Annual report 2008

Solutions for digital security

gemalto
security to be free

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You can see the interactive version of this document and download the pdf at www.gemalto.com

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Our vision

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

Gemalto: the world leader in digital security

Gemalto is at the heart of our evolving digital society. The freedom to communicate, travel, shop, bank, entertain and work—anytime, anywhere, and in ways that are convenient, enjoyable and secure—has become an integral part of what people want and expect.
Gemalto meets the growing demands of billions of people worldwide for mobile connectivity, identity and data protection, credit card safety, health and transportation services, e-government and national security. We do this by supplying to governments, wireless operators, banks and enterprises a wide range of secure personal devices, such as subscriber identification modules (SIM) in mobile phones, smart banking cards, electronic passports, smart card access badges and USB tokens for online identity protection. To complete the solution we also provide software, systems and services to help our customers achieve their goals.

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

Key figures

at December 31, 2008

80
new inventions
first filed in 2008; over **5,000** patents in total in **1,200** patent families

400
mobile telecom operators
300 of the world's top banks and the governments of over 30 nations trust us with secure personal data

Revenue in 2008
1.68
billion euros

1.4
billion
secure devices produced and personalized in 2008

75
sales and marketing offices;
30 personalization facilities; **17** production sites; **9** R&D centers

10 000
employees
90 nationalities based in **40** countries on every continent

At the heart of Gemalto

Security expertise
Gemalto's internationally renowned team of security and cryptography experts leads the way in the design and implementation of new anti-fraud solutions certified to the highest standards. We hold an extensive portfolio of patents and security certifications.

Design and production of secure personal devices
Gemalto's expertise spans the entire process for creating secure personal devices.
* Developing operating systems and software applications;
*Producing and personalizing secure portable devices;
*Innovating with new forms and architectures;
*Providing complete solutions for secure, convenient services.

Personalization and issuance
Gemalto is a trusted partner for the individual personalization of millions of secure personal devices daily, certified to the best security level practices. Our issuance and post-issuance services oversee each step in delivering them all the way to the end-user, as well as replacing and upgrading them once in the field. By the end of 2008 we had personalized and delivered over 10 billion secure, personal devices worldwide.

Highlights 2008

Italy
DVD ON A SIM
Italian mobile operator WIND is using Gemalto's Smart Video Card to deliver software to allow wireless Internet access from the subscriber's PC, opening up a host of new opportunities for promoting value-added mobile services.

Singapore
POWERING MOBILE TV
Participants in a world-first Mobile TV trial have been able to enjoy comprehensive telecasts of the 2008 Beijing Olympics as well as a rich variety of content.
The OMA* smart card compliant consumer trial is being enabled by Gemalto's UpTeq™ Mobile TV SIM and viewership measurement service in Singapore. This SIM provides the end-to-end security needed for mobile digital television and is a simple, well-understood means for operators to market their services in any combination of post-paid, pre-paid or pay-per-use model.

The SIM also has the unique ability to analyze viewer usage patterns such as most viewed channel, duration spent viewing a channel and other channel switching patterns. The measurement system records, organizes and presents this valuable data for further analysis. This gives service operators a critical tool to observe and anticipate growth trends, and to identify problem areas that ordinarily are difficult to spot.
(* Open Mobile Alliance)

Canada
YOUR PHOTO ON YOUR MASTERCARD
Canadian consumers can put their own photo on their prepaid MasterCard, thanks to Gemalto's CardLikeMe web service. Using Allynis CardLikeMe, cardholders simply connect to the PlasticNow Web site, upload images directly from their computer and order their card instantly online. "This is the kind of personalized, differentiated service that retains customers and attracts new ones," says Jack Jania, Vice President and General Manager, Secure Transactions, Gemalto North America.

United States
.NET PROTECTS CLIENT DATA
The #15 accounting firm in the United States, Virchow Krause & Company LLP, has deployed a new strong authentication solution combining Gemalto .NET card technology with One-Time-Password in a single convenient USB device, to protect its clients' highly confidential data. "At VK we want to be leaders in securing our clients' information, and in today's world passwords are simply not secure enough," says Matt Jennings, senior manager for VK's Information Technology Group. 'The fact that Microsoft uses Gemalto .NET smart card technology internally gave us a lot of additional confidence in the solution."

Gemalto acquires Multos

multos international

In 2008 Gemalto announced its acquisition of Keycorp's smart card business, along with Multos Ltd., the company that operates the remote activation service and high-security facility at the heart of the MULTOS security architecture. The business is the leading fabless provider of MULTOS™ products and services to the Financial Services and Government sectors. Assets acquired include Keycorp's implementation of the MULTOS smart card operating system, the brand, associated patents and Key Management Authority (KMA) that manages MULTOS card activations worldwide.

This important bolt-on acquisition reinforces our software and services offering across Gemalto business lines. It allows Gemalto to leverage its large installed base of intelligent devices with a commercially demonstrated highest-security post-issuance activation service, which is critical in mobile payment and NFC applications.

United Kingdom

BANKING ON BARCLAYS

Over one million Barclays Bank customers now use its PINsentry™ smart card reader, which offers stronger authentication for online banking. Since the deployment of Gemalto's solution not one PINsentry customer has suffered fraud. User feedback has proven extremely positive with customer acceptance 30% higher than anticipated.
With PINsentry, Barclays customers generate One-Time-Passwords to authenticate themselves at log in, and also use it to sign transactions, by inserting their usual chip-enabled bank card into the reader and typing in their card PIN code. This provides a much higher level of security than authentication using static credentials.

France

EXCELLENCE IN R&D

In an important recognition of Gemalto's excellence in R&D, the French government has made a 35 million euros, 3-year grant to the MaXSSIMM* development program, intended to facilitate and accelerate the implementation of convenient personalized and secure Internet services for mobile devices. MaXSSIMM is being carried out by a Gemalto-led consortium comprising front-rank microelectronics manufacturers, a major telecom operator, and cutting edge SMEs. MaXSSIMM will design a complete solution including a next-generation SIM card—the "max-SIM" card—to allow application developers to rapidly roll out new mobile personal and multimedia services. The solution will ensure secure transmission and data confidentiality while offering enhanced services, contents and devices.

**MXSSIMM stands for "My Secure Solution for Mobile Multimedia Internet"*

China

OTA CAMPAIGN REACHES 53 MILLION MOBILE SUBSCRIBERS

Gemalto successfully completed over 53 million Over-The-Air (OTA) updates of GSM and CDMA mobile customers, representing 6.3 billion short messages across 8 provinces in China. The updates took just a few weeks, reaching tens of millions of subscribers with no interruption of service. Tan Teck Lee, Asia President at Gemalto, comments "We now see our OTA platforms as an essential bridge to provide secure connectivity to a wide variety of new cross segment services."

Brazil

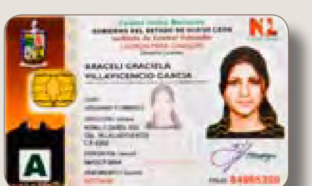
BRASIL TELECOM ROLLS OUT 3G NETWORK

Brasil Telecom picked Gemalto's USIM cards for the launch of its 3G network in mid-2008. The USIM technology loaded on SIM cards allows users to access unique value added services and benefit from enhanced security on electronic transactions performed with their mobiles. Benjamin Binet, Gemalto's Vice-President of Marketing for Latin America explains: "Our USIM technology enables Brasil Telecom 3G users to roam in any 3G network available around the world. Also, Gemalto's USIM cards support future applications such as multimedia content distribution, mobile TV access and mobile payment."

Highlights 2008

Mexico
DRIVERS' LICENSES

Gemalto secured a new contract to supply electronic drivers' licenses to 3 additional Mexican states, in cooperation with its local partner Cosmocolor. The move demonstrated Gemalto's technological leadership in the global trend to replace paper documents with electronic documents in the Government sphere.



Ivory Coast
E-PASSPORTS

Gemalto is the sole supplier of the digital security technology for the electronic passports to be issued to Ivorian citizens. Under a 5-year contract, Gemalto will supply system integrator Zetes with its Sealys eTravel Inlays containing its advanced ePassport technology. Over one million passports are currently in use in Ivory Coast and the government plans to renew all of them by end-2009. The Gemalto technology includes Sealys eTravel, a highly secure operating system with advanced cryptographic features running on a large capacity contactless microprocessor. Says Jacques Seneca, Executive Vice President of the Security Business Unit at Gemalto "With strong references and its global footprint, Gemalto has the most complete product, solution and service offer." Gemalto's ePassport references include Denmark, Estonia, France, India, Italy, Latvia, Norway, Poland, Portugal, Singapore, Sweden and USA.

Italy
CONTACTLESS TRAVEL

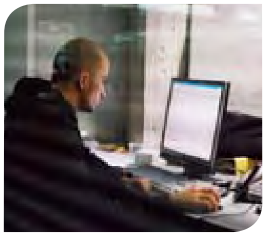
Gemalto supplied NFC contactless expertise to enable Italian mobile operator TIM's customers to use their mobile phones as a convenient means to pay to ride on public transportation in the city of Trento. Users can purchase tickets from anywhere at anytime through their mobile phone, then validate their transport pass even when their mobile phone is off. As an acknowledged trusted services provider, Gemalto assures transport operators that their ticketing and transportation services rights will be securely distributed and managed Over-The-Air by the mobile phone operators for their customers.

Taiwan
E-RESIDENT CARDS

Gemalto is supplying electronic Alien Resident Certificate (ARC) cards to the National Immigration Agency (NIA) in Taiwan. The Gemalto Sealys microprocessor version provides enhanced security relative to paper cards by drastically improving resistance to forgery and counterfeiting.

United States
TOMORROW'S TECHNOLOGY TODAY AWARD

Silicon Valley-based Info Security Products Guide named Gemalto winner of the 2008 Tomorrow's Technology Today Award for its Smart Enterprise Guardian (SEG). The SEG is a unique, multi-function USB device jointly developed by Gemalto and semiconductor solutions provider Lexar.



Patenting innovation

Innovation is a core value at Gemalto and in 2008 we filed no fewer than 80 new inventions. Our total portfolio of more than 5,000 patents in 1,200 patent families spans innovations in production, security, value-added services, software, high and low level layers, and hardware. Most of Gemalto's patents have been granted in its major markets, in Europe, the US and Asia, including China. Promoting digital security and ease of use, we have also developed licensing programs based on our latest research and innovations. A new patent licensing program launched in 2008 replaced the former CP8 licensing program for handsets.

Slovenia

NEW GENERATION E-HEALTH CARDS

Gemalto is supplying a comprehensive solution for the latest generation of electronic health cards for Slovenian citizens, the first of its kind in Europe to feature a Java public key infrastructure (PKI).

Taiwan

LEADING THE WAY IN NFC

Taiwan Mobile is deploying the world's first commercial NFC (Near Field Communication) SIM-based mobile contactless system. Now Taiwan Mobile's subscribers can securely purchase goods, top-up their transport pass and manage their coupons just by using their mobile phone in a contactless mode. As most people always keep this personal device with them, the mobile contactless technology clearly brings greater freedom and convenience. Gemalto successfully leveraged its experience in the telecommunications, transport and financial sectors to develop a secure solution meeting the specific needs of partners and end-users. "Every subscriber is convinced that mobile tap-to-pay is fast, convenient and easy to use. We responded by becoming a business facilitator", says Tan Teck Lee, President, Gemalto Asia. Jeff Ku, VP Emerging Services, Taiwan Mobile, adds "Remote management of contactless services is key. With these enablers subscribers do not have to go to a bank branch or train station to load and update their applications."

Turkey

ADVANCED CONTACTLESS EMV CARDS

Garanti Bank in Turkey chose Gemalto to supply our most advanced credit cards combined with our instant issuance solution. Holders can use the cards to make EMV and contactless payment, accumulate points through the bank's loyalty scheme and pay for travel with the eTicketing application.

Azerbaijan

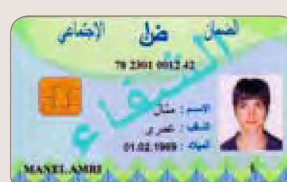
E-HEALTHCARE

Gemalto and its local partner Bestcomp were selected to provide the digital security solution for Azerbaijan's national eHealthcare program. Gemalto will deliver 3 million Sealys microprocessor cards and eGovernment middleware. This is the country's first large scale eGovernment project, led by the Ministry of Health. It will provide social security benefits to all Azeri citizens. Gemalto already supplies eHealthcare solutions to Algeria, China, France, Germany, Mexico, UK and Slovenia.

Algeria

SOCIAL SECURITY GOES ELECTRONIC

With Gemalto's help, Algeria's national health insurance authority rolled out 700,000 electronic healthcare cards in a pilot phase, to be followed by nationwide rollout over the next two years.



France

CONTACTLESS MOBILE PAYMENT

Five major French banks are currently using Gemalto's Allynis service for a trial contactless mobile payment solution in France. The contract confirms Gemalto's position as a trusted third party in the mobile NFC ecosystem.

A year of achievement

"We are delivering on our promises"

Message from Alex Mandl, Chairman of the Board

Gemalto is comparatively well placed to flourish in today's tough economic climate.

By the end of 2008 Gemalto was in a strong position. Our merger has certainly proved its worth, our results have improved and we are delivering on our promises on or ahead of time in spite of the difficult environment.

We are successfully forging a strong corporate culture based on a profound belief in innovation, in customer satisfaction and in employee engagement.

In these challenging times the Board of Directors is more than ever fulfilling its duty to scrutinize the company's strategy and performance, analyze market developments and identify new opportunities.

It has also been evaluating its own performance, updating its Board and specialist committee charters, and adopting best practices in order to ensure it maintains its high standards of ethics and governance.

On a more sombre note, however, the Board was deeply saddened by the loss of John de Wit on 28 May, 2008. As one-time Chairman of the Board and head of the governance committee he gave valued guidance and leadership, his charisma inspiring us to seek constant improvement especially with regard to our customers.

Above all, perhaps, the Board has been practically engaged in instilling and upholding Gemalto's values of innovation and entrepreneurship. These values are helping to sustain the company through the present economic uncertainty and keep us on course to seize the opportunities that lie ahead.

Finally, I'd like to pay tribute to our shareholders for their consistent support, and to all our employees for their talent and unswerving commitment to the future of Gemalto.

Constantly improving performance

"We had wins in all our businesses across every continent"

Interview with Olivier Piou, Chief Executive Officer

One normally thinks of Gemalto as a hi-tech B2B company, but you frequently mention to employees that it has a wider role to play in society as a whole...
Olivier Piou: Yes indeed - because we all live in a world that is increasingly digital, wireless and interconnected. People everywhere want to enjoy the convenience this is bringing them, chatting on their mobiles, shopping on the internet, traveling easily thanks to secure documents, paying instantly with contactless cards and so on. They like the simplicity of it all, appreciate being more entertained and better informed and understand the need for security. Government agencies, financial institutions, utilities and corporations do not simply benefit from these networks, they absolutely depend on them. It's in this digital space that we're exerting our leadership as Gemalto. While end-users are enjoying the possibilities opening up to them, it's Gemalto who is taking care of some fundamentals: ensuring that digital security devices and services exist; that they are cost-effective to use; and that identities are assured.
Bringing trust and convenience to this new world, enabling users to make the most of it, to take advantage of the fun and efficiency it offers, confident that they're safe from malpractice, with their privacy respected and secure from fraud: that's the contribution we've taken upon ourselves to deliver. It's a noble social role.

What concrete successes can you point to that embody your vision?
O. P.: We had many wins in all our businesses, across every continent. In the Public Sector, we booked 10 new countrywide Government contracts in 2008, adding to our long list of national references in this key area of national security. Our technologies already let people receive and be reimbursed for their health care with a card that also secures access to their personal medical records, our eID cards permit them to vote with confidence in elections and our electronic passports allow them to cross national borders efficiently by proving who they are.
We were also proud to launch the multimedia portal and search application for China Mobile for the Olympic Games, which were appreciated by visitors from the whole world who could find their way in the cities and venues. Deliveries of software

"Deliveries of software and services rose sharply"

> **"Our future is in our hands, and our goal is to grow both our revenue and our earnings."**

and services rose sharply. One flagship success was the roll-out in South America of our SIM-based MSN Live Messenger solution, co-marketed with Microsoft.

In Banking, the decision of VISA and MasterCard to mandate the high-end DDA security technology for all EMV cards in Europe by 2011 further strengthened the dynamics of our market. We are also starting to benefit from the growing deployment of our innovative services in banking, such as our Dexxis Instant Issuance solution which can deliver personalized secure credit cards directly and immediately to consumers in an airport or a shopping mall.

In Identity and Access Management we had significant success with our online banking authentication solutions. The decline in fraud following the introduction of our pocket crypto-calculators for a major UK bank led it to raise the authorized level for online transactions, and to an 87% consumer satisfaction rating.

Innovation is a key Gemalto attribute; how do you drive innovation that is both marketable and sustainable?

O. P.: First, let me emphasize that those two objectives are clearly not mutually exclusive, and we aim to deliver on both.

We continue to invest in extensive R&D activities, with emphasis on speed and customer proximity, and have a technical ladder program that provides career evolution and recognition to our scientists.

We also harness the creativity of the whole company, inside and outside the labs: breakthrough innovations rarely happen by chance, and we have in place the procedures and rewards to encourage all our employees to contribute their ideas, with the processes to sift out the best and promptly bring them to fruition.

Sustainability is an important driver in this process. Just one of the many ways in which we are contributing to a more sustainable, less resource-consuming pattern of development is that our digital systems work without any battery. Amazingly, our cards have the computing power of a PC of 5 years ago, and yet they consume virtually no power. They contain a microprocessor with a piece of software that is a tour de force of knowledge. Our contactless devices never know when they will be needed, nor for how long the reader will be nearby; they have no on/off button and are all stacked together in your wallet, yet they are safe, they do not make duplicate transactions, and they even restart instantly though you maybe abruptly took them away last time. And all this without any battery! That is definitely helping to preserve our environment.

"There is no lack of opportunities to seize"

Looking to the future, what gives you the confidence that you can continue to succeed in such an uncertain period?

O. P.: Being the market leader certainly gives us the credibility, access to customers and the resources to prosper in times that are both challenging and very exciting. There is no lack of opportunities to seize and exploit.

With the support of our very diverse clients and workforce, we pulled through the worsening economic conditions to report improved top and bottom line performances in total and in all our main businesses. Our markets aren't immune to the financial turmoil, but the impact on our activity has been relatively small thanks to the robust relationships we have fostered, the value we deliver every day to our customers, our strong internal processes and careful risk management.

Our clients are primarily blue-chip companies and government agencies. Our technologies and solutions are critical to their operations. We are helping them through the deployment of new products and services that are important for the profitability and differentiation of their businesses, and for the success of their political programs. This explains why our software and services are gaining market traction and why we are continuing to see improvements in our product mix across all segments.

In Mobile Communication, operators are clearly committed to packing more value onto their SIM card to make their new, higher-value services work on any model of telephone.

In Secure Transactions, contactless has become a powerful growth driver, backed up by our growing personalization services activity.

In Security, our investment in both development and sales resources is generating tangible results, in the form of growth and improved profitability.

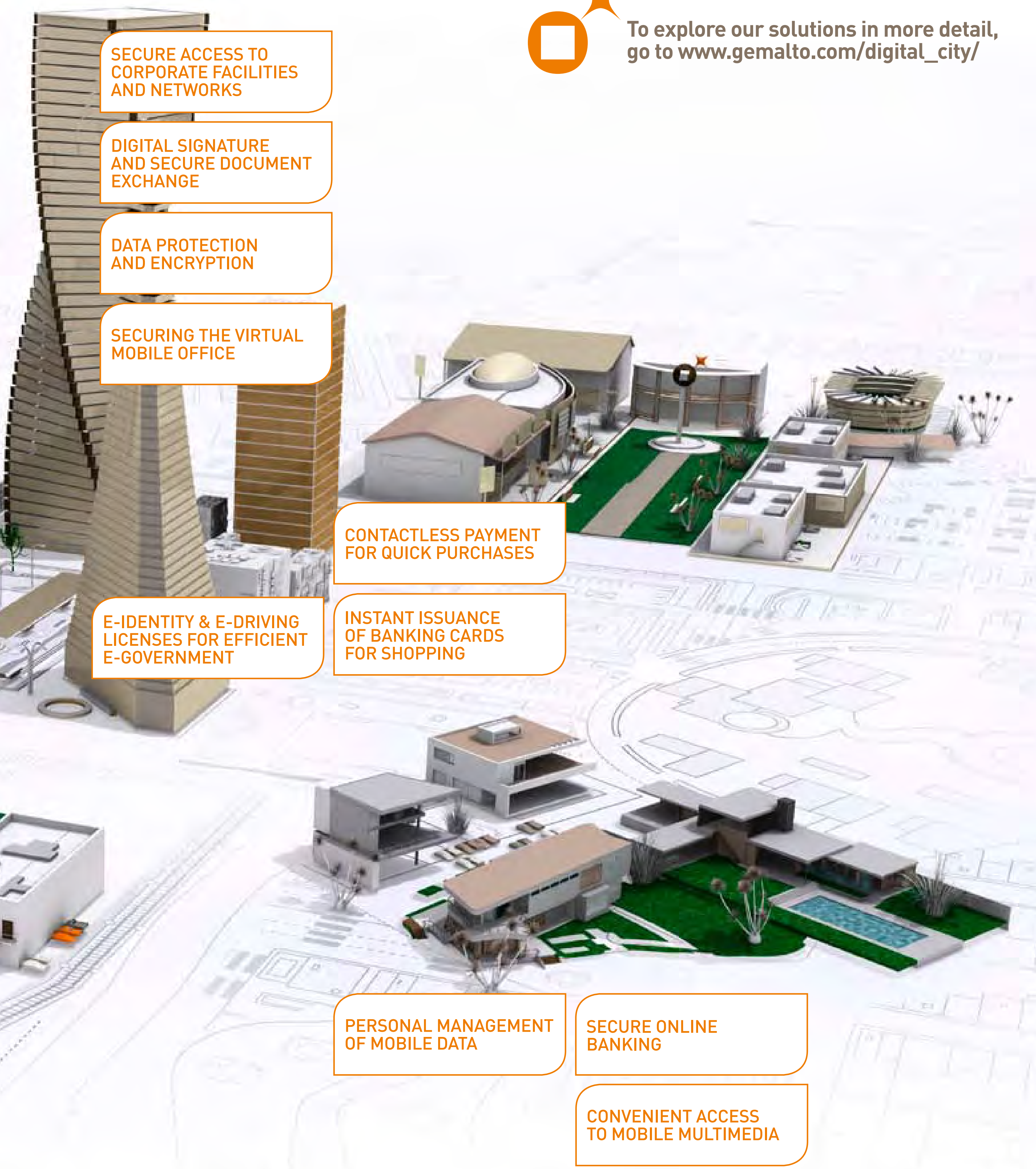
Equally important, we have a strong balance, with no customer or country representing 10% of our revenue.

We have also reduced our risk profile with a growing backlog of longer-term contracts, particularly in Security and in Secure Transactions; with our consistent ability to generate cash; and with our increasing software and services portfolio.

As we look forward we have a clear view of our role and contribution to society, and a strong base of knowledge and resources to build upon. Our future is in our hands and we look ahead with the goal of growing both our revenue and our earnings.

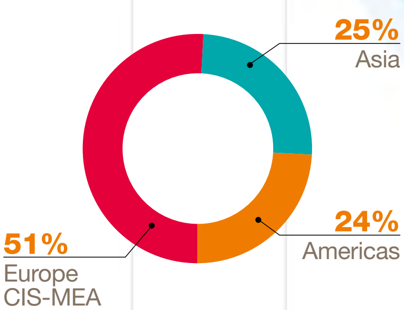
Gemalto's digital security solutions in everyday life

To explore our solutions in more detail, go to www.gemalto.com/digital_city/

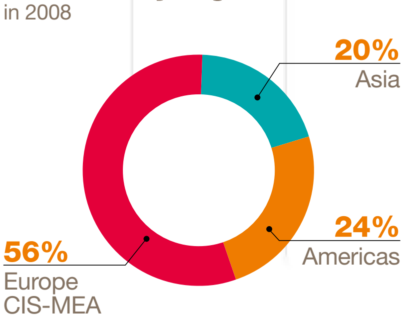


Gemalto worldwide

Headcount by region
at end December 2008



Revenue by region
in 2008



17 production sites

75 sales and marketing offices

90 nationalities

30 personalization facilities

9 R&D centers

Gemalto dialogs with end-users at justaskgemalto.com

Gemalto's clients are other businesses, but to serve them better we need to know more about their end-users. That's why in 2007 we embarked on a long-term campaign to investigate consumers' views and needs in terms of digital security.

By 2008, we had gathered the results of a survey conducted for us by TNS Sofres of over 2000 people in France and the US.
The results were illuminating. Overall, there was a widespread view that digital technologies have simplified peoples' lives with convenient access to services helping them save time. On the other hand, they had many concerns: in summary, they felt uninformed about

800,000 **website visits** in the first month

150,000 **website visits** on the first day

73% **of Americans** didn't know who to turn to for information on digital security issues**

44% **of Americans** feared improper use of their bank account on the net**

56% **of French people** would purchase more on-line with optimum security**

Source: Gemalto/TNS Sofres end-user survey

the specific risks and how to protect themselves in many areas of the digital world. Most people wanted more information but didn't know who to turn to.
Throughout 2008 we worked on a new web service which would share our expertise in digital security with the general public. The result: a unique website called JustAskGemalto.com, that provides objective, reliable and straight-forward information enabling non-technical users to get the most from their digital services whether they're buying, communicating, traveling or surfing.
It comes in the form of tips, tutorials and news, as well as responses to some 200 questions typically asked by consumers about the digital world. More are being added as visitors share their questions and views with us.
This free service is supported by on-line and press adverts in the US and France, as well as viral films and other innovative communications tools. It is currently the only site regrouping all digital security issues in one place, and is clearly fulfilling a previously unmet need. In its first nine days, JustAskGemalto recorded 431,000 visitors, and pushed further visits to other Gemalto sites.

AF 2584 KL 2174 F ON TIME F45
AF 2852 PS 9282 F ON TIME F47
AF 2958 KL 2192 F ON TIME F46
AF 5006 AZ 3574 E EXPECTD 12:50 E21
AF 5494 DL 8651 G ON TIME
AF 7704 DL 8640 F ON TIME F33
AF 7724 AZ 3664 D EXPECTD 12:45 D72
AZ 333 AF 9846 F ON TIME F29
AF 1648 DL 8291 F EXPECTD 12:55 F32
AF 2374 DL 8468 D ON TIME D56
AF 5378 KL 2362 G ON TIME
CO 011 CLOSED A37
LG 8014 AF 4602 D ON TIME D76
AF 1740 KL 2012 F ON TIME F34
AF 2244 SU 450 E ON TIME E59
Vol Flight
Porte Gate
1320 SHANGHAI MU 554 F
1325 ABIDJAN AF 702 KL 2270 C
1325 LONDON HEATHROW AF 1480 DL 9350 E
1325 BORDEAUX AF 7624 CO 6062 D
1330 HONG KONG AF 184 QF 3974 E
1330 OSAKA-KANSAI AF 292 JL 5052 F
1330 PHILADELPHIA AF 366 DL 8342 E
1330 HAVANA AF 474 C
1330 DAMASCUS AF 510 E
1335 ATLANTA AF 388 DL 8504 E
1335 MEXICO AF 438 AZ 3692 E
1335 CAIRO AF 508 DL 8622 E
1335 LOME AF 848 KL 2276 C
1335 NEWARK
1335 MILAN-MALPENSA
1335 MALAGA
Vol Flight

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Our future

"Gemalto's future lies in anticipating developments so we can safeguard you with solutions that are portable, personal and versatile."

Times change. With increasing speed.

Today, cellphones are used for a multitude of tasks – transmitting and receiving text, data and images; watching television; surfing the Internet; effecting payments; and, sometimes, making voice calls.
With added computing power, the Internet has essentially become a communications enabler, and with the advent of “cloud” computing it will be available whenever and wherever it is wanted. Money, too, has gone digital; transactions, from the smallest to the biggest, happen in milliseconds over the network, made easy and secure by today’s technology.
Gemalto has always been in the vanguard of these developments. We have long understood that protecting people in today’s digital world begins with securing their identity and personal data. That’s why our digital security solutions – SIM cards, tokens, ePassports, banking cards and others – are specifically designed with end-users in mind while also fitting into their pockets. And as these tools that you use daily – often several times a day – are becoming both more diverse and more convergent, so we are making our solutions – across all our markets – more and more personal, portable and versatile.
And secure.

Personal

Not only is Gemalto the world's largest supplier of personalized digital security devices, we also provide the software and services that let our customers, like mobile operators, banks and government agencies, manage hundreds of millions of people's services on a one-to-one basis.

In our increasingly globalized world, people are more than ever seeking to express their individuality - their difference - particularly by personalizing the way they look and the things they own. This is certainly true for portable devices. Cellphone manufacturers, for example, are now marketing a vast spectrum of products to cater to the wide range of needs and wants of their users. Some just need basic telephony and short message services; more advanced users want a secure mobile device for Internet surfing, video, e-transactions and even payment.

And bank cards are going in the same direction. Turkey's GarantiBank (see next section) is planning to issue a bank card that can be personalized by the end-users themselves – they will be able to choose the look and feel and customize it with personal photos, colors, images, etc. They can even program the chip to tailor the credit reimbursement process to their particular financial situation.

At the same time, GarantiBank is also developing a new web site which users will be able to customize to their own particular needs. It will sit alongside the Bank's main site as a convenient and flexible sub-site, allowing customers to change and personalize their interface to the bank, with colors, photos, layout and links.

DIGITAL **LIFE**

This kind of initiative is a further development of our evolving 'digital life'. Our digital experience often relates to the Internet which is becoming all-pervasive, eminently accessible and increasingly easy to

34%
of banks worldwide already offer mobile services to customers; a further 32% plan to do so in the next 12 to 24 months.

Source: www.mobilemarketingmagazine.co.uk

use. Until now, transactions have largely been confined to receiving and paying for products – music, videos, gifts, etc. The next step is point-to-point transactions between a much wider community of users, including not only eBanking, eBusiness and eGovernment, but social networks too. As a result, we need a different digital identity depending on who the transaction is with. In fact, we are starting to have multiple identities, each with varying degrees of detail. For each transaction, we are choosing which personal profile we want to use.

This in turn is increasing demand for greater ease of use, privacy management and, in particular, enhanced security management. These issues are at the heart of the European Commission's digital policy and are central to Gemalto's work to ensure security and at the same time give users the opportunity to manage their own privacy.

In this situation, personalization can involve downloading information and applications into a smartcard which will often include a browser. This makes the microprocessor an increasingly active device, managing applications, transactions and digital signatures and giving end-users further choice.

TECHNOLOGY **DRIVE**

The massive roll-out of broadband is creating a huge change and real potential to better meet the needs of end-users, governments and enterprises. The exponential increase in the power of smart devices is doing the same, to the extent that it is now possible to have a web server on a card. In addition, the operating systems are becoming more and more user-friendly. Indeed, ease-of-use is a key enabler of further personalization. Users don't want to spend time and effort working out how to manipulate and operate their device; they want it to be simple and natural. Similarly, they don't want to worry about security; they want to be completely confident that it's there.

So the pieces are coming together, technology and needs are converging. As a result, issuers of portable secure devices, such as the telecommunications operators and the banks, are gradually making more services available to users. At the same time, eID cards will spread substantially in the coming years. In fact, eGovernment applications are expanding rapidly; healthcare is becoming a leading user of e-technology, fingerprints can be recorded digitally on an eID card, and in some regions, it is now possible to fill in a car accident report digitally and send it to the insurer.

In the banking and government sectors, personalization tends to mean customization of the look and feel, plus individualization of the data on the chip. The cellphone's SIM card can go further than this since its broader flexibility allows subscribers to download features, applications, multimedia, URL links, etc. So end-users of the future will have increasing choice about many aspects of their secure devices – and Gemalto will play an increasing role in their personalization.

I AM **IN CHARGE**

As suppliers of secure personal devices, like Gemalto, continue to push back the limits of what is technologically possible, so usage will grow and diversify and in turn will drive technology even further. At the same time, electronic identity will change the way people interface with the Internet, as increasing numbers of us employ different, rapid and convenient ways of identifying ourselves online.

Today many people carry at least three or four secure devices with them – including a bank card, a smart phone, an intelligent ID card, and an encrypted key containing data and applications. As it develops, the market will be desire-driven rather than technology driven. And while, in the near future, the issuers could well be the same as today – mobile telecommunications or other operators, financial institutions and governments – people will increasingly tend to buy some of their devices over the counter and program them to fit their needs and lifestyle.

7 million

eHealthcare smart cards will be issued to the Algerian population in the next two years.

"The personal nature of the data stored on the card is of the highest importance."

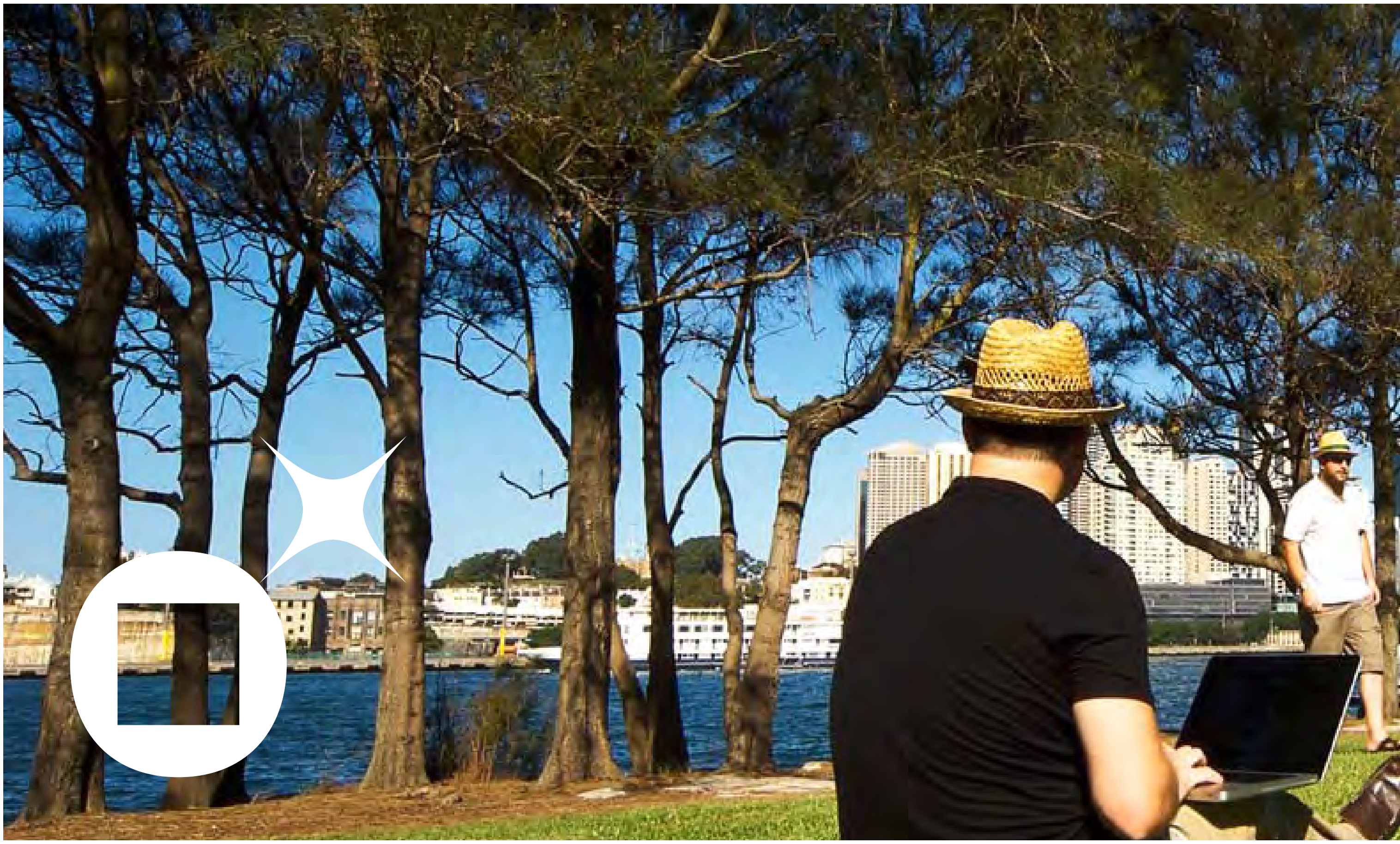
Boualem Touati, IT Director at the Algerian Health Insurance Authority

Gemalto has started the roll-out of Algeria's pioneering electronic healthcare project. After a pilot phase covering 700,000 eHealthcare smart cards, in the next two years a total of seven million cards will be issued to the Algerian population to ease and streamline healthcare administration, claims and reimbursements.

For Boualem Touati, IT Director at the Algerian Health Insurance Authority, CNAS, the personal nature of the data stored on the card is of the highest importance. *"The card allows 70% of the Algerian population to receive coverage, care and reimbursements. The data is very sensitive because it shows what healthcare has been provided, by whom and at what cost. The only way the program could succeed was to ensure complete data integrity."*

This, of course, is not easy to reconcile with the need for rapid, convenient access to the data by different people such as the beneficiaries, doctors, pharmacists and social security agencies. *"We opted for a proprietary network rather than a Web-based system,"* adds Mr. Touati, *"to ensure that only those who have the right to access can actually get to the data."* And access is compartmentalized, based on the need to know and authorization to modify the data. The key to access is in the card's chip. *"If we have to choose between speed and security, the latter takes priority."*

Healthcare was the first public electronic application chosen by the Algerian government because of its importance. But other applications are under consideration, including retirement benefits and invalidity pensions. And that could be a springboard to other eGovernment applications such as ID management, taxes, vehicle registration, and others. *"We just have to prove that the system is totally reliable over time. Then the possibilities are practically limitless."*



Portable

How many digital secure devices are you carrying right now? Probably a handful – SIM cards, passport, banking cards, etc. And there's a very good chance they're made by Gemalto.

These devices, together with Gemalto's software and services, help millions of people have a safer digital experience throughout their day. And by making these secure solutions portable, we give you the freedom to buy, browse, call and travel wherever life takes you. Yet, portability is still making huge strides. Until now, it referred mainly to an object in your pocket (banking card, cellphone) with varying degrees of security depending on the type and usage. But now 'convergence' has kicked in with the result that the banking industry is entering the mass travel sector to take care of the payment operations involved, while telecommunications operators are getting into the financial aspect of portability with facilities for payment by cellphone. All of this means that the borders between previously separate sectors are blurring, and whole industries are treading unfamiliar territory. That's why they need the support and advice of a company like Gemalto, which has historically transcended these frontiers and built up expertise in many different sectors affected by portability.

So advances in portability are leading Gemalto to expand its role as a wide-ranging solutions provider. For example, we are increasingly offering customers innovative portable payment solutions via NFC, contactless payment cards, debit/credit cards and transport cards, as well as the software that supports them. We are also developing consulting and services for customers, allowing them to outsource technical activities and free them up to focus on their core business.

In addition, in developing digital passports for governments, Gemalto offers a complete secure solution, from enrolment to automatic electronic border gates at airports. Or in payment applications, the Gemalto offering ranges from data preparation – offloading this task from the financial institutions – to issuance of cards and subsequent data management.

400 million

people worldwide will use their cellphones for ticketing by 2013, with the top three sectors being transport, entertainment and sporting events.

Source: Juniper Research

SECURE PORTABILITY **CONTINUES TO BE KEY**

When you step out of the house to walk the dog or go jogging, what is the one thing you always take with you? It's very probably your cellphone.
Over the past couple of years, and with increasing speed, the cellphone has acquired a huge number of useful features other than voice calls – organizer, messaging, Internet, email, news, TV, etc. And now, payment, too. It is versatile and convenient, and especially the younger population expects their cellphones to have all the capabilities they want. The one feature they take for granted is security.

Security of portable digital devices is a Gemalto core competence that is constantly evolving. Our customers demand rugged security while end-users expect convenience, speed and ease of use. Too much security could make processes cumbersome and increase costs; not enough security raises risks, and ultimately leads to higher costs. Our challenge here is to find the right balance between security and performance. But then, that's Gemalto's heritage and its leadership know-how.

EVOLVING **PORTABLE SECURITY**

Fraud was the first driver of security. It's what made the smartcard's electronic identification capability and ease of management popular in the first place, and it continues to be the main driver of secure smartcards. And as fraud techniques become more sophisticated and as new forms of ID attack need to be anticipated, we are further enhancing security. For example, Gemalto is contributing its expertise to the development of DDA – the next generation of EMV, the universal secure card standard. Card issuers can be expected to migrate their payment systems to this standard within the next three or four years. Some have started already.

Also under development are more convenient ways of entering passwords for portable devices, including optical reading. And data security being extremely important, we are developing ways of encrypting data on USB keys, for example. In parallel, Gemalto is working towards tightening security in another channel – the eBanking domain that embraces ePayment and account access. Here, the focus is on stronger authentication.

610 million

secure contactless cards shipped in 2008.

Source: Eurosmart

PORTABILITY **MOVING ON**

The current technologies that deliver portability will constantly evolve over the coming years. Contactless applications are enjoying strong growth and will no doubt continue to expand rapidly; the example of contactless payment facilities from GarantiBank in Turkey is an illustration of their popularity. And multi-use products will certainly grow considerably.

The smartcard will continue to see an increasing number of applications. USB keys, cellphones, Personal Digital Assistants and other form factors will also be with us, albeit in enhanced state. Governments and administrations, too, are penetrating this environment with their own products – passports, ID cards for different administrative applications, and e-signature facilities, for example. In all these cases, the increased speed and spread of broadband will be a big driver of future portable applications.

The world of communications and transactions will be characterized by: more on-line, more speed, more data exchange. Enhanced portability, ease-of-use, personalization and versatility are all parts of the same jigsaw. And the glue that keeps them together is security. Security is cross-industry and cross-application. If there is a risk of error or insufficient protection, the impact to users and issuers alike could be immense. So data protection and data management become crucial to portability, and Gemalto is well placed to provide them.

"We have not so much gone through a step change but a mind-set change."

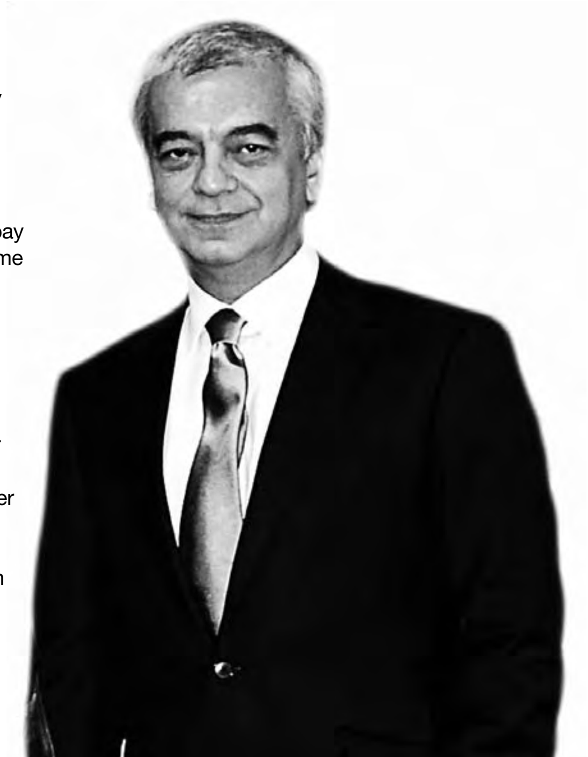
Hüsnü Erel, GarantiBank's Executive Vice-President

The Turkish banking system is among the world's best. It is customer-driven and technology-oriented at the same time. And GarantiBank is visionary among Turkish banks. *"We have not so much gone through a step change,"* says Hüsnü Erel, GarantiBank's Executive Vice-President, *"but more of a mind-set change. The introduction of our credit-loyalty cards was part of a desire to offer our customers convenience, speed and flexibility."*

It should be noted that the bedrock of the portable payment systems sector in Turkey is the loyalty program. Each smartcard transaction brings its holder points, which can be redeemed in the form of cash, price reductions on subsequent purchases, or gifts (including miles). In some cases, double and even triple points can be earned. The GarantiBank system is called, appropriately enough, 'Bonus'. And Bonus has quickly put GarantiBank in the vanguard. It has even become an international brand.

Two years ago, Gemalto supplied GarantiBank with Europe's first hybrid contactless card – one interface being the regular credit card chip, the other contactless for micropayments. The card is particularly popular with young people, who use it for cinemas, cafés, fast-food restaurants and vending machines. It is hardly surprising, therefore, that some 200,000 of these cards are in circulation today. *"We expect that number to rise to one million by the end of 2009,"* notes Erel. That's because GarantiBank has recently ordered a new generation of the dual Interface card (complete with the personalization software from Gemalto) on which the contactless interface is linked to the main chip so that the loyalty points are also earned by the micropayments. In another first for Gemalto and GarantiBank, it also includes the Mifare interface that is used to pay for public transport in some of Turkey's major cities.

GarantiBank doesn't stop there. It distributes watches, key rings and stickers with built-in contactless interfaces for micropayments. It also offers the ability to transfer cash from one cellphone to the other, the recipient retrieving the money from a GarantiBank ATM.



Versatile

More and more tasks are being fulfilled by a single portable, personalized device. And the prime example offering multiple uses is the cellphone, with an increasingly powerful and versatile SIM card at its heart.

Four billion individuals can't be wrong. In 2008, some two billion mobile handsets were sold, meaning that by the end of the year, the planet counted around four billion cellphones. Since the cellphone can be a relatively inexpensive device, even some less affluent people can now afford it, helping to mitigate the so-called digital divide that is such a concern to politicians the world over.

The heart of the cellphone – the SIM card – is the driver of versatility for secure portable devices, thanks to the standardization of telecommunications protocols. This has enabled different devices from different sources to hook up and talk to each other. The prime example is GSM, where standardization continues into its 4th generation. As a result, voice and short message services are fully standardized. So is remote handset management and upgrade. NFC is 99% standardized, and cellphone-based broadband TV is almost there.

40 million
people in the US use their mobile handsets to browse the Internet.
Source: Nielsen Mobile

SIM **POWER**

Telecommunications are a powerful driver of multipurpose devices, since the different service providers can leverage its scale effect as people migrate from fixed devices to portable ones – the phone, PC, Internet and now television. The power and capacity of the SIM card (a smart device powering a smart device) are key to this development. With its proven security technology, it has several audiences ranging from users of advanced, high-end smart phones, where it manages multiple connections, IDs, security, multimedia applications, transactions, and secure money transfers; to users of less sophisticated devices, where it handles menus, calling, roaming, contact management etc.

2.9 billion
mobile connections
in the Asia-Pacific region
by 2013.
Source: Ovum

A NEW ROLE FOR **THE SIM**

The SIM card is now taking on new responsibilities. In one country, it is handling not only GSM communications, but also mobile TV rights management. In another, the SIM is managing payment and virtual debit through an NFC interface. In this respect, the case of Taiwan Mobile and its handset payment facility is trailblazing. Gemalto's local manufacturing site acts as a personalization center, interconnecting with the banks and transport operators to load the secure keys and data onto the SIM cards and enabling people to use their cellphones for purchasing goods or topping up their transport passes.

As a trusted service manager, Gemalto draws on its deep understanding of the different customer concerns of public transport authorities, banks and telecommunications operators, since it has in-depth expertise in all these industries. This unrivalled combination of insights, and its command of both technology and business requirements, enable Gemalto to offer the end-to-end security mechanisms that its clients demand.

And what of eGovernment applications?
They are not as advanced as commercial applications. Not yet. But the potential is considerable. Gemalto is in discussions today with some administrations with a view to using the SIM card for ID management and digital signature verification. SFR in France has created a secure environment to register digital signatures that can be used in other systems. Turkey and Poland are both moving in the same direction, while Estonia, in a bolder, pioneering mood, is contemplating using a SIM card application for voting in the next presidential elections.

SECURITY **AND CONVENIENCE**

Such advances are only possible if end-users are assured that their devices are secure and easy to use. Gemalto is putting great effort into helping them understand and access the different digital applications. And the SIM card today fulfills the needs for simplicity of use and security.
But as portable devices are required to fulfill multiple uses, an additional role for Gemalto is evolving – that of a trusted partner able to bring public transport authorities, financial services companies and telecommunications operators together to build further innovative services for the population.

3.95 billion

mobile phone subscriptions worldwide at end 2008.

"All this makes the business model more complex, since there are so many players."

Frédéric Christophe, Director of Engineering & Standards at LG's European R&D Center

The days when a cellphone was just that – a device to carry voice communications – are past. Operators are no longer focused exclusively on growing the subscriber base, but on introducing new services to generate revenues: mobile Internet, music downloading, TV in streaming and broadcast mode.

"The advent of new services and features for the cellphone has changed the business environment for handset manufacturers," says Frédéric Christophe, Director of Engineering and Standards at LG's European R&D center. *"We are now obliged to deliver handsets segmented by user type – low, mid and high-tier – and by feature inside each segment."* This has made life much more complex for handset manufacturers, obliging them to offer a much wider product portfolio, which in turn demands a huge R&D effort in hardware and software mechanics. It is no small challenge to continuously enhance the handset's capabilities and integrate an increasing number of applications. *"In particular, we have to improve the multimedia capabilities,"* adds Christophe. *"For example, the camera in some handsets, at 8 megapixels, is more powerful than a standard camera. We are also adapting the screen so that users can watch TV comfortably on their cellphones."*

Manufacturers of handsets and SIM cards have to work closely together in this environment to develop new features and services for the operators. LG and Gemalto are currently working on an innovative Web server smartcard as well as contactless interfaces for payment and transportation facilities. *"All this makes the business model more complex, since there are so many players, all of whom want a share of the revenue."* But there is huge potential for all concerned.

The future will bring wider use of 3rd generation mobile communication systems, and one where downloading movies, for example, will become commonplace – even if it demands a SIM card storage in the range of several hundreds of Megabytes. Other applications will be location-based services offering more facilities than today's GPS and instantaneous social networking, involving multiple temporary profiles.

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Our markets

"Gemalto provides end-to-end digital security solutions across a growing range of markets with over 1 billion end-users worldwide."

Telecommunications

Adapting our strategy and technology roadmap to a world of limitless possibilities for mobile platforms.

Smart USB dongle gives subscribers access to VO IP, Instant Messaging, music download, on-line storage and other web services.

Widening vision of mobile opportunities

2008 saw major Internet players rolling out cellphone offerings, mobile users blogging on social networking sites and watching TV from their cellphones, and commuters waving their handsets at readers to ride mass transit systems. It was a year which pushed forward our vision of what the mobile phone can do.

In response, Gemalto developed a two-fold strategy. First, we continued to leverage standardized technologies and our leadership position around SIM cards, software and services to deliver a broadening array of solutions to markets around the world.

Next, we also invested significant resources in cutting-edge research and development to adapt SIM technology to address the opportunities in the evolving mobile environment.

Managing millions of mobile devices

For example, our LinqUs Over-The-Air (OTA) suite is a fully integrated service deployment platform for remotely managing end-users' devices and (U)SIMs. In fact we have unique experience in managing personal data for millions of end-users. In China, during June, we completed over 53 million OTA updates of GSM and CDMA mobile customers representing 6.3 billion short messages. Overall, we are tracking more than 80 million devices through our installed base. Gemalto is thus a leading player in roaming OTA solutions, Personal Data Management platforms, and (U)SIM OTA platforms delivering dozens of compelling use cases to mobile operators and users.

Speeding the adoption of innovative services

We also developed our UpTeq™ package to respond to growing demand from subscribers for innovative and easy to use services like Multimedia, convergence, Mobile TV and NFC (Near Field Communication). This can combine high-end SIM cards with the Smart Card Web Server (SCWS) technology (a tiny web server embedded in the SIM), the USB IC High Speed Protocol and the LiveServices remote management platform, together with content and applications from partners.

Getting more on a mobile

Our Smart Card Profile cards for Mobile TV, fully compliant with the OMA BCAST specifications, were launched in Singapore for trials involving audience monitoring tests. These cards are bundled with a unique maintenance service so that they can be updated at any time to maintain a constantly high level of security and to implement new functionalities.

Our Full Multimedia cards were deployed for the first time by China Mobile in the provinces of Guangdong, Shanxi, Beijing, Jiangsu and Shanghai. They have since been part of several pilots worldwide.

We also continued to promote the advantages of SCWS technology, working with many handset manufacturers such as Korea's LG to implement the BIP TCP server mode into their handsets. This standardized channel between the handset and the SIM points the way to a new kind of collaboration between the two devices of benefit to the entire mobile ecosystem.

Growing our role as a trusted partner

Several innovative rollouts in 2008 confirmed our strategy of working as a trusted cross-industry partner to manage external service applications such as mobile NFC ticketing, payment, OTP (One-Time-Password), and M2M (Machine to Machine) on telecom operator devices.

In our role as Trusted Services Manager, Gemalto continued to support the Payez Mobile NFC pilot program in France, which comprises seven major banks and four mobile operators; as well as the mobile payment initiative led by Rogers Wireless and the Royal Bank of Canada. We also supplied Italy's operator TIM (Telecom Italia Mobile) with SIM cards embedded with transport applications for that country's first NFC initiative. Now TIM customers in Trento can use their mobile phones as a quick, convenient way of accessing public transport.

In addition to the project with TIM, Italy saw two other examples of innovative mobile services being introduced with Gemalto's support. We helped WIND integrate a DVD-compliant optical disc into the SIM card body, allowing customers to access the Internet wirelessly from a PC. We also enabled Poste Mobile, Italy's postal service, to become the first Italian MVNO by integrating post office services into mobile phones. This lets customers securely carry out transactions such as paying bills, sending telegrams or transferring money, directly from their handsets.

Developing solutions for differentiation, growth and profitability

Our strategy to strongly promote our software and services is producing dividends in all regions of the world. Our focus for the future remains on solutions that help operators both differentiate their offerings and create profitable, commercial success amongst their end-users.

As well as enabling Mobile Banking and Instant Messaging, such solutions include roaming, personal data management, Mobile Network Operator portal management, contactless management, and device management and detection. With our Allynis operated services infrastructure, we deliver use cases in all types of deployment including hosted and managed services. We strive to ensure that our customers get the most out of our solutions seamlessly while maximizing adoption and use of new services by their subscribers.

New form factors, new devices and the deployment of 4G networks (LTE) are bringing a host of new opportunities. We are expanding our offer for high end cards based on SCWS and USB IC technology, as well as increasing our offer for convergence services beyond the smart dongle already delivered to Orange France.

We have also developed a dedicated SIM platform specifically for M2M applications such as remote management, industrial data collection, surveillance and healthcare—a field with exciting long-term potential for our business.

53 million

OTA updates of GSM and CDMA mobile customers representing 6.3 billion short messages.

Public telephony

Gemalto is the leading* supplier of prepaid phone cards, with nearly 250 million units shipped in 2008. Our products include the latest generation prepaid chip cards, active card authentication via the UniSAM™ security application module, and a robust key generation system. Supported by Gemalto's worldwide team, public telephony operators are launching lottery and transparent cards, along with interactive campaigns, multi-lines usage and voice mail access, in their bid to stand out in the marketplace. Our commitment to our clients in this sector was rewarded by high levels of customer satisfaction in 2008**.

**Source: The Nilson Report Nov. 2007*
***Source: "TellMe" survey Nov 2008*

Financial services

The world over, Gemalto's advanced, innovative secure payment solutions are helping our customers deliver convenience for consumers with no compromise on security.

100 million
contactless cards delivered to financial institutions and transport operators in 10 years.

Gemalto's Allynis CardLikeMe solution enables users to customize their bank card with a personal photograph.

Making EMV happen

Gemalto's global reach is a key strength as more countries adopt EMV (the EuroPay, MasterCard, Visa standard) to combat card fraud. Our network of over 80 partners and 20 banking card personalization centers worldwide provides the responsive local service for rapid roll-out in new markets.

Reflecting ongoing security concerns was the 60% growth in shipments embedding Dynamic Data Authentication (DDA) technology over the last year. This standard is mandated for MasterCard and Visa in Europe by 2011, and in countries like Spain and Poland some issuers are deciding to go straight to DDA. Gemalto is a leading player in its implementation, thanks to our complete package of services, consulting and ready-to-go products.

Honing issuers' competitive edge

In 2008 we saw increasing uptake of our range of services including, for example, personalization, consulting, packaging and issuance. This complete and highly versatile infrastructure combines the strengths of our global portfolio with those of our field engineering force, to deliver solutions based on extensive insight into our customers' real needs. They enable operators to focus on their core businesses while dramatically smoothing and speeding the implementation of new systems.

Allynis Issuance Manager, for example, is a web-based solution that provides our clients with a complete picture of their card issuing process. With online pull, tracking, stock management and reporting it allows financial institutions to increase their speed and efficiency in managing card requirements in real time.

In Poland we are providing ING Bank Slaski with a bundle of EMV services including card stock management, card personalization and fulfillment. A 24-hour turn-round time for new cards plus innovative printing and packaging services keep the bank's brand fresh and exciting.

We also gained further traction as a solutions provider with Dexxis Instant Issuance. This complete offering allows issuers to capture consumer impulse by issuing new cards over-the-counter, while meshing seamlessly with their existing processes. By the year end we had equipped over 300 shopping malls worldwide with this solution, enabling on-the-spot delivery of one million credit cards per year.

Bundling new services with contactless EMV

More and more providers are wedding contactless to EMV technologies to create contactless EMV cards, combining security with exciting, innovative services.

With more than 10 years of contactless innovation and more than 100 million contactless cards delivered to financial institutions and transport operators, our technology has earned the trust of major payment card issuers worldwide. Deployment of EMV contactless cards is now accelerating, with major projects underway in Asia, UK, Turkey, Russia and Canada.

More than 40 EMV references in 20 countries reflect our expertise at navigating the rapidly converging worlds of banking, mobile communications, transport and retailing, thanks to our deep knowledge of the cultures, technologies and processes.

Turkey's Garanti Bank now offers customers a single card combining traditional EMV and

contactless payment, plus a loyalty scheme and Mifare eTicketing capabilities. Gemalto's package comprised initial consultancy, Dexxis Central Issuance for in-house personalization and 300,000 high-speed Optelio Contactless Cards (see p 28).

Custom credit cards generate operator revenue

In Canada, prepaid card solution provider PlasticNow has adopted our Allynis CardLikeMe solution to help it deliver personalized services that retain customers and attract new ones. Cardholders personalize their own cards on the web with images of their choice. The card is customized at Gemalto's state-of-the-art personalization centre in Ontario, then packaged and shipped to PlasticNow or the consumer.

eBanking

300 million people now use eBanking services worldwide*. Yet many voice concern over improper use of bank accounts on the Internet**. So banks must earn end-users' trust by blending ease of use with guaranteed security. Gemalto has a unique eBanking portfolio. Our end-to-end services and comprehensive solutions are helping financial institutions to protect personal identity information and thwart cyber crime.
By now, 10 million people worldwide use our Ezio solutions to bank online, and in 2008, the largest banks in the UK and Brazil used them to secure more than 5 billion euros of transactions for their corporate clients. We also achieved a near-zero fraud rate for 5 million users of China's largest commercial bank; and deployed an innovative solution for VIP customers of a major US financial institution.

Smart readers and tokens

Gemalto is the world leader* in secure card interfaces including readers, chipsets, contactless interfaces, USB tokens and dongles. We supply the world's largest range of reliable, certified, user-friendly readers for all security markets and applications such as eBanking, logical identification and authentication, healthcare and physical access control.
Our best-selling PC-Link series is now widely used in IT security, eGovernment and business-to-business, as well as in the fast-growing home banking and eCommerce segments.
We also have a range of hand-held readers offering dynamic One-Time-Password (OTP) authentication. In the corporate security sector, more and more financial institutions seeking to secure their business-to-business transactions as well as those with their internet customers are turning to Gemalto's smart readers.

*Source: *Frost & Sullivan,*
***TNS Sofres for Gemalto, January 2008.*

Ezio Optical Reader, a unique authentication device that fits in a wallet and provides utmost convenience for eBanking services.

Payment terminals

Gemalto has nearly 30 years experience in the development and production of payment terminals. Over that time the activity has experienced continuous organic growth. More than 2 million POS terminals of different generations (Delta, MagIC, MagIC Evolution and MagIC³ families) have been sold in more than 25 countries, and over 120 Terminal Management Systems in all continents, through our direct sales force and through selected partners. In 2008 the segment suffered due to a faulty component detected in our contract-manufacturer's supply chain, although activity had progressively returned to normal by year-end.

Enterprise

Easy-to-use access solutions are bringing enhanced security to corporate networks and sites.

.Net bio smartcards provide highly secure, portable and strong authentication by combining PIN code identification with fingerprint recognition.

In a world where access to networks and buildings is under endlessly evolving threat, enterprises and governments are seeking cost-effective means of addressing their internal security issues in ways that are adaptable, highly secure and easy to use.
Gemalto's end-to end solutions enable organizations to manage and segment access to physical and logical systems with a single identity credential for each employee. Every day, 10 million people worldwide appreciate the convenience of using our strong authentication solutions to securely access premises and data. These solutions deliver two key benefits: the strength of two-factor authentication using one-time passwords, and the flexibility of implementing additional services as necessary. When used with certificate-based applications, the smart device can also provide Public Key Infrastructure (PKI) services including encryption, digital signature, secure private key generation and secure storage.

Security meets simplicity

Our .NET solution is fully compatible with Microsoft® infrastructure, being built into Windows Vista and available from updates of Windows XP. It is easily deployed in a variety of form factors including smartcard, SIM Plug, Converged Badge, and connected and unconnected USB tokens. In addition, our innovative .NET bio solution combines strong authentication by smartcard (using a PIN code) with fingerprint recognition to grant access to PKI credentials.
Beyond this, our instant badge issuance solution enables enterprises to produce smart employee IDs locally in minutes, and is combined with the Microsoft Identity and access solution.

Security devices people trust

When Microsoft itself chose Gemalto to supply corporate badges for access to its premises across the world, it registered a sharp jump in demand from employees for the devices because they make cross-site access so convenient.

Toughest issuance standards met

The United States Department of Defense uses Gemalto's solutions for its 900 sites across the country. We implemented a special production line to meet its stringent requirements and to date we have delivered more than 6 million PKI cards compliant with the Geneva conventions for secure identification.

Secure solutions cut costs

Pharmaceutical giant Pfizer uses our employee ID badges for access to buildings and networks, and also to digitally sign official documents, representing a considerable saving compared to manual signatures.

Top marks in Poland

During the year, we recorded delivery of 1 million student eID cards in Poland. 100 universities and high schools currently issue the card and another 300 universities are expected to join in.

The cards verify students' identity and grant them access to premises including libraries, dormitories and sport facilities. They also act as an eTicket for public transport and a means of paying for parking. Card-holders get a student discount wherever it is offered. Additional features are being implemented progressively, such as ePurse and digital signature.

Transport

Contactless technology is taking the stress out of the daily commute for millions of travelers.

E-ticketing speeds people on their way

Today passengers in hundreds of large cities around the world can board buses, tramways and trains quickly and simply with a wave of their eTicket. Interoperable tickets allow commuters to switch easily between these transportation modes. Operators benefit too, as eTicketing raises user satisfaction while cutting costs and fraud.
As a pioneer of contactless technology, Gemalto has been delivering mass transit solutions for more than a decade. Thanks to our deep understanding of both payment transactions and the mobile world, plus unrivaled manufacturing capabilities, worldwide coverage and commitment to innovation, we are the partner of choice for governments and other authorities looking to deploy innovative city or even country-wide schemes.

Unmatched reliability

We made further strides in mechanical reliability in 2008, achieving standards unmatched in the industry today.
This enabled us to deliver over 450,000 Celego Calypso dual interface cards to RATP/SNCF, the mass transit authorities serving Paris, France, with an assurance of continuing deliveries over the coming three years.

Worldwide coverage

In Chile, contactless technology was central to the renovation of the Transantiago mass transit system. The city's 5 million daily travelers can reload their eTickets, of which Gemalto is a supplier, at stations or at one of 900 shops.
China was another early adopter of contactless technology and some of its largest metropolitan areas, including Beijing, Guangzhou, Chongqing and Chengdu use Gemalto products and services for effective, profitable mass transit.
London has one of the largest contactless smart card initiatives in the world, changing the way people pay for all forms of public transport. The Oyster® branded cards, of which Gemalto is a key supplier, are quick and easy to use and recharge, helping smooth urban transport for over 8 million passenger-trips a day.
We also have contactless mass transit projects in Taiwan, Malaysia, Brazil, Mexico, Colombia, Turkey, Belgium and the United Arab Emirates.

Our Celego Calypso dual interface cards, as supplied to RATP/SNCF in Paris, have achieved unmatched standards of mechanical reliability.

Public sector

“E” solutions are sparking a revolution in the way governments achieve public security and engage with citizens.

Gemalto is contributing its expertise to the new generation of ePasseports which include fingerprint biometric data.

Technologies to bring government and citizen closer

Gemalto’s secure electronic documents and related solutions and services are deployed in more than 50 national programs worldwide. We are also present in some of the world’s biggest eHealth programs as well as numerous driving license and vehicle registration projects.
Being well placed in this rapidly growing market, our revenues from existing and new projects increased 27% against 2007. This also reflects our positioning as a solutions provider delivering, when required, end-to-end turn-key identity projects.

ePassports secure worldwide adoption

Gemalto now supplies some 19 national ePassport programs worldwide. This includes continents newly engaged in such programs, such as Africa, where we included the Ivory Coast in our substantial list of references. India also selected us to jump-start its ePassport program with a first rollout for diplomats.

Our innovations are contributing to the race against fraud while making life simpler and safer. In 2008 these included: Sealys Laser Sealer Technology, a customizable and cost-effective additional feature for polycarbonate cards; Sealys Window, a polycarbonate card incorporating a transparent window that is customizable with the incorporation of additional visual security features; Coesys Enrolment, a complete, secure biometric enrolment solution; Coesys eBorder, a framework for biometric-enabled border control; and Coesys eGovernment Authentication solution for instant secure connectivity to eGovernment services.
In 2008 Gemalto also introduced Sealys eTravel Operating System. During interoperability tests in September 2008, this proved to be the fastest, most interoperable ePassport operating system on the market with a reading time of less than 3 seconds in EAC (Extended Access Control) mode. The operating system slashes costs during document personalization, and enhances security and reduces costs at border control.

Europe gears up for second-generation ePassports

By mid 2009 all European Union member nations will be required to include additional digital biometric information, especially fingerprint biometric data, on ePassports. These new passports will also be required to function with a new security mechanism known as EAC (Extended Access Control).
With its experience and performance in the field, Gemalto is ideally placed to respond to this opportunity. In October 2008, Imprimerie Nationale (the French public printing office) selected Gemalto to provide its Coesys Issuance solution intended to personalize the second-generation biometric passports to be issued in France. This solution handles the secure loading of all individual data into each passport and performs complete management of this data, with a high level of quality control. Imprimerie Nationale currently issues around 3 million passports a year.

The citizen-centric "e" revolution

In October 2008, Gemalto demonstrated a solution that lets citizens use eID smart cards to connect instantaneously to eServices—an industry first. Public-sector bodies are deploying electronic infrastructures across a range of functions to combat ID fraud and foster dialogue with citizens, and Gemalto is playing a central role in making these eServices more convenient and accessible to citizens, yet more secure than ever.
Recently the European Committee for Standardization (CEN) announced requirements for a more interoperable ID document and electronic services for citizens based on smart card technology. In August 2008 Gemalto responded by delivering to the French National Secure Document Agency (ANTS) the very first European Citizen Card compliant with the European Standard for eID applications. This was the outcome of intensive work by standardization (CEN, AFNOR, Gixel) and industry bodies.
To enable citizens to perform essential administrative formalities or participate in governmental decisions—even vote—from their own PC, our Coesys eGovernment Authentication Solution requires no software installation on the citizen's computer. It runs with any browser and any operating system, allowing plug-and-play connectivity from any PC.
Over recent months, our customers have been leveraging new technologies for the benefit of citizens at an impressive pace. As a technology and solution provider, we have been associated with some of the latest national initiatives. These include, for example, large-scale eHealthcare programs in Azerbaijan, Germany and Algeria, and Taiwan's "ARC" eID cards for foreign residents. Gemalto is also a partner in Slovenia's eHealth 2010 strategic plan.

eDocuments bring multiple benefits

Gemalto has been closely associated with many of the world's leading e-security initiatives. Sometimes these yield gains beyond those primarily targeted. Witness the electronic driver's license piloted in the Mexican state of Nuevo León in 2007. This has proved highly effective in reducing not only identity theft and administrative fraud, but also traffic accidents, which have fallen by some 40%, as well as the associated insurance costs. Because it stores its owner's photograph and fingerprints, the license is a watertight credential, and people who want to obtain credit, cash checks or open bank accounts can use it as a form of ID. Now the states of Veracruz, Sonora and México too are switching to eDriver licenses.

7 million
eHealthcare smart cards distributed to Algerian citizens before mid 2010.

European Residence Permit Card

Scheduled for introduction from 2009/2010, the electronic European Residence Permit Card (eRPC) will provide temporary residence entitlement for non European Union (EU) or European Economic Association (EEA) citizens for any stay over three months, and for some shorter work-related stays.
Some 20 million people within the EU require such permits, which will replace existing documents that no longer meet increasing security demands.
The eRPC is defined as a credit card-sized card based on the same EU standards as used for eTravel documents. It contains a microprocessor, which securely stores facial image and fingerprint biometric data, and must have a contactless interface. Additional eServices are optional and could allow cardholders to securely access eGovernment or other eServices.
Gemalto's Sealys Residence Permit cards meet all ICAO and EU security criteria and fully comply with technical specifications.

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Our company

"People represent one of Gemalto's core company values: they're what make us such a dynamic, innovative enterprise."

Our responsibilities

Protecting employees and the environment has been a priority for over 20 years

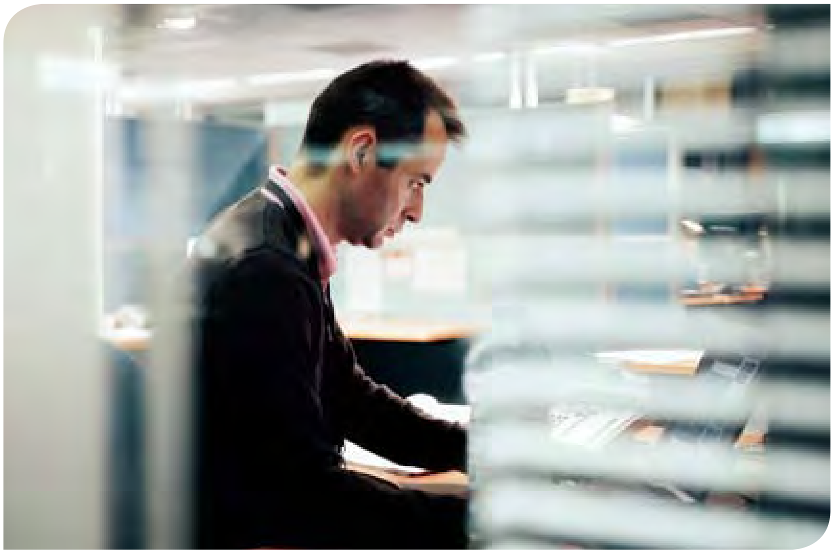
HSE for a healthier, safer workplace

As a responsible corporate citizen, legal compliance is merely the starting point for proactive protection of health, safety and the environment. Rigorous certification programs and continuous improvement complete the process.

Protecting the health and safety of employees and the environment has been a priority at Gemalto for over twenty years. Legal and regulatory compliance, certification, developing eco-friendly products, reducing the impact of our production activities, contributing to the communities we operate in and many other initiatives—all these are integral to our proactive HSE and corporate social responsibility policies.

Gemalto seeks to go beyond legal compliance, however, and its ongoing program of certifications is central to continuously improving our HSE performance. Our ISO14001 and OHSAS18001 certifications, for example, verify that the appropriate organization is in place to cut the frequency and gravity of incidents, organize training and accident awareness campaigns, and curb energy consumption and waste.

For the past two years, Gemalto has taken part in the European National Sustainable Development week, organizing initiatives to raise employee awareness of social and environmental issues. We also organized our first “Gemalto Sustainable Day 2008”, in conjunction with the United Nations’ WED (World Environment Day) 2008. The aim was to show employees what Gemalto is doing in terms of sustainable development and inspire them to take action in their daily working lives.



Working for a greener world

We strive to minimize environmental and health impacts throughout the product life cycle, from initial design and production to consumption and disposal. We achieve this through cooperation with clients, and thorough scrutiny of both products and processes.

Working closely with leading banking and telecom customers worldwide, we have developed a range of eco-friendly cards. These include paper-based materials for short-term use (e.g. scratch card paper), carbon neutral credit cards and “green” PETG based “earthcards”, a chlorine-free alternative to PVC. Yet more eco-friendly solutions are currently at pre-study phases.

Our hazardous substances policy seeks to safeguard the health and safety of workers and end-users alike, and to reduce the environmental impact of our products throughout their life cycle. Gemalto has developed a process to control hazardous substances based on a blacklist to be reviewed and signed by the supplier. Additional investigations, notably toxicity analyses, are performed at key stages in the product development and production process. All Gemalto products have been available in RoHS* format since July 2006. In 2008, Gemalto launched a deep analysis of its processes/products to comply with the European REACH** regulation.

Gemalto is also engaged in programs to comply with national recovery, recycling and end-of-life regulations and provides these services to our customers. We confirmed our commitment to these activities in November 2007 by taking the lead in signing a new charter with other members of the Association of Card Manufacturers and Personalizers (AFPC). To date, Gemalto operates waste management schemes in Germany, France, the UK and Poland. This approach is now also being deployed in Asia, within the framework of WEEE***/RoHS-like legislations.

** RoHS: Reduction of Hazardous Substances*
*** REACH: Registration, Evaluation, Authorization and restriction of Chemicals*
**** WEEE: Waste of Electrical and Electronic Equipment: European directives*

Gemalto employees are demonstrating true corporate citizenship all over the world.

Gemalto in the community

Helping to build thriving communities wherever we operate is a vital part of the way we do business. Gemalto and its employees around the world provide financial support and play an active part in both long-term and emergency humanitarian projects.

As a company, we believe in helping to develop the local economy by recruiting and training individuals from the countries where we do business. We also actively encourage our employees to contribute to the social development of their communities by sharing their talents and skills. Gemalto employees are demonstrating true corporate citizenship all over the world.

Our global Your World program celebrates, encourages and, in some cases, financially supports what Gemalto employees are doing in their communities. In the United States, 2008 activity included Race for the Cure in aid of breast cancer prevention and research; a National Science competition; the IBM Uptown Classic for the American Red Cross; Plan's USA—a child-centered non-profit organization; Arbor Day where employees planted 20 trees at the Montgomeryville site; and a "Brush with Kindness" through Habitat for Humanity, where employees helped a low-income family with home repairs.

At our offices in China, employees responded to the devastating earthquake in Sichuan by raising over RMB 750,000 for the Red Cross Society of China, providing assistance for the victims. Gemalto matched employees' contributions dollar for dollar.

Other employee-led initiatives worldwide included support for an ice hockey club in Finland; a Jazz Festival in France; an all-girl orphanage in Mexico; a summer camp for disadvantaged children in Poland; an international volunteer program in Lebanon; and the Sero Zero outreach program in Montreal, promoting the well being of people living with HIV.

Human Resources

Gemalto employs 10,000 people from 90 nationalities in 40 countries. Designing policies and programs to embrace that diversity and promote the top talent needed to keep our technologies on the cutting edge of digital security is central to human resources management at Gemalto.

Gemalto's Young Transfer Program is preparing a new generation of internationally minded leaders for the future. 2008 saw the transfer of 40 young graduates or recent hires from Asia, Latin America and Eastern Europe to jobs within Western Europe. The program is a major vehicle for sharing ideas and experience among our teams across the world.

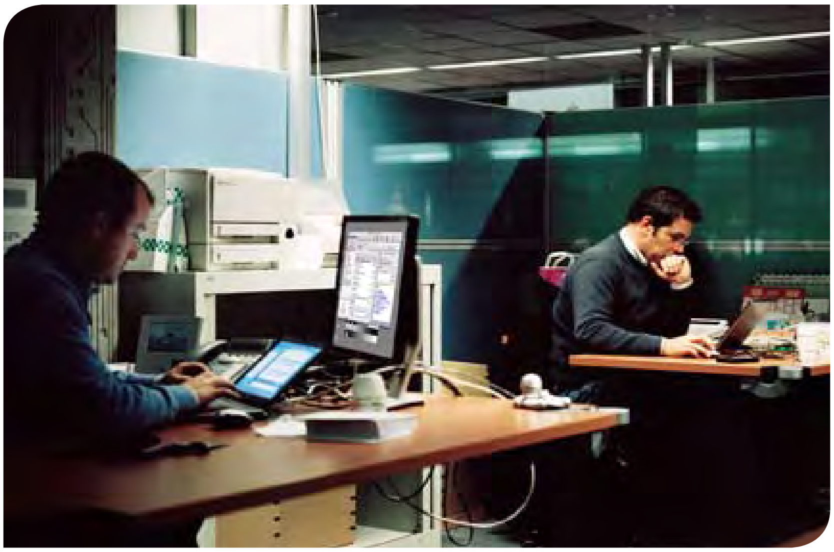
As part of the Gemalto University's global leadership development programs, 120 new recruits attended the 2008 Discovery Leadership program in Singapore. The "Emerging Leadership" sessions, meanwhile, held in France, Brazil and China, target key contributors and mid-career managers. Both programs seek to give participants global insight into Gemalto's business, as well as develop cross-functional and inter-regional networks.

Promotion from within is a key HR priority at Gemalto. To facilitate career mobility, we have launched a worldwide jobs bulletin board and validation process called Career Connect—just one of the ways we make sure we have the right people in the right positions to serve our customers.

The technical wizardry of our highly qualified R&D engineers is key to Gemalto's leadership in digital security, and a "Technical Ladder" career path recognizes and develops the company's top talent.

Employee commitment is a key to our business performance. Our online PeopleQuest survey provides vital employee feedback on their level of satisfaction and tracks implementation of necessary improvements. Over 100 PeopleQuest inspired actions were put in place worldwide this year to ensure that our people's concerns and priorities remain at the heart of our organization.

Our research



Our portfolio of 5,000 patents is a powerful springboard for fulfilling our customers' needs

Industry-leading research

Over two decades, Gemalto's world-class research and development engineers have blended outstanding expertise with imagination. They are setting the pace for the innovations transforming our digital lives, with a constant focus on commercially viable outcomes.

Gemalto's deep and broad understanding of the digital security industry is rooted in our world-class team of some 1,300 engineers, including internationally renowned experts in security and cryptography. Our R&D teams work in 9 centers located in key zones around the world close to our customers.

Our portfolio of over 5,000 patents and patent applications is a powerful springboard for anticipating and fulfilling our customers' needs. Maintaining our lead depends on continuously improving the expertise of our R&D engineers.

In 2008 we inaugurated a global program called Gemalto Technical Ladder, to offer attractive career paths to our engineers, acknowledging their contribution to Gemalto's success.

Also in 2008 we strengthened our processes for fostering new business opportunities with the launch of multi-talented cross-functional innovation groups. These aim to generate quality business ideas to warrant the creation of new in-house incubation cells on top of the three currently being developed.

Making digital security happen

Our research establishment boasts many eminent experts in digital security. They published several dozen articles in scientific journals in 2008 as well as serving on many scientific conference program committees.

The review of our business operations (in previous pages) describes how Gemalto's innovations are embodied in the flood of improvements to security, convenience and user experience now driving the convergence of mobile telecommunications, internet, banking and contactless technologies.

Gemalto also plays a key role in the definition and adoption of international standards, ensuring that

different types of products and applications work together seamlessly. Leading by example, we offer the widest range of interoperable cards, and are committed to international standards such as Java Card, ETSI, OMA, ICAO, 3GPP, ISO and Global Platform. A notable breakthrough in 2008 was the completion of the standards to bring NFC to mobile phones.

Leveraging our expertise through collaborative ventures

Gemalto's R&D teams are currently participating in more than 30 publicly funded research projects. We are involved in all major Eureka clusters, a European intergovernmental program to enhance competitiveness through support for businesses, research centers and universities. In particular Gemalto sits on the Application Management Board of the largest Eureka cluster CATRENE, focused on microelectronics and embedded applications.

We are also working with other Eureka clusters such as ITEA for software intensive systems, and CELTIC for Telecommunications systems in NFC technology, P2P networking, Trusted Computing and interactive and personalized mobile TV. In 2008, Gemalto and partners from the former CELTIC Fidelity Project won the CELTIC "Best project Award" for their work on the implementation of Liberty Alliance specifications in an inter "Circle of Trust" telecommunication environment.
Gemalto is also leading a major project in the area of advanced 3D packaging in the EUREKA EURIPIDES cluster (Cosy3D project). This project is a follow-up of the former "SmartP@ck" project led by the company and which was also distinguished by an invited lecture during the EURIPIDES Forum at the end of the year.

In France, we are actively contributing to the System@Tic-Paris Région, SCS ("Secure Communications Solutions") and TES ("Secure Electronic Transactions") Competitiveness Clusters launched by the French Government. The company is leading 20 partners in a major project on digital identity management (FC^2), working closely with the Interior Ministry and the French GIE-CB banking organization.

Gemalto is contributing to several French government and European IST programs bringing together universities, research centers and businesses. These targeted, forward-looking R&D developments include cryptography, formal methods tools, software development methodologies and intelligent embedded agents.

Finally, in 2008 we continued to develop our R&D activity in Singapore, in collaboration with the country's Economic Development Board, enabling us to serve Asia's fast-growing markets even more effectively in the years to come.

Our relationships

Our "Tell Me" survey involved 240 employees conducting 550 customer interviews

Satisfying our customers

Understanding our customers' needs and helping them leverage market opportunities is critical to the success of our business. Our annual "Tell Me" survey brings Gemalto employees face to face with customer opinions for an accurate view of how we are doing.

We continue to place considerable emphasis on the satisfaction of our customers in order to support their growth.
In 2008 we engaged in post-merger streamlining of our activities to improve the service we offer them. For example, we consolidated some of our plants to optimize manufacturing flows; we standardized our processes and tools to provide them with more flexibility and capacity; and we hired and trained new personnel in software and solutions to improve the delivery of projects and better support our customers' applications. This intense activity, concentrated over a relatively short time span, is now generating benefits for our customers.

As we do every year, we surveyed 200 of our customers from July to September to listen to their input, assess their satisfaction in doing business with Gemalto and get feedback on how well we are meeting their needs. This Tell Me survey involved 240 Gemalto employees who conducted nearly 550 face to face interviews with our customers. The rigorous methodology means our employees are directly exposed to the voice of the customers under the strict control of independent subject experts who ensure the quality of the complete process.

Overall a large majority of our customers declare that they are satisfied or very satisfied in doing business with Gemalto and value our leadership in the market. They primarily recognize the indisputable quality of our products and completeness of our portfolio; the flexibility and responsiveness of our deliveries; strong relationships with Gemalto people; and our clear leadership in innovation. We have taken this feedback into account in prioritizing our 2009 action plan. We will concentrate our efforts in streamlining our delivery processes, particularly in the Banking sector, continuously increasing our level of service in software and solutions; and spreading our innovative solutions.

A global partnership network

Our business, technology and solution partnerships play an essential role in enabling us to respond swiftly and creatively to our customers' needs, from analysis and development of solutions to delivery.

We have built up a global network of over 400 partners. For operational purposes these are divided into three main groups:

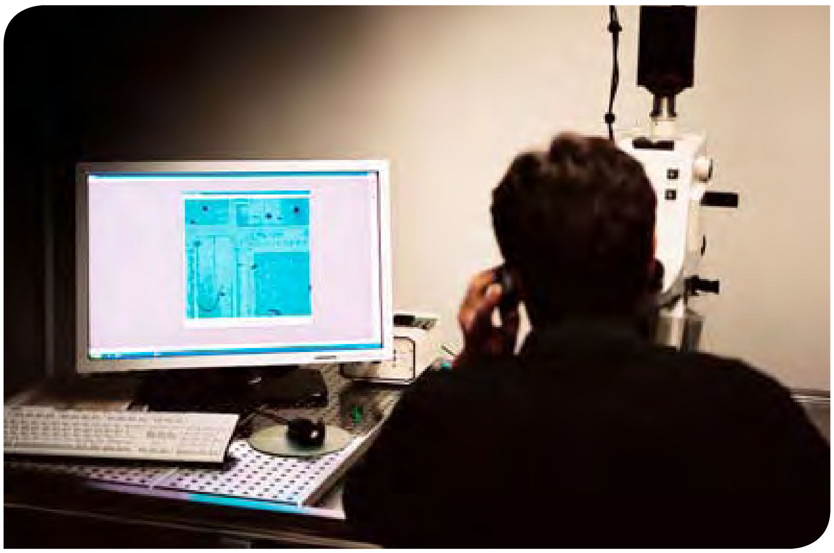
Business partners market, integrate and resell Gemalto products and solutions in all vertical sectors. They include distributors, value-added resellers (VARs), other resellers and system integrators. Their expertise provides our customers with in-depth local knowledge and service combined with Gemalto's world-class technology and solutions. This network helps us respond to highly specific customer requirements.
For example, Opteam, our VAR partner in Poland, supplied over one million student ID cards to 100 universities and high schools in 2008. These ID cards combine an identity function with management of various access rights.

In North America, our partner CDW is a leading provider of technology solutions for business, government and education. In 2008, it deployed a new strong authentication solution combining Gemalto .NET card technology with One-Time-Password (OTP) in a single USB device, for Virchow Krause & Company LLP, a major accounting firm in the US. Gemalto works with local system integrators and national printing houses for government programs the world over.

Technology partners provide products and software interoperable with our own. At the same time, Gemalto's products and software are fully compatible with industry leaders such as Microsoft and Citrix, and with leading handset vendors, operating systems and chipset manufacturers in mobile communications. This gives Gemalto a unique partner footprint in the industry.

Solution partners develop solutions around Gemalto products and technologies, enriching the portfolio we offer or operate for our customers.

Our capabilities



Quality and security are central to Gemalto's strategy, enabled by a world-class manufacturing system

Quality & Security

We have institutionalized best-in-class performance throughout our company to achieve the highest levels of quality and security.

We launched several programs in 2008 to improve process reliability, as part of our World Class Manufacturing initiative in our production sites. New contactless technology products have been a major focus of attention. In addition, we implemented a new Hexachromy-based printing process for PVC cards that combines high quality results with a positive impact on printing step yield. These methodologies and programs are key to improving the capabilities and reliability of our products and services. Regular customer surveys confirm our global reputation on this score. These methodologies also contribute to the success of our certification programs.

In 2008 we achieved 2 new initial ISO9001 certifications for Taiwan and Noida; and following Barcelona's initial success in gaining EFQM* recognition, our Pont Audemer site in France gained a 5-Star "Recognized for Excellence" rating. These achievements also help ensure compliance with customer-specific requirements such as the MasterCard CQM (Card Quality Management) Standard.

In 2008, our R&D centers again underwent a Software Engineering Process Improvement program based on the CMMI (Capability Maturity Model Integration) model. Gemalto was first with a card development center certified at CMM level 2, first with a card services organization certified at CMMI level 2 and first with a card development center certified at CMM level 3.

Security is core to the value of our products and services and critical to our business success. Our priority is to preserve the integrity, confidentiality and availability of our customers' assets and data, and at the same time to protect Gemalto's assets. We therefore maintain maximum security in our own operations, and hold external security certifications (Visa, MasterCard, GSM SAS, ISO 2700, etc.) for 24

of our sites. Adjustments since 2007 have included some site concentrations and preparation of one more site in Asia for ISO 27001.
We have worked intensively with certification bodies on pioneering the necessary secure architecture for innovative and sophisticated programs like m-NFC, OTA, M2M, mobile banking, Instant Issuance and operated services.

In 2008 we also focused on the security of our personnel, deploying global processes and procedures to ensure the utmost security for our travelers wherever our business development takes us in today's increasingly risky world.

** EFQM: European Foundation for Quality Management, of which Gemalto is a member.*

A world-class manufacturing system

Our manufacturing system is uniquely engineered to deliver top quality products to our customers efficiently, rapidly and flexibly.

A universal "World Class Manufacturing" program is progressively adapting our 17 production sites and 30 personalization centers around the world to meet our customers' fast-changing needs. All our facilities are being put through a step-change to ensure they match or exceed "Best in Class" standards.

At the same time, our Innovation and Manufacturing Technology team is developing state of the art manufacturing technologies to meet the evolving needs of the digital security market.
Key performance indicators are used to enhance our manufacturing operations and we annually assess our plants' maturity against 6 improvement axes. The following examples show this program is achieving concrete results.

■ Value Stream Mapping analysis at our Gemenos (France) plant has cut its lead-time from 13 days to 2, while Curitiba (Brazil) cut this from 8 days to 1.2.

■ We developed an operator career path in our Barcelona (Spain), Montgomeryville (US) and Curitiba (Brazil) plants while promoting employee participation in improvement workgroups.

■ We streamlined our order and industrialization process, and our Montgomeryville plant cut proofturn by up to 72% by implementing an order entry team.

■ 5S and continuous flow implementation are reducing and standardizing manufacturing leadtimes.
In China, our plants in Tianjin and Shanghai cut setup times for personalization and module encapsulation processes by 10%-33%.

■ Production personnel are empowered to maintain equipment and participate in performance improvement workgroups. Our Chambray Les Tours (France) plant transferred some maintenance operations to operators, reducing downtime by 23% in deployed areas.

■ Getting things right first time rather than fixing problems later is key to the highest quality standards. Our Singapore plant saved 1.7 million euros by implementing 6Sigma to reduce their cost of non-quality. In Finland, our Vantaa plant is developing standardized work processes for improved manufacturing quality and performance.

Glossary of digital security terms

3G (Third Generation): the broadband telecommunications systems that combine high-speed voice, data and multimedia.

3GPP (3G Partnership Project): a group that aims to produce specifications for a 3G system based on GSM networks.

5S: a methodology for creating efficient working conditions, based on five key Japanese concepts.

Bot (Internet bot): a type of computer program designed to do automated tasks.

CAC (Common Access Card): a US Department of Defense smart card issued as standard physical and network identification for military and other personnel.

CDMA (Code Division Multiple Access): a wireless communications technology that uses the spread spectrum communication to provide increased bandwidth.

Contactless: a card that communicates by means of a radio frequency signal, eliminating the need for physical contact between the card and a reader.

DDA (Dynamic Data Authentication): a highly secure authentication technology that allows banks to approve transactions more securely at the terminal.

Digital signature: an electronic signature created using a public-key algorithm that can be used by the recipient to authenticate the identity of the sender.

DNS cache poisoning: a technique that tricks a Domain Name Server (DNS) into believing it has received authentic information when in reality it has not.

DOVID (Diffractive Optical Variable Image Device): a hologram, kinegram or other image used in secure printing of cards, documents, etc.

DVB-H (Digital Video Broadcasting-Handheld): a technical specification for bringing broadcast services to handheld receivers.

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 predominantly for public transport.

Ethernet: a diverse family of computer networking technologies for local area networks (LANs).

ETSI (European Telecommunications Standards Institute): the EU organization in charge of defining European telecommunications standards.

FIPS 201 (Federal Information Processing Standard): a US federal government standard that specifies personal identity verification requirements for employees and contractors.

FOMA (Freedom of Mobile Multimedia Access): the brand name for the world's first W-CDMA 3G services offered by NTT DoCoMo, the Japanese operator.

GSM (Global System for Mobile communications): a European standard for digital cellphones that has now been widely adopted throughout the world.

GSMA (GSM Association): the global association for mobile phone operators.

HIPAA (Health Insurance Portability and Accountability Act): the US act that protects health insurance coverage for workers and their families when they change or lose their jobs.

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.

ICAO (International Civil Aviation Organization): a UN agency that defines standards and practices for air navigation, prevention of unlawful interference, and facilitation of border-crossing procedures for international civil aviation.

IP (Internet Protocol): a data-oriented protocol for communicating data across a network; hence an IP address is a unique computer address using the IP standard.

ISO (International Organization for Standardization): an international body that produces the worldwide industrial and commercial ISO standards.

Java: a network-oriented programming language invented by Sun Microsystems and specifically designed so that programs could be safely downloaded to remote devices.

Key (keystroke) logging: means of capturing a user's keystrokes on a computer keyboard, sometimes for malicious purposes.

L6S (Lean Six Sigma): a methodology for eliminating defects and improving processes.

Malware: malicious software designed to infiltrate or damage a computer system without the owner's consent.

Man-in-the-middle attack: an attack in which an outsider is able to read, insert and modify messages between two parties without either of them knowing.

Microprocessor (smart) card: a card comprising a module embedded with a microprocessor chip, a computer with its own processor, memory, operating system and application software.

OATH (The Initiative for Open Authentication): an industry coalition comprising Gemalto, Citrix, IBM, Verisign and others, that is creating open standards for strong authentication.

OMA (Open Mobile Alliance): a body that develops open standards for the mobile phone industry.

OTA (Over-The-Air): a method of distributing new software updates to cellphones which are already in use.

Password cracking: the process of recovering secret passwords from data in a computer system.

PDC (Personal Digital Cellular): a 2G mobile phone standard used in Japan and South Korea.

Phishing: sending fraudulent emails requesting someone's personal and financial details.

PIN (Personal Identification Number): a secret code required to confirm a user's identity.

PKI (Public Key Infrastructure): the software and/or hardware components necessary to enable the effective use of public key encryption technology. Public Key is a system that uses two different keys (public and private) for encrypting and signing data.

RUIM (Removable User Identity Module): an identity module for standards other than GSM.

SIM (Subscriber Identity Module): a smart card for GSM systems.

SMS (Short Message Service): a GSM service that sends and receives messages to and from a mobile phone.

Thin client: a computer (client) that depends primarily on a central server for processing activities. In contrast, a large client does as much processing as possible.

Trojan: a program that contains or installs a malicious program.

USB (Universal Serial Bus): a standard input/output bus that supports very high transmission rates.

USIM (Universal Subscriber Identity Module): ensures continuity when migrating to 3G services.

VPN (Virtual Private Network): a private network often used within a company or group of companies to communicate confidentially over a public network.

W-CDMA (Wideband-Code Division Multiple Access): a 3G technology for wireless systems based on CDMA technology.

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€ 1,680 million
Adjusted revenue

€ 169.3 million
Adjusted operating income

10.1%
Adjusted EBIT margin

€ 114.9 million
IFRS net income

€ 1.80
Adjusted basic earnings per share

€ 344 million
Net cash

1 . Financial overview

This financial overview is based on adjusted income statements. The adjustments are described in chapter 3 – "Management discussion and analysis" of this Annual Report.

Gemalto is the world's leading provider of digital security products and services, including microprocessor cards and secure personal devices, with a global presence and expertise in all major areas of digital security applications: Mobile Communication, Secure Transactions (including Financial Services; pay-TV; Healthcare; Transportation), Security (Government Programs; Identity & Access Management), Public Telephony, and Point-of-Sales Terminals (POS Terminals).

Gemalto reported a good performance in 2008 thanks to strong customer loyalty, the engagement of its employees and excellence in execution.

The Company's top-line expanded by 6% at constant exchange rates, with revenue from software and services growing by 44% at constant rates to account for nearly 10% of the Company turnover.

Gross margin for the full year was up by almost 5 percentage points to 35.5%, reflecting operational efficiencies and scale.

Operating expenses were essentially stable as a percentage of total revenue, with improved efficiencies in product development offset by additional commercial efforts devoted at promoting advanced products and services.

As a result, the adjusted operating income for the year doubled to €169.3 million and the adjusted operating margin reached 10.1%. All three main segments contributed to the increase in adjusted operating income. Mobile Communication and Secure Transactions were largely responsible for this improvement through further productivity gains and by Secure Transactions returning to profit. Security also contributed to the overall improvement while continuing to invest in new technologies and market developments.

Adjusted net profit for the period was €153.0 million, an increase of 72% over the €89.2 million reported in 2007.

Gemalto balance sheet remained strong in 2008, with net cash amounting to €344 million (€ 314 million in 2007). The share buy-back program and our restructuring actions used in 2008 €65 million and €59 million, respectively (€144 million and €31 million, respectively, in 2007).

2 . Key financial information

The tables below show the Company's key annual financial data for the years ended December 31, 2007 and 2008.

The income statements below were presented on an Adjusted basis. These Adjusted income statements excluded one-off expenses incurred in connection with the Combination with Gemplus, reorganization charges and charges resulting from the accounting treatment of the transaction. For a more detailed description of Adjusted financial information, please refer to section 3.1 — "Basis of preparation of the financial information presented and discussed in this chapter".

The summary consolidated balance sheet information below was extracted from the Group's balance sheets as of December 31, 2007 and 2008 prepared in accordance with International Financial Reporting Standards (IFRS), and is drawn from the financial statements shown in section 7.1.1 — "Consolidated balance sheets for the periods ended December 31, 2007 and 2008".

The summary cash flow information below was derived from the IFRS consolidated cash flow statements for the years ended December 31, 2007 and 2008.

Adjusted income statements (unaudited):

(€ in millions)	Year ended December 31,	
	2007	2008
Revenue	**1,631**	**1,680**
Cost of sales	(1,131)	(1,083)
Gross profit	**500**	**597**
Gross margin	*30.7%*	*35.5%*
Research and engineering expenses	(103)	(95)
Sales and marketing expenses	(218)	(232)
General and administrative expenses	(100)	(102)
Total Operating expenses	**(420)**	**(429)**
Other income, net	3	2
Operating income (EBIT)	**84**	**169**
Operating margin	*5.1%*	*10.1%*
Financial income net	10	2
Share of profit of associates	0	3
Gain on sale of investment in associate	11	0
Profit before income tax	**105**	**174**
Income tax expense	(16)	(21)
Profit for the period	**89**	**153**
Basic earnings per share (Euro)	0.98	1.80

Consolidated balance sheets:

(€ in millions)	As of December 31,	
	2007	2008
Cash and cash equivalents	337.4	367.1
Trade and other receivables, net (*)	427.3	447.1
Inventories, net	173.7	161.0
Goodwill, net	543.8	552.4
Intangible assets, net	73.7	56.1
Total assets (*)	1,846.8	1,864.3
Borrowings (current portion)	6.9	11.9
Borrowings (non-current portion)	16.7	11.2
Minority interest	11.6	14.1
Capital & reserves attributable to company's equity holders	1,230.7	1,288.5

(*) Compared to the Key Financial Information for December 31, 2007 disclosed in the 2007 Annual Report, Trade and other receivables of €12.2 million have been reclassified to Trade and other payables.

Cash position variation:

(€ in millions)	2007	2008
Net cash generated by operating activities before cash outflows related to restructuring actions	130	191
Cash used in restructuring actions	(31)	(59)
Net cash used in investing activities	(33)	(53)
Net cash used in financing activities	(153)	(48)

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3.1 BASIS OF PREPARATION OF THE FINANCIAL INFORMATION PRESENTED AND DISCUSSED IN THIS CHAPTER

Following to the combination with Gemplus, Gemalto's financial statements have undergone significant changes, due in particular to the accounting treatment of this transaction in accordance with IFRS 3 "Business combination". To supplement the financial statements presented on an IFRS basis in chapter 7 "Financial statements" of this annual report, the Group presents adjusted financial information (unaudited).

Adjusted financial information, as described in section 3.1.1, excludes certain business combination accounting entries, and expenses directly incurred in connection with the combination with Gemplus. The Group believes that this information is helpful in understanding its past financial performance and its future results. Adjusted financial measures are not meant to be considered in isolation or as a substitute for comparable IFRS measures, and should be read only in conjunction with consolidated financial statements prepared in accordance with IFRS. Management regularly uses these supplemental adjusted financial measures internally to understand, manage and evaluate the business and take operating decisions. These adjusted measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of executives is based in part on the performance of the business based on these adjusted measures.

The operating and financial review in section 3.2 will be based on adjusted income statements, IFRS balance sheets and cash position variation schedules derived from IFRS cash flow statements.

3.1.1 Adjustments to IFRS income statements

The adjusted financial information reflects adjustments to the IFRS income statements based on the following items, as well as the related effects on income tax:

- **Additional stock-based compensation** specifically due to the accounting treatment of the combination: as prescribed by IFRS 2 "Share-based payment" and IFRS 3 "Business Combination", vested and unvested stock options or awards granted by an acquirer in exchange for stock options or awards held by employees of the purchased company, or any substantially equivalent commitment by the acquirer to assume the obligations of the acquiree with regards to stock options granted to the latter's employees, as is the case for Gemalto under the Combination Agreement, shall be considered to be part of the purchase price for the acquirer, and the fair value (at the effective date of the acquisition or merger) of the new (acquirer) awards shall be included in the purchase price. It leads to an increase in the compensation charge related to stock-options granted by Gemplus prior to the acquisition. The adjustment, eliminating the additional stock-based compensation charge, is intended to reflect the compensation charge that Gemplus would expense if the company had continued to operate on a standalone basis. The Group believes this adjustment is useful to investors as a measure of the ongoing performance of its business.
- **Amortization and depreciation of intangible assets:** amortization and depreciation of intangible assets recognized as a result of the combination with Gemplus have been excluded from the adjusted profit for the period. The Group believes this is useful because, prior to this combination in the second quarter of fiscal 2006, it did not incur significant charges of this nature, and the exclusion of this amount helps investors understand the evolution of IFRS operating expenses in periods subsequent to the combination with Gemplus. Investors should note that the use of intangible assets contributed to revenue earned during the period and will contribute to future revenue generation and that these amortization expenses will be recurring.
- **Combination related charges:** in 2006, Gemalto incurred material expenses in connection with the combination with Gemplus, which it would not have otherwise incurred. Combination related charges consist of professional advisory services incurred in connection with the integration, new Gemalto brand and logo creation and worldwide registration, as well as impairment charges related to capitalized development costs on projects which are redundant having regard to existing products or technologies available in Gemplus.
- **Reorganization charges:** charges incurred in connection with headcount reductions in the support functions, the consolidation of manufacturing and office sites (including property, plant and equipment, intangible asset and inventory write-offs and impairment, asset transfer costs, under-absorption costs linked to plant closure, employee benefits, severance and associated costs, lease termination and building refurbishment cost) and the rationalization and harmonization of IT systems and of the product and service portfolio.
- **Management incentives on investment disposal:** in 2007 the Company realized a gain on the disposal of an investment in an Associate. A management

incentive payment relating to the disposal of this investment was recorded as General & Administrative expenses in the 2007 IFRS income statement, and was reclassified in the 2007 Adjusted income statement to be on the same line item as the gain.

To summarize, for 2008 and 2007 Gemalto provides two sets of income statements:
- IFRS consolidated income statement, pursuant to its regulatory obligations,
- Adjusted income statement.

Gemalto IFRS consolidated income statement	Includes all charges resulting from the accounting treatment of the combination with Gemplus (amortization and impairment of intangible assets, additional stock-based compensation), and one-off expenses and reorganization charges incurred in connection with the combination (reorganization and combination related charges).
Gemalto adjusted income statement	Excludes one-off expenses and reorganization charges incurred in connection with the combination with Gemplus (reorganization and combination related charges) and charges resulting from the accounting treatment of the combination (as detailed above).

3.1.2 Reconciliation between IFRS and adjusted income statements for the twelve-month period ended December 31, 2007

The following table sets forth the unaudited reconciliation between the IFRS income statement and the adjusted income statement for the twelve-month period ended December 31, 2007.

All amounts in thousands of euros	IFRS income statement for the 12-month period ended 31 December, 2007	Adjustment relating to combination related expenses	Adjustment relating to reorganization charges	Adjustment relating to amortization of intangible assets	Adjustment relating to stock based compensation	Adjustment relating to management incentives on investment disposal	Adjusted income statement for the 12-month period ended 31 December, 2007
Sales	**1,629,487**		**2,005**				**1,631,492**
Cost of sales	(1,135,544)		4,384		(123)		(1,131,283)
Gross Profit	**493,943**		**6,389**		**(123)**		**500,209**
Research & Engineering expenses	(102,739)				(40)		(102,779)
Sales & Marketing expenses	(217,347)				(218)		(217,565)
General & Administrative expenses	(99,713)				(517)	650	(99,580)
Other Operating expenses	3,343						3,343
Combination related expenses	(1,241)	1,241					-
Reorganization expenses	(100,026)		100,026				-
Amortization and impairment of intangible assets	(47,454)			47,454			-
Operating Income	**(71,234)**	**1,241**	**106,415**	**47,454**	**(898)**	**650**	**83,628**
Financial Income	10,465						10,465
Share of profit of associates	432						432
Gain (loss) on sale of an Investment in Associate	11,224					(697)	10,527
Profit before taxes	**(49,113)**	**1,241**	**106,415**	**47,454**	**(898)**	**(47)**	**105,052**
Income tax	3,474		(5,517)	(13,838)			(15,881)
Profit (loss) for the period	**(45,639)**	**1,241**	**100,898**	**33,616**	**(898)**	**(47)**	**89,171**

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3.1.3 Reconciliation between IFRS and adjusted income statements for the twelve-month period ended December 31, 2008

The following table sets forth the unaudited reconciliation between the IFRS income statement and the adjusted income statement for the twelve-month period ended December 31, 2008.

All amounts in thousands of euros	IFRS income statement for the 12-month period ended 31 December, 2008	Adjustment relating to combination related expenses	Adjustment relating to reorganization charges	Adjustment relating to amortization and impairment of intangible assets and inventory step-up	Adjustment relating to stock based compensation	Adjusted income statement for the 12-month period ended 31 December, 2008
Sales	**1,680,526**		**(652)**			**1,679,874**
Cost of sales	(1,091,220)		7,984	150	34	(1,083,052)
Gross Profit	**589,306**	**-**	**7,332**	**150**	**34**	**596,822**
Research & Engineering expenses	(94,934)				3	(94,931)
Sales & Marketing expenses	(232,505)				77	(232,428)
General & Administrative expenses	(101,972)				44	(101,928)
Other Operating expenses	1,737					1,737
Combination related expenses	86	(86)				-
Reorganization expenses	(20,911)		20,911			-
Amortization and impairment of intangible assets	(13,743)			13,743		-
Operating Income	**127,064**	**(86)**	**28,243**	**13,893**	**158**	**169,272**
Financial Income	2,139					2,139
Share of profit of associates	2,350					2,350
Gain on sale of an Investment in Associate	195					195
Profit before taxes	**131,748**	**(86)**	**28,243**	**13,893**	**158**	**173,956**
Income tax	(16,845)			(4,130)		(20,975)
Profit (loss) for the period	**114,903**	**(86)**	**28,243**	**9,763**	**158**	**152,891**

3.2 OPERATING AND FINANCIAL REVIEW

3.2.1 Introduction to the operating and financial review

Gemalto is the world's leading provider of digital security products and services, including microprocessor cards and secure personal devices, with a global presence and expertise in all major areas of digital security applications: Mobile Communication, Secure Transactions (including Financial Services; pay-TV; Healthcare; Transportation), Security (Government Programs; Identity & Access Management), Public Telephony, and Point-of-Sales Terminals (POS Terminals). Historically Mobile Communication has been the biggest contributor to Group total revenue and gross profit. Gemalto operates its five activities worldwide: in EMEA (Europe, the Middle East and Africa), Asia and NSA (North America, Central and South America). Historically, EMEA has been the largest contributor to Group total revenue and gross profit.

Gemalto's digital security solutions leverage the distinct safety from combining hardware and software security to make people's everyday interactions with the digital world secure and easy. It does this by supplying to governments, mobile network operators, banks and enterprises a wide range of managed services and secure personal devices, such as subscriber identification modules (SIM) in mobile phones, smart banking cards, electronic ID documents and passports, and USB tokens for online identity protection.

The strategy of Gemalto is to expand on these various secure devices, to develop new software applications and solutions to make them convenient to set up and use, and to deploy more services related to their utilization, by committing financial resources to research, development, marketing and sales. Gemalto focuses on growing where it can bring superior and differentiated value to its customers, and thereby create return for its shareholders.

Gemalto also has a value-based segmentation of its offers, providing its customers adapted levels of service sophistication, with corresponding levels of capital employed. The client-base consists largely of blue-chip companies that operate in different and uncorrelated industry verticals, hence providing a diversification effect in Gemalto's portfolio of business segments and a reduction of its business risks.

Gemalto was created from the combination of Axalto and Gemplus in 2006, aiming at capturing operational and research synergies to pursue new market opportunities. Its digital security vision reflects the growing demand of billions of people worldwide for mobile connectivity, identity and data protection, payment card safety, modern health and transportation services, e-government and national security.

The benefits of the combination have been clearly demonstrated by the continuously improving results that Gemalto has delivered. It has consistently generated substantial operating cash flows, and at the same time successfully completed the merger restructuring plan and returned a part of the cash to shareholders in share buy-back programs, amounting to €144 million in 2007 and €65 million in 2008. Today, Gemalto is able to leverage its expansion on its lean operating structure, worldwide footprint and sustained synergies.

Gemalto's strategy combines efforts in operational excellence and initiatives for profitable growth. The management team, most of which has been part of the company's development since a long period, is committed to expanding the Company's revenues and earnings over the long term.

3.2.2 Principal factors affecting revenue

Our three core activities: Mobile Communication, Secure Transactions, and Security, sell microprocessor cards (including embedded software), software solutions and services (including device management platforms, services to personalise each device individually), and intellectual property rights licences. The Company also sells, mostly in the Security segment, other microprocessor based products such as electronic passports and secure USB keys. Our Public Telephony activity sells memory cards, and our POS Terminals activity sells point-of-sale terminals (including embedded software and related servers) and related technical support and maintenance services. We typically sell our products under contracts with fixed or determinable prices that generally do not include a right of return or similar provisions or other significant post-delivery obligations. We are also increasingly providing a range of services to our customers in our three core segments and in POS Terminals. Revenue derived from our services is increasing rapidly as Gemalto is expanding in high-end applications and related support in its core businesses and developing new service offers in digital security.

- Mobile Communication, Secure Transactions and Security

Revenue from sales of our products in our three main segments, Mobile Communication, Secure Transactions and Security, varies according to sales volumes, the prices of our products, the mix of products sold and the regional mix. Revenue from these products generally varies significantly depending on the technology used. Our Mobile Communication, Secure Transactions and Security products cover a wide range of technologies, including plastic cards, magnetic stripe cards, memory cards, microprocessor cards, and new form factors including a microprocessor and embedded highly secure software. In addition, we sometimes sell microprocessor subcomponents, or "modules", that include the core software layers, to other card manufacturers when attractive prices are obtained. Although we intend to continue to sell modules in this manner, we do not currently consider this to be a major component of our business. Generally, the more the technology and embedded software are sophisticated in our products, the higher the price we can sell. As a result, revenue in our Mobile Communication, Secure Transactions and Security segments tends to rise when sales volumes of more technologically advanced products and services increase.

Mobile Communication

Generally, we sell our Mobile Communication products to mobile operators pursuant to contracts awarded through competitive tender processes. Contracts are usually for a defined volume or a defined period, typically one year, but may be shorter, particularly for those involving large volumes. Upon expiration of such contracts, we are required to participate in new public tenders, alongside a large number of card companies, to obtain new contracts to provide products for the next period. Therefore, the portion of our revenue attributable to a particular mobile operator will vary from year to year, and our worldwide operations and investments in new technology provide opportunities for new contracts and increased revenue under existing or renewed contracts with mobile operators.

Sales volumes of Mobile Communication products are also directly affected by developments in the overall wireless market (a consumer market by nature), including competition between operators for subscribers, economic conditions, evolution of households general purchasing power, wireless penetration and subscriber growth rates in new or emerging wireless markets, introduction of new business models like MVNO (Mobile Virtual Network Operators), new value-added

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services marketing by wireless operators and the deployment of new wireless standards that use microprocessor cards as a means to activate either pre-paid subscriptions or subscriptions on a contract basis.

Our Mobile Communication products range from low-end products with basic security and simple stand alone features, to high-end solutions with enhanced capabilities that allow operators to offer more advanced applications. These applications may be activated after the card is in operation in the field, or downloaded remotely to the end-users SIM cards. In this second case, Gemalto provides a client-server solution including pieces of software connected to the operators' business solutions in their back-office environments. Operators in countries that are starting to deploy digital wireless networks generally purchase low-end and mid-range products, even though some operators opt for much more advanced microprocessor cards to enhance network performance and achieve marketing differentiation. As penetration rates increase and the market matures, demand generally shifts to higher-end products as operators seek to improve their competitiveness and increase average revenue per subscriber. This trend was particularly pronounced in Western Europe and certain Asian countries in recent years, and has now spread to all regions, particularly to North and South America. The introduction of new high-end products typically leads to the gradual phase-out of low-end and mid-range products. The roll-out of third generation technology (3G or UMTS) for example usually leads to the progressive replacement of previous generations of microprocessor cards.

The selling prices of our different Mobile Communication products depend mainly on their sophistication, embedded software, cryptographic capabilities and memory capacity, the availability of competing products, as well as the capacity to create end-to-end solutions with a back-end server. We attempt to achieve revenue growth in our Mobile Communication business by regularly launching new and more advanced and sophisticated products and solutions to complement and eventually replace prior product generations. Sooner or later our new higher-value products find themselves sharing the market with competing products, and, as competition among these new products intensifies, prices come under strong downward pressure. As a result, we also seek to maximize our revenue by entering markets for new, high-end products ahead of our competitors, anticipating and promoting demand, leveraging the efficiency of our engineering teams and our flexible global production processes to speed up the development of new products and bring them to the market more quickly.

Developments in the wireless industry can also have a significant impact on prices for our Mobile Communication products. The 1990s were characterized by the rapid expansion of Mobile Communication, which caused operators to focus primarily on expanding their subscriber bases. As the wireless industry matured, operators increasingly focused on profitability and particularly on the management of their costs. This focus has had a significant effect on operators' relationships with chip card manufacturers: these operators seek to reduce the cost of supplies, including chip cards, and improve supply management by entering into global purchasing arrangements with increasingly standard terms and conditions. This trend, which has affected the global wireless industry since the beginning of 2001, has exacerbated the downtrend in prices. As Gemalto was being formed, prices came under renewed competitive pressure, against a backdrop of very high volume growth. Price decline was particularly strong in the last quarter of 2005 and in the first quarter of 2006, initially driven by more intense competition in Asia which experienced a record increase in demand for entry range products. Though the industry environment improved in the second part of the year, in 2006 our Mobile Communication business experienced one of the strongest declines in average selling price (ASP) of its history, leading to lower revenue in this segment. In 2007 the benefits of our strict pricing discipline and our selective approach of tenders materialized and ASP decline gradually returned to a slower pace, at the expense of market share. In 2008, Gemalto maintained the slower pace in price decline initiated in 2007. The lowering effect of prices on turnover increase was offset by further improvements in the product mix and the strong development of value-adding services.

Price decline varies significantly from one region to another, reflecting differing product-mix strategies. This shows that while some of our customers are focusing on providing higher value-added product and service ranges to their subscribers, others are focusing on cutting costs. The choice between these two strategies is generally determined by the wireless penetration rate, the level of competition in their local market and the nature of the network architecture (network centric versus client rich approach with a stronger processing power installed into the SIM).

The factors mentioned above led to a decline in average selling prices for our Mobile Communication products during the periods under review. This decline is likely to continue in the future. However, average selling prices should benefit from the continuous launch of new products. Here, Gemalto has an unmatched advantage with its Research and Development effort, the largest of the industry. These new products launches address the growing demand among mobile operators for SIM cards that enable advanced applications, as operators seek to increase revenue per subscriber and reduce the complexity and cost of managing their networks, and a more and more heterogeneous base of terminals. Furthermore, average chips purchases prices also decreased during the period under review, an evolution which mitigated the adverse impact on the Company's profitability of the average selling prices decline. Average chips purchases prices should continue to decrease in the future. Finally, the rapidly growing contribution from software and services, that is not included in the card selling price, means the average selling price has now become less meaningful as an indicator of business performance for the Mobile Communication segment.

Sales of our plastic scratch card products also generate revenue for our Mobile Communication business. We sell scratch cards to some mobile operators for their prepaid products and services. Batch volumes in this business are high, and unit prices are very low. Revenue from sales of scratch cards represents less than 3% of our Mobile Communication revenue for the periods under review. We do not consider scratch cards to be a strategic area of our business.

Secure Transactions

We supply financial cards to financial institutions, transportation cards to large urban mass transit operators, and Pay TV subscriber authentication and right management cards to large secure access service providers. Contract terms are generally one year. The progressive adoption of EMV standards since 2003 by markets with large installed bases of traditional banking cards has been the main driving force behind the strong increases in delivered microprocessor volumes in 2006 and beyond. Compliance with the Europay, MasterCard, Visa (EMV) standard requires the issuance of new microprocessor cards complying with each country's individual specifications, to replace the magnetic stripe cards. Financial cards expire on average within two to three years of their issuance, after which they are automatically renewed by the issuer. Provision of replacement cards constitutes the second main driver of demand for banking cards. An example of this chip card market introduction is the United Kingdom, which was using mostly magnetic stripe banking cards until 2003, where demand grew strongly in 2004 which marked the peak of EMV deployment, then declined significantly in 2005 before the first replacement cycle started in 2006 and was completed in 2007, and is since 2008 undergoing a new technology upgrade with the introduction of contactless banking cards. Revenue from microprocessor cards increased strongly in 2008 thanks to additional countries migrating to EMV.

Although we offer a full range of financial card products, including standardized plastic magnetic stripe cards, we concentrate on designing, manufacturing and marketing microprocessor cards ranging from cards that enable basic banking applications to sophisticated multi-application cards. We sell magnetic stripe cards in China, Latin America, the USA and some European countries. Our magnetic stripe card activities constitute a conventional volume business, which means that, because these cards are generally sold at low prices, revenue from sale of these cards varies mainly according to volumes sold. Although revenue from magnetic stripe cards represented a tangible portion of our Secure Transactions revenue during the periods under review, our revenue from these products at historical exchange rates decreased to 9% of total Secure Transactions revenue in 2008 from 12% in 2007.

Revenue generated by our card personalization services also increased strongly, as we provide this service to an increasing number of customers migrating to EMV standards outside Western Europe. As banks and other financial institutions encountered difficulty in their business in 2008, they often revisited what was core in their business, and several decided to outsource the personalization services they were doing in-house. We won in 2008 several of these outsourcing programs, which will reinforce our revenue in the coming years, with long-term contracts. Revenue from sales of modules to other card manufacturers and shipping and postage costs recharged to our customers, account for the remainder of our Financial Cards revenue.

We have typically recorded most of our revenue from sales of financial microprocessor cards in Western Europe (which was our main market for these cards during the periods under review), particularly in France and in the UK. However, financial institutions around the world are increasingly demanding the enhanced security offered by microprocessor cards in terms of authenticating holders and authorizing transactions, which helps to reduce fraud. This shift from magnetic stripe cards to microprocessor cards accelerated since 2004 as financial institutions of certain countries in Asia and America sought to comply with the required migration to EMV standards. We believe that this factor, as well as the replacement of the first EMV cards by higher-end contactless EMV banking cards, will lead to higher volumes of financial microprocessor card sales in future periods.

In general, each financial card issuer chooses the specifications for its financial microprocessor cards as part of national consortia, and imposes these specifications on its clients. To date, our financial institution customers have generally chosen to issue microprocessor cards for basic banking applications in connection with EMV migration, rather than high-end open platform microprocessor cards or advanced contactless cards that enable additional value-added services or applications. Accordingly, these more basic contact and contactless microprocessor card products represented a substantial part of our sales of financial microprocessor cards during the periods under review. However, once the EMV migration is complete, card replacement may provide financial institutions with an opportunity to differentiate their positions by offering multi-application cards, for which purchase price is a less crucial factor.

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The first large-scale deployments of contactless microprocessor payment cards took place in the United States in 2005 and 2006. These cards, which also have a magnetic stripe, have been issued by fifteen leading US banks under the PayPass and Blink brand names. They can be used not only for traditional bank card transactions, but also to pay for small purchases at points of sale. With PayPass users do not have to fish for coins and wait for their change, making the transaction process simpler and quicker not only for the customer but also for the merchant. This significantly speeds up the customer flow at the cash register point. The solution does not require any investment in transaction input, transmission and processing infrastructure. The contactless card reader, which is connected directly to the cash register, is cheap and easy to install. Deployments in Asia and Europe have followed in 2007 and 2008.

Pay-TV products also contribute revenue to our Secure Transactions business. Our sales in the pay-TV industry have been made principally under contracts with five customers. As a result, our revenue in this market varies on a yearly basis depending on the orders placed by these customers. In 2008 we recorded strong sales in this activity.

Our Transportation sector products (e.g. for the London and Paris mass transit authorities) consist mainly of lower-end contactless cards. However, there is also a small but growing market in this sector for high-end combined contactless and contact microprocessor cards. We intend to focus increasingly on this market for high-end products, which have accounted for a growing portion of our revenue during the periods under review, as we seek to maximize our revenue and profitability in this business.

Security

The Security business combines two growing market sub-segments, Government Programs and Identity & Access Management, in which microprocessor card technology has clear advantages over alternative technologies due to its versatility, portability and the guarantees it provides in terms of respecting individual freedom rights. Our Government Programs offers include secure electronic documents, such as e-passport or e-identity cards, and issuance related services for governmental agencies. The Identity & Access Management offers cover product and solutions based on microprocessor technology for strong user authentication, typically used in a corporate environment or to securely access services over the internet such as e-banking. The Security segment income statement also includes the revenue, gross and operating profit derived from the licensing of the Group's patent portfolio.

The fluctuations of revenue and gross profit in this business are decreasing as the number of projects from which revenue is derived increases. However, fluctuations remain higher than in our other two core business segments mainly due to:

- the size and the more limited, though rapidly increasing, number of projects. Decision-making procedures are also long and complex, particularly in the public sector;
- the fact that demand for strong authentication platforms to protect corporate IT networks and transactions on the internet, with changing business models, is still at the emerging phase;
- the wide diversity of products and services supplied; selling prices can vary significantly depending on the technical content and the range of associated services provided;
- the lengthy and complex negotiation process for the large intellectual property licensing contracts, which constitute the largest portion of our revenue in the licensing activity.

Contracts for Security, which often require significant investment and lead times, are typically offered through public tenders and procurement procedures. Since these projects normally involve significant consulting and infrastructure elements, we generally compete in these tenders in association with local partners and the world's leading systems integrators to provide microprocessor-based products and related services required by the projects. Contracts generally specify delivery of significant volumes over long periods of time. We also usually tailor our products and services on a project-by-project basis. There are significant variations in our revenue from such tenders given the limited number of large projects, particularly for identification and public safety applications (ID cards and passports), their size and the fact that we may or may not be part of the winning consortia. As our products are often tailored to particular projects and because the market is still in a build-up phase, clear trends in pricing have yet to emerge. Our product offering in this market, however, generally consists of sophisticated microprocessor based products, particularly for applications in the public sector such as identity, healthcare and security. Sales of healthcare cards (e.g. for the Sesam Vitale consortium in France) also generate revenue in this segment.

Revenue attributable to the licensing of intellectual property rights includes non-recurrent licensing revenue (lump sum payments), which usually results from efforts to assert Gemalto's intellectual property rights. It varies substantially from one period to the next depending on the level of non-recurrent revenue and the date on which it can be recognized in the Company's financial statements.

- Public Telephony

Revenue from sales of our Public Telephony products (memory phone cards) varies according to sales volumes, the prices of our products, the mix of products sold and the regional mix. Historically, we have earned significant revenue from sales of our Public Telephony products. As these products are generally sold at significantly lower prices than our microprocessor card products due to their relative lack of technological sophistication, revenue in our Public Telephony business is driven mainly by our ability to obtain large card orders. The volume of products sold in this market has been declining in recent periods as users are increasingly relying on other means of communication, mobile phones in particular, instead of public payphones. We are progressively shifting our resources from this business segment over time while managing carefully the end of life. The volumes delivered by Gemalto are concentrated on historical customers for this segment. To match the turnover trends, manufacturing is located in lower costs countries and operational expenses devoted to this business segment are carefully monitored.

- Point-Of-Sale Terminals

Point-Of-Sale Terminals revenue varies according to sales volumes, the prices of our products, the mix of products sold and the regional mix. POS Terminal product sales volumes are determined by our ability to supply products that meet a broad range of local standards and to deliver products on a timely basis in different geographic markets, as well as on changes in technical specifications that require our customers to purchase new compliant terminals. In a highly competitive industry, our success also depends on our ability to permanently adapt our technology platform to meet production cost reduction targets required to defend our market positions while maintaining acceptable profitability. Indeed, our POS Terminals products have come under pricing pressure due to the increased competition that has developed as our longstanding markets have matured. In 2007, some of our competitors merged or combined their activity, increasing the level of market concentration. As a result we refocused our activities on geographical zones and applications in which we can make the most of our competitive advantages. These advantages consist of the security, mobility and versatility of our products, our leading skills in the complex EMV migration process and our strong organization in terms of after-sales service, which we provide both directly and through experienced specialists. In 2008, sales in the first half were impacted by low deliveries and missed commercial opportunities due to a faulty component detected in Gemalto contract-manufacturer's supply chain. The issue was solved during the second semester. We expect the migration of card-based payment systems to EMV standards to continue to have a positive impact on the POS terminal market. However, the impact of this migration on our sales may vary depending on the particular circumstances of each country.

3.2.3 Principal factors affecting gross profit

We define gross profit as revenue less cost of sales and gross margin as the percentage of revenue represented by gross profit. Cost of sales includes, principally, the cost of silicon chips, printed circuits (usually gold-colored) and plastic needed to produce cards, depreciation of tangible assets, amortization of intangible assets[1] and, when applicable, impairment charges of goodwill and intangible assets[1], royalties paid to third parties in respect of technology used in our products, supply chain management costs, quality and security management costs, development and customization costs for specific applications sold to customers, delivery costs and personnel costs attributable to our production and personalization processes. Cost of sales for our POS Terminals segment mainly includes the expenses related to our manufacturing outsourcing contract with Flextronics. Charges related to restructuring measures[2] are also booked as cost of sales in cases where the costs associated with the function or position made redundant or the assets being impaired or written-down are normally recorded as cost of sales.

Cost of sales does not include operating expenses such as research and engineering, sales and marketing and general and administrative expenses.

- Mobile Communication, Secure Transactions, Security and Public Telephony segments

For the periods under review, in addition to the effect of product and service sales proceeds, the main factors affecting gross profit and gross margin are microprocessor card sales volumes, the product mix in each product line, revenue from our intellectual property licensing activity, silicon chip purchasing prices, productivity, control of fixed manufacturing costs and our service delivery centre costs.

Microprocessor card sales volumes are the first factor affecting gross profit. Rising sales volumes lead to rising gross profit and gross margin in all product areas and geographical regions in which Gemalto operates, as sales volumes have a major impact on the main components' purchase price and on capacity utilization rates, therefore absorption of fixed production costs.

The second significant factor is the product mix, meaning the ratio of sales volumes of more sophisticated and hence

(1) Except amortization and impairment of intangible assets recognized in connection with the combination with Gemplus in 2006, which are disclosed in a separate line of the IFRS income statement, and excluded from the adjusted basis of presentation adopted for the present discussion.

(2) Except for those restructuring measures engaged following the combination with Gemplus in June 2006, which are disclosed in a separate line of the IFRS income statement, and excluded from the adjusted basis of presentation adopted for the present discussion.

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higher-priced products to sales volumes of prior generations of products that are less sophisticated and subject to intense price competition. Gemalto's product mix is a key factor for profitability across all of our geographic regions and businesses. In particular, because we typically generate a significant part of our revenue from our Mobile Communication business, the mix of our wireless products sold around the world has been a key element of our gross profit over the past years. It is also paramount for Gemalto to secure the deliveries and customer acceptance of our constantly renewed sources of chips used to serve our businesses. Any delay generated by our suppliers, by our supply chain or our customer acceptance processes may impact our gross margin. Our Secure Transactions business is characterized by a significant difference in gross margin between microprocessor cards and magnetic stripe cards, since our microprocessor cards typically generate higher gross margins than our magnetic stripe cards. As a result, overall gross profit in the Secure Transactions business is affected by the relative percentage of microprocessor card and magnetic stripe card sales volumes. Within the microprocessor card range, those offering advanced functions, combining traditional credit-and-debit-card features with electronic purse functions or loyalty card functions relating to one or more brands generate larger margins. On the other hand, since products and associated services in our Security business are often tailored to particular projects and because the market is still emerging, clear trends in gross margins in this business have not yet emerged and gross margins fluctuate significantly.

The third main factor for gross profit and gross margin is the level of sales from intellectual property licensing. The cost of revenue in this business consists of amortization charges on the patent portfolio, and costs incurred to maintain the validity of existing patents, file new patents and assert the Company's rights with respect to users. These costs are mainly fixed. As a result, due to the low variable costs associated with our licensing activities, gross profit trends in these activities are aligned with revenue trends (except if we determine that an impairment of our patent portfolio is necessary).

The fourth key factor for gross profit is the cost of materials and components for microprocessor cards, particularly silicon chip purchasing costs. Due to its diversified procurement policy and its large purchasing volumes, in the past Gemalto has been able to negotiate price reductions when buying silicon chips. This has enabled it to increase gross profit or, in periods of weaker growth and substantial selling price decrease, to limit the decline in gross profit. However, the decrease in chip prices may sometimes come several months after the drop in the selling prices of our products, which can have a negative effect on gross profit.

Among other factors affecting gross profit are productivity and control over fixed manufacturing costs. Gemalto strives constantly to reduce its production costs, particularly in low-end and mid-range products. It does this by permanently adapting its production and procurement processes, increasing the flexibility of its production system and focusing on quality, as described further in section 2.4.3 — "Production" of this annual report.

- POS Terminals

Gemalto seeks to optimize gross profit in the POS Terminals segment by giving its products unique features that meet its customers' requirements as closely as possible and by providing long-term technical support services. To reduce production costs, Gemalto designs products around a common platform reducing the number of component parts. We have been subcontracting the production and assembly of our products since 2003. Our subcontractor has now moved the production of our terminals to low cost facilities located in or near our main markets. In 2008, the fall in gross profit was driven by the strong decrease in revenue.

3.2.4 Other factors affecting results of operations

- Acquisitions

In the past, acquisitions have affected our operating results, not only by increasing the size or scope of our operations, but also because of the ensuing integration, restructuring and accounting implications. Costs involved in an acquisition process can also be significant, due to advisors and legal fees in particular.

In 2006, Gemalto and Gemplus combined their activity. The expected financial benefits of this combination were described in the prospectus issued by Gemalto on July 11, 2006 when it launched a voluntary exchange offer for Gemplus. These benefits mainly consist of synergies derived from lower purchasing costs, lower production costs following the progressive harmonization of the product portfolio, worldwide integration of the manufacturing capacity, the merging of know-how and techniques, and finally from lower operating expenses following the integration of the Research & Development, Sales & Marketing and General & Administrative structures.

The Group also indicated in the voluntary exchange offer prospectus that it expected costs for implementing these synergies. These costs mostly concern the integration of the industrial, research and development, sales and marketing, and administrative support structures, the harmonization of information systems, the grouping of sites and the depreciation of certain redundant assets. The Group also indicated that if the actual growth or margin levels of the entity resulting from the combination were lower than anticipated by

Gemalto and Gemplus, either temporarily or more long-term, or if its competitive position was less favourable than expected, the implementation costs could vary and cover other reorganization measures including adaptation of the group's manufacturing organization.

Reorganization measures and related costs incurred in 2008 and 2007 are described in section 3.2.5.2 — "Items recognized in the IFRS income statement of the Group and eliminated in the Adjusted basis of presentation".

Smaller acquisitions have been completed over the periods, which individually have had a less material impact on reported results.

- Impact of foreign currency exchange rates

We consolidate and report our financial statements in Euros. We record revenue, expenses, assets and liabilities in a number of different currencies other than the Euro, mainly in US Dollar (or US Dollar-linked currencies), Sterling Pound, Polish Zloty, Brazilian Real, Mexican Peso, Japanese Yen and Chinese Renminbi.

The assets and liabilities of overseas subsidiaries are translated into Euros at exchange rates prevailing at the balance sheet date. Revenue and expenses are translated at weighted-average exchange rates over the relevant period. The resulting translation adjustments are recorded in total invested equity on the consolidated balance sheet.

We include realized and unrealized foreign currency transaction gains (losses) in net income (loss) in the period in which they occur.

Our accounting policies with regards to foreign currency translation are described in note 2.4 "Foreign currency translation" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report. In addition, our Consolidated Cash-Flow Statements are prepared by analysis of the changes in assets and liabilities excluding the relevant impacts of exchange rate variations during the period.

We seek to mitigate our transactional exposure to currency fluctuations by matching costs and revenue currencies ("natural hedging") and engaging in hedging transactions over a maximum period of 18 months forward as we deem appropriate (using foreign exchange forward contracts and options recorded principally as cash-flow hedges). We do not engage in speculative currency transactions. As a result, Gemalto reduces its gross profit exposure to fluctuations of several currencies against the Euro, including the US Dollar, the Pound Sterling and the Japanese Yen. However, we cannot predict or hedge all currency changes that could affect our international business. Adverse changes in foreign exchange rates could still negatively impact our gross profit.

Our foreign exchange risk management policy, the financial derivative instruments we use, their impact on the income statement, their notional amounts and their year-end balance sheet value, are described in notes 2.22 "Derivative financial instruments and hedging activities", 2.23 "Estimation of derivatives financial instruments fair value", 3.1 "Foreign exchange risk" and 19 "Derivative Financial instruments" to the consolidated financial statements presented in chapter 7 — "Financial statements" of this annual report.

In order to isolate the effects on revenue of fluctuations in foreign currency exchange rates during the periods under review, the discussion of our results of operations includes revenue figures at constant exchange rates. To calculate these figures at constant exchange rates, we applied the monthly exchange rates used in a given month of the period under review to the amount of revenue recorded in the same month in the previous year. We then add the adjusted monthly figures for the previous year to derive annual figures at constant exchange rates. The discussion of our results of operations is, unless otherwise stated, based on revenue figures at constant exchange rates

The table below sets forth the Euro/US dollar exchange rates for the periods used in the preparation of our consolidated financial statements.

	US dollars per Euro			
	Year-end[(1)]	Average rate[(2)]	Low[(3)]	High[(3)]
Year ended December 31, 2007	1.46	1.37	1.30	1.48
Year ended December 31, 2008	1.41	1.48	1.29	1.57

(1) The exchange rate on the last business day of the period.

(2) The average of the monthly exchange rates used to convert income statement items in each month of the period.

(3) The lowest and highest monthly exchange rates used to convert income statement items in each month during the period.

- Seasonality

More of Gemalto's revenue and gross profit is traditionally generated in the second half of each year. This is due to the following factors:

• The Mobile Communication segment makes a stronger contribution to total revenue during the second half, due to higher demand from countries where we sell our most advanced products and services, at higher selling prices and margins (see above in sections 3.2.2 — "Principal factors affecting revenue" and 3.2.3 — "Principal factors affecting gross profit"). As

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mentioned above in section 3.2.1 — "Introduction to the operating and financial review", this segment generates a higher gross margin than the other businesses.

- Card sales volumes increase significantly in the second half, mainly due to the previous factor, resulting in better absorption of fixed production costs and a reduction in component prices through volume discounts negotiated with suppliers.
- The full positive impact of productivity gains achieved during the year is felt towards the end of the year.

Industry trends may, however, affect the seasonal pattern of revenue and gross profit, and therefore of operating margin. Seasonality has less material impact on the POS Terminals segment.

Seasonal fluctuations in revenue and gross profit have been a standard feature of our business since many years, except for a couple of them. In 2005, Mobile Communication revenue grew very strongly in the first half, driven by sustained demand in the Americas region leading to higher volumes and increased sales of high-end products. 2008 was also marked by a record first semester revenue. Telecom operators in Europe and Americas placed significant orders after a particularly successful 2007 year-end campaign, and we recorded strong sales around Chinese New Year in the first months of 2008 in Asia, thereby attenuating the traditional seasonal contrast. For 2009, like for all companies worldwide, visibility is limited due to the uncertainty in the global economic environment. Strong stimulus packages have been put in place by governments worldwide but it is difficult to predict what their impact on consumers' confidence and spending will be. Strong deployments of 3G mobile telephony technologies are for example planned in China, which can bring significant upside to our activity in the second part of the year, yet it is difficult to predict the exact timing of these roll-outs and what the consumer appetite for these innovations during a period of overall economic slowdown will be. We therefore anticipate 2009 to return to the usual seasonal pattern for sales, with a first half of the year revenue lower than the second semester turnover, in contrast with 2008.

3.2.5 Results of operations for the years ended December 31, 2008 and December 31, 2007

3.2.5.1 Year ended December 31, 2008 compared with year ended December 31, 2007

The following discussion of our results of operations is, unless otherwise indicated, based on results of operations at historical exchange rates prepared on an Adjusted basis for the twelve-month periods ended December 31, 2008 and December 31, 2007, as described in section 3.1 — "Basis of preparation of the financial information presented and discussed in this section".

€ in millions	2007	2008
Revenue	**1,631.5**	**1,679.9**
Cost of sales	(1,131.3)	(1,083.1)
Gross profit	500.2	596.8
Gross margin	*30.7%*	*35.5%*
Research & Engineering expenses	(102.8)	(94.9)
Sales & Marketing expenses	(217.6)	(232.4)
General & Administrative expenses	(99.6)	(102.0)
Total Operating expenses	**(419.9)**	**(429.3)**
Other income, net	3.4	1.7
Operating income (EBIT)	**83.7**	**169.3**
Operating margin	*5.1%*	*10.1%*
Financial income, net	10.5	2.1
Share of profit of associates	0.4	2.4
Gain on sale of an Investment in Associate	10.5	0.2
Profit before income tax	**105.1**	**174.0**
Income tax expense	(15.9)	(21.0)
Profit for the period	**89.2**	**153.0**
Earnings per share (€ per share)		
- basic	0.98	1.80
- diluted	0.97	1.78

Gemalto reported a strong performance in 2008. Adjusted operating income reached € 169 million, twice that of last year, and adjusted operating margin was above 10%. Earnings per share increased by 84% to € 1.80 .

The three main segments showed good resilience to the adverse economic environment, posting a combined second-half operating margin of 11.2%.

Mobile Communication continued to deliver strong results with significant profit expansions and margin improvements, reflecting operational performance as well as the continued progress in promoting higher-end offers. Gemalto's products and service segmentation resulted in increased interest from mobile operators in deploying advanced SIM platforms for new, innovative services.

2008 marked the successful turnaround of Secure Transactions. The restructuring program was completed and the segment is reaching a more steady level of performance, on which improvements will continue to be made.

Security showed continuing strong revenue growth and solid progress towards the break-even point. The strong operational and commercial performances were partially offset by the anticipated reduction in patent activities.

- Revenue and gross profit

The following table sets forth our revenue breakdown by segment and geographic areas at historical exchange rates for the periods indicated, in millions of Euros and as a percentage of total revenue and total gross profit (respectively).

	Year ended December 31,			
	2007		2008	
	€ in millions	*% of total*	€ in millions	*% of total*
Revenue				
Mobile Communication	925.5	*57%*	948.2	*57%*
Secure Transactions	413.4	*25%*	442.8	*26%*
Security	192.9	*12%*	215.9	*13%*
Public Telephony	43.7	*3%*	34.8	*2%*
Point-of-Sale Terminals	56	*3%*	38.2	*2%*
Total	1,631.5	*100%*	1,679.9	*100%*
Revenue				
Europe, the Middle East and Africa	913.0	*56%*	940.1	*56%*
Asia	331.5	*20%*	328.0	*20%*
Americas	387.0	*24%*	411.8	*25%*
Total	1,631.5	*100%*	1,679.9	*100%*

Revenue expanded by 6% at constant exchange rates to €1680 million. Revenue from software and services grew by 44% at constant rates to account for nearly 10% of the Company turnover.

2008 was marked by a record first semester revenue. Telecom operators in Europe and Americas placed significant reorders after a particularly successful 2007 year-end campaign, and we recorded strong sales around the Chinese New Year in the first months of 2008 in Asia, thereby attenuating the traditional seasonal contrast.

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The following table sets forth our gross profit breakdown by segment at historical exchange rates for the periods indicated, in millions of Euros and as a percentage of total revenue and total gross profit (respectively).

	Year ended December 31,			
	2007		2008	
	€ in millions	*% of total*	€ in millions	*% of total*
Gross profit				
Mobile Communication	345.5	*69%*	394.5	*66%*
Secure Transactions	75.1	*15%*	117.9	*20%*
Security	59.4	*12%*	66.2	*11%*
Public Telephony	10.6	*2%*	6.9	*1%*
Point-of-Sale Terminals	9.6	*2%*	11.2	*2%*
Total	**500.2**	***100%***	**596.8**	***100%***
Gross margin	*30.7%*		*35.5%*	

Gross margin for the full year was up by almost 5 percentage points to 35.5%, on the back of operational efficiencies and scale benefits.

Mobile Communication

Mobile Communication revenue was up by 6% in 2008 at constant exchange rates, with fourth quarter revenue essentially flat year-on-year because of shortfalls in specific accounts in the Americas and Asia. SIM card selling price decrease was contained to 8% for the full year. Software and services revenue increased by 65% at constant exchange rates, and reached €65 million in 2008.

Gross margin was up 4.3 percentage points from the previous year, to 41.6%, reflecting the continued benefits from purchasing synergies and production optimization. The negative impacts of currencies fluctuations were reduced thanks to natural hedging efforts during the year. As a result, full-year 2008 gross profit expanded to €394.5 million, an improvement of 14% over 2007.

Secure Transactions

Secure Transactions revenue was up by 11% in 2008 at constant exchange rates, with personalization services growing by 30%. Contactless technology is an increasingly attractive opportunity for our customers and Gemalto grew revenue by 50% with those new products as compared to last year. EMV rollouts were the third growth driver of the period.

Secure Transactions increased its gross profit by 57% to €118 million in 2008. Gross margin was 26.6%, an improvement of 8.4 percentage points from the previous year. This is largely due to the steady growth of EMV deployments and the success of contactless payment cards, both of which further boost the level of personalization activities. The production footprint optimization resulting from the restructuring program also created substantial benefits.

During the latter part of the year, certain customers faced significant uncertainty in their business environment, and a number of them focused on optimizing their inventory, leading to "stop-and-go" in the production flows which impacted revenue and gross margin. The weakening of the British Pound and Brazilian Real against the Euro in the second semester also reduced the segment's revenue and gross margin.

Security

In 2008 Government Programs revenue expanded by 26% at constant exchange rates, and Identity and Access Management (IAM) revenue by 21%. Patent activities, as anticipated, had full year revenue decreasing in comparison with 2007, from €22.9 million to €8.1 million.

Gross margin in Government Programs and IAM together increased significantly compared with the previous year. Government Programs in particular continues to benefit from deliveries ramp-up and better industrialization of its product portfolio. The reduced patent licensing contribution did offset this performance and the resulting gross margin for the segment as a whole was 30.7%, essentially flat compared with the previous year. The Security segment's gross profit was €66.2 million, up 11% on 2007.

Public Telephony

Public Telephony revenue was down 17% at constant exchange rates. Worldwide demand for memory cards for Public Telephony continues to contract, reflecting the increasingly widespread usage of mobile telephony worldwide. Lower deliveries reduced gross margin by 4.4 percentage points, to 19.9%.

Point-of-Sale Terminals

Revenue shortfalls were recorded in the first part of 2008 due to a faulty component detected in Gemalto's contract-manufacturer's supply chain. The issue was solved and operating performance improved significantly during the second semester. Gross margin was 29.5%, up 12.3 percentage points compared with the previous year.

- *Operating expenses*

The following table sets forth the breakdown of our operating expenses by segment at historical exchange rates for the periods indicated, in million of Euros and as a percentage of total operating expenses.

	Year ended December 31,			
	2007		2008	
	€ in millions	*% of total*	€ in millions	*% of total*
Operating expenses				
Mobile Communication	224.2	*53%*	233.9	*54%*
Secure Transactions	89.7	*21%*	91.3	*21%*
Security	86.5	*21%*	87.8	*20%*
Public Telephony	4.0	*1%*	3.3	*1%*
Point-of-Sale Terminals	15.6	*4%*	12.9	*3%*
Total	**419.9**	***100%***	**429.3**	***100%***
Operating expenses as a % of revenue	*25.7%*	-	*25.6%*	-

The Company's operating expenses were essentially stable as a percentage of total revenue. Improved efficiencies in product development were offset by additional commercial efforts devoted at promoting advanced products and services.

In Mobile Communication, operating expenses remained essentially flat as a percentage of revenue. Moderate increases in Sales & Marketing were recorded, reflecting continuing efforts to promote more advanced offers and services. The level of Research & Engineering spending was also maintained to strengthen the software and services offers and meet continued operators expectations in the fast moving mobile communication market.

In Secure Transactions, operating expenses were reduced as a percentage of revenue, down 1.1 percentage point to 20.6% for the full year 2008. The lower General & Administration expenses resulting from the restructuring program were partially offset by increases in spending on Research & Engineering and Sales & Marketing, both of which grew in line with the segment's overall growth in activities.

In Security, operating expenses were contained, with additional spending in sales and marketing associated with the revenue growth offset by increased efficiency in product development. As a percentage of revenue, operating expenses were reduced by 4.1 percentage points to 41% for the full year.

In line with the segments' revenue evolution, Public Telephony and POS Terminals' operating expenses were reduced by 18% and 17% respectively.

- *Other income (expense), net*

Net other income of € 1.7 million was recorded in 2008, compared with € 3.3 million in 2007. Our 2008 net other income included compensation from customers and suppliers for €1.6 million.

- *Operating income*

The adjusted operating income for 2008 doubled to € 169.3 million and the adjusted operating margin reached 10.1%. All three main segments contributed to the increase in adjusted operating income. Mobile Communication and Secure Transactions were largely responsible for this improvement through further productivity gains and by Secure Transactions returning to profit. Security also contributed to the overall improvement while continuing to invest in new technologies and market developments.

Mobile Communication full-year 2008 operating income expanded by a third to € 159.9 million, providing a robust operating margin of 16.9%, an improvement of 3.6 percentage points on the previous year.

Secure Transactions posted for 2008 an operating income of € 26.8 million and an operating margin of 6.0%, a solid turnaround on the previous year's operating loss.

Security's operating loss was reduced in 2008 by more than 20% to € 20.2 million, reflecting robust revenue growth and stable levels of operating expenses. Excluding patents, the combined operating losses for Government Programs

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and Identity & Access Management were reduced by more than 50% compared with 2007.

Public Telephony posted an operating profit of €3.6 million in 2008, leading to an operating margin of 10.5%.

POS Terminals' operating performance improved significantly during the second semester of 2008, with €3.4 million operating profit being recorded during that period. As a result, operating loss was contained to €0.8 million for the full year.

- Financial income (expenses), net

Financial income was €2.1 million in 2008, compared to €10.5 million in 2007. It was mainly comprised of net interest income of €9.3 million (€8.8 million in 2007) and net foreign exchange hedging costs of €7.0 million (€2.4 million in 2007). No gain on disposal of investment available-for-sale was recorded in 2008 (a gain of €4.1 million in 2007).

- Income tax benefit (expense)

A net income tax expense of €21.0 million was recorded in 2008, compared to €15.9 million in 2007.

- Net income (loss)

Gemalto reported in 2008 an adjusted net profit of €153.0 million, an increase of 72% over the €89.2 million recorded in 2007.

3.2.5.2 Items recognized in the IFRS income statement of the Group and eliminated in the Adjusted basis of presentation

As described above in section 3.1 – "Basis of preparation of the financial information presented and discussed in this chapter", we have adjusted the IFRS income statements to prepare the adjusted information discussed in this operating and financial review.

Description and amounts for the adjustment items are provided in sections 3.1.2 "Reconciliation between IFRS and adjusted income statements for the twelve-month period ended December 31, 2007" and 3.1.3 "Reconciliation between IFRS and adjusted income statements for the twelve-month period ended December 31, 2008". More details about reorganization charges are provided below.

Charges incurred in connection with headcount reductions in the support functions, with the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio, amounted to €28.2 million in 2008: the reversal of reserves booked in 2007 against 2007 IFRS revenue and excluded from 2007 adjusted revenue represented an income of €0.7 million and is reported under the line "Revenue"; factory under-absorption for plant being closed amounted to €8.0 million and is reported in the IFRS income statement under the line "Cost of Sales"; and costs related to other items amounted to €20.9 million and are reported under the line "Reorganization expenses".

In 2007 reorganization charges amounted to €106.4 million and consisted of: severance and associated costs for €71.5 million (mainly related to closure of facilities in the Americas, Asia and Europe); factory under-absorption for plant being closed for €4.4 million; property, plant and equipment, intangible asset and inventory write-offs and impairment for €20.0 million; and other costs for €10.5 million (mainly related to IT integration costs). They are reported under the line "Reorganization expenses" for €100.0 million and under the lines "Revenue" and "Cost of Sales" for €6.4 million.

3.2.5.3 IAS 16 – Useful life of tangible assets

As required by IAS 16, the Company reassessed on January 1, 2008 the useful life of its tangible assets. As a result, tangible assets depreciation expense for the year 2008 was reduced by €12.3 million. The net impact on 2008 operating income was €10.8 million.

3.2.6 Off-balance sheet commitments

For the periods after December 31, 2008, minimum rental lease commitments under non-cancellable operating leases, primarily real estate and office facilities, amount to €92 million. Further details of these lease commitments are disclosed in note 33 "Commitments and contingencies" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report. At December 31, 2008, bank guarantees, mainly performance and bid bonds, totalled €46 million. These guarantees are issued as part of Gemalto's normal operations in order to secure the Company's performance under contracts or tenders for business. These guarantees become payable in the event of the Company's non-performance. At December 31, 2008, microprocessor chip purchase commitments amounted to €34 million (see note 33 "Commitments and contingencies" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report).

At December 31, 2008, a guarantee of GBP 12 million (equivalent to €12.3 million) was granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan. We have no other material off-balance sheet arrangements.

3.2.7 Critical accounting policies and estimates

The preparation of financial statements in conformity with IFRS requires us to make estimates and assumptions that affect the amounts reported in the consolidated IFRS financial statements and accompanying notes (see note 2 "Summary of significant accounting policies" to the consolidated financial statements). These estimates and assumptions also affect the amounts reported in the adjusted income statements. On an ongoing basis, we evaluate any significant estimates used in preparing our financial statements, including those related to revenue recognition, classification of expenses as reorganization costs, doubtful accounts, valuation of inventories and investments, warranty obligations, valuation of goodwill and intangible assets, income tax provision and recoverability of deferred taxes, contingencies and litigation and actuarial assumptions for employee benefit plans. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis of judgments about the carrying values of assets and liabilities. Actual amounts or values will differ from these estimates. The following are critical judgments, assumptions and estimates used in the preparation of the combined and consolidated financial statements.

- Revenue recognition

Gemalto's products and services are generally sold based upon contracts 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. Revenue from contracts with multiple elements is recognized when the criteria for each element is met as described above. Revenue of each element is based on the relative fair value of each element and is recognized when there are no undelivered elements that are essential for use of the delivered elements. Revenue for certain services is recognized on a percentage of completion basis as the services are provided. These services include the development of specific software platforms. We follow this method when reasonably dependable estimates of the revenue and costs applicable to various stages of a project can be made. Recognized revenue and profit are subject to revisions as the project progresses to completion. Revisions in profit estimates are charged or credited to income in the period in which the facts that give rise to the revision become known. Losses on long-term contracts are provided for when such losses become probable and can be reasonably estimated. The amount and timing of our revenue for any period may have differed materially had we made different judgments and estimates.

- Income taxes

The provision for income taxes reflected in our consolidated financial statements was calculated on the basis of tax returns from each Gemalto group company. The effective tax amount is estimated taking into account permanent and temporary differences resulting from differences in the accounting and tax treatment of some items. Gemalto regularly assesses the likelihood that deferred tax assets will be recoverable against future taxable income.

- Inventories

We value our inventory at the lower of its cost and its estimated realizable value. We periodically assess the value of our inventory and periodically write down its value for estimated excess and obsolete inventory based on management's assumptions about future demand and market conditions. On a quarterly basis, we review inventory quantities on hand and on order, under non-cancellable purchase commitments, in comparison with our estimated forecast of product demand. Demand for our products can fluctuate significantly and if actual demand is lower than our forecast demand, we could be required to record additional inventory write-downs, which could have a negative effect on our gross profit.

- Long-lived assets and goodwill

We assess the impairment of identifiable intangibles, long-lived assets and goodwill at least annually, or whenever events or changes in circumstances indicate that the carrying value may not be adequate. Factors that could trigger an impairment review include:

- significant underperformance compared with initially projected operating results;
- significant changes in the manner in which we use the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

When we determine that the carrying value of goodwill, an intangible asset or a long-lived asset is not adequate based on the existence of one or more impairment indicators, including those listed above, the carrying value is impaired based on the present value of projected net cash flows expected to result from that asset, including the potential proceeds of a disposition.

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3.2.8 Recent accounting pronouncements

Note 2 “Summary of significant accounting policies” to the consolidated financial statements included in chapter 7 — “Financial statements” of this annual report describes recent changes in the accounting standards that we consider most significant with respect to our business.

3.2.9 Capital resources

3.2.9.1 Short and long term capital resources

Our bank overdrafts and short-term loans at December 31, 2008 and 2007 amounted to €11.9 million and €6.9 million, respectively. At the same dates, our long-term debt totalled €11.2 million and €16.7 million, respectively.

Our bank overdrafts and short-term loans at December 31, 2008 and 2007 consisted mainly of the short-term portion of our finance leases (€4.8 million in 2008; €4.8 million in 2007), bank overdrafts and short term loans incurred in the ordinary course of our operations around the world (€7.1 million in 2008, €2.1 million in 2007). Our long-term debt of €11.2 million at December 31, 2008 consisted of the long-term portion of our finance leases. At December 31, 2007, our long-term debt of €16.7 million related mainly to the long-term portion of our finance leases (€16.1 million).

3.2.9.2 Sources and amounts of the Company’s cash flows

The discussion below is based on the cash position variation schedules for the twelve-month periods ended December 31, 2007 and December 31, 2008.

- Sources of liquidity

In 2008 Gemalto generated €191 million of cash from its operating activities before cash outflows related to restructuring actions (compared to €130 million in 2007), and free cash flow[3] was positive by €83 million (compared to €39 million in 2007).

A $250 million syndicated loan was signed on August 24, 2005, to replace the $150 million syndicated loan set up on June 2, 2004. This revolving facility expiring August 24, 2012 is available to Gemalto N.V. and five of its direct or indirect subsidiaries located in Europe. It is guaranteed by Gemalto N.V. A commitment fee is payable on the un-drawn amount. Interest on draw-downs is based on the Libor or Euribor, depending on the borrowing currency, plus a margin. The loan agreement includes one negative covenant providing for a default trigger if Gemalto N.V.’s net indebtedness exceeds the double of consolidated EBITDA. In addition to the syndicated loan ($250 million, equivalent to €177.3 million at December 31, 2008 closing rate), the Company also has lease financing for €16.1 million and uncommitted bank credit facilities: credit facilities for €65.2 millions and guarantees for €124.0 million. There is no negative covenant with those uncommitted bank credit facilities. Two of the lending banks have been given guarantees totalling $ 60 million (equivalent to €42.6 million at December 31, 2008 closing rate), guaranteed by Gemalto N.V.

Gemalto therefore had total credit facilities of €382.5 million at December 31, 2008, €69.1 million of which were used at that date (including €46.0 million recorded as bank guarantees).

(3) Free cash flow is defined as net cash flow from operating activities minus the purchase of property, plant and equipment, minus other investments related to the operating cycle, minus restructuring expenses, and excluding acquisitions and financial investments and shares buy-back

- *Cash position variation schedules*

The following table sets forth the cash position variation schedules for the fiscal years ended December 31, 2007 and December 31, 2008.

€ in millions	2007	2008
Cash and cash equivalent, beginning of period	**430**	**337**
Cash generated by operating activities, before cash outflows related to restructuring actions	**130**	**191**
Including cash provided by (used in) decrease (increase) of working capital	*21*	*(19)*
Cash used in restructuring actions	(31)	(59)
Cash generated by operating activities	**99**	**132**
Capital expenditure and acquisitions of intangibles	(60)	(49)
Free cash flow	**39**	**83**
Interest received, net[4]	9	10
Cash generated by disposal of investments	25	0
Acquisition of subsidiary	0	(14)
Cash used in connection with the Combination with Gemplus[5]	(4)	0
Other cash generated by (used in) investing activities	(3)	(0)
Cash generated by operating and investing activities	**66**	**79**
Cash used by the share buy-back program	(144)	(65)
Other cash provided by (used in) financing activities	(9)	23
Other (translation adjustment mainly)	(6)	(8)
Cash and cash equivalent, end of period[6]	**337**	**367**
Current and non-current borrowings including finance lease and bank overdraft, end of period	(24)	(23)
Net cash, end of period	**314**	**344**

(4) In these cash position variation schedules, interest paid (€ 1.8 million in 2008) and interest received (€ 11.7 million in 2008) are netted and reported as "Interest received, net" as part of cash flows from investing activities. In the cash flow statements presented in chapter 7 — "Financial statements" of this annual report, interest paid is reported as cash flows used in operating activities, and interest received as cash flows from investing activities.

(5) Acquisition cost of the remaining share of Gemplus during the squeeze-out process in January 2007, for € 4 million.

(6) Cash and cash equivalent do not include bank overdraft (amounting to € 7.1 million in 2008 and € 0.6 million in 2007). Cash and bank overdraft amount to € 360 million in 2008 (€ 336.8 million in 2007).

Gemalto generated a positive free cash flow[7] of €83 million in 2008.

Cash flow generated by operations before outflows related to restructuring actions was €191 million, payments made in connection with restructuring actions were €59 million, and capital expenditure and acquisition of intangibles amounted to €49 million, of which €40 million were incurred for plant, property and equipment purchases net of proceeds from sales. Net working capital represented 10.3% of the fourth quarter 2008 annualized revenue. Excluding the variation of the restructuring provision, net working capital improved by €15 million and 1.0 percentage point. €14 million were used in cash for the acquisition of subsidiaries.

(7) Free cash flow is defined as net cash flow from operating activities minus the purchase of property, plant and equipment, minus other investments related to the operating cycle, minus restructuring expenses, and excluding acquisitions and financial investments and shares buy-back

Cash generation from operating and investing activities amounted to €79 million.

Gemalto's share buy-back program used €65 million in cash in 2008 through the purchase of 3,034,784 shares representing 3.45% of Gemalto's share capital. As of December 31, 2008, the Company owned 5,719,652, i.e. 6.50% of its own shares in treasury. This volume of shares covers all exercisable stock options. The average acquisition price of the shares repurchased on the market and held in Treasury as of December 31, 2008 was €20.09.

The cancellation of three million treasury shares approved by the general meeting of shareholders of May 14, 2008, and corresponding to 3.3% of the then issued share capital, became effective on July 24, 2008. As a result, the total number of Gemalto shares issued is 88,015,844 as of December 31, 2008. Net of the 5,719,652 shares held in treasury, 82,296,192 were outstanding at the same date.

The proceeds from exercise of stock options by employees amounted to €23 million.

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Consequently, Gemalto's net cash position was €344 million at the end of December 2008, up by €30 million compared with December 31, 2007.

In 2007, Gemalto had generated a positive free cash flow of €39 million: cash flow generated by operations before outflow related to restructuring actions was €130 million, payments made in connection with restructuring actions were €31 million, and capital expenditures amounted to €60 million.

3.2.9.4 Borrowing requirements and funding structure of the Company

See note 16 "Borrowings" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report.

3.2.9.5 Restrictions on the use of capital resources

Based on the stipulations of the syndicated bank loan signed on August 24, 2005 and described above in section 3.2.9.2 — "Sources and amounts of the Company's cash flows", there are no restrictions on the use of capital resources that may significantly influence the Company's operations.

3.2.9.6 Anticipated sources of funds needed to fulfil commitments involving future investments and material tangible fixed assets

The Company believes that available cash and cash equivalents of €367 million at December 31, 2008, the $250 million syndicated loan and the other banking facilities it has arranged as described above in section 3.2.9.2 — "Sources and amounts of the Company's cash flows" will be sufficient in the foreseeable future and under current operating conditions to fulfil its commitments involving future investments and material tangible fixed assets. The Company cannot however guarantee that its level of liquidity will suffice to cover all of its future cash requirements whatever the circumstances.

3.3 RISK PROFILE AND INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS

3.3.1 Risk profile

The principal risks as considered by Management are set below. This is not an exhaustive listing of all the risks the Company may face. Risks and their significance change over time in response to business and market conditions.

Risk description	Most important impacts on Gemalto	Mitigation
3.3.1.1 Risk relating to the Company's business		
Lower growth or decrease in activities	Financial and loss of key people	- Capacity of innovation to bring new products and applications to the market. - Focus on creating value to clients. - Strict pricing discipline. - Identification and follow-up of key people.
Technology shift	Financial and reputational	- Diversified technology portfolio approach. - Participation to industrial bodies and standardization organizations. - Strong Research & Engineering and Market Intelligence teams.
Availability of chips	Financial and commercial	- Multiple sourcing policy. - Safety stocks management. - Protection clauses in contracts.
Bidding and execution failures of major contracts	Commercial, financial and reputational	- Project-based organization for government programs bids. - Appointment of key accounts managers.
Inaccurate demand anticipation	Financial and commercial	- Company-wide planning and budgeting processes. - Quarterly revision of forecasts. - Market Intelligence team.
Failure to meet standards and criteria of industry organizations	Financial and reputational	- Closely working with certification bodies. - Leader in standards definition.
Fraud (including fraudulent and illegal acts, misappropriation of assets)	Financial and reputational	- Code of ethics. - Strong internal control environment. - Security policies. - Anti-fraud coordination structure. - Whistle blowing.
Manufacturing defects	Financial and reputational	- Standardized manufacturing processes. - Quality Management Systems (policies, tools, processes and practices). - ISO 9000 certifications. - Product liability insurance.

Risk description	Most important impacts on Gemalto	Mitigation
Intellectual property rights (IPR) not properly protected	Financial and commercial	- Dedicated internal IPR team. - Protection clauses in contracts. - Internal inventors reward policy.
Patents infringement by Gemalto	Financial and reputational	- Cross licensing strategy. - Protection clauses in contracts. - Dedicated internal IPR team.
Exposure to country risk (political, regulatory and trade)	Financial	- Involvement of treasury, tax and legal departments at the early stages of international operations. - Travel intelligence and medical repatriation cover.
Acquisitions and joint ventures (identification, evaluation and integration)	Financial and operational, loss of key people	- Experience of successful combinations (Bull CP8, Cardtech, Gemplus + Axalto, Malco, Printer, Setec, etc.). - Dedicated M&A team and processes. - M&A Committee with Board Members.
Breach of environmental, health and safety regulations	Financial and reputational	- Major industrial sites certified ISO 14001 and OHSAS 18001. - Carbon footprint evaluation process. - Safety policy and continuous prevention and protection programmes.
Business interruption, including crisis mismanagement	Financial, commercial and reputational	- Risk mapping. - Contingency plans build-up. - Diversified industrialized footprint.
3.3.1.2 Risk relating to the industry		
Increase in competition	Financial and commercial	- Critical size in different segments. - Products and services portfolio covering both entry-range and higher-end markets. - Local presence in mature and emerging markets (more than 100 countries worldwide). - Customer centric program (including yearly customer satisfaction survey). - Product and services creating customer value.
Decoding of encryption programs	Financial and reputational	- Strong security and cryptography expertise. - Market Intelligence team.
3.3.1.3 Risk relating to Gemalto's financing		
Increase in capital requirements at a time when Gemalto cannot raise funds on acceptable terms	Financial	- Solid net cash positions. - Committed credit facilities. - Tight monitoring of working capital.
3.3.1.4 Dependence on the core management and key personnel		
Loss of knowledge capital and loss of key people	Financial	- Identification and close follow-up of key people. - Compensation policy including long-term incentives. - Employee training and development programs. - Yearly employee satisfaction survey. - Succession planning processes.
3.3.1.5 Financial risks		
Foreign exchange risk	Financial	- Centralized currency risk management. - Natural hedging (i.e. matching costs and revenue currencies). - Hedging transactions (foreign exchange forward contracts and options recorded as cash flow hedges).
Interest rate risk	Financial	- Net cash position. - No significant impact on financial situation in the short term.
Liquidity risk	Financial. Bankruptcy	- Centralized liquidity management. - Net cash position. - Committed credit facilities.
Financial counterparty risk	Financial	- Risk limits set for counterparties - Usage of plain vanilla hedging instruments and low risk money market investments. - Working with financial institutions of investment grade (deposits, hedging transactions).

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Risk description	Most important impacts on Gemalto	Mitigation
Credit risk	Financial	- Broad geographic and customer distribution. - Credit management process, including periodical assessment of expected collectibility of accounts receivable and ongoing credit evaluations of customers' financial situations.
Investment risk	Financial and reputational	- No trade or holding of marketable securities. - Medium term investments in several non-public start-up companies, held by venture capital subsidiary and managed by dedicated team.
3.3.1.6 Risks relating to financial reporting		
Revenue recognition process, inventory valuation, accruing of reserves and provisions (warranty, credit risk, etc.)**, and other complex accounting issues** (goodwill and intangibles evaluation, stock-based compensation, deferred tax, etc.)	Unreliable financial indicators, poor management decisions, reputational.	- Financial policies and procedures. - Internal Audit department. - Dedicated team on internal control over financial reporting. - Single financial reporting tool company wide (Hyperion Financial Manager). - Single Enterprise Resource Planning (ERP) tool project.

3.3.2 Internal risk management and control systems

Gemalto maintains operational and financial risk management systems and procedures and has monitoring and reporting systems and procedures. Among those procedures Gemalto has a Code of Ethics, which has been published on the Gemalto website, as well as other key policies.

The Board of Gemalto has adopted in 2006 a whistle blowing procedure for the receipt, retention and treatment of complaints received by the Company regarding suspected financial irregularities, which procedure is implemented in the different countries.

In 2007, Gemalto conducted a company-wide Enterprise Risk Assessment (ERA) process, mapping its main risks and mitigation processes, including self-evaluation of the key company risks by a significant group of employees and advice from third parties.

In 2008, Gemalto, building on these 2007 Enterprise Risk Assessment process conclusions, defined a set of objectives and actions that are being deployed company-wide. It also started the regular review of the Company Code of Ethics, to evaluate and incorporate when appropriate the most recent best practices.

3.3.2.1 Internal control environment

- Principles

Gemalto's management regards internal control as a responsibility that is shared by all managers and that is met by implementing within the Company a set of processes and procedures intended to provide reasonable assurance that the Board's objectives will be attained. These objectives concern:

- The conduct of business in compliance with internal policies and rules, and operational effectiveness;
- The reliability of financial information, both published and used internally to assess performance and allocate resources;
- Compliance with laws and regulations in force in the countries in which the Company operates.

The Company has defined corporate governance rules with which it intends to comply.

It has also defined internal control principles and procedures applicable to its main transaction cycles and to its central functions. These principles and rules are codified in financial procedures, and include:

- Ethical rules that apply to the conduct of business (mainly from the Code of ethics);
- Authorizations to bind the Company (contracts, purchases, various commitments);
- Controls and authorizations required in procedures relating to sales, purchases, cash inflows and outflows, payroll and so forth;
- The accounting policies defined by the Company;
- The rules applicable to the production of financial reports;
- Cash management and exchange rate risk management;
- The arrangement of external and internal financing for subsidiaries;
- The creation and liquidation of legal entities within the Gemalto group;
- Acquisitions of assets or shares in companies;
- Capital expenditure.

Internal control is based on granting extended responsibilities and powers to the managers of subsidiaries, to management bodies and to their functional teams (legal, human resources, purchasing, etc.), which are in charge of applying the policies, standards, guidelines and procedures defined by the Gemalto group's management, which are regularly reviewed by the Board through its Committees.

The Company's internal control system cannot provide absolute assurance, but aims at a reasonable balance between cost and assurance, so that realization of objectives is monitored, financial reporting is reliable and applicable laws and regulations are complied to.

- Internal Control over Financial Reporting

Starting from a 2007 corporate project to improve internal control over and the quality of financial reporting, a self assessment campaign has been is performed in 2007 and again in 2008 through a financial risks based scoping exercise following the COSO2 model.

The self evaluations of the controls have been tested for some critical processes and entities by internal auditors. This campaign also aimed at defining remediation plans based on identified deficiencies and to follow up the progress of those plans.

An annual report on Financial Internal Control is prepared by the CFO and the Internal Audit Director and presented to the Audit Committee and the CEO.

- Anti-fraud coordination structure

An anti-fraud operational coordination structure composed of the group Legal Counsel, the Human Resources EVP, the Chief Information Officer, the Security Director and the Internal Audit Director has been created in 2008 with its charter approved on August 18th 2008 by the CEO, the CFO and the Audit Committee. Its main aim is to coordinate the various fraud prevention and detection programs in place inside the Company, and the response actions in case of fraud. It started to meet on a regular basis since early 2008.

- Internal Audit

In order to assess and test the internal risk management and control systems, the Company has a dedicated Internal Audit team that operates under the responsibility of the Audit Committee and subject to an Internal Audit Charter that was approved by the Audit Committee and the Gemalto group's management on May 21st 2007 in line with the IIA (Institute of Internal Auditors) recommended Internal Audit charter, subsequently revised on minor points on August 18th 2008.

Gemalto's Internal Audit department had an average of 7 persons in 2008, like in 2007, and compared to 2 persons in 2006.

Internal Audit's main duty is to audit Gemalto group entities with the aim of:

• Assessing and evaluating the effective implementation of procedures, policies and rules drawn up by Gemalto group's management regarding the conduct of business and the protection of Gemalto's assets;
• Ensuring compliance with laws and regulations in force in the countries in which the Gemalto group entities operate;
• Ensuring the reliability and integrity of financial information produced;
• Ensuring that the Gemalto group's values are understood and complied with at all the various organizational levels.

This work is coordinated with the work done by the external auditors.

In addition to this, Internal Audit also strives to improve processes and procedures and assists management in making decision, through profitability or performance analysis and assessment of operational effectiveness.

In 2008, Internal Audit conducted regular audits according to an audit plan approved by the Audit Committee in November 2007. On request of the group's management, Internal Audit also performed several ad hoc audits on certain aspects of the business.

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

The Internal Audit department has direct and unlimited access to the Audit Committee, and to Gemalto group's operations, documents and employees. The Internal Audit Director reports functionally to the Chairman of the Audit Committee, and administratively to the Group Chief Financial Officer (CFO).

3.3.2.2 The Internal Control projects

In 2007, Gemalto launched a coordinated review of the Company risk profile, risk management and financial reporting system. This threefold project was sponsored by the CEO and the CFO. It was managed by the Internal Audit Director, and supported by a dedicated Steering Committee. It encompassed:

• Internal Control over Financial Reporting, to improve internal controls over and the quality of financial reporting, which became perennial in 2008 (details above in section 3.3.2.1);
• Enterprise Risk Assessment, to map major risks (external and internal, financial and non-financial) that could impact the Group performance: Results were presented to the CEO in May 2008 and to the Audit Committee in August. Several action plans have been developed and are being implemented;
• Fraud Risk Management, to optimize anti-fraud programs and controls: As an example an inventory of the Company tools and processes covering fraud prevention and detection was done, and a senior management level operational structure was defined and put in place to coordinate the various programs already in place inside the Company, and the response actions in case of fraud (see section 3.3.2.1).

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3.3.2.3 Control of financial information

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

- Budget and forecast updating process and Business reviews

The budget process covers all operational entities and corporate departments, including the Treasury. The main phases of the process are as follows:
• In October and November, each segment and functional department draws up a budget for the following year; these budgets are combined into an annual plan for the Gemalto group and presented to the Board in late November or early December;
• Whenever changes in activity justify it, current-quarter and current-year forecasts for the five segments are reviewed, and consolidated into an updated forecast for the Group.

As an extension of the budget and forecasts process, the main aim of business reviews is to ensure that actions undertaken are appropriate to the Gemalto group's ambitions.

They form a key part of the activity co-ordination and monitoring system. These reviews are carried out every quarter by regional, segment and product line managers.

A review of the activity of the last months and of the expected evolution is presented by the CEO and the Chief Financial Officer at each meeting of the Board.

- Monthly operating and financial results review and reporting processes

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

Once validated by each area and segment Controller, operating results are consolidated by the corporate accounting department, reviewed by the Corporate Controller, the Chief Accounting Officer and the Director of Taxes, then presented and discussed with the CFO. Then they are presented jointly by the Corporate Controller and the CFO to the Chief Executive Officer (CEO).

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

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

- Pre-close reviews

Quarterly pre-close reviews with each business segment and geographic area are organized by the Chief Accounting Officer in the last days of the quarter. The Internal Audit Director and the Corporate Controller participate to those reviews.

The main objectives of these reviews are:
• To allow prompt identification and communication of any transaction or event that could potentially result in significant impacts on the results or the financial condition of the Group;
• Ensure proper review of any non-routine or complex transactions and ensure IFRS compliance and properly approved accounting treatment;
• Review any significant internal control matter that can have an effect on the close.

- Common group accounting standards and policies

All Gemalto entities draw up the financial statements used to produce consolidated group financial statements using IFRS accounting standards. The content and form of these financial statements and the accounting policies used to produce them are subject to periodic review, as stated under "Internal Control Environment" above. The standardized financial statements drawn up by all operational entities according to these procedures are processed using a single system for consolidating and analyzing data, specific to the Gemalto group.

3.3.2.4 Board of Directors statement on the assessment of risk management and internal control systems

The objectives set for the risk management system are to identify the significant financial, operational, social, regulatory, legal and environmental risks that the Company may face.

The Company's risk profile is reported in section 3.3.1 and internal risk management and control systems are described above in section 3.3.2.

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

The Company's internal controls are designed to manage these risks within limits acceptable to the Company, but may not prevent or detect all misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations, neither can they provide certainty as to the achievement of the Company's objectives.

The Board is responsible for the Company's system of risk management and internal controls and for reviewing their effectiveness. The Audit Committee reviewed with management and internal audit the Company's system of risk management and internal controls focusing on matters relating to financial reporting. The Board considered the results of the Audit Committee's review.

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

- Gemalto risk management and internal control systems provide a reasonable level of assurance that the Company's financial reports do not contain material misstatements;
- Gemalto internal risk management and control systems in relation to financial reporting have operated effectively in the year 2008;
- There are no indications that our risk management and internal control systems in relation to financial reporting will not operate effectively in 2009.

3.3.3 Insurance and risk management

Gemalto has set up global insurance programs which combine Master policies and Local insurance policies in countries requiring it. The negotiation and coordination of these programs are done centrally by the Risk & Insurance management department assisted by leading insurance brokers having an integrated international network.

Such organization facilitates a broad and consistent cover of all Gemalto activities and locations worldwide, costs optimization, a global reporting and control, while ensuring compliance with local regulatory requirements.

The Risk & Insurance management department reports to the General Counsel and Company Secretary.

3.4 OUTLOOK

Our business has strong fundamentals and prospects. The current economic environment does not put into question the mid and long-term objectives of Gemalto, even if it limits short-term visibility. We will continue our mission to provide trust and convenience to the wireless and digital world that is emerging, and look ahead with the goal of revenue growth and earnings expansion.

Market seasonality in 2009 is expected to be in line with historical patterns. Our 2009 objective of above 10% adjusted operating margin remains unchanged.

3.5 BOARD OF DIRECTORS' STATEMENT

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

- The annual financial statements for the year ended December 31, 2008 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 of Gemalto and its affiliated companies to which the report relates during the financial year, and
- The annual management report describes the principal risks that Gemalto faces.

The signing of the Annual Report by all Board members also includes the signing of the Board of Directors' statement, as outlined in this section 3.5.

Amsterdam, March 18, 2009

Mr. Alex Mandl Non-Executive Chairman of the Board	Mr. Olivier Piou Chief Executive Officer
Mr. Kent Atkinson Non-Executive Board member	Mr. David Bonderman Non-Executive Board member
Mr. Geoffrey Fink Non-Executive Board member	Mr. Johannes Fritz Non-Executive Board member
Mr. John Ormerod Non-Executive Board member	Mr. Arthur van der Poel Non-Executive Board member
Mr. Michel Soublin Non-Executive Board member	

4 . Corporate governance

4.1 GENERAL

Gemalto N.V. ("Gemalto N.V. or the "Company") is the parent company of the Gemalto group ("Gemalto" or the "Group"). The Company was incorporated in the Netherlands as a private company with limited liability on December 10, 2002. The Company was formerly named Axalto Holding N.V. and changed its name on June 2, 2006 in connection with the combination with Gemplus International S.A. ("Gemplus"), hereinafter the "Combination". The Company's shares have been listed on Eurolist by Euronext Paris S.A. (formerly named *Premier Marché*) (Euronext NL 0000400653) since 2004. The corporate seat of the Company is Amsterdam, the Netherlands, and as of December 1, 2008 its registered office address is Barbara Strozzilaan 382, 1083 HN, Amsterdam, the Netherlands. The Company is registered with the trade register in Amsterdam, the Netherlands under No. 27.25.50.26.

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

The Company is of the opinion that the majority of the principles and best practice provisions of the Dutch Corporate Governance Code as applicable during the 2008 financial year (the "Corporate Governance Code") that are addressed to the Board, as interpreted and implemented in line with the best practices followed by the Company, are being applied. Some recommendations are not or only partially applied and these deviations are set out in section 4.2.

Further to the amended Corporate Governance Code dated December 10, 2008 that will be applicable to Annual Reports of financial years starting on or after January 1, 2009, the Company will include in its 2009 Annual Report a chapter on the broad outline of its corporate governance structure and compliance with the amended Corporate Governance Code for discussion by the Annual General Meeting of Shareholders ("AGM") of 2010.

The AGM of May 14, 2008 resolved to amend the Company's articles of association ("Articles of Association"). The amendments related to:

• a decrease of the general quorum of 25% required for the adoption of resolutions at General Meetings of Shareholders ("General Meetings") to 10%, keeping the existing quorum of 25% required for the dismissal or suspension of Board members other than at the proposal of the Board;
• amending certain articles in order to include that the General Meeting appoints the Executive Board member and that the Non-Executive Board members appoint the Executive Board member as Chief Executive Officer ("CEO") and may revoke such appointment. If the appointment as CEO of the Executive Board member is revoked, the Non-Executive Board members may temporarily appoint an 'Acting CEO' with the powers and duties of the CEO;
• amendments to the objects clause to include a more general description of the objects of the Company;
• renaming the Selection and Appointment Committee of the Board to the Nomination and Governance Committee.

The full text of the Articles of Association is posted on Gemalto's website.

4.2 COMPLIANCE WITH THE DUTCH CORPORATE GOVERNANCE CODE

The Company complies with the Corporate Governance Code by applying most of its principles and best practice provisions that are addressed to the Board or by explaining why it deviates from such provisions. The Company applies such principles and best practice provisions, with the exception of the following best practice provisions:

• Provision II.1.6: a whistleblower procedure has been established compliant with the French legal requirements and as a consequence with a restricted scope. See section 4.3.4;
• Provision II.2.5: amendment of the vesting date of options granted to Mr. O. Piou, as CEO in accordance with the Combination Agreement. See section 6.7.7;
• Provision II.2.7: maximum remuneration in the event of dismissal of Mr. O. Piou, as CEO reflecting his accrued seniority with Gemalto. See section 6.7.7;
• Provision II.2.10: content of the Remuneration Report; i.e. non-disclosure of the companies of the Comparison Group (as defined in section 6.7.1) and non-disclosure of the non-financial targets of the CEO. See section 6.7.7;
• Provision III.5.1: two of the three members of the

Nomination and Governance Committee are not independent within the meaning of best practice provision III.2.2. See section 6.4;

- Provision III.8.1: appointment of the former Executive Chairman as Non-Executive Chairman of the Board. See section 4.3.6;
- Provision III.8.4: until May 28, 2008 only five of the ten Board members and as of May 28, 2008 only four of the nine Board members are considered to be independent. However the Board will propose to the AGM of May 20, 2009, the appointment of Mr. Buford Alexander as new Non-Executive Board member, as a consequence of which, as of that date, five of the ten Board members are considered to be independent. See section 6.1.5.

4.3 BOARD OF DIRECTORS

4.3.1 One-tier Board

The Company has a one-tier Board, comprising one Executive Board member, the CEO, and a majority of Non-Executive Board members. The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole.

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

The Board charter was updated in 2006 and is posted on Gemalto's website.

4.3.2 Meetings of the Board

The Board meets at least four times per year, including a meeting on the strategy and risks of the business, the assessment of the structure and operation of the internal risk management and control systems, as well as any significant changes in such matters. The tasks and functions of the Board, as described in the Articles of Association and the Board charter, include the duties recommended in the Corporate Governance Code. The Board discusses at least once a year the evaluation of the performance of the Board and the Board Committees, and of the CEO and the individual Non-Executive Board members. The Non-Executive Board members meet regularly, at least once a year, in the absence of the CEO and members of the management.

4.3.3 Operational and financial objectives and strategy

During 2008, the Board discussed and confirmed Gemalto's strategic plans, adopted the operational and financial objectives of Gemalto for 2009 and the parameters to be used for measuring performance.

Strategy

The Board discussed at several meetings Gemalto's strategic plans and their implementation, reviewed the development of business activities and various investment opportunities, including the acquisition of the Multos business from Keycorp and of NamITech South Africa from Allied Technologies Ltd, and the offer on Wavecom. For more information on Gemalto's strategy, please refer to section 3.2.

Operational and financial objectives — Budget

The Board sets the framework and key objectives of the budget, which includes the operational and financial objectives of Gemalto. Budgets are constructed bottom-up, assessed by the Board and adjusted top-down where necessary to meet Gemalto's objectives. The budget for 2008 was approved by the Board at the November 2007 Board meeting. The budget for 2009 was approved by the Board at the December 2008 Board meeting.

4.3.4 Internal risk management and control systems

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

Among those procedures Gemalto has a Code of Ethics, which provides standards and guidelines for the conduct by all employees. The Board has established a whistleblower procedure for the receipt, retention and treatment of complaints received by Gemalto regarding suspected financial irregularities. Departing from the Corporate Governance Code, to be in line with EU and French rules regarding data protection, suspected irregularities of a general or operational nature are not covered by the whistleblower code, but shall be reported internally to the relevant manager. Gemalto has an insider trading policy.

The statement of the Board in accordance with best practice provision II.1.4 of the Corporate Governance Code, as well as more details on the risk management and internal control systems are set forth in section 3.3.

4.3.5 Sensitivity of the results to external factors and variables

Reference is made to section 3.3.

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4.3.6 Composition of the Board — (term of) appointment

At the AGM of May 22, 2007, the maximum number of Board members was set at eleven to allow the Board to determine from time to time its optimal size. Until May 28, 2008 the Board consisted of ten Board members, but due to the demise of Mr. J. de Wit, Non-Executive Board member, on May 28, 2008, the Board currently consists of nine Board members; eight Non-Executive Board members and one Executive Board member, the CEO. In view hereof there is one vacancy to be filled on the Board at the AGM of May 20, 2009. The Board resolved to propose to the AGM of May 20, 2009, to appoint Mr. Buford Alexander as new Non-Executive Board member for a first term ending at the end of the AGM to be held in 2013. Upon appointment, Mr. B. Alexander would be proposed to become member of the Strategy and M&A Committee.

Executive and Non-Executive Board members are appointed by the General Meeting on the proposal of the Board, by an absolute majority of votes cast at a General Meeting without a quorum required, unless the Board has drawn up a binding nomination. So far the Board has not made use of the option to make a binding nomination. Board members are appointed for a maximum term of four years and may be reappointed, although Non-Executive Board members may only be reappointed twice. The Non-Executive Board members appoint the Executive Board member as the CEO and can at any time revoke such appointment. If the appointment as CEO of the Executive Board member is revoked, his powers and duties shall be carried out by an 'Acting CEO', temporarily appointed by the Non-Executive Board members, whether or not from among their midst. The Board appoints one of its Non-Executive Board members as Chairman of the Board.

Although the appointment of a former Executive Board member as Chairman of a one-tier Board is not in line with the Corporate Governance Code, after Mr. A. Mandl's reappointment by the AGM of May 22, 2007 as Non-Executive Board member as of December 2, 2007 for a first term ending at the end of the AGM to be held in 2011, the Board appointed Mr. A. Mandl as Non-Executive Chairman of the Board, as of December 2, 2007. The Board is pleased to be able to capitalize further on the knowledge and experience of Mr. A. Mandl within the Group, which is of particular added value for Gemalto and its stakeholders.

At the AGM of May 14, 2008, Mr. O. Piou was reappointed as Board member with the title of CEO for a term ending at the end of the AGM to be held in 2012 and Messrs. G. Fink and A. van der Poel were reappointed as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2012.

At the AGM of May 20, 2009, the present term of Messrs. K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod will end. The Board welcomes the fact that Messrs. K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod are available for an additional term. The Board resolved to propose to the AGM of May 20, 2009 to reappoint Messrs. K. Atkinson, D. Bonderman and J. Ormerod as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2013 and to reappoint Mr J. Fritz as Non-Executive Board member for a second term ending at the end of the AGM to be held in 2012. If reappointed, Mr. K. Atkinson would continue to be a member of the Strategy and M&A Committee and of the Audit Committee. If reappointed, Mr. D. Bonderman would continue to be a member of the Nomination and Governance Committee. If reappointed, Mr. J. Fritz would continue to be chairman of the Strategy and M&A Committee and a member of the Audit Committee. If reappointed, Mr. J. Ormerod would continue to be chairman of the Audit Committee and a member of the Compensation Committee.

Except on the proposal of the Board, the General Meeting may suspend or dismiss Board members only by an absolute majority of votes cast representing at least one-fourth of the Company's issued share capital. If Dutch law so permits, the Executive Board member may also be suspended by the Board. For further details on the appointment and dismissal of Board members, please refer to article 16 of the Articles of Association (posted on Gemalto's website).

A profile setting out the desired expertise and background of the Non-Executive Board members has been prepared by the Board and is posted on Gemalto's website. At least one of the Non-Executive Board members can be regarded as a financial expert within the meaning of best practice III.3.2 of the Corporate Governance Code. On May 13, 2008 the Board adopted a new retirement schedule, posted on Gemalto's website, in order to avoid, as far as possible, a situation in which many Board members retire at the same time.

For more information on the individual Board members, please refer to section 5.1.

4.3.7 Board Committees

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

4.3.7.1 Audit Committee

The Committee assists the Board with respect to the quality and integrity of Gemalto's financial statements, overall risk management and internal control arrangements, compliance with legal and regulatory requirements, the performance, qualifications and independence of the external auditor, and the performance of the internal audit function. The Committee consists of at least three Non-Executive Board members with not more than one person being non-independent. At least one member of the Committee is a financial expert within the meaning of best practice III.3.2 of the Corporate Governance Code. The Committee meets at least four times per year.

4.3.7.2 Compensation Committee

The Committee assists the Board with a proposal for a Remuneration Policy for the CEO and for the remuneration of the Non-Executive Board members to be adopted by the General Meeting. The Committee proposes the remuneration of the CEO within the limits of the Remuneration Policy. Furthermore, the Committee oversees the general remuneration policy of Gemalto and discusses the grant of options, restricted share units and / or share appreciation rights and the opportunity for eligible employees to purchase discounted shares of Gemalto. The Committee consists of at least three Non-Executive Board members with a majority being independent and meets at least three times per year.

4.3.7.3 Nomination and Governance Committee

The Committee assists the Board with respect to compliance with corporate governance and overseeing new candidates for service on the Board, as well as new members of the senior management of Gemalto. The Committee reviews the corporate governance principles applicable to Gemalto and advises the Board on any changes to these principles as it deems appropriate. The Committee consists of at least three Non-Executive Board members with a majority being independent and meets at least three times per year. The Company temporary deviates from this principle having three Non-Executive Board members with a majority being non-independent. For more information on this deviation, please refer to section 6.4.

4.3.7.4 Strategy and M&A Committee

The Strategy and M&A Committee assists the Board with respect to Gemalto's strategy and the major features of merger, acquisition and divestiture activities. The Strategy and M&A Committee consists of at least three Non-Executive Board members and meets at least twice per year.

4.3.8 Board mandates with third parties

With respect to the number and type of supervisory board memberships that the Board members may hold, Board members shall comply with the recommendations of the Corporate Governance Code, as set out in best practice provisions II.1.7 and III.3.4.

4.3.9 Conflicts of interest

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

The Company complied with best practice provisions II.3.2 through II.3.4 of the Corporate Governance Code in relation to conflicts of interest. For a complete overview, please refer to note 32 of the consolidated financial statements.

4.3.10 Remuneration of the Board — Share ownership

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

The General Meeting, upon the proposal of the Board, determines the Remuneration Policy for the CEO, including his function as Executive Board member. The remuneration of the CEO shall, with due observance of the Remuneration Policy, be determined by the Board. Remuneration of the CEO in the form of shares or rights to acquire shares, as well as major changes thereto, shall be proposed by the Board to the General Meeting for approval. The Remuneration Policy is published on Gemalto's website. For information on the Remuneration Policy and the implementation thereof for 2008, please refer to section 6.7.

4.3.10.2 Remuneration of the Non-Executive Board members

The Board, determines the remuneration of the Non-Executive Board members. The remuneration of a Non-Executive Board member is not dependent on the results of Gemalto. For information on the remuneration of the Non-Executive Board members, please refer to section 6.2.

4.3.10.3 Loans or guarantees

Gemalto does not grant personal loans, guarantees or the like to Board members, and no such loans and guarantees, waivers of loans or guarantees were granted to the Board members in 2008, nor are outstanding as of December 31, 2008.

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4.3.10.4 Shares owned and rights to acquire shares

Gemalto shares

Certain Board members are shareholders of the Company. On December 31, 2008, they jointly held 170,555 shares, of which Mr. O. Piou owned 165,055 shares. At the beginning of 2008, Mr. O. Piou was holding 139,000 shares of the Company, having progressively acquired them since 2004 on the market. During 2008, Mr. O. Piou acquired 161,000 shares: 11,000 shares were acquired on the market, and 150,000 shares were acquired through the exercise of options. To finance a portion of this options exercise, Mr. O. Piou sold on the market 34,945 shares of the Company that he owned. He then deeded 100,000 of the shares he had received from this options exercise to several third parties. Mr. G. Fink received 2,800 shares resulting from the exchange of Gemplus shares following the voluntary public exchange offer for the shares of Gemplus (the “Offer”), Mr. J.Ormerod received 1,200 shares resulting from the exchange of Gemplus shares following the Offer and Mr. M. Soublin purchased 1,500 shares in 2004.

FCPE units

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

Gemalto options

On December 31, 2008, Mr. O. Piou held 950,000 Gemalto options. He exercised 150,000 Gemalto options during 2008. On December 31, 2008, Mr. A. Mandl (through a company controlled by him) held 200,000 Gemalto options. He did not exercise Gemalto options during 2008.

Gemplus options

On December 31, 2008, the following Board members held Gemplus options: Mr. A. Mandl held 6,812,400 (through a company controlled by him), Mr. D. Bonderman held 11,302 and Mr. J. Fritz held 11,302. Those Gemplus options can potentially be exchanged for Gemalto options (at a ratio of 25/2), resulting in 544,992 Gemalto options for Mr. A. Mandl, 904 Gemalto options for Mr. D. Bonderman and 904 Gemalto options for Mr. J. Fritz.

During 2008, Mr. A. Mandl exercised 6,750,000 Gemplus options for which he received 6,750,000 Gemplus shares. Those Gemplus shares were exchanged for 540,000 Gemalto shares (at a ratio of 25/2), which Gemalto shares he then sold.

The Company does not grant shares or options by way of remuneration to Non-Executive Board members. Board members hold shares in the Company for the purpose of long-term investment and are required to comply with Gemalto’s insider trading policy, as posted on Gemalto’s website.

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

Gemalto’s insider trading policy contains regulations concerning the ownership of and transactions in securities by Board members in listed companies other than Gemalto N.V. and is posted on Gemalto’s website.

4.3.11 Indemnification of Board members

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

4.3.12 Chairman of the Board and Company Secretary

The Chairman of the Board determines the Board agendas in consultation with the CEO and presides over Board meetings and General Meetings. The Chairman is responsible for the proper functioning of the Board and the Board Committees. Furthermore, the Chairman arranges for the induction and training program for the Board members and initiates the evaluation of the performance of the Board members.

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

4.3.13 Senior Management Team

For an overview of the members of the senior management team, please refer to section 5.2.

4.4 LONG TERM INCENTIVE PLANS

4.4.1 Global Equity Incentive Plan

In 2004, the General Meeting adopted a Global Equity Incentive Plan (“GEIP”) for eligible employees. Under the GEIP, ending on March 18, 2014, eligible employees may receive options, restricted share units and/or share appreciation rights

("Awards"). As adopted by the AGM of May 22, 2007, a total number of 14 million shares are available for grant and issue under the GEIP. On September 25, 2008, the Board granted 1,410,000 options to eligible employees, including to the CEO. For more information on the grant of options to the CEO, please refer to section 6.7.3.

The AGM of May 22, 2007 adopted a stock option plan, as approved by the Board in 2006 ("GEIP 2006"), further to the undertakings by the Company in the Combination Agreement, to exchange options to acquire Gemplus or Gemplus S.A. (now Gemalto S.A.) shares for options to acquire Company shares. A total number of 7 million shares are available for grant and issue under the GEIP 2006.

In the event the Company and/or its affiliates are absorbed by merger and liquidated, or undergo a change of control, each outstanding Award, whether vested or not, shall automatically vest and become exercisable immediately prior the effective date of the event, and each restricted share unit will be refunded or compensated through the granting of shares, except to the extent such Award is maintained in effect by the Company, or assumed by a successor corporation or otherwise substituted by a plan giving substantially equivalent rights to the employees.

For more information, please refer to the notes to the financial statements.

4.4.2 Global Employee Share Purchase Plan

In 2004, the General Meeting adopted a Global Employee Share Purchase Plan ("GESPP") for eligible employees. Under the GESPP, ending on April 21, 2014, Gemalto may offer eligible employees the opportunity to purchase discounted shares in the Company. As adopted by the AGM of May 22, 2007, a total number of 3.2 million shares are available for issue or transfer under the GESPP. In 2008, the Board offered eligible employees the opportunity to purchase discounted shares in the Company and 96,178 shares were purchased by employees, including by the CEO. The number of shares purchased by the CEO is disclosed in section 6.7.3.

In order to benefit from preferential tax treatment, employees of Gemalto's French subsidiaries are able to participate in the GESPP through a *Fonds Commun de Placement d'Entreprise* ("FCPE"), in which case the FCPE subscribes to Gemalto shares and employees receive in exchange units of the FCPE. Participation in the FCPE does not give rise to direct ownership of shares or the right to acquire shares in the Company. The FCPE has an independent board of directors and owns 215,723 shares of Gemalto as of December 31, 2008. The FCPE exercises the voting rights on these shares, without instructions from the employees who participate in the FCPE.

For more information, please refer to the notes to the financial statements.

4.5 SHAREHOLDERS AND GENERAL MEETINGS

4.5.1 Share capital and shares of the Company

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. On January 1, 2008 the Company's issued and paid-up share capital amounted to €91,015,844, consisting of 91,015,844 ordinary shares.

During 2008 the following movements in the issued share capital of the Company took place:
- July 24, 2008: three million shares were cancelled following a decision of the AGM of May 14, 2008

As of December 31, 2008 the Company's issued and paid-up share capital amounted to 88,015,844, consisting of 88,015,844 ordinary shares, of which 5,719,652 shares were held in treasury; as a consequence of which 82,296,192 shares were in circulation, *i.e.* outstanding.

Based upon the authorization to purchase the Company's own shares granted by the AGM of May 22, 2007, which authorization was renewed by the AGM of May 14, 2008, shares were purchased during 2008 to provide liquidity in the secondary market, to have shares available for employees under the GEIP and GESPP, and to cancel shares for the purpose of reduction of the Company's issued share capital. As of December 31, 2008, 5,719,652 shares were held in treasury, acquired at an average price of €20.10 with a market value as of December 31, 2008 of €102,381,770.80. There are no voting rights for shares when held by the Company in treasury.

The Company has only issued ordinary shares, all of the same category, and all in registered form. No certificates representing shares have been issued. Shares are listed on Eurolist by Euronext Paris S.A. Company shares can be held in two ways:
- as registered shares, the shareholders being included in the Company's shareholders register kept by Netherlands Management Company B.V.; or

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• in an account with an account holder or intermediary through Euroclear France S.A., these shares then being included in the Company's shareholders register in the name of Euroclear France S.A.

4.5.2 AGM held in 2008

The AGM was held on May 14, 2008. No shareholders exercised their right to place items on the agenda for the General Meeting in 2008.

At the AGM of May 14, 2008, among other things, the following items were dealt with, all as separate agenda items: the 2007 annual report, the adoption of the 2007 financial statements, the Company's dividend policy, reappointments of Board members and the discharge of the CEO, the (Executive) Chairman and the Non-Executive Board members for the fulfillment of their respective duties during the financial year 2007. In addition, other items were dealt with, among other things, an amendment of the Articles of Association, which proposal was adopted. The English minutes of the meeting are posted on Gemalto's website.

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

4.5.3 Authorizations to the Board

The AGM of May 14, 2008 has renewed the following authorizations of the Board:

• to issue shares or grant rights to acquire shares in the Company, as well as to limit or exclude pre-emptive rights accruing to shareholders as from March 18, 2009 for a period of five years up to and including March 17, 2014. The authorization relates to all shares that can be issued as allowed by the authorized share capital as expressed in the Articles of Association as they may provide from time to time, *i.e.* 61,984,156 shares as of December 31, 2008.

• to acquire shares in the share capital of the Company up to the maximum of 10% of the issued share capital of the Company, within the limits of the Articles of Association and within a certain price range, up to and including November 13, 2009. On December 31, 2008, the Company's issued and paid up share capital consisted of 88,015,844 shares, of which 5,719,652 shares were held in treasury, based on which on that date the authorization related to 3,081,932 shares.

The AGM of May 14, 2008 resolved to cancel three million shares, which cancellation occurred on July 24, 2008. In addition, the AGM of May 14, 2008 resolved that the Board is entitled to cancel a number of shares not exceeding 9,101,584 shares (*i.e.* 10% of the Company's issued share capital as per March 31, 2008), which cancellation may be executed in one or more tranches and the number of shares that may be cancelled (whether or not in one tranche) shall be determined by the Board.

4.5.4 Distribution of profits

The dividend policy of the Company was dealt with and explained as a separate item on the agenda for the first time at the AGM of May 11, 2005. The Company's current dividend policy is that the amount of dividends to be paid by the Company to its shareholders shall be determined by taking into consideration the Company's capital requirements, return on capital, current and future rates of return and market practices, notably in its business sector, as regards the distribution of dividends. The Company did not pay a dividend in 2008 in respect of the 2007 financial year. With due observance of the dividend policy, no dividend will be paid in 2009 in respect of the 2008 financial year. For more information on the distribution of profits or reserves, please refer to articles 32 to 35 of the Articles of Association.

4.5.5 Shareholders' disclosures

As at December 31, 2008, the following disclosures of holdings in the share capital of the Company were posted on the website of the Dutch market authorities:

• TPG Advisors III Inc: 12.24% (notification made as per November 1, 2006). On November 1, 2006, the Company's issued and paid-up share capital amounted to €88,522,098.

• Gemalto N.V.: 5.17%. For more information on the number of shares held in treasury by the Company, please refer to section 4.5.1.

On February 18, 2009, FMR LLC disclosed a holding of 5.04% in the share capital of the Company, as posted on the website of the Dutch market authorities.

4.6 SPECIFIC PROVISIONS OF THE ARTICLES OF ASSOCIATION

4.6.1 Amendment of the Articles of Association

The General Meeting, upon the proposal of the Board, has the authority to amend the Articles of Association by resolutions adopted by a majority of at least two-thirds of the votes cast at such General Meeting at which at least one-third of the issued share capital is represented.

4.6.2 Appointment of the external auditor

The Audit Committee and Board review the functioning of the external auditor annually. Upon proposal of the Board, at the AGM held on May 14, 2008, PricewaterhouseCoopers Accountants N.V. was appointed as the Company's external auditor for the financial year 2008. The Board will propose at the AGM of May 20, 2009 to reappoint PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2009.

5 . The board and the management

5.1 MEMBERS OF THE BOARD

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

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

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

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

[1] *Situation as of the date of this report.*

Olivier Piou (1958) French
Board member with the title of Chief Executive Officer.
Appointed: February 17, 2004, reappointed at the AGM of May 14, 2008 for four years expiring at the AGM of 2012 (second term).

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

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

Kent Atkinson (1945) British
Non-Executive, independent Board member.
Appointed: May 11, 2005 for four years expiring at the AGM of 2009 (first term).
Member of the Audit Committee and of the Strategy and M&A Committee.

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

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

David Bonderman (1942) American
Non-Executive, non-independent Board member.
Appointed: June 2, 2006 for three years expiring at the AGM of 2009 (first term).
Member of the Nomination and Governance Committee.

Member of the boards of the following public companies: CoStar Group, Inc. and Ryanair Holdings, plc. Member of the boards of The Wilderness Society, the Grand Canyon Trust and the American Himalayan Foundation.

Prior to June 2, 2006, David Bonderman was Vice-Chairman of the Board of Gemplus. David Bonderman is a founder of TPG Capital, LP and serves as a partner in the firm. Prior to forming TPG in 1993, Mr Bonderman was Chief Operating Officer of the Robert M. Bass Group, Inc. (now doing business as Keystone, Inc.) in Forth Worth, Texas. Prior to joining RMBG in 1983, he was a partner in the law firm of Arnold & Porter in Washington, D.C., where he specialized in corporate, securities, bankruptcy and antitrust litigation. From 1969 to 1970, David Bonderman was a Fellow in Foreign and Comparative Law in conjunction with Harvard University and from 1968 to 1969 he was Special Assistant to the U.S. Attorney General in the Civil Rights Division. From 1967 to 1968, David Bonderman was Assistant Professor at Tulane University School of Law in New Orleans. He graduated Magna Cum Laude from Harvard Law School in 1966. He was a member of the Harvard Law Review and a Sheldon Fellow. He is a 1963 graduate of the University of Washington in Seattle.

Geoffrey Fink (1969) French
Non-Executive, non-independent Board member.
Appointed: June 2, 2006, reappointed at the AGM of May 14, 2008 for four years expiring at the AGM of 2012 (second term).
Member of the Compensation Committee and of the Strategy and M&A Committee.

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

Geoffrey Fink is a London-based Partner of TPG Capital, LLP, and has been with TPG since December 2000. From May 1998 to December 2000, he was a Vice-President and subsequently Senior Vice-President with Security Capital Group. Between August 1999 and December 2000, Geoffrey Fink was also Chief Operating Officer, head of the management committee, and board member of Access Space. In 1993 and from 1995 to 1998, he was a Consultant and then Engagement Manager with McKinsey & Company in London. Prior to joining McKinsey, he worked in the M&A departments of both Goldman Sachs in London and PaineWebber in New York. Geoffrey Fink was previously a director of Gemplus until June 2, 2006 and served on the board of Eutelsat S.A. He is a member of the New York bar. He received a Bachelor of Arts degree summa cum laude from Yale University, a Juris Doctoris degree magna cum laude from Harvard University and a Master's degree focused on international business from the Fletcher School of Law and Diplomacy.

Johannes Fritz (1954) German
Non-Executive, non-independent Board member.
Appointed: June 2, 2006 for three years expiring at the AGM of 2009 (first term).
Chairman of the Strategy and M&A Committee and member of the Audit Committee.

Head of the Quandt Family office since June 2000.

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

John Ormerod (1949) British
Non-Executive, independent Board member.
Appointed: June 2, 2006 for three years expiring at the AGM of 2009 (first term).
Chairman of the Audit Committee and member of the Compensation Committee.

Senior independent director and chairman of the audit committee of Misys, a UK listed software company. Board member and chairman of the audit committee of Computacenter plc, a UK listed company. Board member of ITV plc, a UK listed company. Trustee of the Design Museum.

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

Arthur van der Poel (1948) Dutch
Non-Executive, independent Board member.
Appointed: May 1, 2004, reappointed at the AGM of May 14, 2008 for four years expiring at the AGM of 2012 (second term).
Chairman of the Compensation Committee and member of the Nomination and Governance Committee.

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

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

Michel Soublin (1945) French
Non-Executive, independent Board member.
Appointed: February 17, 2004, reappointed at the AGM of May 22, 2007 for four years expiring at the AGM of 2011 (second term).
Member of the Audit Committee and of the Strategy and M&A Committee.

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

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

John de Wit (1946) Dutch **(deceased May 2008)**
Non-Executive, independent Board member.
Appointed: February 17, 2004, reappointed at the AGM of May 22, 2007 for four years was due to expire at the AGM of 2011 (second term).
Former chairman of the Nomination and Governance Committee and former member of the Compensation Committee.

John de Wit served as chairman of the Board of Gemalto until June 2, 2006. He was a graduate of NOIB Business School in the Netherlands. He had held a variety of posts in the technology and information sector with Burroughs, Royal Philips Electronics in the Netherlands, Mexico and Spain, Motorola Systems and Tandem Computers Europe. In 1995, he assisted in the creation of Libertel, a mobile telephone operator in the Netherlands, which is now part of the Vodafone group. In 1999, he was CEO when Libertel N.V. was listed in Amsterdam. From 2001 until his departure in 2003, he was CEO of Airtel S.A., which later became Vodafone Spain S.A., the Spanish subsidiary of Vodafone. Until December 2007, he was a member of the board of Advice of Nextrategy, Boer en Croon B.V. He was member of the supervisory board of the Open University, the Netherlands.

5.2 MEMBERS OF THE SENIOR MANAGEMENT

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

Paul Beverly, Executive Vice-President, Corporate Marketing & President North America (1962) American.
Paul Beverly began his career as a Marketing Manager within the Schlumberger group. Over the course of his 19 years within Schlumberger, he held various management positions in operations, marketing and sales in North America and in France. From 1999 to 2003, he was Vice-President in Test & Transactions for Schlumberger in North America, while

[2] *Situation as of the date of this report.*

also serving as Chairman of the Smart Card Alliance. He was President of the Americas from April 2003 until June 2006.

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

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

Philippe Cabanettes worked with Schlumberger for 23 years and has held different positions of worldwide responsibility for human resources in the petroleum, industrial and services sectors in France, Italy and the USA. From 1997 to 2001, he was Director of Personnel of the Resources Management Services division of Schlumberger. In May 2001, he became the Director of Personnel of Schlumberger's Volume Products business. In May 2004, he became Vice President Human Resources for Axalto.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Jacques Tierny, Chief Financial Officer (1954) French and Swiss.

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

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

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

Philippe Vallée is Executive Vice-President, in charge of Telecom. He was previously Chief Technology Officer of Gemplus, heading the Product and Marketing Center. Prior to this appointment, he had served as Vice-President Marketing and then President of the Telecom Business Unit of Gemplus. He was previously based in Singapore as Executive Vice-President of Gemplus Technologies Asia. He has more than 19 years of experience in the Telecom industry and held various positions within Gemplus in the fields of marketing, product management and sales. Prior to joining Gemplus, he began his career with Matra Communication (now Lagardère Group) in France as a product manager on the first generation of GSM mobile phones.

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

6 . Report of the non-executive board members

6.1 BOARD MEETINGS AND ACTIVITIES DURING 2008

6.1.1 Meetings

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

The Board addressed in different meetings the strategy and risks of the business, the assessment of the structure and operation of the internal risk management and control systems, as well as any significant changes to such matters.

In addition, the Board addressed the following main subjects:
• Combination, integration process and synergies realization;
• development of business activities and various investment opportunities;
• financial performance of the Group;
• annual budget plan for 2009;
• share buy-back and dividend policy;
• convocation of the AGM;
• reports of the Board Committees following each of their meetings;
• succession planning and management development;
• remuneration of the CEO and the senior management;
• grants to eligible employees under the Global Equity Incentive Plan, and opportunity for eligible employees to purchase discounted shares under the Global Equity Share Purchase Plan;
• corporate governance requirements and developments.

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

6.1.2 Performance evaluation

The Board evaluated the performance of the Board, of the Committees and of its individual members. This evaluation resulted in several suggestions, which will be given further consideration.

6.1.3 Training

The Board received a full day training on Gemalto's products and held meetings with senior managers to further familiarize themselves with the business and the senior management team.

6.1.4 Board composition

For information on the composition of the Board and information on the individual Board members please refer to sections 4.3.6 and 5.1.

6.1.5 Independence

Due to the demise of Mr. J. de Wit, Non-Executive Board member, on May 28, 2008, the Board currently consists of eight Non-Executive Board members and one Executive Board member, the CEO. The Board considers that as of May 28, 2008, four of the eight Non-Executive Board members are not independent, within the meaning of best practice provision III.2.2. Prior to May 28, 2008 four of the nine Non-Executive Board members were not independent. The Board will propose to the AGM of May 20, 2009, the appointment of Mr. Buford Alexander as new Non-Executive Board member, as a consequence of which as of that date five of the ten Board members are independent.

The Company deviates from the Corporate Governance Code, as it is recommended that in a one-tier Board the majority of the Board members are Non-Executive and independent. This deviation is in line with and results from the execution of the Combination Agreement.

The following Non-Executive Board members are considered not independent:
• Mr. D. Bonderman, Founding Partner of Texas Pacific Group (TPG);
• Mr. G. Fink, a Principal of TPG;
• Mr. J. Fritz, Head of the Quandt Family office;
• Mr. A. Mandl, former Executive Chairman of Gemalto.

6.2 REMUNERATION OF NON-EXECUTIVE BOARD MEMBERS

The remuneration of the Non-Executive Board members, including the remuneration of the Chairman of the Board and the members of the Board Committees, is determined by the General Meeting. The remuneration is reviewed annually by the Compensation Committee.

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The remuneration structure for the Non-Executive Board members is as follows:
• €200,000 per calendar year for the Non-Executive Chairman of the Board, who was appointed by the Board on December 2, 2007;
• €65,000 per calendar year for each other Non-Executive Board member;
• an additional fee of €24,000 per calendar year for the chairman of the Audit Committee and an additional fee of €16,000 per calendar year for each member of the Audit Committee;
• an additional fee of €12,000 per calendar year for the chairman of the other Board Committees and an additional fee of €8,000 per calendar year for the other members of those other Board Committees.

Details regarding the remuneration of the individual Board members are disclosed in the notes to the financial statements.

6.3 REPORT OF THE AUDIT COMMITTEE

The Committee consists of four Non-Executive Board members, listed in section 5.1. During 2008, the Committee held eight meetings: five in person and three by conference call. The CEO, CFO, the Internal Audit Director and the external auditors were invited to attend all Committee meetings. The Committee also met on at least one occasion privately with the Internal Audit Director, the external auditors, the CFO and the General Counsel (without other members of management present).

During 2008, the Committee reviewed the 2007 annual financial statements and the related audit report from the external auditors. The Committee also reviewed the condensed interim financial statements as of June 30, 2008 and the announcements of the 2008 quarterly revenue figures, as well as reports thereon by the external auditors.

The Committee reviewed the Company's accounting policies and compliance with accounting standards, the risk management policies and procedures and key internal financial control policies and procedures. The Committee received reports on the work of the internal audit department and considered their significant findings and recommendations.

With regard to the internal audit, the Committee reviewed the internal audit charter, both the revised audit plan for 2008 and the audit plan for 2009 and its coverage in relation to the scope of external audit. It also reviewed the staffing, independence and organizational structure of the internal audit function.

With regard to the external audit, the Committee conducted a thorough assessment of the functioning of and the relationship with the external auditors. In addition to considering their proposed audit scope, approach, proposed engagement team and fees, the review included a review of their independence, including procedures for control and approval of any non-audit services. As a result of this review, the Committee has recommended to the Board to propose the reappointment of PricewaterhouseCoopers as the Company's external auditors at the AGM of May 20, 2009.

For an overview of the aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal year 2008, please refer to note 11 of the company financial statements.

On behalf of the Board, the Committee carried out the assessment, review and monitoring of internal financial controls for the year 2008. This included a review of Gemalto's tax and treasury risks and related policies and controls, and reports on whistleblowing, litigation and related party transactions.

6.4 REPORT OF THE NOMINATION AND GOVERNANCE COMMITTEE

The Committee consists of three Non-Executive Board members, listed in section 5.1.

During 2008, the Committee held five meetings: four in person and one by conference call. The Committee advised the Board in 2008 on the reappointment of Mr. O. Piou as Board member with the title of CEO and of Messrs. G. Fink and A. van der Poel as Non-Executive Board members, and on potential candidates to fill future vacancies on the Board. The Committee advised the Board on a new retirement schedule following the reappointment of Board members.

The Committee discussed and advised the Board on the composition of the Board, of the Nomination and Governance Committee and of the Compensation Committee following the demise of Mr. J. de Wit on May 28, 2008. On September 25, 2008, the Board appointed Mr. A. Mandl as member and chairman of the Nomination and Governance Committee and resolved to establish the

Compensation Committee with its three remaining members, the Chairman and the CEO being regular invitees. The Committee advised the Board on the proposed appointment of Mr. Buford Alexander as new Non-Executive Board member and the proposed reappointments of Messrs. K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod.

Following the appointment of Mr. A. Mandl as chairman of the Nomination and Governance Committee, two of the three members of the Committee are not independent within the meaning of best practice provision III.2.2. Therefore the Company deviates from the Corporate Governance Code and from its charters. However, the Company considers that Mr. A. Mandl is the best candidate for the position and that this deviation is justified by the specific circumstances created by the sudden demise of Mr. J. de Wit.

The Committee monitored the development of senior management and reviewed the succession plan process for the CEO and the senior management.

The Committee discussed further steps that the Company could continuously take to improve its corporate governance and the way the Corporate Governance Code has been implemented. The Committee reviewed and proposed to the Board amendments to the Articles of Association, which were adopted by the AGM on May 14, 2008. The Committee prepared and coordinated with the Chairman of the Board the annual self-assessment of the Board and the Committees, which took place in the second half year of 2008.

6.5 REPORT OF THE STRATEGY AND M&A COMMITTEE

The Committee consists of four Non-Executive Board members, listed in section 5.1. During 2008, the Committee held seven meetings: four in person and three by conference call, as well as an informal training day on Gemalto's business to which the entire Board was invited.

The Committee advised and submitted recommendations to the Board on the Board's responsibilities in overseeing and reviewing the major features of Gemalto's merger, acquisition and divestiture activities and Gemalto's strategic plans and their implementation. The Committee reviewed certain investment and divestiture proposals, including the acquisition of the Multos business from Keycorp and of NamITech South Africa from Allied Technologies Ltd, and the offer on Wavecom.

6.6 REPORT OF THE COMPENSATION COMMITTEE

Due to the demise of Mr. J. de Wit, member of the Committee, on May 28, 2008, the Committee consists of three instead of four Non-Executive Board members who are listed in section 5.1.

During 2008, the Committee held six meetings: four in person and two by conference call. In these meetings, the Committee reviewed the 2007 achievements and associated bonus payments for the CEO and senior management, as well as the 2008 salary increases, objectives and bonus levels. It discussed and proposed amendments to the Remuneration Policy for the CEO.

The Committee proposed amendments to the employee incentive plans and recommended to the Board the grant of 1,410,000 options to eligible employees. The Committee also recommended that eligible employees be offered the opportunity to purchase shares in the Company at a discount of 15% to the prevailing market price.

Details of the grant of 150,000 options to the CEO are disclosed in section 6.7.2.3.

6.7 REMUNERATION REPORT

6.7.1 General Remuneration Policy

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

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

The objectives are described in the Remuneration Policy. The remuneration of the CEO consists of four elements: (i) base salary, (ii) variable incentive (or "bonus"), (iii) long term or deferred incentive and (iv) a fixed Executive Board member fee of Gemalto N.V.

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

Assuming that challenging, but achievable targets set by the Board have been met, the overall remuneration of the

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CEO is set to be about the 60th percentile by comparison with the remuneration practices of the Comparison Group. In case of exceptional performance, the total compensation is set to be in the upper quartile.

6.7.2 Base Salary and Incentives

6.7.2.1 Base Salary

The sum of the base salary and the fixed Executive Board member fee constitutes the "Total Reference Compensation" ("TRC"). The TRC is fixed and reviewed every year, but not necessarily adjusted every year. It is targeted around 50th percentile by comparison with the Comparison Group. The TRC of the CEO was adjusted in 2008 to €650,000, including an Executive Board member fee of €35,000 as of February 1, 2008.

6.7.2.2 Variable incentive (or "bonus")

The variable compensation of the CEO, based on the achievement of personal and financial objectives, ranges from 0 to 120% of the TRC. A bonus of 120% of the TRC is payable on achievement of 100% of on target performance by reference to a predefined set of financial and personal objectives. In case of exceptional performance in excess of the 100% (on target) achievement of objectives, the variable compensation can be increased so that the total variable compensation can reach up to 180% of the TRC.

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

The total variable compensation at 100% (on target) achievement of all objectives is designed to be clearly above 50th percentile, with an average over the years of about 60th percentile by comparison with the Comparison Group.

Below the minimum performance, the variable compensation for financial performance is zero. At target level, the compensation is at the maximum of the range defined (120%). At stretch level, the maximum is earned. This compensation is calculated using two linear interpolation scales from threshold to target and from target to stretch. The overall ceiling for the CEO is set at 180%.

For 2008, the CEO's financial targets accounted for 2/3 of the variable compensation and were:
• Revenue: 4/15 of the variable compensation;
• Adjusted operating income: 4/15 of the variable compensation;
• Free cash flow: 2/15 of the variable compensation.

The non-financial targets, accounting for 1/3 of the CEO's variable compensation, depended on his specific responsibilities and were defined as measurable actions linked with the success and development of Gemalto.

6.7.2.3 Long term or deferred incentive

The long term or deferred incentive part of the total remuneration package for the CEO is designed to be clearly above 50th percentile by comparison with the Comparison Group, which may be the upper quartile in case of exceptional performance.

The Company has established a Global Equity Incentive Plan ("GEIP") and a Global Employee Share Purchase Plan ("GESPP") in which the CEO may participate.

Global Equity Incentive Plan

Under the GEIP, the CEO may receive options, restricted share units and/or share appreciation rights (jointly referred to as "Awards"). The Board is authorized to grant to the CEO annually any combination of Awards, including any awards, as defined in the GEIP, similar in substance and/or nature, with a maximum value equivalent to the value of 250,000 options valued by reference to any of the generally recognized valuation methods applied in a manner as approved by the Board.

Options

When granting options, the Board applies performance criteria, the achievement of which are preconditions for the vesting of such options. Under specific circumstances, the Board has the discretionary power to grant unconditional options (e.g. in case of new hire). The exercise price of the options is equal to the average of the Gemalto share closing price on the Euronext Paris stock exchange during the five trading days preceding the grant date. The options do not benefit from any discount. Any options granted to Mr. O. Piou may only be exercised upon expiration of four years after their date of grant and will lapse, if not exercised within nine and a half years of the date of grant.

On September 25, 2008, the Board granted to Mr. O. Piou 150,000 unconditional options at €26.44 per share in recognition of his exceptional achievements related to the performance of Gemalto.

Restricted share units ("RSU")

A RSU is a right to acquire shares in exchange for the RSU. There is no purchase price to be paid to acquire a RSU. A RSU shall vest upon fulfillment of performance criteria based on one or more performance factors. At any time after the granting of a RSU, the Board may accelerate the vesting of such RSU. Under no circumstances, except in case of death, shall the delivery of shares related to a RSU occur prior to the second anniversary of the date of grant.

Except in case of death, the sale of shares acquired pursuant to the exchange of the RSU may not occur prior to the expiration of a two-year period from the date of delivery of the shares, or such other period as is required to comply with the minimum mandatory holding period applicable to RSU's under Article L. 225-197-1 of the French Commercial Code.

The AGM of May 14, 2008 approved the grant to Mr. O. Piou, as of September 27, 2007, of RSU's with performance criteria based on the stock market value of the Gemalto shares, which are met in case of reaching specific thresholds of the Gemalto share market price, for 60 consecutive trading days. Consistent with the philosophy of encouraging management to deliver company performance ahead of target, the Board also designed performance criteria based upon a set of stretch goals. Dependent on whether the thresholds are reached before December 31, 2009 or before December 31, 2010, and dependent on the level of the Gemalto share market value reached for 60 consecutive trading days, the number of RSU's may vary from 0 up to 80,000 with a maximum multiplier of three (*i.e.* up to 240,000) in case of exceptional performance. At the end of 2008, 66% or 52,800 of the RSU's granted to Mr. O. Piou had vested.

Share appreciation rights ("SAR")

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

Performance factors

Awards can be granted or vested on the basis of the following performance factors:

Revenue, Earnings, Operating Income, Income before Income taxes, Net income, Earnings per share, Shareholder return, Return on capital employed, Return on equity, Return on sales, Cash flow, Stock market price of the Company's shares on Eurolist by Euronext Paris S.A., Shareholder's economic added value, Results on individual confidential business objectives (strategic, tactical or personal) and/or any other performance factors determined by the Board to contribute and/or which have contributed to the Company operation and/or performance and/or shareholder's value creation.

Vesting in certain circumstances

Notwithstanding the aforementioned performance factors, unless the employment with Gemalto International SAS or the Company is terminated for willful misconduct (*"faute lourde"* within the meaning established by the French Supreme Court case law), any option rights granted to the CEO will vest automatically upon decision to terminate the appointment of the CEO and will remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant Sub-Plan, and all other eventual equity-based schemes will continue to vest even after the date of termination.

Global Equity Share Purchase Plan

Under the GESPP, the Company may offer eligible employees, including the CEO, the opportunity to purchase shares in the Company at a discount to the prevailing market price. The maximum discount of the purchase price of the shares is 20% based on the lesser of the value of the shares on the first and last day of the offering period.

The CEO may participate in the GESPP, as well as in any future similar plans. The CEO may participate in the GESPP through a *'Fonds Commun de Placement d'Entreprise'* ("FCPE"), in which case the FCPE subscribes to Gemalto shares and the CEO receives in exchange units of the FCPE. For more information, please refer to section 4.4.2.

During 2008, the Company offered eligible employees, such as the CEO, the opportunity to purchase discounted shares in the Company under the GESPP. The CEO has subscribed for €20,000, his maximum annual contribution, for which he received 1,192.53 FCPE units.

6.7.3 Remuneration paid for 2008

The remuneration paid by the Company or by companies of the Group to the CEO for the 2008 financial year is as follows:

In Euros	O. Piou
Total Reference Compensation (TRC) (1)	641,667
Bonus paid in 2009 for 2008 achievement (percentage of TRC)	865,822 (135%)
Total gross compensation paid for 2008	1,507,489
Number of options	150,000

(1) Including Board member fees.

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6.7.4 Contracts of employment

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

If Gemalto terminates the CEO's employment contract, he is entitled to a severance payment equal to one year of reference salary, in addition to the indemnities and benefits described in the Remuneration Policy. The reference salary used to calculate this payment will be the annual gross salary paid under the CEO's employment agreement with Gemalto International SAS during the twelve months preceding termination of his employment agreement, including bonuses and other discretionary cash incentives, as well as all Board member fees received during that period.

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

Pension Schemes

The pension schemes in force in the Group are in line with local practices in the country of residence of the CEO. The CEO does not benefit from any special pension plan provided by Gemalto, other than the mandatory basic legal pension system in France. For 2008, the costs for this scheme related to the CEO amounted to €59,839.91.

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

6.7.5 Loans

Gemalto does not grant loans to the CEO.

6.7.6 Remuneration for 2009

The CEO's Total Reference Compensation will not be adjusted in 2009.

For 2009, the CEO's financial targets will account for 2/3 of the variable compensation and are:
• Revenue: 4/15 of the variable compensation;
• Adjusted operating income: 4/15 of the variable compensation;
• Free cash flow: 2/15 of the variable compensation.

His non-financial targets for 2009 will account for 1/3 of his variable compensation. They depend on his specific responsibilities and are linked with the overall success and development of Gemalto.

6.7.7 Deviations from the Dutch Corporate Governance Code in terms of remuneration

• Provision II.2.5: amendment of the vesting date of options granted to Mr. O. Piou, as CEO. The CEO's Remuneration Policy provides that, unless his employment with Gemalto International SAS or Gemalto N.V. is terminated for willful misconduct, any option rights vest automatically upon decision to terminate the appointment of the CEO and remain exercisable for the full term of the option, notwithstanding any early termination provided in the GEIP and the relevant sub-plan. All other equity-based schemes will continue to vest even after the date of termination. Although it is not the Company's policy to amend conditions regarding options granted to Executive Board members during the option term, the amendment of the vesting date of the options granted to the CEO is in line with and results from the execution of the Combination Agreement.

• Provision II.2.7: maximum remuneration in the event of dismissal of the CEO. The severance payment for the CEO is not in line with the Corporate Governance Code, which recommends that the maximum remuneration of one year's salary is based on the fixed remuneration component. However, the severance payment of the CEO is included in the Remuneration Policy adopted by the AGM and is in line with and results from the execution of the Combination Agreement.

• Provision II.2.10: content of the Remuneration Report;
- Non-disclosure of the companies of the Comparison Group, i.e. although recommended by the Corporate Governance Code, the Company does not disclose the names of the companies in the Comparison Group. The Company compares the remuneration of the CEO to those of a group of other relevant companies, particularly continental European high tech and industrial companies and surveys are performed by an independent internationally recognized compensation specialist (Towers Perrin).
- Non-disclosure of the non-financial targets of the CEO, *i.e.* Gemalto does not disclose the non-financial targets for competitive reasons.

6.8 FINANCIAL STATEMENTS 2008

The financial statements of the Company for 2008 as presented by the Board have been audited by

PricewaterhouseCoopers Accountants N.V., the Company's external auditor. PricewaterhouseCoopers' report can be found in section 7.3.1. All individual Board members have signed the financial statements. The Board proposes that the financial statements for the year 2008 be adopted by the AGM of May 20, 2009 and that the other resolutions proposed to the shareholders be approved.

Finally, we would like to express our thanks to the CEO, the senior management and all employees of the Group for their continued dedication and contribution during the past twelve months, making 2008 a very successful year for Gemalto.

The Non-Executive Board members

Mr. Alex Mandl, Chairman	Mr. Kent Atkinson
Mr. David Bonderman	Mr. Geoffrey Fink
Mr. Johannes Fritz	Mr. John Ormerod
Mr. Arthur van der Poel	Mr. Michel Soublin

Amsterdam, March 18, 2009

7 . Financial statements

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7.1 CONSOLIDATED FINANCIAL STATEMENTS

7.1.1 Consolidated balance sheets for the periods ended December 31, 2007 and 2008

In thousands of Euro		Year ended December 31,	
	Notes	2007	2008
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	217,095	215,357
Goodwill, net	9	543,831	552,432
Intangible assets, net	9	73,715	56,065
Investments in associate	10	8,294	10,469
Deferred income tax assets	29	21,891	21,058
Available-for-sale financial assets, net	11	1,445	1,203
Assets held for sale	11	3,479	1,711
Other non-current assets	12	22,774	14,255
Total non-current assets		**892,524**	**872,550**
Current assets			
Inventories, net	13	173,737	161,031
Trade and other receivables, net (*)	14	427,319	447,133
Derivative financial instruments	20	15,750	16,458
Cash and cash equivalents	15	337,441	367,129
Total current assets		**954,247**	**991,751**
Total assets		1,846,771	1,864,301

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In thousands of Euro		Year ended December 31,	
	Notes	2007	2008
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		91,016	88,016
Share premium		1,247,140	1,214,429
Treasury shares		(139,932)	(114,933)
Fair value and other reserves		82,674	56,835
Cumulative translation adjustment		(22,475)	(39,986)
Retained earnings		(27,746)	84,118
		1,230,677	1,288,479
Minority interest		**11,568**	**14,141**
Total equity		**1,242,245**	**1,302,620**
LIABILITIES			
Non-current liabilities			
Borrowings	16	16,710	11,246
Deferred income tax liabilities	29	14,816	13,502
Employee benefit obligation	17	25,959	25,646
Provisions and other liabilities	18	79,722	60,909
Total non-current liabilities		**137,207**	**111,303**
LIABILITIES			
Current liabilities			
Trade and other payables (*)	19	380,273	381,849
Current income tax liabilities		7,089	9,471
Borrowings	16	6,918	11,900
Derivative financial instruments	20	468	14,680
Provisions and other liabilities	21	72,571	32,478
Total current liabilities		**467,319**	**450,378**
Total liabilities		**604,526**	**561,681**
Total equity and liabilities		**1,846,771**	**1,864,301**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2007, Trade and other receivables of €12,186 have been reclassified to Trade and other payables.

7.1.2 Consolidated income statements for the periods ended December 31, 2007 and 2008

In thousands of Euro		Year ended December 31,	
	Notes	2007	2008
Revenue	22	1,629,487	1,680,526
Cost of sales		(1,135,544)	(1,091,220)
Gross profit		**493,943**	**589,306**
Operating expenses			
Research and engineering		(102,739)	(94,934)
Sales and marketing		(217,347)	(232,505)
General and administrative		(99,713)	(101,972)
Other income (expense), net	26	3,343	1,737
Combination related expenses	5	(1,241)	86
Reorganization expenses	5	(100,026)	(20,911)
Amortization of intangible assets	5	(47,454)	(13,743)
Operating result		**(71,234)**	**127,064**
Financial income (expense), net	27	10,465	2,139
Share of profit of associates	10	432	2,350
Gain on sale of investment in associate		11,224	195
Profit (loss) before income tax		**(49,113)**	**131,748**
Income tax expense	29	3,474	(16,845)
Profit (loss) for the period		**(45,639)**	**114,903**
Attributable to			
Equity holders of the company		(50,190)	111,864
Minority interest		4,551	3,039
Basic earnings per share	30	(0.58)	1.35
Diluted earnings per share	30	(0.58)	1.32
Weighted average number of shares outstanding	30	86,172	83,114
Weighted average number of shares outstanding assuming dilution	30	86,172	84,452

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7.1.3 Consolidated statements of changes in shareholders' equity for the periods ended December 31, 2007 and 2008

In thousands of Euro	Number of shares (**)	
	Issued	Outstanding
Balance as of January 1, 2007	**90,082,535**	**89,854,954**
Movements in fair value & other reserves:		
- Currency translation adjustments		
- Gains/(losses) on Treasury shares (liquidity program)		
- Fair value gains/(losses), net of tax:		
- Available-for-sale financial assets		
- actuarial gains and losses in benefit obligation		
- cash flow hedges		
- revaluation further to acquisition of LM Gemplus Pty Ltd minority interest		
Net income/(expense) recognized directly in equity		
Profit/(Loss) for the period		
Total recognized income for the period		
Employee share option scheme		457,754
Purchase of Treasury shares		(7,754,439)
Capital increase further to acquisition of minority interests in Gemplus International S.A.	933,309	933,309
Excess of purchase price on subsequent minority interest acquisitions		
Minority interest on Gemplus acquisition		
Dividend paid/payable to minority interests		
Balance as of December 31, 2007	**91,015,844**	**83,491,578**
Movements in fair value & other reserves:		
- Currency translation adjustments		
- Gains/(losses) on Treasury shares (liquidity program)		
- Fair value gains/(losses), net of tax:		
- Available-for-sale financial assets		
- actuarial gains and losses in benefit obligation		
- cash flow hedges		
Net income/(expense) recognized directly in equity		
Profit/(Loss) for the period		
Total recognized income for the period		
Employee share option scheme		1,840,871
Purchase of Treasury shares		(3 036,257)
Capital decrease further to Treasury shares cancellation (*)	(3,000,000)	
Dividend paid/payable to minority interests		
Balance as of December 31, 2008	**88,015,844**	**82,296,192**

(*) The Annual General Meeting of Shareholders held on May 19, 2008, approved the resolution related to the cancellation of three million shares held by the Company into the share capital.
The share cancellation was completed on July 24, 2008. As a result, the total number of shares issued is now 88,015,844.
(**) As of December 31, 2008, the difference between the number of shares issued and the number of shares outstanding corresponds to the 5,719,652 shares held in treasury.

Attributable to equity holders of the Company						Minority interest	Total equity
Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adj.	Retained earnings		
90,083	**1,241,326**	**(5,240)**	**73,151**	**(4,158)**	**22,319**	**26,884**	**1,444,365**
				(18,317)		(420)	(18,737)
			72				72
			(4,417)				(4,417)
			2,555				2,555
			7,382			(22)	7,360
					125		125
			5,592	(18,319)	125	(442)	(13,044)
					(50,190)	4,551	(45,639)
			5,592	(18,319)	(50,065)	4,109	(58,683)
			3,931				3,931
		(134,692)					(134,692)
933	17,763						18,696
	(11,949)						(11,949)
						(13,943)	(13,943)
						(5,482)	(5,482)
91,016	**1,247,140**	**(139,932)**	**82,674**	**(22,475)**	**(27,746)**	**11,568**	**1,242,245**
				(17,511)		1,360	(16,151)
			(212)				(212)
			(242)				(242)
			(168)				(168)
			(7,301)				(7,301)
			(7,923)	(17,511)		1,360	(24,074)
					111,864	3,039	114,903
			(7,923)	(17,511)	111,864	4,399	90,829
			1,007				1,007
		(29,212)					(29,212)
(3,000)	(32,711)	54,211	(18,923)				(423)
						(1,826)	(1,826)
88,016	**1,214,429**	**(114,933)**	**56,835**	**(39,986)**	**84,118**	**14,141**	**1,302,620**

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7.1.4 Consolidated statements of cash flows for the periods ended December 31, 2007 and 2008

In thousands of Euro	Notes	Year ended December 31, 2007	2008
Cash flows from (used in) operating activities			
Cash generated from operations	31	90,978	152,739
Interest paid		(2,288)	(1,766)
Income tax (paid) refunded		7,681	(20,634)
Net cash provided by operating activities		**96,371**	**130,339**
Cash flows from (used in) investing activities			
Acquisition of subsidiary, net of cash acquired		75	(13,605)
Purchase of Gemplus minority interests		(4,068)	-
Purchase of minority interests in subsidiaries		(2,486)	-
Purchase of property, plant & equipment	8	(42,260)	(44,121)
Proceeds from sale of property, plant & equipment		2,099	3,798
Acquisition and capitalization of intangible assets	9	(21,657)	(8,683)
Refund (purchase) of non-current assets		2,132	(154)
Proceeds from sale of available-for-sale investments		5,614	-
Proceeds from sale of investments in associate		16,877	195
Proceeds from dissolution of an investment in associate		2,343	-
Purchase of investments in associate		(290)	-
Interest received		11,650	11,704
Net cash used in investing activities		**(29,971)**	**(50,866)**
Cash flows from (used in) financing activities			
Proceeds from exercise of stocks options		6,224	24,922
Purchase of Treasury shares (net)		(144,309)	(65,429)
Proceeds from borrowings		1,560	1,204
Repayments of borrowings		(11,154)	(7,223)
Dividends paid to minority interests		(5,486)	(1,826)
Net cash used in financing activities		**(153,165)**	**(48,352)**
Net increase (decrease) in cash and bank overdrafts		(86,765)	31,121
Cash and bank overdrafts, beginning of period		429,597	336,815
Currency translation effect on cash and bank overdrafts		(6,017)	(7,902)
Cash and bank overdrafts, end of period	**15**	**336,815**	**360,034**

7.1.5 Notes to the consolidated financial statements for the periods ended December 31, 2007 and 2008

All amounts are stated in thousands of Euro unless otherwise stated.

Note 1 General information

On December 6, 2005, the two companies Gemalto N.V. (formerly Axalto Holding N.V.) (the "Company") and Gemplus International S.A. ("Gemplus") signed an agreement to combine and create Gemalto, the world leader in digital security. Following regulatory reviews and approvals, the transaction took place on June 2, 2006.

Gemalto N.V. ("the Company") and its subsidiaries (together "Gemalto" or "the Group") design, manufacture and sell Smart Cards ("Cards") and Point-of-Sales Terminals ("POS Terminals"). Cards include microprocessor, magnetic stripe, memory, public telephony and other cards. The Group also provides related services for mobile communication, secure transactions (principally in the financial and pay TV sectors), identity and security applications, including licensing of intellectual property rights. POS Terminals include point-of-sales terminals, systems and related services. The Group has plants and sells around the world.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The new address of its registered office has been Barbara Strozzilaan 382, 1083 AX Amsterdam, the Netherlands, since December 1, 2008.

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

These consolidated financial statements for the year ended December 31, 2008 have been authorized for issue by the Board of Directors of the Company on March 17, 2009 and are subject to adoption at the Annual General Meeting of Shareholders on May 20, 2009.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (available at the following internet address: www.ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(a) Amendments to existing standards and interpretations effective for 2008 financial statements

The Group has adopted the following amendments and new IFRIC Interpretations during the year. Adoption of these new interpretations did not have any effect on the Group's financial performance or position.

Amendments to IAS 39 *"Financial Instruments: Recognition and Measurement"* and IFRS 7 *"Financial Instruments: Disclosures"* – Reclassification of Financial Assets

These amendments were issued in October 2008 and became effective on July 1, 2008. No financial asset was reclassified at of the Fair value through profit and loss in 2008.

IFRIC 11 *"IFRS 2 – Group and Treasury Share Transactions"*

IFRIC 11 was issued in November 2006 and has become effective for financial years beginning on or after March 1, 2007. The interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

This Interpretation had no impact on the Group's reported financial statements.

IFRIC 12 *"Service Concession Arrangements"*

IFRIC 12 was issued in November 2006 and has become effective for annual periods beginning on or after January 1, 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

No member of the Group is an operator and hence this Interpretation had no impact on the Group's reported financial statements.

IFRIC 14 *"IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*

IFRIC 14 was issued in July 2007 and has become effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19.

This Interpretation had no impact on the Group's reported financial statements.

(b) Standards, amendments to existing standards and interpretations issued but not mandatory for 2008 financial statements (and not adopted early by the Group)

- IFRS 3 (revised) *"Business Combinations"* and IAS 27 (revised) *"Consolidated and Separate Financial Statements"*
- IFRS 8 *"Operating Segments"*
- Amendments to IFRS 1 *"First-time adoption of IFRSs"* and IAS 27 *"Consolidated and Separate Financial Statements"* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendment to IAS 1 *"Presentation of Financial Statements"* – A Revised Presentation
- Amendment to IFRS 2 *"Share-based Payments"* – Vesting conditions and Cancellations
- Amendment to IAS 23 *" Borrowing Costs"*
- Amendments to IAS 32 *"Financial Instruments: Presentation"* and IAS 1 *"Presentation of Financial Statements"* – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement"* – Eligible Hedged Items
- Improvements to IFRSs
- IFRIC 13 *"Customer Loyalty Programmes"*
- IFRIC 15 *"Agreements for the Construction of Real Estate"*
- IFRIC 16 *"Hedges of a Net Investment in a Foreign Operation"*
- IFRIC 17 *"Distribution of Non-cash Assets to Owners"*

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Most of the new standards, amendments to existing standards and interpretations above will be effective for 2009 financial statements and are not expected to have a significant impact on the Group's reported financial statements. IFRS 3 (revised) and IAS 27 (revised) will apply to business combinations which will occur on or after January 1, 2010.

IFRS 8 was issued in November 2006 and will be effective for financial years beginning on or after January 1, 2009. The Standard requires presentation of information regarding operating segments on the same basis as that used for internal reporting purposes. Operating segments are components of a group's business activities whose operating results are regularly reviewed by the *Chief Operating Decision Maker* ("CODM") and for which discrete financial information is available and used by the CODM to conduct and assess the business. The Group does not expect this Standard to have a significant impact on its reported financial statements.

2.2 Method of accounting of subsidiaries and associates

(a) Subsidiaries

Subsidiaries are all entities over which Gemalto has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Gemalto controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Gemalto.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred in consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.6). For further acquisitions of minority interests, the excess of the cost of acquisition over the carrying value of the Group's additional share of the identifiable net assets acquired is recorded against the share premium in the equity. Adjustments to the fair value of the assets acquired and liabilities and contingent liabilities assumed can occur during a period of twelve months following the date of acquisition.

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

(b) Associates

Associates are all entities over which Gemalto has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associate are accounted for by the equity method of accounting and are initially recognized at cost. Gemalto's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Gemalto's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of other post-acquisition movements in reserves are 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.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Gemalto has elected not to early adopt IFRS 8. The standard will then be effective starting January 1, 2009 (see note 2.1).

2.4 Foreign currency translation

(a) Functional and reporting currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

The asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. For example, the company reassessed in January 1, 2008 the useful life of some manufacturing equipment (see note 8).

An asset carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are reflected in the result of operations.

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

2.6 Goodwill and intangible assets

(a) Goodwill

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

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those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets

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

Software	3-5 years
Patents and technologies	5-10 years
Capitalized development costs	3-6 years
Other	1-15 years

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

2.7 Impairment of non-financial assets

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

2.8 Investments and financial assets

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

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

2.9 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.

2.10 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. The amount of the provision is recognized in the income statement within sales and marketing expenses.

2.11 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.

2.12 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.

2.13 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.

2.14 Taxes on income

Deferred income tax is calculated on the basis of the temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax liabilities are provided in full on taxable temporary differences. Deferred tax assets on deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax is measured using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related asset is realized or the liability is settled.

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

2.15 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 these grants when the performance conditions are met and any risk of repayment is assessed as remote.

2.16 Research and development costs

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

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usually varies between 3 and 6 years. Unamortized capitalized software development costs determined to be in excess of the net realizable value of the product are expensed immediately.

2.17 Employee benefits

(a) Pension and similar obligations

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

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustment for past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized outside profit or loss and are presented in “Fair value and other reserves” in equity.

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

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

(b) Share-based compensation

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

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Gemalto recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(d) 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.

2.18 Provisions

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

2.19 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. These services include the development of specific software platforms. Under the percentage of completion method, the extent of progress towards completion is measured based on actual costs incurred to total estimated costs. Losses on contracts are recognized during the period in which the loss first becomes probable and can be reasonably estimated.

(b) Multiple element arrangements

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

(c) Collectibility

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

(d) Deferred and unbilled revenue

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

2.20 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.

2.21 Use of judgments and estimates

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

2.22 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. These instruments are presented under "Derivative financial instruments" in current assets or liabilities since they are expected to mature within 12 months of the balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument for accounting purposes and, if so, on the nature of the item being hedged. Some of the derivative financial instruments used to hedge the Company's foreign exchange exposure qualify as cash flow hedges since they reduce the variability in cash flows attributable to the Company's forecasted transactions.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. For derivatives qualified as cash flow hedges, the Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of the derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve are shown in the consolidated statement of changes in shareholders' equity within "Fair value and other reserves".

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity under "Fair value and other reserves". 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

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in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement as foreign exchange gain or loss in the financial income.

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

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

2.23 Estimation of derivative financial instrument fair value

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading of available-for-sale securities) is based on quoted market prices at the balance sheet date.

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. The fair value of derivative financial instruments is calculated at inception and over the life of the derivative.

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

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

Note 3 Financial risk management

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

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

3.1 Foreign exchange risk

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

The Company attempts in a first stage to match the currencies of its revenue and expenses in order to naturally hedge its exposure to foreign currency fluctuations, and then enters into derivative financial instruments to hedge part of its residual exposure. The decision to hedge or not a given currency depends on the level of forecast net exposure for that currency and on a cost-and-risk analysis using several market parameters such as volatility, hedge costs, forecasts, etc… The Company formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions.

Foreign exchange forward contracts and options that hedge a portion of subsidiaries' known or forecast commercial transactions, not denominated in their functional currencies, are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in the income statement. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred in the settlement of balance sheet items not denominated in the relevant subsidiary's functional currency, are not qualified in hedge accounting (see note 20).

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

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

The impacts of other currencies to similar fluctuations on the profit and loss do not exceed € 0.3 million for any given currency.

	Change in $/€ exchange rate	Effect on Profit before tax as at December 31,			Effect on Equity as at December 31,
		Underlying (*)	Hedges (**)	Net	Hedges (***)
2008	**2.50%** **-2.50%**	(1,307) 1,374	1,371 (995)	64 379	1,315 (524)
2007	**2.50%** **-2.50%**	(1,017) 1,069	1,156 (1,208)	139 (139)	2,942 (3,100)

(*) Effect of revaluation of financial assets and liabilities, excluding hedges
(**) Effect on Mark-to-market valuation of fair value hedges
(***) Effect on intrinsic value of cash flow hedges

3.2 Interest rate risk

Financial assets are invested in bank deposits, money market funds and commercial paper with maturities no longer than three months, classified as cash and cash equivalents. Financial liabilities are mainly floating rate finance leases. Financial income (expense) can therefore be sensitive to interest rate fluctuations. The Company however considers that this risk may not have a significant impact on its financial situation in the short term, and does not use derivative financial instruments to hedge interest rate risk.

The following table shows the sensitivity of the Group's results to reasonably possible changes in the interest rates, all other variables being held constant. There is no effect on the Group's equity.

Effect on profit before tax	Variation in interest rate (in basis points)	2007	2008
Borrowings	(50)	305	115
	50	(305)	(115)
Short term deposits and investment funds	(50)	(1,309)	(1,252)
	50	1,309	1,252

3.3 Liquidity risk

By maintaining sufficient cash and cash equivalent positions as well as an adequate amount of committed credit facilities, including the USD 250.0 million syndicated bank loan facility referred to in Note 16 (equivalent to € 177.3 million based on the USD/EUR accounting exchange rate as of December 31, 2008), which has a maturity date on August 24, 2012, the Company considers that it is not exposed, in the short term, to significant liquidity risk. The Company cannot however guarantee that under any circumstances the level of liquidity will be enough to cover all of the Company's future cash requirements.

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

	2007			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Borrowings	5,942	14,416	3,842	24,200
Other borrowings	2,111	628	-	2,739
Derivative financial instruments	468	-	-	468
Trade & other payables	380,273	-	-	380,273
	388,794	**15,044**	**3,842**	**407,680**

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

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3.4 Financial counterparty risk

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

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

The Company also maintains credit lines with various banks. It includes uncommitted short term facilities, short term bonds and guarantee lines, and a committed USD 250.0 million syndicated bank loan facility arranged by a group of seven international banks of strong credit rating referred to in Note 16 (equivalent to € 177.3 million based on the USD/EUR accounting exchange rate as of December 31, 2008), which has a maturity date on August 24, 2012.

On December 31, 2008, no financial institution accounted for more than 22% of the notional amount of derivative financial instruments, 15% of the cash and cash equivalents, and 17% of the credit lines (23% including bonds and guarantee lines).

Maximum risk with any single counterparty is as follows:

		Year ended December 31,	
		2007	2008
Borrowings			
Syndicated bank loan (*)	Committed credit line (undrawn)	26,280	27,305
Overdrafts and other short term loans	Uncommitted credit lines (partially drawn)	15,100	15,100
Bonds and guarantee facilities	Uncommitted credit lines (partially drawn)	40,270	40,200
Cumulated borrowing risk with a single counterparty		81,650	82,605
in % of total borrowing risk for Gemalto		*24%*	*23%*
Cash and cash equivalents			
Short term bank deposits and cash at bank and in hand		61,580	31,663
Money market mutual funds		8,495	56,465
Commercial paper		-	30,000
Cumulated cash and cash equivalents risk with a single counterparty		61,580	56,465
in % of total cash & cash equivalents risk for Gemalto		*18%*	*15%*
Derivative financial instruments			
Notional amount		62,654	65,979
in % of total derivative financial instruments risk for Gemalto		31%	22%
Mark-to-market		4,411	7,108
Total risk with any single counterparty		**120,028**	**92,677**
in % of total counterparty risk for Gemalto		*17%*	*12%*

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

In addition, the Company has temporary exposure to non-investment grade financial institutions on payments made by customers in certain countries, until the Company transfers such amounts to investment grade institutions. This exposure is not significant.

3.5 Credit risk

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales in 2007 and 2008. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the Company performs ongoing credit evaluations of customers' financial condition.

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

	Year ended December 31, 2007	Year ended December 31, 2008	Bad debt reserve as at December 31, 2008
Overdue by:			
Up to 1 month	54,747	51,640	(147)
2 to 3 months	25,659	31,690	(7)
4 to 6 months	9,803	13,711	(220)
Later than 6 months	17,976	16,312	(8,524)
	108,185	113,353	(8,898)
Provision for impairment of receivables	(10,609)	(8,898)	-
Trade receivables overdue but not impaired	**97,576**	**104,455**	-

	2007	2008
As at January 1,	**(14,534)**	**(10,609)**
Provision for impairment of receivables	(5,181)	(3,285)
Receivables written off over the year as uncollectible	3,684	1,432
Unused amounts reversed	4,846	3,440
Reclassification	-	(58)
Currency translation adjustment	576	182
As at December 31,	**(10,609)**	**(8,898)**
Yearly loss (as a percentage of annual revenue)	0.00 %	(0.00 %)

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk as of December 31, 2008 is the trade receivables mentioned in Note 14. The group does not hold any collateral as security.

Note 4 Acquisitions

4.1 Acquisition of Keycorp smart card related activities

On September 1, 2008, Gemalto acquired the smart card related activities of Keycorp. Gemalto paid a total of 25.3 million Australian Dollars (i.e. approximately €14 million) for the smart card related assets of the Keycorp Group (i.e. its people, assets, contracts, know-how, patents), 100% of its subsidiaries in the United Kingdom (Multos Ltd and StepNexus Ltd) that operate a high secured data center in England, as well as Maosco Ltd, which organizes the Multos consortium which promotes Multos as an open standard. Gemalto has created a new company based in Singapore, Multos International Pty Ltd, to acquire Keycorp smart card business in Australia. Keycorp newly acquired UK business (Multos Ltd and its wholly owned subsidiaries StepNexus Ltd and Maosco Ltd) have retained their existing names.

Gemalto accounted for the acquisition of Keycorp smart card business applying the purchase method of accounting as defined by IFRS 3 "Business combination".

Gemalto management, assisted by independent, qualified experts, identified and assigned fair values to Keycorp smartcard related assets and liabilities, as part of the allocation of the value of the combination.

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The allocation of the value of the combination to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquired entity, was as follows:

	In millions of Euro Keycorp smart card related activities
Purchase consideration	
Purchase consideration for 100% of Multos Ltd shares	4.3
Purchase consideration for the Smart card business from Keycorp Ltd	9.4
Capitalized acquisition costs	0.3
Total purchase consideration	**14.0**
Net Assets acquired (excluding intangibles) (*)	
Fair value of net assets acquired at the date of the acquisition	2.6
Identified intangible assets on the balance sheet	(3.4)
Fair value of net assets acquired (excluding intangibles)	(0.8)
Fair Value of the acquired intangible assets	
Existing technology	3.4
Patents	2.2
Software	0.5
Customer relationships	0.4
Brand name	0.2
Fair value of the acquired intangible assets	**6.7**
Deferred tax impacts	
Deferred tax liability related to the revaluation of the inventory and to amortizable intangible assets	(0.9)
Gemalto share of adjusted net assets	**5.0**
Goodwill	**9.0**

(*) including reassessment of inventory value.

The estimated useful lives of the acquired intangible assets are as follows:

	Fair value In millions of Euro	Amortization period
Existing technology	3.4	55% until June 2010, 45% over 3 years
Patents	2.2	9 years
Software	0.5	6 years
Customer relationships	0.4	4 years
Brand name	0.2	9 years
Total	**6.7**	

Keycorp smart card related activities contributed to the Group's 2008 revenue for €8.0 million.

4.2 Acquisition of NamITech

On December 17, 2008, Gemalto and Allied Technologies Ltd announced that they had entered into an agreement in which Allied Technologies Ltd would sell its NamITech business in South Africa to Gemalto. NamITech, with revenues of approximately ZAR 200 million (approximately €15 million), is a leading provider of secure cards and services in the Southern African area. Its Linbro facility notably provides secure banking personalization services to major banks in South Africa, employing approximately 350 people all based in South Africa, near Gemalto premises.

This acquisition project will enable Gemalto to grow its service offering to Southern Africa bank card issuers, expand in a fast growing market and contribute to the development of the industry in the area.

The transaction, which is subject to approval from the South African Competition Commission, is expected to close in March 2009.

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

Due to the combination with Gemplus and, to a much lesser extent, the acquisition of Keycorp smart card business, the Company's financial statements have undergone significant change.

The Group has incurred expenses in connection with the combination with Gemplus, which would not have been otherwise incurred. Combination related charges are disclosed on a separate expense line in the income statement and amounted to €1,241 for the twelve-month period ended December 31, 2007. In 2008, the Group reported an adjustment of €86 (credit) to expenses booked in 2007.

Charges incurred in connection with headcount reductions in the support functions, with the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio consequent to the combination with Gemplus, are disclosed under a line named "Reorganization expenses" in the IFRS income statement for an amount of €20,911 as of December 31, 2008 (€100,026 in 2007). This amount consisted of employee benefits, severance and associated costs for €10,510 (€71,503 in 2007), of property, plant and equipment, intangible asset and inventory write-offs and impairments for €250 (€20,050 in 2007) and of other costs for €10,151 (€8,473 in 2007).

The Group also discloses under the line named "Amortization of intangible assets" the amortization expense for the twelve-month period ended December 31, 2008 related to the Existing Technology and Customer Relationships acquired from Gemplus, for €7,362 and €5,634 respectively (€40,426 and €5,638 respectively in 2007). The amortization expense of intangible assets acquired from Keycorp (see note 4.1) is also included in this line item for €747. The expense resulting from the reduction of the goodwill on Gemplus acquisition for €1,390 was included in this line item in 2007.

Note 6 Segment information

Primary reporting format – Business segment

Gemalto's operations are organized into five business segments: Mobile Communication, Secure Transactions, Security, Public Telephony and Point-of-Sales Terminals (POS Terminals). The five segments are organized in accordance with how Gemalto's management reviews business performance and allocates resources. The following tables present Gemalto's revenue, gross profit, and operating expenses by segment.

Security's income statement includes the revenue, gross and operating margins derived from Government Programs, Identity & Access Management and the licensing of the Group's patent portfolio.

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	Year ended December 31, 2007						
	Mobile Communication	Secure Transactions	Security(*)	Public telephony	Point-of-sales terminals	Unallocated	Gemalto
Revenue	925,475	411,355	192,925	43,696	56,036	-	1,629,487
Cost of sales	(579,896)	(342,595)	(133,553)	(33,098)	(46,402)	-	(1,135,544)
Gross profit	**345,579**	**68,760**	**59,372**	**10,598**	**9,634**	**-**	**493,943**
Operating expenses	(224,395)	(89,537)	(86,322)	(3,956)	(15,589)	-	(419,799)
Other income, net	1,422	686	423	708	104	-	3,343
Combination related expenses	-	-	-	-	-	(1,241)	(1,241)
Reorganization expenses	-	-	-	-	-	(100,026)	(100,026)
Amortization and depreciation of intangible assets	(30,710)	(8,581)	(8,163)	-	-	-	(47,454)
Operating income (loss)	**91,896**	**(28,672)**	**(34,690)**	**7,350**	**(5,851)**	**(101,267)**	**(71,234)**
Finance income (expenses), net							10,465
Share of profit (loss) of associates							432
Gain on sale of investments in associates							11,224
Loss before income tax							**(49,113)**
Income tax expense							**3,474**
Loss for the period							**(45,639)**

(*) Includes revenue derived from the Group's patent licensing activities of €23 million.

	Year ended December 31, 2008						
	Mobile Communication	Secure Transactions	Security(**)	Public telephony	Point-of-sales terminals	Unallocated	Gemalto
Revenue	948,187	443,427	215,922	34,824	38,166	-	1,680,526
Cost of sales	(553,690)	(331,527)	(151,182)	(27,899)	(26,922)	-	(1,091,220)
Gross profit	**394,497**	**111,900**	**64,740**	**6,925**	**11,244**	**-**	**589,306**
Operating expenses	(234,184)	(91,422)	(87,900)	(2,953)	(12,952)	-	(429,411)
Other income, net	(728)	179	1,365	10	911	-	1,737
Combination related expenses						86	86
Reorganization expenses						(20,911)	(20,911)
Amortization and depreciation of intangible assets	(9,070)	(2,747)	(1,926)	-	-	-	(13,743)
Operating income (loss)	**150,515**	**17,910**	**(23,721)**	**3,982**	**(797)**	**(20,825)**	**127,064**
Finance income (expenses), net							2,139
Share of profit (loss) of associates							2,350
Gain on sale of investments in associates							195
Profit before income tax							**131,748**
Income tax expense							**(16,845)**
Profit for the period							**114,903**

(**) Includes revenue derived from the Group's patent licensing activities of €8.1 million.

Most of reorganization expenses incurred in the period relate to production sites that manufacture products and components for several segments, and to support departments that provide services across the Group. Therefore, these expenses have not been allocated to the reported segments.

The Company allocates assets and liabilities to the five business segments for goodwill impairment test purposes only (see note 9). Consequently, such information, which is not used by management to evaluate segment performance on a regular basis, is not disclosed.

Secondary reporting format – Geographic areas

The table below shows revenue attributed to geographic areas, on the basis of the location of the customers:

Sales	Year ended December 31,	
	2007	2008
North and South America	386,964	411,338
Europe, Middle East and Africa	911,028	941,152
Asia Pacific	331,495	328,036
	1,629,487	1,680,526

Long-lived assets by geographic areas

Due to the nature of its activity and the global organization of its production, the Company does not allocate long-lived assets to geographic areas.

Note 7 Financial assets / liabilities by category

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

December 31, 2007	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for- sale	Total
Assets					
Available-for-sale financial assets, net	–	–	–	1,445	1,445
Other non-current assets	22,774	–	–	–	22,774
Trade and other receivables, net (*)	427,319	–	–	–	427,319
Derivative financial instruments	–	–	15,750	–	15,750
Cash and cash equivalents	146,641	190,800	–	–	337,441
Total	**596,734**	**190,800**	**15,750**	**1,445**	**804,729**

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	–	23,628	23,628
Derivative financial instruments	468	–	468
Total	**468**	**23,628**	**24,096**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2007, VAT recoverable of €12,186 has been reclassified to Accrued VAT.

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December 31, 2008	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
Assets					
Available-for-sale financial assets, net	–	–	–	1,197	1,197
Other non-current assets	14,261	–	–	–	14,261
Trade and other receivables, net	447,133	–	–	–	447,133
Derivative financial instruments	–	–	16,458	–	16,458
Cash and cash equivalents	101,015	266,114	–	–	367,129
Total	**562,409**	**266,114**	**16,458**	**1,197**	**846,178**

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

Note 8 Property, plant and equipment

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

	Land	Building & improvement	Machinery & equipment	Total property, plant and equipment
Gross book value as of January 1, 2007	**6,465**	**215,070**	**523,168**	**744,703**
Acquisition of subsidiary	-	-	218	218
Additions	51	15,678	26,531	42,260
Reclassification to assets held for sale	-	-	(3,479)	(3,479)
Disposals	(392)	(10,910)	(25,146)	(36,448)
Currency translation adjustment	(85)	(4,249)	(12,210)	(16,544)
Gross book value as of December 31, 2007	**6,039**	**215,589**	**509,082**	**730,710**
Accumulated depreciation as of January 1, 2007	**-**	**(107,200)**	**(394,581)**	**(501,781)**
Acquisition of subsidiary	-	-	(163)	(163)
Depreciation charge	-	(16,679)	(41,006)	(57,685)
Disposals	-	10,030	22,670	32,700
Currency translation adjustment	-	2,942	10,372	13,314
Accumulated depreciation as of December 31, 2007	**-**	**(110,907)**	**(402,708)**	**(513,615)**
Net book value as of December 31, 2007	**6,039**	**104,682**	**106,374**	**217,095**

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

For the year ended December 31, 2007, depreciation expense of €45,537 was recorded in cost of sales, €2,392 in research and engineering expenses, €1,704 in sales and marketing expenses, €3,936 in general and administrative expenses, €118 in other income and expenses and €3,998 in reorganization expenses.

As required by IAS 16, the Company reassessed on January 1, 2008 the useful life of its tangible assets. As a result, tangible assets depreciation expense for the year 2008 was reduced by €12.3 million. The net impact on the 2008 operating income was €10.8 million.

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

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

	Year ended December 31,	
	2007	2008
Gross book value	59,567	53,968
Accumulated depreciation	(31,358)	(27,455)
Net book value	**28,209**	**26,513**

As at December 31, 2008, capitalized leases consist mostly of two lease contracts related to facilities sites in France.

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Note 9 Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	Goodwill	Patents and technology(*)	Capitalized development costs	Other intangibles	Total
Gross book value as of January 1, 2007	**560,303**	**243,199**	**66,201**	**72,499**	**942,202**
Acquisition of subsidiary	124	-	-	249	373
Additions	-	-	6,321	31,376	37,697
Disposals	-	(222)	(800)	(3,421)	(4,443)
Write-offs	(1,390)	-	(3,543)	-	(4,933)
Reclassifications within intangibles	-	2,809	-	(2,809)	-
Currency translation adjustment	(2,895)	(77)	(59)	(25)	(3,056)
Gross book value as of December 31, 2007	**556,142**	**245,709**	**68,120**	**97,869**	**967,840**
Accumulated amortization as of January 1, 2007	**(12,731)**	**(174,394)**	**(43,473)**	**(48,399)**	**(278,997)**
Acquisition of subsidiary (see note 4)	-	-	-	-	-
Amortization charge	-	(47,049)	(7,130)	(14,510)	(68,689)
Disposals	-	191	-	2,685	2,876
Impairment charge	-	-	(4,842)	-	(4,842)
Reclassifications within intangibles	-	(2,187)	-	2,187	-
Other reclassifications	-	-	-	(1,160)	(1,160)
Currency translation adjustment	420	63	-	35	518
Accumulated amortization as of December 31, 2007	**(12,311)**	**(223,376)**	**(55,445)**	**(59,162)**	**(350,294)**
Net book value as of December 31, 2007	**543,831**	**22,333**	**12,675**	**38,707**	**617,546**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2007, Patents and technology gross book value and accumulated amortization have been reassessed at (€9,800) and €9,800 respectively to take into consideration some Gemplus intangible assets written-off as at June 2, 2006.

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

For the year ended December 31, 2007, amortization expense of €21,723 was charged to cost of sales, €605 was recorded in research and engineering expenses, €44 was recorded in selling and marketing expenses, €253 was recorded in general and administrative expenses, €46,064 was recorded in the line named "Amortization of intangible assets". The €4,842 impairment charge was recorded in reorganization expenses.

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

Other intangibles mainly consist of licensing rights to use and distribute licensed technology for €11,105, miscellaneous softwares and acquired customer relationships (Gemplus and Keycorp smart card business for €7,863 and €808 respectively).

Goodwill write-off

As of December 31, 2007, the benefit of a deferred tax asset that did not satisfy the recognition criteria to be included in the balance sheet at Gemplus acquisition date, was recognized. In accordance with the provisions of IFRS 3, the carrying amount of the goodwill was reduced for an amount equivalent to the deferred tax asset (€1,390), this reduction being recognized as an expense (see note 5).

Goodwill impairment test

Following the combination with Gemplus, the Company has reorganized its operations and reporting structure into five business segments and cash generating units: Mobile Communication, Secure Transactions, Security, Public Telephony and Point-of-Sales (POS) Terminals. Long-range planning, operating performance measurement and resource allocation are carried out by management on the basis of this structure. Goodwill has been allocated to these cash generating units on the basis of their expected contribution to the operating profits of the Group, pursuant to management business plan.

Mobile Communication, Secure Transactions and Security are the cash generating units that include in their carrying value, a goodwill that is a significant proportion of the total goodwill reported by Gemalto, for €320 million, €119 million and €108 million respectively.

The recoverable amount of the cash generating units is determined based on projected cash flows after tax derived from management plans as of the date the review was carried out. Cash flows beyond management plans horizon are extrapolated using a growth rate, which does not exceed the average growth rate for the industry in which Gemalto operates. The discount rate used in this calculation is the after-tax weighted average cost of capital used by the Company, estimated at 10.9% in 2008. The outcome of the computation yields recoverable amounts far above the carrying values of the cash generating units.

No impairment charge was recognized in 2007 or 2008.

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

Note 10 Investments in associate

Investments in associate consist of the following:

	Year ended December 31,	
	2007	**2008**
Investments as of beginning of period	**15,912**	**8,294**
Capital increase of associates	290	-
Share of profit/(loss)	432	2,350
Dilution profit/(loss)	615	-
Disposals	(8,139)	-
Currency translation adjustment	(166)	(175)
Other movements	(650)	-
Investments as of end of period	**8,294**	**10,469**

In 2007, the main investments disposed of were Welcome Real Time S.A. (carrying amount of €5,741 and gain on sale of €9,393) and SOLAIC Shanghai (carrying amount of €2,090 and gain on sale of €253).

The €2,350 mainly consist of Gemalto's shares of AB Svenska and Makxalto 2008 profits of €858 and €650 respectively.

The Company's investments in associate include goodwill (net of any impairment loss) identified on acquisition. As of December 31, 2008, the net book value of goodwill in associates amounted to €558 and related to investments in Atchik Realtime and Trusted Logic.

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

Year	Associates' Total			
	Assets	Liabilities	Revenue	Profit/(loss)
2007	92,429	71,327	182,456	(6,344)
2008 (*)	93,744	70,170	204,919	(3,328)

(*) 2007 financial information is disclosed when 2008 financial information is not available.

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

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

	Year ended December 31,	
	2007	2008
Available-for-sale financial assets as of beginning of period	**7,401**	**1,445**
Net gains or losses transferred to/from equity	(235)	(242)
Disposals	(5,721)	-
Available-for-sale financial assets as of end of period	**1,445**	**1,203**

In 2007, investments in Xiring (€5,354) and Bitfund (€367) were disposed of.

Assets held for sale consist of the following:

	Year ended December 31,	
	2007	2008
Assets held for sale as of beginning of period	**-**	**3,479**
Additions	3,479	1,711
Disposals	-	(3,479)
Assets held for sale as of end of period	**3,479**	**1,711**

Disposals relate to effective sale of land and buildings located in La Ciotat, France. Outstanding balance as at December 31, 2008 relates to buildings located in Orleans, France. A binding agreement has been signed with third party to finalize the sale of these assets.

Note 12 Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2007	2008
Loan receivable from former Gemplus Board chairman (net of provision)(1)	8,371	8,637
Research tax credits(2)	10,121	-
Long term deposits(3)	2,775	3,110
Tax receivable	928	1,776
Other	579	732
Total	**22,774**	**14,255**

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

(2) French new regulation ("Loi de Finances Rectificative 2008") of December 30, 2008 has enabled French companies to get an accelerated refund of their research tax credits. As a result, €15,344, corresponding to research tax credits of 2006, 2007 and 2008, have been reclassified from Other non-current assets to Other receivables as of December 31, 2008.

(3) The €3,110 carrying value of long term deposits is assessed to be equivalent to their fair value.

Note 13 Inventories

Inventories consist of the following:

	Year ended December 31,	
	2007	2008
Gross book value		
Raw materials and spares	57,458	58,330
Work in progress	88,802	73,415
Finished goods	50,648	50,261
Total	**196,908**	**182,006**
Obsolescence reserve		
Raw materials and spares	(9,700)	(7,696)
Work in progress	(8,640)	(8,317)
Finished goods	(4,831)	(4,962)
Total	**(23,171)**	**(20,975)**
Net book value	**173,737**	**161,031**

Note 14 Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2007	2008
Trade receivables	361,665	356,869
Provision for impairment of receivables	(10,609)	(8,898)
Trade receivables, net	**351,056**	**347,971**
Prepaid expenses	15,373	13,422
VAT recoverable and tax receivable[1]	33,559	29,268
Advances to suppliers and related	8,604	12,956
Unbilled customers	7,401	14,280
Other[2]	11,326	29,236
Total	427,319	447,133

(1) Compared to the published consolidated financial statements for the year ended December 31, 2007, VAT recoverable of €12,186 has been reclassified to Accrued VAT.

(2) French new regulation ("Loi de Finances Rectificative 2008") of December 30, 2008 has enabled French companies to get an accelerated refund of their research tax credits. As a result, €15,344, corresponding to research tax credits of 2006, 2007 and 2008, have been reclassified from Other non-current assets to Other receivables as of December 31, 2008.

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

Note 15 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2007	2008
Cash at bank and in hand	146,641	101,015
Short term bank deposits and investment funds	190,800	266,114
Total	337,441	367,129

The average effective interest rate on short term deposits was 4.67% in 2008 (4.44% in 2007). These deposits are invested in the form of overnight and fixed term deposits, in money market funds or in commercial paper, with maturities of less than 3 months at the balance sheet date.

The above short term investments included €208.5 million deposited as a security for the public offering to acquire the shares of Wavecom S.A. This deposit comprised investments in money market mutual funds and commercial paper. The amount was released immediately after Gemalto withdrew its offer on January 12, 2009.

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,	
	2007	2008
Cash and cash equivalents	337,441	367,129
Banks overdrafts	(626)	(7,095)
Total	336,815	360,034

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Note 16 Borrowings

Borrowings consist of the following:

	Year ended December 31, 2007	2008
Non-current portion		
Syndicated bank loan	-	-
Long term loans	611	-
Finance lease liabilities	16,099	11,246
	16,710	**11,246**
Current portion		
Short term loans	1,485	-
Bank overdraft	626	7,095
Finance lease liabilities	4,807	4,805
	6,918	**11,900**
Total	**23,628**	**23,146**

The Group has a syndicated bank loan facility of USD 250.0 million (equivalent to €177.3 million, based on the USD/EUR accounting exchange rate as at December 31, 2008), which has a maturity date on August 24, 2012. The facility was not drawn as at December 31, 2007 or as at December 31, 2008.

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

To the exception of minor financial leases totaling €0.2 million as at December 31, 2008, the total amount of borrowings is based on floating interest rates.

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

	Year ended December 31, 2007	2008
Euro (EUR)	21,364	16,439
Central African Franc (XAF)	-	21
Singapore Dollar (SGD)	-	3,865
Polish Zloty (PLN)	-	2,821
United States Dollar (USD)	1,365	-
Swedish Krona (SEK)	450	-
South African Rand (ZAR)	449	-
Total	**23,628**	**23,146**

The nominal interest rates as at December 31, 2007 and 2008 were as follows:

2007		Amount	EUR	XAF	SGD	PLN	SEK	USD	ZAR
Long term loans	Floating rate	611	-	-	-	-	5.80%	-	-
Short term loans and bank overdrafts	Floating rate	2,111	4.07%	-	-	-	-	6.35%	11.50%
Finance lease liabilities	Floating rate	20,510	5.03%	-	-	-	-	-	-
Finance lease liabilities	Fixed rate	396	11.40%	-	-	-	-	-	-

2008		Amount	EUR	XAF	SGD	PLN	SEK	USD	ZAR
Long term loans	Floating rate	-	-	-	-	-	-	-	-
Short term loans and bank overdrafts	Floating rate	7,095	2.99%	-	3.25%	9.05%	-	-	-
Finance lease liabilities	Floating rate	15,853	5.72%	-	-	-	-	-	-
Finance lease liabilities	Fixed rate	198	11.40%	14.38%	-	-	-	-	-

Finance lease liabilities are split by maturity as follows:

	Year ended December 31,	
	2007	2008
Finance lease liabilities - minimum lease payments		
Not later than 1 year	5,942	5,366
Later than 1 year and not later than 5 years	14,416	10,599
Later than 5 years	3,842	1,588
Total	**24,200**	**17,553**
Future finance charges on finance leases	(3,294)	(1,502)
Present value of finance lease liabilities	**20,906**	**16,051**

The present value of finance lease liabilities is as follows:

	Year ended December 31,	
	2007	2008
Not later than 1 year	4,807	4,805
Later than 1 year and not later than 5 years	12,458	9,686
Later than 5 years	3,641	1,560
Total	20,906	16,051

Note 17 Pension and other benefit plans

The Company operates its principal defined benefit plans in France and in the United Kingdom.

In France, the Company contributes to the mandatory national pension system and other compulsory plans. Pursuant to applicable French law and industry labor agreements, a lump-sum payment is made to employees upon retirement (*"Indemnités de fin de carrière"* or IFC). The amount depends on the length of service on the date the employee reaches retirement age. A lump-sum payment is also made after respectively 20, 30 and 40 years of employment *("Jubilees")*.

The defined benefit plan that the Company operated in the United Kingdom was closed on March 31, 2007. Employees ceased to accrue benefits under the old defined benefit scheme from that date and joined a defined contribution scheme with effect from April 1, 2007. Other less significant defined benefit plans are applied in other countries such as Finland, Mexico and Germany.

Actuarial evaluations have been performed as at December 31, 2007 and 2008.

Net liability by country	Year ended December 31,	
	2007	2008
France	16,438	19,438
UK	6,229	3,369
Other countries	3,292	2,839
Total	25,959	25,646

The amounts recognized in the income statement in respect of defined benefit plans are as follows:

	Year ended December 31,	
	2007	2008
Current year service cost	3,263	1,740
Past service cost (*)	(12)	1,237
Interest cost	3,049	3,117
Expected return on plan assets	(2,198)	(2,389)
Gain on curtailment	(2,825)	-
Total pension costs	1,277	3,705

(*) In October 2008, further to the merger of French legal entities Gemplus S.A. and Axalto S.A., former Gemplus S.A. employees became eligible to Axalto S.A. jubilee scheme, in addition to the Gemplus S.A. statutory existing plan. As a result, the company recorded a one-off expense of €1,786 reported in the line item "Past service costs".

The amounts recognized in the income statement in respect of defined benefit plans by country are as follows:

	Year ended December 31,	
	2007	2008
France	271	3,480
UK	1	141
Other countries	1,005	84
Total	1,277	3,705

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The following table sets forth the funded status of defined benefit plans by country:

	Year ended December 31, 2007			
	France	UK	Other countries	Total
Projected benefit obligation	16,245	35,837	6,060	58,142
Plan assets at fair value	-	29,608	2,768	32,376
Projected benefit obligation in excess of plan assets	**16,245**	**6,229**	**3,292**	**25,766**
Past service costs	193	-	-	193
Net liability	**16,438**	**6,229**	**3,292**	**25,959**

	Year ended December 31, 2008			
	France	UK	Other countries	Total
Projected benefit obligation	19,257	22,545	5,473	47,275
Plan assets at fair value	-	19,176	2,634	21,810
Projected benefit obligation in excess of plan assets	**19,257**	**3,369**	**2,839**	**25,465**
Past service costs	181	-	-	181
Net liability	**19,438**	**3,369**	**2,839**	**25,646**

In France, the regulations do not provide for any obligation to fund the liability arising from IFC which are lump-sum payments made to employees upon their retirement.

In the United Kingdom, plan assets are comprised of 45% of equity securities (53% in 2007), 39% of corporate bonds (35% in 2007) and 16% of cash (12% in 2007). In 2008, in accordance with the Pensions Act 2004 which requires that the employer and pension scheme trustees agree and submit a funding plan to the Pension Regulator within 15 months of the valuation date for all schemes showing an asset deficit, Gemalto N.V. and the trustees of the Gemplus Limited Staff Pension scheme reached an agreement on the ongoing funding of the scheme, which consisted of a plan to fund the deficit over 8 years on a going concern basis and a parental guarantee put in place by Gemalto N.V. in the event that Gemalto UK Limited were unable to fulfill its funding obligations.

The movement in the projected benefit obligation over the year is as follows:

	Year ended December 31,	
	2007	2008
Beginning of period	**62,462**	**58,142**
Service cost	3,263	1,740
Interest cost	3,049	3,117
Past service cost	-	1,249
Plan participants' contribution	108	-
Actuarial (gain) and loss	(2,446)	(6,709)
Benefits paid	(2,550)	(2,215)
Gain on curtailment	(2,790)	-
Currency translation adjustment	(2,954)	(8,049)
End of period	**58,142**	**47,275**

The movement in the fair value of plan assets is as follows:

	Year ended December 31,	
	2007	2008
Beginning of period	**29,430**	**32,376**
Actual return on plan assets	1,203	(4,489)
Employer contribution	5,034	1,843
Plan participants' contribution	108	-
Benefits paid	(1,355)	(1,195)
Currency translation adjustment	(2,044)	(6,725)
End of period	**32,376**	**21,810**

The actual return on plan assets amounted to €(4,489) in 2008 and €1,203 in 2007. Due to the economic situation, the assets of the pension scheme have significantly underperformed, with a significant decrease in the UK asset value. The drop in asset value has been offset by a decrease in the pension scheme liability as a result of a higher discount rate and a lower inflation rate.

Changes in other comprehensive income are as follows:

	Year ended December 31,	
	2007	2008
Beginning of period	**2,009**	**4,564**
Recognised during the period	2,555	(168)
End of period	**4,564**	**4,396**

The main actuarial assumptions used were as follows:

	Year ended December 31,	
	2007	2008
France		
Discount rate	5.25%	5.75%
Future salary increase	3.00%	3.50%
Inflation rate	2.00%	2.00%
UK		
Discount rate	5.80%	6.50%
Future salary increase	n/a	n/a
Inflation rate	3.25%	2.70%
Expected rate of return on plan assets	6.50%	6.36%

Mortality assumptions for the most important countries are based on the following post-retirement tables: (i) INSEE TV/TD 2004-2006 for France and (ii) PXA92 MC and the medium cohort improvement factors for the United Kingdom.

The group uses the i-BOXX index for French plan and the Barclays Global Capital ("Barcap") for the plan in the United Kingdom as a basis when determining the discount rate to be applied for the liability calculation. Both indexes refer to corporate bonds with AA rating maturing over 10 years.

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

The following table shows the sensitivity of the UK and France's liability 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	(2,864)	3,200
Inflation rate	1,414	(1,277)

Note 18 Non-current provisions and other liabilities

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

	Year ended December 31,	
	2007	2008
Non-current provisions	30,493	28,432
Other liabilities	49,229	32,477
Total	**79,722**	**60,909**

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

	Warranty non-current	Reorg. reserve	Def. comp. and empl. benefits	Tax claims	Prov. for other risks	Total
As of January 1, 2007	**3,249**	**3,183**	**327**	**9,070**	**10,959**	**26,788**
Additional provisions	4,648	8,567	236	2,851	4,038	20,340
Unused amount reversed	(597)	-	-	(190)	(1,091)	(1,878)
Used during the year	(3,631)	(5,312)	(563)	(780)	(3,619)	(13,905)
Reclassifications	-	-	-	2,544	(2,544)	-
Cumulative translation adjustment	-	(405)	-	(223)	(224)	(852)
As of December 31, 2007	**3,669**	**6,033**	**-**	**13,272**	**7,519**	**30,493**

	Warranty non-current	Reorg. reserve	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2008	**3,669**	**6,033**	**-**	**13,272**	**7,519**	**30,493**
Additional provisions	2,209	1,164	65	1,640	2,465	7,543
Unused amount reversed	(127)	(104)	(3)	(2,343)	(1,538)	(4,115)
Used during the year	(1,178)	(626)	(134)	(340)	(1,678)	(3,956)
Reclassifications	30	(36)	837	36	(539)	328
Cumulative translation adjustment	(21)	(1,448)	(119)	6	(279)	(1,861)
As of December 31, 2008	**4,582**	**4,983**	**646**	**12,271**	**5,950**	**28,432**

Other non-current liabilities consist of the following:

	Year ended December 31,	
	2007	2008
Management compensation[1]	8,371	8,637
Government grants	2,883	2,342
Long term payables[2]	37,975	21,498
Total	**49,229**	**32,477**

(1) Management compensation relates to former Gemplus Board chairman's termination package conditioned to the refund of a loan granted to him by Gemplus in 2000 (see note 12).

(2) The €21,498 carrying value of long term payables is assessed to be equivalent to their fair value.

Note 19 Trade and other payables

Trade and other payables for the years ended December 31, 2007 and 2008 consist of the following:

	Year ended December 31,	
	2007	2008
Trade payables (*)	133,733	154,919
Employee related payables	111,190	117,285
Accrued expenses (*)	62,700	42,115
Accrued VAT (**)	22,414	17,026
Deferred revenue	40,212	45,524
Other	10,024	4,980
Total trade and other payables	**380,273**	**381,849**

(*) The accrued expense balance as at December 31, 2007 included €20,500 which have been reclassified to Trade payables in 2008.

(**) Compared to the published consolidated financial statements for the year ended December 31, 2007, VAT recoverable of €12,186 has been reclassified to Accrued VAT.

Note 20 Derivative financial instruments

As set out in note 3 “Financial risk management”, Gemalto enters into foreign exchange contracts as cash flow hedges and fair value hedges in order to manage its foreign currency exposure incurred in the normal course of business.

As at December 31, 2008, the Company held forward and option contracts which were designated as qualifying cash flow hedges of 2009 forecast sales and purchases denominated in US Dollar, Sterling Pound, Japanese Yen, Singapore Dollar and Polish Zloty. It also held forward and option contracts designated as fair value hedges of assets and liabilities denominated in the same currencies and in South African Rand.

Due to a lower than anticipated activity in Japan, the Company decided in 2008 to disqualify a JPY 850 billion layer of hedge with a maturity in the first quarter of 2009. The underlying transactions being no longer expected to occur, the amount accumulated in “Fair Value and other reserves” in Equity at the time of disqualification and subsequent mark-to-market valuations have been recycled to financial income for a total amount of €(0.6) million.

The fair value of the Company’s financial instruments is recorded in current assets or current liabilities as “Derivative Financial Instruments” and details as follows (Mark-to-market valuations):

	Year ended December 31,											
	2007					2008						
	USD	GBP	JPY	SGD	PLN	USD	GBP	JPY	SGD	PLN	ZAR
Cash flow hedges											
Forward contracts	-	-	-	(122)	87	2,403	-	-	396	(2,557)	-
Option contracts	8,059	1,346	1,652	-	-	936	4,906	(4,572)	-	(623)	-
Fair value hedges											
Forward contracts	(27)	317	750	-	(6)	(132)	(12)	148	21	(261)	(22)
Option contracts	2,996	-	229	-	-	862	1,751	(1,466)	-	-	-
Total	11, 028	1,663	2,631	(122)	81	4,069	6,645	(5,890)	417	(3,441)	(22)

At the balance sheet date, the above cash flow hedging contracts represented for Gemalto unrecognized pre-tax profits of €8.0 million and losses of €7.5 million which were recorded under “Fair Value and other reserves”. Under constant market conditions, these profits and losses would be reclassified as debits or credits to sales or cost of sales over the next eighteen months.

The effective portion of Gemalto’s cash flow hedges generated a €14.7 million net gain in 2008 (€9.3 million net gain in 2007), recorded in the income statement as a credit of €13.5 million to sales and a credit of €1.2 million to cost of sales. Foreign exchange transactions, fair value and disqualified hedges, and the ineffective portion of Gemalto’s cash flow and fair value hedges generated a €7million loss in 2008 (€2.4 million loss in 2007), which was included in financial income.

Note 21 Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	Year ended December 31,	
	2007	2008
Warranty - current	6,346	2,881
Provision for loss on contracts	560	1,444
Restructuring provisions	51,883	18,631
Other	13,782	9,522
Total	72,571	32,478

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	Warranty - current	Provision for loss on contracts	Restructuring provisions (*)	Other	Total
As of January 1, 2007	**5,762**	**1,041**	**1,275**	**7,347**	**15,425**
Additional provisions	6,252	486	50,997	10,652	68,387
Unused amount reversed	(1,775)	(549)	-	(768)	(3,092)
Used during the year	(3,771)	(418)	(389)	(3,179)	(7,757)
Cumulative translation adjustment	(122)	-	-	(270)	(392)
As of December 31, 2007	**6,346**	**560**	**51,883**	**13,782**	**72,571**

	Warranty - current	Provision for loss on contracts	Restructuring provisions (*)	Other	Total
As of January 1, 2008	**6,346**	**560**	**51,883**	**13,782**	**72,571**
Additional provisions	4,137	2,528	-	1,821	8,486
Unused amount reversed	(4,999)	(447)	(249)	(3,192)	(8,887)
Used during the year	(2,520)	(1,563)	(35,739)	(1,926)	(41,748)
Reclassifications	(76)	357	2,763	(1,261)	1,783
Cumulative translation adjustment	(7)	9	(27)	298	273
As of December 31, 2008	**2,881**	**1,444**	**18,631**	**9,522**	**32,478**

(*) Usage consits of severance payments made in connection with restructuring plans.

Note 22 Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2007	2008
Sales of goods	1,486,570	**1,504,028**
Revenue from services	110,750	**154,887**
Other	32,167	**21,611**
Total	1,629,487	1,680,526

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

In 2008, sales of goods include postage and freight on goods sold charged to customers (which was previously recognized in other revenue). Revenue from services encompasses the service content included in offers which combine products and services (which was previously recognized in sales of goods). 2007 information has been restated in the table above to reflect these changes.

Note 23 Costs of sales and operating expenses by nature

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

	Year ended December 31,	
	2007	2008
Depreciation, amortization, impairment charges and write-offs	97,391	**57,220**
Amortization and impairment charges related to the accounting treatment of the combinations	53,739	**13,743**
Employee compensation and benefit expense (see note 24)	560,747	**501,678**
Change in inventories (finished goods and work in progress)	(13,310)	**(20,130)**
Raw materials used and consummables	694,567	**623,404**
Freight and transportation costs	54,142	**57,767**
Travel costs	41,028	**47,813**
Buildings and office leases	70,930	**70,858**
Royalties, legal and professional fees	74,272	**98,013**
Subcontracting and temporary workforce	65,865	**81,736**
Other	1,350	**21,360**
Total expenses	**1,700,721**	**1,553,462**

Note 24 Employee compensation and benefit expense

	Year ended December 31,	
	2007	2008
Wages and salaries (including severance costs incurred in 2007 and 2008 and recorded in reorganization expenses)	488,817	**430,267**
Pension - Defined benefit plans(1)	426	**2,977**
Pension - Defined contribution plan	11,608	**9,923**
Stock options	7,437	**11,612**
Other	52,459	**46,899**
Employee compensation and benefit expense	**560,747**	**501,678**

(1) Includes mainly the annual charge related to the French IFC which are lump-sum payments made to French employees upon their retirement, and the annual charge related to the defined benefit plan operated by the Company in the United Kingdom (till March 31, 2007).

Note 25 Stock compensation plan

Gemalto has established a Global Equity Incentive Plan ("GEIP") for its employees, approved by the General Meetings of Shareholders held on March 18, 2004 and April 21, 2004, and amended by the Board held on September 27, 2007.

Stock option plans

The GEIP authorizes the Company to grant to eligible employees over the duration of the plan (ending on April 21, 2014) the right to acquire a total of 7 million ordinary shares of Gemalto N.V. The Board of Directors of Gemalto N.V., in its meeting of April 2, 2004, approved the main terms and conditions of the 2004 option grant under the GEIP and authorized to grant options to buy or subscribe for 3,300,000 ordinary shares with an exercise price equal to the initial listing price, i.e. 14.80 Euro per share. 3,196,000 stock options were granted in May 2004. 5,000 stock options were granted in December 2004 at the average market price of previous 5 trading days, i.e. 18.21 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4 year period.

The fair value of each grant is estimated on the date of grant using a stochastic option-pricing model. For the stock options granted in May 2004, the following assumptions were used: no dividend, expected volatility of 25%, risk-free interest rate of 3%, and expected option life of 4.13 years. For the stock options granted in December 2004, the assumptions were: no dividend, expected volatility of 25%, risk-free interest rate of 3%, and expected option life of 3 years.

In 2005, the Board of Gemalto N.V. approved the main terms and conditions of two grants: 15,000 stock options granted in June 2005 at the average market price of previous 5 trading days, i.e. 22.41 Euro per share and 685,000 stock options

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granted in September 2005 at the average market price of previous 5 trading days, i.e. 30.65 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4 year period.

For the stock options granted in June 2005, the following assumptions were used: no dividend, expected volatility of 27%, risk-free interest rate of 3%, and expected option life of 4.5 years. For the stock options granted in September 2005, the assumptions were: no dividend, expected volatility of 28%, risk-free interest rate of 2.8%, and expected option life of 4.12 years.

In 2006, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 1,600,000 stock options granted in June 2006 at the average market price of previous 5 trading days, i.e. 23.10 Euro per share. The vesting schedule differs, depending on the country of employment of the optionee, and varies from a full vesting after 18 months to a cliff vesting at the end of the 4 year period.

For the stock options granted in June 2006, the following assumptions were used: no dividend, expected volatility of 36%, risk-free interest rate of 3.8%, and expected option life of 3.7 years.

In 2007, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 872,000 stock options granted in September 2007 at 20.83 Euro per share, i.e. the average market price during the 5 trading days prior to the grant. The vesting schedule depends on the country of employment of the optionee and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4 year period.

For the stock options granted in September 2007, the following assumptions were used: no dividend, and expected option life between 1.5 and 4.5 years depending on the vesting schedule, expected volatility of 28.5% stemming from an historic volatility of 35% and taking into account a negative volatility curve, and risk-free interest rate between 4.01% and 4.15% depending on the expected option life.

In September 2007, the Board of Gemalto N.V. also approved the main terms and conditions of the grant of 560,000 restricted share units. The vesting period ends on December 31, 2010. Vesting conditions are both service-based and market-based. If vesting conditions are met, restricted share units will be exchanged against Gemalto shares and the ratio of exchange will depend on the achievement of share price targets. The Gemalto shares resulting from the exchange, if any, will not be transferred to beneficiaries not employed in the USA before the end of a 2-year period starting on grant date, and these beneficiaries are not allowed to trade those shares during the 2-year period starting on the date of the transfer. The beneficiaries employed in the USA will not receive the shares before the 4-year period starting on the grant date and are allowed to trade those shares immediately after the transfer. The fair value of this grant of restricted share units was estimated on the date of grant using a binomial model. The following assumptions were used: share price of 20.36 Euro, no dividend, risk-free interest rate of 4.17% and implicit volatility of 28.5% stemming from an historic volatility of 35% and taking into account a negative volatility curve. In addition, the fair value was discounted by 4% for each year of restriction on share trading. On September 25, 2008, the Board of Directors recognized that, according to the vesting conditions, 66% of the granted share units had vested on September 9, 2008. Under those conditions, 369,600 share units will be exchanged against Gemalto shares no sooner than September 27, 2009.

In 2008, the Board of Gemalto N.V. approved the main terms and conditions of the following grant: 1,410,000 stock options granted in September 2008 at 26.44 Euro per share, i.e. the average market price during the 5 trading days prior to the grant. The vesting schedule depends on the country of employment of the optionee and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4 year period. 1,399,000 stock options have actually been granted out of the 1,410,000 approved.

The following assumptions were used to estimate September 2008 stock options grant: share price of 26.30 Euro, no dividend, expected option life between of 1.5 and 4.5 years depending on the vesting schedule, expected volatility between 30% and 39% stemming from an historic volatility of 40% and taking into account a negative volatility curve, and risk-free interest rate between 4.02% and 4.17% depending on the expected option life.

For the stock options granted in 2004, 2005 and 2006, volatility was determined by calculating the historical volatility of the Company's share price returns over the last 360 market days prior to grant date, when enough historical data were available. For the stock options and the restricted share units granted in 2007, and for the stock options granted in 2008, the historical volatility of the Company's share price returns over the last 360 market days prior to the grant date was adjusted to take into account a negative volatility curve.

Pursuant to the undertaking under article 3.3(a) of the Combination Agreement between Gemalto N.V. and Gemplus International S.A. signed on December 6, 2005, Gemalto guarantees to the Gemplus stock option holders the right to exchange their future shares of Gemplus common stock for shares of Gemalto common stock, on the basis of the exchange ratio of the public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares). Furthermore Gemalto took also the commitment to offer, where it is legally possible and feasible in tax neutral environment, an exchange of Gemplus International S.A. and Gemplus S.A. stock options for Gemalto stock options.

The following table summarizes information with respect to Gemplus stock options outstanding as of December 31, 2007 and 2008. The initial numbers and exercise prices of the options for Gemplus International S.A. and Gemplus S.A. shares granted to Gemplus stock options holders have been adjusted for the 0.26 Euro distribution of available reserves to the Gemplus shareholders on June 2, 2006, and converted at the ratio of the public exchange offer (i.e. 25 Gemplus shares for 2 Gemalto shares).

Upon exercise of Gemplus S.A. or Gemplus International S.A. stock options, the optionee is offered the exchange of shares of these companies with Gemalto shares.

Gemplus S.A. and Gemplus International S.A. stock options

Grant date	Exercise price	Number of options outstanding as of December 31, 2007	Number of options outstanding as of December 31, 2008
17 Dec 97	21.34	25,500	**2,400**
17 Dec 97	18.88	44,530	**-**
22 Apr 99	28.58	455,256	**441,459**
22 Apr 99	25.25	54,700	**20,118**
22 Apr 99	43.88	26,100	**25,200**
22 Apr 99	38.75	3,165	**904**
27 Jul 00	38.75	356,753	**319,229**
27 Jul 00	38.75	45,208	**45,208**
08 Dec 00	66.25	85,927	**77,658**
13 Jun 01	45.75	420	**420**
13 Jun 01	47.38	13,594	**7,466**
14 Sep 01	32.00	21,218	**4,715**
22 Oct 01	31.63	723	**-**
03 Dec 01	35.00	905	**904**
03 Dec 01	35.13	-	**-**
31 Jan 02	28.75	2,260	**2,260**
31 Jan 02	29.50	1,040	**1,040**
14 Jul 02	15.63	90,416	**-**
29 Jul 02	12.50	1,130	**-**
29 Jul 02	14.13	9,042	**9,042**
29 Aug 02	9.25	723,328	**183,328**
29 Aug 02	24.88	361,664	**361,664**
10 Dec 02	12.38	559,206	**437,157**
29 Apr 03	10.50	1,809	**1,808**
02 Jun 03	14.13	1,808	**1,808**
10 Jul 03	13.75	18,083	**9,041**
22 Jul 03	15.50	15,528	**3,320**
14 Aug 03	13.50	81,374	**81,374**
14 Aug 03	9.13	90,416	**90,416**
01 Oct 03	16.75	460,014	**367,650**
01 Oct 03	16.38	3,617	**3,617**
01 Oct 03	16.13	200,724	**114,731**
21 Apr 04	20.13	13,562	**10,262**
21 Apr 04	20.13	9,042	**-**
21 Apr 04	16.00	18,083	**18,083**
21 Apr 04	19.75	90,416	**90,416**
01 Jun 04	17.38	90,416	**80,416**
03 Nov 04	18.25	30,290	**10,850**
18 Apr 05	20.13	36,166	**36,166**
23 May 05	19.13	104,430	**85,442**
23 May 05	22.00	271,248	**-**
27 May 05	19.50	237,012	**172,128**
25 Aug 05	22.00	3,526	**3,526**
26 Aug 05	22.25	36,166	**36,166**
10 Apr 06	27.50	9,042	**9,042**
16 May 06	24.25	1,017	**-**
		4,705,874	3,166,434

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The fair value of each grant has been calculated as of June 2, 2006. It has been estimated on the date of grant using a stochastic option-pricing model. The following average parameters were used: no dividend, volatility of 32% and risk-free interest rate from 3.71% to 3.97%. Options typically vest in equal amounts over a period of three to four years.

The following table summarizes information with respect to Gemalto stock options outstanding as at December 31, 2007 and 2008 (excluding Gemplus stock options).

Gemalto stock options

Grant date	Exercise price	Number of options outstanding as of December 31, 2007	Number of options outstanding as of December 31, 2008
17 May 04	14.80	2,584,000	**1,846,471**
01 Jun 05	22.41	15,000	**15,000**
08 Sep 05	30.65	638,500	**629,500**
02 Jun 06	23.10	1,385,750	**1,322,000**
27 Sep 07	20.83	872,000	**854,250**
25 Sep 08	26.44	-	**1,399,000**
		5,495,250	6,066,221

In the income statement for the period ended December 31, 2008, a compensation expense of €11,135 (€7,437 in 2007) corresponding to the amortization of the fair value of all the outstanding stock options and restricted share units was recorded for €1,855 (€971 in 2007) in cost of sales, €415 (€281 in 2007) in research and engineering expenses, €3,743 (€2,030 in 2007) in sales and marketing expenses and €5,122 (€4,155 in 2007) in general and administrative expenses.

Movements in the number of stock options outstanding and their related weighted average exercise price are as follows:

	Year ended December 31,			
	2007		2008	
	Average exercise price	Outstanding options	Average exercise price	Outstanding options
Beginning of period	**20.10**	**11,008,665**	**20.08**	**10,201,125**
Granted	20.83	872,000	26.44	1,399,000
Forfeited	23.94	(1,125,395)	24.03	(622,142)
Exercised(*)	13.97	(554,145)	13.40	(1,745,328)
End of period	**20.08**	**10,201,125**	**22.05**	**9,232,655**

(*) In 2008, 1,745,328 shares were exercised, of which 643 were not delivered but cash settled as a monetary compensating balance.

As of December 31, 2008, the average remaining life of the 9,232,655 outstanding options was 6.1 years. It was 6.3 years as of December 31, 2007 for the 10,201,125 options.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Expiry date	Year ended December 31,			
	2007		2008	
	Average exercise price	Outstanding options	Average exercise price	Outstanding options
2008	19.78	70,031	-	-
2009	29.04	539,221	28.40	395,253
2010	43.59	487,888	41.64	536,920
2011	37.90	36,860	41.13	13,505
2012	13.88	1,748,086	16.42	994,491
2013	15.41	873,373	14.91	2,178,138
2014	15.13	2,835,809	16.36	567,127
2015	25.41	1,342,048	25.30	1,676,763
2016	23.13	1,395,809	23.11	617,208
2017	20.83	872,000	20.83	854,250
2018	-	-	26.44	1,399,000
		10,201,125		9,232,655

Out of the 9,232,655 above mentioned outstanding options as of December 31, 2008, a total of 5,411,702 are vested and exercisable at a 20.11 Euro average exercise price.

Employee Stock Purchase plan

In the period from October 27, 2008 to November 7, 2008, Gemalto employees were offered the opportunity to buy Gemalto shares at a price 15% below the lower of the closing prices for the Gemalto stock on October 27, 2008 and November 7, 2008. 96,178 Treasury shares were subscribed by the employees at 16.88 Euro per share. The compensation expense corresponding to the discount granted to employees under that program of €477 was recorded as a compensation expense in the 2008 income statement: €82 were recorded in cost of sales, €93 in research and development expenses, €150 in sales and marketing expenses and €152 in general and administrative expenses.

No employee stock purchase plan was deployed in 2007.

Note 26 Other income (expense), net

	Year ended December 31,	
	2007	2008
Fixed assets write-offs and net gains/losses on sales	(384)	**(227)**
Relocation costs (*)	1,918	**-**
Compensation from customers and suppliers, net	-	**1,592**
Other	1,809	**372**
Total	3,343	1,737

(*) Relocation costs referred to the costs incurred for the relocation of the Gemalto staff from Montrouge and Louveciennes facilities to Meudon (Paris area) in 2006. These costs were partially reimbursed in 2007.

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Note 27 Financial income (expense), net

Financial income (expense) details as follows:

	Year ended December 31,	
	2007	2008
Interest expense (*)	(2,860)	**(2,357)**
Interest income (**)	11,650	**11,704**
Foreign exchange transaction gains (losses) (***):		
- Foreign exchange gains (losses), net of derivative instruments not designated as hedge accounting	1,582	**(3,277)**
- Financial cost of hedges	(3,980)	**(3,703)**
Gain/Loss on sales of investments	4,073	**-**
Other	-	**(228)**
Financial income (expense), net	10,465	2,139

(*) Other financial liabilities
(**) Assets at fair value through profit and loss
(***) Derivatives used for hedging

In 2007, gain on sales of investments resulted mainly from the sale of an available-for-sale investment, Xiring.

Note 28 Net foreign exchange gains (losses)

The exchange differences charged/credited to the income statement are as follows (see note 20):

	Year ended December 31,	
	2007	2008
Net sales	9,146	**13,547**
Cost of sales	118	**1,157**
Financial income (expense), net	(2,399)	**(6,980)**
Net foreign exchange gains (losses)	**6,865**	7,724

Foreign exchange gains or losses arising from the Company's qualified hedges under IAS 39 are recorded in sales if the underlying net exposure is positive (net selling position) and in cost of sales if the underlying net exposure is negative (net buying position).

Note 29 Taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. Net amounts are as follows:

	Year ended December 31,	
	2007	2008
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	8,146	**9,264**
- Deferred tax asset to be recovered within 12 months	13,745	**11,794**
	21,891	**21,058**
Deferred tax liabilities:		
- Deferred tax liabilities due after more than 12 months	(10,472)	**(10,135)**
- Deferred tax liabilities due within 12 months	(4,344)	**(3,367)**
	(14,816)	**(13,502)**
	7,075	7,556

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31,	
	2007	2008
Beginning of the period	**(10,322)**	**7,075**
Acquisition of a subsidiary	-	**(910)**
Credited to income statement	16,758	**4,120**
Transfer to other balance sheet accounts	39	**-**
Tax credit (charge) recognized in equity	742	**-**
Cumulative translation adjustment	(142)	**(2,729)**
End of the period	**7,075**	**7,556**

Deferred tax assets and liabilities for the years ended December 31, 2007 and 2008 are detailed as follows:

	Year ended December 31,	
	2007	2008
ASSETS		
Loss carry-forward	1,599	**3,042**
Excess book over tax depreciation and amortization	2,640	**4,450**
Employee and retirement benefits	5,765	**3,933**
Warranty reserves and accruals	1,018	**1,707**
Other temporary differences	10,869	**7,926**
Total Assets	**21,891**	**21,058**
LIABILITIES		
Excess tax over book depreciation and amortization	(14,816)	**(12,623)**
Other temporary differences	-	**(879)**
Total Liabilities	**(14,816)**	**(13,502)**
Deferred tax assets (liabilities), net	**7,075**	**7,556**

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2007	2008
Current tax	(13,283)	**(20,965)**
Deferred tax	16,757	**4,120**
	3,474	(16,845)

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The reconciliation between the income tax credit (expense) on Gemalto's profit (loss) before tax and the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities is as follows:

	Year ended December 31,			
	2007		2008	
	€	%	€	%
Profit (loss) before income tax	**(49,113)**	**100.0**	**131,748**	**100.0**
Tax calculated at domestic tax rate applicable to profits of the consolidated entities	42,503	(86.5)	**(23,850)**	**(18.1)**
Effect of the reassessment of the recognition of deferred tax assets	3,884		**494**	
Effect of utilization of tax assets not recognized in earlier years	1,288		**18,462**	
Effect of unrecognized deferred tax assets arising in the year	(36,112)		**(6,394)**	
Other permanent differences	(8,089)		**(5,557)**	
Income tax credit (expense)	**3,474**	**(7.1)**	**(16,845)**	**(12.8)**

The company recorded a tax expense of €16.8 million on a pretax profit of €131.7 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, 2008, Gemalto did not recognize tax assets amounting to €478.3 million(1) (€513.1 million(2) as of December 31, 2007) relating to tax losses and other future tax deductions.

As of December 31, 2008, the Company had total deferred tax assets available of €445.5 million(1) related to tax loss carry forwards amounting to €1,437.7 million(2) of which €1,357.5 million can be used indefinitely. In 2007 those amounts were €456.3 million, €1,471 million and €1,383.5 million respectively.

Deferred income tax liabilities have been recognized for withholding taxes and other tax payables according to applicable laws on the unremitted earnings of subsidiaries when Gemalto does not intend to reinvest its earnings and when such taxes cannot be recovered. Deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

(1) Including €252.7 million (€253.5 million in 2007) related to Gemplus International S.A. (Luxemburg) tax loss carry forwards
(2) Including €852.7 million (€855.6 million in 2007) for Gemplus International S.A. (Luxemburg)

Note 30 Earnings per share

Basic	Year ended December 31,	
	2007	2008
Profit (loss) attributable to equity holders of the company	(50,190)	**111,864**
Weighted average number of ordinary shares outstanding (thousands)	86,172	**83,114**
Basic earnings per share	**(0.58)**	**1.35**

Diluted	Year ended December 31,	
	2007	2008
Profit (loss) attributable to equity holders of the company	(50,190)	**111,864**
Weighted average number of ordinary shares outstanding (thousands)	86,172	**83,114**
Dilution from share options (thousands)	-	**1,338**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	86,172	**84,452**
Diluted earnings per share	**(0.58)**	**1.32**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of common shares outstanding assuming dilution. Dilution is determined assuming that all stock options, which are in the money, are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period. In 2007, because the result for the year was a loss, stock options were anti-dilutive. The number of dilutive share options as of December 31, 2007 amounted to 1,253,342.

Note 31 Cash generated from operations

		Year ended December 31,	
	Notes	2007	2008
Income for the period before minority interest		(45,638)	**114,903**
Adjustment for:			
Tax	29	(3,474)	**16,845**
Research tax credit		(2,824)	**(7,910)**
Depreciation	8	57,685	**38,562**
Amortization	9	74,912	**31,147**
Gemalto Employee Share Purchase Plan discount	25	-	**477**
Stock option compensation charge	25	7,437	**11,135**
Gains and losses on sale of fixed assets and write-offs		6,791	**3,055**
Gains and losses on sale of available-for-sale financial assets		(4,073)	**-**
Gains and losses on sale of investments in associates		(11,441)	**(195)**
Gains and losses on dissolution of an investment in an associate		(253)	**-**
Cumulated translation adjustment transferred to financial income upon liquidation of a consolidated entity		-	**961**
Net movement in provisions and other liabilities		64,565	**(56,703)**
Retirement benefit obligation	17	(5,502)	**10**
Interest income	27	(11,650)	**(11,704)**
Interest expense	27	2,861	**2,357**
Share of profit from associates	10	(432)	**(2,350)**
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)			
Inventories		(1,111)	**12,227**
Trade & other receivables		(29,976)	**(10,449)**
Derivative financial instruments		(2,403)	**3,868**
Trade & other payables		(4,496)	**6,503**
Cash generated from operations		**90,978**	**152,739**

Note 32 Related party transactions

a) Key Management compensation

The compensation of key management personnel (persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Board member - whether executive or non-executive - of the Company) paid in 2007 and 2008 by the Company is summarized as follows:

	Year ended December 31,	
	2007	2008
Salaries and other short term employee benefits	10,433	**7,695**
Termination benefits	2,529	**-**
Share-based compensation charge	4,268	**5,368**
Total expenses	17,230	13,063

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The decrease in salaries and other short term employee benefits mainly reflects the reduction of the number of key management personnel further to the Group's reorganization.

b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2008, the Company purchased some €1,428 (€809 in 2007) of equipment under existing agreements. Mr. Alex Mandl, who has been the Company's Non-Executive Chairman of the Board of Directors since December 2, 2007, is also a director of Dell Computer Corporation. Mr. Mandl had no involvement in this transaction.

DataCard Corporation is a related party to certain individual members of the Quandt Family who themselves control entities which are shareholders of the Company since June 2, 2006. In 2008, the Company purchased some €2,950 of equipment and services under this agreement (€4,326 in 2007). The members of the Quandt Family entities had no involvement in this transaction.

Gemalto is buying IT services from Atos Origin. In 2008, Gemalto purchased approximately €14,851 of IT services from Atos Origin (€7,168 in 2007). Mr Michel Soublin, who is a Board member of the Company, was also a Board member of Atos Origin until December 26, 2008. Mr Soublin had no involvement in this transaction.

In 2008, total purchases from associated companies amounted to €6,609 (€1,179 in 2007).

c) Sales of goods and services

In 2008, there was no sale of goods and services to related parties.

In 2008, total sales to associated companies amounted to €10,655 (€5,558 in 2007).

d) Year-end balances arising from sales/purchases of goods and services

	Year ended December 31,	
	2007	2008
Receivables from:		
Associates	3,092	**3,953**
Related parties	588	**117**
Total receivables	**3,680**	**4,070**
Payables to:		
Associates	1,850	**2,666**
Related parties	2,741	**1,497**
Total payables	**4,591**	**4,163**

e) Loans receivable from/payable to related parties

As of December 31, 2008, the Company had no loans payable to or receivable from related parties.

Note 33 Commitments and contingencies

Legal proceedings

The Company is subject to legal proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Schlumberger residuals

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and the Company agreed to carry out the complete transfer of the Schlumberger group's Cards and POS businesses to the Company or one of its subsidiaries.

These undertakings remain in effect as long as there are contracts, assets or liabilities falling within the scope of the Company's business that have not been transferred at the time of the Separation. This also applies to contracts, assets or liabilities falling within the scope of Schlumberger's business that have not been transferred at that same time.

Until the date of transfer of these contracts, assets or liabilities to the Company or to Schlumberger or in the event that they could not be transferred or shall not be transferred as agreed by the parties, Schlumberger and the Company have agreed to cooperate and execute the contracts or manage the assets and liabilities in the name of and for the account of the other party, pursuant to the instructions of such party, who will receive all profits and bear all losses resulting from these contracts, assets and liabilities.

Therefore, the activities, assets and liabilities pertaining to Schlumberger activities falling under the provisions of the Master Separation Agreement are not disclosed in the accompanying consolidated financial statements of the Company nor is the associated payable from the Company to Schlumberger or the associated receivable by the Company from Schlumberger.

However, two legal actions are reported here below. Any liability arising from those actions will be assumed by Schlumberger under the applicable provisions of the Master Separation Agreement. Accordingly the Company has not made any provision in respect of those matters.

In 2002, a €12.5 million claim was brought against Gemalto in front of the Brussels commercial court by a distributor for damages suffered and costs incurred resulting from the Company's alleged failure to deliver POS terminal software on time and to provide agreed specifications. The court ordered a report by a technical expert. The expert's final report issued in July 2007 established damages at €2,376.

In 2006, a subsidiary of Gemalto in Asia was sentenced to pay €10.9 million in connection with the disposal by Schlumberger of assets owned by this subsidiary and related to other activities of Schlumberger which were not transferred to Gemalto. In February 2009, Gemalto sold that subsidiary to Schlumberger with all liabilities related to said litigation.

As of December 31, 2008, the balance of the assets and liabilities belonging to Schlumberger was a net asset of €3.1 million.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2008, are as follows:

	Year ended December 31,	
	2007	2008
Not later than 1 year	15,350	**12,374**
Later than 1 year and not later than 5 years	46,835	**40,546**
Later than 5 years	40,100	**39,084**
	102,285	92,004

Bank guarantees

As at December 31, 2008, bank guarantees, mainly performance and bid bonds, amounted to €46 million. These guarantees have been issued as part of the Company's normal operations in order to secure the Company's performance under contracts or tenders for business. These guarantees become payable based upon the non-performance of the Company.

Microprocessor chip purchase commitments

Gemalto is committed by contracts with its suppliers of chips to purchase the whole quantity of products in safety stocks within a period of time of one year from the availability date of the safety stocks. As at December 31, 2008, the commitments to purchase these safety stocks valued at the average purchase price amounts to €33,967 (€43,763 in 2007).

Gemalto N.V. guarantees

Gemalto N.V. has issued various guarantees to a maximum of €232.2 million in respect of:

- banking facilities of certain of its subsidiaries for an amount of USD 310 million (equivalent to €219.9 million, based on the USD/EUR accounting exchange rate as of December 31, 2008). This includes the USD 250 million (equivalent to €177.3 million) undrawn syndicated facility referred to in note 16;
- a guarantee of GBP 12 million (equivalent to €12.3 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Shanghai Axalto IC Card Technologies Co., Ltd commitment

Gemalto holds a 51% interest in Shanghai Axalto IC Card Technologies Co., Ltd, a Chinese joint venture. This joint venture is fully consolidated within Gemalto. In 2005, Gemalto and the joint venture partner agreed that Gemalto guaranteed the profit of the joint venture would not be less than Chinese renminbi 25 million (approximately €2.6 million) for 2008 and 2009. In exchange, Gemalto was granted and shall exercise control of the joint venture until December 31, 2009.

This commitment has been fair valued, and the liability will be re-valued at the end of each reporting date. To date, management estimated that the fair value of the guarantee is not material.

Note 34 Post-closing events

On March 6, 2009, Gemalto and NXP, the independent semiconductor company founded by Philips, announced they had entered into an agreement whereby NXP would transfer its mobile services business to Gemalto. The transaction, which is expected to close on Q2 2009, is subject to regulatory approvals and labor council consultations.

As part of the ongoing operations, a certain number of post balance sheet events have been identified which have a limited impact on the estimates used in the preparation of these financial statements. These are not material to the financial statements.

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Note 35 Consolidated entities

The consolidated financial statements as of December 31, 2008 include the accounts of Gemalto N.V. and the following entities:

Country of incorporation	Company name	Direct or indirect ownership	Percentage of group voting rights
Argentina	Gemalto Argentina S.A.	Indirect	100%
Australia	Gemalto Pty Ltd	Direct	100%
Australia	LM Gemplus Pty Ltd	Indirect	100%
Australia	Multos International Pty Ltd	Indirect	100%
Belgium	Gemplus N.V.	Indirect	100%
Belgium	Gemventures 1 N.V.	Indirect	100%
Brazil	Gemalto do Brasil Cartoes e Terminais Ltda	Direct	100%
Brazil	Gemalto Cartões e Serviços Ltda	Indirect	100%
Brazil	Gemplus do Brasil Produtos Electronicos Ltda	Indirect	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	Indirect	100%
British Virgin Islands	Axalto Technology Ltd	Indirect	100%
Canada	Gemalto Canada, Inc	Indirect	100%
Canada	Solutions Fides (*)	Indirect	49%
China	Axalto (Beijing) Smart Cards Technology Co. Ltd	Direct	100%
China	Gemalto Technologies (Shanghai) Co. Ltd	Direct	100%
China	Gemplus (Beijing) Electronics Research and Development Co. Ltd	Indirect	100%
China	Gemplus International Trade (Shanghai) Co. Ltd	Indirect	100%
China	Gemplus (Tianjin) New Technologies Co. Ltd	Direct	100%
China	Zhuhai Goldpac SecurCard Co. Ltd	Indirect	67%
China	Hunan Slb Telecoms Equipment Co. Ltd (**)	Indirect	100%
China	Shanghai Axalto IC Card Technologies Co. Ltd	Direct	51%
China	Tianjin Gemplus Smart Cards Co. Ltd	Indirect	51%
Colombia	Gemalto Colombia S.A.	Indirect	100%
Czech Republic	Gemalto S.R.O.	Direct	100%
Czech Republic	Gemplus S.R.O.	Indirect	100%
Denmark	Gemalto Danmark A/S	Indirect	100%
Egypt	Makxalto Advanced Card Technology Co. (*)	Direct	34%
Finland	Gemalto Nordic Oy	Indirect	100%
Finland	Gemalto Oy	Indirect	100%
France	Atchik S.A. (*)	Indirect	24%
France	Gemalto International S.A.S.	Direct	100%
France	Axalto Participations S.A.S.	Indirect	100%
France	Gemalto S.A.	Direct	100%
France	CP8 Technologies S.A.	Indirect	100%
France	Gemalto Treasury Services S.A.	Indirect	100%
France	Gkard S.A.S. (*)	Indirect	50%
France	Netsize S.A. (*)	Indirect	24%
France	Setelis S.A. (*)	Indirect	22%
France	SLP S.A.S.	Indirect	100%
France	Trusted Logic S.A. (*)	Indirect	32%
Germany	Gemalto GmbH	Direct	100%
Germany	Celo Communications GmbH	Indirect	100%
Germany	CLM GmbH (*)	Indirect	50%
Germany	CLM GmbH & Co. KG (*)	Indirect	50%

Country of incorporation	Company name	Direct or indirect ownership	Percentage of group voting rights
Gibraltar	Zenzus Holdings Ltd	Indirect	100%
Hong Kong	Gemalto Technologies Asia Ltd	Direct	100%
Hong Kong	Gemplus Goldpac Group Ltd	Indirect	67%
Hong Kong	Goldpac Datacard Solutions Co. Ltd	Indirect	67%
Hungary	Gemalto Hungary Commercial and Services Ltd	Indirect	100%
India	Gemalto Digital Security Ltd	Direct	100%
India	Gemalto Terminals India Private Ltd	Direct	100%
India	Gemplus India Private Ltd	Indirect	100%
Indonesia	PT Gemalto Indonesia	Indirect	100%
Indonesia	PT Gemalto Smart Cards	Direct	100%
Ireland	Celocom Ltd	Indirect	100%
Italy	Gemalto SPA	Direct	100%
Japan	Gemalto KK	Indirect	100%
Japan	SPOM Japan Co.Ltd	Indirect	100%
Japan	Toppan Gemplus Services Co. Ltd (*)	Indirect	50%
Luxemburg	Gemplus International S.A.	Direct	100%
Malaysia	Axalto (M) Sdn Bhd	Direct	100%
Malaysia	Axalto International Ltd	Direct	100%
Malaysia	Gemalto Sdn Bhd	Indirect	100%
Mexico	Conrena S.A. de CV (*)	Indirect	20%
Mexico	CP8 Mexico S.A. de CV	Indirect	100%
Mexico	Gemalto Mexico S.A. de CV	Indirect	100%
The Netherlands	Gemalto B.V.	Direct	100%
The Netherlands	Celo Communications B.V.	Indirect	100%
The Netherlands	Gemplus B.V.	Indirect	100%
Netherlands Antilles	Cards & Terminals N.V.	Direct	100%
Norway	Gemalto Norge AS	Indirect	100%
Panama	Axalto Eastern Holdings Inc. (**)	Direct	100%
Philippines	Gemalto Philippines Inc.	Indirect	100%
Poland	Gemalto Sp. z o.o.	Indirect	100%
Poland	Gemplus Sp. z o.o.	Indirect	100%
Poland	Polski Plastik Sp. z o.o.	Indirect	100%
Russia	Gemalto LLC	Indirect	100%
Senegal	Gemalto Senegal S.A.R.L.	Indirect	100%
Singapore	Gemalto Holding Pte Ltd	Direct	100%
Singapore	Gemplus Asia Pacific Pte Ltd	Indirect	100%
Singapore	Gemplus Microelectronic Asia Pte Ltd	Indirect	100%
Singapore	Gemalto Pte Ltd	Indirect	100%
Singapore	Multos International Pte Ltd	Indirect	100%
Singapore	V3 Teletec Pte Ltd (*)	Indirect	21%
South Africa	Axalto Southern Africa (Pty) Ltd	Direct	100%
South Africa	Axalto ZA Pty Ltd	Direct	100%
South Africa	Gemalto Southern Africa Pty Ltd	Indirect	70%
Spain	Gemalto SP S.A.	Indirect	100%

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Country of incorporation	Company name	Direct or indirect ownership	Percentage of group voting rights
Spain	Gemplus Card International Espana S.A.	Indirect	100%
Sweden	AB Svenska Pass (*)	Indirect	50%
Sweden	Axalto AB	Indirect	100%
Sweden	Gemalto Sverige AB	Indirect	100%
Sweden	Gemalto AB	Indirect	100%
Switzerland	Gemplus Management and Trading S.A.	Indirect	100%
Taiwan	Gemalto Taiwan Co. Ltd	Indirect	100%
Thailand	Gemalto (Thailand) Ltd	Direct	100%
Thailand	Boolanakarn Holdings (Thailand) Ltd	Direct	100%
Thailand	GemCard (Thailand) Co. Ltd	Indirect	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	Direct	100%
United Arab Emirates	Gemalto Middle East FZ LLC	Indirect	100%
United Kingdom	Gemalto Terminals Ltd	Indirect	100%
United Kingdom	Gemalto UK Ltd	Direct	100%
United Kingdom	Gemplus Ltd	Indirect	100%
United Kingdom	Axalto Cards Ltd	Indirect	100%
United Kingdom	Maosco Ltd	Indirect	100%
United Kingdom	Multos Ltd	Indirect	100%
United Kingdom	Step Nexus Ltd	Indirect	100%
United States of America	Gemalto Inc.	Indirect	100%
Venezuela	Gemplus Card International de Venezuela C.A.	Indirect	100%

(*) Associated companies accounted for according to the equity method
(**) Axalto Eastern Holdings Inc. and Hunan Slb Telecoms Equipment Co. Ltd have been sold to Schlumberger in February 2009.

For all companies listed above, the percentage of ownership is the same as the percentage of voting right except for Boolanakarn Holdings (Thailand) Ltd held at 49%.

7.2 COMPANY FINANCIAL STATEMENTS

7.2.1 Company balance sheets for the periods ended December 31, 2007 and 2008

(in thousands of Euro) before appropriation of the result for the period	Notes	Year ended December 31,	
		2007	2008
ASSETS			
Non-current assets			
Goodwill (*)	2	535,970	535,621
Property, plant and equipment	3	59	189
Investments in subsidiaries and associates (*) (**)	4	845,965	1,345,280
Long term loans to subsidiaries	4	4,993	7,688
Total non-current assets		**1,386,987**	**1,888,778**
Current assets			
Short term loans to subsidiaries	4	7,885	28,803
Receivables due from subsidiaries		5,161	5,582
Other receivables		2,502	2,897
Cash and cash equivalents	5	38,117	2,144
Total current assets		**53,665**	**39,426**
Total assets		**1,440,652**	**1,928,204**
EQUITY			
Issued and paid in share capital	6	91,016	88,016
Share premium	6	1,247,140	1,214,429
Legal reserves (***)	6	(11,859)	4,447
Other reserves (***)	6	(66,762)	(102,531)
Retained earnings	6	21,332	(27,746)
Net income (loss) for the period	6	(50,190)	111,864
Total equity		**1,230,677**	**1,288,479**
LIABILITIES			
Non-current liabilities			
Provisions on investments in subsidiaries and associates (**)	4	36,884	26,230
Total non-current liabilities		**36,884**	**26,230**
Current liabilities			
Short term borrowing from a subsidiary	8	143,546	559,793
Payables to subsidiaries		18,189	44,378
Other payables	7	11,356	9,025
Bank overdraft		-	299
Total current liabilities		**173,091**	**613,495**
Total liabilities		**209,975**	**639,725**
Total equity and liabilities		**1,440,652**	**1,928,204**

(*) Compared to the published financial statements for the year ended December 31, 2007, €419 have been reclassified from Investments in subsidiaries to Goodwill.

(**) Compared to the published financial statements for the year ended December 31, 2007, negative net investments in subsidiaries and associates have been reclassified from Investments in subsidiaries and associates to Provisions on investments in subsidiaries and associates.

(***) Compared to the published financial statements for the year ended December 31, 2007, €101 have been reclassified from Other reserves to Legal reserves.

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7.2.2 Company income statements for the periods ended December 31, 2007 and 2008

(in thousands of Euro)	Year ended December 31,	
	2007	2008
Income (loss) after taxes	(13,424)	(38,740)
Income (loss) from subsidiaries	(36,766)	150,604
Net income (loss) for the period	**(50,190)**	**111,864**

7.2.3 Company statements of changes in shareholders' equity for the periods ended December 31, 2007 and 2008

(in thousands of Euro)	Number of shares
Shareholders' equity as of January 1, 2007	**90,082,535**
Movements in fair value and other reserves:	
- Currency translation adjustments	
- Gains/(losses) on Treasury shares	
- Fair value gains/(losses), net of tax:	
Financial assets available-for-sale	
Variation of actuarial gains and losses in benefit obligation	
Cash flow hedges	
Revaluation further to the acquisition of LMG minority interests	
Net income/(expense) recognized directly in equity	
Net loss for the period	
Total recognized income for 2007	
Employee share option scheme	
Reclassification from/to retained earnings (**)	
Purchase of Treasury shares, net	
Capital increase further to contribution of Gemplus International S.A. shares	933,309
Excess of purchase price on subsequent acquisitions	
Balance as of December 31, 2007	**91,015,844**
Movements in fair value and other reserves:	
- Currency translation adjustments	
- Gain/(losses) on Treasury shares	
- Fair value gains/(losses), net of tax:	
Financial assets available-for-sale	
Variation of actuarial gains and losses in benefit obligation	
Cash flow hedges	
Net income/(expense) recognized directly in equity	
Net income for the period	
Total recognized income for 2008	
Employee share option scheme	
Reclassification from/to retained earnings (**)	
Purchase of Treasury shares, net	
Capital decrease further to Treasury shares cancellation	(3,000,000)
Balance as of December 31, 2008 (*)	**88,015,844**

(*) 82,296,192 outstanding shares as of December 31, 2008
(**) This reclassification from Legal reserves to Retained earnings relates to R&E expenses capitalized.
(***) Compared to the published financial statements for the year ended December 31, 2007, €101 have been reclassified from Other reserves to Legal reserves.

Share capital	Share premium	Legal reserves (***)	Other reserves (***)	Retained earnings	Total equity
90,083	**1,241,326**	**1,719**	**63,927**	**20,426**	**1,417,481**
		(18,317)			(18,317)
			72		72
		(4,417)			(4,417)
		2,555			2,555
		7,382			7,382
				125	125
-	-	(12,797)	72	125	(12,600)
				(50,190)	(50,190)
-	-	(12,797)	72	(50,065)	(62,790)
			3,931		3,931
		(781)		781	-
			(134,692)		(134,692)
933	17,763				18,696
	(11,949)				(11,949)
91,016	**1,247,140**	**(11,859)**	**(66,762)**	**(28,858)**	**1,230,677**
		22,475	(39,986)		(17,511)
			(212)		(212)
		184	(426)		(242)
		(168)			(168)
		(5,073)	(2,228)		(7,301)
-	-	17,418	(42,852)	-	(25,434)
				111,864	111,864
-	-	17,418	(42,852)	111,864	86,430
			1,007		1,007
		(1,112)		1,112	-
			(29,212)		(29,212)
(3,000)	(32,711)		35,288		(423)
88,016	**1,214,429**	**4,447**	**(102,531)**	**84,118**	**1,288,479**

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7.2.4. Notes to the company financial statements for the periods ended December 31, 2007 and 2008

The company financial statements should be read in conjunction with the consolidated financial statements.

The notes here below are an integral part of the company financial statements.

All amounts are stated in thousands of Euro unless otherwise stated.

Note 1 Significant accounting policies

1.1 Basis of preparation

The company financial statements of Gemalto N.V. with its statutory seat in Amsterdam (« the Company » or « Gemalto ») have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles and determination of assets, liabilities and results applied in these company financial statements are the same as those applied in the consolidated financial statements (see note 2 to the consolidated financial statements).

The Company's financial data are included in the consolidated financial statements. As allowed by section 402, Book 2 of the Netherlands Civil Code, the income statements are presented in condensed form.

1.2 Investments

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in subsidiaries are valued at net asset value while associates are valued using the equity method. The Company calculates the net asset value using the accounting policies as described in note 2 to the consolidated accounts. The net asset value of the subsidiaries comprises the cost, excluding goodwill for subsidiaries owned directly by the Company and including goodwill for subsidiaries indirectly owned by the Company, plus the Company's share in income and losses since acquisition, less dividends received. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition whereas it is excluded for investment in subsidiaries. The Company's share of its associates' and subsidiaries' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Investments with negative net assets value should be first deducted from loans that form part of the net investments (if any). Provision should be formed by the company only if the company has the firm intention to settle and that the obligations meet the criteria for recognition as provision (e.g. constructive and legal obligations, potential cash outflow, etc).

Note 2 Intangible assets

	Goodwill
January 1, 2008 (*)	**535,970**
Currency translation adjustment	(349)
December 31, 2008	**535,621**

(*) Compared to the published financial statements for the year ended December 31, 2007, €419 have been reclassified from Investments in subsidiaries to Goodwill.

Note 3 Property, plant and equipment

	Leasehold improvements and office furniture and equipment
January 1, 2008	
Gross book value	198
Accumulated depreciation	(139)
Net book value	**59**
2008 movements	
Additions	171
Disposals (gross book value)	(91)
Disposals (accumulated depreciation)	91
Depreciation	(41)
December 31, 2008	
Gross book value	278
Accumulated depreciation	(89)
Net book value	**189**

Note 4 Investments and loans

The net investments in subsidiaries and associates are as follows:

	Year ended December 31,	
	2007	2008
Investments in subsidiaries and associates	845,965	1,345,280
Provisions on investments in subsidiaries and associates	(36,884)	(26,230)
Net investments in subsidiaries and associates	**809,081**	**1,319,050**

An overview of the movements in investments and loans is presented below:

	Net Investments in subsidiaries (****)	Investment in associates (**) (****)	Long term loans to subsidiaries	Short term loans to subsidiaries	Total
January 1, 2008 (*)	**808,297**	**783**	**4,993**	**7,885**	**822,377**
2008 movements					
Intra-group acquisitions of subsidiaries financed by intercompany borrowings (***)	462,691				462,691
Fair value gains (losses)	(7,711)				(7,711)
Dividends	(78,205)				(78,205)
Net result from subsidiaries	150,604				150,604
Net result from associates		650			650
Transfer to long term					-
Refund of loan				(3,473)	(3,473)
New loans				26,656	26,656
Currency translation adjustment	(18,071)	12	195	235	(17,629)
December 31, 2008	**1,317,605**	**1,445**	**5,188**	**31,303**	**1,355,960**

(*) Compared to the published financial statements for the year ended December 31, 2007, €419 have been reclassified from Investments in subsidiaries to Goodwill.

(**) The associated company is Makxalto Advanced Card Technology Co in which Gemalto NV owns 34% of the share capital.

(***) The main acquisition of Gemalto N.V. is Gemplus S.A. (€447,658) purchased from Gemplus International S.A., fully financed by Gemplus International S.A. Swiss Branch.

(****) The total net investments in subsidiaries and in associates amount to €1,319,050 (€809,081 at December 31, 2007).

Loans to subsidiaries

	Year ended December 31, 2008	
Subsidiaries	Short Term Loans	Long Term Loans
- Existing Loans at January 1, 2008		
Gemalto Digital Security Ltd	1,773	5,188
Gemalto Mexico SA de CV	2,874	
- New 2008 loans		
Axalto Cards & Terminals Ltd	6,738	
Axalto Technology Ltd	1,418	
Cards & Terminals NV	3,830	
Gemalto LLC		2,500
Gemplus International S.A.	12,170	
Total	28,803	7,688

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On April 2, 2004, the Company financed its Indian subsidiary, Gemalto Digital Security Ltd, with two interest-bearing loans denominated in US Dollars. The first loan, with a maximum facility of USD 3 million, has a three-year maturity and was drawn for USD 2.5 million as of December 31, 2008. The equivalent in Euro as at December 31, 2008 was €1.8 million (€1.7 million as at December 31, 2007). The final repayment date of this loan was extended till December 31, 2009. The second loan, with a maximum draw capacity of USD 8 million, has a three and a half-year maturity and was drawn for USD 7.3 million as of December 31, 2008 and 2007. The equivalent in Euro as at December 31, 2008 was €5.2 million (€5 million as at December 31, 2007). The final repayment date of this loan was extended till December 31, 2010.

On May 1, 2004, the Company financed its Mexican subsidiary, Gemalto Mexico SA de CV, with an interest-bearing loan denominated in US Dollars. The loan, with a maximum facility of USD 17 million, has a one-year maturity extended to December 31, 2009. The balance as of December 31, 2008 amounted to USD 4.1 million (USD 4.1 million as of December 31, 2007). The equivalent in Euro as of December 31, 2008 was €2.9 million (€2.8 million as of December 31, 2007).

On May 26, 2005, the Company financed its Russian branch office with an interest-bearing loan denominated in US Dollars. The loan, with a maximum facility of USD 6 million was extended on December 13, 2007 with maturity on December 31, 2008. The balance as at December 31, 2007 amounted to USD 5 million (€3.4 million). The loan was fully reimbursed in October 2008.

On June 26, 2008, the Company financed a new Russian subsidiary, Gemalto LLC, with an interest-bearing loan denominated in Euro. The loan, with a maximum facility of €3.4 million, has a five-year maturity till June 2013. The balance as at December 31, 2008 amounted to €2.5 million.

On April 1, 2008, the Company entered into an agreement with its Panama based subsidiary, Axalto Eastern Holding Inc (AEH), whereby all rights and obligations of loans granted by AEH were assigned to the Company resulting in following loan position:

a. an interest-bearing loan denominated in US Dollars with a maximum facility of USD 10 million to Axalto Cards & Terminals Ltd with a maturity on April 4, 2009. As at December 31, 2008 the balance amounted to USD 9.5 million (€6.7 million);
b. an interest-bearing loan denominated in US Dollars with a maximum facility of USD 10 million to Axalto Technology Ltd with a maturity on March 30, 2009. As at December 31, 2008 the balance amounted to USD 2 million (€1.4 million); and
c. an interest-bearing loan denominated in US Dollars with a maximum facility of USD 10 million to Gemalto Cards & Terminals NV with a maturity on December 31, 2009. As at December 31, 2008 the balance amounted to USD 5.4 million (€3.8 million).

In 2008, the Company granted short term advances to Gemplus International S.A.. As at December 31, 2008, the balance of these advances amounted to €12.2 million.

Note 5 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2007	2008
Cash at bank and in hand	1,527	-
Short term bank deposits and investment funds	36,590	2,144
Total	**38,117**	**2,144**

The average effective interest rate on short term deposits was 4.27% in 2008 (3.93% in 2007). These deposits are invested in the form of overnight and fixed term deposits.

Note 6 Equity

Share capital

The authorized share capital of the Company amounted to €150 million as at December 31, 2008 and consisted of 150 million ordinary shares with a nominal value of €1 each.

Issued and fully paid-in share capital amounted to €88,015,844 as at December 31, 2008 (€91,015,844 as at December 31, 2007) and consisted of 88,015,844 ordinary shares with a nominal value of €1 (91,015,844 as at December 31, 2007). The Annual General Meeting of Shareholders ("AGM") held on May 14, 2008 approved the resolution related to the cancellation of three million shares held by the Company in its own share capital. The share cancellation was completed on July 24, 2008.

Share premium

As at December 31, 2008, the share premium amounted to €1,214,429 (€1,247,140 as at December 31, 2007). In 2008, share premium decreased by €32,711 due to the above mentioned share cancellation.

Legal reserves

Movements in legal reserves, which cannot be distributed freely, are presented below:

	Cash flow hedge reserve	Cumulative translation adjustments	Undistributable results of Group companies	Total
January 1, 2008 (*)	**5,073**	**(22,475)**	**5,543**	**(11,859)**
2008 movements				
Additions/Transfers, net	(5,073)	22,475	(1,096)	16,306
December 31, 2008	**-**	**-**	**4,447**	**4,447**

(*) Compared to the published financial statements for the year ended December 31, 2007, €101 have been reclassified from Other reserves to 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 (including pension reserves), the reserves for cumulative translation adjustment and cash flow hedges (if their balances are positive) are legal reserves. The movement in non-distributable results of Group companies is mainly due to the net decrease of capitalized research and development expenses for €1,112.

Other reserves

As at December 31, 2008, the other reserves consisted of Treasury shares for €(114,933) (€(139,932) as at December 31, 2007), a stock option reserve amounting to €74,049 (€73,042 as at December 31, 2007), net gains (losses) on Treasury shares in connection with the liquidity program for €(138) (€74 as at December 31, 2007), the reserve for cash flow hedges for €(2,228), the cumulative translation adjustment amounting to €(39,986), a fair value loss in relation to financial assets available-for-sale for €(375) and a loss on treasury shares cancelled for the share capital reduction for €(18,923).

Retained earnings (including net income for the period)

Retained earnings amounted to €84,118 as at December 31, 2008 (€(28,858) as at December 31, 2007).

Note 7 Other Payables

The account "Other Payables" includes the payable due to Schlumberger, per the terms of the Master Separation Agreement (2007 and 2008: €5,543).

Note 8 Short term borrowings from subsidiaries

On February 1, 2007, the Company signed an interest-bearing loan agreement with Gemplus International S.A. Swiss Branch, which acted as the cash pooling entity of the Gemalto group. Under the agreement, the Company agreed to borrow from or lend funds in priority to Gemplus International S.A. Swiss Branch. This agreement is valid for a time period of one year, automatically renewable for further periods of one year, if not cancelled. As at December 31, 2008, the net amount borrowed by the Company amounted to €446.6 million (€143.5 million as of December 31, 2007) and was classified as short term borrowings. Effective November 1, 2008 this entity ceased its cash pool activities.

Effective November 1, 2008, the Group started to operate a new Treasury Center based in France in a new entity, Gemalto Treasury Services S.A. ("GTS"), replacing Gemplus International S.A. Swiss Branch. The new entity has taken over the role of the former cash pool entity. The Company agreed to borrow from or lend to GTS. The agreement is valid for a time period of one year, automatically renewable for further periods of one year, if not cancelled. As at December 31, 2008, the amount borrowed by the Company amounted to €113.2 million and was classified as short term borrowings.

Note 9 Employees

The average number of staff employed by the Company during 2008 was 9 (2007: 6). None of these employees was employed abroad (2007: nil).

Note 10 Information relating to the Board

Amounts in this note are stated in Euro.

Remuneration of the Board

Until May 28, 2008 the Board consisted of ten Board members, but due to the demise of Mr. J. de Wit, Non-Executive Board member, on May 28, 2008, the Board currently consists of nine Board members; eight Non-Executive Board members and one Executive Board member, the CEO.

In view hereof there is one vacancy to be filled on the Board at the AGM of May 20, 2009. The Board resolved to propose to the AGM of May 20, 2009, to appoint Mr. Buford Alexander as new Non-Executive Board member for a first term ending at the end of the AGM to be held in 2013.

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At the AGM of May 14, 2008, Mr. O. Piou was reappointed as Board member with the title of CEO for a term ending at the end of the AGM to be held in 2012 and Messrs. G. Fink and A. van der Poel were reappointed as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2012.

At the AGM of May 20, 2009, the present term of Messrs. K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod will end. The Board welcomes the fact that Messrs. K. Atkinson, D. Bonderman, J. Fritz and J. Ormerod and are available for an additional term. The Board resolved to propose to the AGM of May 20, 2009 to reappoint Messrs. K. Atkinson, D. Bonderman and J. Ormerod as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2013 and to reappoint Mr. J. Fritz as Non-Executive Board member for a second term ending at the end of the AGM to be held in 2012.

(Amounts in Euro)

Gemalto Board Fiscal year 2007		Board Member fee per annum	Special Remuneration	Board Committee fee per annum	Total remuneration per annum	Remuneration from January 1 until December 31, 2007
Alex Mandl	Non-Executive Chairman	200,000	-	-	200,000	16,438
Olivier Piou	Chief Executive Officer	35,000	-	-	35,000	35,000
Kent Atkinson	Non-Executive Director	65,000	-	24,000	89,000	73,828
David Bonderman	Non-Executive Director	65,000	15,000	8,000	88,000	75,162
Geoffrey Fink	Non-Executive Director	65,000	15,000	16,000	96,000	81,995
Johannes Fritz	Non-Executive Director	65,000	15,000	28,000	108,000	91,271
John Ormerod	Non-Executive Director	65,000	-	32,000	97,000	79,688
Michel Soublin	Non-Executive Director	65,000	-	24,000	89,000	73,828
John de Wit	Non-Executive Director	65,000	-	20,000	85,000	69,439
Arthur van der Poel	Non-Executive Director	65,000	-	20,000	85,000	69,439
Total		755,000	45,000	172,000	972,000	666,088

Gemalto Board Fiscal year 2008		Board Member fee per annum	Board Committee fee per annum	Remuneration from January 1 until December 31, 2008
Alex Mandl	Non-Executive Chairman	200,000	3,213	203,213
Olivier Piou	Chief Executive Officer	35,000	-	35,000
Kent Atkinson	Non-Executive Director	65,000	24,000	89,000
David Bonderman	Non-Executive Director	65,000	8,000	73,000
Geoffrey Fink	Non-Executive Director	65,000	16,000	81,000
Johannes Fritz	Non-Executive Director	65,000	28,000	93,000
John Ormerod	Non-Executive Director	65,000	32,000	97,000
Michel Soublin	Non-Executive Director	65,000	24,000	89,000
John de Wit	Non-Executive Director	65,000	20,000	85,000
Arthur van der Poel	Non-Executive Director	65,000	20,000	85,000
Total		755,000	175,213	930,213

The remuneration of the Non-Executive Board members, including the remuneration for the Chairman and the members of the Board Committees is determined by the General Meeting of Shareholders. The remuneration is reviewed annually by the Compensation Committee.

As of January 1, 2007 until May 22, 2007, the annual remuneration was €35,000 for each Non-Executive Board member and €45,000 for the Chairman of the Board. The annual remuneration for a member (including the chairman) of each of the Board Committees, other than the Audit Committee, was an additional fee of €5,000. The annual remuneration for a member of the Audit Committee was an additional fee of €10,000 and for the chairman of the Audit Committee an additional fee of €12,500.

The remuneration structure for the Non-Executive Board members is as follows:

• €200,000 per calendar year for the Non-Executive Chairman of the Board, who was appointed by the Board on December 2, 2007;

• €65,000 per calendar year for each other Non-Executive Board member;

• an additional fee of €24,000 per calendar year for the chairman of the Audit Committee and an additional fee of €16,000 per calendar year for each member of the Audit Committee;

• an additional fee of €12,000 per calendar year for the chairman of the other Board Committees and an additional fee of €8,000 per calendar year for the other members of those Board Committees.

The remuneration paid by the Company or by companies of the Group to the CEO, Mr. O. Piou for the 2008 financial year is as follows:

	Total Reference Compensation	Bonus (percentage of Total Reference Compensation)	Total gross compensation paid for 2008
O. Piou (*)	641,667	135%	1,507,489

(*) Including Board member fees.

Mr. O. Piou was appointed as CEO in 2004 for a term of four years ending at the end of the AGM of May 14, 2008. He was reappointed as Board member with the title of CEO for a term of four years until the AGM of 2012. Mr. O. Piou has an employment contract (originally dated 1981), not limited in time, governed by French law with Gemalto International S.A.S., a Gemalto subsidiary and he enjoys any and all benefits that may be applicable to French employees. He has a six-month notice period.

Stock options granted to Board members

Stock options have been attributed under the Global Equity Incentive Plan as described in note 24 to the consolidated financial statements. In 2008, 150,000 stock options were granted to Mr Piou.

	Date of attribution	Number	Exercise price (€)	Fair value of stock options granted (€)	Date of exercise
Alex Mandl	June 2006	200,000	23.10	1,052,000	18 months after the attribution
Olivier Piou	May 2004	600,000	14.80	2,230,662	4 years after the attribution
	Sept. 2005	150,000	30.65	1,099,745	4 years after the attribution
	June 2006	200,000	23.10	1,269,781	4 years after the attribution
	Sept. 2008	150,000	26.44	1,049,761	4 years after the attribution

The gross compensation paid for 2008 (disclosed in section “Remuneration of the Board” of this note) excludes stock compensation charge.

Stock compensation charge related to Mr. O. Piou’s stock options amounted to €1,275,240 in 2008 (€1,149,260 in 2007). No charge was recorded during the period in relation with Mr. A. Mandl’s stock options (€645,145 in 2007). There is no forfeited stock option in 2008.

On September 27, 2007, the Board granted restricted share units to Mr. O. Piou with a performance criteria based on the stock market value of the Gemalto shares. The number of restricted share units may vary from 0 up to 80,000 with a maximum multiplier of three in case of exceptional performance. On September 25, 2008, the Board recognized that, according to the vesting conditions, 66% of the granted restricted share units had vested on September 9, 2008.

The stock compensation charge recognized in 2008 for the restricted shares grant is €467,783 (€97,608 in 2007).

Gemalto shares held by Board Members

Certain Board members are shareholders of the Company. On December 31, 2008, they jointly held 170,555 shares of which Mr. O. Piou owned 165,055. At the beginning of 2008, Mr. O. Piou was holding 139,000 shares of the Company, having progressively acquired them since 2004 on the market. During 2008, Mr. O. Piou acquired 161,000 shares: 11,000 shares were acquired on the market and 150,000 shares which were acquired through the exercise of options.

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To finance a portion of this options exercise, Mr. O. Piou sold on the market 34,945 shares of the Company that he owned. He then deeded 100,000 shares he had received from this options exercise to several third parties. Mr. G. Fink received 2,800 shares resulting from the exchange of Gemplus shares following the Offer, Mr. J. Ormerod received 1,200 shares resulting from the exchange of Gemplus shares following the Offer and Mr. M. Soublin purchased 1,500 shares in 2004.

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

Note 11 Auditors' fees

The aggregate fees billed by the external auditors, PricewaterhouseCoopers, for professional services rendered for the fiscal years 2007 and 2008 were are follows:

2007	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	110	2,713	2,823
Other audit procedures	-	400	400
Fees relating to tax advices	-	150	150
Other non-audit fees	-	55	55
Total	110	3,318	3,428

2008	Fee PWC Accountants N.V.	Fee other PWC offices	Total fee PWC
Audit of the financial statements	100	2,367	2,467
Other audit procedures	-	447	447
Fees relating to tax advices	-	54	54
Other non-audit fees	-	23	23
Total	100	2,891	2,991

Note 12 Guarantees granted by the Company

Gemalto N.V. guarantees

Gemalto N.V. has issued various guarantees to a maximum of €232.2 million in respect of:

- banking facilities of certain of its subsidiaries for an amount of USD 310 million (equivalent to €219.9 million, based on the USD/EUR accounting exchange rate as of December 31, 2008). This includes the USD 250 million (equivalent to €177.3 million) undrawn syndicated facility referred to in the note 16 to the consolidated financial statements;
- a guarantee of GBP 12 million (equivalent to €12.3 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2008, are as follows:

	2008
Not later than 1 year	34
Later than 1 year and not later than 5 years	841
Later than 5 years	1,180
	2,055

Amsterdam, March 18, 2009

Mr. Alex Mandl
Non-Executive Chairman of the Board

Mr. Olivier Piou
Chief Executive Officer

Mr. Kent Atkinson
Non-Executive Board member

Mr. David Bonderman
Non-Executive Board member

Mr. Geoffrey Fink
Non-Executive Board member

Mr. Johannes Fritz
Non-Executive Board member

Mr. John Ormerod
Non-Executive Board member

Mr. Arthur van der Poel
Non-Executive Board member

Mr. Michel Soublin
Non-Executive Board member

(A signed version of the Annual Report is available at the Company's office)

7.3 OTHER INFORMATION

7.3.1 Independent auditors' report on statutory financial statements

To the General Meeting of Shareholders of Gemalto N.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2008 of Gemalto N.V., Amsterdam as set out in sections 7.1 and 7.2. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2008, the company profit and loss account for the year then ended and the notes.

The directors' responsibility

The directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Gemalto N.V. as at 31 December 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report, as set out in sections 1 to 6, is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, March 18, 2009
PricewaterhouseCoopers Accountants N.V.

F.P. Izeboud RA.

7.3.2 Profit appropriation according to the Articles of Association

Stipulations relating to the distribution of profits and dividends by the Company to its shareholders are provided in articles 32 to 35 of the Articles of Association.

Distribution of profits shall be made following adoption of the annual accounts which show that the distribution is permitted. The Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.

The Board shall with due observance of the policy of the Company on additions to reserves and on distributions of profits determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves. The portion of the profit that shall not be reserved shall be at the disposal of the General Meeting of Shareholders.

Upon the proposal of the Board, the General Meeting of Shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law.

The Board may determine the terms and conditions of distributions to shareholders and may grant to shareholders the option to choose between distribution in whole or in part in the form of shares in the share capital of the Company (bonus shares, stock dividend), subject to having obtained the authorization of the General Meeting of Shareholders to issue shares. If, however, such designation is not in force, any distributions in the form of shares in the share capital of the Company require a resolution of the General Meeting of Shareholders upon the proposal of the Board.

Subject to section 105, subsection 4, Book 2, Civil Code and with due observance of the policy of the Company on additions to reserves and on distributions of profits, the Board may at its own discretion resolve to distribute one or more interim dividends before the annual accounts for any financial year have been adopted at a General Meeting of Shareholders.

7.3.3 Appropriation of result

The Board has determined with due observance of the Company's policy on additions to reserves and on distributions of profits to allocate the result for the period to retained earnings.

7.3.4 Post-closing events

On March 6, 2009, Gemalto and NXP, the independent semiconductor company founded by Philips, announced they had entered into an agreement whereby NXP would transfer its mobile services business to Gemalto. The transaction, which is expected to close on Q2 2009, is subject to regulatory approvals and labor council consultations.

As part of the ongoing operations, a certain number of post balance sheet events have been identified which have a limited impact on the estimates used in the preparation of these financial statements. These are not material to the financial statements.

8 . Investor information

8.1 INVESTOR RELATION POLICY

Maintaining positive relations with our investors is key to Gemalto's growth. The confidence and loyalty of private and institutional shareholders are essential to our successful long-term development. Gemalto's investor relations policy is aimed at informing shareholders in a timely and detailed way about developments that are relevant to Gemalto in order to provide a faithful and clear picture of investment decisions involving Gemalto. Price sensitive information is disseminated without delay through press releases and website updates.

In addition to the AGM's, Gemalto has implemented a wide variety of communication tools to keep investors informed on a regular basis. These include the annual reports, legal announcements, press releases and financial statements.

At the publication of interim and annual financial statements, Gemalto holds conference calls and investor meetings. In addition, Gemalto regularly features road shows and participates in conferences for institutional investors. These contacts help Gemalto to get a clear picture of investors' and analysts' opinions. Relevant information for potential and current shareholders may be found on the Gemalto website under the link "Investor Relations" (www.gemalto.com/investors).

Gemalto also observes a "black out" period during which no road shows and interviews with potential or current investors take place. For interim and annual publications, this covers at least fifteen days prior to the publication date.

8.2 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 as of December 1, 2008 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.

8.3 SHARE CAPITAL STRUCTURE

The Company's authorized share capital amounts to €150,000,000 and is divided into 150,000,000 ordinary shares, with a nominal value of €1 per share. As of December 31, 2008 the Company's issued and paid-up share capital amounted to €88,015,844, consisting of 88,015,844 ordinary shares of €1 per share, of which 5,719,652 shares were held in treasury.

8.4 STOCK EXCHANGE LISTING — 2008 STOCK MARKET DATA

Gemalto N.V. (Euronext NL 0000400653) is listed on Eurolist by Euronext Paris S.A. in the compartment A (Large Caps). Gemalto shares were eligible for the Deferred Settlement System or *Service de Règlement Différé* (SRD) from January 26, 2006 onwards. Among other stock indices, Gemalto is part of the SBF 120 (FR0003999481) and Dow Jones STOXX 600 Index.

- Average daily trading volume in 2008: 448,377 shares
- Market capitalization as of December 31, 2008: €1,575,483,608

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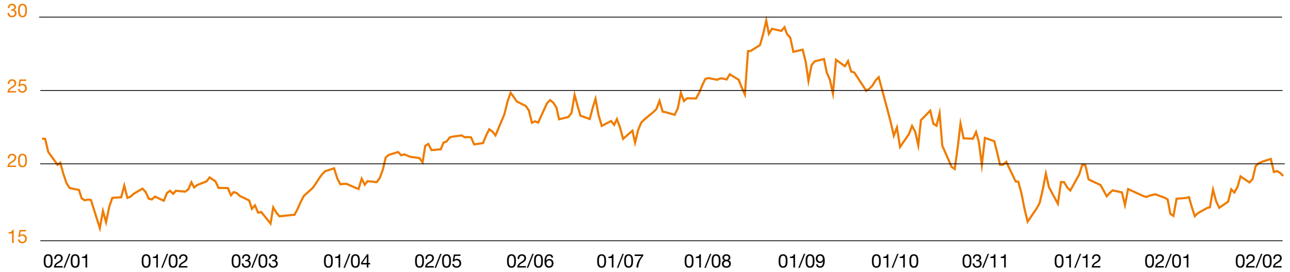
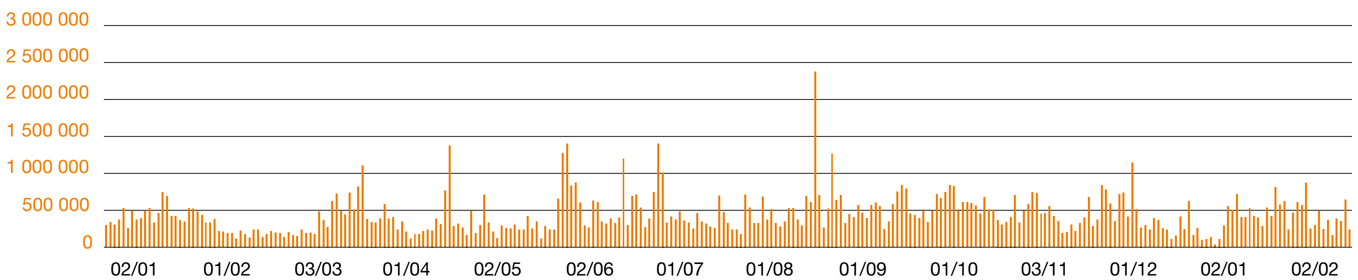
8.5 SHARE PRICE DEVELOPMENT IN 2008

Gemalto N.V. share price performance from January 2, 2008 to February 13, 2009

Gemalto share closing price (in euros)



Gemalto share daily trading volume



Historic share price data

	High* EURO	Low* EURO	Average daily volume	Total volume
2008				
January	21,79	15,69	446 423	9 821 303
February	19,15	17,55	227 827	4 784 367
March	18,43	16,00	448 422	8 520 009
April	20,87	18,36	365 529	8 041 648
May	22,43	20,17	314 251	6 599 270
June	24,91	22,87	608 566	12 779 885
July	24,90	21,51	473 409	10 888 415
August	29,83	24,52	609 661	12 802 876
September	29,38	24,87	515 974	11 351 431
October	25,97	19,72	576 774	13 265 811
November	22,24	16,13	467 478	9 349 551
December	20,02	17,26	313 334	6 580 007
2009				
January	19,21	16,50	498 466	10 467 780

** Based on closing prices*

Between January 2, 2008 and February 13, 2009, the average daily trading volume was 427,699 shares. Based on January 2, 2008 closing price of €21.79 per share and the closing price on February 13, 2009 of €19.24 per share, the Company's share price has decreased by 11.7%.

8.6 DIVIDEND 2008

The Company did not pay a dividend in 2008 in respect of the 2007 financial year. With due observance of the Company's dividend policy, no dividend will be paid in 2009 in respect of the 2008 financial year. For more information on the dividend policy, please refer to section 4.5.4.

8.7 SHARE BUY-BACK PROGRAM

During 2008, the Company initiated a new share buy-back program on November 19, 2008. For information on the share buy-back program, please refer to section 4.5.1.

8.8 FINANCIAL CALENDAR

8.8.1 Important dates of financial calendar

2008	
January 30, 2008	Publication of 2007 Fourth Quarter and Full Year Revenue
March 20, 2008	Publication of 2007 Full Year Results
April 24, 2008	Publication of 2008 First Quarter Revenue
May 14, 2008	AGM
August 21, 2008	Publication of 2008 Second Quarter Revenue & First Half Results
October 23, 2008	Publication of 2008 Third Quarter Revenue
2009	
January 29, 2009	Publication of 2008 Fourth Quarter and Full Year Revenue
March 19, 2009	Publication of 2008 Full Year Results
April 30, 2009	Publication of 2009 First Quarter Revenue
May 20, 2009	AGM
August 25, 2009	Publication of 2009 Second Quarter Revenue and First Half Results
October 22, 2009	Publication of 2009 Third Quarter Revenue

8.8.2 2009 AGM

Gemalto N.V. will hold its 2009 AGM at the Sheraton Amsterdam Airport Hotel, Schiphol Boulevard 101, Schiphol Airport, the Netherlands on Wednesday, May 20, 2009 at 10 a.m. CET.

For the AGM on May 20, 2009 a record date (being April 27, 2009) will apply: those persons, who on April 27, 2009 hold shares in the Company and are registered as such in a register designated thereto by the Board for the AGM, will be entitled to participate and vote at that meeting.

Investor Relations contact:

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Contact us at: http://www.gemalto.com/php/contactus.php
Mnemonic: GTO
ISIN Code: NL0000400653
Reuters: GTO.PA
Bloomberg: GTO:FP

Gemalto's registrar
Netherlands Management Company B.V.
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P.O. Box 75215, 1070 AE Amsterdam, the Netherlands
Tel: +31 20 57 57 124 / fax +31 20 42 06 190
Email: registrar.and.shareholder.services@tmf-group.com

We would like to thank
all the employees of Gemalto
who appear in these pages.

Gemalto Corporate
Communication / April 2009

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World map: IP3

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