ANNUAL REPORT 2014

Trust.
Every day

IN THIS REPORT

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

For more information visit our website www.gemalto.com

Every day, people all over the world use our products, platforms and services.

They're benefiting from digital security technologies we've made safe and reliable. Solutions we've helped our clients to offer. That's our business: working behind the scenes, enabling secure, convenient digital services to be delivered to billions of individuals. And, ultimately, it's about providing **trust**. Every day.

HIGHLIGHTS

REVENUE ALL OPERATIONS	**IFRS NET PROFIT**	**NET CASH**
€2,465m **+3%** at historical exchange rates **+5%** at constant exchange rates	€221m 2013: **€258m**	€493m 2013: **€449m**
PROFIT FROM ONGOING OPERATIONS	**ADJUSTED BASIC EARNINGS PER SHARE**[1]	**CASH GENERATED FROM OPERATIONS**
€383m 2013: **€348m**	€3.64 2013: **€3.68**	€348m 2013: **€322m**
PROFIT MARGIN FROM ONGOING OPERATIONS	**PROPOSED CASH DIVIDEND PER SHARE**	**RETURN ON CAPITAL EMPLOYED (ROCE)**[1]
15.5% 2013: **14.6%**	€0.42 2013: **€0.38**	17.2% 2013: **17.9%**

[1] Adjusted financial information for all operations.

Overview | How we create value | Financial review | Sustainability | Risk management | Governance | Financial statements

Chairman's statement

Justifying high expectations

"Digital security markets are developing as Gemalto anticipated, confirming that our strategies are well founded."

ALEX MANDL
CHAIRMAN

Gemalto performed well in 2014, with double-digit profit growth on a solid single-digit revenue increase. Delivering this result despite volatile global market conditions, hesitations about emerging technologies and unfavorable currency fluctuations was quite an achievement. But the underperformance of Gemalto's share price over the year reflects investor sentiment: they had expected Gemalto's innovation and leadership to drive a steadier momentum.

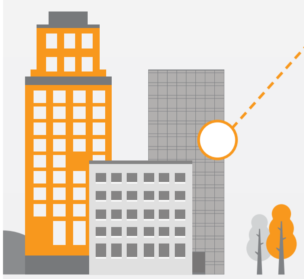
On track towards high targets

A year ago we declared two targets for our 2014-2017 Development Plan. These reflected our objectives for significant revenue and profit growth over a medium term horizon. They were based on realizing the benefits of investments in the development of our software and services, in our products and manufacturing footprint, and in our people, in order to address new market opportunities. Progress to date has given us the confidence to raise our target for profit from operations to at least €660 million in 2017.

Indeed, we can now look forward to another growing contribution, from our acquisition of SafeNet. This strategic addition brings strong margins and cash generation, and significantly broadens our Platforms & Services capabilities. The result is a more balanced structure, with offerings along the entire digital security chain and now with a strong worldwide presence in Enterprise and data protection.

2017 PROFITS FROM OPERATIONS TARGET UPGRADED TO OVER

€660m



Capturing renewed market momentum

While 2014 had its challenges, Gemalto's focused strategy and short adjustment loops initiated a progressive return to the momentum that investors had grown accustomed to – and that we expect to see increasing in 2015. Digital security markets are developing very much as Gemalto anticipated, confirming that the company's vision and strategies are well founded and that we are well prepared to take advantage of opportunities as they arise.

For example, as the migration to Europay, MasterCard, Visa (EMV) technology now gains traction in the US and continues in China, we had put at the right time the capabilities in place to capture the vast demand materializing in both markets. And in the US, where we had been building our presence in the Enterprise sector to balance our leading position in Mobile, 2014's succession of security breaches has heightened market awareness. The growing threat of attacks is constantly increasing corporate demand for the reassurance Gemalto can provide.

Given its continuing organic growth path, plus the SafeNet acquisition, Gemalto is a bigger and stronger business than it was a year ago. It has the technology, the experienced people and the market neutrality to help customers of all sizes manage their digital privacy and security in the strictest independence. More than ever, it is in the right markets at the right time – and better placed than ever to meet investors' justifiably high expectations.

Alex Mandl Chairman

Chief Executive's review

Record results prove our strengths

"Our agility makes us constantly focus our resources and effort on the most promising growth areas."

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

INVESTORS' RESPONSE TO OUR BOND ISSUE SHOWED THEIR CONFIDENCE

€400m

With our best-ever revenue and profits in 2014 we made a good start to our 2014-2017 Development Plan. We also demonstrated two key strengths underpinning Gemalto's success: resilience and flexibility.

Meeting challenges with resilience

Digital security is a fast-moving business. It constantly presents new opportunities, frequently influenced by megatrends – and also new challenges, often unpredictable. In 2014 these ranged from political instability in the Middle East and the Ebola outbreak to uncertainties about the impact of new specifications – which, through our flexibility and expertise, we turned to our advantage.

We continued to grow – because we are trusted by clients in many countries, hold leading positions in a number of markets and maintain a broad technology base with strong R&D. We offer devices, software, platforms and services, enabling us to tailor solutions precisely to our clients' requirements. These strengths combine with an organizational agility which makes us constantly focus our resources and effort on the most promising growth areas.

Prepared to seize opportunities

Hence in 2014 we again seized exciting new opportunities. Expanding our presence in the Enterprise sector was a key element in our Development Plan, i.e. building enhanced capabilities 'at the core' of online networks onto our familiar strength 'at their edge'. SafeNet met these needs precisely, complementing our existing offer and opening up new markets and distribution channels. When it became available, our planning process enabled us to move quickly in appraising the opportunity and obtaining our Board's support for the acquisition.

Meanwhile, our existing markets have continued to present fresh prospects. Our Payment & Identity business, for example, was at the heart of the migration to EMV card technology in the US, where we also have a strong presence in advanced mobile solutions.

As always, our success is built on trust. Our customers trust us to facilitate their relationships with end-users, and to safeguard their reputations and their data. Their satisfaction, which we measure regularly, remained very high. The motivation and adaptability of our people is another key factor in our resilience, and our annual survey shows that their commitment also reached record levels. Equally, long-term investors evidenced their confidence in the strong take-up of our €400 million seven-year bond issuance.

We continue to carefully drive the expansion of our business, balancing risk and opportunity. And with SafeNet we now have the ability to propose where trust is best managed, whether in the cloud or in the device in your pocket. This gives us today even greater resilience and flexibility for the future.

Olivier Piou Chief Executive Officer

Trust. Every day

Enabling shoppers to **'wave and pay'** in Japan

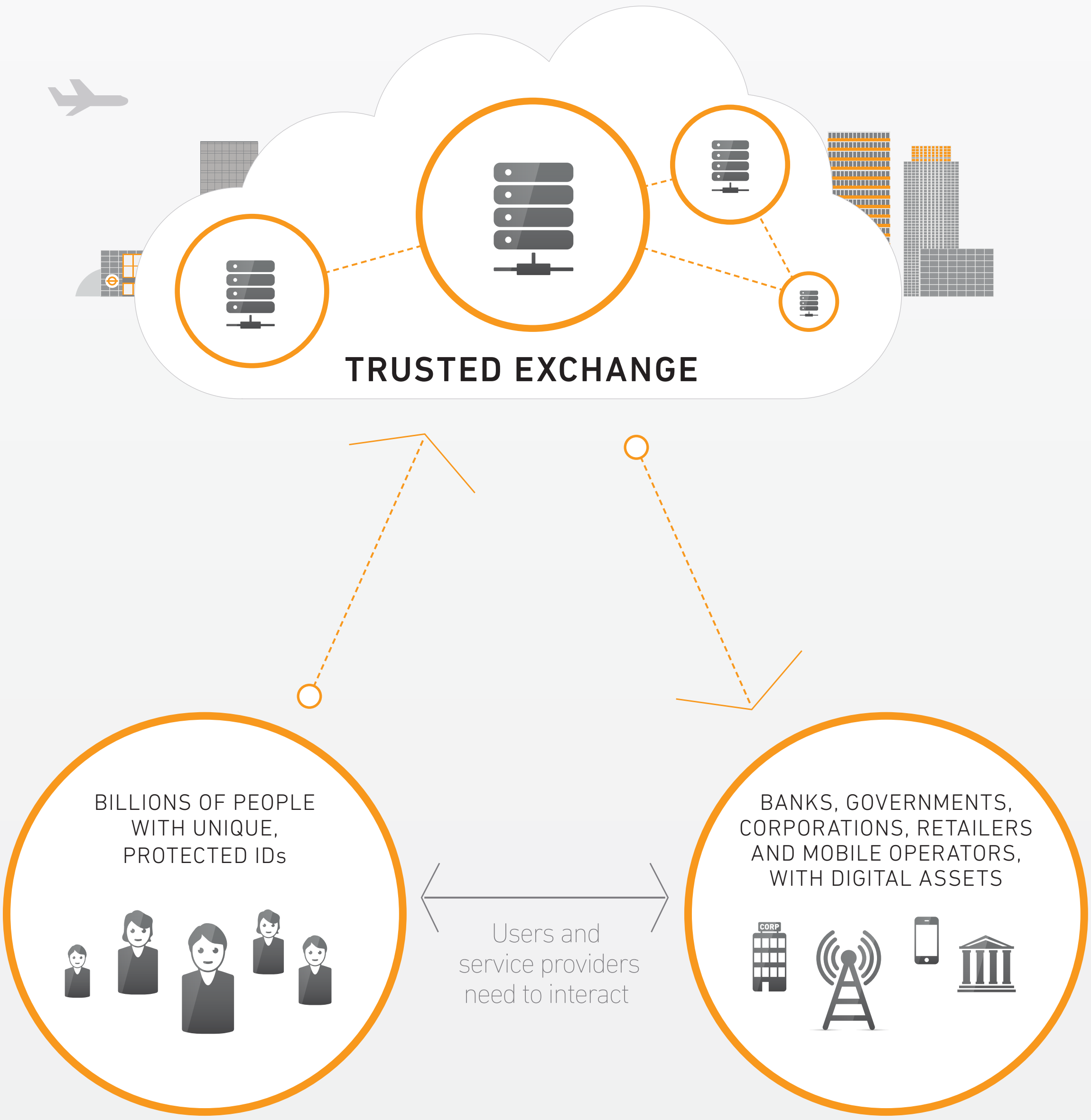
Japan has the world's largest contactless infrastructure. Its consumers are used to making payments with a wave of their phone, and they're hungry for more services – from mobile payments to loyalty programs, and e-Ticketing to access control. So Gemalto is the natural mobile near-field communication (NFC) partner for the country's number one mobile operator, NTT DOCOMO. Our end-to-end solution, selected in 2014, offers its 63 million subscribers the highest levels of convenience and security.


docomo

Our purpose is to create trust in the digital world

Trust is vital to a digital world witnessing an ever-increasing value in dematerialized exchanges.

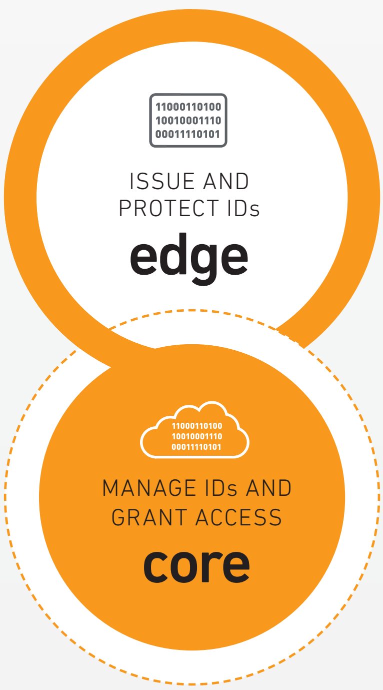
The roots of trust lie in ensuring their integrity and confidentiality. It can be enabled by using cryptography to secure network assets and a reliable identification process to access them.



Our business model generates value across the trust chain

The trust chain comprises two essential, interlocking elements at the edge and core of digital security.

These are the focus of our two main activities: Embedded software & Products, and Platforms & Services.



EMBEDDED SOFTWARE & PRODUCTS (E&P)

Secure devices with our embedded software.

Sell products
Software and hardware bundles

Sell licenses
Software only

Increasingly advanced software content

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

+

PLATFORMS & SERVICES (P&S)

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

Sell licenses
Pay per user

Operate Platforms & Services
Pay per usage

Increasing demand for trusted services

We ensure these digital devices are continuously monitored and properly managed while they are in the field. We verify the identities that are presented and perform the transactions required. And we protect the data at rest and in motion within the network.

We are addressing **key segments** and customer needs

Our solutions address fundamental needs in the digital security market:

Trust + **Reach** + **Simplicity**

These needs underpin our performance across all segments and activities

edge

core

	MOBILE	PAYMENT & IDENTITY
	• MOBILE COMMUNICATION • MACHINE-TO-MACHINE	• ELECTRONIC PAYMENT • E-GOVERNMENT • ENTERPRISE SECURITY
EMBEDDED SOFTWARE & PRODUCTS (E&P)	REVENUE 2014 €1,031m GROWTH +0%	REVENUE 2014 €915m GROWTH +8%
PLATFORMS & SERVICES (P&S)	REVENUE 2014 €259m GROWTH +7%	REVENUE 2014 €243m GROWTH +14%

We are making tangible progress towards **our 2017 targets**

Our financial performance is showing constant improvement
due to three main factors:

TEN STRONG PILLARS OF REVENUE GROWTH

- Opportunities spread in Mobile and Payment & Identity, across geographic regions, and evenly split between E&P and P&S.
- Large, addressable, under-penetrated markets with rapidly growing and recurring demand.

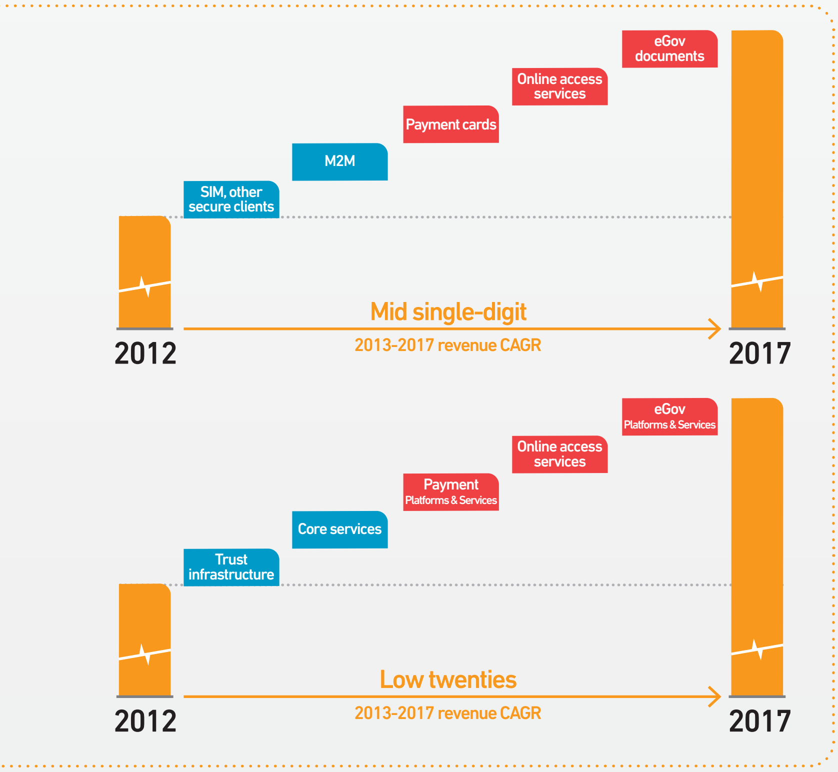
+

REVENUE MIX

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

SCALE EFFECT

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



By 2017 we target...

over **€660m** profit from operations (double 2012)

€1bn revenue in Platforms & Services

Mobile: services and subscriptions multiply as machines also get connected

Mobile connectivity is bringing consumers a convenient digital life, wherever they go. Services are proliferating on the devices they carry every day. And machines are increasingly connected, too, in the rapidly expanding 'Internet of Things'.

Mobile: market trends

The market continues to expand as more and more business sectors and services converge on mobile communication. Half of visits to UK eRetail sites are now being made via mobile[1], and in the period 2013-2018 data traffic is forecast to grow three times faster on mobiles than fixed line internet traffic[2].

The mobile market has broadened from voice, through data – delivering ever-expanding entertainment and eCommerce opportunities – to today's proliferation of payment options, so that every business now needs a mobile strategy.

Mobile payment plays to our expertise in both hardware and software as well as services. We have progressively added different payment technologies to our portfolio, including carrier billing for digital content such as games, music and movies. We have also seen surging demand for payment solutions in developing markets, where unbanked customers can use their mobile phones to pay bills. Yet this payment revolution is only just beginning, as devices become mobile wallets, replacing cash, loyalty cards and more at retail checkouts. The underlying NFC technology has expanded significantly in recent years such that users can also take public transport with just a wave. The launch of Apple Pay in 2014 further reinforces our position in this thriving environment, since it supports the global move to mobile contactless payment using standard NFC with a secure element for storing credentials.

OPPORTUNITIES

EMBEDDED SOFTWARE & PRODUCTS

SIM cards and embedded secure clients

Mobile connections are proliferating

Mobile penetration continues to grow in developing countries, and in the developed world people now often have several mobile devices using our secure technology. Multi-tenant SIMs, carrying multiple IDs and shared by multiple service providers, as well as built-in secure elements, mean more embedded software and multiple opportunities per device. Rapid innovation encourages regular upgrades.

Machine-to-Machine (M2M)

Things are getting connected too

A huge upsurge is under way in machines using mobile connections in sectors such as health, energy and automobiles. Between 2014 and 2017, mobile M2M connections are forecast to triple[4] reaching 98 million in the auto market by 2018[5]. We have market-leading solutions for both ends of the connection.

PLATFORMS & SERVICES

Trust infrastructure

Digital interactions need trusted connections

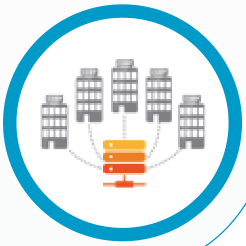
A new shared and trusted global infrastructure, the Trusted Services Hub (TSH), is enabling consumers to connect securely to all sorts of online services – and we are at the heart of it. Already, some 1.5 billion mobile users are covered by Gemalto-contracted platforms worldwide.[3] TSH is also the backbone for dynamic management of cellular subscriptions, supported by new generations of SIMs tailored to an extensive range of electronic devices.

Core back-end services

More users, more usage, more services

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

[1] Source: Capgemini
[2] Source: Cisco
[3] Source: Gemalto
[4] Source: IHS
[5] Source: IHS



Trust. Every day

Putting **contactless onboard** China's mobiles

China is going contactless in a big way. Its banking systems are moving to EMV cards, mostly contactless, and most mega-cities now have contactless transport infrastructures. With smartphone penetration now over 66%[1], mobiles are going contactless too. China Telecom, with over 183 million subscribers, is using a specially customized version of our UpTeq Multi-Tenant NFC SIM card. Combining NFC with the speed of mobile broadband, this will facilitate future applications such as contactless airport check-ins.

At Gemalto, we are not only providing these secure elements but also addressing the diversity of devices and the needs of multiple service providers. Our Allynis™ TSH delivers the secure interoperability on which they all depend.

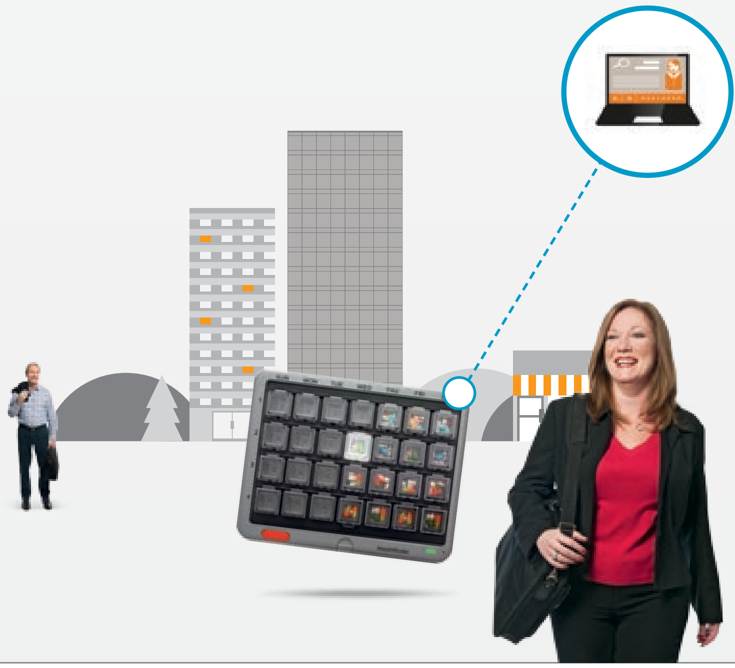
Another growth opportunity is the need for authentication to combat online fraud. Gemalto is a partner in the GSMA Mobile Connect initiative, enabling users to verify their identity with their mobile device. This is destined to become a standard feature in future SIM cards.

The breadth of uses for M2M is also driving rapid market expansion, bringing new customers and brands such as auto makers onto mobile platforms. Hence the market for M2M modules again grew strongly in 2014, for applications ranging from utility meters to vending machines, and is forecast to continue rising such that by 2020 there will be close to 1 billion M2M cellular subscriptions[2]. Despite some price erosion, this market's surging value has been shored up by customers' migration from 2G to higher-value 3G and 4G/Long Term Evolution (LTE) technology.

Mobile: our solutions

In the mobile market, our wide range of solutions includes an increasing number of 4G subscription activation services, mobile payment services and 4G SIMs across all regions. Multi-tenant SIMs, used to secure third-party services such as mobile payment, are generating increasing traction around the world.

As devices multiply in non-secure environments, there is also strong demand for our M2M platform, which simplifies security and subscription management. Diverse industries are attracted to our M2M products which include higher-value modules, as well as secure elements carrying machine subscriptions and protecting data exchanges.



Trust. Every day

Helping **monitor patient medication** in the US

MedMinder's smart pill dispensers keep an eye on patients' medication when doctors and carers aren't there. If the patient misses a dose, they issue reminders – a beep, then a phone call. Still no response? They'll phone or text to let a carer know. Doctors can monitor medication usage by accessing data on a secure server, and even manage changes remotely. In an emergency, a built-in voice channel lets the patient ask a monitoring center for help. And it's all made possible by Gemalto's advanced M2M module.

[1] Source: Nielsen Mobile Consumer Report
[2] Source: GSMA

Payment & Identity: widespread demand for secure solutions drives growth

The digital age is creating seemingly limitless opportunities to deliver services more conveniently and efficiently. At the same time it also creates ever-greater demand for the protection of data and identities, to provide trust, authenticate people and combat fraud.

Payment: market trends

In the payment market, one of the principal drivers is the migration to the chip-based EMV[1] standard. This helps to combat fraud and security concerns, and also creates the potential for launching new services such as those available via contactless technology.

EMV is already well established in Europe and Latin America, and the huge China and US markets are also starting adoption. In the latter, for example, 75 million EMV cards were shipped in 2012. However, driven by the impact of security concerns, including major breaches at retailers, this number had leapt to 208 million by the end of 2014 and is expected to reach over 450 million by 2017[2].

The adoption of contactless payment cards is also growing fast, particularly in China and South East Asia, with shipments forecast to rise from 300 million in 2012 to close to a billion in 2015[3].

Payments using mobile devices are also taking off and by 2018 it is predicted that over 30% of all handsets, and up to 90% in the US, will be capable of making NFC transactions[4]. Gemalto is well placed to benefit, particularly as mobile payment and banking solutions converge.

OPPORTUNITIES

EMBEDDED SOFTWARE & PRODUCTS

Electronic payment cards

Card payment is still growing

The number of payment cards in circulation will continue to grow, up from 15.8 billion in 2013 to over 23 billion in 2018[5]. The switch to chip-based EMV cards still has a long way to go, with major countries still in the first stages of a migration that typically takes five to six years. And by 2017 we expect half of all cards issued to include contactless technology[6].

Online access for users

More and more customers bank by mobile

In the period 2015-2019, the number of people banking online will rise 22% to 1.7 billion, and those using mobile banking will jump 80% to 1.8 billion[9]. We are leaders in online banking security.

State documents

Public administration goes digital too

The adoption of state-issued credentials is growing fast, with government eID systems increasing security, cutting fraud and red tape, and improving services to citizens. 108 countries are also incorporating contactless chip technology in travel documents[10], while the International Civil Aviation Organization's global Traveler Identification Program is another digital driving force.

PLATFORMS & SERVICES

Payment platforms and services

Consumers want more ways to pay

Today there are 9 billion card-based payment accounts[7]. And increasingly, consumers want more ways to pay using at least two other connected devices[8]. Potentially that's 27 billion payment credentials to issue, secure and manage, with contactless and NFC technologies as further growth drivers.

Accessing online services

We're taking our own devices to work

While businesses move more and more of their data to the cloud, employees are accessing corporate networks from their own personal devices. In this context, the multiplication of security breaches and theft of sensitive information demands a stronger protection of information systems. In ten years we foresee a tenfold increase in demand for cloud authentication services.

eGovernment platforms and services

eID and ePassports enable new citizen services

Behind eDocuments we build systems allowing people to complete and digitally sign forms as well as access government services online conveniently and securely. With ePassports, travelers can automatically open border gates, for example, and access fast-track immigration clearance.

Trust. Every day

Making university life even **smarter**

Our university ID cards are pretty smart. They provide secure access to buildings, car parks and computers, payment for vending machines and meals, discounts in shops, e-Votes in university elections and management of loans in libraries. We developed them for Banco Santander's University Smart Card program in Spain, Chile, Brazil and Mexico. And now we've put the technology on a Micro-SD card so students and university staff can use it on their mobiles. What's more, the card's built-in NFC means even non-NFC handsets will work in contactless mode.

In this context we are helping banks implement both in-device and cloud-based payment using our universal Trusted Service Hub. We are also providing full solutions for implementing secure mobile banking applications and other mobile-related services, such as card activation via SMS. Our ability to provide trust will be crucial: consumers' willingness to adopt new services will depend on their confidence in the systems' security.

Payment: our solutions

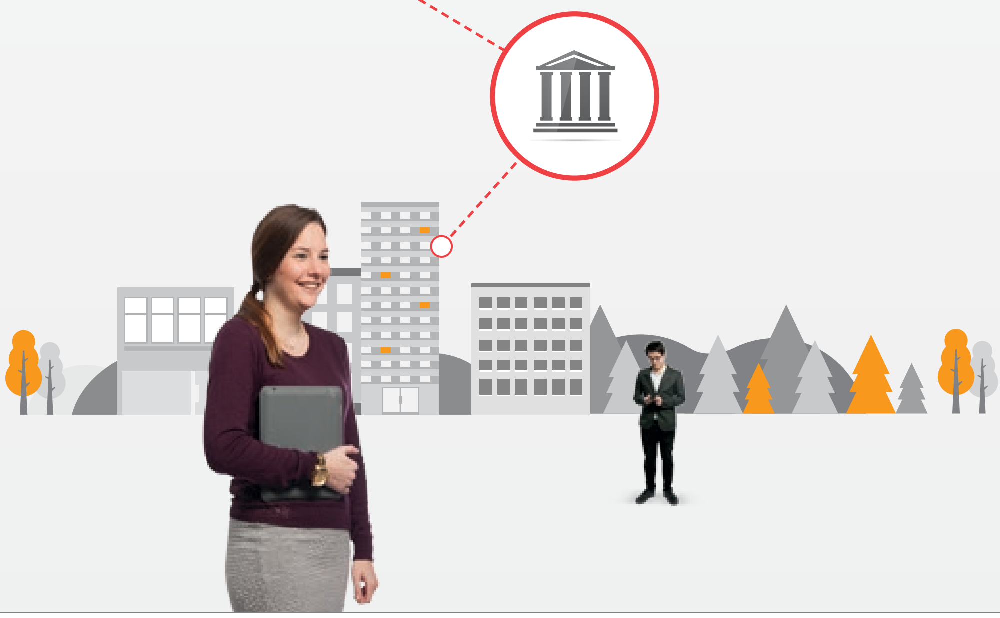
Our deployment of EMV technology is growing strongly in the US and China as migration gets under way. For EMV deployments around the world we provide both personalization and card services to financial institutions.

EMV creates opportunities for banks and retailers to add new services. This standard also supports NFC, allowing contactless payment.

Our deliveries comprise an increasing number of dual-interface (contact and contactless) as well as Dynamic Data Authentication (DDA) products featuring more sophisticated software.

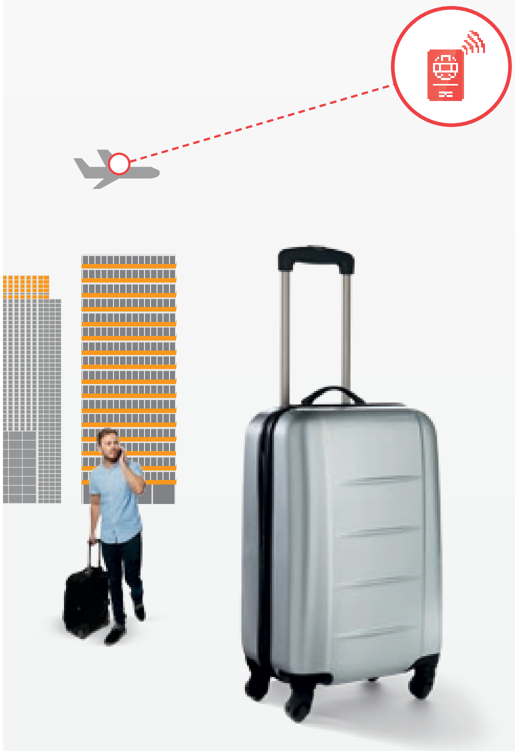
The Gemalto Trusted Service Hub brings the most complete and yet modular solution for enabling real-time enrollment of payment cards, homogeneous distribution to diverse devices and simplified on-boarding of business partners. The hub service offers simplicity and choice with regards to available security models, covering management of credentials on Secure Elements, Trusted Execution Environment (TEE), HCE-enabled handsets or a combination of these. For banks and payment service providers seeking to create a seamless mobile payment experience, we offer an integrated solution, from the mobile tokenization gateway all the way to the client-server architecture for provisioning and processing payment security.

[1] EMV: Europay, MasterCard, Visa
[2] Source: ABI
[3] Source: Eurosmart, November 2014
[4] Source: Juniper research
[5] Source: Nilson Report
[6] Source: Gemalto
[7] Source: Nilson Report, National Gold Card Foundation, EMVCo
[8] Source: Cisco VNI
[9] Source: Juniper research
[10] Source: ICAO



Payment & Identity
Widespread demand for secure solutions drives growth continued

Identity: market trends
Today, there are an estimated 7.8 billion government-issued IDs in circulation worldwide, including driving licenses and passports[1]. A growing proportion of these documents is electronic, with onboard microprocessors to enhance security and enable added services. This allows more citizen-centered governance and applications: the system we developed for Qatar offers 500 government services online through a single sign-on.



Trust. Every day

Speeding ePassport delivery in Algeria

The world is switching fast to e-Passports. Our leading role in this development is due to our reliable and innovative technology – as well as our advanced production and delivery capability. Our ability to increase speed and reduce costs were key criteria when Algeria selected us in 2014 to support their ambitious e-Passport program.

Increasingly, governments are creating national frameworks of trust on the internet and using chip-enabled eID cards to open access to public services and payments. In the EU, for example, one in three citizens already holds an electronic ID card[2] and there are concrete plans to use them to access cross-border health services. And since there are already some 640 million smartphones with NFC capability[1], there are increasing opportunities to deliver IDs via the mobile.

Border agencies face fast-growing traveler numbers and the challenge of facilitating swift and secure transits within tight budget constraints. We are helping them to achieve this, exploiting technological convergence to deliver online visa applications, prevent illegal immigration and improve border intelligence.

In the corporate world, interest in enhancing ID and access control has been heightened by a number of high-profile security breaches. Our range of security offerings includes Protiva ExecProtect, which addresses the need for privileged access, highlighted by leaks of classified information in the US. A major trend now is to use employees' smartphones and tablets for authentication, removing the need for them to carry separate ID devices.

Identity: our solutions
Today, one in three travelers with ePassports is carrying Gemalto technology and we are working on travel documents for more than 25 countries. We also offer our Coesys automated border control systems.

In the enterprise market, two major drivers are employees' need to access corporate resources online wherever they are, and their desire to do this using their own devices. This is now a requirement for businesses of all sizes.

Our portfolio in cloud access security is further boosted by demand for securing internet banking services. Here, our expertise in strong authentication is enabling our clients to offer secure, cost-efficient eBanking to a rapidly increasing usership.

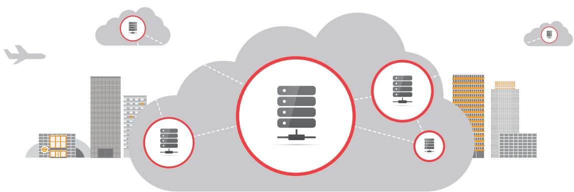
SafeNet – a perfect fit in access security
Our acquisition of SafeNet, announced in August 2014 and concluded in January 2015, makes us world leader in cloud data, software and transaction security. SafeNet serves more than 25,000 corporate and government customers in over 100 countries, protecting access to sensitive data and high-value applications including more than 80% of the world's intra-bank fund transfers.

Together, we combine the best technologies, expertise and services available for securing a complete infrastructure – network, users, data and software. This will accelerate delivery of Gemalto's security solutions to enterprises and SafeNet's data protection solutions to the banking and telecom sectors. For more information visit our website at http://www.safenet-inc.com/SafeNet-Gemalto-Merger/

[1] Source: ABII
[2] Source: Eurosmart

gemalto security to be free + SafeNet

SECURING CLOUD DATA, SOFTWARE AND TRANSACTIONS



NETWORK SECURITY IS BASED ON TWO ELEMENTS

SECURITY AT THE
edge

AUTHENTICATING USERS
Gemalto's expertise is in user authentication and management solutions...

DIRECT CHANNEL
...and has trusted relationships with mobile operators, original equipment manufacturers, financial institutions, governments and large enterprises.

ISSUE AND PROTECT IDs

MANAGE IDs AND GRANT ACCESS

SECURITY AT THE
core

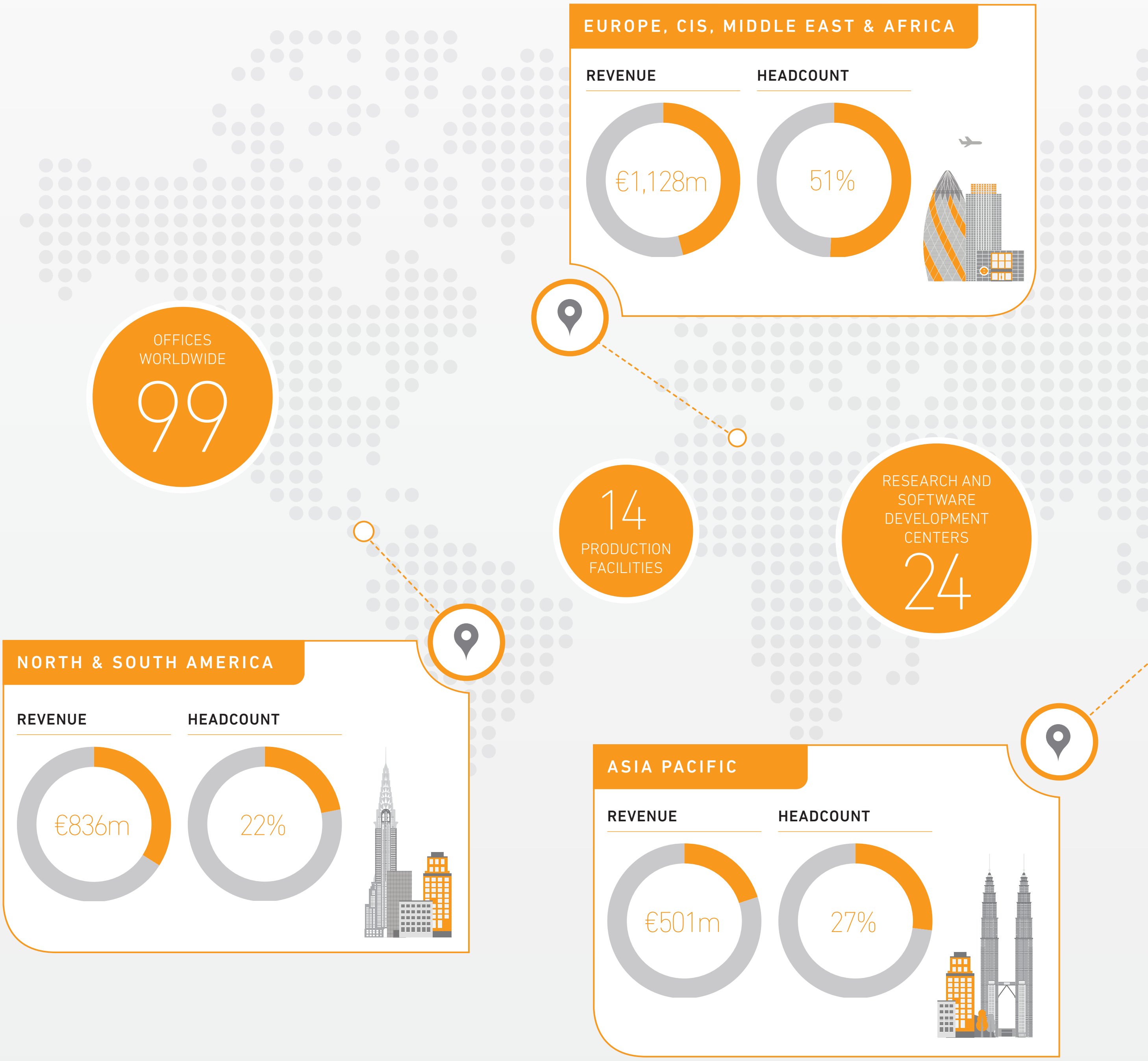
PROTECTING DATA
SafeNet's expertise is in data encryption and security key management....

INDIRECT CHANNEL
...and has a large skilled partner and reseller network for enterprises of all sizes, internet service providers and software editors.

CREATING A COMPREHENSIVE SECURITY CHAIN FOR BILLIONS OF PEOPLE

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

We are a truly international company with clients from over 180 countries. They are served by our employees of 116 nationalities operating from a worldwide network of research and software development (R&D) centers, sales offices, personalization and data centers and production facilities. And we systematically share our expertise through a series of client-focused forums addressing the opportunities in growth markets on different continents.



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

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

TECHNOLOGICAL EXPERTISE

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

MARKET NEUTRALITY

We operate behind the scenes so that our clients can preserve a direct and trusted relationship with their customers.

CUSTOMER SATISFACTION

WE WORK IN PARTNERSHIP WITH OUR CLIENTS TO SHAPE OUR DEVELOPMENT. IN 2014, IN OUR ANNUAL CUSTOMER SURVEY, 84% OF THEM SAID THEY WERE SATISFIED OR VERY SATISFIED WITH GEMALTO – A WORLD-CLASS RATING.

EMPLOYEE ENGAGEMENT

OUR ANNUAL EMPLOYEE SURVEY SHOWS A REMARKABLY HIGH LEVEL OF COMMITMENT TO GEMALTO, WITH 82% SAYING THEY WERE SATISFIED WITH THE COMPANY IN 2014.

R&D LEADERSHIP

WE GET AWARD-WINNING RESULTS WITH OUR PROACTIVE INNOVATION PROGRAM AND BUSINESS INCUBATION STRUCTURE. IN 2014 WE FILED PATENTS FOR 114 NEW INVENTIONS.

ESTABLISHED REPUTATION

TRUST IS ONE OF OUR MAIN ASSETS AND FUNDAMENTAL TO THE WAY WE DO BUSINESS. EVER SINCE GEMALTO WAS CREATED WE HAVE BEEN PROGRESSIVELY ENHANCING THE SERVICE WE DELIVER TO OUR CLIENTS – AND SO DEVELOPING THE COMPANY'S BRAND RECOGNITION AND REPUTATION.

Trust. Every day

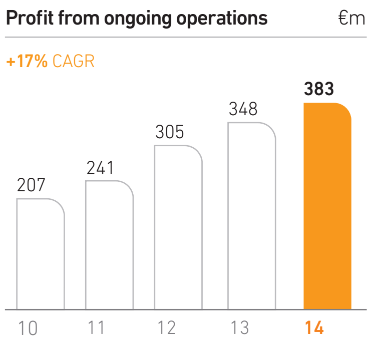
Making home banking easy in Panama

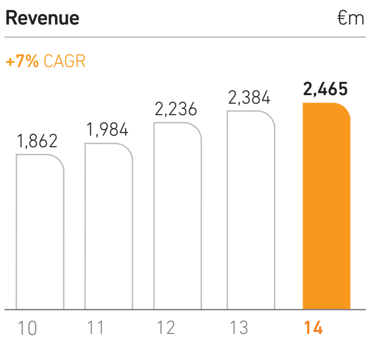
Panama's largest bank, Banconal, turned to Gemalto in 2014 to help it offer multi-channel mobile banking and e-Banking to all its customers. Our Ezio mobile app turns their phones and tablets into strong authentication devices. And to identify themselves securely and sign transactions online, they simply use our Ezio Slim Optical Token. When the card-sized device is held close to a PC screen, its optical sensors register details transmitted through an on-screen barcode.

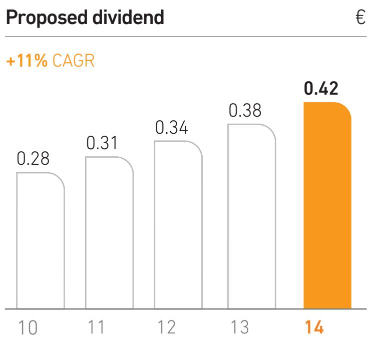

CODE
MENU
OK

Group financial review

- Full year revenue of €2.5 billion, up +5%, and profit from operations up +10%, at €383 million
- Platforms & Services revenue passed the €500 million mark
- Strong demand in the United States, revenue up +32%
- For 2015, steady annual PFO expansion expected, towards the upgraded 2017 objective







Basis of preparation of financial information
In this section, the information for the full year of both 2014 and 2013 is presented for "ongoing operations" and under the 2014 format of segment reporting unless otherwise specified.

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

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 make operating decisions over the period 2010 to 2017 is the profit from operations (PFO).

PFO is a non-GAAP measure defined as the IFRS operating result adjusted for the amortization and depreciation of intangibles resulting from acquisitions, for share-based compensation charges, and for restructuring and acquisition-related expenses. These items are further explained in Note 6 to the financial statements.

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 expenses Sales and Marketing expenses, 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. ROCE is defined as after-tax PFO for all operations divided by capital employed.

For further explanation and reconciliation to IFRS numbers see pages 124-125.

SafeNet's pro forma 2014 full year adjusted income statement presented in this document corresponds to management estimates. Results in Euro were translated from US dollar using monthly currency conversion rates.

Ongoing operations
For a better understanding of the current and future year-on-year evolution of the business, the Company provides revenue from "ongoing operations" for both the 2014 and 2013 reporting periods.

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

In this publication, reported figures for ongoing operations only differ from figures for all operations by the contribution from assets held for sale for the year 2013. For the year 2014, there is no difference between ongoing operations and all operations.

Segment information
From January 1, 2014, segment information was modified to report on progress towards the objectives set as part of the Company's new long-term development plan covering the years 2014 to 2017, publicly announced on September 5, 2013.

The Mobile segment reports on businesses associated with mobile cellular technologies. The former Mobile Communication and Machine-to-Machine segments are part of Mobile. The security evaluation business for third parties, whose contribution to Mobile Communication was minor, is now managed together with the Patents business and is as of January 1, 2014 reported in the Patents & Others segment.

The Payment & Identity segment reports on businesses associated with secure personal interactions. The former Secure Transactions and Security segments are part of Payment & Identity.

In addition to this segment information, the Company also reports as of 2014 revenue of Mobile and Payment & Identity by type of activity: Embedded software & Products (E&P) and Platforms & Services (P&S).

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

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

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

Adjusted financial information for all operations

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. To better assess its past and future performance, the Company also prepares an adjusted income statement.

In comparison to the adjusted income statement for ongoing operations, the adjusted income statement for all operations also includes the contribution from assets held for sale. For the year 2014, there are no assets classified as held for sale, and for 2013 assets held for sale were minor non-strategic assets that were disposed during 2013. Note 6 to the financial statements bridges the adjusted income statement for ongoing operations to the adjusted income statement for all operations. The reconciliation between IFRS and adjusted income statements can be found on pages 124 and 125.

Total revenue came in at €2,465 million, up by +5% at constant exchange rates and up by +3% at historical rates, with growth coming from both main segments, Mobile and Payment & Identity, and from both activities, Embedded software & Products and Platforms & Services. The strong year-on-year unfavorable foreign currency translation impact experienced in the first semester was partially offset in the second part of the year by the strengthening of the US Dollar against the Euro.

In Embedded software & Products, payment-related activities contributed the most to the growth, with further expansion in revenue from EMV payment cards. Demand for connectivity and security modules for the Internet of Things also notably contributed to the revenue increase. In contrast, eGovernment documents revenue reduced due to lower sales in the Middle-East. SIM sales returned to growth in the fourth quarter, and full year revenue was lower mainly due to slower demand in certain countries in Latin America and Eastern Europe. Overall revenue for the Embedded software & Products activity increased by +4% on 2013.

Platforms & Services grew by +10%, with expansion in both segments. Issuance and personalization services represented the largest part of the growth. Revenue increase also came from mobile subscriber management services as well as from mobile payment services though the year was marked by project delays linked to discussions around new technical specifications.

Adjusted financial information for all operations

	Full year 2014		Full year 2013			
Extract of the adjusted income statement for all operations	€ in millions	As a % of revenue	€ in millions	As a % of revenue	Year-on-year variation at historical exchange rates	Year-on-year variation at constant exchange rates
Revenue	**2,465.2**		2,388.6		+3%	+5%
Gross profit	**952.2**	**38.6%**	936.2	39.2%	(0.6 ppt)	
Operating expenses	**(569.5)**	**(23.1%)**	(588.8)	(24.7%)	+1.5 ppt	
EBITDA	**478.6**	**19.4%**	434.8	18.2%	+1.2 ppt	
Profit from operations	**382.7**	**15.5%**	347.4	14.5%	+1.0 ppt	
Net profit	**315.3**	**12.8%**	315.5	13.2%	(0.4 ppt)	
Basic earnings per share (€)	**3.64**		3.68		(1%)	
Diluted earnings per share (€)	**3.55**		3.57		(1%)	

Platforms & Services

Revenue from ongoing operations in Platforms & Services activities (€ in millions)	2014	2013	Year-on-year variations at constant exchange rates	Year-on-year variations at historical exchange rates
Mobile	**259**	245	+7%	+5%
Payment & Identity	**243**	215	+14%	+13%
Total	**502**	**460**	**+10%**	**+9%**

Group financial review continued

Gross profit was up by €16 million, to €952 million, representing a gross margin of 39%. In Mobile, gross margin reduced by 1.3 percentage points due to the lower sales of SIMs. In Payment & Identity, gross margin was higher by 0.5 percentage points due to the scale effects of the ongoing EMV migration.

Operating expenses represented €569 million, down 3% on the previous year. The contraction came primarily from the lower cost of performance incentives, that were conditional in part on revenue objectives, and from tighter control of external costs implemented in the second part of the year.

Hedging absorbed a part of the adverse effect on the profit from operations coming from currency fluctuations against the Euro. When excluding the impact of hedge and currency variations, the year-on-year increase in profit from operations was €54 million, higher by €19 million than the €35 million increase in profit from operations actually reported.

As a result, full year 2014 profit from operations came in at €383 million, up by +10% compared to 2013. Profit from operations margin reached 15.5% of revenue, up by +1.0 percentage point compared to 2013. Both figures represent new record performances for the Company.

Gemalto financial income was (€12) million compared to (€7) million in 2013. Interest expenses increased due to the €2 million interest charge incurred on the €400 million bond issued during the third quarter of 2014.

Share of profit in associates was (€1.0) million for the full year 2014. In 2013, there was an exceptional €20 million non-recurring profit relating to associates generated by the recognition of a gain linked to capital restructuring and IPO of an associate. As a result, adjusted profit before income tax came in at €370 million, compared to €358 million the previous year.

Adjusted income tax expense increased to (€54) million compared to (€43) million the previous year, and consequently, the adjusted net profit for all the operations of the Company was €315 million, stable when compared to last year's figure.

Adjusted basic earnings per share for all operations came in at €3.64, and adjusted diluted earnings per share for all operations at €3.55, compared to 2013 adjusted basic earnings per share for all operations of €3.68 and adjusted diluted earnings per share for all operations of €3.57.

IFRS Results

Restructuring and acquisition-related expenses were €30 million vs €3 million for 2013 due mainly to the re-balancing of certain industrial and engineering capabilities across worldwide sites to optimize future productivity already reported in the first semester 2014. Amortization and depreciation of intangibles resulting from acquisitions amounted to €27 million, as in 2013. The equity-based compensation charge accounted for €55 million, vs €35 million in 2013, as the Company introduced a new long-term incentive plan that is aligned with its 2014-2017 multi-year development plan objectives and conditional on a set of cumulative progress indicators over the plan period.

The IFRS income tax rate came in at 14% for the year. As a result, Gemalto recorded an IFRS operating profit (EBIT) of €270 million for 2014 (€282 million in 2013) and IFRS net profit of €221 million for 2014 (€258 million in 2013).

IFRS basic earnings per share and diluted earnings per share were €2.55 and €2.49 respectively in 2014, compared to €3.01 and €2.92 respectively in 2013.

Cash position variation schedule

€ in millions	Full year 2014	Full year 2013
Cash and cash equivalent, beginning of period	**456**	**363**
Cash generated by operating activities, before changes in working capital	**394**	**332**
Cash provided (used) by working capital decrease (increase)	(81)	(76)
Cash used in restructuring actions	(20)	(2)
Cash generated by operating activities	**294**	**255**
Capital expenditure and acquisitions of intangibles	(125)	(103)
Free cash flow	**169**	**152**
Interest received, net	2	1
Cash used by acquisitions	(84)	(30)
Other cash provided by investing activities	0	13
Currency translation adjustments	1	(9)
Cash generated (used) by operating and investing activities	**87**	**127**
Cash used by the share buy-back program	(17)	(23)
Dividend paid to Gemalto shareholders	(33)	(29)
Proceeds from bond issuance and credit line drawdown	555	-
Other cash provided by financing activities	9	19
Cash and cash equivalent, end of period	**1,057**	**456**
Current and non-current borrowings excluding bank overdrafts, end of period	(564)	(7)
Net cash, end of period	**493**	**449**

Statement of financial position and cash position variation schedule

For the full year 2014, Gemalto operating activities generated a cash flow of €394 million before changes in working capital, compared to the €332 million generated in 2013. Changes in working capital reduced cash flow by (€81) million compared to (€76) million in 2013 with trade receivables up year-on-year mainly from increasing sales and revenue growth in the fourth quarter stronger than in 2013, particularly near the end of the year, and slightly reduced trade and other payables resulting from the tight management of operating costs.

Capital expenditure and acquisition of intangibles amounted to €125 million, i.e. 5.1% of revenue. Purchase of Property, Plant, and Equipment represented €81 million, versus €62 million in 2013, as investments were made in personalization centers and other facilities to support growth in the Payment & Identity segment. Capitalization of development expenses represented €37 million, i.e. 1.5% of revenue (€27 million, 1.1% in 2013) and total expenditure incurred for intangible assets amounted to €44 million, i.e. 1.8% of revenue (€41 million, 1.7% in 2013).

Free cash flow from operations was up +23% compared to 2013 at €189 million before restructuring actions, and up +11% at €169 million when including the €20 million cash outflow for restructuring actions.

Net cash flow from financial income elements was a gain of €2 million, corresponding to interest received net.

Cash outflow related to acquisitions, net of cash acquired, was €84 million in 2014, up from €30 million in 2013. The main activity of the businesses acquired is to provide personalization and issuance services in the banking and government sectors in the United States.

Gemalto's share buy-back program used €17 million in cash in 2014, for the purchase of 222,286 shares, net of the liquidity program. As at December 31, 2014, the Company held 1,202,927 of its own shares in treasury, representing 1.37% of its issued and paid-up share capital. The total number of shares issued and paid-up remained unchanged during 2014 at 88,015,844 shares. Net of the 1,202,927 shares held in treasury, 86,812,917 shares were outstanding as at December 31, 2014. The average acquisition price of the shares repurchased on the market as part of the Company's buy-back program and held in treasury as at December 31, 2014 was €46.12.

On May 24, 2014, Gemalto paid a cash dividend of €0.38 per share in respect of the fiscal year 2013, up 12% on the dividend paid in 2013. This distribution used €33 million in cash.

As part of the acquisition of SafeNet, which was expected to close at the end of 2014, a seven-year bond was issued at the rate of $2^{1/8}$% and existing credit lines were partially drawn, for a total amount of €555 million. Other financing activities generated €9 million in cash, including €14 million of proceeds received by the Company from the exercise of stock options by employees and (€4) million used for repayment of borrowings.

The actual closing of the SafeNet acquisition occurred in early January 2015, and consequently, Gemalto's cash and cash equivalents as at December 31, 2014 were €1,057 million. With current and non-current borrowings, excluding bank overdrafts, at €564 million, the net cash position at year end was €493 million.

At the year end 2014, the net book value of plant, property and equipment assets was €280 million, compared to €237 million at the end of 2013. Total assets grew to €3,782 million as at December 31, 2014, compared to €2,919 million as at December 31, 2013, due to the increase of current assets, balanced between trade receivables and cash in relation to the Company's increased business activities and provisions for the acquisition of SafeNet.

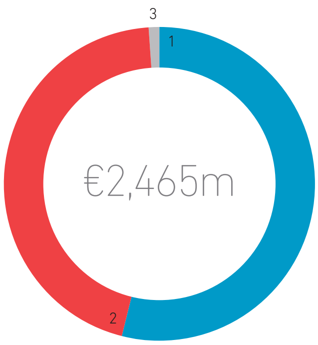
Shareholders' equity increased by +11%, or +€243 million, to €2,396 million as at December 31, 2014, compared to €2,153 million as at December 31, 2013. The increase was mainly the result of the positive net profit generation, partly offset by the dividend distribution. Following the issuance of the aforementioned bond and the partial drawdown of existing credit lines to fund the planned acquisition of SafeNet, current and non-current borrowings increased to €566 million compared to €7 million in 2013. Total liabilities grew to €1,386 million as at December 31, 2014 compared to €766 million as at December 31, 2013 due mainly to the increase in borrowings.

Outlook

For 2015, Gemalto anticipates a steady expansion in annual profit from operations towards its upgraded 2017 objective of over €660 million.

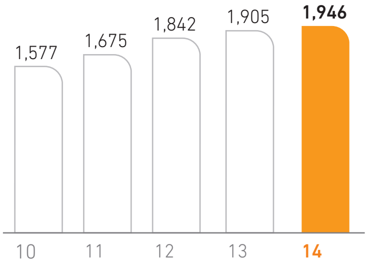
Segment financial review

REVENUE BY SEGMENT	€m
1. Mobile	52%
2. Payment & Identity	47%
3. Patents & Others	1%



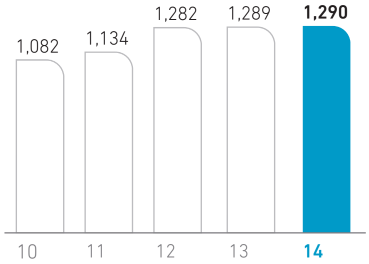
REVENUE EMBEDDED SOFTWARE & PRODUCTS €m

+5% CAGR



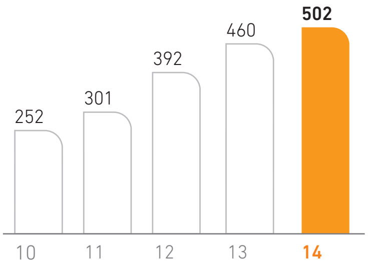
REVENUE MOBILE €m

+4% CAGR



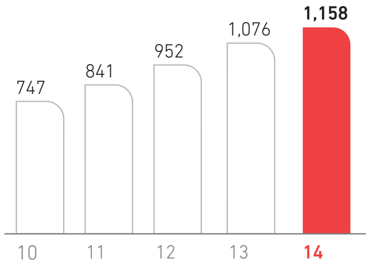
REVENUE PLATFORMS & SERVICES €m

+19% CAGR



REVENUE PAYMENT & IDENTITY €m

+12% CAGR



Full year 2014 - Pro forma including SafeNet

	by segment			by activity	
Gemalto including SafeNet pro forma contribution (estimates, € in millions)	Payment & Identity	Mobile	Total including Patents & Others	Embedded software & Products	Platforms & Services
Revenue	1,451	1,290	2,757	1,968	773
As a percentage of total revenue	53%	47%	100%	71%	28%
Gross profit	587	550	1,153		
Profit from operations	186	237	427		

Segment information

In this section, for a better understanding of Gemalto's business evolution, comments and comparisons refer to ongoing operations.

During the fourth quarter, revenue expanded by +4% at constant rates and +7% at historical exchange rates. Year-on-year growth improved in Mobile in the fourth quarter, driven by increasing sales of SIMs. Growth in Payment & Identity was +6% at constant exchange rates and +9% at historical exchange rates, slightly slower than previous quarters due to lower sales of payment cards in Europe. The significant adverse effects of currency translation movements experienced during the first part of the year turned favorable in the fourth quarter due to the strengthening of the US dollar against the Euro. For the full year of 2014, Gemalto's revenue growth was +5% at constant rates and +3% at historical rates.

Full year profit from operations increased by +10% year-on-year, with an acceleration at +21% in the second semester. The second part of the year saw profit from operations increasing rapidly in both main segments, including a notable performance in the Payment & Identity segment, up +24% compared to 2013, due to the strong acceleration of the EMV migration in the United States that leverages investments made during previous semesters.

The Patents & Others segment generated €17 million revenue for the full year 2014 in relation to cross-licensing agreement renewals. Compared to the full year of 2013, operating expenses decreased by €2 million to €12 million due to lower legal fees. As a result, profit from operations came in at €4 million for the year.

Acquisition of SafeNet

From January 2015, the Company's financial reporting will include the contribution from SafeNet.

SafeNet's business is now combined with Gemalto's existing Identity & Access Management business, and like Gemalto's existing Identity & Access Management business will be reported as part of the Payment & Identity segment. Most of the combined business relates to Platforms & Services activities.

For information purposes, the non-consolidated 2014 pro forma contribution of SafeNet, under the 2015 reporting format as estimated by the Company's management, is presented in the table on the opposite page. For a better understanding of Gemalto's future reporting, this table presents the estimated Gemalto segment and activity pro forma results as if SafeNet had been consolidated for the full year 2014 period.

Segment financial review

Mobile

The Mobile segment recorded annual revenue of €1,290 million, up +2% year-on-year at constant exchange rates, and stable at historical exchange rates.

Mobile

The Mobile segment recorded annual revenue of €1,290 million, up +2% year-on-year at constant exchange rates, and stable at historical exchange rates. In the fourth quarter, revenue grew by +2% at constant rates and +6% at historical rates. Revenue from Embedded software & Products was stable and Platforms & Services grew by +7% on top of the +21% revenue growth recorded for the full year 2013.

The high-end products range growth was offset by lower sales of mid-range products in Latin America and Eastern Europe. Machine-to-Machine growth accelerated to +10% for the full year, due to the ongoing deployment of connected devices and embedded secure elements (eSE) for the Internet of Things. Mobile Financial Services (MFS) grew +51%. In 2014, Gemalto enriched its Trusted Services Hub with tokenization capabilities to comprehensively serve the market. Mobile Subscriber Services (MSS) posted +8% growth compared to the full year 2013 and Netsize resumed growth in the fourth quarter after having adjusted to new regulatory directives issued in the first part of the year.

Gross margin was 43%, lower by 1.3 percentage points compared to 2013 mainly due to the lower revenue generated in the mid-range card business.

Operating expenses decreased by €26 million, i.e. 8%, due to lower variable cost of performance incentives conditional in part to revenue objectives and the effect of tighter control over external operating costs. Some resources were transferred to the Payment & Identity segment as operating needs significantly increased there, and investments in new Platforms & Services offers and new product offerings were maintained.

Profit from operations hence was €237 million, thus the segment posted an 18% profit margin from operations, up +70 basis points.

HIGHLIGHTS

REVENUE

€1,290m

2013: **€1,289m**

GROSS PROFIT

€550m

2013: **€566m**

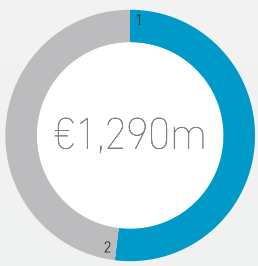
GROSS MARGIN

42.7%

(down **130** basis points)

REVENUE SPLIT

1. Mobile	52%
2. Other segments	48%



PROFIT FROM OPERATIONS

€237m

2013: **€227m**

PROFIT MARGIN OPERATIONS

18.4%

(up **70** basis points)

Segment financial review

Payment & Identity

Payment & Identity's full year revenue came in at €1,158 million, increasing by +9% compared to 2013.

Payment & Identity

Payment & Identity's full year revenue came in at €1,158 million, increasing by +9% compared to 2013. Sales were up by +8% in Embedded software & Products, and by +14% in Platforms & Services.

Commercial momentum for EMV continues to be strong around the world with all regions contributing to the +16% revenue expansion recorded in the payment business. Migration in China continued, adding regional financial institutions to the Tier-1 issuers that started their deployments in 2013, and the progressive ramp-up of EMV in the United States led to the +38% revenue growth recorded in the payment business for the entire Americas region. During the year, Gemalto reinforced its personalization services capacity to serve US financial institutions, and secured a large outsourcing contract with a leading US bank.

Revenue from the eGovernment business was lower by (2%) for the full year 2014, with improving performance in the second semester. In this business, revenue from the Middle-East, significantly lower than previous year, was the principal reason for the limited expansion of this activity. Europe and Africa continued to grow.

Significant new contract awards recorded in 2014 will support the acceleration in revenue growth expected in 2015. During the second semester, Gemalto also invested in the United States to accelerate the distribution of its advanced technologies in the driving license market.

In the Identity & Access Management (IAM) business, market demand for cybersecurity solutions was stimulated by the large-scale security breaches that occurred during the course of the recent semesters. In order to expand its IAM offer and more comprehensively serve this demand, Gemalto entered into an exclusive agreement to acquire SafeNet in the third quarter and the closing of the transaction occurred on January 7, 2015. SafeNet and Gemalto's Identity & Access Management now operate as a single business unit, part of the Payment & Identity segment. If the acquisition of SafeNet had occurred on January 1, 2014, the business' combined 2014 pro forma revenue would have been €403 million.

The segment's gross profit increased by +9%, to €386 million, with gross margin improving by +50 basis points, to 33%. The largest part of the year-on-year improvement came from the payment business in the US, as operational resources and facilities to support the growth were largely already deployed and in place in 2013.

Operating expenses were kept under tight control, leveraging the sales resources deployed in the previous semesters in preparation for the EMV migration. As a percentage of revenue, the operating expense ratio reduced, to now represent 21% of the segment revenue.

As a result, profit from operations in Payment & Identity came in at €142 million, up by a notable +21% compared to the €117 million recorded in 2013.

HIGHLIGHTS

REVENUE

€1,158m

2013: **€1,076m**

GROSS PROFIT

€386m

2013: **€354m**

GROSS MARGIN

33.3%

(up **50** basis points)

PROFIT FROM OPERATIONS

€142m

2013: **€117m**

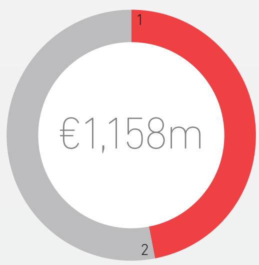
PROFIT MARGIN OPERATIONS

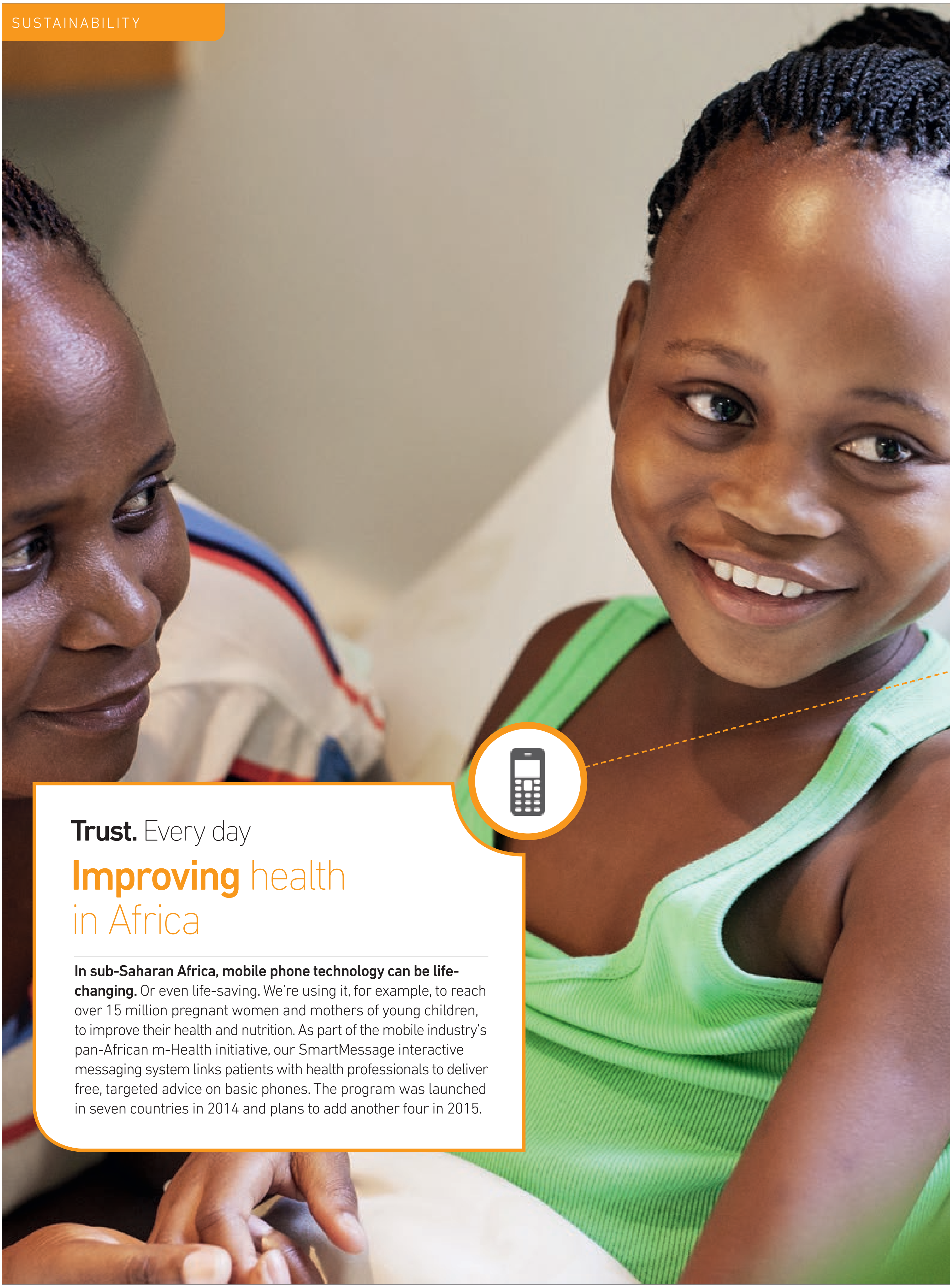
12.3%

(up **130** basis points)

REVENUE SPLIT

1. Payment & Identity	47%
2. Other segments	53%





Trust. Every day

Improving health in Africa

In sub-Saharan Africa, mobile phone technology can be life-changing. Or even life-saving. We're using it, for example, to reach over 15 million pregnant women and mothers of young children, to improve their health and nutrition. As part of the mobile industry's pan-African m-Health initiative, our SmartMessage interactive messaging system links patients with health professionals to deliver free, targeted advice on basic phones. The program was launched in seven countries in 2014 and plans to add another four in 2015.


NOKIA
mhealth

Our approach to sustainability

OUR SUSTAINABILITY PRIORITIES

1

Supporting our customers

Our customers' evolving needs are at the heart of our business. We aim to build trusting long-term relationships with new and existing customers while working with them to develop innovative solutions that improve people's digital lives.

2

Reducing our environmental impact

Managing our impact on the environment is not only a moral responsibility and a regulatory requirement, it is a commercial opportunity. By reducing our energy use, water consumption and waste, we help our clients achieve their environmental objectives while reducing costs for our own business.

3

Valuing our people

Gemalto is built on the outstanding ingenuity and motivation of its people. To maintain our world-leading position, we need to attract, nurture and retain a talented, diverse and innovative workforce.

4

Managing our business responsibly

Our relationships depend on strong governance and sound business ethics. We build trust with our clients by behaving with integrity. We manage our risks through robust systems and policies. And we engage with employees and suppliers to improve environmental, social and ethical standards throughout our supply chain.

HIGHLIGHTS

INVESTMENT IN R&D IN 2014

€180m

SIGNED SUPPLIERS' CHARTER

100%
of Tier 1 corporate suppliers

ISO 14001 CERTIFICATIONS

24
sites

ENVIRONMENT

10 million
carbon offset cards sold in 2014

CUSTOMERS 'SATISFIED' OR 'VERY SATISFIED' WITH GEMALTO

84%

NUMBER OF EMPLOYEES' NATIONALITIES

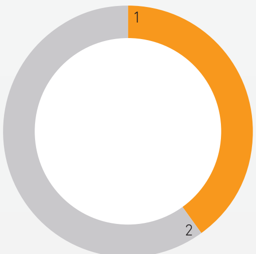
116
across 46 countries

CSR RATING FROM ECOVADIS BASED ON PERFORMANCE IN 2014

Gold

DIVERSITY

1. Women	39%
2. Men	61%



"Being a leader in digital security is a big responsibility. Our solutions touch billions of people's lives around the world. Only by operating sustainably and collaborating with our customers can we continue to deliver the best long-term solutions for society."

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

What we stand for

Our purpose is to enable our customers to offer their services to billions of individuals in trusted and convenient ways. This means we can have a positive impact on people's lives, from supporting health and welfare systems to promoting financial inclusion.

We first signed up to the United Nations Global Compact in 2009, and every year since then we have reviewed our progress and reported against its ten principles.

By April 2015 we will have produced six stand-alone Sustainability Reports, and we continue to benchmark our performance against other world-class companies to identify ways we can improve.

Managing sustainability

At Gemalto, sustainability is managed from Boardroom to site level, and everyone plays a role. The Board is ultimately responsible for the Company's sustainability vision and performance.

The Sustainability Board is chaired by the CEO and drives strategy and policy development. Reporting to it is the Sustainability Steering committee, which includes members of the Sustainability Board and representatives from most business functions. They work together to identify and implement action, engaging with site managers around the world.

Engaging with our stakeholders

Our stakeholders help us to focus our sustainability efforts and improve our performance – and then share information about it in a transparent manner. Our primary stakeholders are those that have the greatest influence on our performance.

ENGAGING WITH OUR STAKEHOLDERS

Our stakeholders	How we engage with them	2014 highlights
Our customers	• Constant, open dialogue • Annual 'Tell Me' client survey • Seminars and workshops • CSR questionnaires • JustAskGemalto.com – consumer advice website	• 350 'Tell Me' interviews • 84% clients 'satisfied' or 'very satisfied' • 1,100+ questions through JustAskGemalto.com
Our employees	• Annual 'PeopleQuest' employee survey • Employee induction, training and performance management • Gemalto Sustainable Development Day • Whistleblower hotline	• 83% response rate in 'PeopleQuest' survey • 82% satisfaction rate
Our suppliers	• CSR Purchasing Charter • Supplier audits • Quarterly Business Review meetings	• Purchasing Charter signed by 100% of Tier 1 suppliers • 17 audits carried out
Our investors	• Annual Report, Sustainability Report and press releases • Road shows and conference calls • Face-to-face meetings	• "Best Investor Relations Program" (Technology/Software) Institutional Investor magazine (also in 2013) • 324 face-to-face meetings
Our communities	• Recruitment and training in the countries where we do business • Your World – community volunteering program	• 500+ employees took part in local community projects

Sustainability in focus

1

Supporting our customers

Our purpose is to enable our customers to offer trusted and convenient digital services to billions of people. To do this, we aim to develop soundly based relationships that build confidence in our ability to meet their evolving needs.

Our 'Tell Me' survey is our annual customer listening program. In 2014, we commissioned independent interviews with 350 clients, representing the majority of our worldwide revenue. 84% of those interviewed said they were either 'satisfied' or 'very satisfied' with Gemalto.

Innovating for the long term

Innovation is essential if we are to develop services and technologies adapted to our rapidly changing markets. We have an exceptional pool of talent which includes some 2,500 engineers based in 24 R&D centers worldwide. They help our customers deliver secure, sustainable solutions to their end-users.

Responsible solutions

Our solutions help tackle some of society's biggest challenges. One focus is on those that underpin health and welfare services. This is critical in many countries and, with the global population growing and ageing, new answers are needed fast. As an example, we are providing technological support for the pan-African mHealth Initiative (PAMI) which makes use of the mobile ecosystem (see page 30).

Eco-design

We constantly aim to decrease the environmental impact of our products. We do this both by reducing the amount of materials used in production, and by selecting those that are more sustainable. With carbon footprint modeling and life-cycle assessment we assess the impact of existing products and apply eco-design principles to new ones.

We use polylactic acid (PLA) for the bodies of our bio-sourced banking cards, and we have recently completed this range with the inclusion of contactless cards. We are also developing smaller SIM card bodies and working with customers to promote product recycling.

2

Reducing our environmental impact

We are continually looking for ways to reduce the environmental impacts of our own operations and those of our supply chain.

Managing our impacts

Our Environmental Management System ensures we continuously improve our performance and comply with national and international regulations. 24 of our sites – including all our production facilities, several personalization centers and two main offices, covering over 70% of our workforce – are now ISO 14001 certified and audited annually.

Reducing our carbon footprint

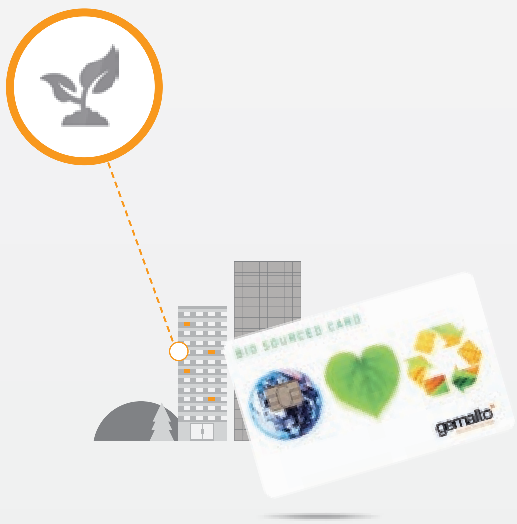
We launched our carbon footprint program in 2009 and by 2012 we had completed carbon assessments of every site. Over half our emissions are from raw materials used in production, followed by freight (20%) and business travel and energy consumption (10% each). We are focusing on these activities to reduce our carbon footprint, and are monitoring our performance annually. We also enable our customers to offset the carbon emissions linked to the products they buy from us.

Energy and transport

We mainly use energy for heating and air-conditioning at our sites, and for powering equipment. We aim to diminish this consumption every year. We also promote low-emission modes of transport in our supply chain.

Water and waste

Our policy is to progressively decrease our water usage, and between 2009 and 2013 we achieved a 31% reduction per employee. We also aim to reduce waste and increase valorization. While numerous site moves have generated more waste in the short term, we have nevertheless exceeded our valorization targets through continuous improvement and increased recycling.



3

Valuing our people

Our Human Resources strategy is founded on eight pillars comprising:

- Recruitment
- Management by objectives
- Training
- Compensation and benefits
- Mobility
- Promotion from within
- Diversity
- Ethics and community

Three of these are highlighted below. All are examined in more detail in our separate Sustainability Report, published in April 2015. The success of this people-centric strategy is reflected in the results of the 2014 'PeopleQuest' survey, in which 82% of employees declared their satisfaction with Gemalto.

Recruitment

Hiring the right people is key to the Company's continuing success. Our recruitment strategy is therefore based on certain key criteria that help us ensure a fair and ethical approach while selecting the best talent available. We then apply our integration processes to ensure that new employees rapidly acquire an understanding of our culture and a sense of belonging within Gemalto.

Training and development

The digital world is rapidly evolving, and ensuring our people continue to lead the way is a top priority. We invest 2% of our total salary costs in training. Key programs include the 'Gemalto University' for future leaders; 'SKY' for our sales force; 'BIG' to foster innovation; and a global CSR training initiative.

Diversity

We believe that the makeup of our workforce should reflect the global diversity of our customers and the markets they serve. In 2014 51% of our employees came from Europe, the Middle East and Africa, 27% from Asia and 22% from North, South and Central America. Women represented 39% of new recruits.

A safe place to work

In addition to developing practices in line with our eight pillars, we are also dedicated to providing a safe environment for our employees and visitors. All our production areas and our two main administration sites are covered by OHSAS 18001, covering 67% of our employees. In addition, we run awareness and training programs and conduct regular audits to help reduce the main risks.

4

Managing our business responsibly

We strive for the highest standards of corporate governance, and aim to conduct our business with honesty and integrity. We recognize the need to win the commitment of all our people and suppliers to make this a daily reality.

A responsible supply chain

Our direct supply chain includes over 360 companies. We work with them to improve the sourcing of raw materials, labor policies and practices, environmental management and transport. Our responsible purchasing model is based on UN Global Compact best practice. In 2014, we carried out 17 supplier audits.

Ethics and governance

Strong governance and business ethics sit at the heart of our global development, such that every new employee is required to sign the Gemalto Code of Ethics. Our governance structure is covered on pages 59-64.

Identifying and managing risk

Our approach to the identification, management and control of the risks associated with our activities is explained on pages 38-43 of this report.

Control and compliance

Gemalto applies a series of management systems that drive the Company's overall performance. There is a particular focus on the quality and reliability of our operations, products and services. We also comply with a number of external standards, laws and treaties including:

- The Universal Declaration on Human Rights, the International Labor Organization Standards and the ten principles of the UN Global Compact.
- International, regional and local laws and regulations related to customers and trade.

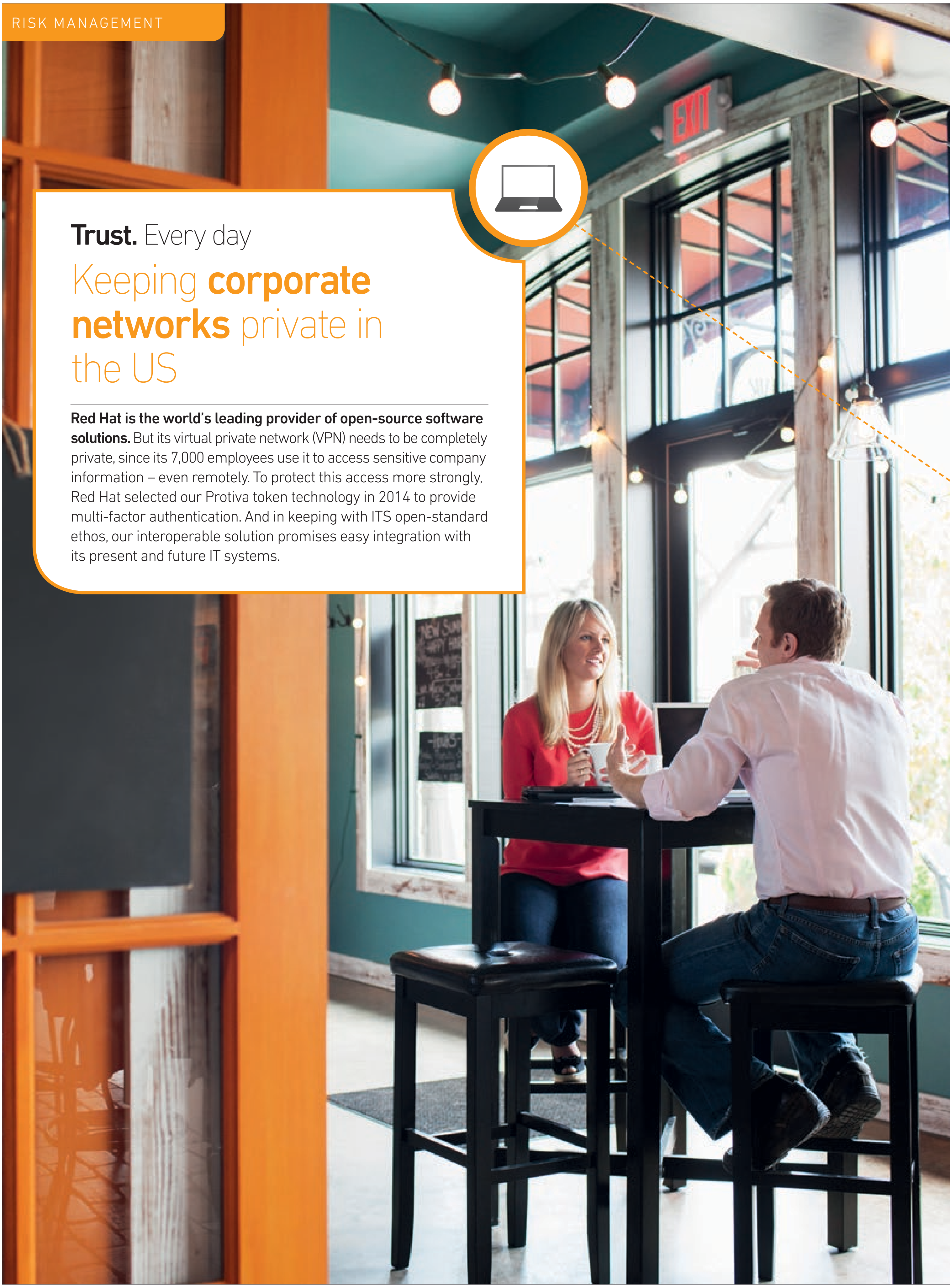
In addition, our Anti-fraud Framework includes regular internal and contractor audits, and is supported by a whistleblower hotline.

Monitoring and verification

Our systems include the regular monitoring of our activities to ensure they comply with a wide range of external standards and regulations. These include:

- Quality (ISO 9001), Environment (ISO 14001), Heath and Safety (OHSAS 18001) and Security (ISO 27001).
- RoHS, REACH and WEE regulations.

In addition, our internal management and control systems are systematically assessed and tested by our Internal Audit department. Its work conforms to the International Standards for the Professional Practice of Internal Auditing (for more information see pages 42-43).



Trust. Every day

Keeping **corporate networks** private in the US

Red Hat is the world's leading provider of open-source software solutions. But its virtual private network (VPN) needs to be completely private, since its 7,000 employees use it to access sensitive company information – even remotely. To protect this access more strongly, Red Hat selected our Protiva token technology in 2014 to provide multi-factor authentication. And in keeping with ITS open-standard ethos, our interoperable solution promises easy integration with its present and future IT systems.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Risk management and control

Trusted to manage our risks

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

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

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

To provide reasonable assurance to the Board as to the integrity of Gemalto's reporting and effectiveness of its systems of risk management, we have implemented a range of policies and processes with both internal and independent controls. The latter comprise Internal Audit, external certification bodies and external auditors. Together, these aim to support the achievement of our business objectives while reducing to acceptable levels the risks of operational failures, misstatements, inaccuracies and errors, fraud and non-compliance with laws and regulations in a way which balances the cost and effectiveness of the controls.

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

OLIVIER PIOU
CHIEF EXECUTIVE OFFICER

The foundations of our approach

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

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

What we focused on during the year

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

During the year we focused on a number of key areas, and in particular on:

- Enhancing the business continuity framework and organization.
- Performing several new risk assessments on key businesses highlighted in the 2014-2017 Development Plan.

What we plan to do in the future

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

- Completing our Enterprise Risk Assessment on Platforms & Services businesses.
- Deploying our Business Continuity Framework on strategic sites and organizations.
- Streamlining our Internal Control framework.

HOW WE SHARE OUR RISK MANAGEMENT RESPONSIBILITIES

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

The Board

Approves strategic objectives and validates our risk appetite.

Reviews the Company's risk management and internal control systems.

Assesses these systems' effectiveness through its Audit committee.

Senior Management

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

Defines and allocates risk appetite within the Group.

BUSINESS AND OPERATIONS MANAGEMENT

Identifies and manages risks for its scope of responsibility.

Maintains effective internal control day-to-day.

BUSINESS SUPPORT FUNCTIONS

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

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

RISK PREVENTION AND MANAGEMENT AND INTERNAL CONTROL DEPARTMENT

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

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

INTERNAL AUDIT

Provides independent assurance of the effectiveness of risk management and internal control frameworks and activities in the Group.

BUSINESS AND OPERATIONS MANAGEMENT

1 Budgeting, planning and reporting
See page 38

2 Risk assessment and mitigation
See page 38

3 Crisis and business continuity management
See page 39

4 Fraud risk management
See page 39

5 Transfer to insurance
See page 40

FOUNDATIONS

Our processes are underpinned and informed by:

- STRATEGY AND OBJECTIVES
- CULTURE AND VALUES
- INTERNAL CONTROL
- SUSTAINABILITY

Risk management and control continued

HOW WE ADDRESS RISK MANAGEMENT

Our principal risks, together with the main mitigating actions are explained on pages 42-43.

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

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

1. Budgeting, planning and reporting

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

Our 2014-2017 Development Plan, prepared in line with Group objectives and strategy, encompasses the whole Group.

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

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

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

Once validated, operating results which have been consolidated by the Corporate Accounting department, reviewed by the Group Treasurer, Group Tax Director and Group Controller, are presented to the CFO and COO for review. The Group Controller, CFO and COO then present them jointly to the CEO.

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

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

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

2. Risk assessment and mitigation

Our risk management process involves:

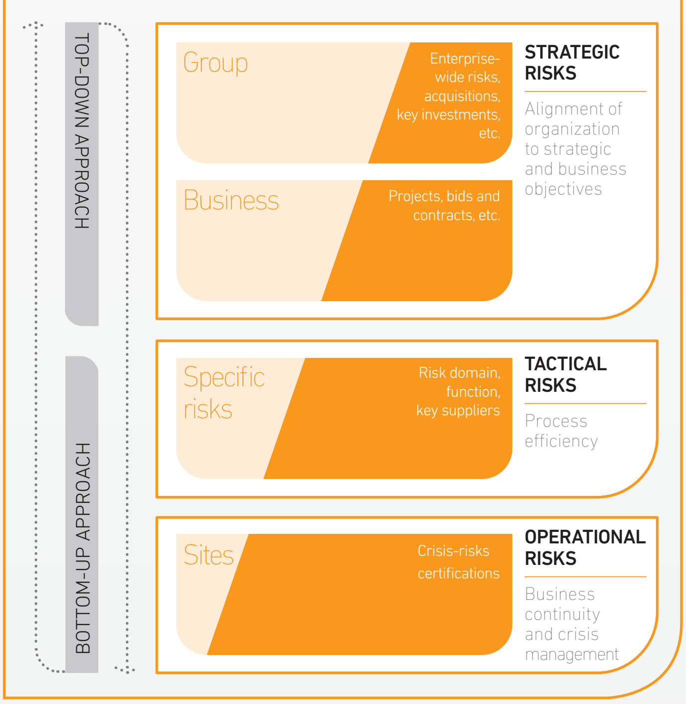
- Mapping and anticipating the main identifiable risks, with regular updates;
- Prioritizing them against the Group's strategy and risk appetite;
- Allocating risk ownership;
- Developing and implementing mitigation plans that are proportionate to the risks involved, including transfer to insurance market;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

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

- Group level: major new investments, like major assets, acquisitions and developments, are analyzed from a risk perspective, and reviewed with the segments. Following the publication of each new multi-year development plan, new enterprise-wide risk assessments (ERA) are conducted either at Group level or per segment.
- Business level: risk assessments are performed on major bids and contracts as well as on new activities.

- **Specific risk level:** risk assessments are performed on risk domain (e.g. fraud), function (e.g. IT) or suppliers considered as key to the Company.
- **Site level:** sites perform crisis risk assessments in line with the Gemalto crisis management framework. In addition, production and personalization sites assess their security and industrial risks. This contributes to some certification requirements such as ISO 27000 and ISO 14000.

Our aims per risk assessment level



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

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

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

3. Crisis management and business continuity

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

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

Our crisis management framework encompasses basic escalation and communication rules, guidelines for anticipation and action, and clear roles and responsibilities.

Over 120 crisis management leaders are in place worldwide, trained through simulation exercises.

In 2014, we continued to update and refine our crisis management framework and improved the preparation level of the Company. In particular, all Crisis Management Leaders were asked to formally submit their updated Crisis Management Plans to the Corporate Risk Management team.

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

We reinforce this by storing certain types of key information in back-up sites, so enabling our operations to continue uninterrupted even in the face of difficulties. In 2014, we also continued to reinforce our business continuity framework with improved tools, templates and educational support across the Company. Continued governance and oversight of business continuity development is provided by our Business Continuity Leadership team.

4. Fraud risk management

The anti-fraud framework aims at preventing, detecting, deterring, reporting and responding to fraudulent activities. The Gemalto Anti-fraud commission oversees this framework. It comprises the Group General Counsel; the EVP Human Resources; the Chief Information Officer; the Internal Audit Director; the Security Director; and the Compliance Officer. Its objectives encompass continuous fraud risk assessment, anti-fraud policy and procedures, and action in response to actual or suspected frauds.

In 2014, around 430 key personnel received training in anti-fraud or anti-bribery and over 1,000 people were trained in Ethics, Bribery Law, CFIUS and Trade Compliance topics. In addition, newsletters including these topics were sent to around 1,800 employees.

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

Risk management and control continued

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

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

5. Transfer to insurance

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

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

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

How we monitor effectiveness

1. Risk management

The Risk, Internal Control and Trade Compliance department reporting both to the General Counsel and the CFO has a global view of risks since its responsibilities encompass several key processes from ERAs to transfer to insurance including internal control, crisis management and business continuity. This transversal view is a strong asset in the understanding of the risk and the Company's capabilities to manage it.

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

2. Internal control

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

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

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

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

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

Ethical practices and employee confidence

In the 2014 internal PeopleQuest survey (see page 33) employees confirmed their confidence in the Company's ethical practices and performance. They said that Gemalto and its Management:

are committed to ethical practices	91%
set a good example	90%
provide adequate information about ethical practices	87%

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

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

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

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

3. Financial control

Internal Audit and Corporate Risk Management, together with Financial controllers, are responsible for identifying the risks which significantly impact the financial statements, and implement preventive and corrective control to mitigate those risks. They are also responsible for assuring Senior Management that the controls over the Group's earnings and operating performance remain adequate. They participate in drawing up the budget and quarterly business reviews; and they oversee the monthly financial results of segments, regions and the Group as a whole. They also play an active role in operational and performance improvement projects, and in cost control and cost-effectiveness initiatives.

How we provide independent assurance on effectiveness

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

1. Internal audit

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

In December 2013, the committee approved a new three-year plan covering the period 2014-2016. It drew on the findings of the ERA, the yearly financial risk mapping, discussions with management and regular audits of major sites.

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

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

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

2. External certifications

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

3. External auditor

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

The Audit committee assesses the work of the external auditor at least once a year. The external auditor provides an independent opinion on the financial results of the Group, and its report is available on page 119.

Following developments in Dutch law, PwC's mandate will come to an end at the end of 2015, and another audit firm is to be appointed. A tender was organized in 2014 with global, reputable audit firms under the supervision of the Audit committee. A mandate to appoint KPMG, the new audit firm selected, will be submitted for approval to the AGM in May 2015.

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

Principal risks

STRATEGIC RISKS

RISK AREA	MAIN MITIGATING ACTIONS	
Economic and political environment, competition and commoditization of products (possible adverse impact on our growth and profitability)	• Formal long-range Development Plan. • Diversified portfolio of activities and geographic footprint (presence in 46 countries).	• Focus on creating value to clients: high overall customer confidence in the annual 'Tell Me' survey.
Acquisitions and/or joint ventures (inappropriate or untimely M&A strategy, poorly executed integration process)	• Dedicated team manages corporate Development Plan and M&A. • Formal process to manage acquisitions and integrations.	• Review by Strategy and M&A committee. • Post-acquisition integration audits with performance monitored by Senior Management and the Board.
Technology changes, innovation, R&D (failure to manage efficiently our innovation process and R&D projects)	• Competitive and market intelligence program. • Diversified technology portfolio (including through M&A). • Strong R&D and standardization teams. • Focus on innovation: Gemalto filed 114 new patent applications in 2014.	• Participation in industrial bodies and standardization organizations. • Innovation process leading to many innovation awards.

LEGAL AND COMPLIANCE RISKS

RISK AREA	MAIN MITIGATING ACTIONS	
Intellectual property rights risks (failure to protect Gemalto's proprietary technology and IP rights, third-party claims for alleged infringement of their IP rights)	• Dedicated and qualified internal IP team organized by technology. • Internal IP department, internal inventor policies and formal Open Source software policy.	• Patent committee. • Patent management database and third-parties' patents search. • Contract reviews on IP clauses.
Business integrity and ethics (internal fraud, bribery, anti-trust violations; actions or inactions perceived by stakeholders to be inappropriate)	• Policies and procedures, Code of Ethics, whistle-blowing tool, employee survey. • Anti-fraud commission; Compliance Officer directly reporting to CEO. • Security certifications and organization.	• Training/e-learning: security, business principles, anti-fraud, anti-trust. • Internal audits on all suspected frauds. • Investigation process and tools.
Regulatory risks associated with our international operations and industry (failure to comply with regulatory changes, export controls and data protection regulations, impact of decisions from tax authorities, regulatory and other administrative bodies)	• Legal organization in regions and by activity. • Training on tax and other regulations. • Tax department with regional antennas. • Awareness program and compliance action plan lead by Director of Global Data Privacy.	• Participation in standardization committees. • Advice from law firms, tax advisors and authorities where we operate.

OPERATIONAL RISKS

RISK AREA	MAIN MITIGATING ACTIONS	
Business continuity and resilience to crisis (failure to limit impact on our operations and reputation of any internal or external critical events or situations which may materialize unexpectedly)	• Risk assessments with regular updates. • Crisis management framework and associated worldwide training program. • Diversified industrial footprint. • Enhancement of IT technology and infrastructure resilience.	• Continued investment to improve and secure manufacturing activities. • Built up business continuity framework, organization and responses. • Regular internal and external audits of facilities (including on crisis management and business continuity plans).
Sourcing and supply management (lack of supplier resilience to disaster, insolvency, non-compliance with ethical standards, inadequate management of suppliers)	• Business intelligence on suppliers. • Multiple sourcing strategy. • Safety stocks management and protection clauses in contracts.	• Responsible purchasing program. • Supplier selection, qualification and monitoring process. Audits of some key suppliers. • Assessment of maturity of critical suppliers' business continuity plans.
Major contracts (failure on amount, duration, technology or commitments)	• Bid and contract reviews with approval process according to limits of authority. • Prudent revenue recognition policies for Embedded software & Products and Platforms & Services businesses.	• Project-based organization for Government Programs and Platforms & Services contracts. • Risk assessment performed for major deals.

KEY: MAIN POTENTIAL IMPACTS

Financial | Organizational | Reputational | Legal

OPERATIONAL RISKS CONTINUED

RISK AREA	MAIN MITIGATING ACTIONS	
Quality of products, platforms & services (failure to develop and deploy secure, stable or reliable technology products and solutions)	• Standardized manufacturing processes. • Quality management system and world-class enterprise organization. • 30 sites with ISO 9001 certification in 2014. • Participation in standardization committees.	• Dedicated organizations for software development, products, and platforms and services. • Product and professional liability insurance. • High overall customer confidence in annual survey ('Tell Me').
Exposure to country risk (political, regulatory and trade exposure impacting our staff, footprint and receivables)	• Country risk alert monitoring and communication. • Travel policy, travel approval process, regional travel champions. • Agreements with specialized security consulting companies. • Specific training sessions.	• Medical assistance and repatriation insurance. • Involvement of treasury, tax and legal departments at the early stages of international operations. • Advice from law firms, tax advisors and authorities where we operate.
Data protection and cyber security (leakage and/or loss of customers' or Gemalto's confidential data resulting, for example, from cyber attacks, employees' negligence or vulnerability of our information technology systems)	• Security and cryptography expertise. • Extensive set of security and IT policies with regular training sessions. • Worldwide security organization with security officers in all important sites and regional/corporate security support.	• Corporate Security Incident Response team. • Security certifications by third-parties (including ISO 27001, EMV, GSM, SAS, etc.). • Internal security audits (extended to IT subcontractors). • Anti-fraud commission.
Talent management (inability to attract, develop and retain highly qualified management and suitably skilled employees.)	• Comprehensive Human Resources strategy. • Focus on recruitment, management by objectives, compensation and benefits. • Succession plan for managers (including for Senior Management).	• Focus on diversity, ethics and community. • Focus on training, promotion from within and mobility.
Customer retention (inability to maintain relationships with existing customers and to identify, attract and retain new customers)	• Diversified portfolio of clients. • Operations from worldwide locations. • No customer represents more than 10% of Group's annual revenue.	• Focus on creating value to clients: high overall customer confidence in the annual 'Tell Me' survey. • Key account management.

FINANCIAL RISKS

[1] For further information about other financial risks that do not fall into this section (i.e. interest rate risk, liquidity risk and credit risk) and the relevant mitigating actions, see Note 4 Financial risk management pages 81-84.

RISK AREA	MAIN MITIGATING ACTIONS	
Foreign exchange risk (devaluation of receivables, future cash flows and other assets)	• Centralized currency risk management and reporting. • Treasury committee and treasury policies. • Manufacturing footprint providing natural hedging.	• Hedging strategies and transaction hedging (foreign exchange forward contracts and options recorded as cash flow hedges).
Financial counterparty risk (inability of customers and banks to fulfill their financial obligations)	• Risk limits set for counterparties regularly reviewed. • Use of plain vanilla hedging instruments and low-risk money market investment.	• Working with financial institutions of investment grade (deposits, hedging transactions). • Set-off provisions in financial contracts.
Financial reporting risks (inability to produce timely and accurate financial statements, inaccurate assessment of tax exposures and other complex accounting issues)	• Financial policies and procedures. • Single financial reporting tool Company-wide. • Revenue recognition policies. • Consolidation department with dedicated specialists. • Regular balance sheet analysis and management reviews.	• Tax, Controlling and Treasury departments with regional antennas. Dedicated Internal Control and Audit departments. • Specific reviews performed by the Internal Audit department. • Regular reviews by the Audit committee. • Audit by external renowned independent audit firm.

Trust. Every day

Mobilizing ID in Norway

How do you encourage people to use a service? Make it more convenient. Almost a million Norwegians use the country's BankID system to access banking services and sign transactions online. In 2014 Bank-ID adopted our Valimo mobile ID solution to make these services available on the go, across all mobile networks and phone types. Result: with the introduction of a mobile option, transactions per user have doubled.


bankID

Our Board

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

Board committee key

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

Alex Mandl 1943 — American

N

Non-executive, independent
Chairman of the Board

Initial appointment: 2006

Current term: 2011-2015 (second term)

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

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

Olivier Piou 1958 — French

Executive
Chief Executive Officer

Initial appointment: 2004

Current term: 2012-2016 (third term)

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

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

Johannes Fritz 1954 — German

A S

Non-executive, independent

Initial appointment: 2006

Current term: 2012-2016 (third term)

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

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

John Ormerod 1949 — British

A C

Non-executive, independent

Initial appointment: 2006

Current term: 2013-2015 (third term)

Other current appointments: Chairman of Tribal Group plc; non-executive Director of Computacenter plc (until April 1, 2015); non-executive Director of ITV plc; non-executive Director of Constellium N.V.; and non-executive Director of First Names Group Ltd.

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

Michel Soublin 1945 — French

N S

Non-executive, independent

Initial appointment: 2004

Current term: 2011-2015 (third term)

Other current appointments: None.

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

Homaira Akbari 1961

American/French

A S

Non-executive, independent

Initial appointment: 2013

Current term: 2013-2017 (first term)

Other current appointments: Non-executive Director of Landstar System Inc. (NASDAQ: LSTR); Chair of the Johns Hopkins University Physics and Astronomy Advisory Council; non-executive Chair of the Board of Directors of Dauria Aerospace; and non-executive board member of Covisint (NASDAQ: COVS).

Experience: Homaira Akbari has extensive experience and deep domain knowledge in mobile, software and security spaces. She is currently President and CEO of AKnowledge Partners, LLC, an international advisory firm providing services to leading private equity funds and large corporations. From 2007 to 2012 she was the President, Chief Executive Officer and a Director of SkyBitz, Inc. She has held executive and senior managerial roles in Microsoft (NASDAQ: MSFT), Thales, SA (Euronext: HO), and TruePosition, a wholly-owned subsidiary of Liberty Media Corporation (NASDAQ: LMCA). She holds a PhD in particle physics from Tufts University and an MBA from Carnegie Mellon Tepper School of Business.

Buford Alexander 1949

American

N S

Non-executive, independent

Initial appointment: 2009

Current term: 2013-2017 (second term)

Other current appointments: Chairman of the supervisory Board of the Amsterdam Institute of Finance; member of the Board of Clarien Bank Limited (Bermuda); President Emeritus of the American Chamber of Commerce in the Netherlands; and member of the Fulbright Commission in the Netherlands.

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

Philippe Alfroid 1945

French

A C

Non-executive, independent

Initial appointment: 2010

Current term: 2014-2018 (second term)

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

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

Yen Yen Tan 1965

Singaporean

N S

Non-executive, independent

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Regional Vice-President and Managing Director, Asia Pacific (South), SAS Institute; Director, Singapore Press Holdings; Chairman, Singapore Science Center; Director, Singapore Defence Science and Technology Agency; Director, Cap Vista Pte Ltd; Director, Singapore Institute of Directors; Advisory Board member, National University of Singapore School of Computing; and advisor mentor of TNF Ventures.

Experience: Yen Yen Tan has considerable experience in the technology sector. She was Senior Vice-President Applications, Oracle Corporation Asia Pacific (2010-2014); Vice-President and Managing Director for Hewlett-Packard (HP) Singapore (2005-2010); and previously held various senior management positions with HP including sales, channels and marketing across the Asia Pacific region (1993-2005). She was also Chairman of the Singapore Infocomm Technology Federation (2009-2011); Board member of Infocomm Development Authority (2009-2011), and Deputy Chairperson of the Internet and Media Advisory Committee of Singapore's Ministry of Information, Communications and the Arts (2009-2011).

Arthur van der Poel 1948

Dutch

C N

Non-executive, independent

Initial appointment: 2004

Current term: 2012-2016 (third term)

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

Experience: Arthur van der Poel has a lifetime's experience in the electronics and telecoms sectors. He was a member of the supervisory Board of Royal HaskoningDHV BV (2011-2014). Previously he was Chairman of MEDEA+, the pan-European program for cooperative R&D in microelectronics (2004-2007); and a member of the Board of Management of Royal Philips Electronics (1998-2003). Before that he served with Philips Semiconductors where he held different marketing and management positions (1984-1996), culminating as Chairman and CEO (1996-2001). Arthur had earlier worked for the International Telecommunication Union in Indonesia, and before that for the R&D group of Dutch telecom operator PTT.

Drina Yue 1957

American

A C

Non-executive, independent

Initial appointment: 2012

Current term: 2012-2016 (first term)

Other current appointments: Brambles Asia Advisory Board; The Hong Kong Transport Dept of the Personalized Vehicle Registration Marks Vetting Committee; Unsolicited Electronic Messages (Enforcement Notices) Appeal Board of Hong Kong.

Experience: Drina Yue has a wealth of experience in the finance and telecommunications industry. She recently retired as the Senior Vice-President and Managing Director of Western Union, responsible for the Asia Pacific region of 43+ countries/territories (2010-2014). Prior to that she was Head of Motorola's Asia Pacific Broadband Communications, Home & Network Mobility business (2004-2010); and COO then CEO of iSteelAsia, developing it into the world's first listed steel vertical portal (2000-2004). She was previously Chief of Staff to the President of Motorola's wireless infrastructure business in China (1999-2000); and held various roles with BellSouth (1984-1994) receiving eight US patents in telecommunications services. She began her career at AT&T as a development engineer and systems analyst (1980-1984). She was also a Board member of HK's Information Infrastructure Advisory Committee (2000-2006).

Our Senior Management

From January 1, 2014 we continued the transformation of the Company by adapting the structure of the Senior Management team to address the demands and opportunities of the Gemalto 2014-2017 multi-year Development Plan.

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

Paul Beverly 1962 American

EVP Marketing

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

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

Eke Bijzitter 1974 Dutch

Compliance, Governance and Central Officer

Eke Bijzitter has held her current position since January 2014. Prior to this she was Group Corporate Counsel and Deputy Company Secretary of Gemalto (2005-2013). Before joining Gemalto she held different positions as corporate counsel in the Netherlands. Eke Bijzitter is a graduate in law from the University of Groningen and a postgraduate in Corporate Structures from the Grotius Academie.

Isabelle Marand 1966 French

EVP Corporate Communication

Isabelle Marand has held her current position since January 2014. Prior to this she was VP Corporate Communication (2010-2013) and VP Branding and Internal Communication (2006-2010) for Gemalto. Isabelle previously headed Axalto's communication department (2003-2006) and spent seven years in different marketing communication positions within Schlumberger. Before this she held various marketing and communication positions at Alcatel Business Systems (1989-1996). Isabelle Marand is a graduate from the Ecole Superieure de Commerce d'Amiens (*Master in Management*) and holds a degree in foreign languages from la Sorbonne Nouvelle University.

Martin McCourt 1962 Irish

EVP Strategy and Innovation

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

Philippe Cabanettes 1955 French

EVP Human Resources

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

Jean-Pierre Charlet 1953 French

EVP General Counsel, Risk Prevention and Management, Company Secretary

Jean-Pierre Charlet has held his current position since 2005. Since January 2014 he has also taken responsibility for Risk Prevention and Management.

Prior to this he was General Counsel of Rexel (2003-2005), Deputy General Counsel of Sanofi-Synthélabo (1999-2002) and General Counsel of Synthélabo (1996-1999).

From 1981 to 1996 he held positions within the legal departments of Carnaud-Metalbox, PPR group, Schlumberger group and Société Métallurgique Le Nickel-SLN. Jean-Pierre was admitted to the Bar in Paris in 1974 where he began his career in various law firms.

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

Jacques Tierny 1954 Swiss/French

EVP Chief Financial Officer

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

Philippe Vallée 1964 French

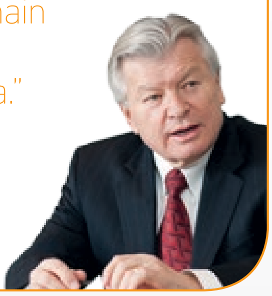
Chief Operating Officer

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

Chairman's letter

"Continuous improvement will always remain part of our ongoing agenda."

ALEX MANDL
CHAIRMAN



Over the years we have made it a priority to focus on continuous improvement of the Board's governance effectiveness and capabilities. We have done so by paying particular attention to:

- Having individuals who bring deep understanding of global and cultural realities as well as exposure to rigorous Board governance practices, and who represent a well-balanced gender mix.
- Having the right mix of experience and skills, including Senior Management and operational skills, financial and strategic expertise, and a good grasp of relevant technologies and markets.
- Never losing sight of the quickly evolving competitive landscape, in the context of realistically assessing risks and opportunities.
- Having an annual self-evaluation assessment to ensure our key governance objectives are indeed on the right course.
- Regularly reviewing Senior Management succession and development plans, to ensure that our leadership capabilities continue to grow in line with expanding market opportunities.

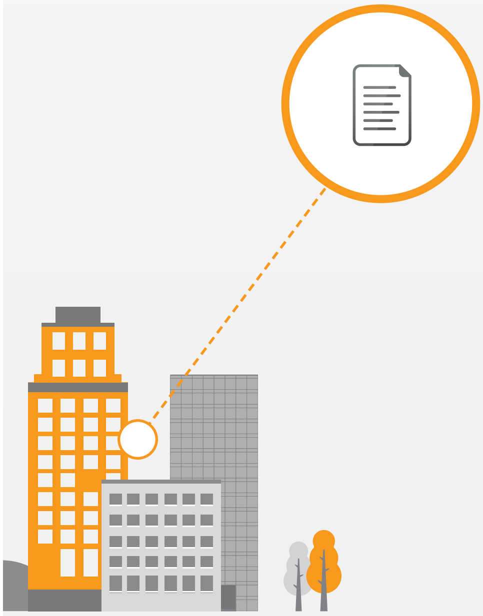
While we have certainly made noteworthy progress on all these fronts, continuous improvement will always remain part of our ongoing agenda.

In 2014, the Board spent considerable time with the Senior Management team examining the potential acquisition of SafeNet. By taking into account the strategy of the Company, looking at the financing requirements and ensuring due diligence, we were able to seize an outstanding opportunity.

For the year ahead, the following themes will require particular Board attention:

- Last year Gemalto's management team began implementing the new Long Range Plan. Sustaining effective implementation will require thoughtful oversight.
- The pace of evolution in the marketplace, and in our competitive landscape, is clearly continuing to accelerate. We will need to be vigilant in monitoring risks, assessing them as they emerge to determine their true significance, and ensuring the right actions are taken to mitigate our exposure.
- New acquisitions will further challenge the Board's grasp of fully understanding newly evolving technologies. We will need to keep developing our skillsets to address this.
- As the complexity of our business continues to develop, communicating effectively with our owners will become even more vital.

Alex Mandl Chairman



Our Board during 2014

BOARD COMPOSITION 2014

REAPPOINTMENTS IN 2014:

- Philippe Alfroid was reappointed as non-executive Board member until 2018.
- Philippe Alfroid continues to be a member of the Audit committee and the Compensation committee.

LEGEND:

MAN WOMAN NATIONALITY

The Board's focus during the year

The Board held nine meetings: four in person and five by conference call. The overall attendance rate at Board meetings during 2014 was in excess of 90%.

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

- Agenda for the AGM.
- Annual budget plan for 2015.
- CEO and Senior Management remuneration.
- Corporate governance structure and developments.
- Corporate strategy: Gemalto 2014–2017 multi-year Development Plan.
- Design and effectiveness of risk management and internal control systems and any significant changes to them.
- Development of business activities, investment and M&A opportunities, including the acquisition of SafeNet, as well as the competitive environment.
- Financing requirements for the Group, including a Luxemburg listed bond prospectus and increase of bilateral committed revolving credit lines.
- Grants to employees under the Global Equity Incentive Plan.
- Group financial performance and disclosures.
- Long-term evolution of Board and committee composition, including chairmanship.
- Main risks to the business.
- New organizational structure, as of January 1, 2014.
- Opportunities for employees to buy discounted shares under the Global Employee Share Purchase Plan.
- Performance and functioning of the Board, the Board committees and the individual Board members, including the CEO.
- Share buy-back and dividend policy.
- Succession planning for the CEO and Senior Management, and related management development.

Independence

As of December 31, 2014, all our non-executive Board members met the independence requirements of the Dutch corporate governance code's best practice provision III.2.2. The Company is hence compliant with best practice provision III.8.4.

Our Board during 2014 continued

Board reappointment schedule

Board members	Date of initial appointment	2014 – 2015 – 2016 – 2017 – 2018
A. Mandl	June 2006	2ND TERM
O. Piou	Feb 2004	3RD TERM
H. Akbari	May 2013	1ST TERM
B. Alexander	May 2009	2ND TERM
Ph. Alfroid	May 2010	2ND TERM
J. Fritz	June 2006	3RD TERM
J. Ormerod	June 2006	3RD TERM
M. Soublin	Feb 2004	3RD TERM
Y. Y. Tan	May 2012	1ST TERM
A. van der Poel	May 2004	3RD TERM
D. Yue	May 2012	1ST TERM

Our training and induction program

During 2014 the Board members participated in the annual training program on Gemalto's products and services. They received a separate training on fraud-related subjects. In the second half of 2014 the Board visited a Gemalto site in Asia.

Board reappointment schedule

The Board adopted a reappointment schedule, which is published on our website. The table above lists the members of the Board and their terms in office. A term is a maximum of four years. As adopted by the 2014 AGM, the length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years. After having served two terms or upon reaching the age of 70 at reappointment date, non-executive Board members may be reappointed for additional terms of a maximum of two years each. There is no limit to the entire service of the executive Board member, except the age of 65, unless otherwise agreed with the Board.

How the Board is performing

In 2014 the Board performed a self-assessment to benchmark and evaluate the effectiveness of the Board and its committees, including the Chairman and the CEO. The evaluation took into account the conclusions and recommendations from the assessment performed in 2012 by an external expert, Dr Tracy Long, PhD, of Boardroom Review. The evaluation process comprised written questionnaires and one-on-one interviews with all Board members. These covered key areas such as: strategy; risk management and internal controls; performance management; shareholder communication; Board culture and dynamics; Board composition, with particular reference to balance of skills, experience, independence, knowledge of the Group, and diversity; and the Board and committee calendar, agendas, materials and support. The completed questionnaires were available to the Chairman only, who prepared a written report which was discussed by the Board as a whole. While it was clear that the Board is effective and operates well, this evaluation exercise raised valuable points that will form part of the agenda for the Board and its committees for the coming period.

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

Board committee reports

Report of the Audit committee

Committee members (all being independent as of December 31, 2014)	
John Ormerod (Chairman)	Homaira Akbari
Philippe Alfroid	Johannes Fritz
Drina Yue	
Number of committee meetings in 2014	6

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

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

In carrying out its work, the committee challenges management on significant risks and mitigating decisions, on the levels of exposures, on policies and authority limits and on the adequacy of judgmental-based assumptions and sensitivity analysis used in valuations of assets and liabilities.

In particular, during 2014 the committee reviewed and reported to the Board on the following:

- Annual financial statements and the related detailed report from the external auditor. This review included consideration of the Company's accounting policies and the key judgments made by management in preparing the financial statements. Areas of focus were the appropriate application of revenue recognition policies, in particular in relation to new areas of business; provisions for tax across the range of countries in which the Company operates and the recognition of deferred tax assets; the capitalization of development expenditure; accounting for pensions and other post-retirement benefits; impairment testing of intangible assets; provisions for credit risk; accounting for share based compensation expense; and the overall presentation of the financial statements.
- Condensed semi-annual financial statements and the related report to the committee by the external auditor, as well as the announcements of the interim management statements, including quarterly revenue figures.
- Following the acquisition of three businesses during the year, and considering the announcement of the acquisition of SafeNet, the committee was presented with a summary of the main accounting impacts derived from business combination accounting, focusing on both the allocation of the purchase price between intangible assets and goodwill and the consideration transferred.
- The Group completed certain transactions during the year which were outside the normal course of business. The committee carefully reviewed these one-off transactions to ensure that the judgments applied by management were reasonable. The topics discussed this year covered financing requirements and judgment applied by management when classifying some costs under the line item "restructuring and acquisition-related expenses".
- Financing requirements for the Group, including a prospectus for the issuance of €400 million 2¹/₈% bonds, listed on the Luxemburg stock exchange and increase of bilateral committed revolving credit lines without financial covenants to €585 million, together with the extension of their maturities, some of them up to seven years.
- The Company's financial and risk management system and key internal financial control policies and procedures, to help the Board review and assess the effectiveness of internal controls. These included a review of the cash management, counterparty risk and outstanding credit facilities, including the impact of foreign currency fluctuations, tax and treasury risks, including hedging, and information and communication technology risks. As an annual topic, a presentation on Information Solutions and Services (ISS) plans and risks was given to the committee by the CIO.
- Dedicated reports on the Group's compliance with ethical, anti-bribery and anti-corruption policies, on the assessment and mitigation of country risks for the largest countries in which the Group operates, and on health and safety issues in the Group.
- Reports on whistleblowing, significant claims and disputes – including those resulting in litigation – and related party transactions.
- Internal audit charter, the internal audit plan for the next three years and its coverage in relation to external audit. The committee also reviewed reports on the effectiveness and independence of the internal audit process, considered their findings and recommendations and monitored management's follow-up actions.
- External auditor's plan for the yearly audit. The committee had been presented with the external auditor's audit approach and scope of work for the year, as well as with the related fee proposal. Discussions were very open and constructive.
- Performance and independence of the external auditor. Having considered the steps taken to ensure their continued independence, including reviewing the fees paid for audit and non-audit services, the committee recommended the reappointment of PricewaterhouseCoopers.

Board committee reports continued

- In light of amended Dutch accountancy legislation, which prescribes a mandatory rotation of audit firms, a tender process was initiated in 2014 for the search of a new external auditor for the financial year 2016 to be proposed at the 2015 AGM. Four firms were approached to tender for the audit in November 2014, out of which two were selected for an oral presentation in front of the full committee. Based on the overall performance of the two short-listed audit firms, the committee has recommended to the Board to nominate KPMG, which recommendation was endorsed by the Board. As a result of the tender, PricewaterhouseCoopers' last appointment will be to perform the statutory audit for the 2015 financial year, following which KPMG will become Gemalto's statutory auditor for the 2016 financial year, subject to approval by the 2015 AGM.

Report of the Nomination and Governance committee

Committee members (all being independent as of December 31, 2014)	
Alex Mandl (Chairman)	Buford Alexander
Michel Soublin	Yen Yen Tan
Arthur van der Poel	
Number of committee meetings in 2014	6

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

Based on the committee's advice, the Board recommended the reappointment of Mr. Philippe Alfroid, non-executive Board member who stood for reappointment at the 2014 AGM. As Michel Soublin opted not to seek reappointment when his mandate expires at the close of the 2015 AGM, because of his other obligations, the committee dedicated considerable time to the search of a new non-executive Board member. A thorough selection process supported by a leading executive search firm took place. Interviews and introduction meetings were held with the committee members and other Board members, including the Chairman and CEO. The new candidate will be proposed for appointment as non-executive Board member at the 2015 AGM.

Following the rejection of certain proposed resolutions at the 2013 AGM, the committee analyzed the outcome and proposed revised resolutions to the 2014 AGM, which were all adopted.

The committee prepared and coordinated with the Chairman of the Board the self-assessment of the Board and the committees.

Other topics addressed during the year included the sustainability report, governance sections of the Annual Report and the agenda for the AGM. The committee received regular updates on developments in Dutch corporate law.

Report of the Compensation committee

Committee members (all being independent as of December 31, 2014)	
Arthur van der Poel (Chairman)	Philippe Alfroid
John Ormerod	Drina Yue
Number of committee meetings in 2014	4

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

The committee requested Mercer, another internationally recognized firm of compensation specialists, selected by the committee and independent from management, to perform a similar analysis. As a result of both surveys the committee recommended to the Board an increase of the CEO's salary from €800,000 to €850,000, including a fixed fee of €35,000 as executive Board member of Gemalto N.V.

The committee reviewed the achievement of the performance targets and objectives recommended by the committee and set by the Board for 2013 and the resulting variable compensation payments for the CEO and Senior Management, and proposed the 2014 targets. The 2014 Remuneration report is set out on pages 55-58.

Having taken independent advice from Mercer, the committee designed the terms of the 2014 LTI grant and recommended to the Board granting restricted share units to eligible employees in 2014. It defined the grant characteristics and the performance and service vesting conditions that should apply. This award is aligned to the achievement of the LRP presented in September 2013.

The committee also considered the terms of the LTI for 2015, which included holding a preparatory meeting between the Chairman of the committee, the EVP HR and Mercer, as in previous years.

As in previous years, the committee recommended that Gemalto employees in more than 30 countries should have the opportunity to buy shares in the Company at 15% below the market price (the 2014 Global Employee Share Purchase Plan).

Report of the Strategy and M&A committee

Committee members (all being independent as of December 31, 2014)	
Johannes Fritz (Chairman)	Homaira Akbari
Buford Alexander	Michel Soublin
Yen Yen Tan	
Number of committee meetings in 2014	6

The committee reviewed all material acquisition and divestiture proposals. Gemalto announced a number of transactions in 2014 (SourceOne/Shoreline, SafeNet, Marquis ID), all of which were reviewed by the committee. It advised and submitted recommendations to the Board on Gemalto's external growth and strategic planning activities, their definition and implementation. The committee also reviewed the post-acquisition performance of several of the previously acquired businesses.

Remuneration report

This report describes the remuneration policy for the CEO and the individual compensation paid to the CEO and non-executive Board members in 2014.

Introduction

The Board determines the CEO's compensation with reference to the remuneration policy, which also provides guidance on Senior Management compensation (though the latter is not addressed in this report). The policy is approved by the shareholders – it was most recently amended by the 2008 AGM – and is published on our website. It complies with the Dutch corporate governance code apart from a few exceptions which are explained on page 59.

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

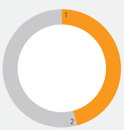
Remuneration policy

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

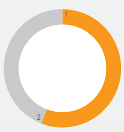
COMPENSATION FOR CEO OLIVIER PIOU IN 2014 VS 2013

	2014		2013	
Base salary	€850,000	Amended in 2014. Includes a fixed fee as executive Board member of Gemalto N.V. of €35,000.	€800,000	Unchanged since 2011, includes a fixed fee as executive Board member of Gemalto N.V. of €35,000.
Variable incentive	€714,687	85% of base salary.	€1,027,669	128% of base salary.
Conditional multi-year share-based plan	from 0 to 75,000 RSUs	Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 75,000 RSUs. The grant is accounted for an equity-based compensation at a charge that may vary from €0 to €5,700,750, which will be expensed over 44 months.	from 0 to 50,000 RSUs	Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 50,000 RSUs. The grant is accounted for an equity-based compensation at a charge that may vary from €0 to €3,050,000, which will be expensed over 31 months.
Pension contributions	€73,552	Cost of the mandatory plan required by law in France. No supplemental pension plan is provided.	€75,993	Cost of the mandatory plan required by law in France. No supplemental pension plan is provided.

2014	
1. Variable compensation	46%
2. Fixed compensation	54%



2013	
1. Variable compensation	56%
2. Fixed compensation	44%



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

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

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

Our policy is to maintain overall compensation levels at the 60th percentile for on-target performance – and in cases of exceptional performance within the upper quartile – benchmarked against a comparison group of relevant companies, particularly continental European high-tech and industrial companies.

The composition of the comparison group is listed below.

Alcatel-Lucent	Alstom	Atos
CGG	Essilor	Ingenico
Ipsen	Legrand	Neopost
Schneider Electric	Tarket	Technicolor

To ensure appropriate comparisons the Compensation committee consults independent, internationally recognized compensation specialists regularly, drawing on survey data on remuneration policies and actual data on compensation in the comparison group companies.

Compensation elements

The CEO's compensation package consists of:

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

Details of the CEO's compensation are shown in the table left and in Note 10 to the statutory financial statements of the Holding Company.

Remuneration report continued

Base salary (fixed part of the annual cash compensation)

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

As of March 4, 2014, the CEO's salary is €850,000 and includes a fixed fee of €35,000 for his role as executive Board member of Gemalto N.V. It is reviewed annually by the Compensation committee. It will not be changed in 2015.

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

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

The CEO's variable incentive is based on achieving short-term (annual) financial and personal targets proposed by the Compensation committee and approved by the Board each year. For 2014, as in previous years, the targets were:

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

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

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

The CEO's targets for 2015 will be along the same lines as for 2014. The personal targets include customer satisfaction and employee satisfaction.

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

The performance of the CEO and of the Company in 2014 led to a result of 71% for the CEO variable incentive. The variable incentive for the CEO is €714,687, i.e. 85% of his base salary.

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

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

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

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

Restricted share units (RSUs)

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

During 2014 the CEO received 75,000 RSUs. Depending on performance, the number of RSUs granted may vary, with a sliding scale from 0 to 75,000 RSUs. The RSUs will vest only if the following conditions are met:

- Performance vesting conditions:
  - reaching the 2017 PFO target;
  - reaching a certain cumulative PFO over the period 2014-2017;
  - reaching a certain cumulative EPS over the period 2014-2017;
  - reaching the 2017 Platforms & Services Revenue target.

  Full vesting by meeting 100% of the above conditions; partial vesting by meeting one or more of the above objectives.
- Service vesting condition: being an employee of Gemalto on December 31, 2017.

The grant is accounted for an equity-based compensation at a charge that may vary from €0 to €5,700,750, which will be expensed over 44 months. Associated with this grant, some social levies, accounted for as an equity-based expense at a charge that may vary depending on both, the above-mentioned performance as well as the share price upon delivery will be expensed over 49 months.

Share options

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

Benefits and pension contributions

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

These include the ability to participate in the Gemalto Employee Share Purchase Plan. In 2014 employees were offered the opportunity to buy shares in Gemalto N.V. at a 15% discount to the market price, based on the lesser of the share values on the first and last day of the offering period. French employees participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE), a fund which subscribes to the Gemalto shares and gives the employee units of the FCPE in exchange. The CEO participated in the GESPP in 2014.

For 2014 the CEO's pension contribution costs to the mandatory pension plan in France amounted to €73,552. The CEO does not benefit from any special pension plan provided by Gemalto, other than the plan required by law in France.

Employment contract

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

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

Long-term incentive plan awards granted to the CEO

Valuation of the long-term incentive plan awards made to the CEO: overview of awards over which he did not have unrestricted control at the start of 2014.

Restricted Share Units

Date of grant	Number	Value at grant date	(Un)conditional	Date of vesting	Value at vesting date[1]	End of lock-up	Value at end of lock-up
October 2009	May vary from 0 to 65,000	€1,689,377[2]	Conditional	October 2012 Performance vesting condition was met in 2010 so number of RSUs is defined: 65,000	€4,498,000	October 2014	€4,615,000
March 2010	May vary from 0 to 32,500 with a potential maximum multiplier of two	€877,104[2]	Conditional	March 2013 Performance vesting condition was met in 2011 so number of RSUs is defined: 58,000	€4,043,760	March 2015	Not applicable
March 2011	May vary from 0 to 150,000	€3,390,133[3]	Conditional	Dependent on when various market-related thresholds are reached; in all cases before the 2014 AGM The five vesting conditions were successively met so number of RSUs is defined: 150,000	€7,035,900	Two years from date of shares delivery, and in no event before March 2015	Not applicable
March 2012	50,000	€1,908,000[2]	Conditional	December 2014 Performance vesting condition was met in 2013 so number of RSUs is defined: 50,000	€3,395,000	January 2017	Not applicable
May 2013	May vary from 0 to 50,000	€3,050,500[3]	Conditional	AGM 2016	Not applicable	Not applicable	Not applicable
March 2014	May vary from 0 to 75,000	€5,700,750[3]	Conditional	AGM 2018	Not applicable	Not applicable	Not applicable

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

1 For the valuation, the value of the Gemalto share at the opening of the stock exchange is used.
2 Method used for valuation: arbitrage portfolio/asset replication.
3 Method used for valuation: stochastic model.

Remuneration report continued

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

The severance payment will not be due if the employment contract is terminated for willful misconduct (*faute lourde* under French Supreme Court case law) or by his voluntary resignation. Any option rights granted to the CEO will vest automatically on the decision to terminate his contract and will remain exercisable for the full option term, and all other equity-based schemes will continue to vest after the date of termination. These arrangements do not apply if the contract is terminated for willful misconduct. The severance payment arrangements are a deviation of provision II.2.8 of the Dutch corporate governance code (see page 59).

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

Loans or guarantees

Gemalto does not offer the CEO personal loans, guarantees or similar benefits. None were granted in 2014, and none were outstanding at December 31, 2014.

Remuneration of non-executive Board members

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

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

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

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

Gemalto does not offer non-executive Board members personal loans, guarantees or similar benefits. None were granted in 2014, and none were outstanding at December 31, 2014.

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

The remuneration of each non-executive Board member for the year 2014 is detailed in the table below and also disclosed in Note 10 to the statutory financial statements of the Holding Company.

This table includes the 2014 remuneration of Board members in office on December 31, 2014

	2014 total (€)	Board (€)	Audit committee (€)	Nomination and Governance committee (€)	Compensation committee (€)	Strategy and M&A committee (€)
Alex Mandl	265,000	250,000	–	15,000	–	–
Olivier Piou	35,000	35,000	–	–	–	–
Homaira Akbari	94,000	70,000	16,000	–	–	8,000
Buford Alexander	86,000	70,000	–	8,000	–	8,000
Philippe Alfroid	94,000	70,000	16,000	–	8,000	–
Johannes Fritz	101,000	70,000	16,000	–	–	15,000
John Ormerod	108,000	70,000	30,000	–	8,000	–
Michel Soublin	86,000	70,000	–	8,000	–	8,000
Yen Yen Tan	86,000	70,000	–	8,000	–	8,000
Arthur van der Poel	93,000	70,000	–	8,000	15,000	–
Drina Yue	94,000	70,000	16,000	–	8,000	–
Total	1,142,000	915,000	94,000	47,000	39,000	47,000

Our governance structure

This section provides a broad outline of Gemalto's corporate governance structure, its implementation during 2014 and its compliance with the Dutch corporate governance code.

Corporate information and background

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

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

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

Compliance with the Dutch corporate governance code

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

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

- **Provision II.1.7:** this provision recommends having a complaints-related procedure enabling employees to report alleged irregularities of a general, operational and financial nature to a confidential advisor. Gemalto has established a complaints-related procedure relating only to the reporting of alleged financial irregularities. We depart from the code in exempting alleged irregularities of a general or operational nature from this procedure in order to comply with EU and French data protection rules. As data protection rules have evolved in 2014, notably in France, Gemalto will reconsider the scope of its complaints-related procedure.
- **Provision II.2.8:** this provision recommends that severance payment in the event of dismissal may not exceed one year's salary, being the fixed compensation component. We depart from the code, as the severance payment for the CEO is one year of reference salary, being fixed and variable compensation, and reflects his accrued seniority with Gemalto. This arrangement was adopted by the 2006 EGM approving the Axalto-Gemplus combination and is included in the remuneration policy approved by the shareholders at the 2008 AGM.
- **Provision II.2.10:** this provision recommends that the Board has the power to adjust the value of conditionally awarded variable compensation where extraordinary circumstances would produce an unfair result. We depart from the code, as the CEO's employment contract does not specifically include such a right to adjust variable compensation in extraordinary circumstances. However, in such a case, the Company would make whatever adjustments were feasible under applicable law.
- **Provision III.3.5:** this provision recommends that non-executive Board members are appointed to the Board for a maximum of three four-year terms. We depart from the code as the length and number of (re)appointments may vary, but the entire service of non-executive Board members may not exceed 12 years, as adopted by the 2014 AGM.
- **Provision III.8.1:** this provision recommends that the Chairman of the Board may not have been an executive Board member. We depart from the code, as our Chairman, Alex Mandl, was executive Chairman of Gemalto from June 2006 to December 2007. However, the Board is concerned to capitalize further on his knowledge and experience within the Group, to the benefit of Gemalto and its stakeholders.

Our governance structure continued

Board of Directors

One-tier Board

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

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

This specifically includes:

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

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

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

Composition

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

At least one of the non-executive Board members can be regarded as a financial expert under the code's best practice III.3.2. At the 2007 AGM, the maximum number of Board members was set at 11 to allow the Board to determine its optimal size from time to time. The Board currently consists of 11 members: one executive (the CEO) and ten non-executives.

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

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

Appointments

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

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

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

Other Board appointments

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

In addition to his present position as CEO of Gemalto, the CEO may not hold more than two board memberships at listed companies worldwide or large Dutch companies, and may not chair the board of any such company.

The acceptance by the CEO of a board membership of a listed company requires the approval of the Board. Other important positions held by the CEO shall be notified to the Board. Each Non-executive Board member needs to receive prior approval from the Chairman of the Nomination and Governance Committee before accepting any new corporate board mandates. Board members are required to inform the Chairman of the Nomination and Governance Committee of any change in their existing status as director on any other board.

Conflicts of interest

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

Conflicts of interest, potential or actual, between the Company and members of the Board are governed by the Articles of Association and the Board Charter. The Board must approve any decision to enter into a transaction where a Board member has conflicts of interest that are material to the Company or the individual Board member. Any such transaction will be declared in the Annual Report for the relevant year with a declaration that we have complied with best practice provisions II.3.2-4 and III.6.1-3 of the Dutch corporate governance code. Following the Gemalto Board Charter, a Board member must step down temporarily or resign if a significant conflict exists and cannot be resolved. A Board member shall not take part in the assessment by the Board of a potential conflict of interest involving that Director and shall furthermore not take part in any decision-making process (*beraadslaging en besluitvorming*) that involves a subject or a transaction in relation to which he has a direct or indirect personal conflict of interest which conflicts with the interest of the Company. In 2014 no transactions were reported where a Board member had a conflict of interest that was material to the Company. There were, however, related-party transactions: for an overview, please see Note 30 of the consolidated financial statements.

Indemnification of Board members

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

Board committees

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

Audit committee

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

Compensation committee

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

Nomination and Governance committee

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

Strategy and M&A committee

It advises the Board on Gemalto's strategy and on the major features of its merger, acquisition and divestment activities.

Risk management and internal control systems

Gemalto maintains operational and financial risk management systems backed by systems and procedures for monitoring and reporting. A separate internal control function ensures compliance with our internal control requirements. Our risk management and internal control systems are explained in detail on pages 36-43, and the Board's statement on internal risk management and control systems is shown on page 65.

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

Our governance structure continued

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

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

These policies are published on our website.

Shares owned and rights to acquire shares

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

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

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

Shareholders and General Meetings

Share capital and shares of the Company

The Company's authorized share capital of €150,000,000 is divided into 150,000,000 ordinary shares with a nominal value of €1 each. As at December 31, 2014, the Company's issued and paid-up share capital amounted to €88,015,844. This consisted of 88,015,844 ordinary shares, of which 1,202,927 were held in treasury and 86,812,917 were in circulation.

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

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

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

The 2013 AGM gave the Board authorization, renewed by the 2014 AGM, to repurchase Company shares. This allowed us to buy shares in 2014 to provide liquidity, to grant shares to employees and to fund external growth. At December 31, 2014, 1,202,927 shares with a market value of €81,714,831 were held in treasury, acquired at an average price of €46.13 per share. Shares held in treasury carry no voting rights.

Shares or other financial instruments in Gemalto N.V. held by Board members as at December 31, 2014

Name	Shares	American Depository Receipts of Shares	Maximum (unvested) Restricted Share Units	Employee options	Units in a Fonds Commun de Placement d'Entreprise
Alex Mandl	10,000[1]				
Olivier Piou	276,000[2]		175,000[3]	129,000[3]	23,650.25[4]
Homaira Akbari		1,500[1]			
Michel Soublin	1,500[5]				

[1] Purchased in 2014, through a company controlled by the Board member.
[2] Progressively acquired since 2004.
[3] Progressively granted since 2005.
[4] Progressively purchased through participating in Global Employee Share Purchase Plans.
[5] Purchased in 2004.

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

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

2014 AGM

The AGM was held on May 21, 2014. No shareholders exercised their right to add items to the AGM agenda.

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

- 2013 Annual Report (discussion item).
- Application of the remuneration policy in 2013 (discussion item).
- Adoption of the 2013 financial statements (voting item).
- Dividend policy and proposed cash dividend of €0.38 per share for 2013 (voting item).
- Discharge of the CEO and non-executive Board members for the fulfillment of their respective duties during 2013 (voting item).
- Reappointment of a non-executive Board member (voting item).
- Amendment of the Articles of Association of the Company (voting item).
- Renewal of the Board's authorization to repurchase Company shares (voting item).
- Extension of the Board's authorization to issue shares and to grant rights to acquire shares in the share capital of the Company and to limit or exclude pre-emption rights (voting item).
- Reappointment of the external auditor for 2014 (voting item).

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

Voting rights

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

Authorizations granted to the Board

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

a. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, with a maximum of 1.5% of the issued share capital per calendar year, up to a total of 5% of the issued share capital at the date of the 2014 AGM, for a period of five years, starting on May 21, 2014, without pre-emptive rights accruing to shareholders with respect to such share issues for the purpose of the Gemalto N.V. Global Employee Share Purchase Plan (GESPP) and/or the Gemalto N.V. Global Equity Incentive Plan (GEIP).

b. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 5% of the issued share capital at May 21, 2014, for a period of 18 months, starting on May 21, 2014, with the power to limit or exclude pre-emptive rights accruing to shareholders with respect to such share issues.

c. To issue shares and to determine the terms and conditions of such issue and to grant rights to acquire shares, up to a total of 10% of the issued share capital at May 21, 2014, for a period of 18 months, starting on May 21, 2014, with pre-emptive rights accruing to shareholders with respect to such share issues.

d. To limit or exclude pre-emptive rights accruing to shareholders in connection with the above, under c., up to 5% of the issued share capital for the purpose of M&A and/or (strategic) alliances for a period of 18 months, starting on May 21, 2014.

e. To acquire up to 10% of the issued Company shares, within the limits of the Articles of Association and within a set price range, up to and including November 20, 2015. On December 31, 2014 the Company's issued share capital consisted of 88,015,844 shares, of which 1,202,927 were held in treasury: on that basis the authorization covered up to 7,598,657 shares.

f. To cancel up to 9,101,584 shares, in one or more tranches, as the Board sees fit.

Distribution of profits

Our dividend policy was addressed as a separate agenda item for the first time at the 2005 AGM. It states that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. In 2014 we paid a cash dividend of €0.38 per share for 2013.

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

Our governance structure continued

Shareholders' disclosures published on the AFM website as at December 31, 2014

November 17, 2014:	OppenheimerFunds, Inc.	3.05% capital interest and voting rights
March 19, 2014:	Amundi	3.01% capital interest and voting rights
January 13, 2014:	Blackrock, Inc.	2.26% capital interest and 3.00% voting rights
August 8, 2013:	Capital Group International Inc.	14.97% voting rights
August 8, 2013:	Capital Research and Management Company	14.97% voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
July 1, 2013:	J.M. Quandt née Bruhn	3.02% capital interest and voting rights
July 1, 2013:	S.H.U. Klatten née Quandt	3.24% capital interest and voting rights
July 1, 2013:	S.N. Quandt	4.23% capital interest and voting rights
April 8, 2013:	EuroPacific Growth Fund	5.16% capital interest
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2014 due to the following:
- Once a shareholder has disclosed a substantial shareholding to the AFM, additional disclosures are only required in case of exceeding or falling below a threshold.
- Shareholders who disclosed a substantial shareholding to the AFM above 3% and below 5% prior to July 1, 2013 and (i) held less than 3% on July 1, 2013, or (ii) held between 3% and 5% after July 1, 2013, were not required to make an additional disclosure to the AFM.

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

Shareholders' disclosures

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in Gemalto's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% (whether because of an acquisition or disposal of shares or other instruments, or because of a change in the total voting rights or capital issued). Disclosures must be made to the AFM immediately. The table above lists the substantial shareholdings in Gemalto N.V. on record in the AFM register on December 31, 2014, published on the AFM website at **www.afm.nl**.

Specific provisions of the Articles of Association

Required majorities and quora

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

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

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

Appointment of the external auditor

The Audit committee and Board review the functioning of the external auditor annually. The 2014 AGM approved a Board proposal to appoint PricewaterhouseCoopers Accountants N.V. as the external auditor for 2014.

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

Two sections of this Annual Report – 'Board of Directors' on pages 60-62 and 'Shareholders and General Meetings' on pages 62-64 – include the disclosures specified by the Dutch Decree on Article 10 of the European Union Takeover Directive. In addition, we offer the following information:

Gemalto Equity Incentive Plan – awards granted to employees

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

Gemalto Employee Share Purchase Plans – FCPE: system of control

In 2014, like in previous years, Gemalto employees were offered the opportunity to buy Gemalto shares at a 15% discount to the market price. Employees of our French subsidiaries can participate in this plan through a *Fonds Commun de Placement d'Entreprise* (FCPE) which offers tax benefits against long-term holding. The FCPE buys the Gemalto shares and in exchange employees receive units of the FCPE. Participation in the FCPE does not give rise to direct ownership of Gemalto shares or the right to acquire them. The FCPE has an independent board of directors and owned 236,228 shares of Gemalto as at December 31, 2014. It exercises its voting rights on these shares independently, without instructions from participating employees.

Board statements

The objectives of our internal risk management process are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face; to map these risks; and to initiate actions that mitigate and reduce these risks to levels consistent with our risk appetite. The risk management techniques applied include operational and financial controls; financial hedging; risk transfer through our contractual arrangements; and insurance. The Company's risk profile is reported in 'Principal risks' on pages 42-43 with a description of principal risks, their most significant impact and the main mitigation actions. Our internal risk management and control systems are described on pages 36-41

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

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

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

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

- The annual financial statements for the year ended December 31, 2014 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 2014 financial year of Gemalto and its affiliated companies of which the data has been included in the consolidated financial statements.
- The annual management report describes the principal risks that Gemalto faces.

In control statement (Dutch corporate governance code)

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

- Gemalto's internal risk management and control organization provides reasonable assurance that its financial reporting does not contain any error of material importance.
- Gemalto's internal risk management and control processes in relation to financial reporting have worked properly in 2014.

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
Executive Board member and Chief Executive Officer

Homaira Akbari
Non-executive Board member

Buford Alexander
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Michel Soublin
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Arthur van der Poel
Non-executive Board member

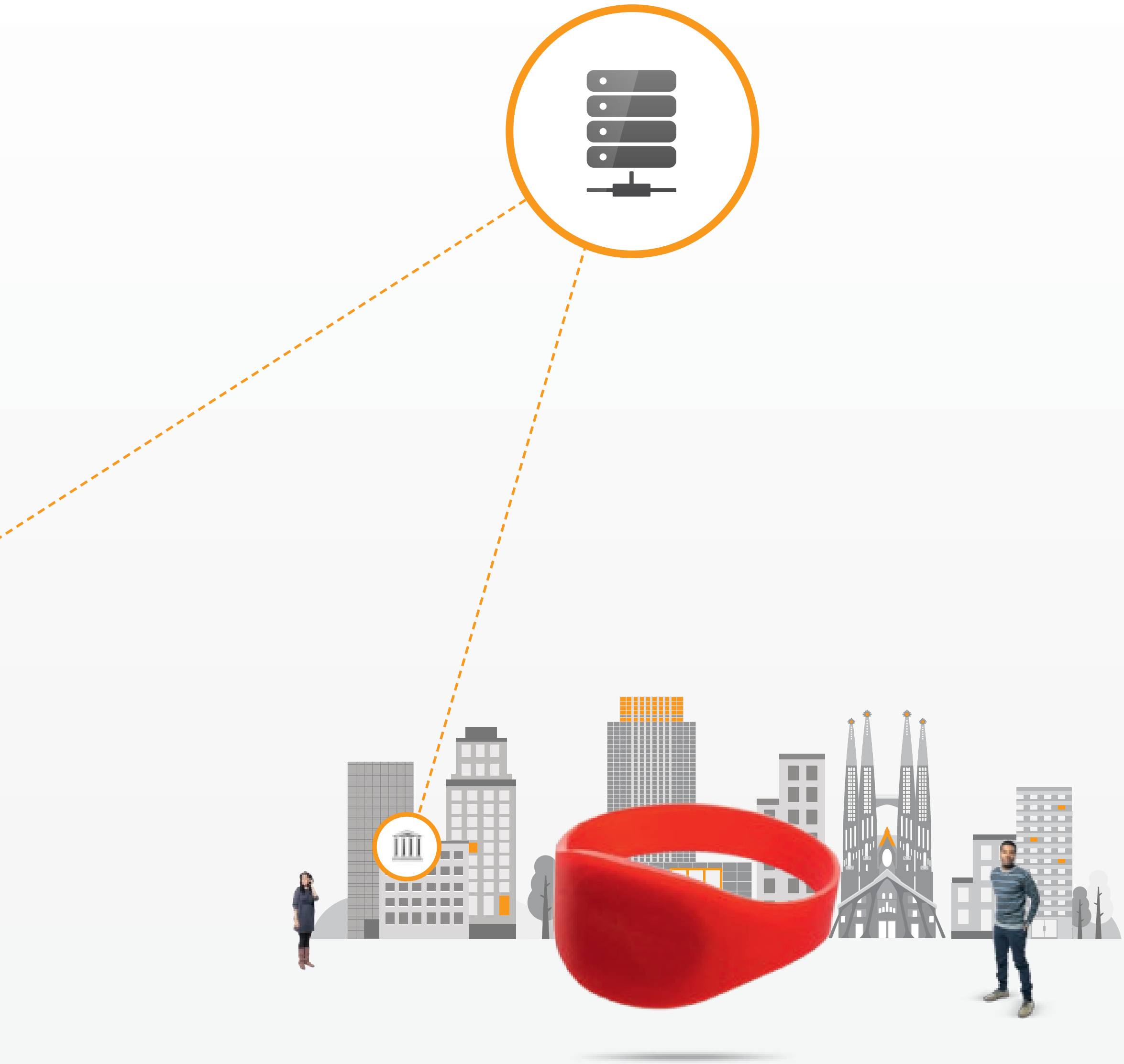
Drina Yue
Non-executive Board member

Amsterdam, March 3, 2015

Trust. Every day

Waving and paying in Spain

CaixaBank, Spain's innovative financial services provider, has launched contactless payment that's also cardless and phoneless. The EMV-standard technology is built into our Optelio Contactless MiniTag, slipped neatly into a durable, water-resistant wristband. Available in a range of colors, the bands have a particularly strong appeal for younger customers. They're ideal for outdoor lifestyles and music festivals or sports events – allowing fast, convenient payment with no need to carry a purse or wallet.



Consolidated financial statements and notes

Statutory financial statements and notes of the Holding Company

Consolidated financial statements and notes

Consolidated statement of financial position

In thousands of Euro	Notes	Year ended December 31, 2014	2013
Assets			
Non-current assets			
Property, plant and equipment, net	8	279,741	237,320
Goodwill, net	9	900,826	850,600
Intangible assets, net	9	218,137	202,581
Investments in associates	10	51,686	49,035
Deferred income tax assets	28	144,710	101,289
Other non-current assets	11	45,024	47,360
Derivative financial instruments	7	2,566	11,044
Total non-current assets		**1,642,690**	**1,499,229**
Current assets			
Inventories, net	12	223,579	204,393
Trade and other receivables, net	13	852,683	737,824
Derivative financial instruments	7	3,831	21,363
Cash and cash equivalents	14	1,059,572	456,370
Total current assets		**2,139,665**	**1,419,950**
Total assets		**3,782,355**	**2,919,179**
Equity			
Share capital		88,016	88,016
Share premium		1,206,877	1,206,914
Treasury shares		(55,482)	(87,962)
Fair value and other reserves		84,603	99,396
Cumulative translation adjustments		(3,957)	(41,489)
Retained earnings		1,070,653	883,525
Capital and reserves attributable to the owners of the Company		**2,390,710**	**2,148,400**
Non-controlling interests		**5,454**	**5,053**
Total equity		**2,396,164**	**2,153,453**
Liabilities			
Non-current liabilities			
Borrowings	15	398,027	3,098
Deferred income tax liabilities	28	46,165	25,474
Employee benefit obligations	16	107,361	82,972
Provisions and other liabilities	17	46,871	43,708
Derivative financial instruments	7	2,714	791
Total non-current liabilities		**601,138**	**156,043**
Current liabilities			
Borrowings	15	168,155	3,812
Trade and other payables	18	539,911	558,065
Current income tax liabilities		30,838	32,472
Provisions and other liabilities	20	12,968	10,649
Derivative financial instruments	7	33,181	4,685
Total current liabilities		**785,053**	**609,683**
Total liabilities		**1,386,191**	**765,726**
Total equity and liabilities		**3,782,355**	**2,919,179**

Consolidated income statement

In thousands of Euro (except earnings per share)	Notes	Year ended December 31, 2014	2013
Revenue	21	**2,465,159**	**2,388,607**
Cost of sales		(1,522,078)	(1,459,484)
Gross profit		**943,081**	**929,123**
Operating expenses			
Research and engineering		(143,713)	(143,420)
Sales and marketing		(335,189)	(332,860)
General and administrative		(149,527)	(139,153)
Gain on sale of assets held for sale		–	1,128
Other income (expense), net	25	12,604	(1,938)
Restructuring and acquisition-related expenses	19	(29,830)	(3,469)
Amortization and depreciation of intangibles resulting from acquisitions		(27,267)	(26,912)
Operating profit		**270,159**	**282,499**
Financial income (expense), net	26	(12,421)	(6,732)
Share of profit of associates	10	(628)	(2,298)
Non-recurring profit relating to associates, net	10	–	19,962
Profit before income tax		**257,110**	**293,431**
Income tax (expense)	28	(35,862)	(35,230)
Profit for the period		**221,248**	**258,201**
Attributable to:			
Owners of the Company		220,651	257,896
Non-controlling interests		597	305
Earnings per share			
Basic earnings per share	29	2.55	3.01
Diluted earnings per share	29	2.49	2.92
Weighted average number of shares outstanding (in thousands)	29	86,490	85,590
Weighted average number of shares outstanding assuming dilution (in thousands)	29	88,716	88,311

Consolidated statement of comprehensive income

In thousands of Euro	Notes	Year ended December 31, 2014	2013
Profit for the period		**221,248**	**258,201**
Other comprehensive income that can be reclassified to income statement:			
Currency translation adjustments		37,747	(39,839)
Currency translation adjustments: transfer to financial income (expense), net		201	(2,969)
Effective portion of gains and losses on cash flow hedging		(23,149)	(534)
Deferred tax on cash flow hedging gains and losses		7,483	700
Currency translation differences on other comprehensive income items		(1,485)	344
Other comprehensive income that cannot be reclassified to income statement:			
Actuarial gains and losses on employee benefit obligations	16	(17,709)	547
Deferred tax on actuarial gains and losses		5,330	(823)
Total other comprehensive income for the period, net of tax		**8,418**	**(42,574)**
Total comprehensive income for the period, net of tax		**229,666**	**215,627**
Attributable to:			
Owners of the Company		228,653	216,560
Non-controlling interests		1,013	(933)

Consolidated statement of changes in equity

In thousands of Euro	Number of shares[1]		Attributable to owners of the Company							
	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments	Retained earnings	Non-controlling interests	Total equity
Balance as at January 1, 2014	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**(87,962)**	**99,396**	**(41,489)**	**883,525**	**5,053**	**2,153,453**
Profit for the period								220,651	597	221,248
Other comprehensive income (loss)						(29,530)	37,532		416	8,418
Total comprehensive income						**(29,530)**	**37,532**	**220,651**	**1,013**	**229,666**
Equity-based compensation charge, equity-settled						50,466				50,466
Other net asset changes from associates								(658)		(658)
Employee share option plans		762,571			48,083	(33,906)				14,177
Purchase of Treasury shares, net		(222,286)			(15,603)	(1,823)				(17,426)
Dividend paid/payable to owners of the Company[2]								(32,865)		(32,865)
Dividend paid to non-controlling interests									(862)	(862)
Excess of purchase price on subsequent acquisition of non-controlling interests (NCI)				(37)					(148)	(185)
Adjustment on minimum dividend to NCI									398	398
Balance as at December 31, 2014	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**(55,482)**	**84,603**	**(3,957)**	**1,070,653**	**5,454**	**2,396,164**
Balance as at January 1, 2013	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**(151,753)**	**123,388**	**81**	**654,795**	**10,590**	**1,932,312**
Profit for the period								257,896	305	258,201
Other comprehensive income (loss)						234	(41,570)		(1,238)	(42,574)
Total comprehensive income						**234**	**(41,570)**	**257,896**	**(933)**	**215,627**
Share-based compensation expense						31,399				31,399
Employee share option plans		2,523,474			91,983	(60,419)				31,564
Purchase of Treasury shares, net		(336,163)			(28,192)	4,794				(23,398)
Dividend paid/payable to owners of the Company								(29,166)		(29,166)
Dividend paid to non-controlling interests									(340)	(340)
Excess of purchase price on subsequent acquisition of non-controlling interests				(281)					(934)	(1,215)
Sale of non-strategic assets held for sale									(3,330)	(3,330)
Balance as at December 31, 2013	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**(87,962)**	**99,396**	**(41,489)**	**883,525**	**5,053**	**2,153,453**

1 The difference between the number of shares issued and the number of shares outstanding corresponded to the shares held in treasury. As at December 31, 2014, the number of treasury shares was 1,202,927 (1,743,212 as at December 31, 2013).

2 See note 32.

Consolidated cash flow statement

In thousands of Euro	Notes	Year ended December 31, 2014	2013
Profit for the period including non-controlling interests		**221,248**	**258,201**
Adjustment for:			
Tax	28	35,862	35,230
Research tax credit		(16,698)	(10,690)
Depreciation, amortization and impairment	8, 9	123,228	114,306
Equity-based compensation charge, equity-settled		50,466	31,999
Gains and losses on sale of fixed assets and write-offs		1,743	1,378
Gains and losses on sale of investment / assets held for sale		(422)	(1,128)
Cumulated translation adjustment transferred to financial income (expense), net		201	(2,969)
Net movement in provisions and other liabilities		5,929	(10,549)
Employee benefit obligations		5,751	3,777
Interest income	26	(4,314)	(3,269)
Interest and other financial expense		5,226	(1,387)
Share of profit from associates	10	628	2,298
Non-recurring profit relating to associates, net	10	–	(19,962)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(10,500)	(25,705)
Trade and other receivables		(65,252)	(77,464)
Derivative financial instruments		36,812	(1,472)
Trade and other payables		(41,789)	29,077
Cash generated from operations		**348,119**	**321,671**
Income tax paid		(54,558)	(66,893)
Net cash provided by operating activities		**293,561**	**254,778**
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(84,045)	(26,289)
Purchase of property, plant and equipment		(81,863)	(63,406)
Proceeds from sale of property, plant and equipment		960	1,084
Acquisition and capitalization of intangible assets		(43,800)	(40,566)
Proceeds from sale of non-current assets		418	9,134
Loan to investments in associate		(1,140)	–
Proceeds from sale of a subsidiary		–	–
Proceeds from sale of assets held for sale net of cash disposed		–	1,202
Purchase of, contribution to, investments in associate		(161)	(4,536)
Interest paid		(1,855)	(1,563)
Interest received		3,893	2,739
Dividends received from investments in associates		813	3,516
Net cash used in investing activities		**(206,780)**	**(118,685)**
Cash flows provided by (used in) financing activities			
Purchase of non-controlling interests in subsidiaries		(185)	(1,174)
Proceeds from exercise of share options		14,177	31,564
Purchase of treasury shares, net		(17,426)	(23,398)
Proceed from issuance of Bond	15	395,192	-
Proceed from credit line drawdown		160,000	-
Repayments of borrowings		(4,173)	(11,475)
Dividends paid to owners of the Company	32	(32,865)	(29,166)
Dividends paid to non-controlling interests		(862)	(340)
Net cash used in financing activities		**513,858**	**(33,989)**
Cash and bank overdrafts, beginning of period	14	**456,098**	**363,040**
Net increase (decrease) in cash and bank overdrafts		**600,639**	**102,104**
Currency translation effect on cash and bank overdrafts		667	(9,046)
Cash and bank overdrafts, end of period	14	**1,057,404**	**456,098**

Notes to the consolidated financial statements

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

Note 1. General information

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

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

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

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These consolidated financial statements for the year ended December 31, 2014 have been authorized for issue by the Board on 3 March 2015 and will be submitted to the AGM of May 21, 2015 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, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments used for hedging) at fair value through profit or loss. The preparation of consolidated financial statements in compliance with IAS/IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

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

2.2 Changes in accounting policies and disclosures

(a) Standards, amendments to existing standards and interpretations mandatory for financial statements as at December 31, 2014

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

These amendments to the standard did not have any impact on the Group's financial statements as at December 31, 2014.

(b) New standards, amendments to existing standards and interpretation issued by the IASB , not yet endorsed by the EU and not mandatory for financial statements as at December 31, 2014 (and not early adopted by the Group)

- *IFRS 9 Financial Instruments*. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities, it is effective for accounting periods beginning on or after 1 January 2018. The group is yet to assess IFRS 9's full impact.
- *IFRS 15 Revenue from Contracts with Customers*. IFRS 15, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.
- *IFRIC – Interpretation 21 Levies*. IFRIC 21, sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the full year financial statements of the Group is not material.
- *Annual Improvements to IFRSs 2012–2014 Cycle*
- *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IFRS 11 Accounting of Acquisitions of Interests in Joint Operations*
- *IAS 19 Employee Benefits (Amended) – Employee contributions*

2.3 Method of accounting of subsidiaries and associates

(a) Subsidiaries

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

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

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

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

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

(b) Associates

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

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

(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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

2.7 Goodwill and intangible assets

(a) Goodwill

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

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

(b) Brand names

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

(c) Intangible assets, other than goodwill and brand names

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

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

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently when there is an indication that they might be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognized for the amount by which the asset carrying amount exceeds its recoverable amount. The recoverable amount is the higher between the 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.

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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

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

2.16 Research tax credits and government grants

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

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

2.17 Research and development costs

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

2.18 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution plans (see note 16).

(a) Pension and similar obligations

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

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

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

Past service costs are recognized immediately in the income statement.

(b) Termination benefits

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

(c) Profit-sharing and bonus plans

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

2.19 Share-based payment

(a) Share-based compensation

Gemalto operates equity-settled share-based compensation plans (see note 24). The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(b) Share-based transaction

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

2.20 Provisions

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

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

2.21 Revenue recognition

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

(a) Product and service revenue

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

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

(b) Multiple-element arrangements

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

(c) Collectibility

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

(d) Deferred revenue

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

2.22 Leases

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

2.23 Derivative financial instruments and hedging activities

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

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

For derivatives qualified as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of the derivative instruments used for hedging purposes are disclosed in note 4.7. Movements on the hedging reserve are shown in the consolidated statement of comprehensive income.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within the foreign exchange gains and losses. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss.

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

For fair value hedges of existing assets and liabilities, in the balance sheet, 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.

Notes to the consolidated financial statements continued

Note 2. Summary of significant accounting policies continued

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

2.24 Estimation of financial instrument fair value

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

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

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

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

For the available-for-sale financial assets, they are either quoted on official market prices and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at December 31, 2014, the value of Level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

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

As at December 31, 2014 and December 31, 2013, the credit and debit value adjustment (CVA and DVA) are not material and do not modify the global fair valuation of financial instruments.

2.25 Offsetting financial instruments

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

As at December 31, 2014, the fair value of the equity swap cash-settled and the related margin call are partially offset in the statement of financial position for €1.5 million (see note 4.2).

Note 3. Critical judgments and estimates

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

3.1 Presentation of the income statement

The Group reports under the line 'Restructuring and acquisition-related expenses' (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provision of IAS 37;(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).

Management is exercising its judgment when assessing if a transaction is initiated as part of the normal course of business of the Company or if it qualifies as one of the categories mentioned above.

3.2 Revenue recognition

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

3.3 Goodwill

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

3.4 Intangible assets

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

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

3.5 Impairment tests

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

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

3.6 Share-based payments

Share-based compensation plans are recognized as an expense based on their fair value at date of grant. These plans do not have a direct cash cost to the Company other than administrative and social levies, as these plans' costs are borne by shareholders through dilution. The fair value of share-based compensation plans is estimated through the use of valuation models which require certain parameters such as the risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Such parameters are disclosed in note 24. The share options and restricted shares units issued by the Group are based on data available at the date of the grant. Using different input estimates or models could produce different values, which would result in the recognition of a higher or lower expense.

3.7 Employee benefit obligations

Actuarial valuations are used to determine the liability on employee benefit obligations. These valuations rely on key assumptions including discount rates, expected salary increase, mortality rates and employee turnover. The discount rate is based on high quality corporate bonds at the end of the reporting period. Due to the prevailing market and economic conditions, these assumptions may differ from the actual market developments and as a result may have a material effect on the estimation of the liability. Note 16 – Employee benefit obligations discloses a sensitivity analysis and presents the effects on the liability if the discount rate and inflation rate are altered. The impacts on the reported liability would be, however, recognized against other comprehensive income.

3.8 Income taxes

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

3.9 Development costs

The Group capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Note 4. Financial risk management

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

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

4.1 Foreign exchange risk

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

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

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

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

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

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

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

The impacts of other currencies to similar fluctuations for any given currency do not exceed €0.3 million on the profit or loss for 2014 (€0.8 million in 2013) and €3.6 million on the statement of financial position as at December 31, 2014 (€2.1 million in 2013).

	Year ended December 31,			
	2014		2013	
	Change in $/€ exchange rate			
	+2.50%	-2.50%	+2.50%	-2.50%
Income/(expense)				
Effect of profit before tax				
– Underlying[3]	(17,500)	19,405	(2,167)	2,278
– Hedges[4]	19,048	(20,080)	2,961	(4,126)
Net	**1,548**	**(675)**	**794**	**(1,848)**
Gain/(loss)				
Effect on equity				
– Hedges[5]	36,222	(38,026)	6,062	(6 687)

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

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

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

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

4.2 Market risk

Gemalto has contracted several equity swaps cash-settled ending in May 2016 and June 2018 for a total of 310,000 Gemalto shares. These financial instruments cover the share performance risks over their life time against the payment of quarterly financial interests.

They have been contracted so as to hedge the social levies indexed to the share based compensation plans granted in May 2013 and May 2014 which shall vest respectively in 2016 and 2018.

A margin call mechanism is in place regarding some of the existing equity swaps to ensure adequate collateral is posted during their life.

As at December 31, 2014, the fair value of the equity swaps cash-settled amounted to €1.9 million (€2.2 million in 2013). The net margin call received in cash by Gemalto amounted to €0.4 million (€2.3 million in 2013).

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

	Year ended December 31,			
	2014		2013	
	Change in Gemalto share value			
	+10%	-10%	+10%	-10%
Income/(expense)				
Effect of profit before tax				
– Underlying[6]	(827)	827	(283)	283
– Hedges[7]	632	(632)	233	(233)
Net	**(195)**	**195**	**(50)**	**50**
Gain/(loss)				
Effect on equity				
– Hedges[8]	1,474	(1,474)	967	(967)

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

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

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

4.3 Interest rate risk

Financial assets are invested in bank deposits and money market funds with maturities no longer than three months, classified as cash and cash equivalents. A part of the funding of the acquisition of SafeNet has been secured through the issue of a €400 million 7 year bond (with no financial covenant) at a fixed interest rate of 2.1/8% which has not been swapped. Other financial liabilities are mainly floating rate finance leases. Financial income (expense) can therefore be sensitive to interest rate fluctuations. The Company, however, considers that this risk may not have a significant impact on its financial situation in the short term and does not use derivative financial instruments to hedge interest rate risk. The following table shows the sensitivity of the Group's results to some reasonably possible changes in the interest rates, all other variables being held constant. There is no effect on the Group's equity.

Effect on profit before tax Income/(expense)	2014		2013	
Variation in interest rate (in basis points)	+50	-50	+50	-50
Borrowings	(97)	64	(61)	30
Short-term deposits and investment funds	2,381	(2,381)	1,242	(1,242)

4.4 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including €585 million bilateral credit facilities referred to in note 15, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

The table below analyzes the Group's financial liabilities and derivative financial liabilities into relevant maturity ranges based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. With the exception of finance lease liabilities 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 €22.5 million as of December 31, 2014 and €21.3 million as of December 31, 2013 (see note 31).

				2014
	Not later than 1 year	**Later than 1 year and not later than 5 years**	**Later than 5 years**	**Total**
Finance lease liabilities	1,418	180	–	1,598
Bond	8,500	34,000	417,000	459,500
Credit lines drawdown	160,107	–	–	160,107
Other borrowings	3,421	2,477	–	5,898
Derivative financial instruments	37,551	3,789	–	41,340
Trade and other payables	539,911	–	–	539,911
	750,908	**40,446**	**417,000**	**1,208,354**

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

4.5 Financial counterparty risk

Derivative financial instruments and cash and cash equivalents are exclusively held with major counterparties rated investment grade with the objective that no counterparty represents more than 15% of the total at any time. As of December 31, 2014 this threshold has been exceptionally overcome up to 18% in the context of the Safenet acquisition and the need to have sufficient liquidity available in USD beginning of 2015. In addition, the Company has temporary exposure to non-investment grade financial institutions on payments made by customers in certain countries, until the Company transfers such amounts to investment grade institutions. This exposure is not significant.

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

The Company also maintains credit lines with various banks. It includes facilities for derivative financial instruments, uncommitted short-term facilities, short-term bonds and guarantee lines, and also a series of committed bank bilateral credit facilities totalling €585 million, arranged with international banks of strong credit rating referred to in note 15. The maturities of these facilities fall between February 16, 2016 and December 20, 2021.

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

	Year ended December 31,	
	2014	2013
Borrowings		
in % of total borrowing risk for Gemalto	19%	18%
Derivative financial instruments		
in % of total derivative financial instruments risk for Gemalto	25%	22%
Cash and cash equivalents		
in % of total cash and cash equivalents risk for Gemalto	18%	14%
Total risk for any single counterparty[9]		
in % of total counterparty risk for Gemalto	**11%**	**16%**

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

4.6 Credit risk

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2014 and 2013. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of countries and customers' financial condition.

As of December 31, 2014, trade receivables of €167,617 were past due but not impaired (€120,024 in 2013). 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,			
	2014			2013
Overdue by	**Carrying amount**	**Bad debt reserve**	**Overdue but not impaired**	Carrying amount
Up to 1 month	74,678	(135)	74,543	57,084
2 to 3 months	46,283	(442)	45,841	36,064
4 to 6 months	27,408	(1,551)	25,857	15,262
Later than 6 months	29,310	(7,934)	21,376	22,169
	177,679		**167,617**	**130,579**
Provision for impairment of receivables		(10,062)		(10,555)
Trade receivables overdue but not impaired			**167,617**	**120,024**

Notes to the consolidated financial statements continued

Note 4. Financial risk management continued

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

	Year ended December 31,	
	2014	2013
As at January 1,	**(10,555)**	**(10,537)**
Acquisition of subsidiaries	(19)	(126)
Provision for impairment of receivables	(1,147)	(3,674)
Receivables written off over the year as uncollectible	830	1,499
Unused amounts reversed	815	1,947
Currency translation adjustment	14	336
As at December 31,	**(10,062)**	**(10,555)**

4.7 Foreign exchange derivative financial instruments

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

As at December 31, 2014, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in different currencies notably US Dollar, Sterling Pound, Chinese Yuan, Japanese Yen, Singapore Dollar and Polish Zloty. It also held forward contracts not qualified in hedge accounting and recognized through income statement at fair value, denominated in the same currencies and in South African Rand, Brazilian Real, Swiss Franc and Russian Ruble.

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

	Year ended December 31, 2014							Year ended December 31, 2013					
	USD	**GBP**	**JPY**	**SGD**	**PLN**	**CNY**	**Other**	USD	GBP	JPY	SGD	PLN	Other
Cash flow hedges													
Forward contracts	(20,690)	(5,206)	–	3,381	66	(1,596)	(149)	23,349	(724)	4,995	(3,687)	984	–
Option contracts	–	–	–	–	–	–	–	–	–	–	–	–	–
Fair value hedges													
Forward contracts	(7,252)	(17)	(98)	47	53	461	59	1,761	(2)	293	33	(19)	263
Option contracts	–	–	–	–	–	–	–	–	–	–	–	–	(176)
Disqualified hedges													
Forward contracts	–	–	–	–	–	–	–	–	–	–	6	–	–
	(27,942)	**(5,223)**	**(98)**	**3,428**	**119**	**(1,135)**	**(90)**	25,110	(726)	5,288	(3,648)	965	87

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

			2014
	Total amount recognized in Other Comprehensive Income (1)+(2)	**Amount to be transferred in sales or cost of sales within one year (1)**	**Amount to be transferred in sales or cost of sales beyond one year (2)[10]**
Effective portion	(21,120)	(9,857)	(11,263)

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

[10] Amount to be reclassified as debits or credits to sales or cost of sales over the next 4 years.

In addition to the amounts disclosed in the table above, €26.8 million have been recognized in Other comprehensive income as at December 31, 2014. This amount deals with the hedging of Safenet acquisition made in US dollar and it will be entirely recycled to the investments in 2015.

Note 5. Business combinations

In 2014, Gemalto undertook a number of business combinations for a total consideration estimated at €88 million, including any deferred consideration.

The most significant business combination was the acquisition, in April, of 100% of two personalization bureaus in the United States, Source One Direct and Shoreline which were previously part of Cardiff Holdings. This acquisition gives us the expanded footprint in the U.S. with a comprehensive service offer, in order to strongly position Gemalto in preparation for the EMV migration, as well as serve a totally new segment of customers. Combined, the two activities employ approximately 120 people between both sites.

The 2014 other acquisitions are mainly related to Marquis ID Systems (MIDS) finalized in November and a personalization business in the United States in December.

Marquis ID Systems is a primary provider of fully integrated solutions and services for Drivers License and Identification in the United States. Based in Fort Wayne, Indiana, Marquis ID Systems, doing business as MIDS, specializes in secure personalized, eID enrollment and issuance systems to meet the requirements of each state. The combination of Gemalto and MIDS promises to bring to our customers the most innovative identity solutions and the ability to implement large scale card programs with the highest levels of service.

At the end of 2014, Gemalto concluded an outsourcing of a personalization business in the US. Gemalto will manage this personalization business, part of this agreement is the acquisition of the personalization facility in Jacksonville, Florida, including the building property and machinery. The Jacksonville personalization center employs 175 people and has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. They provide consumers, corporations, governments and institutions with a broad range of financial products and services.

These business combinations have been accounted for as prescribed by IFRS 3 revised and IFRS 10, they have been included in the Group's consolidated financial statements as of the date the Group obtained control.

Identifiable assets and liabilities at the date of acquisition:

In thousands of Euro	Impact in 2014, from 2013 acquisitions Others	Impact in 2014, from 2014 acquisitions Source One Direct and Shoreline	 Others	Total Acquisitions
ASSETS				
Non-current assets	1,226	5,360	12,016	18,602
Current assets	2,003	3,792	4,021	9,816
Cash and cash equivalents	487	1,952	659	3,098
Total assets	**3,716**	**11,104**	**16,696**	**31,516**
LIABILITIES				
Non-current liabilities	123	1,208	2	1,333
Current liabilities	1,426	1,938	2,568	5,932
Borrowings	244	1,595	3	1,842
Total liabilities	**1,793**	**4,741**	**2,573**	**9,107**
Fair value of identified intangible assets				31,573
Associated deferred tax liabilities				(11,320)
Total fair value of identifiable net assets acquired				**42,662**
Purchase price consideration including any deferred and contingent payments				**88,436**
Goodwill as at December 31, 2014				**45,774**
Purchase consideration settled in cash				**(87,143)**
Cash acquired				3,098
Acquisitions of subsidiaries, net of cash acquired				**(84,045)**

In most instances, Gemalto management, assisted by independent qualified experts, provisionally identified and allocated the combination value to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquiree. The provisional goodwill arising from these acquisitions amounted to €46 million as at December 31, 2014, may be subject to significant changes over the purchase price allocation period.

Tax effects on the fair value of the intangible assets recognized amounted to €11.3 million.

Had the acquisitions of Source One Direct and Shoreline occurred on January 1, 2014, the Group estimates that their revenue would have been €28.7 million and PFO €2.6 million, €8.7 million revenue and €1 million PFO for the other 2014 acquisitions.

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

	Impact in 2014, from 2013 acquisitions		Impact in 2014, from 2014 acquisitions		**Total recognized in 2014**	
In thousands of euros	Fair Value	Remaining useful life	Fair Value	Remaining useful life	**Fair Value**	**Remaining useful life**
Existing technologies	3,844	5 years	10,277	5-7 years	**14,121**	**5-7 years**
Customer relationships	–	–	16,401	7 years	**16,401**	**7 years**
Brand name	–	–	1,051	7 years	**1,051**	**7 years**

Notes to the consolidated financial statements continued

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 into two main operating segments: Mobile and Payment & Identity. In each of these operating segments, the Group sells a range of offerings that can be categorized, based on the nature of the activity, as either Embedded software & Products or Platforms & Services.

Embedded software & Products (E&P) refers to client-side software and devices that, among other functions, protect the identity of a user and secure access to a digital network. There are various usages of this secure embedded software: in SIM cards, in electronic payment cards, in electronic passports as well as in network and physical access badges.

The Platforms & Services (P&S) activity complements the client-side with back-office systems and solutions that run in Gemalto's secure facilities or the facilities of customers. Gemalto has developed a variety of server-based platforms tailored to the needs of different market verticals but the core functionalities are the enrollment, issuance, lifecycle management, and verification of electronic identities to enable end-to-end security in authentication and transaction processes. The services offer is an extension of this activity that includes the personalization of objects, consulting, training, software customization, system installation and optimization, infrastructure maintenance, and operations management from Gemalto datacenters.

The Mobile operating segment encompasses businesses associated with mobile cellular technologies. For mobile network operators, our solutions comprise SIM/UICC cards and back-office platforms and services including roaming optimization, mobile payment, mobile marketing, personal data management and trusted service management (TSM). For industrial organizations, our solutions address the needs of a broad-range of market verticals such as utilities, health and automotive. These industrial solutions enable machine-to-machine (M2M) data exchange through hardware modules and operating software that connect machines to digital networks. Cloud-based M2M application enablement and late-stage personalization (LSP) platforms give industrial customers the ability to harness the power of the "internet of things" to improve operations, productivity and efficiency.

Payment & Identity customers are financial institutions, retailers, mass transit authorities, government agencies, government service providers as well as enterprises of all sizes. Payment offerings include chip cards, mobile financial services and contactless payment solutions. The segment also sells subscriber authentication and rights management solutions to Pay TV service providers. For governments and enterprises, the solutions comprise secure electronic identity documents, including ePassports and badges, strong multi-factor online authentication and transaction solutions, as well as a range of support services.

In addition, the Company also licenses its intellectual property and provides security and other technology advisory services in an operating segment called 'Patents & Others'.

The segment information reported in the following tables reflects the above description, modified from January 1, 2014 to report on progress towards the objectives set as part of the Company's new development plan covering the years 2014 to 2017, publicly announced on September 5, 2013, therefore, to preserve the year on year comparability, the 2013 segment information has been represented accordingly. Compared with the segment information published in the 2013 Consolidated financial statements, the former Mobile Communication and Machine-to-Machine segments have been aggregated into the operating segment Mobile and the former Secure Transactions and Security segments have been aggregated into the operating segment Payment & Identity. The security evaluation business for third parties, whose contribution to Mobile Communication was minor, is now managed together with Patents business and is now reported into Patents & Others segment.

To supplement the financial statements presented on an IFRS basis, and to better assess its past and future performance, the Group also prepares an additional income statement where the key metric used to understand, evaluate the business and take operating decisions over the period 2010 to 2017 is the Profit From Operations (PFO). PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses; and (iii) all equity-based compensation charges and associated costs (reported in the column 'Adjustments' within the following tables). 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 part of the compensation of executives is based on the performance of business measured in accordance with this non-GAAP metric. These items are further explained as follows:

- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Share Purchase Plans; and (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of directors to employees, and the related costs.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio, and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of the acquisition process).

- Amortization and depreciation of intangibles resulting from acquisitions are defined as the amortization and depreciation expenses related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.

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

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

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

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

	Ongoing operations							Year ended December 31, 2014
In thousands of Euro	**Mobile**	**Payment & Identity**	**Patents**	**Adjusted financial information for ongoing operations**	**Reconciling items[11]**	**Adjusted financial information**	**Adjustments[12]**	**IFRS financial information**
Revenue	**1,289,592**	**1,158,344**	**17,223**	**2,465,159**	**–**	**2,465,159**	**–**	**2,465,159**
Cost of sales	(739,407)	(772,122)	(1,467)	(1,512,996)	–	(1,512,996)	(9,082)	(1,522,078)
Gross profit	**550,185**	**386,222**	**15,756**	**952,163**	**–**	**952,163**	**(9,082)**	**943,081**
Operating expenses								
Research and engineering	(78,961)	(48,932)	(9,882)	(137,775)	–	(137,775)	(5,938)	(143,713)
Sales and marketing	(166,538)	(147,596)	(1,295)	(315,429)	–	(315,429)	(19,760)	(335,189)
General and administrative	(80,792)	(47,687)	(405)	(128,884)	–	(128,884)	(20,643)	(149,527)
Gain on sale of assets held for sale	–	–	–	–	–	–	–	–
Other income (expense), net	13,027	38	(461)	12,604	–	12,604	–	12,604
Profit from operations	**236,921**	**142,045**	**3,713**	**382,679**	**–**	**382,679**		
Restructuring and acquisition-related expenses								(29,830)
Amortization and depreciation of intangibles resulting from acquisitions								(27,267)
Operating profit								**270,159**

	Ongoing operations							Year ended December 31, 2013
In thousands of Euro	Mobile	Payment & Identity	Patents	Adjusted financial information for ongoing operations	Reconciling items[11]	Adjusted financial information	Adjustments[12]	IFRS financial information
Revenue	**1,289,491**	**1,075,959**	**18,485**	**2,383,935**	**4,672**	**2,388,607**	**–**	**2,388,607**
Cost of sales	(723,017)	(722,138)	(1,708)	(1,446,863)	(5,505)	(1,452,368)	(7,116)	(1,459,484)
Gross profit	**566,474**	**353,821**	**16,777**	**937,072**	**(833)**	**936,239**	**(7,116)**	**929,123**
Operating expenses								
Research and engineering	(81,354)	(47,008)	(10,914)	(139,276)	–	(139,276)	(4,144)	(143,420)
Sales and marketing	(176,292)	(143,848)	(687)	(320,827)	(353)	(321,180)	(11,680)	(332,860)
General and administrative	(84,168)	(42,838)	(392)	(127,398)	(143)	(127,541)	(11,612)	(139,153)
Gain on sale of assets held for sale	–	–	–	–	1,128	1,128	–	1,128
Other income (expense), net	2,809	(2,632)	(1,734)	(1,557)	(381)	(1,938)	–	(1,938)
Profit from operations	**227,469**	**117,495**	**3,050**	**348,014**	**(582)**	**347,432**		
Restructuring and acquisition-related expenses								(3,469)
Amortization and depreciation of intangibles resulting from acquisitions								(26,912)
Operating profit								**282,499**

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

[12] The amounts reported in the column 'Adjustments' refer to equity-based computed compensation charges and associated costs. The total amount for 2014 was €55,423 (€34,552 in 2013).

Notes to the consolidated financial statements continued

Note 6. Segment information continued

Geographical information

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

	Year ended December 31,	
	2014	2013
Revenue		
Europe, Middle East and Africa	1,127,841	1,155,828
Asia Pacific	500,877	479,502
United States of America	478,726	361,427
North and South America excluding the United States of America	357,715	391,850
Total	**2,465,159**	**2,388,607**

	Year ended December 31,	
	2014	2013
Non-current assets excluding goodwill (net)		
France	281,756	265,875
Europe, Middle East and Africa excluding France	192,168	187,174
Asia Pacific	122,070	111,215
United States of America	83,232	20,813
North and South America excluding the United States of America	62,638	63,552
Total	**741,864**	**648,629**

Note 7. Financial assets/liabilities by category

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

December 31, 2014	**Loans and receivables**	**Assets at fair value through profit and loss**	**Derivatives used for hedging**	**Total**
Assets				
Other non-current assets	45,024	–	–	**45,024**
Trade and other receivables, net*	818,813	–	–	**818,813**
Derivative financial instruments	–	–	6,397	**6,397**
Cash and cash equivalents	107,568	952,004	–	**1,059,572**
Total	**971,405**	**952,004**	**6,397**	**1,929,806**

* Trade and other receivables, net excluding 'advance to supplier' and 'prepayments expenses'.

	Derivatives used for hedging	**Financial liabilities at amortized cost**	**Total**
Liabilities			
Bond	–	397,683	**397,683**
Borrowings	–	168,499	**168,499**
Trade and other payables*	–	461,611	**461,611**
Derivative financial instruments	35,895	–	**35,895**
Total	**35,895**	**1,027,793**	**1,063,688**

* Trade and other payables excluding 'deferred revenue' and 'advance from customers'.

December 31, 2013	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	**Total**
Assets				
Other non-current assets	47,360	–	–	**47,360**
Trade and other receivables, net*	703,358	–	–	**703,358**
Derivative financial instruments	–	–	32,407	**32,407**
Cash and cash equivalents	96,111	360,259	–	**456,370**
Total	**846,829**	**360,259**	**32,407**	**1,239,495**

* Trade and other receivables, net excluding 'advance to supplier' and 'prepayments expenses'.

	Derivatives used for hedging	Financial liabilities at amortized cost	Total
Liabilities			
Bond	–	–	–
Borrowings	–	6,910	**6,910**
Trade and other payables*	–	477,165	**477,165**
Derivative financial instruments	5,476	–	**5,476**
Total	**5,476**	**484,075**	**489,551**

* Trade and other payables excluding 'deferred revenue' and 'advance from customers.

Fair value estimation

The following table presents the Group's assets and liabilities that were measured at fair value as at December 31, 2014 (see note 2.24):

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	6,397	–	**6,397**
Short-term bank deposits and investment funds	952,004	–	–	**952,004**
Total Assets	**952,004**	**6,397**	–	**958,401**
Liabilities				
Derivatives used for hedging	–	35,895	–	**35,895**
Total Liabilities	**–**	**35,895**	**–**	**35,895**

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

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

Note 8. Property, plant and equipment

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

	Land	Building and improvement	Machinery and equipment	Total
Gross book value as of January 1, 2014	**5,400**	**222,814**	**557,105**	**785,319**
Acquisition of subsidiary and business	2,406	5,161	25,512	**33,079**
Additions	–	11,476	71,279	**82,755**
Disposals and write-offs	–	(5,837)	(68,790)	**(74,627)**
Currency translation adjustment	142	4,684	19,431	**24,257**
Gross book value as of December 31, 2014	**7,948**	**238,298**	**604,537**	**850,783**
Accumulated depreciation as of January 1, 2014	**(36)**	**(142,078)**	**(405,885)**	**(547,999)**
Acquisition of subsidiary and business	–	(747)	(14,666)	**(15,413)**
Depreciation charge	(3)	(13,166)	(48,226)	**(61,395)**
Disposals and write-offs	–	4,101	66,294	**70,395**
Currency translation adjustment	–	(2,708)	(13,922)	**(16,630)**
Accumulated depreciation as of December 31, 2014	**(39)**	**(154,598)**	**(416,405)**	**(571,042)**
Net book value as of December 31, 2014	**7,909**	**83,700**	**188,132**	**279,741**

Notes to the consolidated financial statements continued

Note 8. Property, plant and equipment continued

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

Capitalized leases included in property, plant and equipment:

	Year ended December 31, 2014	2013
Gross book value	2,118	53,499
Accumulated depreciation	(728)	(32,445)
Net book value	**1,390**	**21,054**

Gemalto has exercised its purchase option on a capitalized lease. As there was a reasonable certainty that Gemalto would obtain ownership by the end of the lease term, the building located in the south of France has been depreciated over its useful life.

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

	Year ended December 31, 2014	2013
Cost of sales	49,332	45,949
Research and engineering expenses	4,641	3,817
Sales and marketing expenses	686	679
General and administrative expenses	6,736	6,879
Total depreciation expenses by destination	**61,395**	**57,324**

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, 2014	**863,566**	**339,238**	**181,009**	**190,588**	**1,574,401**
Acquisition of subsidiary and business	45,775	14,162	(332)	18,298	**77,903**
Additions	–	323	37,030	6,447	**43,800**
Write-offs	–	–	–	(562)	**(562)**
Currency translation adjustment	5,427	238	101	1,543	**7,309**
Gross book value as of December 31, 2014	**914,768**	**353,961**	**217,808**	**216,314**	**1,702,851**
Accumulated amortization as of January 1, 2014	**(12,966)**	**(297,351)**	**(87,222)**	**(123,681)**	**(521,220)**
Acquisition of subsidiary and business	–	(41)	147	(608)	**(502)**
Amortization charge	–	(16,688)	(24,186)	(20,959)	**(61,833)**
Write-offs	–	–	–	449	**449**
Currency translation adjustment	(976)	35	(23)	182	**(782)**
Accumulated amortization as of December 31, 2014	**(13,942)**	**(314,045)**	**(111,284)**	**(144,617)**	**(583,888)**
Net book value as of December 31, 2014	**900,826**	**39,916**	**106,524**	**71,697**	**1,118,963**

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

Other intangibles mainly consist of:

	Year ended December 31,	
	2014	2013
Licensing rights to use and distribute licensed technology	4,138	8,795
Acquired customer relationship	38,646	29,780
Acquired brand names	11,423	10,593
Miscellaneous software and other intangibles	17,490	17,739
Total	**71,697**	**66,907**

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

	Year ended December 31,	
	2014	2013
Cost of sales	32,229	28,380
Research and engineering expenses	879	679
Sales and marketing expenses	98	69
General and administrative expenses	1,360	942
Amortization and depreciation of intangible resulting from acquisition	27,267	26,912
Total	**61,833**	**56,982**

Goodwill impairment test

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

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

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

	Year ended December 31,	
In millions of Euro CGU	**2014**	2013
Mobile Communication	404	400
Machine-to-Machine	116	116
Secure Transactions	159	137
Security	222	198
Total	**901**	**851**

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations use projected cash flows after tax derived from management plans as of the date the review was carried out. Cash flows beyond management plans horizon are extrapolated using a 2% growth rate for each CGU. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 8.4% in 2014 (8.6% in 2013), the before-tax weighted average cost of capital was estimated at 10.1% in 2014 (10.3% in 2013). The outcome of the computation yields recoverable amounts above the carrying values of the cash generating units.

No impairment charge was recognized neither in 2014 nor in 2013. Further, no impairment charge would be recognized in 2014 if discounted projected cash flows were 20% lower.

Notes to the consolidated financial statements continued

Note 10. Investments in associate

Investments in associates consist of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Investments as of beginning of period	**49,035**	**25,697**
Acquisition, contribution of/to associates	161	3,735
Reclassification from dividend receivable	–	2,740
Other changes in net assets	(658)	–
Reclassification (to) from assets held for sale	–	1,263
Dividends paid by associates	(813)	(1,109)
Share of profit	(628)	(2,298)
Non-recurring profit, net	–	19,962
Currency translation adjustment	4,589	(955)
Investments as of end of period	**51,686**	**49,035**

The Company's investments in associates include goodwill (net of any impairment loss) identified on acquisitions. As of December 31, 2014, the net book value of goodwill in associates amounted to €0.4 million (in 2013 €0.4 million).

With 18.43% shareholding in Goldpac Group Limited Gemalto remains a substantial shareholder with one non-executive board member. The market value of our shareholding in Goldpac Group Limited, on the Hong Kong stock exchange, was €87 million as at December 31, 2014 (€109 million in 2013). As at December 31, 2014 the carrying value of our investment was €48 million (€42 million in 2013).

Summarized statement of financial position

	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013	**2014**	2013
	Goldpac Group	Goldpac Group	**Other associates**	Other associates	**Total**	**Total**
Current assets	263,844	216,317	10,631	13,742	**274,475**	**230,059**
Non-current assets	23,890	17,282	14,944	20,181	**38,834**	**37,463**
Current liabilities	88,017	64,968	13,876	12,096	**101,893**	**77,064**
Non-current liabilities	1,269	910	1,149	45	**2,418**	**955**
Net assets as of end of period	**198,448**	167,721	**10,550**	21,782	**208,998**	**189,503**

Summarized income statement

	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013	**2014**	2013
	Goldpac Group	Goldpac Group	**Other associates**	Other associates	**Total**	**Total**
Revenue	99,968	136,323	13,598	69,892	**113,566**	**206,215**
Pre-tax (loss)/profit from continuing operations	19,480	22,470	(5,799)	(6,476)	**13,681**	**15,994**
Post-tax profit from continuing operations	14,340	17,260	(11,032)	(11,834)	**3,308**	**5,426**
Total comprehensive (expense)/income	16,307	13,589	(11,028)	(11,827)	**5,279**	**1,762**

The above summarized financial information do not include associates with nil carrying value as at December 31, 2014.

Note 11. Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2014	2013
Research tax credit	10,402	15,047
Long-term deposits, net[13]	3,301	3,175
Tax receivable	14,050	12,803
Other	17,271	16,335
Total	**45,024**	**47,360**

[13] The €3,301 carrying value of long-term deposits is assessed to be equivalent to their fair value.

Note 12. Inventories

Inventories consist of the following:

	Year ended December 31,	
	2014	2013
Gross book value		
Raw materials and spares	77,154	67,449
Work in progress	109,884	103,548
Finished goods	49,578	45,942
Total	**236,616**	**216,939**
Obsolescence reserve		
Raw materials and spares	(4,269)	(4,852)
Work in progress	(5,922)	(5,182)
Finished goods	(2,846)	(2,512)
Total	**(13,037)**	**(12,546)**
Net book value	**223,579**	**204,393**

Note 13. Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2014	2013
Trade receivables	585,972	533,729
Provision for impairment of receivables	(10,062)	(10,555)
Trade receivables, net	**575,910**	**523,174**
Prepaid expenses	21,683	22,516
VAT recoverable and tax receivable	68,330	73,151
Advances to suppliers and related	12,187	11,950
Unbilled customers	133,356	84,491
Other	41,217	22,542
Total	**852,683**	**737,824**

Note 14. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2014	2013
Cash at bank and in hand	107,568	96,111
Short-term bank deposits and investment funds	952,004	360,259
Total	**1,059,572**	**456,370**

The average effective interest rate on short-term deposits was 0.93% in 2014 (1.31% in 2013). These deposits are invested in the form of overnight and fixed-term deposits, in money market funds or in commercial paper, with maturities of less than three months. The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	Year ended December 31,	
	2014	2013
Cash and cash equivalents	1,059,572	456,370
Banks overdrafts	(2,168)	(272)
Total	**1,057,404**	**456,098**

Note 15. Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2014	2013
Non-current portion		
Other financial liability	2,477	2,665
Bond	400,000	–
Deferred costs and premium on bond	(4,622)	–
Finance lease liabilities	172	433
Total non-current portion	**398,027**	**3,098**
Current portion		
Short-term loans	163,366	1,463
Bank overdrafts	2,168	272
Other financial liability	1,253	–
Finance lease liabilities	1,368	2,077
Total current portion	**168,155**	**3,812**
Total	**566,182**	**6,910**

The Group has signed a series of bilateral committed revolving credit lines, arranged with first rank banks. The total amount is €585 million with maturities fall between February 16, 2016 and December 20, 2021. In the prospect of funding part of the Safenet acquisition beginning of 2015, several credit lines have been drawn as at December 31, 2014 for a total amount of €160 million (none of them where drawn as at December 31, 2013). There are no financial covenants (financial ratios) concerning our financial structure in the documentation of these facilities.

On September 2014 Gemalto NV successfully priced an inaugural unrated public bond issue for a total amount of €400 million, maturing in 23 September 2021. The Luxembourg Stock Exchange admitted the Bond to the official list and trading on its regulated market. The bond bears interests at the rate of 2.1/8% payable annually starting from September 2015. At December 31, 2014 the bond was booked based on amortized cost method and disclosed entirely under long-term financial payables and the related accrued interests in short term payables. For information the fair value of the bond as at December 31, 2014, is €413.2 million, while its carrying amount is equal to €400 million.

Notes to the consolidated financial statements continued

Note 15. Borrowings continued

Movements on borrowings

	Year ended December 31, 2014	2013
Balance as at January 1	6,910	10,239
Net proceed from bond issue	395,192	–
Release of deferred costs and premium on bond	186	–
Accruals of interests on bond	2,305	–
Credit line drawdown	160,000	–
Repayments of financial lease liabilities	(2,750)	(2,909)
Repayments in other financial liabilities	(692)	(911)
Net change in bank overdraft	1,792	74
Net change in short-terms loan	(766)	(1,890)
Acquisition from subsidiaries	3,586	2,365
Exchange differences	419	(58)
Balance as at December 31	**566,182**	**6,910**

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

	Year ended December 31, 2014	2013
Euro (EUR)	562,735	5,969
Polish Zloty (PNL)	91	48
Philippino Peso (PHP)	386	525
Arab Emirates Dirham (AED)	178	–
Indian Rupee (INR)	1,088	–
Chinese Yuan (CNY)	–	368
US Dollar (USD)	1,704	–
Total	**566,182**	**6,910**

The nominal interest rates as at December 31, 2014 and 2013 were as follows:

2014		Amount	EUR	USD	PHP	PLN	INR
Bond	Fixed rate	395,378	2.13%	–	–	–	–
Credit lines drawdown	Floating rate	160,000	0.78%	–	–	–	–
Other financial liability	Floating rate	3,730	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	3,229	n/s	–	4.61%	–	10.95%
Accruals of interests on bond	n/a	2,305	n/a	–	–	–	–
Finance lease liabilities	Floating rate	100	1.96%	–	–	–	–
Finance lease liabilities	Fixed rate	1,440	3.68%	7.22%	–	5.39%	–
Total		**566,182**					

2013		Amount	EUR	USD	PHP	PLN	CNY
Other financial liability	Floating rate	2,665	n/a	–	–	–	–
Short-term loans and bank overdrafts	Floating rate	1,735	n/s	–	4.59%	–	n/s
Finance lease liabilities	Floating rate	1,997	1.22%	–	–	–	–
Finance lease liabilities	Fixed rate	513	3.70%	–	–	5.40%	–
Total		**6,910**					

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 ratios.

Bonds, credit lines drawdown and finance lease liabilities are split by maturity as follows:

			Year ended December 31, 2014		Year ended December 31, 2013	
	Bonds	Credit lines drawn down	Present value of finance lease liabilities	Financial lease (minimum lease payments)	Present value of finance lease liabilities	Financial lease (minimum lease payments)
Not later than 1 year	8,500	160,107	1,368	1,418	2,077	2,116
Later than 1 year and not later than 5 years	34,000	–	172	180	433	431
Later than 5 years	417,000	–	–	–	–	–
Total	**459,500**	**160,107**	**1,540**	**1,598**	**2,510**	**2,547**
Future finance charges on finance leases				(58)	–	(37)
Present value of finance lease liabilities				**1,540**	**–**	**2,510**

Note 16. Employee benefit obligations

Amounts recognized in the statement of financial position

	Year ended December 31, 2014	2013
Present value of obligations	167,099	132,669
Fair value of plan assets	(59,738)	(49,697)
Net defined benefit liability	**107,361**	**82,972**

The Group is subject to national mandatory pension systems and other compulsory plans, or makes contribution to social pension funds based on local regulations. When the obligation of the Group is limited to the payment of the contribution into these plans or funds, the recognition of such liability is not required.

In addition, the Group has, in some countries, defined benefit plans consisting of final retirement salary, committed pension payments, long service awards (jubilees) and other schemes.

In France, the labor law and specific industry labor agreements require that a final retirement salary is paid to all French employees upon retirement, whose amount depends on the length of service on the date the employee reaches retirement age. Employees with long service are also eligible for a jubilee award.

In the UK, the arrangement consisted of a funded salary pension under which retired employees draw their benefits as an annuity. This scheme was terminated in 2007, the Group ceased to accrue benefits, and a new scheme based on defined contributions was put in place. Employees who are not eligible under the former scheme now receive benefits under a defined contribution plan.

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

Notes to the consolidated financial statements continued

Note 16. Employee benefit obligations continued

Movements in the net defined benefit obligation

The movements in the net defined benefit obligation over the periods ended are as follows:

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2014	**132,669**	**(49,697)**	**82,972**
Current service costs	8,305	–	8,305
Interest expense	6,802	(2,238)	4,564
Curtailment	(224)	–	(224)
Amount recognized in the income statement	**14,883**	**(2,238)**	**12,645**
Return on plan assets	–	(3,672)	(3,672)
Actuarial (gain) and loss arising from changes in demographic assumptions	60	–	60
Actuarial (gain) and loss arising from changes in financial assumptions	20,934	–	20,934
Actuarial (gain) and loss due to experience	387	–	387
Amounts recognized in other comprehensive income	**21,381**	**(3,672)**	**17,709**
Contributions to the plan by the employer	–	(3,698)	(3,698)
Payments	(4,747)	1,551	(3,196)
Acquisition of subsidiaries	96	–	96
Currency translation adjustment	2,817	(1,984)	833
Balance as at December 31, 2014	**167,099**	**(59,738)**	**107,361**

	Present value of obligation	Fair value of plan assets	Net liability
Balance as at January 1, 2013	**127,302**	**(47,263)**	**80,039**
Current service costs	8,197	–	8,197
Interest expense	5,546	(2,006)	3,540
Curtailment	(720)	–	(720)
Amount recognized in the income statement	**13,023**	**(2,006)**	**11,017**
Return on plan assets	–	409	409
Actuarial (gain) and loss arising from changes in demographic assumptions	(1,275)	–	(1,275)
Actuarial (gain) and loss arising from changes in financial assumptions	(749)	–	(749)
Actuarial (gain) and loss due to experience	1,068	–	1,068
Amounts recognized in other comprehensive income	**(956)**	**409**	**(547)**
Contributions to the plan by the employer	–	(3,405)	(3,405)
Payments	(5,757)	1,922	(3,835)
Currency translation adjustment	(943)	646	(297)
Balance as at December 31, 2013	**132,669**	**(49,697)**	**82,972**

Net defined benefit obligation by geographical situation

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

	December 2014				
	France	**UK**	**Germany**	**Other countries**	**Total**
Projected benefit obligation	74,436	52,639	21,287	18,737	167,099
Plan assets at fair value	–	(42,195)	(9,134)	(8,409)	(59,738)
Net defined benefit obligation	**74,436**	**10,444**	**12,153**	**10,328**	**107,361**

	December 2013				
	France	UK	Germany	Other countries	Total
Projected benefit obligation	58,911	44,528	14,853	14,377	132,669
Plan assets at fair value	–	(36,582)	(6,992)	(6,123)	(49,697)
Net defined benefit obligation	**58,911**	**7,946**	**7,861**	**8,254**	**82,972**

Plan assets

In France, the regulations do not provide for any obligation to fund the liability arising from the lump-sum payments made to employees upon their retirement. In the UK, Germany and Finland, plan assets are comprised of equity securities, debt instruments and other investments. The plan assets are composed of the following:

	Year ended December 31,	
	2014	2013
Equity securities	24,048	21,468
Debt instruments (Government and corporate bonds)	17,571	15,202
Other investments	18,119	13,027
Total plan asset fair value	**59,738**	**49,697**

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

Actuarial assumptions

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2014	2013
Eurozone		
Discount rate	1.65%	3.50%
Future salary increase	2.25%-3.00%	3.50%
Inflation rate	2.00%	2.00%
UK		
Discount rate	3.75%	4.50%
Future salary increase	n/a	n/a
Inflation rate	3.25%	3.50%
Expected rate of return on plan assets	3.75%	4.50%

Discount rate source

The Group uses the iBoxx index for the Eurozone and the UK plans as a basis when determining the discount rate to be applied for the liability calculation. Both indexes refer to Euro denominated and Sterling corporate bonds with AA rating maturing over ten years respectively. For duration exceeding ten years in Eurozone, the discount rate used is an extrapolation of the zero-coupon bond rate adjusted with the spread on iBoxx.

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

Notes to the consolidated financial statements continued

Note 16. Employee benefit obligations continued

Sensitivity analysis

The following table shows the sensitivity of the UK, Germany and French liabilities for the year ended December 31, 2014 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	(9,238)	12,363
Inflation rate	3,908	(3,707)

Demographic assumptions

Longevity assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TD/TV 2009–2011 for France, (ii) SAPS S1PxA tables with a 1% long term trend-rate for the UK and (iii) Richttafeln 2005G for Germany.

The following table sets forth the expected life of participants by geographical situation:

	Year ended December 31, 2014		
	France	UK	Germany
Longevity at age 65 for current pensioners (years)			
Men	18.7	23.0	18.9
Women	22.7	25.0	22.9
Longevity at age 65 for current members aged 45 (years)			
Men	18.7	24.4	21.5
Women	22.7	26.5	25.5

	Year ended December 31, 2013		
	France	UK	Germany
Longevity at age 65 for current pensioners (years)			
Men	18.6	23.1	18.7
Women	22.7	26.4	22.8
Longevity at age 65 for current members aged 45 (years)			
Men	18.6	25.0	21.4
Women	22.7	28.5	25.3

Projected information

The related expected service cost to be charged in the income statement for the year ending December 31, 2015 is €8,754. The weighted average duration of the defined benefit obligation is 15.5 years.

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

	Cash outflow		
	2015	2016	2017
Net defined benefit obligation	3,808	3,920	4,504

Note 17. Non-current provisions and other liabilities

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

	Year ended December 31,	
	2014	2013
Non-current provisions	23,984	22,980
Other non-current liabilities	22,887	20,728
Total	**46,871**	**43,708**
Government grants	259	289
Long-term payables[14]	22,628	20,439
Total other non-current liabilities	**22,887**	**20,728**

[14] The €22,628 carrying value of long-term payables is assessed to be equivalent to their fair value (€20,439 in 2013).

Variation analysis of the non-current provisions is as follows:

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2014	**6,625**	**–**	**3,000**	**7,724**	**5,631**	**22,980**
Additional provisions	1,138	–	95	1,193	900	**3,326**
Acquisition of subsidiaries	–	1,745	–	–	–	**1,745**
Unused amount reversed	(814)	–	(522)	(53)	(1,719)	**(3,108)**
Used during the period	(39)	–	(256)	(36)	(628)	**(959)**
Reclassifications	(385)	–	–	(127)	(43)	**(555)**
Cumulative translation adjustment	51	–	(2)	338	168	**555**
As of December 31, 2014	**6,576**	**1,745**	**2,315**	**9,039**	**4,309**	**23,984**

	Warranty	Restructuring and reorganization	Litigation	Tax claims	Provision for other risks	Total
As of January 1, 2013	**7,671**	**–**	**9,745**	**30,138**	**4,522**	**52,076**
Additional provisions	1,101	–	739	106	1,966	**3,912**
Acquisition of subsidiaries[15]	–	–	–	(4,769)	–	**(4,769)**
Unused amount reversed	(1,541)	–	(2,863)	(1,410)	(129)	**(5,943)**
Used during the period	(28)	–	(46)	(16,014)	(528)	**(16,616)**
Reclassifications	(555)	–	(4,500)	(121)	–	**(5,176)**
Cumulative translation adjustment	(23)	–	(75)	(206)	(200)	**(504)**
As of December 31, 2013	**6,625**	**–**	**3,000**	**7,724**	**5,631**	**22,980**

[15] A contingent tax risk of €4.8 million associated with one of our 2012 acquisitions has been released during the adjusting period with the related goodwill as counterpart.

The assessment of these risks has been performed with the assistance of external counsels when needed and provisions booked when necessary as described in note 2.20

Note 18. Trade and other payables

Trade and other payables for the years ended December 31, 2014 and 2013 consist of the following:

	Year ended December 31, 2014	2013
Trade payables	221,771	247,073
Employee related payables	152,831	154,770
Accrued expenses	88,021	78,110
Accrued VAT	16,297	22,811
Deferred revenue	53,471	52,657
Other	7,520	2,644
Total trade and other payables	**539,911**	**558,065**

Note 19. Additional information on specific line items of the income statement

The Group reported 'Restructuring and acquisition-related expenses' (see note 3.1) for €29,830 as at December 31, 2014 (€3,469 in 2013), which detailed as follows:

	Year ended December 31, 2014	2013
Severance and associated costs	23,029	390
Transaction costs on acquisition	3,216	575
Write-offs and impairments	1,455	1,661
Other costs (income), net	2,130	843
Total restructuring and acquisition-related expenses	**29,830**	**3,469**

Provision for restructuring only cover expenses that arise directly from restructuring measures, are necessary for restructuring and are not related to future business operations. Restructuring measures may include sale or termination of business, sites closures, relocation of business activities, or fundamental reorganization of business units. Restructuring charges are recognized in the period incurred and when the amount is reasonably estimable. Severance, termination benefits are recognized as a liability when the Group is demonstrably committed to either provide termination benefits as a result of an offer made in order to encourage voluntary redundancy or terminate employment before the normal retirement date.

Amortization and depreciation of intangibles resulting from acquisitions amounted to €27,267 for the year ended December 31, 2014 (€26,912 on December 31, 2013).

Notes to the consolidated financial statements continued

Note 20. Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31, 2014	2013
Warranty	1,921	1,986
Provisions for loss on contracts	1,646	1,429
Restructuring and reorganization	6,739	663
Other	2,662	6,571
Total current provisions and other liabilities	**12,968**	**10,649**

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2014	**1,986**	**1,429**	**663**	**6,571**	**10,649**
Additional provisions	704	1,188	6,468	484	**8,844**
Acquisition of a subsidiary	–	–	–	73	**73**
Unused amount reversed	(849)	(86)	(66)	(270)	**(1,271)**
Used during the year	(558)	(909)	(325)	(3,215)	**(5,007)**
Reclassifications	437	–	–	(1,008)	**(571)**
Cumulative translation adjustment	201	24	(1)	27	**251**
As of December 31, 2014	**1,921**	**1,646**	**6,739**	**2,662**	**12,968**

	Warranty	Provision for loss on contracts	Restructuring and reorganization reserves	Other	Total
As of January 1, 2013	**3,482**	**293**	**978**	**2,237**	**6,990**
Additional provisions	947	1,414	–	3,422	**5,783**
Unused amount reversed	(1,574)	–	(143)	(318)	**(2,035)**
Used during the year	(401)	(271)	(157)	(5,047)	**(5,876)**
Reclassifications	(441)	–	–	6,474	**6,033**
Cumulative translation adjustment	(27)	(7)	(15)	(197)	**(246)**
As of December 31, 2013	**1,986**	**1,429**	**663**	**6,571**	**10,649**

Note 21. Revenue

Revenue by category is analyzed as follows:

	Year ended December 31, 2014	2013
Sales of goods	1,934,878	1,884,688
Revenue from Platforms and Services	502,210	460,384
Others	28,071	43,535
Total	**2,465,159**	**2,388,607**

'Others' includes the revenue derived from Gemalto patent licensing activities, as well as gains and losses on certain cash flow hedge instruments (see note 27).

Note 22. Costs of sales and operating expenses by nature

The costs of sales and operating expenses by nature are as follows:

	Year ended December 31, 2014	2013
Depreciation, amortization, impairment, write-offs and other provisions	100,662	89,431
Amortization and depreciation of intangibles resulting from acquisitions	27,267	26,912
Employee compensation and benefit expense (see note 23)	826,735	756,294
Change in inventories (finished goods and work in progress)	(4,708)	(5,184)
Raw materials used and consumables	854,506	829,700
Freight and transportation costs	67,688	56,005
Travel costs	53,025	51,738
Buildings and office leases	80,366	83,460
Royalties, legal and professional fees	113,330	134,686
Subcontracting and temporary workforce	105,741	101,329
Gain on sale of investment / assets held for sale	–	(1,128)
Others	(29,612)	(17,135)
Total expenses	**2,195,000**	**2,106,108**

Note 23. Employee compensation and benefit expense

	Year ended December 31, 2014	2013
Wages and salaries (including severance costs recorded in restructuring and acquisition related expenses)	669,181	629,134
Pension – Defined benefit plans	8,081	7,477
Pension – Defined contribution plans	29,435	29,681
Share-based compensation expense	55,423	33,952
Others	64,615	56,050
Employee compensation and benefit expense	**826,735**	**756,294**

Note 24. Share-based compensation plans

All share and exercise prices are expressed in Euro.

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

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

The GEIP authorizes the Company to grant eligible employees over the duration of the plan ending December 31, 2024 the right to acquire 14 million ordinary shares of Gemalto N.V.

Gemalto share options

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

	Year ended December 31,			
Grant date	Share options granted	Exercise price (Euro)	Number of options outstanding as of December 31, 2014	Number of options outstanding as of December 31, 2013
May-04	3,196,000	14.80	–	26,800
Sep-05	685,000	30.65	38,000	76,660
Jun-06	1,600,000	23.10	106,730	232,827
Sep-07	872,000	20.83	93,980	152,450
Sep-08	1,399,000	26.44	493,465	678,554
Total	**7,752,000**		**732,175**	**1,167,291**

Gemplus S.A. and Gemplus International S.A. share options

Pursuant to the undertaking under article 3.3(a) of the Combination agreement between Gemalto N.V. and Gemplus International S.A. signed on 6 December 2005, Gemalto guarantees to the Gemplus share option holders the right to exchange their future Gemplus shares for Gemalto shares, on the basis of the exchange ratio of the combination public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares). Upon exercise of Gemplus S.A. or Gemplus International S.A. share options, the optionee is offered the exchange of shares of these companies for Gemalto shares.

The following table summarizes the outstanding share option plans:

	Year ended December 31,			
Grant date (year)	Weighted average exercise price (Euro)	Number of options outstanding as of 2014	Weighted average exercise price (Euro)	Number of options outstanding as of 2013
2005	20.08	54,874	20.24	60,599
Total	**20.08**	**54,874**	**20.24**	**60,599**

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

	Year ended December 31,			
	Weighted average exercise price (Euro)	Number of options outstanding as of 2014	Weighted average exercise price (Euro)	Number of options outstanding as of 2013
Beginning of the period	**24.81**	**1,227,890**	**23.69**	**2,494,725**
Forfeited	–	–	16.77	(2,858)
Exercised	24.34	(440,841)	22.61	(1,263,977)
End of the period	**25.08**	**787,049**	**24.81**	**1,227,890**

As of December 31, 2014, the average remaining life of the 787,049 outstanding options is 2.9 years. It was 3.7 years as of December 31, 2013 for the 1,227,890 options.

Notes to the consolidated financial statements continued

Note 24. Share-based compensation plans continued

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

	Year ended December 31,			
Expiry date	Weighted average exercise price (Euro)	Number of options outstanding as of 2014	Weighted average exercise price (Euro)	Number of options outstanding as of 2013
2014	–	–	14.80	26,800
2015	23.90	151,424	26.19	132,534
2016	23.10	48,180	23.08	237,552
2017	20.83	93,980	20.83	152,450
2018	26.44	493,465	26.44	678,554
Total	**25.08**	**787,049**	**24.81**	**1,227,890**

The above outstanding options are all vested as of December 31, 2014.

Gemalto Restricted Share Units (RSUs)

In 2014, the Board of Gemalto N.V. granted performance and service-based RSUs to eligible employees worldwide. The following are the characteristics of the plan:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
Mar and Apr-14	949,500	Dec 2017	Vesting conditions are both performance and service based. RSU will vest if the Group results for the period 2014-2017 will reach certain cumulative targets in line with the objectives of the new multi-year development plan and the employee is employed by the Company as at December 31, 2017. Depending on performance, the maximum number of RSUs to be delivered may be 949,500.	Share price of €78.1 for March and €78.31 for April. Risk free rate from Year 1 to Year 5 being 0.25% to 0.90%. Share price discount for no dividend eligibility of €2.3 per share.	none

Under the GEIP, some Gemalto employees in China were granted RSUs in 2014.

Year ended December 31, 2014, the following RSUs granted by the Company were outstanding:

Grant date	Maximum amount granted based on performance variability	Amount vested	Amount forfeited	Outstanding	Remaining vesting conditions	End of vesting period
Mar-11	199,500	(180,500)	(19,000)	–	–	n/a
Mar-12	1,363,635	(1,230,015)	(133,620)	–	–	n/a
May-13	954,500	–	(89,850)	864,650	performance and service	Dec-15
Mar and Apr-14	949,500	–	(197,900)	751,600	performance and service	Dec-17
Total	**3,467,135**	**(1,410,515)**	**(440,370)**	**1,616,250**		

Gemalto Employee Share Purchase Plans

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

Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing share price of October 27, 2014 or November 7, 2014. 70,033 Treasury shares were subscribed by the employees at a price, net of discount, of €49.93 per share. In China, the share purchase price paid by the employees was held by the local employer and the finalization of the transaction with the local employees was subject to approval of the State Administration of the Foreign Exchange.

Share-based compensation expense in the income statement

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

	Year ended December 31,	
	2014	2013
Cost of sales	9,082	7,116
Research and engineering	5,938	4,144
Sales and marketing	19,760	11,680
General and administrative	20,643	11,612
Total	**55,423**	**34,552**

The associated costs amounted to €4,957 (€2,553 in 2013) and mainly include the accrual of French Social levies associated with the RSU granted in 2014 and 2013.

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

Cash proceeds received from employees having exercised share options in 2014 was €14,177 (€31,564 in 2013).

Note 25. Other income (expense), net

	Year ended December 31,	
	2014	2013
Fixed assets write-offs and net gains/losses on sales	386	798
Compensation from customers and suppliers, net	8,298	(1,870)
Other	3,920	(866)
Total	**12,604**	**(1,938)**

Note 26. Financial income (expense), net

Financial income/(expense) details are as follows:

	Year ended December 31,	
	2014	2013
Interest expense	(5,750)	(4,159)
Interest expense and amortized costs on Bond	(2,492)	–
Interest income	4,314	3,269
Foreign exchange transaction gains (losses):		
Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(2,179)	(9,105)
Ineffective part of derivative instruments designated as cash flow hedges	(4,987)	(1,712)
Other financial income (expense), net	(1,327)	4,975
Financial income (expense), net	**(12,421)**	**(6,732)**

Other financial income (expense) are mainly composed of:

(i) reassessment to fair value of several financial liabilities, including liabilities related to commitments to non-controlling interests in 2013; and

(ii) transfer from Other Comprehensive Income of accumulated translation currency upon liquidation or loss of control over subsidiaries in 2014 and 2013.

iii) commitment and arrangement fees related to the unused credit lines.

Note 27. Net foreign exchange gains (losses)

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

	Year ended December 31,	
	2014	2013
Net sales	10,848	25,050
Cost of sales	(1,461)	(273)
Financial income (expense), net	(7,166)	(10,817)
Net foreign exchange gains (losses)	**2,221**	**13,960**

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 (see note 4) are recorded in sales if the underlying net exposure is a revenue (net selling position) and in cost of sales if the underlying net exposure is a cost (net buying position).

Note 28. 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,	
	2014	2013
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	109,121	76,821
Deferred tax asset to be recovered within 12 months	35,589	24,468
Total	**144,710**	**101,289**
Deferred tax liabilities:		
Deferred tax liabilities due after more than 12 months	(45,336)	(25,045)
Deferred tax liabilities due within 12 months	(829)	(429)
Total	**(46,165)**	**(25,474)**
Deferred tax assets (liabilities), net	**98,545**	**75,815**

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31,	
	2014	2013
Beginning of the period	**75,815**	**76,033**
Acquisition of subsidiary and business	(12,290)	(4,361)
Reclassification to assets/liabilities held for sale	–	(1)
Credited to income statement	22,183	6,436
Tax credit (debit) recognized in other comprehensive income	12,813	(123)
Cumulative translation adjustment	24	(2,169)
End of the period	**98,545**	**75,815**

Notes to the consolidated financial statements continued

Note 28. Taxes continued

Deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 detail as follows:

	Year ended December 31, 2014	2013
Assets		
Loss carry-forwards	66,795	64,754
Excess book over tax depreciation and amortization	33,727	25,274
Employee and retirement benefits	25,853	17,839
Warranty reserves and accruals	2,972	1,253
Other temporary differences	48,527	39,666
Total assets	**177,874**	**148,786**
Liabilities		
Excess tax over book depreciation and amortization	(56,338)	(51,923)
Other temporary differences	(22,991)	(21,048)
Total liabilities	**(79,329)**	**(72,971)**
Deferred tax assets (liabilities), net	**98,545**	**75,815**

The income tax credit (expense) is as follows:

	Year ended December 31, 2014	2013
Current tax	(58,045)	(41,666)
Deferred tax	22,183	6,436
	(35,862)	**(35,230)**

The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the tax rate applicable in the country of incorporation of the Holding Company, i.e. the Netherlands, is as follows:

	Year ended December 31,			
	2014		2013	
	€	%	€	%
Profit (loss) before income tax	257,110		293,431	
Tax calculated at the rate of the Holding Company	(64,278)	(25.0)	(73,358)	(25.0)
Effect of difference in nominal tax rate between the holding and the consolidated entities	19,031		9,890	
Effect of the reassessment of the recognition of deferred tax assets	14,365		11,239	
Effect of utilization of tax assets not recognized in prior years	6,048		3,834	
Effect of unrecognized deferred tax assets arising in the year	(2,157)		(5,064)	
Other permanent differences	(8,871)		18,229	
Income tax credit (expense)	**(35,862)**	**(14)**	**(35,230)**	**(12)**

In 2014, the Company recorded an income tax charge of €35.9 million on a pretax profit of €276.6 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, 2014, Gemalto did not recognize tax assets amounting to €315.9 million (€321.0 million as of December 31, 2013) relating to tax losses and other future tax deductions. Of this amount, €290.1 million[16] related to tax loss carry-forwards amounting to €997.9 million[17] of which €889.8 million can be used indefinitely. In 2013 those amounts were €293.3 million, €1,026.4 million and €914.8 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.

[16] Including €224.6 million (€221.4 million in 2013) related to Gemplus International S.A. (Luxemburg) tax loss carry-forwards.

[17] Including €768.8 million (€774.4 million in 2013) for Gemplus International S.A. (Luxemburg).

Note 29. Earnings per share

	Year ended December 31, 2014	2013
Profit attributable to Owners of the Company	**220,651**	**257,896**
Weighted average number of ordinary shares – basic	86,490	85,590
Effect of dilution from share options	2,226	2,721
Weighted average number of ordinary shares – diluted	88,716	88,311
Basic earnings per share	**2.55**	**3.01**
Diluted earnings per share	**2.49**	**2.92**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Share-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period.

Note 30. Related party transactions

a) Key management compensation

The compensation expense for key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member – whether executive or non-executive – of the Company) for the year ended in 2014 and 2013 is summarized as follows:

	Year ended December 31, 2014	2013
Salaries and other short-term employee benefits	6,197	8,848
Share-based compensation charge	9,405	5,562
Total expenses	**15,602**	**14,410**

b) Purchases of goods and services

In 2014, the Company purchased €9,795 worth of equipment and services (€4,110 in 2013) under existing agreements from DataCard Corporation. Mr. Johannes Fritz heads the Quandt / Klatten Family office, and certain members of the Quandt / Klatten Family own the majority of DataCard Corporation shares. Mr. Fritz had no involvement in these transactions.

In 2014, total purchases from associated companies was €4,320 (€4,059 in 2013).

c) Sales of goods and services

In 2014, total sales to related parties amounted to €384 (€139 in 2013).

In 2014, total sales to associated companies amounted to €71,766 (€53,709 in 2013).

d) Year-end balances arising from sales/purchases of goods and services:

	Year ended December 31,	
	2014	2013
Receivables from:		
Associates	43,823	29,711
Related parties	137	101
Total receivables	**43,960**	**29,812**
Payables to:		
Associates	377	210
Related parties	1,770	1,373
Total payables	**2,147**	**1,583**

All outstanding balances with these related parties are priced on an arm's-length basis.

e) Loan to related parties

As of December 31, 2014, the Company has granted an advance of €1.1 million to an associate.

Note 31. Commitments and contingencies

Legal proceedings

The Company is subject to legal and tax proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2014, are as follows:

	Year ended December 31,	
	2014	2013
Not later than 1 year	23,488	27,546
Later than 1 year and not later than 5 years	66,215	53,660
Later than 5 years	46,763	14,676
Total	**136,466**	**95,882**

Bank guarantees

As at December 31, 2014, bank guarantees, mainly performance and bid bonds, amounted to €94 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, 2014, the commitments to purchase these safety stocks valued at the average purchase price amounted to €58 million (€67 million in 2013).

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €22.5 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Note 32. Dividends

The AGM of May 21, 2014 has approved the distribution of a €32,865,487 dividend in respect of the financial year 2013.

This represents a dividend of €0.38 per share.

Notes to the consolidated financial statements continued

Note 33. Post-closing events

On January, 7 2015, Gemalto concluded the acquisition of 100% of the share capital of SafeNet, a worldwide leader in data protection and software monetization, from Vector Capital for US$ 957 million paid in cash.

Headquartered in Belcamp, Maryland, USA, and presently located in 27 countries, SafeNet is one of the largest dedicated digital information security companies in the world, trusted to protect, control the access to, and manage the world's most sensitive data and high value software applications. SafeNet employs approximately 1,500 employees, who serve more than 25,000 customers, both corporations and government agencies, in over 100 countries. Would the acquisition had occurred on January 2014, management estimates SafeNet would have contributed €292 million in revenue and €44 million in profit from operations.

SafeNet will significantly reinforce Gemalto's Identity and Access Management business. It will become part of Gemalto's Payment & Identity segment.

Management estimates identifiable assets and liabilities at the date of acquisition as follows:

In thousands of Euro	Total
ASSETS	
Non-current assets	288,456
Current assets	198,545
Cash and cash equivalents	53,601
Total assets	**540,602**
LIABILITIES	
Non-current liabilities	39,579
Current liabilities	115,268
Total liabilities	**154,847**
Total fair value of identifiable net asset acquired	**385,755**

For this acquisition completed on January 2015, provisional allocation could not be performed because of time constraints and acquisition-related costs expensed in the 2014 income statement amounted to €2 million.

On February 9, 2015 Gemalto announced it has signed a definitive agreement to acquire the government, banking and transport business from Trüb AG.

Trüb has a 150 year history of secure printing. Headquartered in Aarau, Switzerland, it has been a pioneer in eco-friendly and highly secure polycarbonate technology. Today, Trüb provides identification solutions primarily to governments and banks and is a leading provider of high security polycarbonate identity documents. Known for its innovation capabilities, Trüb has also introduced a number of patented security features to the market.

The Trüb business will reinforce Gemalto's leadership in high security identification documents and will also enable Gemalto to serve the Swiss market of Financial Institutions.

Note 34. Consolidated entities

The companies over which Gemalto N.V. has directly or indirectly control are fully consolidated in the consolidated financial statements and are listed in the following table:

Country of incorporation	Company name	Gemalto's interest
Argentina	Gemalto Argentina S.A.	100%
Australia	Gemalto Pty Ltd	100%
	Multos International Pty Ltd	100%
	Netsize Pty Ltd	100%
Belgium	Gemventures 1 N.V.	100%
Brazil	Cinterion Brazil Comércio de Produtos Eletrônicos e Assistência Técnica Ltda.	100%
	Gemplus do Brasil Produtos Electrônicos Ltda.	100%
	Gemalto do Brasil Cartoes e Terminais Ltda	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	100%
Canada	Gemalto Canada Inc.	100%
Chile	Gemalto Chile Limitada	100%
China	Gemalto Smart Cards Technology Co. Ltd	100%
	Cinterion Wireless Communication Technology (Shanghai) Co., Ltd	100%
	Gemalto Technologies (Shanghai) Co. Ltd	100%
	IPX (Beijing) Technology Co., Ltd.	100%
	Gemplus International Trade (Shanghai) Co. Ltd	100%
	Shanghai Gemalto IC Card Technologies Co. Ltd	83%
	Information Security Co Ltd Shenzen Nan	100%
	Todos (Qingdao) Co. Ltd	100%
Colombia	Gemalto Colombia S.A.	100%
Czech Republic	Gemalto S.R.O.	100%
Denmark	Gemalto Danmark A/S	100%
Finland	Gemalto Oy	100%
	Valimo Wireless Oy	100%
France	Gemalto International S.A.S.	100%
	Gemalto S.A.	100%
	Gemalto Treasury Services S.A.	100%
	ISSM S.A.S	100%
	Netsize S.A.	100%
	Netsize Payment S.A.S.	100%
	Newcard S.A.S.	100%
	Trusted Labs S.A.S.	100%
	TV-Card S.A.S.	100%

Country of incorporation	Company name	Gemalto's interest
Germany	Gemalto M2M GmbH	100%
	Gemalto GmbH	100%
	Netsize Deutschland GmbH	100%
Gibraltar	Zenzus Holdings Ltd	100%
Hong Kong	Gemalto Asia Holding Limited	100%
	Gemalto Technologies Asia Ltd	100%
Hungary	Gemalto Hungary Commercial and Services Ltd	100%
	Netsize KFT	100%
India	Cinterion Wireless Modules India Private Limited	100%
	Gemalto Digital Security Private Ltd	100%
	Gemalto Smart Cards Private Limited	100%
	Gemplus India Private Ltd	100%
Indonesia	PT Gemalto Indonesia	100%
	PT Gemalto Smart Cards	100%
Israel	Gemalto Israel Ltd	100%
Italy	Gemalto Cards Srl	100%
	Gemalto SPA	100%
	Netsize Srl	100%
Ivory Coast	Gemalto Cote d'Ivoire Sarl	100%
Japan	Gemalto KK	100%
Luxemburg	Gemplus International S.A.	100%
Malaysia	Axalto International Ltd	100%
	Gemalto Sdn Bhd	100%
	IPX Services Sdn Bhd	100%
Mexico	Gemalto Mexico S.A. de CV	100%
Monaco	MCTel S.A.M.	100%
Morocco	Gemalto Maroc sarl	100%
New Zealand	Gemalto (NZ) Limited	100%
Norway	Gemalto Norge AS	100%
Philippines	Gemalto Technologies Inc.	100%
	Gemalto Philippines Inc.	100%
Poland	Gemalto Sp. z o.o	100%
Portugal	Ezybill – Comunicaçoes Eletronicas LDA	100%
Russia	Gemalto LLC	100%
Saudi Arabia	Gemalto Arabia Ltd	100%
Senegal	Gemalto Senegal S.A.R.L.	100%
Singapore	Data Security Systems Solutions Pte Ltd	100%
	Gemalto Holding Pte Ltd	100%
	Gemalto Pte Ltd	100%
	Multos International Pte Ltd	100%
	Netsize SGP Pte Ltd	100%
	Trusted Logic Asia Pte Ltd	100%
South Africa	Gemalto Pty Ltd	100%
	Gemalto Southern Africa Pty Ltd	100%
	Netsize Proprietary Ltd	100%
	Trusted Logic Africa Pty Ltd	100%
Spain	Gemalto SP S.A.	100%
	Avalon Biometrics S.L.U	100%
	Internet Payment Exchange SL	100%
	Swiss mobility Solutions SLU	100%
	Netsize Espana SL	100%

Notes to the consolidated financial statements continued

Note 34. Consolidated entities continued

Country of incorporation	Company name	Gemalto's interest
Sweden	AB Svenska Pass	100%
	Netsize Internet Payment Exchange AB	100%
	Gemalto AB	100%
	Netsize Sverige AB	100%
Switzerland	Gemplus Management & Trading S.A.	100%
	Swiss mobility Solutions S.A.	100%
Taiwan	Gemalto Taiwan Co. Ltd	100%
Thailand	Gemalto (Thailand) Ltd	100%
The Netherlands	Gemalto B.V.	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	100%
	Plastkart	66%
United Arab Emirates	Gemalto Middle East FZ LLC	100%
United Kingdom	Gemalto Terminals Ltd	100%
	Gemalto UK Ltd	100%
	Gemplus Ltd	100%
	Maosco Ltd	100%
	Multos Ltd	100%
	Netsize UK Ltd	100%
	Serverside Group Ltd	100%
	StepNexus Ltd	100%
United States of America	Cinterion Wireless Modules NAFTA LLC	100%
	Fish Newco Inc	100%
	Marquis Consulting Services Inc	100%
	Shoreline Business Solution Inc	100%
	Source One Direct Inc	100%
	Gemalto Inc.	100%
	Netsize Inc.	100%
	Serverside Graphics, Inc.	100%
	Trivnet Inc.	100%

For the above listed entities, the percentage of voting rights equals the percentage of ownership interest, with the exception of Gemalto Southern Africa Pty Ltd and Plastkart for which the percentage of voting rights are 70% and 91% respectively.

The following associates were accounted for in the consolidated financial statements using the equity method:

Country of incorporation	Company name	Percentage of Group voting rights
Canada	Solutions Fides	49%
Egypt	Makxalto Advanced Card Technology Co.	34%
France	Keynectis S.A.	23%
Germany	CLM GmbH Co. KG	50%
	CLM GmbH	50%
Hong Kong	Goldpac Group Ltd	18%
Japan	Toppan Gemalto Services Co. Ltd	50%
Mexico	Conrena S.A. de CV	20%
Singapore	V3 Teletec Pte Ltd	21%
Switzerland	Raidax Technology S.A.	49%
United Kingdom	Trustonic Ltd	30%

Statutory financial statements and notes of the Holding Company

Statement of financial position of the Holding Company

In thousands of Euro	Notes	Year ended December 31, 2014	2013
Assets			
Non-current assets			
Goodwill	2	671,534	648,873
Property, plant and equipment, net	3	46	21
Investments in subsidiaries and associates	4	1,611,008	1,339,192
Long-term loans to subsidiaries	4, 7	863	–
Total non-current assets		**2,283,451**	**1,988,086**
Current assets			
Short-term loans to subsidiaries	7	537,959	2,094
Receivables due from subsidiaries and associates		297,743	62,452
Other receivables		791	2,172
Cash and cash equivalents	5	15,810	97,885
Total current assets		**852,303**	**164,603**
Total assets		**3,135,754**	**2,152,689**
Equity			
Issued and paid in share capital	6	88,016	88,016
Share premium	6	1,206,877	1,206,914
Legal reserves	6	1,095	17,369
Other reserves	6	24,069	(47,424)
Retained earnings	6	850,002	625,629
Net income for the period	6	220,651	257,896
Capital and reserves attributable to the owners of the Holding Company		**2,390,710**	**2,148,400**
Liabilities			
Non-current liabilities			
Borrowings	7	395,378	–
Borrowings from subsidiaries		–	1,106
Other long-term liabilities	8	788	600
Deferred tax liabilities	8	579	–
Total non-current liabilities		**396,745**	**1,706**
Current liabilities			
Short-term borrowing from subsidiaries	7	1,250	–
Payables to subsidiaries		180,027	17
Short-term debt	7	160,000	–
Other payables		7,022	2,566
Total current liabilities		**348,299**	**2,583**
Total liabilities		**745,044**	**4,289**
Total equity and liabilities		**3,135,754**	**2,152,689**

Income statement of the Holding Company

In thousands of Euro	Year ended December 31, 2014	2013
Other income and expenses after tax	(61,166)	(36,142)
Share of profit of subsidiaries, net of tax	281,817	294,038
Net profit for the period	**220,651**	**257,896**

Statements of changes in shareholder's equity of the Holding Company

In thousands of Euro	Number of shares		Attributable to equity holders of the Holding Company					
	Issued	Outstanding	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
Shareholders' equity as of January 1, 2014	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**17,369**	**(47,424)**	**883,525**	**2,148,400**
Movements in fair value and other reserves:								
Currency translation adjustments						37,532		37,532
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						(12,379)		(12,379)
– Cash flow hedges, net of deferred tax					(15,666)			(15,666)
– Currency translation adjustments on fair value gains/(losses)						(1,485)		(1,485)
Transfer from Other reserves to Legal reserves					(608)	608		–
Net income recognized directly in equity					**(16,274)**	**24,276**		**8,002**
Net profit for the period							220,651	220,651
Total recognized income for 2014					**(16,274)**	**24,276**	**220,651**	**228,653**
Equity-based compensation charge, equity-settled						50,466		50,466
Employee share option plans		762,571				14,177		14,177
Purchase of Treasury shares, net		(222,286)				(17,426)		(17,426)
Other net asset changes from associates							(658)	(658)
Excess of purchase price on subsequent acquisition of non-controlling interests				(37)				(37)
Dividends paid/payable to shareholders							(32,865)	(32,865)
Balance as of December 31, 2014	**88,015,844**	**86,812,917**	**88,016**	**1,206,877**	**1,095**	**24,069**	**1,070,653**	**2,390,710**
Shareholders' equity as of January 1, 2013	**88,015,844**	**84,085,321**	**88,016**	**1,207,195**	**17,336**	**(45,620)**	**654,795**	**1,921,722**
Movements in fair value and other reserves:								
Currency translation adjustments					(41,570)			(41,570)
Fair value gains/(losses), net of tax:								
– Actuarial gains and losses on benefit obligations, net of deferred tax						(276)		(276)
– Cash flow hedges, net of deferred tax					166			166
– Currency translation adjustments on fair value gains/(losses)						344		344
Transfer from Other reserves to Legal reserves					41,437	(41,437)		–
Net income recognized directly in equity					**33**	**(41,369)**		**(41,336)**
Net profit for the period							257,896	257,896
Total recognized income for 2013					**33**	**(41,369)**	**257,896**	**216,560**
Equity-based compensation charge, equity-settled						31,399		31,399
Employee share option plans		2,523,474				31,564		31,564
Purchase of Treasury shares, net		(336,163)				(23,398)		(23,398)
Excess of purchase price on subsequent acquisition of non-controlling interests				(281)				(281)
Dividends paid/payable to shareholders							(29,166)	(29,166)
Balance as of December 31, 2013	**88,015,844**	**86,272,632**	**88,016**	**1,206,914**	**17,369**	**(47,424)**	**883,525**	**2,148,400**

Notes to the statutory financial statements of the Holding Company

The notes below are an integral part of the statutory financial statements of the Holding Company, i.e. Gemalto N.V.

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

Note 1. Significant accounting policies

1.1 Basis of preparation

The statutory financial statements of Gemalto N.V., with its statutory seat in Amsterdam ('the Holding Company' or 'Gemalto'), have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these statutory financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

The Holding Company's financial data is included in the consolidated financial statements. As allowed by section 402, Book 2 of the Netherlands Civil Code, the income statement is presented in a condensed form.

1.2 Investments

Subsidiaries are all entities over which the Holding Company has control. The Holding Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Associates are all entities over which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Holding Company calculates the net asset value using the accounting policies as described in note 2.2 to the consolidated financial statements. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Holding Company and including goodwill for subsidiaries indirectly owned by the Holding Company, plus the Holding Company's share in income and losses since acquisition, less dividends received. The Holding Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

When the company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement. When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognized in equity.

The company determines at each reporting date whether there is any objective evidence that investments in the associates are impaired. If this is the case, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit/(loss) of associates in the income statement. As goodwill is included in the carrying amount of the investments in associates, it is not separately tested for impairment.

The Holding Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net asset value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the Holding Company only if the Holding Company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

When the Holding Company's share of losses in an investment equals or exceeds its interest in the investment (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Holding Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case, the Holding Company will recognize a provision.

Amounts due from investments are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate.

1.3 Goodwill

Presentation of goodwill depends on the structuring of the acquisition. Goodwill is presented separately in the statutory financial statements if this relates to an acquisition performed by the Holding Company itself, otherwise, it is included in the net asset value of the acquiring subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher between value in use and fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Note 2. Goodwill

	Goodwill
January 1, 2014	**648,873**
Acquisitions	3,633
Change in the identifiable assets of 2013 acquisitions	(3,872)
Currency translation adjustment	(867)
Transfer of goodwill related to transfers of subsidiaries	23,767
December 31, 2014	**671,534**

Note 3. Property, plant and equipment

January 1, 2014	Leasehold improvements and office furniture and equipment
Gross book value	521
Accumulated depreciation	(500)
Net book value	**21**
2014 movements	
Additions	42
Depreciation	(17)
December 31, 2014	
Gross book value	**563**
Accumulated depreciation	**(517)**
Net book value	**46**

Note 4. Investments and loans

	Year ended December 31, 2014	2013
Investments in subsidiaries and associates	1,611,008	1,339,192
Provisions on investments in subsidiaries and associates	–	–
Net investments in subsidiaries and associates	**1,611,008**	**1,339,192**

An overview of the movements in investments and loans is presented below:

	Net Investments in subsidiaries	Investments in associates	Long-term loans to subsidiaries	Total
January 1, 2014	**1,332,761**	**6,431**	**–**	**1,339,192**
2014 movements				
Acquisitions	5,424			5,424
Adjustment on 2013 acquisitions	3,872			3,872
Contributions to subsidiaries and associates	830			830
Internal acquisitions and disposals of investments by the Holding Company from/to its own subsidiaries	(306)			(306)
Changes between direct and indirect goodwill of subsidiaries related to internal transfers	(23,767)			(23,767)
Excess of purchase price on subsequent acquisitions	148			148
Movement provision on loans from subsidiaries	(658)		658	–
Fair value gains and losses	(29,530)			(29,530)
Other changes in net assets of indirect associates	(658)			(658)
Dividends	(3,180)			(3,180)
Other	(575)			(575)
Net result from subsidiaries	285,134			285,134
Net result from associates		(3,317)		(3,317)
Transfer from short term loans and deposits			106	106
Revaluation through Profit and Loss			99	99
Currency translation adjustment	38,399			38,399
December 31, 2014	**1,607,894**	**3,114**	**863**	**1,611,871**

Note 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31, 2014	2013
Cash at bank and in hand	15,810	19,928
Short-term deposits	–	77,957
Total	**15,810**	**97,885**

The average effective interest rate on short-term deposits was 0.00% in 2014 (0.00% in 2013).

Note 6. Equity

Share capital

The authorized share capital of the Holding Company amounted to €150 million as at December 31, 2014 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, 2014 and 2013, and consisted of 88,015,844 ordinary shares with a nominal value of €1.

Share premium

As at December 31, 2014, the share premium amounted to €1,206,877 (€1,206,914 as at December 31, 2013).

Notes to the statutory financial statements of the Holding Company continued

Note 6. Equity continued

Legal reserves

Pursuant to section 373, Book 2 of the Netherlands Civil Code, the part of retained earnings in relation to non-distributable results of Group companies and associates, pension reserves and cash flow hedges (if their balances are positive) are legal reserves.

Movements in legal reserves, which cannot be distributed freely, are presented below:

	Income recognized directly in equity	Undistributable results of Group companies	Total
January 1, 2014	**17,369**	**–**	**17,369**
2014 movements	(15,666)	–	(15,666)
Additions/Transfers, net	(608)	–	(608)
December 31, 2014	**1,095**	**–**	**1,095**

As at December 31, 2014, 'Income recognized directly in equity' consisted of:

	2014
Reserve for cash flow hedge	1,095
Total	**1,095**

Other reserves

As at December 31, 2014, 'Other reserves' consisted of:

	2014
Treasury shares	(55,482)
Share option reserve	117,825
Net gains on Treasury shares in connection with the liquidity program	12,060
Reserve for actuarial gains and losses on benefit obligations	(25,261)
Associated cumulative translation adjustments	(2,852)
Cumulative translation adjustment	(3,957)
Treasury shares cancelled	(18,922)
Other	658
Total	**24,069**

For reference to other movement in equity, refer to the consolidated statement of comprehensive income and consolidated statement of change in equity.

Note 7. Loans and borrowings

Loans to subsidiaries

Loans with subsidiaries consist of the following:

	Year ended December 31, 2014	
Subsidiaries	Long-term loans	Short term loans
Gemalto Inc.	–	522,204
Source One Direct Inc.	–	11,322
Gemalto Arabia Ltd	–	4,386
IPX Services Sdn Bhd	–	47
PT Gemalto Smart Cards	863	–
Total	**863**	**537,959**

The Holding Company financed its subsidiaries with the following terms:

	Gemalto Inc.	Source One Direct Inc.	IPX Services Sdn Bhd	Gemalto Arabia Ltd	PT Gemalto Smart Cards
Effective date	December 16 and 30, 2014	December 30, 2014	January 16, 2014	December 15, 2012	July 28, 2009
Interest	12M USD LIBOR + 0.50%	12M USD LIBOR + 0.50%	3M KLIBOR + 0.75%	3M SAR LIBOR + 0.75%	3M US LIBOR + 0.75%
Maximum facility	USD 635 million	USD 13.8 million	MYR 0.3 million	SAR 20 million	USD 1.1 million
Maturity	one-year	one-year	one-year	three-year	eight-year

Borrowings from subsidiaries

	Year ended December 31, 2014
	Short-term Borrowings
Gemalto (Thailand) Ltd	1,250
Total	**1,250**

The Holding Company borrowed from its subsidiary with the following terms:

	Gemalto (Thailand) Ltd
Effective date	August 3, 2010
Interest	3M EURIBOR – 0.25%
Maximum facility	THB 50 million
Maturity	five-year

Borrowings

The non-current borrowings of €395,378 relate to the public bond issuance of September 2014 on the Luxembourg Stock Exchange. The bond matures on 21 September 2021. The amount recognized is net of deferred cost and the premium on the bond, both being amortised over the lifetime of the bond. The bond will bear interest of 2.125 per cent payable annually starting from September 2015. Further details of the bond are disclosed in note 15 of the consolidated financial statements.

The short-term borrowings consist of 4 draw downs on credit lines amounting to €160 million with a maturity of 1 month and an average interest percentage of 0.78% per annum.

Note 8. Non-current liabilities

The other long term liabilities have an expected remaining lifetime of 4 years. The deferred tax liability is recognized for an anticipated dividend declaration in 2015 from one of the Holding Company's subsidiaries.

Note 9. Employees

The average number of staff employed by the Holding Company during 2014 was 15 (13 in 2013). None of these employees was employed abroad (none in 2013).

Note 10. Information relating to the Board

Amounts in this note are stated in Euro.

The total cost incurred for the remuneration of the board amounts to:

Remuneration of the Board

Gemalto Board		Board membership remuneration	Salary and Social Security	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2014							
Alex Mandl	Non-executive Chairman	265,000	–	–	–	–	**265,000**
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	815,000	73,552	714,687	2,671,737	**4,309,976**
Arthur van der Poel	Non-executive Board member	93,000	–	–	–	–	**93,000**
Buford Alexander	Non-executive Board member	86,000	–	–	–	–	**86,000**
Drina Yue	Non-executive Board member	94,000	–	–	–	–	**94,000**
Homaira Akbari	Non-executive Board member	94,000	–	–	–	–	**94,000**
Johannes Fritz	Non-executive Board member	101,000	–	–	–	–	**101,000**
John Ormerod	Non-executive Board member	108,000	–	–	–	–	**108,000**
Michel Soublin	Non-executive Board member	86,000	–	–	–	–	**86,000**
Philippe Alfroid	Non-executive Board member	94,000	–	–	–	–	**94,000**
Yen Yen Tan	Non-executive Board member	86,000	–	–	–	–	**86,000**
Total		**1,142,000**	**815,000**	**73,552**	**714,687**	**2,671,737**	**5,416,976**

Gemalto Board		Board membership remuneration	Salary and Social Security	Pension costs	Bonus and Profit sharing	Restricted Share Units (Long-Term Incentive plan)	Total
Fiscal year 2013							
Alex Mandl	Non-executive Chairman	238,717	–	–	–	–	**238,717**
Olivier Piou	Executive Board member and Chief Executive Officer	35,000	765,000	75,993	1,027,669	1,492,686	**3,396,348**
Arthur van der Poel	Non-executive Board member	89,033	–	–	–	–	**89,033**
Buford Alexander	Non-executive Board member	83,521	–	–	–	–	**83,521**
Drina Yue	Non-executive Board member	89,987	–	–	–	–	**89,987**
Homaira Akbari	Non-executive Board member	47,885	–	–	–	–	**47,885**
Johannes Fritz	Non-executive Board member	97,033	–	–	–	–	**97,033**
John Ormerod	Non-executive Board member	102,546	–	–	–	–	**102,546**
Kent Atkinson	Non-executive Board member	35,112	–	–	–	–	**35,112**
Michel Soublin	Non-executive Board member	83,521	–	–	–	–	**83,521**
Philippe Alfroid	Non-executive Board member	91,521	–	–	–	–	**91,521**
Yen Yen Tan	Non-executive Board member	81,987	–	–	–	–	**81,987**
Total		**1,075,863**	**765,000**	**75,993**	**1,027,669**	**1,492,686**	**4,437,211**

Mr. Olivier Piou was appointed as CEO in 2004. He was reappointed at the 2012 AGM for a four-year term until the 2016 AGM. His employment contract (originally dated 1981), is with Gemalto International S.A.S., a Gemalto subsidiary: it is not time-limited, is governed by French law and carries a six-month notice period. He enjoys any and all benefits that may be applicable to French employees of the Company.

Pension costs refer to the legally mandatory pension plan in France. The Company does not provide any supplemental pension plan to the CEO nor to the Board Members.

The bonus and profit sharing are related to the performance in the year reported, which is paid out in the subsequent year. Financial targets are accounting for 2/3 of the variable incentive, and personal targets are accounting for 1/3 of the variable incentive. The performance of the CEO and of the Company in 2014 led to a result of 71% for the CEO variable incentive. The variable incentive in 2014 for the CEO is 85% of his base salary. For more details on bonus and profit sharing, see the remuneration report included in this annual report.

The cost of restricted share units recorded by the Company is based on accounting standards and does not reflect the value of restricted share units at the grant date, nor the value at the vesting date nor the value at the end of the blocking periods if these performance-conditioned and service-conditioned restricted share units vest and become available.

Notes to the statutory financial statements of the Holding Company continued

Note 10. Information relating to the Board continued

Remuneration of non-executive Board members, including the remuneration of the Chairman of the Board and the members of the Board committees, is approved by the shareholders. The remuneration is reviewed periodically by the Compensation committee. The current annual remuneration for non-executive Board members as approved by the 2014 AGM is:

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

In addition to the remuneration mentioned above, the Board members received income in kind amounting to €4,400 in 2014.

Share options and RSU's granted to Board members

Share options have been attributed under the Global Equity Incentive Plan as described in note 24 to the consolidated financial statements:

	Grant Date	Share options granted	Exercise price (€)	**Number of options outstanding as of December 31, 2014**	Number of options outstanding as of December 31, 2013
Alex Mandl	Jun 2006	200,000	23.10	–	80,000
Olivier Piou	Sep 2008	150,000	26.44	129,000	150,000

During the year ended December 31, 2014, the Board of Gemalto N.V. granted performance and service conditioned restricted share units (RSUs) to the CEO, Olivier Piou.

The following are the characteristics of the plan:

Grant date	RSU granted	End of vesting period	Vesting conditions	Valuation assumptions used	RSU vested
March 2014	75,000	Dec 2017	Vesting conditions are both performance and service based. RSU will vest if Group result will reach certain cumulative targets in line with the objectives of the new multi-year development plan and the service vesting condition is being an employee of Gemalto on December 31, 2017. Depending on performance, the maximum number of RSUs to be delivered may be 75,000.	Share price of EUR 78.10. Risk free rate from Year 1 to Year 5 being 0,25% to 0,90%. Share price discount for no dividend eligibility of EUR 2.30 per share	none

The fair value of the grant expensed over the vesting period in the income statement has been calculated using the stochastic option-pricing model. Vesting conditions are both performance and service based.

Year ended December 31, 2014, the following RSUs granted to Olivier Piou are outstanding:

Grant date	Number granted	Number vested	Number forfeited	RSU's outstanding as at December 31,2014	Outstanding vesting conditions	End of vesting period
Mar 2012	50,000	(50,000)	–	–	n/a	Dec 2014
May 2013	50,000	–	–	50,000	performance and service	Dec 2015
Mar 2014	75,000	–	–	75,000	performance and service	Dec 2017

Gemalto shares and rights to acquire Gemalto shares held by Board Members

	Gemalto shares	**American Depository Receipts**	**FCPE units[1]**	**RSUs[2]**	**Gemalto share options**
As at December 31, 2014	**Number of shares held**	**Number of ADRs held**	**Number of units purchased**	**Maximum number of RSUs held**	**Number of shares options held**
Olivier Piou	276,000	–	23,650	175,000	129,000
Alex Mandl	10,000	–	–	–	–
Homaira Akbari	–	1,500	–	–	–
Michel Soublin	1,500	–	–	–	–
Total	**287,500**	**1,500**	**23,650**	**175,000**	**129,000**

[1] FCPE ('Fonds commun de Placement d'Entreprise'), which units were purchased by his contribution to the Global Employee Share Purchase Plans.

[2] Subject to performance and service conditions or delivery of shares (2012 grant is delivered in January 2015).

Note 11. Auditor's fees

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2014 and 2013 were as follows:

2014	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	120	2,433	**2,553**
Other audit procedures	21	566	**587**
Fees relating to tax advice	–	51	**51**
All other fees	–	80	**80**
Total	**141**	**3,130**	**3,271**

2013	Fee PwC Accountants N.V.	Fee other PwC offices	Total fee PwC
Audit of the financial statements	118	2,522	**2,640**
Other audit procedures	–	562	**562**
Fees relating to tax advice	–	67	**67**
All other fees	–	120	**120**
Total	**118**	**3,271**	**3,389**

Note 12. Guarantees, tax and lease commitments of the Holding Company

Gemalto N.V. guarantees

Gemalto N.V. has issued a guarantee of GBP17.7 million (equivalent to €22.5 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Taxation

The Holding Company is head of a Dutch fiscal income tax unity. The other company included in the fiscal unity is Gemalto B.V. The fiscal unity regime provides for a tax consolidation of Dutch resident entities within a group by filing one consolidated tax return. The Holding company is liable for the tax activities of the entire tax fiscal unity. The Company has cumulative tax losses amounting to €98.8 million for the years starting from year 2006; (2013: €93.0 million for the years starting 2005) accordingly no corporate income tax payable is due; no current income tax payable and no income tax charge is included in these company only financial statements.

Lease commitments

Minimum rental lease commitments under non-cancellable operating leases, primarily real estate and office facilities, in effect as of December 31, 2014, are as follows:

	2014
Not later than 1 year	235
Later than 1 year and not later than 5 years	542
Later than 5 years	–
Total	**777**

Notes to the statutory financial statements of the Holding Company continued

The Board

Alex Mandl
Non-executive Chairman of the Board

Olivier Piou
Executive Board member and Chief Executive Officer

Homaira Akbari
Non-executive Board member

Buford Alexander
Non-executive Board member

Philippe Alfroid
Non-executive Board member

Johannes Fritz
Non-executive Board member

John Ormerod
Non-executive Board member

Michel Soublin
Non-executive Board member

Yen Yen Tan
Non-executive Board member

Arthur van der Poel
Non-executive Board member

Drina Yue
Non-executive Board member

Amsterdam, March 3, 2015
(A signed copy of the Annual Report is available at the Holding Company's office).

Independent auditor's report

To: the general meeting of Gemalto N.V.

Report on the financial statements 2014

Our opinion

- the consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2014 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the statutory financial statements of the holding company give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2014 of Gemalto N.V., Amsterdam ('the company'). The financial statements include the consolidated financial statements and the statutory financial statements of the holding company as set out in pages 68 to 118 of the accompanying annual report 2014. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2014;
- the consolidated income statement and the consolidated 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 statutory financial statements of the holding company comprise:

- the statement of financial position of the holding company as at 31 December 2014;
- the income statement of the holding company for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Gemalto N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also paid particular attention to goodwill impairment test, valuation of deferred tax assets, pension accounting, compensation expenses, revenue recognition and business combinations including those realised after year end.

As most of the company's consolidation and reporting activities are based outside of the Netherlands, in France, we have worked closely together on the audit with our colleagues of PwC in France whom we consider an integral part of our audit engagement team.

Materiality

- Overall materiality: € 13 million which represents 5% of profit before tax.

Audit scope

- We conducted work on 23 subsidiaries
- Site visits were conducted to Germany, France and the US

Key audit matters

- Capitalisation of development costs as intangible assets and subsequent valuation
- The valuation of the amounts recorded for uncertain tax positions

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How we create value
Financial review
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Independent auditor's report continued

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€ 13 million (2013: € 14 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above € 1 million (2013: € 1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Gemalto N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Gemalto N.V.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered relevant.

The group audit scope was determined selecting subsidiaries based on significance and risk assessment and considering the audit procedures which can be performed at head office level by the corporate team. We have selected 23 subsidiaries where we performed procedures (full scope procedures for 10 subsidiaries, review procedures for 6 subsidiaries, specific procedures on significant balances for 7 subsidiaries). These subsidiaries are located in the Netherlands, France, Brazil, the United Kingdom, Singapore, Germany, The United States of America, Mexico, China, Turkey, Spain, Poland, Colombia, Italy, Japan and the United Arab Emirates. Where necessary, we used component auditors from other PwC network firms who are familiar with the local laws and regulations to perform this audit work when necessary.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements. We issue instructions to component teams which include predefined reporting requirements.
The group engagement team reviews the reporting from the components teams and discusses the reporting in conference calls. Component teams are visited on a rotational basis. Current year site visits included France, Germany and the United States finance functions. The group consolidation, financial statement disclosures and a number of items are audited by the group engagement team at the head office. These include, goodwill impairment test, business combinations and share based payments.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Board of Directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Capitalisation of development costs as intangible assets and subsequent valuation	
Refer to notes 2.7, 3.9 and 9 of the accompanying financial statements	
Capitalized development costs amount to a net book value of 106.5 million as 31 December 2014 in the accompanying consolidated financial statements. Development costs mainly comprise software development. The company capitalizes eligible software and products development costs upon meeting the criteria as described in IAS 38. Capitalization criteria assessment under IAS 38 requires significant judgment and measurement uncertainty at inception and throughout the life of the project. Judgements involved to determine the eligibility of the costs for capitalisation and the subsequent measurement requires detailed and sensitivity analysis.	Our audit procedures included, amongst others, assessment of the eligibility of the development costs for capitalisation as intangible asset under IAS 38 and evaluating the assumptions and methodologies used by the company to test the impairment of these intangible assets. We have also reviewed the design of the controls identified by the management surrounding the intangible assets capitalisation and subsequent measurement and which we considered key, tested such controls and performed substantive test of details on the capitalised development costs. These procedures included on a sample basis testing underlying evidence including hours registration, testing estimates for useful life, testing estimates surrounding future economic cash flows. We concur with managements judgements and outcome of their procedures.

Key audit matter	How our audit addressed the matter
The valuation of amounts recorded for uncertain tax positions	
Refer to notes 2.20,3.8 and 17 of the accompanying financial statements	
Tax contingency accruals amount to €9 million as at 31 December 2014 in accompanying consolidated financial statements with respect to the tax exposures/different interpretations of tax rules. The Group operates in various tax jurisdictions resulting in different subjective and complex interpretation of local tax laws. Management exercises judgment in assessing the level of provision required for taxation when such taxes are based on the interpretation of complex tax laws. The future actual outcome of the decisions concerning these tax exposures may result in material higher or lower amounts than accrual included in the accompanying financial statements.	Our procedures included, amongst others, assessing the appropriateness of management's assumptions and estimates in relation to uncertain tax positions, challenging those assumptions and considering advice received by management from external parties to support their position. We have involved our tax specialists to consider management's assessment of the tax positions and related provision/liability accruals when necessary. We concur with management estimates and the outcome of their procedures to determine the relevant provision/liability.

Responsibilities of the Board of Directors

The Board of Directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS 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, and for
- such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Directors are responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the directors' report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the directors' report as set out in pages 1 to 67 of the accompanying annual report 2014, 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 by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the directors' report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Gemalto N.V. on 20 January 2006 by the Board of Directors and later by the passing of a resolution by the shareholders at the annual meeting held on 19 May 2006 and has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 9 years. Due to the mandatory rotation, we will rotate off after completion of the audit of the 31 December 2015 financial statements.

The Hague, 3 March 2015
PricewaterhouseCoopers Accountants N.V.

Willem Schouten RA

Independent auditor's report continued

Appendix to our auditor's report on the financial statements 2014 of Gemalto N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted among others things of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Profit appropriation according to the Articles of Association

Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Holding Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Holding Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Holding Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Holding Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting.

Appropriation of result – dividend

The Board has determined with due observance of the Holding Company's policy on additions to reserves and on distributions of profits to propose to the 2015 AGM to distribute a dividend in cash of €0.42 per share in respect of the 2014 financial year and to allocate the remaining result for the period to the retained earnings.

Post-closing events

On January, 7 2015, Gemalto concluded the acquisition of 100% of the share capital of SafeNet, a worldwide leader in data protection and software monetization, from Vector Capital for US$ 957 million paid in cash.

Headquartered in Belcamp, Maryland, USA, and presently located in 27 countries, SafeNet is one of the largest dedicated digital information security companies in the world, trusted to protect, control the access to, and manage the world's most sensitive data and high value software applications. SafeNet will significantly reinforce Gemalto's Identity and Access Management business. It will become part of Gemalto's Payment & Identity segment.

On February 9, 2015 Gemalto announced it has signed a definitive agreement to acquire the government, banking and transport business from Trüb AG.

Headquartered in Aarau, Switzerland, it has been a pioneer in eco-friendly and highly secure polycarbonate technology. Today, Trüb provides identification solutions primarily to governments and banks and is a leading provider of high security polycarbonate identity documents. The Trüb business will reinforce Gemalto's leadership in high security identification documents and will also enable Gemalto to serve the Swiss market of Financial Institutions.

Reconciliation from adjusted financial information to IFRS

		12 months ended December 31, 2014			
			Excluding non-controlling interest	Basic EPS	Diluted EPS
Weighted average number of shares outstanding (in thousands)				86,490	88,716
IFRS financial information					
Operating profit		270,159			
Financial income		(12,421)			
Share of profit of associates		(628)			
Income tax		(35,862)			
IFRS	**Profit for the period**	**221,248**	**220,651**	**2.55**	**2.49**
Reconciliation to adjusted financial information					
Share-based compensation expense and associated costs		55,423			
Fair value adjustment upon business acquisition		–			
Restructuring and acquisition-related expenses		29,830			
Amortization and depreciation of intangibles resulting from acquisitions		27,267			
Income tax		(18,449)			
Adjusted	**Profit for the period**	**315,319**	**314,722**	**3.64**	**3.55**
Reconciliation to adjusted financial information for ongoing operations					
Assets held for sale		–	–		
Adjusted, ongoing	**Profit for the period**	**315,319**	**314,722**	**3.64**	**3.55**

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

Adjusted income statement by business segment

	Ongoing operations:			Year ended December 31, 2014		
In thousands of Euro	Mobile	Payment & Identity	Patents	Full year 2014 ongoing operations	Reconciling items[1]	Full year 2014 all operations
Revenue	**1,289,592**	**1,158,344**	**17,223**	**2,465,159**	**–**	**2,465,159**
Gross profit	**550,185**	**386,222**	**15,756**	**952,163**	**–**	**952,163**
Operating expenses	(313,264)	(244,177)	(12,043)	(569,484)	–	(569,484)
Profit from operations	**236,921**	**142,045**	**3,713**	**382,679**	**–**	**382,679**

			12 months ended December 31, 2013		
			Excluding non-controlling interest	Basic EPS	Diluted EPS
Weighted average number of shares outstanding (in thousands)				85,590	88,311
IFRS financial information					
Operating profit		282,499			
Financial income		(6,732)			
Share of profit of associates		17,664			
Income tax		(35,230)			
IFRS	**Profit for the period**	**258,201**	**257,896**	**3.01**	**2.92**
Reconciliation to adjusted financial information					
Share-based compensation expense and associated costs		34,552			
Fair value adjustment upon business acquisition		–			
Restructuring and acquisition-related expenses		3,469			
Amortization and depreciation of intangibles resulting from acquisitions		26,912			
Income tax		(7,662)			
Adjusted	**Profit for the period**	**315,472**	**315,017**	**3.68**	**3.57**
Reconciliation to adjusted financial information for ongoing operations					
Assets held for sale		(931)	(723)		
Adjusted, ongoing	**Profit for the period**	**314,541**	**314,294**	**3.67**	**3.56**

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

Adjusted income statement by business segment

	Ongoing operations:					Year ended December 31, 2013
In thousands of Euro	Mobile	Payment & Identity	Patents	Full year 2013 ongoing operations	Reconciling items[1]	Full year 2013 all operations
Revenue	**1,289,491**	**1,075,959**	**18,485**	**2,383,935**	**4,672**	**2,388,607**
Gross profit	**566,474**	**353,821**	**16,777**	**937,072**	**(833)**	**936,239**
Operating expenses	(339,005)	(236,326)	(13,727)	(589,058)	251	(588,807)
Profit from operations	**227,469**	**117,495**	**3,050**	**348,014**	**(582)**	**347,432**

Investor information

Investor relations policy

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's investor relations policy is designed to inform shareholders in a timely and detailed manner about developments that are relevant to Gemalto. In order to provide a faithful and clear picture of investment decisions involving Gemalto, price-sensitive information is disseminated without delay through press releases and web site updates.

In addition to the General Meetings, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, sustainability reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls or investor meetings. In addition, Gemalto regularly performs road shows and participates in conferences for institutional investors. These activities further Gemalto's understanding of investor and analyst opinions. Relevant information for potential and current shareholders may be found on the Gemalto web site under the link 'Investor Relations' **www.gemalto.com/investors**.

Gemalto also observes quiet periods during which investor meetings of any kind are discouraged and financial aspects of the business are not discussed externally. For interim and annual publications, this covers at least 15 days prior to the publication date.

Corporate seat

Gemalto N.V. is the Holding Company of the Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands. Gemalto N.V. is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

Share capital structure

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As at December 31, 2014 the Company's issued and paid-up share capital amounted to €88,015,844, consisting of 88,015,844 ordinary shares with a nominal value of €1 per share, of which 1,202,927 shares were held in treasury. Hence, 86,812,917 shares were outstanding as at December 31, 2014.

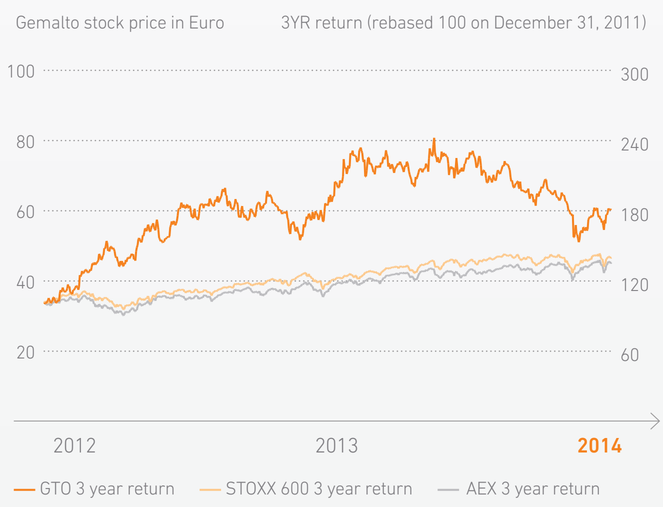
Stock exchange listing – 2014 stock market data

Gemalto N.V. (Euronext NL 0000400653) is listed on Euronext Amsterdam and Euronext Paris in Compartment A (Large Caps). Gemalto changed its market of reference to Euronext Amsterdam effective April 30, 2013. As a result of the change of market of reference, Gemalto's shares are no longer eligible for the French "Service à Réglements Différés" (SRD), a deferred settlement service for individual shareholders residing in France, as of April 25, 2013. SRD trades were possible until April 24, 2013.

Mnemonic: GTO
Exchange: Euronext Amsterdam, Euronext Paris
ISIN Code: NL0000400653
Reuters: GTO.AM, GTO.PA
Bloomberg: GTO:NA, GTO:FP
Among other stock indices, Gemalto is part of the: AEX (NL0000000107), CAC 40 (FR0003500008), MSCI Standard Europe and STOXX 600 Index (EU0009658202).

Gemalto is a part of the "Application Software" sub-industry within the "Information technology" industry of Morgan Stanley's Global Industry Classification Standard (GICS). Gemalto is also part of the "Software" sub-sector within the "Technology" industry of the Industry Classification Benchmark (ICB).

Share price evolution



- Average daily trading volume on Euronext exchanges in 2014: 472,194.
- Market capitalization as at December 31, 2014: €5,978,916,283.

ADR (American Depositary Receipt)

Gemalto has established a sponsored Level I American Depository Receipt (ADR) Program in the US since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in US dollar and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in US dollar, after being converted into US dollar by the depository bank at the prevailing rate.

Structure: Sponsored Level I ADR
Mnemonic: GTOMY
Exchange: OTC
Ratio (ORD:DR): 1:2
DR ISIN: US36863N2080
DR CUSIP: 36863N 208

Shareholders' disclosures made to the AFM and published on the AFM website as at December 31, 2014

The following shareholding threshold disclosures were applicable as at December 31, 2014. For further information, please refer to Shareholders' disclosures, page 64.

November 17, 2014:	Oppenheimer Funds	3.05% capital interest and voting rights
March 19, 2014:	Amundi	3.01% capital interest and voting rights
January 13, 2014:	BlackRock, Inc	2.26% capital interest and 3.00% voting rights
August 8, 2013:	Capital Group International Inc.	14.97% voting rights
August 8, 2013:	Capital Research and Management Company	14.97% voting rights
July 12, 2013:	BPI Groupe	8.51% capital interest and voting rights
July 1, 2013:	J.M. Quandt née Bruhn	3.02% capital interest and voting rights
July 1, 2013:	S.H.U. Klatten née Quandt	3.24% capital interest and voting rights
July 1, 2013:	S.N. Quandt	4.23% capital interest and voting rights
April 8, 2013:	EuroPacific Growth Fund	5.16% capital interest
August 13, 2012:	FMR LLC	4.77% capital interest and 4.48% voting rights
June 16, 2010:	Pioneer Asset Management S.A.	4.86% capital interest and voting rights

Note that the table may not reflect the actual shareholding as per December 31, 2014 due to the following:

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

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

Geographic spread of shareholdings

Geographical spread of identified shareholding as of November 2014

	% of outstanding capital
North America	27%
UK and Ireland	11%
Continental Europe	59%
Other	3%

Financial calendar 2015

Important dates of financial calendar

March 5, 2015	Publication of 2014 Fourth Quarter Revenue and Full Year Results
April 30, 2015	Publication of 2015 First Quarter Revenue
May 21, 2015	2015 Annual General Meeting of shareholders
August 27, 2015	Publication of 2015 Second Quarter Revenue and First Semester Results
October 29, 2015	Publication of 2015 Third Quarter Revenue

2015 Annual General Meeting of Shareholders

Gemalto N.V. will hold its 2015 AGM at the Sheraton Amsterdam Hotel & Conference Center, Schiphol Boulevard 101, 1118 BG Schiphol Airport, the Netherlands on Thursday, May 21, 2015 at 2 p.m. CET.

The persons entitled to attend and cast votes at the AGM will be those who are recorded as having such rights after the close of trading on the relevant Euronext stock exchange on April 23, 2015 (the "Record Date") in Gemalto's shareholders register, or in a register of a financial institution affiliated to Euroclear France S.A., regardless of whether they are shareholders at the time of the AGM.

Dividend

In 2010 the Company paid the first cash dividend of its history, €0.25 per share, with respect to the 2009 financial year. In 2011, 2012, 2013 and 2014 it paid a cash dividend of €0.28, €0.31, €0.34 and €0.38 for the financial years of 2010, 2011, 2012 and 2013 respectively. With due observance of the Company's dividend policy, the Board will propose a cash dividend of €0.42 per share in respect of the 2014 financial year at the 2015 AGM. For more information on the dividend policy, please refer to Distribution of profits, page 63.

Share buy-back program

As authorized by the 2014 AGM, the Company has renewed its share buy-back program up to and including November 20, 2015. During the full year 2013, the Company used €17 million to purchase Gemalto shares, net of its liquidity program. As at December 31, 2014 the Company held 1,202,927 shares in treasury, which were repurchased on the market at an average acquisition price of €46.12. For further information on the share buy-back program, please refer to Authorizations granted to the Board, page 63.

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Glossary of digital security terms

3FF (Third Form Factor): A very small SIM card, also known as a 'micro-SIM', for use in small mobile devices.

4FF (Fourth Form Factor): An even smaller SIM card, also known as a 'nano-SIM', for use in small mobile devices

3G (Third Generation): The broadband telecommunications systems that combine high-speed voice, data and multimedia.

4G: The 4th generation of wireless standards offering a comprehensive, secure all-IP based mobile broadband solution to smartphones, laptop computer wireless modems and other mobile devices.

Back-end: Here, describing a remote platform or server that stores and processes data without direct access by the user; whereas 'front-end' refers to an application or interface accessed directly by the user.

Big data: A collection of data sets so large and complex that they are difficult to process with traditional applications.

Bluetooth: A short-range wireless technology that simplifies communication and synchronization between the internet, devices and other computers.

BYOD (Bring Your Own Device): Using one's personal device (e.g. smartphone, laptop, tablet etc.) for professional purposes in the workplace.

CAC (Common Access Card): A US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

Cell/cellular: Indicates the way any mobile network covers a geography, by cells, each cell being covered by a tower. A mobile phone keeps hopping on and off each contiguous cell, as it moves.

Client: A software application that runs on a personal device and relies on a server to perform some operations (see 'thin client').

Cloud computing: Computing by using servers, storage and applications that are accessed via the internet.

Contactless: A device that communicates by means of a radio frequency signal, eliminating the need for physical contact with a reader.

CRM: Customer Relationship Management.

DDA (Dynamic Data Authentication): An authentication technology that allows banks to approve transactions at the terminal in a highly secure way.

DI (Dual-Interface): A device that is both contact and contactless.

Digital signature: An electronic signature created with a public-key algorithm that can be used by the recipient to authenticate the identity of the sender.

Dongle: Any small piece of hardware that plugs into a computer.

EAC (Extended Access Control): A mechanism enhancing the security of ePassports whereby only authorized inspection systems can read biometric data.

eBanking: Accessing banking services via the internet.

eCommerce: Buying and selling goods and services via the internet.

eDocument: Any of a range of electronic documents, including electronic ID cards, Drivers' Licences, Health cards etc.

eGovernment: The use of digital technologies (often via the internet) to provide government services. Second generation eGov 2.0 programs aim to increase efficiency, lower costs and reduce bureaucracy.

eID: Personal identification using a variety of devices secured by microprocessors, biometrics and other means.

EMV: The industry standard for international debit/ credit cards established by Europay, MasterCard and Visa.

ePassport: An electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features.

ePurse: A small portable device that contains electronic money and is generally used for low-value transactions.

eTicketing: Electronic systems for issuing, checking and paying for tickets, mainly for public transport.

FIPS 201 (Federal Information Processing Standard): A US federal government standard that specifies personal identity verification requirements for employees and contractors.

GSM (Global System for Mobile communications): A European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): The global association for mobile phone operators.

HSPD-12 (Homeland Security Presidential Directive-12): Orders all US federal agencies to issue secure and reliable forms of identification to employees and contractors, with a recommendation in favor of smart card technology.

IAM: Identity and Access Management.

ICAO (International Civil Aviation Organization): The UN agency which standardizes machine-readable and biometric passports worldwide.

IM (instant messaging): Using text on a mobile handset to communicate in real time.

IP (Internet Protocol): A protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

Java: A network oriented programming language invented by Sun Microsystems and specifically designed so that programs can be safely downloaded to remote devices.

LTE (Long Term Evolution): The standard in advanced mobile network technology, often referred to as 4G (see above).

M2M (Machine-to-Machine): Technology enabling communication between machines for applications such as smart meters, mobile health solutions, etc.

mBanking (mobile banking): Conducting various banking and financial transactions through a mobile device connected to the internet.

mCommerce (mobile commerce): Buying and selling goods and services using a mobile device connected to the internet.

MFS (Mobile Financial Services): Banking services such as transfer and payment available via a mobile device.

Microfinance: A means of offering a range of financial services to economically poor people who do not have bank accounts and so enabling financial inclusion.

MIM (Machine Identification Module): The equivalent of a SIM with specific features such that it can be used in machines to enable authentication.

MMS (Multimedia Messaging Service): A standard way of sending messages that include multimedia content (e.g. photographs) to and from mobile phones.

MNO (Mobile Network Operator): A company that provides services for mobile phone subscribers.

Module: The unit formed of a chip and a contact plate.

mPayment (mobile payment): Using a mobile handset to pay for goods and services.

Multi-tenant SIM: A device capable of carrying multiple IDs and shared by multiple service providers.

NFC (Near-Field Communication): A wireless technology that enables communication over short distances (e.g. 4cm), typically between a mobile device and a reader.

OMA (Open Mobile Alliance): A body that develops open standards for the mobile phone industry.

OS (Operating System): Software that runs on computers and other smart devices and that manages the way they function.

OTA (Over-The-Air): A method of distributing new software updates to cellphones which are already in use.

OTP (One-Time Password): A password that is valid for only one login session or transaction.

PC: Personal computer.

PIN (Personal Identification Number): A secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): The software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

Platform: A system's underlying software that enables a service.

Server: A networked computer.

SIM (Subscriber Identity Module): A smart card for GSM systems.

SMS (Short Message Service): A GSM service that sends and receives messages to and from a mobile phone.

Thin client: A software application designed to be especially small so that the bulk of the data processing occurs on a central server. By contrast, a fat client does as much local processing as possible.

TSM (Trusted Service Manager): A third-party enabling mobile operators, mass transit operators, banks and businesses to offer combined services seamlessly and securely.

UICC (Universal Integrated Circuit Card): A high-capacity smart card used in mobile terminals for GSM and UMTS/3G networks.

UMTS (Universal Mobile Telecommunications System): One of the 3G mobile telecommunications technologies which is also being developed into a 4G technology.

USB (Universal Serial Bus): A standard input/output bus that supports very high transmission rates.

USIM (Universal Subscriber Identity Module): A SIM with advanced software that ensures continuity when migrating to 3G services.

VPN (Virtual Private Network): A private network often used within a company or group of companies to communicate confidentially over a public network.

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