	26.44	1,323,250	1,260,940
		4,488,146	3,386,780

Gemalto restricted share units (RSUs)

The following table summarizes the main characteristics of the restricted share unit plans granted by the Board of Gemalto N.V. since 2007:

RSU granted	Grant date	Vesting schedule and conditions	RSUs vested	Valuation assumptions used
560,000	Sep 07	<ul style="list-style-type: none"> End of the vesting period: Dec 10 Vesting conditions are both service-based and performance-based 	840,000	<ul style="list-style-type: none"> Share price of €20.36 No dividend Risk-free interest rate of 4.17% Implicit volatility of 28.5% Fair value discounted by 4% for each year of restriction on share trading Stochastic model used
611,500	Oct 09	<ul style="list-style-type: none"> End of the vesting period: Oct 12 Vesting conditions are both service-based and performance-based 20,000 RSUs were forfeited as at December 31, 2011 	nil	<ul style="list-style-type: none"> Share price of €30.71 Dividend of €0.20 per share 1-year risk-free rate of 0.69% 2-year risk-free rate of 1.27% 3-year risk-free rate of 1.67% Fair value discounted by 7.5% for each year of restriction on share trading
380,318	Mar 10	<ul style="list-style-type: none"> End of the vesting period: Mar 13 Vesting conditions are both service-based and performance-based 30,121 RSUs were forfeited as at December 31, 2011 	nil	<ul style="list-style-type: none"> Share price of €30.20 Dividend of €0.25 per share 1-year risk-free rate of 0.56% 2-year risk-free rate of 0.92% 3-year risk-free rate of 1.37% 4-year risk-free rate of 1.82% 5-year risk-free rate of 2.27% Fair value discounted by 4.49% for each year of restriction on share trading
990,000	Mar 11	<ul style="list-style-type: none"> Maximum end of the vesting period: Mar 14 Vesting conditions are both service-based and market-based: the performance vesting condition is based on the stock market value of the Gemalto share in average for a period, and the service vesting condition is being an employee of Gemalto at the time the performance vesting condition is met. 	nil	<ul style="list-style-type: none"> Share price of €34.84 Risk-free interest rate of 2.22% Expected volatility of 30% Fair value discounted by 4.72% for each year of restriction on share trading Stochastic model used
199,500	Mar 11	<ul style="list-style-type: none"> End of vesting period: Mar 14 Vesting conditions are service-based 4,500 RSUs were forfeited as at December 31, 2011 	nil	<ul style="list-style-type: none"> Share price of €34.84 1-year risk-free rate of 1.13% 2-year risk-free rate of 1.81% 3-year risk-free rate of 2.16% 4-year risk-free rate of 2.50% 5-year risk-free rate of 2.85% Fair value discounted by 4.72% for each year of restriction on share trading.

264,000 additional RSUs from the March 2011 plan vested between December 31, 2011 and the date of publication of these consolidated financial statements (see note 30).

The use of different metrics in one of the 2011 plans led to a significantly shorter amortization period for this plan compared with the 2010 plan.

Gemplus S.A. and Gemplus International S.A. share option plans

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on December 6, 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the 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 with Gemalto shares.

Grant date	Exercise price (Euro)	Year ended December 31,	
		2010	2011
		Number of options outstanding as of December 31, 2010	Number of options outstanding as of December 31, 2011
13 Jun 01	45.75	420	–
13 Jun 01	47.38	6,903	–
14 Sep 01	32.00	4,715	–
03 Dec 01	35.00	904	–
31 Jan 02	28.75	2,260	–
29 Jul 02	14.13	9,042	9,042
29 Aug 02	24.88	361,664	35,000
10 Dec 02	12.38	170,875	120,849
29 Apr 03	10.50	904	904
22 Jul 03	15.50	1,693	922
14 Aug 03	13.50	54,250	19,855
14 Aug 03	9.13	90,416	90,416
01 Oct 03	16.75	147,411	101,367
01 Oct 03	16.13	43,014	38,194
21 Apr 04	20.13	762	–
21 Apr 04	16.00	18,083	18,083
18 Apr 05	20.13	36,166	36,166
23 May 05	19.13	37,976	37,976
27 May 05	19.50	70,567	45,673
25 Aug 05	22.00	3,526	3,526
26 Aug 05	22.25	36,166	17,125
10 Apr 06	27.50	2,042	2,042
		1,099,759	577,140

The fair value of each grant has been calculated as of June 2, 2006. It has been estimated on the date of grant using a stochastic option-pricing model. The following average parameters were used: no dividend, volatility of 32% and risk-free interest rate from 3.71% to 3.97%. Options typically vest in equal amounts over a period of three to four years.

In the income statements for the periods ended December 31, 2010 and 2011, the compensation expense corresponding to the amortization of the fair value of all the outstanding share options and restricted share units was recorded as follows:

	Year ended December 31,	
	2010	2011
Cost of sales	2,400	2,658
Research and engineering expenses	750	1,729
Sales and marketing expenses	6,775	11,332
General and administrative expenses	7,969	12,487
	17,894	28,206

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,			
	2010		2011	
	Average exercise price (Euro)	Outstanding options	Average exercise price (Euro)	Outstanding options
Beginning of the period	23.25	6,874,975	22.35	5,587,905
Granted	–	–	–	–
Forfeited	41.29	(494,438)	27.78	(44,940)
Exercised ²⁰	18.32	(792,632)	20.56	(1,579,045)
End of the period	22.35	5,587,905	22.99	3,963,920

²⁰ In 2010, 792,632 share options were exercised of which 99 were not delivered but settled in cash. In 2011, 1,579,045 share options were exercised of which 64 were not delivered but settled in cash.

As of December 31, 2011, the average remaining life of the 3,963,920 outstanding options was 4.6 years. It was 5.2 years as of December 31, 2010 for the 5,587,905 options.

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

	Year ended December 31,			
	2010		2011	
Expiry date	Average exercise price (Euro)	Outstanding options	Average exercise price (Euro)	Outstanding options
2011	40.86	12,941	–	–
2012	20.79	543,840	15.00	164,889
2013	14.56	1,021,697	14.21	493,906
2014	15.74	148,831	14.98	120,168
2015	25.87	1,379,838	25.93	1,081,572
2016	23.05	474,258	23.05	390,166
2017	20.83	683,250	20.83	452,278
2018	26.44	1,323,250	26.44	1,260,941
		5,587,905		3,963,920

Out of the 3,963,920 above mentioned outstanding options as of December 31, 2011, a total of 2,925,920 are vested and exercisable at a €21.76 average exercise price.

Gemalto Employee Share Purchase Plans

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

Employee Share Purchase plan 2010

In the period from October 25, 2010 to November 5, 2010, Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing prices for the Gemalto share on October 25, 2010 and November 5, 2010. 39,602 Treasury shares were subscribed by the employees at €27.58 per share. The compensation expense corresponding to the discount granted to employees under that program of €193

was recorded as a compensation expense in the 2010 income statement: €24 were recorded in cost of sales, €64 in research and development expenses, €10 in sales and marketing expenses and €95 in general and administrative expenses.

Employee Share Purchase plan 2011

In the period from October 24, 2011 to November 4, 2011, Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing prices for the Gemalto share on October 24, 2011 and November 4, 2011. 45,072 Treasury shares were subscribed by the employees at €28.00 per share. The compensation expense corresponding to the discount granted to employees under that program of €233 was recorded as a compensation expense in the 2011 income statement: €21 were recorded in cost of sales, €14 in research and development expenses, €99 in sales and marketing expenses and €99 in general and administrative expenses.

Note 26. Other income (expense), net

	Year ended December 31,	
	2010	2011
Fixed assets write-offs and net gains/losses on sales	113	504
Compensation from customers and suppliers, net	²¹ 6,089	4,159
Other	2,204	²² (4,630)
Total	8,406	33

²¹ Mainly composed in 2010 of a compensation resulting from the final judgment in a lawsuit.

²² Mainly composed of reserves to cover ongoing litigations.

Note 27. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2010	2011
Interest expense	(4,419)	(3,214)
Interest income	3,238	3,203
Foreign exchange transaction gains (losses):		
– Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	3,240	(2,897)
– Ineffective part of derivative instruments designated as cash flow hedges	(4,284)	(3,938)
Loss on sale of an available-for-sale financial asset	(730)	–
Other financial income (expense), net	3,751	(5,658)
Financial income (expense), net	796	(12,504)

Other financial income (expense) are mainly composed of:

- (i) reassessment to fair value of several financial liabilities, including liabilities related to commitments to non-controlling interests; and
- (ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries.

Note 28. Net foreign exchange gains (losses)

The exchange differences charged/credited to the income statement detail as follows (see note 20):

	Year ended December 31,	
	2010	2011
Net sales	(5,518)	10,575
Cost of sales	3,166	54
Financial income (expense), net	(1,044)	(6,835)
Net foreign exchange gains (losses)	(3,396)	3,794

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 are recorded in sales if the underlying net exposure is positive (net selling position) and in cost of sales if the underlying net exposure is negative (net buying position).

Note 29. Taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. Net amounts are as follows:

	Year ended December 31,	
	2010	2011
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	38,804	67,368
– Deferred tax asset to be recovered within 12 months	12,514	22,353
	51,318	89,721
Deferred tax liabilities:		
– Deferred tax liabilities due after more than 12 months	(18,799)	(23,387)
– Deferred tax liabilities due within 12 months	(414)	(418)
	(19,213)	(23,805)
Deferred tax assets (liabilities), net	32,105	65,916

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31,	
	2010	2011
Beginning of the period	1,899	32,105
Acquisition of subsidiary and business	(6,550)	(3,087)
Credited to income statement	32,248	37,642
Tax credit recognized in equity	1,252	288
Reclassification to liabilities held for sale	2,114	–
Cumulative translation adjustment	1,142	(1,032)
End of the period	32,105	65,916

Deferred tax assets and liabilities for the years ended December 31, 2010 and 2011 detail as follows:

	Year ended December 31,	
	2010	2011
Assets		
Loss carry-forward	37,468	57,451
Excess book over tax depreciation and amortization	5,212	12,371
Employee and retirement benefits	4,877	8,939
Warranty reserves and accruals	1,716	2,331
Other temporary differences	20,671	32,601
Total Assets	69,944	113,693
Liabilities		
Excess tax over book depreciation and amortization	(30,459)	(32,834)
Other temporary differences	(7,380)	(14,943)
Total Liabilities	(37,839)	(47,777)
Deferred tax assets (liabilities), net	32,105	65,916

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2010	2011
Current tax	(28,377)	(51,312)
Deferred tax	32,248	37,642
	3,871	(13,670)

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the tax rate applicable in the country of incorporation of the Company (i.e. the Netherlands), is as follows:

	Year ended December 31,			
	2010		2011	
	€	%	€	%
Profit (loss) before income tax	165,929	100.0	176,592	100.0
Tax calculated at the rate of the holding company	(42,312)	(25.5)	(44,148)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	12,224		29,982	
Effect of the reassessment of the recognition of deferred tax assets	35,660		30,683	
Effect of utilization of tax assets not recognized in prior years	12,410		6,842	
Effect of unrecognized deferred tax assets arising in the year	(6,494)		(24,073)	
Other permanent differences	(7,617)		(12,956)	
Income tax credit (expense)	3,871	2.3	(13,670)	(7.7)

In 2011, the Company recorded an income tax charge of €13.7 million on a pretax profit of €176.6 million. Deferred income tax assets are recognized for tax loss carry forwards and other future deductions to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of December 31, 2011, Gemalto did not recognize tax assets amounting to €330.7 million (€367.8 million as of December 31, 2010) relating to tax losses and other future tax deductions. Of this amount, €296.7 million²³ related to tax loss carry forwards amounting to €1,038.0 million²⁴ of which €943.3 million can be used indefinitely. In 2010 those amounts were €337.4 million, €1,031.3 million and €946.1 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.

²³ Including €234.3 million (€230.4 million in 2010) related to Gemplus International S.A. (Luxembourg) tax loss carry forwards.

²⁴ Including €818.8 million (€805.9 million in 2010) for Gemplus International S.A. (Luxembourg).

Note 30. Earnings per share

	Year ended December 31,	
	2010	2011
Basic		
Profit attributable to owners of the Company	163,920	160,115
Weighted average number of ordinary shares outstanding (thousands)	83,031	83,086
Basic earnings per share	1.97	1.93

	Year ended December 31,	
	2010	2011
Diluted		
Profit attributable to owners of the Company	163,920	160,115
Weighted average number of ordinary shares outstanding (thousands)	83,031	83,086
Dilution from share options (thousands)	1,369	2,297
Weighted average number of ordinary shares for diluted earnings per share (thousands)	84,400	85,383
Diluted earnings per share	1.94	1.88

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based payment 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 is used by the Company to purchase treasury shares at the average market price for the period. 264,000 new dilutive instruments have been created since December 31, 2011 and were not taken into consideration for the calculation of the diluted EPS at that date.

Note 31. Related party transactions

a) Key Management compensation

The compensation of key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether Executive or Non-executive – of the Company) paid in 2010 and 2011 by the Company is summarized as follows:

	Year ended December 31,	
	2010	2011
Salaries and other short-term employee benefits	9,036	9,079
Share-based compensation expense	9,367	15,157
Total expenses	18,403	24,236

Share-based compensation expense increased to €15,157 compared to €9,367 due mainly to the shorter amortization period of 18 months for the main part of the 2011 plan instead of 4 years for the previous plans.

b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2011, the Company purchased some €1,325 (€1,567 in 2010) of equipment under existing agreements. Mr. Alex Mandl, who has been the Company's Non-executive Chairman of the Board since December 2, 2007, is also a director of Dell Computer Corporation. Mr. Mandl had no involvement in this transaction.

In 2011, the Company purchased some €2,782 (€2,022 in 2010) of equipment and services under existing agreements from DataCard Corporation. Mr. Johannes Fritz heads the Quandt Family office, and certain members of the Quandt Family own the majority of DataCard Corporation shares. Mr. Fritz was not involved in these transactions.

In 2011, total purchases from associated companies was €3,439 (in 2010 €2,418).

c) Sales of goods and services

In 2011, total sales to related parties amounted to €1 (€38 in 2010).

In 2011, total sales to associated companies amounted to €2,173 (€5,776 in 2010).

d) Year-end balances arising from sales/purchases of goods and services:

	Year ended December 31,	
	2010	2011
Receivables from:		
Associates	1,464	3,000
Related parties	6	2
Total receivables	1,470	3,002
Payables to:		
Associates	353	432
Related parties	143	3,910
Total payables	496	4,342

All outstanding balances with these related parties are priced on an arm's-length basis.

e) Loans receivable from/payable to related parties

The Company has granted a loan in foreign currency substantially equivalent to €3 million to an associate. This loan is reported in current assets.

Note 32. Commitments and contingencies

Legal proceedings

The Company is subject to legal proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Schlumberger residuals

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and the Company agreed to carry out the complete transfer of the Schlumberger group's Cards and POS businesses to the Company or one of its subsidiaries.

These undertakings remain in effect as long as there are contracts, assets or liabilities falling within the scope of the Company's business that have not been transferred at the time of the Separation. This also applies to contracts, assets or liabilities falling within the scope of Schlumberger's business that have not been transferred at that same time.

Until the date of transfer of these contracts, assets or liabilities to the Company or to Schlumberger or in the event that they could not be transferred or shall not be transferred as agreed by the parties, Schlumberger and the Company have agreed to cooperate and execute the contracts or manage the assets and liabilities in the name of and for the account of the other party, pursuant to the instructions of such party, who will receive all profits and bear all losses resulting from these contracts, assets and liabilities.

Therefore, the activities, assets and liabilities pertaining to Schlumberger activities falling under the provisions of the Master Separation Agreement are not disclosed in the accompanying consolidated financial statements of the Company nor is the associated payable from the Company to Schlumberger or the associated receivable by the Company from Schlumberger.

As at December 31, 2011, the balance of the assets and liabilities belonging to Schlumberger was nil.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2011, are as follows:

	Year ended December 31,	
	2010	2011
Not later than 1 year	22,170	19,816
Later than 1 year and not later than 5 years	53,596	58,353
Later than 5 years	26,020	24,392
	101,786	102,561

Bank guarantees

As at December 31, 2011, bank guarantees, mainly performance and bid bonds, amounted to €46 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, 2011, the commitments to purchase these safety stocks valued at the average purchase price amounted to €34.4 million (€32.9 million in 2010).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.2 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Shanghai Axalto IC Card Technologies Co., Ltd commitment

Gemalto holds a 82.85% interest in Shanghai Axalto IC Card Technologies Co., Ltd, a Chinese joint venture. This joint venture is fully consolidated. Gemalto and the joint venture partners agreed that Gemalto guaranteed the profit of the joint venture would not be less than Chinese Renminbi 18 million (approximately €2 million) for 2010, 2011 and 2012. In exchange, Gemalto was granted and shall exercise control of the joint venture until December 31, 2012.

This liability towards the non-controlling interest has been recognized at fair value for Chinese Renminbi 6.1 million (approximately €0.7 million) as at December 31, 2011.

Note 33. Dividends

Amounts in this note are stated in Euro.

The AGM of May 18, 2011 has approved the distribution of a dividend of €0.28 per share in respect of the financial year 2010. This represents a €23,274,831 dividend.

Note 34. Post-closing events

In line with the agreement to purchase/sale the remaining 49.9% minority interest in Serverside Group Ltd, Gemalto acquired the remaining balance of the shares of Serverside Group Ltd from the founders and minority shareholders for GBP8.8 million (approximately €10.5 million). The transaction took place on January 3, 2012.

In February 2012, the Group completed the acquisition of a personalization center from a major financial institution in Latin America.

To management's knowledge, there is no other significant event that occurred since December 31, 2011 which would materially impact the consolidated financial statements.

Note 35. Consolidated entities

The consolidated financial statements as of December 31, 2011 include the accounts of Gemalto N.V. and the following entities:

Country of incorporation	Company name	Percentage of Group voting rights
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
Australia	Multos International Pty Ltd	100%
Australia	Netsize Pty Ltd	100%
Belgium	Gemventures 1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
Brazil	Gemalto do Brasil Cartões e Terminais Ltda	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	100%
British Virgin Islands	Axalto Technology Ltd	100%
Canada	Cinterion Wireless Modules Canada Inc.	100%
Canada	Gemalto Canada Inc.	100%
China	Axalto Smart Cards Technology Co. Ltd	100%
China	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
China	Gemalto Technologies (Shanghai) Co. Ltd	100%
China	Gemplus (Beijing) Electronics Research and Development Co. Ltd	100%
China	Gemplus (Tianjin) New Technologies Co. Ltd	100%
China	Gemplus International Trade (Shanghai) Co. Ltd	100%
China	Shanghai Axalto IC Card Technologies Co. Ltd	83%
China	Information Security Co Ltd Shenzhen Nan	100%
China	Tianjin Gemplus Smart Cards Co. Ltd	51%
China	Todos (Qingdao) Co. Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Czech Republic	Gemplus S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Finland	Gemalto Nordic Oy	100%
Finland	Gemalto Oy	100%
Finland	Valimo Wireless Oy	100%
France	CP8 Technologies S.A.	100%
France	Gemalto International S.A.S.	100%
France	Gemalto S.A.	100%
France	Gemalto Treasury Services S.A.	100%
France	MCTel France S.A.	100%
France	Netsize S.A.	100%
France	SLP S.A.S.	100%
France	Trusted Labs S.A.S.	100%
France	Trusted Logic Mobility S.A.S.	100%
France	Trusted Logic S.A.S.	100%
Germany	Celo Communications GmbH	100%
Germany	Cinterion Wireless Modules GmbH	100%
Germany	Gemalto GmbH	100%
Germany	Netsize Deutschland GmbH	100%
Germany	O3SIS AG	100%
Gibraltar	Zenzus Holdings Ltd	100%

Country of incorporation	Company name	Percentage of Group voting rights
Hong Kong	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
Hungary	Netsize KFT	97%
India	Cinterion Wireless Modules India Private Limited	100%
India	Gemalto Digital Security Private Ltd	100%
India	Gemalto Terminals India Private Ltd	100%
India	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Indonesia	100%
Indonesia	PT Gemalto Smart Cards	100%
Ireland	Celocom Ltd	100%
Ireland	Trusted Logic Ltd	100%
Israel	Trivnet Ltd	100%
Italy	Gemalto SPA	100%
Italy	Netsize Italia SRL	100%
Japan	Gemalto KK	100%
Japan	Trivnet Japan Ltd	100%
Luxemburg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
Malaysia	Gemalto Sdn Bhd	100%
Mexico	CP8 Mexico S.A. de CV	100%
Mexico	Gemalto Mexico S.A. de CV	100%
Monaco	MCTel S.A.M.	100%
Netherlands Antilles	Cards & Terminals N.V.	100%
New Zealand	Serverside Graphics (NZ) Limited	50%
Norway	Gemalto Norge AS	100%
Philippines	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Poland	Gemplus Sp. z o.o	100%
Russia	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Senegal	Gemalto Senegal S.A.R.L.	100%
Singapore	Gemalto Holding Pte Ltd	100%
Singapore	Gemalto Pte Ltd	100%
Singapore	Gemplus Asia Pacific Pte Ltd	100%
Singapore	MCTel Asia Pte Ltd	100%
Singapore	Multos International Pte Ltd	100%
Singapore	Netsize SGP Pte Ltd	100%
Singapore	Trusted Logic Asia (Pte) Ltd	100%
South Africa	Gemalto Pty Ltd	100%
South Africa	Gemalto Southern Africa Pty Ltd	70%
South Africa	Netsize Proprietary Ltd	100%
South Africa	Trusted Logic Africa Pty Ltd	100%
Spain	Gemalto SP S.A.	100%
Spain	Netsize Espana SL	99%

Country of incorporation	Company name	Percentage of Group voting rights
Sweden	AB Svenska Pass	100%
Sweden	Gemalto AB	100%
Sweden	Gemalto Sverige AB	100%
Sweden	Netsize Sverige AB	100%
Sweden	Todos AB	100%
Sweden	Todos eCode Security AB	100%
Switzerland	Gemplus Management & Trading S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Taiwan	Todos Security Asia Co. Ltd	100%
Thailand	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Axalto Cards Ltd	100%
United Kingdom	Gemalto Terminals Ltd	100%
United Kingdom	Gemalto UK Ltd	100%
United Kingdom	Gemplus Ltd	100%
United Kingdom	Maosco Ltd	100%
United Kingdom	Multos Ltd	100%
United Kingdom	Netsize UK Ltd	100%
United Kingdom	POSdesk Ltd	100%
United Kingdom	Serverside Group Limited	50%
United Kingdom	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
United States of America	Gemalto Inc.	100%
United States of America	Netsize Inc.	100%
United States of America	Serverside Graphics, Inc.	50%
United States of America	Trivnet Inc.	100%

For all the companies listed above, the percentage of ownership interest equals the percentage of voting rights with the exception of Serverside Graphics (NZ) Limited (New Zealand), Serverside Group Limited (UK), Serverside Graphics, Inc (United States of America), and Gemalto Southern Africa Pty Ltd (South Africa) for which the ownership interest is 100%.

Investments in associate

Country of incorporation	Company name	Percentage of Group voting rights
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	22%
France	Newcard S.A.S.	49%
France	Setelis S.A.	22%
Germany	CLM GmbH & Co. KG	50%
Germany	CLM GmbH	50%
Hong Kong	Gemplus Goldpac Group Ltd	20%
Japan	Toppan Gemalto Services Co. Ltd	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletec Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%

Company financial statements and notes of Gemalto N.V.

Company financial statements of Gemalto N.V.

- 130** Company statement of financial position
- 131** Company income statement
- 132** Company statement of changes in shareholders' equity

Notes to the Company financial statements of Gemalto N.V.

- 134** Note 1. Significant accounting policies
- 134** Note 2. Goodwill
- 134** Note 3. Property, plant and equipment
- 135** Note 4. Investments and loans
- 136** Note 5. Cash and cash equivalents
- 136** Note 6. Equity
- 137** Note 7. Borrowings from subsidiaries
- 137** Note 8. Long-term debt
- 137** Note 9. Employees
- 138** Note 10. Information relating to the Board
- 141** Note 11. Auditor's fees
- 141** Note 12. Guarantees granted by the Company
- 141** The Board

Company statement of financial position

Year ended December 31,

In thousands of Euro

Before appropriation of the result for the period

	Notes	2010	2011
Assets			
Non-current assets			
Goodwill	2	599,587	613,690
Property, plant and equipment	3	244	175
Investments in subsidiaries and associates	4	902,999	1,777,286
Long-term loans to subsidiaries	4	13,789	10,938
Total non-current assets		1,516,619	2,402,089
Current assets			
Short-term loans to subsidiaries	4	87,714	–
Receivables due from subsidiaries		5,202	3,849
Other receivables		6,140	2,101
Cash and cash equivalents	5	7,650	4,405
Total current assets		106,706	10,355
Total assets		1,623,325	2,412,444
Equity			
Issued and paid-in share capital	6	88,016	88,016
Share premium	6	1,209,437	1,209,216
Legal reserves	6	15,681	8,761
Other reserves	6	(61,886)	(70,184)
Retained earnings	6	180,382	320,587
Net profit for the period	6	163,920	160,115
Total equity		1,595,550	1,716,511
Liabilities			
Non-current liabilities			
Long-term borrowing from subsidiaries	7	–	3,988
Long-term debt	8	6,399	–
Provisions on investments in subsidiaries and associates	4	4,034	4,835
Total non-current liabilities		10,433	8,823
Current liabilities			
Short-term borrowing from subsidiaries	7	3,816	669,230
Payables to subsidiaries		8,652	2,934
Short-term debt		–	10,443
Other payables		4,874	4,503
Total current liabilities		17,342	687,110
Total liabilities		27,775	695,933
Total equity and liabilities		1,623,325	2,412,444

Company income statement

In thousands of Euro	Year ended December 31,	
	2010	2011
Loss, net of tax	(26,135)	(42,252)
Share of profit of subsidiaries, net of tax	190,055	202,367
Net profit for the period	163,920	160,115

Company statement of changes in shareholders' equity

In thousands of Euro	Number of shares ¹	
	Issued	Outstanding
Shareholders' equity as of January 1, 2010	88,015,844	82,776,213
Movements in fair value and other reserves:		
Currency translation adjustments		
Fair value gains/(losses), net of tax:		
– Financial assets available-for-sale		
– Actuarial gains and losses on benefit obligations, net of deferred tax		
– Cash flow hedges		
– Currency translation adjustments on fair value gains/(losses)		
Transfer from Other reserves to Legal reserves		
Net income recognized directly in equity		
Net profit for the period		
Total recognized income for 2010		
Share-based compensation expense		
Employee share option plans		836,289
Purchase of Treasury shares, net		(1,281,254)
Treasury shares used for the acquisition of Todos AB		800,000
Excess of purchase price on subsequent acquisition of Netsize S.A.		
Dividends paid/payable to shareholders		
Balance as of December 31, 2010	88,015,844	83,131,248
Movements in fair value and other reserves:		
Currency translation adjustments		
Fair value gains/(losses), net of tax:		
– Financial assets available-for-sale		
– Actuarial gains and losses on benefit obligations, net of deferred tax		
– Cash flow hedges		
– Currency translation adjustments on fair value gains/(losses)		
Transfer from Other reserves to Legal reserves		
Net income recognized directly in equity		
Net profit for the period		
Total recognized income for 2011		
Share-based compensation expense		
Employee share option plans		1,697,231
Purchase of Treasury shares, net		(1,808,943)
Excess of purchase price on subsequent acquisition of non-controlling interests		
Dividends paid/payable to shareholders		
Change in consolidation method ²		
Balance as of December 31, 2011	88,015,844	83,019,536

¹ As at December 31, 2011, the difference between the number of shares issued and the number of shares outstanding corresponds to the 4,996,308 shares held in treasury.
The Company financial statements should be read in conjunction with the consolidated financial statements.

² See note 11 to the consolidated financial statements.

Attributable to equity holders of the Company					
Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
88,016	1,215,868	7,461	(104,879)	201,226	1,407,692
		28,758			28,758
		1,572			1,572
			(2,402)		(2,402)
		1,071			1,071
			(938)		(938)
		(23,181)	23,181		–
		8,220	19,841		28,061
				163,920	163,920
		8,220	19,841	163,920	191,981
			19,447		19,447
			15,604		15,604
			(38,713)		(38,713)
			26,814		26,814
	(6,431)				(6,431)
				(20,844)	(20,844)
88,016	1,209,437	15,681	(61,886)	344,302	1,595,550
		2,223			2,223
		(662)			(662)
			(3,712)		(3,712)
		(14,649)			(14,649)
			(492)		(492)
		6,168	(6,168)		–
		(6,920)	(10,372)		(17,292)
				160,115	160,115
		(6,920)	(10,372)	160,115	142,823
			29,346		29,346
			33,848		33,848
			(61,120)		(61,120)
	(221)				(221)
				(23,275)	(23,275)
				(440)	(440)
88,016	1,209,216	8,761	(70,184)	480,702	1,716,511

Notes to the Company financial statements of Gemalto N.V.

The notes below are an integral part of the Company financial statements.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The Company financial statements of Gemalto N.V., with its statutory seat in Amsterdam ('the Company' or 'Gemalto'), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these Company financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

The Company's financial data are included in the consolidated financial statements. As allowed by section 402, Book 2 of the Netherlands Civil Code, the income statement is presented in a condensed form.

1.2 Investments

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Company calculates the net asset value using the accounting policies as described in note 2 to the consolidated accounts. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Company and including goodwill for subsidiaries indirectly owned by the Company, plus the Company's share in income and losses since acquisition, less dividends received. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments

(if any). Provision should be formed by the Company only if the Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the 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 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 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 Company's financial statements if this relates to an acquisition performed by the Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Note 2. Goodwill

	Goodwill
January 1, 2011	599,587
Acquisition of MCTel	12,173
Adjustment on 2010 acquisitions	410
Currency translation adjustment	1,520
December 31, 2011	613,690

Note 3. Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2011	
Gross book value	472
Accumulated depreciation	(228)
Net book value	244
2011 movements	
Additions	7
Depreciation	(76)
December 31, 2011	
Gross book value	479
Accumulated depreciation	(304)
Net book value	175

Note 4. Investments and loans

	Year ended December 31,	
	2010	2011
Investments in subsidiaries and associates	902,999	1,777,286
Provisions on investments in subsidiaries and associates	(4,034)	(4,835)
Net investments in subsidiaries and associates	898,965	1,772,451

An overview of the movements in investments and loans is presented below:

	Net Investments in subsidiaries	Investments in associates	Long-term loans to subsidiaries	Short-term loans to subsidiaries	Total
January 1, 2011	897,366	1,599	13,789	87,714	1,000,468
2011 movements					
Acquisition of MCTel	202				202
Adjustments on 2010 acquisitions	(410)				(410)
Contributions to subsidiaries	12,128				12,128
Internal acquisitions of investment by the Company from its own subsidiaries:					
Internal acquisition of 100% interest ownership in Gemalto Pte Ltd	680,000				680,000
Internal acquisition of 35% interest ownership in Gemalto Canada, Inc	1,600				1,600
Internal acquisition of 65% interest ownership in Gemalto Inc.	34,800				34,800
Internal acquisition of 100% interest ownership in Gemalto Mexico S.A. de C.V.	56,700				56,700
Internal acquisition of 100% interest ownership in Gemalto AB	7,516				7,516
Excess of purchase price on subsequent acquisition of some non-controlling interests	(221)				(221)
Change in consolidation method of Keynectis S.A.	(1,102)				(1,102)
Fair value gains	(18,853)				(18,853)
Dividends	(103,916)				(103,916)
Net result from subsidiaries	202,384				202,384
Net result from associates		(17)			(17)
Refund of loans			(900)	(87,714)	(88,614)
Revaluation through profit or loss			21		21
Currency translation adjustment	2,703	(28)	(1,972)		703
December 31, 2011	1,770,897	1,554	10,938	–	1,783,389

Loans to subsidiaries

Subsidiaries	Year Ended December 31, 2011	
	Long-term Loans	Short-term Loans
Gemalto Namitech Pty Ltd	10,124	–
PT Gemalto Smart Cards Indonesia	814	–
Total	10,938	–

On June 26, 2008, the Company financed a new Russian subsidiary, Gemalto LLC, with an interest-bearing loan denominated in Euro. The loan, with a maximum facility of €3.4 million, had a five-year maturity till June 2013. The loan has been fully repaid in December 2011 for €0.9 million.

On March 18, 2009, the Company financed its South African subsidiary with a non-interest-bearing loan denominated in South African Rand (ZAR). The loan, with a maximum facility of ZAR110 million, has a five-year maturity till March 18, 2014. The balance as at December 31, 2011 amounted to ZAR106.2 million, equivalent to €10.1 million (ZAR106.2 million equivalent to €12.1 million as at 31 December 2010).

On July 28, 2009, the Company financed its Indonesian subsidiary with an interest-bearing loan denominated in US Dollars (USD). The loan, with a maximum facility of USD1.1 million, has a five-year maturity till July 28, 2014. The balance as at December 31, 2011 amounted to USD1.1 million equivalent to €0.8 million (as at December 31, 2010 €0.8 million).

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2010	2011
Cash at bank and in hand	4,491	881
Short-term bank deposits and investment funds	3,159	3,524
Total	7,650	4,405

The average effective interest rate on short-term deposits was 0.38% in 2011 (0.31% in 2010).

Note 6. Equity

Share capital

The authorized share capital of the Company amounted to €150 million as at December 31, 2011 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, 2011 and 2010, and consisted of 88,015,844 ordinary shares with a nominal value of €1.

Share premium

As at December 31, 2011, the share premium amounted to €1,209,216 (€1,209,437 as at December 31, 2010).

In 2011, share premium decreased by €221 due to some transactions with non-controlling interests.

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, 2011	15,630	51	15,681
2011 movements	(13,088)	–	(13,088)
Transfers	6,168	–	6,168
December 31, 2011	8,710	51	8,761

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. As at December 31, 2011, 'Income recognized directly in equity' mainly consisted of cumulative translation adjustments for €8,102 and fair value adjustments on financial assets available-for-sale for €608. The transfer is due to the transfer to "Other reserves" of the reserves for cash flow hedges (as they became negative in 2011).

Other reserves

As at December 31, 2011, 'Other reserves' mainly consisted of Treasury shares for €(156,531), €(132,046) as at December 31, 2010), share option reserve amounting to €117,975 (€91,967 as at December 31, 2010), net gains on Treasury shares in connection with the liquidity program for €1,999 (€1,448 as at December 31, 2010), the reserve for actuarial gains and losses on benefit obligations for €(7,109) (€(3,397) as at December 31, 2010) and associated cumulative translation adjustments for €(1,427) (€(935) as at December 31, 2010), the reserve for cash flow hedges for €(6,168) and a loss on Treasury shares canceled for the share capital reduction in 2008 for €(18,923).

Note 7. Borrowings from subsidiaries

Borrowings from subsidiaries consist of the following:

	Year ended December 31,	
	Long-term Borrowings	Short-term Borrowings
Gemalto Treasury Services S.A.	–	668,011
Gemalto (Thailand) Ltd	–	1,219
Cards & Terminals N.V.	2,135	–
Axalto Cards & Terminals Ltd	1,853	–
Total	3,988	669,230

The Company borrows from or lends to Gemalto Treasury Services S.A., the Treasury Center entity. The agreement is valid for a time period of one year, automatically renewable for further periods of one year, if not cancelled. As at December 31, 2011, the amount borrowed by the Company amounted to €668.0 million (as at December 31, 2010, €87.7 million was lent by the Company).

On August 3, 2010, the Company received an interest-bearing loan for one year from its Thai subsidiary, Gemalto Thailand Ltd denominated in Thai Baht (THB) with a maximum capacity of THB50 million. The loan has been extended till August 3, 2012. As at December 31, 2011, the amount borrowed by the Company amounted to THB50 million equivalent to €1.2 million (as at December 31, 2010, THB50 million equivalent to €1.3 million).

On December 14, 2010, the Company concluded a loan agreement with its Curaçao subsidiary, Cards & Terminals N.V., at interest-bearing conditions. The loan, with a maximum facility extended to USD3.5 million has a three-year maturity. As at December 31, 2011, the amount borrowed by the Company amounted to USD2.8 million equivalent to €2.1 million (as at December 31, 2010, no drawdown was taken).

On December 14, 2010, the Company borrowed from its BVI subsidiary, Axalto Technology Ltd at interest bearing conditions an amount of USD1 million. The loan, with a maximum facility of USD1 million, had a three-year maturity. The borrowing has been fully repaid in September 2011 for USD1 million equivalent to €0.8 million.

On December 14, 2010, the Company borrowed from its BVI subsidiary, Axalto Cards & Terminals Ltd at interest-bearing conditions an amount of USD2.4 million. The loan, with a maximum facility of USD2.4 million has a three-year maturity. As at December 31, 2011, the amount borrowed amounted to USD2.4 million equivalent to €1.9 million (as at December 31, 2010, the amount borrowed by the Company amounted to USD2.4 million equivalent to €1.8 million).

Note 8. Long-term debt

	Year ended December 31,	
	2010	2011
Other financial liability	6,399	–
Total	6,399	–

The financial debt, reported as a long-term debt as at December 31, 2010, and related to the anticipated acquisition of an additional 49.9% interest in Serverside Group Ltd (SSGL), has been reclassified to short-term debt and amounted to €10,443 as at December 31, 2011.

Note 9. Employees

The average number of staff employed by the Company during 2011 was 12.0 (10.5 in 2010). None of these employees was employed abroad (none in 2010).

Note 10. Information relating to the Board

Amounts in this note are stated in Euro.

Remuneration of the Board

The Board currently consists of ten Board members: one Executive Board member, the CEO, and nine Non-executive Board members.

At the 2011 AGM, the terms of Messrs. A. Mandl and M Soublin ended.

Upon proposal by the Board, the 2011 AGM reappointed Mr. A. Mandl as Non-executive Board member for a second term and reappointed Mr. M. Soublin as Non-executive Board member for a third term, both terms ending at the close of the 2015 AGM.

At the 2012 AGM, the terms of Messrs. O. Piou, G. Fink, J. Fritz and A. van der Poel will end.

Gemalto Board		Board member fee per annum	Board committee fee per annum	Remuneration from January 1 until December 31, 2010
Fiscal year 2010				
Alex Mandl	Non-executive Chairman	200,000	12,000	212,000
Olivier Piou	Chief Executive Officer	35,000	–	35,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
David Bonderman	Non-executive Board member	65,000	8,000	73,000
Geoffrey Fink	Non-executive Board member	65,000	16,000	81,000
Johannes Fritz	Non-executive Board member	65,000	28,000	93,000
John Ormerod	Non-executive Board member	65,000	32,000	97,000
Michel Soublin	Non-executive Board member	65,000	16,000	81,000
Buford Alexander	Non-executive Board member	65,000	8,000	73,000
Philippe Alfroid	Non-executive Board member	40,425	8,066	48,491
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Total		795,425	172,066	967,491

Gemalto Board		Board member fee per annum	Board committee fee per annum	Remuneration from January 1 until December 31, 2011
Fiscal year 2011				
Alex Mandl	Non-executive Chairman	200,000	12,000	212,000
Olivier Piou	Chief Executive Officer	35,000	–	35,000
Kent Atkinson	Non-executive Board member	65,000	24,000	89,000
Geoffrey Fink	Non-executive Board member	65,000	16,000	81,000
Johannes Fritz	Non-executive Board member	65,000	28,000	93,000
John Ormerod	Non-executive Board member	65,000	32,000	97,000
Michel Soublin	Non-executive Board member	65,000	16,000	81,000
Buford Alexander	Non-executive Board member	65,000	8,000	73,000
Philippe Alfroid	Non-executive Board member	65,000	16,000	81,000
Arthur van der Poel	Non-executive Board member	65,000	20,000	85,000
Total		755,000	172,000	927,000

The remuneration of the Non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees is determined by the AGM. The remuneration is reviewed from time to time by the Compensation committee. The remuneration structure for the Non-executive Board members (per calendar year) is as follows:

- €200,000 per calendar year for the Non-executive Chairman of the Board;
- €65,000 per calendar year for each other Non-executive Board member;
- an additional fee of €24,000 per calendar year for the chairman of the Audit committee and an additional fee of €16,000 per calendar year for each member of the Audit committee;
- an additional fee of €12,000 per calendar year for the chairman of the other Board committees and an additional fee of €8,000 per calendar year for the other members of those Board committees.

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €4,876 in 2011.

The remuneration paid by the Company or by companies of the Group to the CEO, Mr. O. Piou, for the 2011 financial year is as follows:

	Total Reference Compensation	Bonus (percentage of on target Variable Incentive)	Total gross compensation paid for 2011
O. Piou ³	792,163	135%	2,066,615

³ Including Board member fees.

Mr. O. Piou was appointed as CEO in 2004 for a term of four years ending at the end of the AGM of May 14, 2008. He was reappointed as Board member with the title of CEO for a term of four years until the AGM of 2012. Mr. O. Piou has an employment contract (originally dated 1981), not limited in time, governed by French law with Gemalto International S.A.S., a Gemalto subsidiary and he enjoys any and all benefits that may be applicable to French employees. He has a six-month notice period.

Share options granted to Board members

Share options have been attributed under the Global Equity Incentive Plan as described in note 25 to the consolidated financial statements:

	Date of attribution	Number	Exercise price (€)	Fair value of share options granted (€)	Date of vesting
Alex Mandl	Jun 2006	200,000	23.10	1,052,000	18 months after the attribution
Olivier Piou	May 2004	600,000	14.80	2,230,662	4 years after the attribution
	Sep 2005	150,000	30.65	1,099,745	4 years after the attribution
	Jun 2006	200,000	23.10	1,269,781	4 years after the attribution
	Sep 2008	150,000	26.44	1,049,761	4 years after the attribution

On September 27, 2007, the Board granted to Mr. O. Piou Restricted Share Units (RSUs) with both performance and service vesting conditions. The number of RSUs could vary from 0 up to 80,000 with a maximum multiplier of three. The performance vesting condition is based on the stock market value of the Gemalto share, and the service vesting condition is being an employee of Gemalto at the time the performance vesting condition is met. 66% of the RSUs vested on September 9, 2008. An additional 84% of the RSUs vested on November 6, 2009. As per December 31, 2010, the remainder of the RSUs were not vested and hence were forfeited. Following the vesting, 120,000 RSUs were exchanged for 120,000 shares. The shares were subject to a holding period of two years as from the date of delivery of the shares, which holding period ended in 2011.

On October 2, 2009, the Board granted to Mr. O. Piou RSUs with both performance and service vesting conditions. The number of RSUs could vary from 0 up to 65,000. The performance vesting condition was based on the achievement of a certain adjusted EBIT for 2009, and the service vesting condition is being an employee of Gemalto on October 2, 2012. On March 2, 2010, the Board recognized that the performance vesting condition had been met. In case of vesting, the RSUs will be exchanged for shares, which will be subject to a holding period of two years as from the date of delivery of the shares.

On March 4, 2010, the Board granted to Mr. O. Piou RSUs with both performance and service vesting conditions. The number of RSUs could vary from 0 up to 32,500, with a maximum multiplier of two. The performance vesting condition was based on a certain profit from operations for 2010, and the service vesting condition is being an employee of Gemalto on March 4, 2013. On May 18, 2011, the performance vesting condition was met. As a consequence, the number of RSUs is now a maximum of 58,000. In case of vesting, if any, the RSUs will be exchanged for shares, which will be subject to a holding period of two years as from the date of delivery of the shares.

On March 10, 2011, the Board granted to Mr. O. Piou RSUs with both performance and service vesting conditions. The number of RSUs could vary from 0 up to 150,000. The performance vesting condition is based on the stock market value of the Gemalto share in average for a period, and the service vesting condition is being an employee of Gemalto at the time the performance vesting condition is met. In case of vesting, if any, the RSUs will be exchanged for shares. The shares will be subject to a holding period of two years as from the date of delivery of the shares. No RSU vested on December 31, 2011 and 40,000 RSUs vested between December 31, 2011 and the date of publication of these Company financial statements.

The gross compensation paid for 2011 (disclosed in section 'Remuneration of the Board' of this note) excludes share-based compensation charge.

Share-based compensation charge related to Mr. O. Piou's share options and RSUs amounted to €3,520,816 in 2011 (€2,123,334 in 2010). No charge was recorded during the period in relation with Mr. A. Mandl's share options (no charge in 2010 either). There is no forfeited share option in 2011.

Gemalto shares and rights to acquire Gemalto shares held by Board Members

Gemalto shares

Certain Board members are shareholders of the Company. On December 31, 2011, they jointly held 671,300 shares, of which Mr. O. Piou owned 667,000 shares. Mr. G. Fink owned 2,800 shares resulting from the exchange of Gemplus shares following the voluntary public exchange offer for the shares of Gemplus (the 'Offer') and Mr. M. Soublin owned 1,500 shares purchased in 2004.

FCPE units

On December 31, 2011, Mr. O. Piou owned 4,243.81 units in a FCPE (Fonds Commun de Placement d'Entreprise), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

Restricted Share Units (RSUs)

On December 31, 2011, Mr. O. Piou held a maximum of 273,000 RSUs, subject to performance and service conditions.

Gemalto share options

On December 31, 2011, Mr. O. Piou held 500,000 Gemalto share options, and Mr. A. Mandl indirectly held 200,000 Gemalto share options.

Gemplus share options

On December 31, 2011, the following Board members held Gemplus share options: Mr. A. Mandl indirectly held 437,500 and Mr. J. Fritz held 11,302. Those Gemplus share options can be exercised for Gemplus shares that can be exchanged for Gemalto shares at a ratio of 25/2, resulting in 35,000 Gemalto shares for Mr. A. Mandl and 904 Gemalto shares for Mr. J. Fritz.

Note 11. Auditor's fees

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2010 and 2011 were as follows:

	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
2010			
Audit of the financial statements	100	2,516	2,616
Other audit procedures	–	588	588
Fees relating to tax advice	–	39	39
Total	100	3,143	3,243

	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
2011			
Audit of the financial statements	112	2,536	2,648
Other audit procedures	–	418	418
Fees relating to tax advice	–	27	27
Total	112	2,981	3,093

Note 12. Guarantees granted by the Company**Gemalto N.V. guarantees**

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €21.2 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2011, are as follows:

	2011
Not later than 1 year	263
Later than 1 year and not later than 5 years	128
Later than 5 years	–
Total	391

The Board**Mr. Alex Mandl**

Non-executive Chairman of the Board

Mr. Olivier Piou

Executive Board member
and Chief Executive Officer

Mr. Buford Alexander

Non-executive Board member

Mr. Philippe Alfroid

Non-executive Board member

Mr. Kent Atkinson

Non-executive Board member

Mr. Geoffrey Fink

Non-executive Board member

Mr. Johannes Fritz

Non-executive Board member

Mr. John Ormerod

Non-executive Board member

Mr. Arthur van der Poel

Non-executive Board member

Mr. Michel Soublin

Non-executive Board member

Amsterdam, March 6, 2012

(A signed copy of the Annual Report is available at the Company's office).



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Nearly one million customers of ING Belgium are now benefitting from our secure eBanking solution. This comprises our strong authentication platform, security software and other devices. We are also providing a full set of services including server integration, packaging and delivery of card readers to ING's customers anywhere in the world.

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For more information see
page 37

144	Auditor's report
145	Appropriation of profit
146	Post-closing events
147	Adjusted measures
150	Investor information
152	Glossary of digital security terms

Auditor's report

Independent auditor's report on statutory financial statements

To: the General Meeting of Shareholders of Gemalto N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Gemalto N.V., Amsterdam, as set out on pages 80 to 141. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2011, 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 consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2011, 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 company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report as included in the accompanying annual report which comprises of sections Business overview, Segmental review, Group financial and operating review and Governance, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

The Hague, 6 March 2012

PricewaterhouseCoopers Accountants N.V.

Original signed by Fernand Izeboud RA

Appropriation of profit

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting 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

The Board has determined with due observance of the Company's policy on additions to reserves and on distributions of profits to propose to the 2012 AGM to distribute a dividend in cash of €0.31 per share in respect of the 2011 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

In line with the agreement to purchase/sale the remaining 49.9% minority interest in Serverside Group Ltd, Gemalto acquired the remaining balance of the shares of Serverside Group Ltd from the founders and minority shareholders for GBP8.8 million (approximately €10.5 million). The transaction took place on January 3, 2012.

In February 2012, the Group completed the acquisition of a personalization center from a major financial institution in Latin America.

To management's knowledge, there is no other significant event that occurred since December 31, 2011 which would materially impact the consolidated financial statements.

Adjusted measures

Adjusted income statement and profit from operations non-GAAP measure

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards. To better assess its past and future performance, the Company also prepares an adjusted income statement where the key metric used to evaluate the business and take operating decisions over the period 2010 to 2013 is the Profit from operations.

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

- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock 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

Assets held for sale comprise the assets of one of the Company joint ventures (the 'JV') active in China in Secure Transactions and Security, and for which shareholding restructuring agreement has been completed with the partner.

• Continuing operations

The IFRS Continuing operations comprises the above Ongoing operations, Assets held for sale and Other items not related to Ongoing operations.

• Discontinued operation

The disposal of the Company business in point of sale ('POS') terminals to Verifone was effective on December 31, 2010. As per IFRS, the contribution of this activity to the IFRS income statement is reclassified for both 2010 and 2011 reporting periods and its net contribution is presented on the line item 'Profit (loss) from discontinued operation (net of income tax)'. Consequently, in the adjusted income statement, the contribution of POS and the impact of the transaction are not included in the profit from operations.

Adjusted income statement by business segment

Year ended December 31, 2010

In millions of Euro	Ongoing operations:					Full Year 2010 Ongoing operations	Reconciling items ¹	Full Year 2010 Total Gemalto	Discontinued operations Others (POS)
	Mobile Communication (with public telephony)	M2M	Secure Transactions	Security (excluding patents)	Patents				
Revenue	1,000.4	81.3	462.1	285.0	33.0	1,861.8	43.7	1,905.6	50.8
Gross profit	380.3	26.5	140.2	99.5	29.5	676.0	13.3	689.4	14.6
Operating expenses	(260.4)	(19.4)	(99.0)	(80.3)	(9.4)	(468.6)	(5.1)	(473.7)	(13.9)
Profit from operations	119.9	7.1	41.2	19.3	20.1	207.5	8.2	215.7	0.7

Reconciliation from Adjusted financial information to IFRS

Year ended December 31, 2010

In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items ¹	Adjusted financial information	Adjustments	IFRS financial information
Revenue	1,861,842	43,726	1,905,568		1,905,568
Cost of sales	(1,185,819)	(30,389)	(1,216,208)	(2,512)	(1,218,720)
Gross profit	676,023	13,337	689,360	(2,512)	686,848
Operating expenses					
Research and engineering	(103,546)	(255)	(103,801)	(811)	(104,612)
Sales and marketing	(256,222)	(4,146)	(260,368)	(7,177)	(267,545)
General and administrative	(117,067)	(867)	(117,934)	(9,687)	(127,621)
Other income (expense), net	8,277	129	8,406		8,406
Profit from operations	207,465	8,198	215,663		195,476
Share-based compensation charges and associated costs				(20,187)	
Restructuring & acquisition-related expenses				(9,268)	(9,268)
Amortization and depreciation of intangibles resulting from acquisitions				(22,792)	(22,792)
Operating profit				(52,247)	163,416
Financial income (expense), net	796		796		796
Share of profit of associates	1,717		1,717		1,717
Profit before income tax	209,978	8,198	218,176	(52,247)	165,929
Income tax expense	2,519	(1,904)	615	3,256	3,871
Profit from continuing operations	212,497	6,294	218,791	(48,991)	169,800
Profit (loss) from discontinued operation (net of income tax)		(2,422)	(2,422)		(2,422)
Profit for the period (Net profit)	212,497	3,872	216,369	(48,991)	167,378
Attributable to:					
Owners of the Company – Profit for the period (Net profit)	211,243		212,912		163,920
Non-controlling interests	1,254		3,457		3,458
Earnings per share (€ per share)					
Basic	2.54		2.56		1.97
Diluted	2.50		2.52		1.94

¹ 'Reconciling items' comprise the contribution from the assets held for sale together with the contribution from items not related to Ongoing operations.

Year ended December 31, 2011

In millions of Euro	Ongoing operations:					Full year 2011 Ongoing operations	Reconciling items ¹	Full year 2011 Total Gemalto
	Mobile Communication (with public telephony)	M2M	Secure Transactions	Security (excluding patents)	Patents			
Revenue	976.0	174.3	531.4	309.9	8.8	2,000.3	15.1	2,015.4
Gross profit	393.0	60.4	168.2	118.0	7.5	747.2	4.4	751.5
Operating expenses	(255.2)	(46.7)	(110.5)	(88.2)	(8.0)	(508.6)	12.7	(495.9)
Profit from operations	137.8	13.7	57.7	29.8	(0.5)	238.6	17.1	255.6

Year ended December 31, 2011

In thousands of Euro	Adjusted financial information for ongoing operations	Reconciling items ¹	Adjusted financial information	Adjustments	IFRS financial information
Revenue	2,000,289	15,095	2,015,384		2,015,384
Cost of sales	(1,253,117)	(10,721)	(1,263,838)	(2,964)	(1,266,802)
Gross profit	747,172	4,374	751,546	(2,964)	748,582
Operating expenses					
Research and engineering	(116,062)	(79)	(116,141)	(1,951)	(118,092)
Sales and marketing	(275,636)	(895)	(276,531)	(12,364)	(288,895)
General and administrative	(121,421)	(1,081)	(122,502)	(14,797)	(137,299)
Gain on remeasurement to fair value of an investment in associate		19,240	19,240		19,240
Other income (expense), net	4,530	(4,497)	33		33
Profit from operations	238,583	17,062	255,645		223,569
Share-based compensation charges and associated costs				(32,076)	
Restructuring & acquisition-related expenses				(15,374)	(15,374)
Amortization and depreciation of intangibles resulting from acquisitions				(24,813)	(24,813)
Operating profit				(72,263)	183,382
Financial income (expense), net	(14,668)	2,164	(12,504)		(12,504)
Share of profit of associates	5,714		5,714		5,714
Profit before income tax	229,629	19,226	248,855	(72,263)	176,592
Income tax expense	(16,209)	(3,409)	(19,618)	5,948	(13,670)
Profit from continuing operations	213,420	15,817	229,237	(66,315)	162,922
Profit (loss) from discontinued operation (net of income tax)		(1,554)	(1,554)		(1,554)
Profit for the period (Net profit)	213,420	14,263	227,683	(66,315)	161,368
Attributable to:					
Owners of the Company – Profit for the period (Net profit)	212,167		226,430		160,115
Non-controlling interests	1,253		1,253		1,253
Earnings per share (€ per share)					
Basic	2.55		2.73		1.93
Diluted	2.48		2.65		1.88

Investor information

Investor relation policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's investor relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price sensitive information is disseminated without delay through press releases and web site updates.

In addition to the General Meetings, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, sustainability reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls or investor meetings. In addition, Gemalto regularly performs road shows and participates in conferences for institutional investors. These activities further Gemalto's understanding of investor and analyst opinions. Relevant information for potential and current shareholders may be found on the Gemalto web site under the link 'Investor Relations' www.gemalto.com/investors

Gemalto also observes quiet periods during which investor meetings of any kind are discouraged and financial aspects of the business are not discussed externally. For interim and annual publications, this covers at least fifteen days prior to the publication date.

Corporate seat

Gemalto N.V. is the holding company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As of December 31, 2011 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 4,996,308 shares were held in treasury. 83,019,536 shares were in circulation on December 31, 2011.

Stock exchange listing – 2011 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Paris in the compartment A (Large Caps). Gemalto shares were eligible for the Deferred Settlement System or Service de Règlement Différé (SRD) from January 26, 2006 onwards.

Mnemonic: GTO

Exchange: NYSE Euronext Paris

ISIN Code: NL0000400653

Reuters: GTO.PA

Bloomberg: GTO:FP

Among other stock indices, Gemalto is part of the:

SBF 120 (FR0003999481),

CAC NEXT 20 (QS0010989109) and Dow Jones

STOXX 600 Index (EU0009658202).

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depositary Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollar and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in US dollar, after being converted into US dollar by the depository bank at the prevailing rate.

Structure: Sponsored Level I ADR

Mnemonic: GTOMY

Exchange: OTC

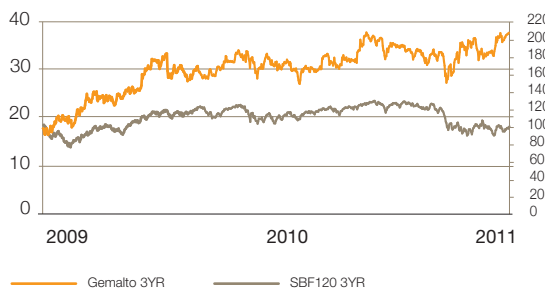
Ratio (ORD:DR): 1:2

DR ISIN: US36863N2080

DR CUSIP: 36863N 208

Share price evolution

Gemalto stock price in Euro 3YR return (rebased 100 on 1/1/2009)



- Average daily trading volume on Euronext Paris in 2011: 285,786 shares
- Market capitalization as of December 31, 2011: €3,307,635,418

Shareholders' disclosures

The following shareholding threshold disclosures were applicable as at December 31, 2011. For further information, please refer to Shareholders' disclosures, page 55.

Notification date	Notifier	Disclosure (% of capital)
Oct 19, 2011	FMR LLC (Fidelity Management & Research) (USA)	9.83%
May 28, 2009	Caisse des Dépôts et Consignations (CDC) (France)	8.43%
Sep 18, 2008 ¹	Gemalto N.V.	5.17%

¹ 4,996,308 shares, or 5.68% of the capital, were held in treasury by the Company as of December 31, 2011.

Geographic spread of share holdings

Geographical spread of identified shareholding as of November 2011

	% of outstanding capital
North America	32%
UK and Ireland	8%
Continental Europe	57%
Other	3%

Dividend

In 2010, the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, it paid a cash dividend of €0.28, up by 12%, in respect of the 2010 financial year. With due observance of the Company's dividend policy, the Board will propose to the 2012 AGM to distribute a dividend in cash of €0.31 per share in respect of the 2011 financial year. For more information on the dividend policy, please refer to Distribution of profits, page 55.

Share buy-back program

As authorized by the 2011 AGM, the Company has renewed its share buy-back program up to and including November 17, 2012. During the full year 2011, the Company used €61 million to purchase Gemalto shares within this program. For further information on the share buy-back program, please refer to Authorizations to the Board, page 55.

Financial calendar 2012

Important dates of financial calendar

March 8, 2012	Publication of 2011 Fourth Quarter Revenue and Full Year Results
April 26, 2012	Publication of 2012 First Quarter Revenue
May 24, 2012	2012 Annual General Meeting of shareholders
August 30, 2012	Publication of 2012 Second Quarter Revenue and First Half Results
October 25, 2012	Publication of 2012 Third Quarter Revenue

2012 annual meeting of shareholders

Gemalto N.V. will hold its 2012 AGM at the Sheraton Amsterdam Airport Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG Schiphol Airport, the Netherlands on Thursday, May 24, 2012 at 10 a.m. CET.

The Board has decided that the persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights on April 26, 2012 (the "Record Date") in Gemalto's shareholders register, or in a register of an institution affiliated to Euroclear France S.A., regardless of whether they are shareholder at the time of the AGM. For this purpose, the Board will consider the persons recorded as such after the close of trading on the Euronext Paris stock exchange.

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Glossary of digital security terms

3FF (3rd Form Factor): a very small SIM card, also known as a "micro-SIM", for use in small mobile devices.

3G (Third Generation): the broadband telecommunications systems that combine high-speed voice, data and multimedia.

3GPP (3G Partnership Project): a group that aims to produce specifications for a 3G system based on GSM networks.

4G: the 4th generation of wireless standards offering a comprehensive, secure all-IP based mobile broadband solution to smartphones, laptop computer wireless modems and other mobile devices.

Bluetooth: a short-range wireless technology that simplifies communication and synchronization between the internet, devices and other computers.

CAC (Common Access Card): a US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

CDMA (Code Division Multiple Access): a wireless communications technology that uses the spread spectrum communication to provide increased bandwidth.

Cloud computing: computing by using servers, storage and applications that are accessed via the internet.

Contactless: a card that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

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.

eGov (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.

ETSI: the European Telecommunications Standards Institute.

FIPS 201 (Federal Information Processing Standard): a US federal government standard that specifies personal identity verification requirements for employees and contractors.

FOMA (Freedom of Mobile Multimedia Access): the brand name for the world's first W-CDMA 3G services offered by NTT DoCoMo, the Japanese operator.

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.

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.

MFS (Mobile Financial Services): banking services such as transfer and payment available via a mobile device.

Microprocessor: a "smart" card comprising a module embedded with a chip, a computer with its own processor, memory, operating system and application software.

MIM (Machine Identification Module): the equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MMS (Multimedia Messaging Service): a standard way of sending messages that include multimedia content (e.g. photographs) to and from mobile phones.

MNO (Mobile Network Operator): a company that provides services for mobile phone subscribers.

Mobile money: banking and payment services for unbanked users.

Module: the unit formed of a chip and a contact plate.

mPayment: using a mobile handset to pay for goods and services.

NFC (Near-Field Communication): a wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OMA (Open Mobile Alliance): a body that develops open standards for the mobile phone industry.

OS (Operating System): software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): a method of distributing new software updates to cellphones which are already in use.

OTP (One-Time Password): a password that is valid for only one login session or transaction.

PDA (Personal Digital Assistant): a mobile device that functions as a personal information manager, often with the ability to connect to the internet.

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.

RUIM (Removable User Identity Module): an identity module for standards other than GSM.

SIM (Subscriber Identity Module): a smart card for GSM systems.

SMS (Short Message Service): a GSM service that sends and receives messages to and from a mobile phone.

Thin client: a computer (client) that depends primarily on a central server for processing activities. By contrast, a large client does as much processing as possible.

TSM (Trusted Services 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): 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.



Printed on Revive Pure White Silk, a 100% recycled paper with FSC certification. The composition of the paper is 85% de-inked post-consumer waste and 15% unprinted pre-consumer waste.

All pulps used are Elemental Chlorine Free (ECF) and the manufacturing mill is accredited with the ISO 14001 standard for environmental management. The use of the FSC logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

Design and production

Addison
www.addison.co.uk

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