Annual Report 2007

Gemalto: the world leader in digital security

gemalto
security to be free

At a glance

innovation

Our world-class team of 1,300 engineers plays a leading role in research and development in digital security.

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insight

CEO Olivier Piou is confident that Gemalto is progressing well towards his vision of digital security.

p. 11

responsibility

We have an enviable record in terms of international benchmarks for Health Safety and Environment management systems.

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people

With our global presence, cultural and national diversity is part of our corporate DNA and is reflected in our human resources policies.

p. 42

customers

Ensuring that our customers are very satisfied is central to our business strategy.

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security

We help make each interaction between citizens and the public sector more secure and convenient, while protecting privacy.

p. 30

partnerships

We have a network of over 400 partners around the world with whom we have forged strong links.

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capability

Our production system is uniquely placed to deliver the highest quality products efficiently, rapidly and flexibly to our customers.

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telecommunications

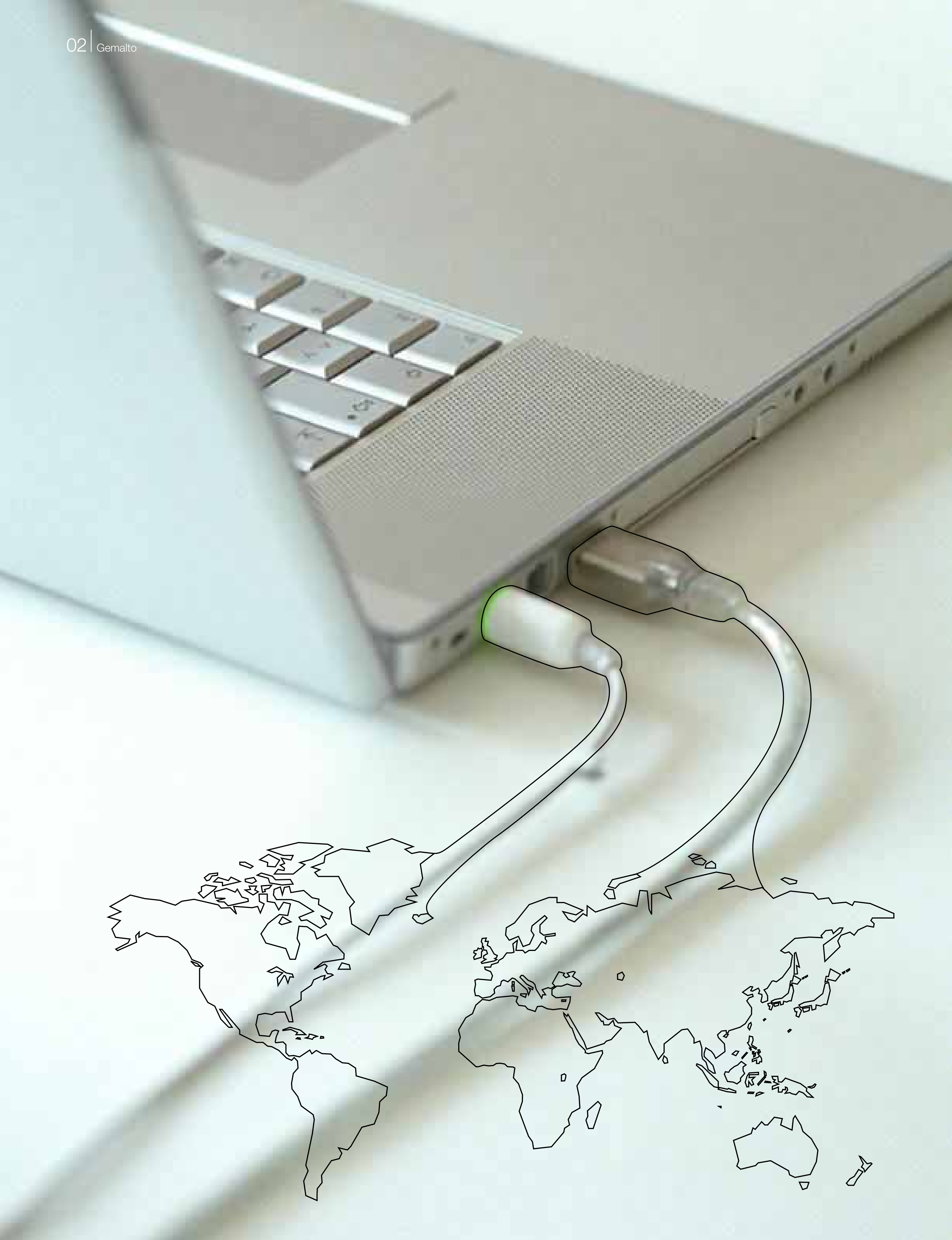
Our solutions let end-users connect when and where they want, however they want.

p. 20

transactions

Security and convenience are the needs that are fueling growth in the secure transactions market.

p. 24



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

Our vision

Gemalto: the world leader in digital security

In a world where the digital revolution is increasingly transforming our lives, Gemalto's end-to-end security solutions are designed to make personal digital interactions more convenient, safe and enjoyable.

Our activities range from the development of software applications through the design and production of secure personal devices such as smart cards, SIMs, e-passports and tokens, to the deployment of managed services for our customers.

More than 1 billion people worldwide use our products and services for telecommunications, financial services, e-government, identity and access management, multimedia content, digital rights management, IT security, mass transit and many other applications.

As the use of Gemalto's software and secure devices increases with the number of people interacting in the digital and wireless world, the company is poised to thrive over the coming years.

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". For detailed information about Gemalto and its financial results, please refer to the appropriate chapters of the Annual Report, which is posted on www.gemalto.com.

Key figures
at December 31, 2007

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

85 sales and marketing offices;
31 personalization centers;
19 production sites; **10** R&D centers

100 new inventions
first filed in 2007; over **5000** patents in total in **1,200** patent families

Revenue in 2007
€1.6 billion

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

1.2 billion
secure personal devices produced and personalized in 2007, and every one is different

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. We buy microprocessors, develop operating systems and software, and produce and personalize objects - of which we have already delivered 10 billion worldwide. We continue to innovate with new forms and architectures, and provide 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.

Highlights 2007

1. Our new ID card for Federal employees is the first to meet US Government standards for both existing and new physical access control systems.

2. Demonstrating our expertise with their technologies and our ability to meet customers' needs, Microsoft named us as a Gold Certified Partner.

Microsoft CERTIFIED Partner

United States
Leading the world in e-passports

Gemalto has been rated* as the no. 1 provider of e-passports, supplying the US and at least 30% of the Visa Waiver Program nations.

The Keesing report estimates that some 70 nations are deploying e-passport programs, and that the overall annual volume in two year's time will be around 100 million.

** Keesing Journal of Documents & Identity: Annual Report e-passports 2006-2007*

United Kingdom
Securing online banking

Customers of Barclays Bank plc, one of the world's largest financial services institutions, are benefiting from a tailor-made product that offers stronger authentication for online banking.

Gemalto's solution comprises a unique device customized with the bank's visual identity, manufacture of the readers, plus a complete service of fulfillment and distribution. Over half a million units were delivered in 2007, offering users the freedom to enjoy enhanced security and simple remote banking whether at home or on the move. Barclays' strong authentication program is aimed at preventing online fraud related to remote banking and helps prevent the theft and use of online credentials.

Users can generate One-Time Passwords with the reader, authenticate themselves at login and sign transactions by inserting their chip-enabled banking cards into the device and entering their PIN code. They can easily carry the devices with them and perform these secure transactions from any personal computer.

Mexico
Delivering smart driving licenses

Nearly 1 million drivers in Monterrey are beginning to use our biometric driving licenses. The solution comprises a fast, secure and user-friendly scheme for driver registration and fine payment, which aims to reduce fraud and administration costs.

Since the cards also act as the national ID document, they can be upgraded with additional e-services.

Portugal
Providing national ID cards

All Portuguese citizens should soon be using their new e-ID cards, which include a built-in biometrics feature, as their national ID document. This new so-called "Citizen Card," the size of a credit card, enables citizens to communicate with their government administrations simply, rapidly and more securely. It includes several ID numbers such as civil identification, taxpayer, social security and health, and will later replace the elector card.

It will also enable a variety of e-government services to be available through the electronic identification it provides. The cardholder has a secret PIN code to identify and authenticate himself/herself, and the card generates a legally-binding digital signature for secure declarations and administrative procedures.

Gemalto is providing the entire card solution including the secure operating system, the personalization system and applications, the middleware and associated helpdesk services. This is the first ID project in Europe based on Identification Authentication Signature specifications.

India
Accelerating microbanking

Underbanked people in India are benefiting from simplified access to financial services through the use of our specially developed smart cards.

Each card holds up to 15 different types of secure application such as deposits, savings, loans, insurance and e-purses.

The card also acts as an electronic statement to store the last 150 transactions, which are validated using biometric authentication. This one-card-does-all solution resolves the normal barriers to growth by providing users with convenient and secure banking services.

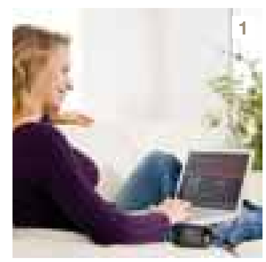
Up to 500 million people are currently underserved by the financial sector and this initiative aims at the development of poorer areas.

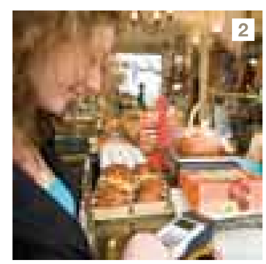
Taiwan
Starting "Pay-Buy-Mobile"

Shoppers in Taiwan are experiencing a milestone in mobile contactless history by using our technology to make contactless payments with their mobile phones.

Subscribers to FarEasTone are the first in Asia to experience this SIM-based proximity communication (NFC) service which offers the same ease and convenience as an ordinary contactless payment card while at the same time opening up fun new ways to shop.

For example, users can interact with "smart posters" embedded with NFC tags by waving their mobile across the poster and walking away with a coupon downloaded to the SIM for use at the checkout or for later purchases.





1. Our end-to-end solution enables customers of a German bank to securely use the internet to design a unique credit card using a photo of their choice.

2. Our MagIC³ Point-Of-Sale (POS) terminals have been EMV certified both by the Association of Italian Banks (ABI) and American Express.

Highlights 2007

1

1. In North America, consumers are enjoying the benefits of a true first from Gemalto: a healthcare and financial payment card in one. They can use our solution to keep track of their personal health information, give it to healthcare providers and then pay for services.

2. Our Protiva™ solution won the 2007 Global Product Excellence in Digital Security - Customer Trust Award* for our ability to protect digital resources.

Info Security Products Guide

2

Germany
Increasing efficiency in healthcare

The German government has launched a major nationwide health program, and chosen Gemalto's advanced digital healthcare solution to support it with the supply and personalization of 35 million latest-generation e-health-cards. These act as a security device to strongly authenticate the patient and so help to reduce fraud and increase privacy.

They also enable secure access to electronic medical files that include emergency data such as blood group, allergy alerts and ongoing treatments records. This personal information can only be read by authorized healthcare professionals if the patient consents by entering their PIN code. The new cards also carry electronic prescriptions which significantly reduce paperwork, avoid duplicate examinations and so lessen unnecessary use of healthcare services.

This new reference strengthens Gemalto's positioning in the healthcare sector following achievements in Algeria, Belgium, China, Finland, France, Mexico, Puerto Rico, UK, USA and Slovenia.

United States
Making public transport quicker and easier

Millions of passengers in Boston are traveling with greater speed and convenience by using our secure contactless cards.

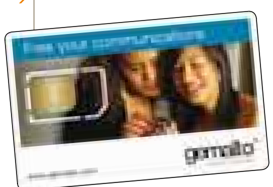
Commuters simply hold them close to a reader that instantly deducts the fare or validates their pass. We are also a supplier to major transport projects in the Netherlands, Paris, London, Sao Paulo and Santiago.

Turkey
Enabling mobile signatures

The 30 million subscribers of Turkey's leading mobile operator can now benefit from the world's largest mobile signature program.

Our SIM-based identification solution allows them to securely access services that require strong authentication, such as internet banking or e-government applications, while using their mobile phones to generate a legally binding electronic signature.

This means they can perform secure online transactions through their handset, anytime, anywhere. What makes this solution secure is that it relies on "something you own" (the private key of your digital signature stored in the SIM card) and "something you know" (the secret code).



South Africa
Achieving bank card accreditation

American Express, MasterCard and Visa have recognized the reliability of our banking solutions by making Gemalto the first company in South Africa to receive all three certifications for our new personalization facility there.

We already supply banking cards in many African countries and this local capability is enabling us to address the emerging EMV market. Since it allows us to operate closer to our bank customers, we are able to serve them with increased responsiveness.

China
Deploying 3G services

Guangdong Mobile has selected us to deliver China's first 3G-ready SIM service platform, to be deployed in time for the 2008 Olympic Games in Beijing. Our over-the-air (OTA) platform enables them to communicate with their subscribers through high-speed data channels in a more efficient and cost-effective way. At the same time, their subscribers benefit from a faster, more responsive and enhanced experience.

3G enables people to enjoy a much more colorful digital lifestyle with their wireless devices, in ways that benefit their daily lives. They can watch events like the Olympic Games live, handle their personal finances and easily interact with friends and relatives through their mobile phone. Our OTA platform links these digital services to subscribers through its ability to recommend and manage their preferred content. It is fully compatible with all 3G-network technologies foreseen, in particular the Chinese-developed TD-SCDMA.

1. Recognized as a groundbreaking network security solution, our "Live Provisioning" was double winner of 2007 Tomorrow's Technology Today Awards*.

**Info Security Products Guide*

A year of strong and demonstrable progress

Message from Alex Mandl, Gemalto Chairman

“We are on track to achieve our stated goal”

“In December 2005 we announced the combination of our sector’s two leading companies to create Gemalto, and 2007 was its first full year of operation.

We are now well ahead of the three year integration schedule we announced and synergies are being realized faster than anticipated. Beyond that, the cultures of the two companies are blending well and addressing the huge opportunities before us as a well-functioning, cohesive team.

Thanks to this merger, we have assembled the skills and the scale to fully serve three important markets: mobile telecom, secure transactions and security. The business potential in all these segments is enormous, and as the world leader in digital security, we are well placed to respond to these opportunities.

The combination of first rate know-how, proven innovation capabilities, a strong balance sheet and good relationships with a long list of outstanding customers, positions us well to excel in both the developed and developing markets.

The financial results for 2007 indicate the significant strides that Gemalto is making. Compared to 2006, revenue, earnings and cash flow improvements reflect our continuous progress. We are therefore on track to achieve our stated goal of 10% EBIT for 2009.

Our Board of Directors is strongly focused on fulfilling its governance responsibilities. It monitors best practices, adopting these when appropriate, and through a regular self assessment program continues to refine the way it works.

Our 10 000 employees addressed the challenges of the merger with great commitment and continue to serve our customers with real dedication. Their talent and motivation are key to our success in responding to the opportunities ahead. I want to thank them for all their efforts and successes.

We made strong and demonstrable progress on all fronts during 2007. This positive momentum will carry us forward to achieve our goals and aspirations in the future.

We are realizing Gemalto's ambitions

Interview with Olivier Piou,
Chief Executive Officer of Gemalto

When Gemalto was created you described your "digital security" vision. How has it matched the reality?

O.P.: Digital security has a key role to play in the "digital revolution"– a major trend already bringing huge benefits to developed countries, and being enthusiastically adopted by emerging nations.

Yet fear of fraud, identity theft and other concerns are holding people back from making the most of these opportunities. They need to feel that the wealth of devices and services on offer are both convenient to use and trustworthy.

So convenience and trust are at the core of our vision of digital security. Developments in all our key markets show how well received they are. One year after establishing Gemalto, we are continuously expanding the possibilities of secure digital technology with new services and new products, and winning meaningful contracts in all segments and geographies.

"We have a solid business model with well identified growth paths"

Gemalto's origins are in smart cards. But are they just a thing of the past?

O.P.: We are very proud of our achievements in smart cards and they remain an important part of our business.

Still, with the growth of the digital universe and the technologies that go with it, we are seeing many more ways in which we can address digital security, so we are vigorously widening our range of products, software and services.

For example, we offer our "secure digital companion" for enterprises in the form of a USB key, and contactless payments using secure key fobs; our instant issuance service platforms allow consumers to subscribe to their new means of payment at the entrance of a shopping mall and use them immediately; and travelers can have their passports conveniently checked at airports by our fast lane eBorder Gate solution.

Revenue in our software and services activities already exceeded e100 million in 2007, clearly indicating the growth potential we have in that area. So we're not leaving smart cards behind, we are complementing them with a much broader offer.

Telecommunications
1. In Taiwan we enabled shoppers to make contactless payments with their mobile phones.

"We are vigorously widening our range of products, software and services"

Gemalto celebrated its first anniversary in mid-2007. How did you tackle the challenges you faced?

O.P.: When we effectively merged in June 2006, our goal of turning our digital security vision into reality was seriously challenged. In a rapidly evolving marketplace, we faced an extremely competitive battle around basic products, and we had to activate several fall-back scenarios.

So we quickly put our house in order, harmonizing our offers and deploying each company's best practices; we maximized our synergy plan by renegotiating our supply contracts and cutting our own costs; we asserted stricter pricing discipline in the field, and completely revisited our production footprint.

Despite this intense short term pressure we also launched a host of initiatives to accelerate profitable growth. In marketing we positioned visibly segmented brands to clearly differentiate our products and services; we took an aggressive, value driven line in launching new products to respond faster to market developments and roll out innovations more rapidly; and we deployed a new worldwide organization, streamlining our structures and processes, and creating greater accountability.

By the end of the year these efforts were being rewarded. Revenues grew again in the second semester, SIM sales prices improved, synergies exceeded our expectations and our global operations delivered an outstanding year-end performance.

As a customer-driven company, we also took encouragement from our survey of over 150 key accounts. Our employees' dedication to our wide base of international blue chip customers was rewarded by clear expressions of rising satisfaction and a good level of confidence in our business.

2007 was indeed the year in which we began realizing Gemalto's ambitions.

What were the key technology and market developments in 2007?

O.P.: There were three notable trends: convenience – a constant demand for easy to use solutions; contactless – especially for electronic passports, rapid payment and corporate security; and convergence - the merging of several areas like mobile, transportation, banking, identity and the internet. Together, these are helping us offer our clients a rapidly widening range of secure and enjoyable services for their end-users. For example, in Colombia we provided the world's first SIM-based mobile banking service; and

Secure Transactions
1. EMV rollouts and renewals generated robust demand in the banking sector.

Security
2. We are the world's no. 1 supplier of e-passport programs, to be deployed by some 70 countries.

in Taiwan and Belgium we enabled shoppers to make contactless payments with their mobile phones. In South Africa, bank customers are now using our Network Identity Manager dongle to safeguard their online transactions; and Turkish citizens can use their mobile phones to access e-government applications and sign their requests electronically.

With large deliveries in e-passports and e-ID cards we were rated[1] the world's no. 1 supplier of e-passport programs, in line to be deployed by some 70 countries. EMV[2] rollouts and renewals generated robust demand in the banking sector; we won a contract to provide 35 million e-health cards and services in Germany; and we saw strong growth across all markets in the uptake of our services. With our capacity for innovation, these trends improved our sales mix and generated growth in all our main segments.

What are the key factors for success going forward?

O.P.: Continuing to improve the profitability of our businesses is a high priority. To do that we will complete our cost-cutting program, make the most of our purchasing clout and reap additional synergies.

We sold 1.3 billion intelligent devices last year, with our software and applications on board, so we plan to leverage this extraordinary installed base with services across all our markets. We will nurture our strong client relationships and forge new ones, particularly where we see vigorous growth in the world's most youthful economies.

We will address the many opportunities generated by convergence, and make our customers' and their end-users' lives simpler with our end-to-end solutions. We will also grow through new offers in contactless payments, personalization services and other exciting new technologies.

Our balance sheet is extremely robust. We bought back almost 10% of our own share capital in 2007, yet we still have a strong cash position with virtually no debt. Thanks to our structured evolution we have a solid business model with well identified growth paths and robust financials. I believe our performance in 2007 shows we have the talents, the resources and the vision to clearly flourish in digital security in the coming years.

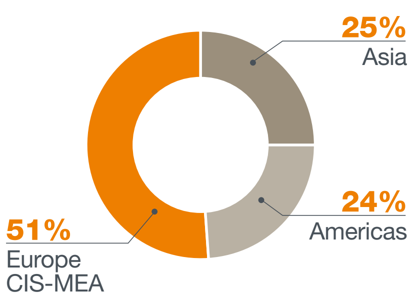
1 The Keesing Journal of Documents and Identity
2 EMV: the industry standard for international debit/credit cards established by Europay, Mastercard and Visa.

"We have the talents, the resources and the vision to flourish in digital security"

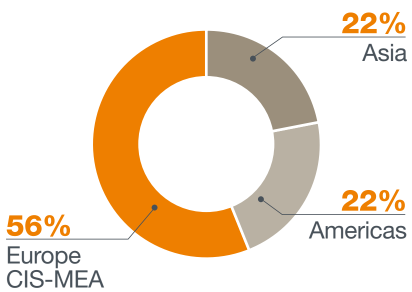
Gemalto worldwide

Gemalto's worldwide presence is key to the way we serve our clients.
In fact we are present on every continent, with a network of 85 sales and marketing offices, 31 personalization facilities, 19 production sites and 10 R&D centers. Beyond this physical footprint, it's our worldwide network of 400 partners and our own 10,000 employees who make the difference. Amongst them, we have 2,500 highly skilled engineers and some 90 nationalities – so wherever our clients are based, we're not far away and we speak their language.

Headcount by region
at end December 2007



Revenue by region
in 2007



19 production sites

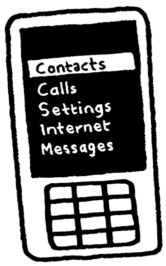
85 sales and marketing offices

31 personalization facilities

90 nationalities

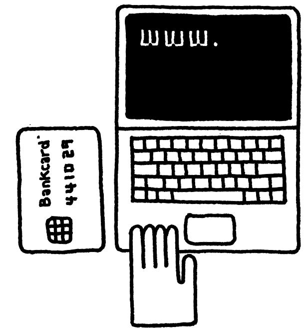
R&D centers 10

Office
Personalization center
Production site
R&D center



8 million

With our **OTA solution** we updated 8 million subscribers' SIM cards in Thailand in a record 40 days



1.5 billion

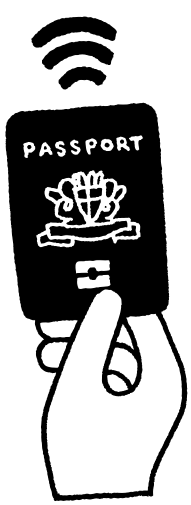
No.1 in **chip cards**. We sold 1.5 billion chip cards representing 49% market share in 2006 *(source : Nilson report 2007)*

In the UK over 500,000 Barclays' **customers** can **bank online** with a high level of security using our two-factor authentication solution

500,000

Markets, sectors and segments

Digital security is our vision and refers to the protection and enhancement of digital interactions in many different sectors and by many means. These include various types of smart cards, a wealth of new objects that include our secure operating systems and applications (e.g. e-passports, secure USB keys etc.), as well as software and an increasing number of services.
As a result of recent technological innovations and the convergence of, for example, mobile telecommunications and the internet, many of these digital security products, software and services transcend conventional market categories. They may also appear to straddle different financial reporting segments so that, for example, contactless payments via a mobile handset are included in our Mobile Telecommunications segment rather than Secure Transactions. As a rule of thumb, in this brochure we refer to market sectors rather than reporting segments, and we generally make every effort to clarify these issues for the reader

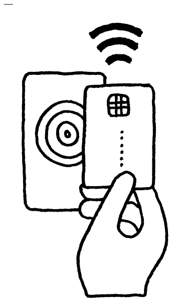


10 million

By March 2007 we had provided secure digital technologies to 10 million **e-passports**

100 million

In ten years we have delivered more than 100 million **contactless cards**



“We are continuously expanding the possibilities of digital security.”

Our markets

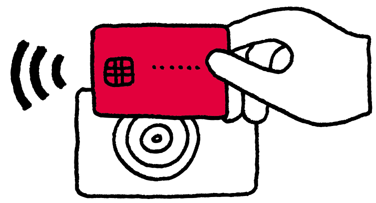
Key markets

Telecommunications

Gemalto offers a unique portfolio of solutions to address the increasingly complex eco-system of digital communications, building on its expertise as the world's leading supplier of SIM cards, software and services to the mobile industry.

We create value and long-term differentiation for our customers, helping them build loyalty and boost revenue per user, both in traditional market segments and in the developing markets of convergence, multimedia, proximity and mobile TV services.

• We help over 400 telecom providers worldwide get the most out of their platforms and solutions for their 700 million subscribers.
• Different business models tailored to meet the challenges of the mobile operator.
• A complete infrastructure for operator service deployment.
• As no two clients are the same, we offer low-cost solutions as well as multimedia and convergent offers for advanced networks.
• Security is at our core, helping customers strengthen their position in newly-opened and interconnected markets (mobile-TV, mobile payment, user authentication, etc).
• Our unique team of experienced consultants, researchers and engineers supports customers with advanced products, personalized end-to-end solutions and dedicated services.
• Vast range of cards and solutions for public telephony leveraging our experience in loyalty and marketing, and benefiting from our unrivalled, flexible production capacity.

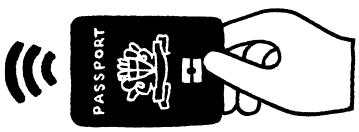


Financial Services and Retail

The leading and fastest-growing player in this sector, delivering innovative and secure payment solutions to financial institutions and retailers around the world.

With our unrivalled track record in smart card security, hundreds of banks and other issuers trust us with their transaction and loyalty projects including chip card migration, consulting and personalization services, secure personal data management software, contactless payment systems, card design, payment terminals, readers, and secure tokens for online banking.

• Hundreds of millions of end-users benefit from our products and services.
• Widest portfolio in the industry covering all applications and technology platforms, with a stream of new developments to match our customers' needs.
• Renowned capacity for innovation and dedicated resources for customized applications mean we enable our customers to differentiate themselves.
• Chip conversion of card portfolios helps create fully integrated, customized solutions.
• Unique worldwide coverage means we offer local support and responsive personalization services.
• We are participating in almost all major smart public transport ticketing projects worldwide.



Public Sector

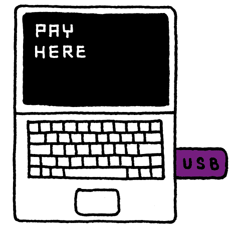
Durable and highly secure products, solutions and services for governments, national printers and integrators in the service of citizens.

• Practical experience in 30 countries on major e-passport and e-ID card projects; some of the world's biggest e-health programs; and numerous driving license, vehicle registration and tachograph projects.
• Unique, comprehensive offer for national identity programs including issuance, enrolment, border control and e-government applications.
• R&D team provides security, interoperability and durability.
• Extensive technological partnerships and PPP schemes like the build-operate-transfer/design-build-operate-maintain model, which allow private companies to design, finance, construct and operate revenue-producing public projects.

Enterprise

Secure identity and access management systems for corporations and other organizations, enabling them to identify, authorize and manage an individual's activity within their physical and IT space.

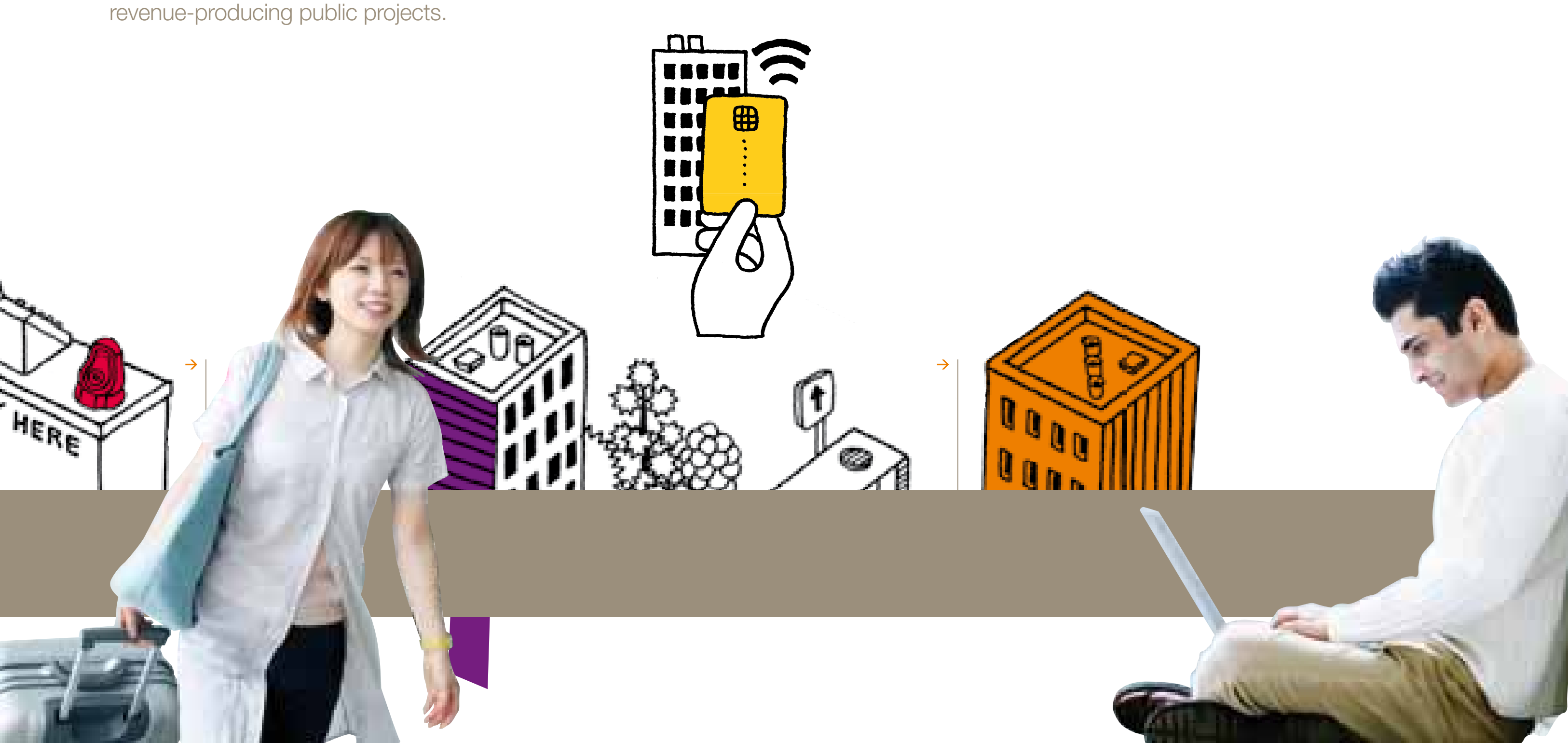
• Strong user authentication plus convenience and simplicity for users.
• Business-to-business authentication and digital signatures, plus all components for end-to-end security solutions, including readers, client middleware, card management systems, related services and training.
• Experience of working with large corporations (Fortune 500) such as Barclays, Shell, Chevron, Pfizer, Boeing, Telia Sonera, Schlumberger and Microsoft®.
• Access management to buildings, email, IT networks, corporate databases, corporate and personal bank accounts, employee services, benefit schemes, secure project databases, confidentiality on the road, plus other applications and services.
• Available in multiple forms such as cards, USB keys and one-time-password tokens compliant with the OATH framework, OpenID and other standards.



Internet Content Providers

Secure internet and network transaction solutions for online retailers, financial institutions, portals and internet content providers.

• Provides end-to-end security for online authentication.
• Protects against phishing, keyboard loggers and Trojans.
• Secure device solution, tamper-resistant.
• No drivers or software to be downloaded.
• Uses existing IT infrastructure.
• Authentication to multiple sites.
• Mutually trusted, secure connection.
• Strong tamper-proof platform.



Telecommunications

Our combination of software solutions, SIMs and managed services is gaining traction in the marketplace in terms of customer perception and service deployment.

Our Allynis™ Mobile NFC brochure describes how our customers can make the most of new opportunities in the contactless world (see also page 29).

The mobile handset: so much more than a phone

More and more people around the world are connected in a variety of different ways. Whether the services currently available to them are basic or sophisticated Gemalto is making communicating easier, more portable, more personal and more secure. Our solutions let end-users connect when and where they want.

Our mission is to help our clients, the network operators, our partners and content and device vendors, to deliver an exciting, innovative yet secure experience to the billions of users and machines connected wirelessly on every continent.

Operators the world over turn to Gemalto

Gemalto serves 400 telecom operators, including almost all the world's top 50. They rely on our knowledge and expertise for products and services that help reinforce and extend their relationships with their customers. They value our outstanding reputation for innovation, built on a global network of ten R&D and customization centers.

We work closely with our customers through our sales and marketing offices worldwide, and through our customer communities.

This combination of technologies and market expertise helps our customers roll out a steady stream of new services and increase average revenue per user (ARPU) or device.

A more competitive organization

To provide the most appropriate response to our customers' needs, in 2007 we organized our telecom business into four strategic lines.

The first cuts across the whole Gemalto business. "Allynis™" is a complete and future-proof range of secure operated services, including outsourced personalization and delivery, supported by our powerful engineering, industrial and financial capabilities. Allynis encompasses all of Gemalto's managed and operated services for Telecom, including personal data management and storage, over-the-air (OTA) device updates for evolving roaming agreements on the go, and so on. Our customers benefit by outsourcing parts of their non-core business, and by using our technology with less capital investment.

"UpTeq™" is the brand name covering advanced products and data services. By offering the highest level of security, UpTeq enables mobile operators to provide the rich, multimedia content that attracts customers and keeps them coming back for more. UpTeq promotes fast adoption of services by end-users thanks to its ease-of-use and built-in self-care functions. It also provides skilled project management, execution and delivery.

free to share

3.5 million

With our SIM phonebook back up service, SFR's subscribers made 3.5 million synchronizations in 18 months

13 million

Brazilian subscribers used our LinqUs™ platform to get entertainment and information about the Pan-American Games Rio 2007

1

2

1. We offer a complete SIM card order, packaging and delivery service. This makes life more efficient for our customers and helps them get closers to their subscribers with innovative, personalized products.

2. Our smart USB dongle provides connectivity to broadband networks, nomadic services and PC communication tools.

"LinqUs™" is our brand name for value-added product and service deployment to any mobile subscriber. With its open interoperability, LinqUs allows operators to swiftly update their entire installed base of (U)SIMs and market a vast array of applications developed by Gemalto and our partners. These include location-based services, entry range mobile advertising, and phone book back-up and restore applications.

QipSo™ covers our entry-level SIM card offer. This addresses the emerging and fastest-growing mobile markets, which account for a significant portion of global volume growth. With this well segmented and differentiated offer, we have organized ourselves to maintain volume leadership while pursuing our overall profitability objectives. Our R&D teams in China and India are developing tailored SIM product ranges for low-income end-users.

New services and solutions

In multimedia, at the 2007 3GSM World Congress Gemalto unveiled a complete solution developed for Telefónica Móviles España (TME), Spain's leading mobile operator. Using an enhanced phonebook, this solution gives instant access to TME's services and includes fixed-mobile convergence applications.

TME is using the solution to personalize the handset home screen with branded icons, providing direct links from the main menu to the operator's applications as well as to multimedia content.

In a high-profile demonstration of our capacity to manage services on behalf of operators, we also integrated our SIM phonebook back-up and synchronization offering for SFR, France's no. 2 operator.

Now subscribers can manage and save their contacts either directly through their handsets or via SFR's website. SFR's customers clearly recognize the benefit, with no fewer than 3.5 million synchronizations in just 18 months.

The Machine-to-Machine (M2M) market began to display its potential in 2007. M2M covers a vast array of applications including remote management, intrusion control and healthcare. German car makers in particular are starting to embed M2M SIMs in some models as the platform for "telematics" functions such as GPS navigation and consumer services. Gemalto has designed a robust SIM-based device resistant to wide temperature ranges and shocks, which was showcased at SIMposium 2007 in Berlin.

Convergence

With 1.3 billion people using the internet and 2.6 billion using mobile phones, there is huge potential for innovation, disruption and complication when those two worlds converge. Some subscribers already enjoy new services.
With the right mobile device and a high-power SIM they browse the internet, send emails, conduct financial transactions, watch TV and video, play music and games, take photographs and videos and send them to a PC. Gemalto know-how is playing a crucial role in this dynamic market, enabling operators to offer secure and innovative services while giving end-users a convenient, enjoyable experience.

In Asia, we deployed an OTA campaign for Thailand's largest Mobile operator, AIS, updating nearly 8 million subscribers' SIM cards in a record 40 days, compared to several months if AIS had invited customers to visit a point of sale, or sent new cards out by post.

Using our interoperable SIM Value Added Service engine, we launched exclusive mobile banking services in Colombia with all the country's SIM-enabled operators and its largest banking network, Redeban Multicolor. These services allow mobile subscribers to perform secure transactions on the move and access banking services, transfer money, check their account balance, recharge mobile prepay services and pay bills.

To drive forward development of Near Field Communication (NFC) technology, Gemalto and NXP joined forces to develop SIM-enabled NFC solutions compatible with existing payment and public transport infrastructures. NFC-enabled mobile devices allow consumers to store and access all kinds of personal data, at home or on the move. By creating a common standard based on both companies' expertise in NFC, MIFARE and SIM, this is building a solid platform for the launch of innovative NFC services (see page 28 for more about NFC).

In October, Gemalto won the 2007 Frost & Sullivan Award in the field of mobile contactless technologies for its smart card web server. This offers a common platform for all mobile operators to organize and present their services to the subscriber, irrespective of location.

Public telephony

Public phones are installed in 157 countries in the world, and close to 50% of them accept payment by prepaid chip cards. Fixed operators continue to support their networks of phone booths, offering a diversity of payment methods and innovative services, while end-users are constantly demanding new ones based on prepaid cards.

Gemalto is the clear leader* in the supply of prepaid memory phone cards to this market segment, producing a steady stream of competitively priced innovative solutions, including modules tailored to specific market demands.

We offer the most comprehensive range of products in the public telephony market, including the latest versions of chip prepaid cards as well as secure card authentication via the UniSAM™ and a robust Key Generation System.

Leveraging our security and smart card technology know-how, we offer complete security solutions for different card generations, including Security Authentication Modules and Key Management System updates.

We support interactive campaigns across the world, from the Middle East to Latin America, through airtime lotteries, for instance, with results displayed instantly on either the card or the phone screen, and this provides us with unique market differentiation and expertise.

Gemalto continues to support telecom operators in a wide range of initiatives designed to promote their business, by sharing our sales and marketing know-how and our technical knowledge.

Source: The Nilson Report Nov. 2007

Financial Services & Retail

Security and convenience are fueling growth in secure transactions as people demand freedom to pay for goods and services at home or on the move, without fear of fraud or identity theft.

Our Allynis CardLikeMe™ brochure describes how people can make their credit cards unique using a personal photo of their choice (see also page 27).

New levels of trust and convenience

Gemalto is a world leader in technologies and services for securing transactions, with 15% market share in payment cards[1]. We are a prime mover in the widespread adoption of EMV[2], tackling card fraud, while our contactless technologies allow users to wave their card at a terminal to purchase goods or board a bus. Gemalto is also partnering mobile telecom operators and banks to offer customers specially-designed SIMs that let them pay with their mobile handsets using NFC (Near-Field Communication).

The spread of broadband internet access has powered rapid growth in e-commerce as well as the emergence of Web 2.0 communities, where consumers become occasional sellers as well as buyers. Gemalto's powerful encryption and secure identification processes are protecting merchants and customers alike in the virtual sphere. Trust and convenience are crucial to the development of these exciting revenue-generating opportunities.

User-friendly payment solutions

Gemalto supplies innovative contact and contactless cards, payment terminals incorporating the latest technologies and a complete set of user authentication solutions for secure online banking. Furthermore, we are continuously innovating with card body designs and new materials in order to respond to our clients' developing needs.

Thanks to our world-renowned encryption experts, our creative designers and expert customer service team, we are delivering secure and easy digital payment solutions for the 21st century.

Continuing EMV roll-outs

The spread of EMV chip-and-pin cards, surging growth in contactless payment cards and the arrival of new user-friendly services were dominant trends in 2007. All these developments are encouraging people to buy online, while enhancing their experience in a host of settings, from fast-food outlets to mass transit systems.

In Taiwan Citibank picked Gemalto in 2007 as its exclusive EMV banking cards provider. The partnership provides for the supply of one

1. *Source: The Nilson Report Nov. 2007.*
2. *EMV: the industry standard for international debit/credit cards established by Europay, Mastercard and Visa.*

free to shop

230 million

microprocessor cards for **secure transactions** delivered in 2007

number 1

in **payment cards** *(source: The Nilson Report Nov. 2007)*

1. With its advanced display features and the highest security levels, our stylish ProxPay contactless payment reader holds a unique position on the market.

2. Contactless payment devices come in an increasing range of forms, including secure key fobs.

million cards and associated personalization services. Citibank selected Gemalto for its known expertise with large scale EMV roll-outs.

In Canada, Gemalto is helping financial institutions to migrate successfully to EMV. Our EMV Pilot package provides cards, personalization and consultation services to local organizations to assist them in upgrading their debit and credit cards to the new standard.

In South Africa, Gemalto was the first company to achieve American Express, MasterCard and Visa accreditations there, for the deployment of EMV cards by South African financial institutions.

In Vietnam, Gemalto and FPT Information System formed a partnership for the first EMV deployment there, with Vietnam Joint-Stock Commercial Bank for Private Enterprises.

In Italy, Gemalto became the first company to receive EMV and American Express certifications for our Linux™-based payment terminals (see page 28 for more about our range of POS terminals).

In India, Financial Information Network & Operations Ltd (FINO) is deploying Gemalto smart cards with biometric authentication. These securely record micro-banking transactions and give access to financial services to under-banked rural populations (see “Highlights” page 7 for further details).

Rapid contactless adoption

Contactless technology, once mainly confined to the US, is now starting to develop in many countries around the world and in many different guises.

Financial institutions are fast adopting contactless microprocessor cards for their speed and simplicity in handling low value payments.
Users enjoy the convenience of simply waving or tapping their card when passing a terminal in order to pay for purchases or hop on a bus. Mass transit companies too benefit from faster admission and boarding, increased fare revenues and lower costs (see also page 29).

In Taiwan, we are currently delivering MasterCard OneSmart™ PayPass™ EMV contactless “combi-cards” to Cathay United Bank and Taipei Fubon Bank, two leading Taiwanese banks.

Contactless cards are also simplifying and speeding up small-sum payments for Taiwan’s mass rapid transit system (MRT), buses, parking lots and other locations. Cardholders simply tap their cards at PayPass readers to make their payment.

The Commonwealth Bank of Australia also picked Gemalto for its first PayPass pilot. During this trial phase in New South Wales 33,000 CBA cardholders are able to use their card at more than 150 participating merchants for purchases under AU$35. By eliminating the need to enter a PIN or sign a receipt, consumers and merchants alike enjoy shorter queues and faster transactions.

In Belgium, subscribers to mobile network operator BASE are using their handsets

Your card: your photo!

In an increasingly competitive market, customer acquisition and retention represent a real challenge for banks. Giving cardholders the opportunity to customize their bank card with a personal photograph is a real differentiation factor. It also strengthens the customer's attachment, much in the same way as customizing a mobile phone or PC screen, and can help move the card to the top of the wallet. Gemalto's Allynis CardLikeMe does just this. It is an end-to-end solution including web services, which allow the end user to upload and edit the picture, as well as secure printing. Customers receive a unique card which they are proud to show and use.

to make payments. Recognizing Gemalto's unique leadership in both the telecom SIM and the payment card markets, BASE adopted our SMS-based mobile payment solution combined with Banksys m-banksafe technology.

Identity management expertise

In 2007, Gemalto helped several customers leverage their existing investment in EMV infrastructure in order to develop their internet transactions business by using our one-time password (OTP) and public key infrastructure (PKI) technologies.

Projects with DSV (Germany) and CitiGroup (US), for example, are creating new business opportunities for our customers, while in the UK over 500,000 Barclays customers can bank online with a high level of security by using our two-factor authentication solution. Barclays selected Gemalto to provide the authentication devices as well as a full range of services including procurement of readers, fulfillment and distribution of the complete solution to its end-users.

Nedbank in South Africa is also securing online transactions for 80,000 of its customers with Gemalto's strong authentication Network Identity Manager (NIM) solution. Based on a USB (universal serial bus) key, this is very simple to use while boosting trust and confidence when performing online transactions (see also page 37).

Reaching customers more effectively

New services deployed in 2007 aim to help financial institutions get even closer to their customers by improving the end-user's overall card experience, generally through ultra-personalization features such as his-and-her cards. We are also providing improved logistics and distribution channels for banks all the way to the end-user.

One such innovation is Allynis CardLikeMe, a web service that lets consumers use their home PC to select their favorite picture for their banking card. At the same time, this offers banks a useful marketing segmentation tool, in order to reach their different customer groups more accurately.

Another is Dexxis Instant Issuance, which enables banks to issue cards immediately at the branch in order to capture consumers' impulse demands. This can be particularly effective in shopping malls, as at the Citibank branch in Hong Kong, for instance, where consumers are able to use their new means of payment immediately. Instant Issuance also offers an ideal solution in markets where mail services are not totally secure.

1. Our pocket-sized device provides convenient One-Time-Passwords for secure banking transactions.

number 1

→ Gemalto is no 1 in **smart card readers and chipsets** in 2007 *(source: Frost & Sullivan)*

1. MagIC³ terminal, part of our portfolio of advanced point-of-sale terminals.

Secure Point-of-Sale terminals

Global demand for secure EMV compatible point-of-sale (POS) terminals continued to grow during 2007 as more and more markets switch to EMV payment cards.

The key to the success of Gemalto's terminals lies in five major strengths, namely security, standards compliance, connectivity, customizable applications and cost of ownership.

Our MagIC³ "Open&Sec" architecture, unveiled in 2006, was a brand new technology platform running on Linux. This speeds the introduction of new applications for new market segments while preserving all the qualities that make our terminals so popular. With the launch of our MagIC³-X and C terminals in 2007, Gemalto started to deliver on the promises of this platform.

MagIC³-X is a high-end desktop terminal for demanding, high-volume retailers, the first of this kind to be developed, manufactured and sold by Gemalto. Its connectivity is designed to address a broad array of needs and IT environments (e.g., USB, RS-232 and Ethernet). The new product has proved an instant success in challenging, competitive markets such as India. MagIC³-C is a zero-compromise entry-level terminal for retailers performing fewer than 10 transactions a day. This highly innovative product is an industry breakthrough, bringing POS terminals to the vast numbers of retailers not yet equipped. Shunning the low-cost trade-offs on offer from competing products, Gemalto delivers best-in-class technology for small retailers seeking the tools they need to expand their business.

The MagIC³ family will continue to expand in the course of 2008 with two more models in the pipeline. The R version is aimed at large retailers seeking to connect the terminal directly to their cashier system. By contrast, the M version is designed to open the market to high transaction volumes in a wide variety of settings, using the mobile phone as a mobile terminal to enable transactions on the move.

Smart readers and tokens

Gemalto is the world leader* in secure card interfaces including readers, chipsets, contactless interfaces, USB tokens and dongles. In 2007, we were honored to win the Frost & Sullivan Award for Market Leadership in smart card readers and chipsets. We supply the world's largest range of reliable, certified, user-friendly readers for all security markets and applications such as e-banking, logical identification and authentication, healthcare and physical access control. Our best-selling PC-Link series is now widely used in IT security, e-government and business-to-business, as well as in the fast-growing home banking and e-commerce segments. We have also launched a new line 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. Four of the main U.K. banks already use Gemalto's PC-Link reader to secure exchanges of information with their subsidiaries and other banks. For all markets requiring card interfaces, we also offer chipsets embedded in computers, keyboards or USB Tokens.

** Source: Frost & Sullivan 2007*

Near Field Communications

A major application for SIM-based mobile Near Field Communications (NFC) is for payment and e-ticketing, and with contactless transport infrastructures now flourishing in almost every major city, the opportunities are expanding rapidly. Using NFC, commuters simply hold their phone near a reader to pay for entry or debit a stored “ticket” for their journey. So NFC makes life easier and quicker for travelers, and more efficient for transport operators. Yet even in this win-win environment, service delivery is a challenge since it means harmonizing the different needs of banks, mobile operators and transport companies. What’s required in this multi-player business is a single, trusted intermediary – and that’s where Gemalto comes in.

Transport

E-ticketing brings speed and convenience

E-ticketing is helping to cut fraud and enhance travelers’ experience, while enabling mass transit operators to roll out new revenue-generating services. Across the globe, too, contactless ticketing is replacing paper and magnetic formats.

Using contactless technology, passengers can now board buses, tramways and trains quickly and simply with a wave of their e-ticket; and pilot projects now underway allow passengers to pay their fare with their cell phones. For added convenience, interoperable tickets allow commuters to switch easily between mass transportation modes.

Expertise and innovation

Gemalto has pioneered contactless solutions for mass transit systems for more than 10 years and to date we have delivered more than 100 million contactless cards. With this long experience, expertise in 2G and 3G SIM cards, unrivalled industrial capabilities, worldwide coverage and commitment to innovation, we supply a complete portfolio of contactless products. All this makes us the ideal partner for operators seeking to deploy innovative fare payment technologies.

More recently, we have been helping city authorities in Europe and the US to roll out e-payment solutions for alternative modes of transportation such as “bicycle rental on demand.”

Accelerating adoption in 2007

Gemalto garnered several important and innovative projects with major cities worldwide in 2007. Among them, the Massachusetts Bay Transportation Authority selected our transit payment devices for a project representing 3.5 million units.

Meanwhile Leon, in Mexico, became that country’s first city to implement a rapid bus transportation system. Gemalto was chosen by PagoBus to provide 400,000 Celego Mifare™ contactless cards starting mid-2007.

In Sweden, Stockholms Lokaltrafik AB awarded Gemalto a contract to provide 1.4 million Celego Mifare™ contactless cards. This includes several of our Allynis services such as a web-based Sales and Logistics interface, and our “CardLikeMe” which enables users to upload a picture of their choice to be printed on their personalized card.

Other on-going projects in which we are engaged include the Oyster™ branded cards in London, Trans Link in the Netherlands, SPTrans in São Paulo, Denmark, Brazil, Taiwan, and several projects in China’s major cities such as Beijing, Guangzhou, Chongqing and Chengdu.

1

2

1. Commuters in London use their contactless “Oyster” cards for more convenient travel on the capital’s public transport system.

2. Our e-tickets provide speed and convenience for users of many of the world’s most ambitious mass transit projects.

Public Sector

Electronic and biometric identity documents are helping governments check travelers more swiftly and securely, and efficiently administer nationwide programs like healthcare and driving licenses.

20 top specialists were interviewed for our eGovernment 2.0 whitepaper which analyzes implementations in 7 European countries and focuses on e-ID, security and trust as keys to success.

The “e” factor

Electronic infrastructures based on the internet are behind immense advances in the efficiency and security of governments the world over, enabling them to upgrade essential functions in order to serve and inform their citizens more effectively. These infrastructures also stand behind efforts to improve border controls and thwart terrorist and criminal activities.

Public sector organizations and agencies are deploying these infrastructures across a range of functions, from enabling secure online government and administration services, to combating ID fraud, securing travel documents, and fostering dialogue with public opinion to achieve better policy outcomes.

These developments are visible above all in the widening array of “e-documents” (e-passports, e-ID cards and e-driving licenses) that we now carry as citizens. The result is a vast and fast-growing market known generically as e-government, with its offshoot in e-healthcare.

Leading provider of secure identity solutions

Gemalto is the leading provider of secure identity solutions. Our aim is to make each interaction between citizens and the public sector more secure and convenient, while protecting privacy. Security, durability, reliability of data exchanges and protection of privacy are mandatory when dealing with digital identity. We provide secure documents, solutions and managed services covering enrolment, issuance and complementary applications.

New milestones for e-passport and e-border control solutions

Gemalto now supplies e-passport solutions to 14 countries including the US, Singapore and several in Europe. We reached a significant milestone in March 2007 by which time we had provided secure digital technologies to some 10 million e-passports. This industry-beating figure, reached in under 16 months, reflects the continuing growth in this market and Gemalto’s undisputed leadership in e-travel documents, with an estimated 30% market share[1].

In the US, Gemalto is one of just two vendors picked by the Government Printing Organization to supply their e-passport program. With our exceptional industrial capacity we are ideally positioned to help meet the higher-than expected demand from American citizens for their new-generation passports, and delivered very significant quantities in 2007.

1. *source : Gemalto*

free to go

35 million
the number of **e-health insurance cards** we will supply and personalize in Germany

10 million
By March 2007 we had provided secure digital technologies to 10 million e-passports

1. Gemalto has provided the operating system, personalization services and most of the 53 million patient cards for France's SESAM-Vitale healthcare scheme since it was launched more than a decade ago.

The European Commission has set a mandatory deadline of mid 2009 for the introduction by all EU member countries of second generation e-passports. These will include additional biometric information including fingerprint data, creating a strong link between the document and its owner.

They will also be required to function with EAC (Extended Access Control). This is a complex scheme that demands an experienced e-passport solution provider.

During 2007, we developed solutions in line with these new requirements and now offer one of the fastest, most comprehensive and interoperable operating systems on the market: Sealys eTravel EAC 80K CC. We also offer our Coesys Enrolment and Coesys Issuance solutions, as well as a new automatic border control solution: Coesys eBorder Gate. This slashes inspection time and reduces the need for human intervention by allowing security personnel to focus on potentially sensitive travelers.

Expanding capabilities for e-ID cards

Gemalto also supplies e-ID cards to governments worldwide. For example, Mexico's licensing authority (ICV) used our smart card platform to issue Monterrey's first e-driving licenses in 2007. These securely store the driver's information, while a sophisticated, highly secure card body makes it hard to copy and counterfeit.

Over the next three years we will supply some 900,000 licenses to ICV, paving the way for future e-government schemes that will further simplify administration and reduce fraud.

We will also be supplying Sweden with 600,000 driving licenses per year over the next three years. These include the latest innovation in security printing features: a transparent window in the pure polycarbonate structure for enhanced physical security that matches the stringent expectations of Sweden's criminal laboratory and national road authority.

The Portuguese Mint and National Printing Office (INCM) has also picked Gemalto to provide their national e-ID Citizen Card. This includes the operating system, Sealys MultiApp ID Certified, and our Coesys Issuance solutions for personalization and applications, middleware and associated helpdesk services. They also incorporate extended printing security and a fingerprint feature.

All Portuguese citizens will ultimately carry these cards as their national ID document.

Securing identity

The illegal use of non-secure ID documents comes with a cost. The British Home Office estimates the cost of identity fraud to the UK economy at £1.7 billion. With the widespread use of IT, more services are on offer via the internet, and identity fraud and theft has grown in parallel. Paper documents are easily forged and there is a multitude of different formats for certain documents which makes any control difficult. In Europe, for example, 120 different types of driver's license exist – a figure which leaps to 350 models in the US. The political climate of each country defines the need and level of security, but overall there is a global trend calling for greater security features and the necessary legislation to put these in place. In this environment, Gemalto has become a leading provider of secure, tailor-made Identity solutions for national identity programs, driver's licenses and vehicle registration.

They will be able to generate a legally binding digital signature in order to communicate rapidly, simply and securely with government administrations. The cards will include several ID numbers such as civil identification, taxpayer, social security and health. In future they will even replace voting cards.

The program went nationwide in August and involves more than 2 million cards a year. It is the first ID project in Europe to be based on Identification Authentication Signature (IAS) specifications.

E-healthcare brings new benefits

For the past 15 years, Gemalto has been supplying secure cards to healthcare programs around the world. In September 2007 we marked a milestone by delivering our 100 millionth Sealys Health Insurance card.

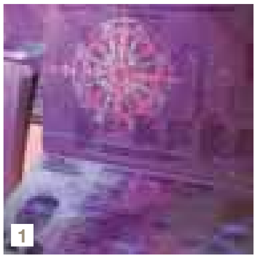
Combining secure card bodies, proven microprocessor technology and localized services, our systems embody sophisticated security mechanisms to protect personal patient data and rights while simplifying the task of healthcare administrators.

In May 2007, LifeNexus Inc., a medical records management company, chose Gemalto as the exclusive supplier of our .NET technology and professional services for North America's first healthcare payment card. Consumers can use them to keep track of their personal health data and pay for services, while healthcare providers can consult information on the card.

In July, Allgemeine Ortskrankenkasse (AOK), Germany's leading health insurer, also picked Gemalto to supply and personalize 35 million Sealys e-health insurance cards. These serve as an active security device to perform strong patient authentication and reduce fraud. By enabling secure access to an electronic file including emergency data such as blood group, allergy alerts and ongoing treatments, the cards will avoid unnecessary procedures. They will also carry e-prescriptions, significantly reducing paperwork, while in-field updates will enable insurance funds to adjust their cost of ownership.

In both of these groundbreaking programs, Gemalto's digital security solution is key to protecting cardholder privacy and security, as all information on the card is encrypted and accessed only with the patient's PIN.

With other references in Algeria, Belgium, China, Finland, France, Mexico, Puerto Rico, the UK and Slovenia, and with the European health card & NETC@RDS, Gemalto is an experienced partner for e-healthcare projects.



1. The security of our Swedish e-passports is maximized by combining polycarbonate and laser engraving, enabling several visual security elements, and a microchip with biometric identifiers.

Europe's i2010 eGovernment 2.0 Action Plan

i2010 is the European Commission's strategic framework laying out guidelines for the information society and the media in the next few years. It promotes an open and competitive digital economy, research into information and communication technologies (ICT), as well as their application to improve social inclusion, public services and quality of life.

E-ID is one of the key elements of this ambitious program, and by 2009, each and every EU state will have begun the process of introducing secure digital identification tools. With its experience in this field, Gemalto is ideally placed to respond to this opportunity.

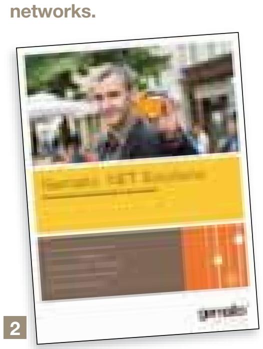
Enterprise

Public and private networks are critical assets for enterprises of all sizes, and Gemalto's innovative, highly secure access solutions are helping them counter proliferating threats to their security.

1

1. Our Smart Enterprise Guardian device enables organizations to easily protect digital identities and sensitive documents.

2. Our .NET solutions brochure describes how organizations can leverage our advanced smart card technology to secure their networks.



2

Securing business management

Employees, partners and customers require convenient, secure, on-demand access to data and applications from anywhere, irrespective of the platform. Yet while access by local and mobile users is a business necessity, it also leaves enterprise networks vulnerable to infiltration.

Thwarting hackers and other intruders is a major priority for companies of all sizes. They are increasingly deploying systems that combine certificate-based services with strong authentication. These systems enhance network security and protect access to confidential documents and digital assets. In addition, corporations must now comply with government regulations. In the EU, the European Network and Information Security Agency was set up in 2004 to address such issues. Meanwhile in the US, several federal laws mandate the use of strong authentication, including Homeland Security Presidential Directive 12 (HSPD-12), the Health Insurance Portability and Accountability Act and the Sarbanes-Oxley Act.

To address these growing demands, Gemalto offers its Protiva and SafesITe solutions. Incorporating the established strengths of smart cards with open standards, as well as close integration and partnership with Microsoft® and Citrix®, they are interoperable and cut the total cost of ownership.

Strong authentication that's easy to deploy

Our Protiva solution offers enhanced network security and online identity protection to small and medium-sized enterprises worldwide, and is supplied by Gemalto through a select group of Value-Added Resellers (VARs) and systems integrators. It delivers two key benefits: strong, two-factor authentication using one-time passwords, and the flexibility to implement additional identity services in response to evolving needs. When used with certificate-based applications, the smart card device can also provide core Public Key Infrastructure (PKI) services including encryption, digital signature, secure private key generation and secure storage. Law firms, regional banks and hospitals have deployed Protiva seamlessly into their existing infrastructures. In 2007 our Protiva platform was announced as Citrix Ready for use with the Citrix Access Gateway.

Customized security for the organizations and governments

SafesITe is a proven, comprehensive solution that enables governments and large-scale enterprises to manage and segment access to physical and network security systems with a single identity credential for each employee. It allows them to consolidate a wide array of functions without compromising on security, and, by offering support for services such as digital signature, secure

free to work

100,000

Pfizer users of Gemalto smart card badges
(source: CIO.com 2007)

11 million

of our Common Access Cards deployed by the US Department of Defense

1. Our Secure Digital Companion is a convenient, multipurpose solution that helps protect enterprise networks and enables end-users to be more productive, efficient and secure when accessing applications and data.

2. Our Protiva .NET badge with its companion One Time Password reader is seamlessly integrated in Microsoft Vista and Forefront to provide secure two factor authentication anywhere.

network log-on and remote access, also helps boost operating efficiency and productivity.

Major international organizations, including Boeing and Pfizer, have deployed SafesITe to securely manage access to their global facilities and networks. It is supported around the world by systems integrators who provide installation, integration, and support services.

Gemalto has long been a major provider of strong authentication devices to the US Federal Government. The top-ranking agency within the US Executive Branch of Government chose SafesITe, including card management services, in compliance with HSPD-12. Since 2001, the Department of Defense in particular has deployed 11 million of our Common Access Cards. Our integrated solution is compliant with the US government's stringent Federal Information Processing Standard (FIPS) 201, which requires interoperable smart card-based credentials for all federal employees and contractors.

Linking up with Windows Vista™

For enterprises seeking strong security within the Microsoft Windows® environment, our .NET smart card is supported in Windows Vista™ and can be provisioned with Microsoft's Identity Lifecycle Manager 2007. It seamlessly runs a streamlined version of the .NET framework to provide two-factor authentication, full cryptographic capabilities and support for on-card applications and services.

This solution has been chosen as Microsoft's own worldwide corporate badge for logical access. The high degree of integration between Gemalto and Microsoft products enables fast and easy deployment of our solutions in Microsoft Windows® corporate IT platforms.

Award-winning solutions

For organizations of all sizes we also introduced our "Live Provisioning" solution and "Smart Enterprise Guardian" device in 2007.

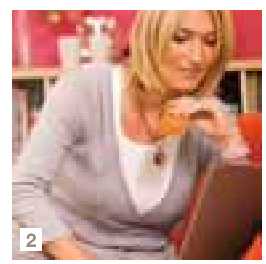
Live Provisioning enables security managers to quickly and easily deploy new strong authentication devices or re-use existing ones. In September it was named by Info Security Products Guide as the double winner of Tomorrow's Technology Today Awards 2007, in both the Mid-Size Enterprise Security and Two-Factor Solution categories.

Then in November, Gemalto, in partnership with Lexar Media, Inc., a subsidiary of Micron Technology, Inc., launched the Smart Enterprise Guardian (SEG). This unique Personal Portable Security Device (PPSD)* incorporates the strongest industry standards for protecting digital identities and sensitive documents. The SEG combines our.NET solution and Lexar's memory encryption technology to provide unrivaled secure portable memory and strong authentication.

**PPSD: Personal Portable Security Device is a category newly defined by market intelligence firm IDC, and comes in many forms such as smart cards, USB and OTP tokens. PPSDs are personal devices that provide secure access from many different clients (PCs, laptops, smartphones, kiosks, etc.). They can be personalized and contain a processor, cryptographic calculation and key generation/ secure storage.*

Internet Content Providers

Accessing data, buying and selling, enjoying entertainment and joining online communities: huge numbers of individuals and firms have expanded their horizons and built businesses undreamt of just a few years ago.



1. Our Network Identity Manager makes it simpler and more secure for users to conduct transactions and participate in communities online.

2. Our solution is used by Verisign® to improve the way consumers identify themselves online and securely log on to internet sites.

Staying safe online

The internet has brought us countless opportunities – yet it has also brought new dangers such as identity theft, cybercrime, hacking and malicious attacks, to name but a few. Complexity too is a bar to development, as today's online consumers struggle with multiple screen logins, challenge/response, numerous passwords and other difficulties. Some of these not only breed confusion and inconvenience, they also leave gaps in security. Many users, clearly, would welcome a simple device allowing them to plug and play securely.

Raising the bar for online security

Gemalto's Network Identity Manager (NIM), a smart card-based mutual authentication system, answers these needs by optimizing the tradeoffs between cost, security and ease of use. This USB device requires no installation or client software and can be quickly and easily adapted to existing authentication and web servers. Once installed it enables a mutually trusted, secure connection between consumers and online providers, requiring minimal technical and end-user support.

For corporations, the NIM enables compliance with government regulations and corporate security initiatives mandating the use of strong authentication. It also has the potential to increase an organization's online business by boosting consumer trust and confidence.

Thanks to our expertise in banking card personalization and fulfillment, the device can be quickly and safely issued to consumers in large-scale deployments.

VeriSign®, one of the world's leading authentication providers, has selected this solution for their Identity Protection (VIP) Network, radically improving the way consumers authenticate themselves online and securely log on to an internet site.

Patents

Innovation is a key value for Gemalto. We consistently invest twice as much in Research and Development as in tangible capital expenditures. As a result, we have a portfolio of more than 5,000 patents in 1,200 patent families, covering innovations in production, security, value-added services, software, high and low level layers, and hardware. Many of Gemalto's patents have been granted in Europe, the US and Asia, including China. In order to promote digital security and convenience, we have also developed several licensing programs based on our latest research and innovations.

“We believe employee satisfaction and shared objectives are crucial to strong business performance.”

Our company

Our responsibilities

Health and safety training features prominently in all production sites and across the company.

A proactive HSE policy

Protecting the health and safety of employees and the environment has been a stated priority at Gemalto for over twenty years. To achieve those goals, we submit our HSE management system to certification procedures, develop eco-friendly products, strive to reduce the impact of our production activities, participate in the activities of the cities where we are located and pursue a host of other initiatives.

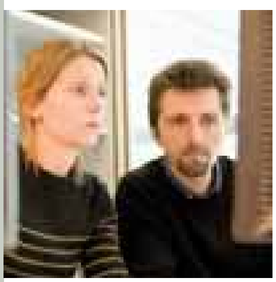
We lead the industry in terms of international benchmarks for Health, Safety and Environment management systems, with 20 ISO 14001 and nine OHSAS 18001 sites certified. Beyond ensuring compliance with legal requirements, these accreditation schemes verify that the appropriate organization is in place. In addition, they are the driving force behind our continuing efforts to improve Gemalto's HSE performance by cutting the frequency and gravity of incidents, organizing training and awareness campaigns to prevent their occurrence, and by curbing 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 strive to create a working environment that protects both Gemalto's employees as well as contractors and the surrounding community. We do this by identifying potential hazards and anticipating their potential effects, as well as by making recommendations for appropriate corrective actions and system improvements.

Health and safety training features prominently at all production sites and across the company, for employees and managers alike. Our business driving policy, for example, seeks to eliminate driving related accidents through careful management of all phases of the transportation process. With our wide international footprint, our HSE systems have been tested in operation several times in recent years and their efficiency is recognized by our insurers.

Gemalto provides solutions for facilitating the access of disabled people to information technologies. With a high quality display, large characters and an audio function, our GemPocket OTP authentication reader allows people with impaired sight or hearing to benefit from the standard levels of service and functionality.



Gemalto is engaged in programs to comply with national recovery, recycling and end-of-life regulations.

Protecting the environment

Gemalto seeks to minimize the environmental impact of its products all along their life cycle – from initial design and production through consumption to disposal. This notably implies paying close attention to their chemical content and end-of-life management, and anticipating and complying with applicable regulations.

Our hazardous substances policy seeks to ensure the health and safety of both workers and end-users of our products. We also strive to reduce the burden our products place on the environment throughout their life cycle. Responding to both legal requirements and customer demands, Gemalto has developed a process to control hazardous substances, based on a blacklist of those that must be reviewed and signed by the material's 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[1] format since July 2006.

Our personalization facility at Fareham, UK, has been CarbonNeutral™ accredited since April 1st, 2006, which means we now supply carbon neutral cards for banking applications. This system, inspired by the Kyoto Protocol pollution permit mechanism, provides financial incentives for curbing environmentally harmful actions.

Gemalto is also engaged in programs to comply with national recovery, recycling and end-of-life regulations, and provides these services to our customers. In November 2007, we confirmed our commitment to these activities by helping to lead the signing of 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[2]/RoHS-like legislations.
Working in close cooperation with leading banking and telecom customers worldwide, we also offer a range of eco-friendly cards, made from paper-based materials for short-term use (e.g. scratch card paper), to carbon neutral credit cards and "green" PETG based "earthcards," a chlorine-free alternative to PVC cards.

1. *Reduction of Hazardous Substances.*
2. *Waste of Electrical and Electronic Equipment: European directives.*

Through PeopleQuest, our confidential online survey, we listen to employees' ideas and focus management on addressing them appropriately.

Human resources

With some 10,000 employees from 90 nationalities in 40 countries, diversity is part of Gemalto's corporate makeup, and we reflect that inclusiveness in our recruitment policies and career development priorities.

Our PeopleQuest survey enables employees to speak their mind regarding their attitudes, concerns and opinions about the company.

In a fast-moving business producing a stream of new technologies, a well-trained and intellectually stimulated workforce is a vital necessity, so we invest substantially in enhancing our employees' skills. We appreciate the global scale of our business and of the digital world in which we operate, and understand that local uses of our technologies vary considerably according to their location. As a key strategy envisaging our future development, we therefore proactively recruit talents from new and more recent countries of operation.

To develop the technical and managerial abilities critical to our growth, all areas of the organization are involved in customized competency-building programs. Our catalogue of trainings courses is deployed across all regions via our learning management system. One of our most successful worldwide projects is the Gemalto Ambassadors' program. This equips sales and marketing teams with the communications tools needed to tell Gemalto's story to our partners, customers and stakeholders consistently and effectively.

Our global HR Information System allows us to manage vital employee information, and enables a unified self-service employee/manager relationship. The Gemalto Performance Review sets objectives, measures achievement, provides for recognition when targets are met and highlights outstanding contributions to company performance. We also encourage internal mobility across job functions and regions.

We believe employee satisfaction and shared objectives are crucial to strong business performance. Through PeopleQuest, our confidential online survey, we listen to employees' concerns and focus management on addressingthem appropriately. The survey embraces topics chosen to measure commitment and allows for comparisons year after year. We encourage employees to voice their opinions by pledging a contribution to humanitarian organizations of their choice in countries where we operate in return for their participation.

Corporate citizenship

Gemalto not only complies with all relevant legislation in the countries in which we do business, but, believing that we have a duty to contribute to the lives of the communities in which we operate, also strives to do better than this. This involvement can take many forms, from supporting local schools to promoting sustainable development and encouraging a healthier lifestyle or safer driving.

Among many examples, in Mexico we offer pupils with outstanding grades a grant to support them in school for the following year. Both of our factories there also support a variety of causes from local schools and an old people's home to national charities. Employees and the company give support by donating toys, food and clothes.

In Brazil, our Curitiba plant organizes an annual campaign in aid of local charities. It also supports a center providing vocational training for teenagers, and runs a campaign to recruit, train and hire disabled employees.Our São Paulo sales office, meanwhile, collects toys and clothes for two neighborhood charity schools.

In Poland, employees support a primary school with stationery, as well as an orphanage and an association for handicapped children. Promoting sustainable development is a major focus of our involvement in France, and a Sustainable Development Week, supported by many of our sites, focused on ecological commuting, organic food and energy conservation. In the area of health and fitness, Gemalto continued to sponsor the Marseille-Cassis International Half Marathon, with more than 100 of its European employees competing. In the US we have a growing presence in the Susan G. Komen Race for the Cure, supporting cancer research.

At our facility in Pennsylvania, US, employees took part in a food drive for the local homeless shelter/soup kitchen and raised money for a local charity. Finally, staff in Ontario, Canada supported a food bank this Easter and provided food and gifts for underprivileged families.

Our involvement can take many forms, from supporting local schools to promoting sustainable development and encouraging a healthier lifestyle or safer driving.

Our corporate governance principles are being transformed into an **integral part of our business processes.**

Corporate governance

Gemalto views compliance with the highest standards of corporate governance as a fundamental cornerstone on which to build shareholder value.

We strive to apply the highest standards of corporate governance in accordance with best international practices, starting with the recommendations of the Dutch corporate governance code, and to ensure that our corporate bodies function in a coordinated and transparent manner.

Gemalto's Code of Ethics provides guidelines for the conduct of all employees with respect to internal controls, financial disclosures, accountability, business practices and legal principles. Our whistleblower procedure guides the treatment of complaints regarding suspected financial irregularities and is being implemented in different countries.

In addition, Gemalto has charters governing the functioning of the Board of Directors and its Committees that are reviewed annually with regard to their appropriateness and effectiveness. It also has a policy on the ownership of and transactions in Gemalto securities.

At least once a year the Board evaluates its overall performance, as well as that of its Committees and its Executive and Non-Executive members, in a spirit of continuous improvement.

Gemalto's overall corporate governance structure is addressed in chapter 4 in the Annual Report.

Our research

Key strength no. 1

Our 1,300 expert engineers lead the development and implementation of new industry standards like the .NET card, Multimedia SIM, USB SWP and NFC mobile services.

Outstanding expertise to match our ambitions

Gemalto leads the digital security industry in research and development. Our world-class team of around 1,300 engineers includes internationally renowned experts in security and cryptography. The R&D teams work in 10 centers located in key zones around the world close to our customers.

We have a portfolio of over 5,000 patents and patent applications – a tribute to our long-term commitment to innovation, and a powerful springboard for anticipating and fulfilling our customers' needs.

Today we are improving our overall performance and speeding time-to-market for our innovations. A company-wide process to foster and implement new business opportunities encourages all employees to contribute creative ideas. Backed by disciplined scrutiny and execution, this process generated more than 60 ideas for new businesses from all over the company in 2007, of which 4 are currently being developed as in-house incubation cells.

Setting the digital security agenda

Our research engineers are leading experts in digital security and published several dozen articles in scientific journals in 2007, as well as serving on many scientific conference program committees.

We achieved a world first in 2007 when our JavaCard platform obtained an EAL4+ Common Criteria certificate using formal EAL7 assurances. This is the highest ever security certification for a card, signaling that the integrity and data confidentiality of multiple embedded applications on a single card are mathematically proven. This officially confirms that Gemalto offers customers the most dependable and effective security engineering environment on the market today.

Convergence: opening up a world of new possibilities

The rapid pace of change and the interconnection of mobile telecommunications, internet, banking and contactless technologies are breeding countless avenues for improving security, convenience and user experience, many of which are described in the review of our business operations.

By opening up smart card capabilities and security to the standard PC developers community, while ensuring state-of-art connectivity to IT and telecom

Key strength no. 2

We address digital security with end-to-end solutions in each market segment and a comprehensive portfolio of products and services to meet evolving needs.

infrastructures, Gemalto showed in 2007 how telecom operators and financial institutions can adapt flexibly to fast-changing markets.

At the 3GSM World Congress 2007 in Barcelona, we demonstrated a complete multimedia solution combining an enhanced phonebook, immediate access to Telefónica Móviles España's services, as well as applications related to fixed-mobile convergence – a direct response to a client's marketing needs. Later in the year, at the Cartes trade show in Paris, we won "Best Software" for "SConnect" in the Sesames awards. SConnect is a platform and browser agnostic technology enabling web applications and services to connect to any smart card. Eliminating the need for middleware and working seamlessly with existing infrastructures, SConnect is a paradigm shift in web-based service delivery that lets applications leverage smart cards for security and personalization.

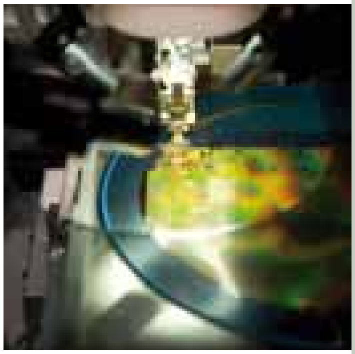
In 2007 Gemalto and Microsoft® organized the "Secure-The-Web" contest. Developers, researchers, start-ups and students were invited to develop innovative web service applications on our cards. The winners creatively employed two-factor authentication platforms to protect identities and data. Also in 2007, Gemalto and Sun organized the ninth edition of the "SIMagine" contest where developers are invited to imagine and implement new SIM-based applications that are then evaluated by mobile operators. Finally, Gemalto launched the "Gemalto Innovation Forum," a one day conference to present the ever expanding capabilities of smart card related technologies to R&D academics and the industry.

Setting standards in digital security

Gemalto plays a key role in the adoption of international standards, ensuring that different types of cards 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.

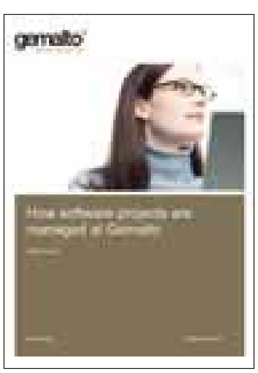
One notable breakthrough in 2007 was the definition of the standard for new high speed protocols for SIMs and handsets. This enables us to deliver innovative and interoperable mobile internet solutions faster and more flexibly.

Also in 2007, the technology pushed by Gemalto to use the SIM card as the core for contactless transactions with mobile phones was standardized,

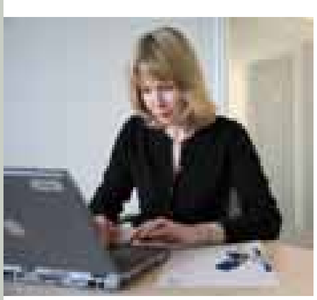


Key strength no. 3

By bringing together players from many different horizons we are **leveraging our experience** of the convergent internet, media, telecoms and financial services markets.



A white paper describes how our software project management respects our QHSE policies and aims at excellence through the use of CMM and CMMI models.



setting the scene for convenient new applications for handset users in mass transportation and payment, for example.

Leveraging our expertise through collaborative ventures

Gemalto works closely with government and industrial partners to develop solutions designed around our customers' future needs. In 2007 we further expanded our operations in Singapore, including our R&D activities, in collaboration with the country's Economic Development Board. This move will enable us to serve our customers more effectively in Asia's fast-growing markets.

In addition, Gemalto R&D teams are currently participating in more than 30 publicly funded research projects, working closely with major French and European partners. These include projects under the European Union Information Society Technologies (IST) framework program and the Eureka initiative, an intergovernmental scheme to enhance European competitiveness through its support for businesses, research centers and universities. Gemalto sits on the Management Board of the largest Eureka cluster, MEDEA +, dealing with microelectronics and embedded applications and including a dedicated smart card area of application.

Gemalto is involved in Eureka MEDEA+ projects concerning the secure platform needed to comply with the future "European Citizenship Card" standard, and all security and trust aspects of a common technology platform for the next generation of secure Trusted Personal Devices.

Gemalto is also involved in other Eureka clusters such as ITEA for software intensive systems, and Celtic for Telecommunications systems. Gemalto is working with key European Community partners in advanced topics such as Near-Field Communication (NFC) technology for SIM cards in the e-city (e.g. e-ticketing and mobile payment) and interactive and personalized mobile TV.

Gemalto is also a Board member of and active contributor to three of the "Competitiveness Clusters" launched by the French Government, namely System@ Tic, SCS (secure communications solutions) and TES (secure electronic transactions).

Finally, Gemalto has launched the Massimo project, a major French national initiative combining all relevant new technologies in a bid to create a paradigm shift in mobile multimedia.

Our relationships

Key strength no. 4

With 85 sales and marketing offices and employees from 90 nationalities, we are close to our customers and speak their language wherever they are.

Satisfying our customers

Ensuring a high level of customer satisfaction is central to our strategy, and key to developing a sustainable business model.

We therefore monitor our relationships with our customers very carefully in order to pinpoint areas for improvement at the earliest opportunity. A twice-yearly assessment is followed by the development and implementation of action plans to deal with any perceived shortcomings. This was the philosophy at the birth of Gemalto. Eighteen months later we have achieved a robust level of customer confidence, and this is showing consistent improvement. Our customers clearly view us as the market leader.

We listen to them via our "TellMe" survey, involving face-to-face interviews. This measures our performance across a spectrum of issues, handling problems, order processing, our offer of secured devices, solutions and services, information and innovation.

In 2007 we were pleased to hear that our customers are either "satisfied," or "very satisfied" with our core business: managing business relationships; the range and quality of our secured devices; our flexibility, responsiveness and agility regarding deliveries; and our ability to handle issues transparently and proactively.

Regarding business relationships, a wireless customer in Latin America highlighted the "Sales Manager's commitment and the company's proactive approach to presenting alternative solutions and introducing business partners that will increase the value of the card." A major European operator, meanwhile, highlighted the "high capacity of Gemalto plants" and our "on-time delivery with appropriate lead times."

In our banking business, one of our Japanese customers told us: "Our Marketing & Technical teams have confidence in Gemalto's products. Gemalto is doing well, focusing its efforts on what matters most to us; we see this as a differentiating factor for Gemalto. We view Gemalto as a long-term partner."

In security, our customers, mostly governments, recognize that ours is "a very good offer in terms of smart cards and personalization services." In general they appreciate the "level of listening from the technical team, its availability and reactivity."

Key strength no. 5

Our customers comprise 400 telecom operators, 300 banks and 30 governments with whom we share best practices through a unique mix of technological and market expertise.

As a result of the "TellMe" survey we identify literally hundreds of precise actions to address the needs and expectations of our individual customers. In addition, we are implementing company-wide improvement projects some of which cut across all our functions, while others more specifically concern a business line. We also communicate the survey's findings to all our customers in the interests of transparency and trust.

A global partnership network

Our extensive network of partners allows us to respond swiftly and creatively to our customers' needs, from development to delivery.

We have a network of over 400 partners around the world with whom we have forged strong links. They are divided into four main groups:

1. Business partners: who develop, resell and market Gemalto products and solutions. These in turn comprise:
• Resellers: who resell off-the-shelf and easily-integrated solutions and products.
• Value added resellers (VARs): vertical market-centric providers who integrate Gemalto products and/or services into their own offering as part of a more complete solution.
• Distributors: who buy and resell Gemalto products to resellers, VARs or system integrators.
• System integrators: who act as prime contractors in integrating our products and solutions into large systems.
2. Technology partners: who develop products complementary to and compatible with our own.
3. Solution partners: who develop solutions based on Gemalto products or technologies using our tools, designs, rules and policies.
4. Original Equipment Manufacturers (OEMs): who embed Gemalto technologies in their own products and resell them with their own branding.

Integrating our technologies

Microsoft® is one of Gemalto's oldest partners, and in November 2007 we attained Gold Certified Partner status in the Microsoft Partner Program. As a Gold Certified Partner, we have demonstrated expertise with Microsoft technologies and a proven ability to meet customers' needs.

Key strength no. 6

Our extensive network of business, technology and solutions partners, as well as OEMs, allows us to respond swiftly and creatively to our customers' needs.

Our smart card drivers and libraries are integrated in Windows Vista® OS for optimum security. Citrix Systems is the global leader in application delivery infrastructures, and our authentication solutions are now integrated with the entire Citrix Access Suite.

A growing network in Identity and Access Management

EMEA and North America are Gemalto's main regions in the IAM market, and we work with various partners who each bring their own skills and market reach to our strengths for a win-win business relationship.

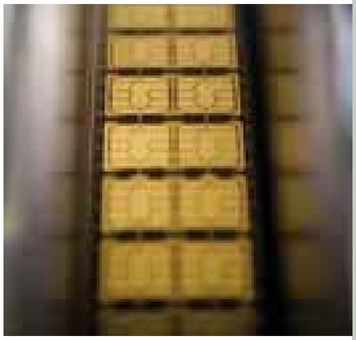
Partners in EMEA include among others Net Informatique Services, our French solutions distributor; Opteam, in Poland; Telia Sonera, the leading telecommunications company in the Nordic and Baltic region; BT Syntegra, Gemalto's largest system integrator; and Azlan, the Enterprise Division of Tech Data Corporation.

Gemalto partners with dozens of companies in North America, including Dell, Choice Solutions and Berbee, which is also strongly supportive of Microsoft. Other partners in this region include Plan B Technologies, NetSuite and Alternative Technology which has worked closely with us to recruit resellers and create "solution bundles" with Gemalto and Citrix products.

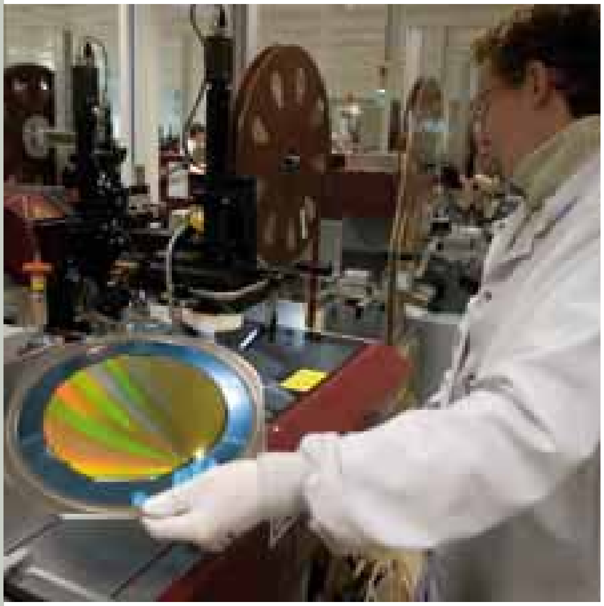
Leveraging third-party innovations

Our Partner Network also leverages the inventive work of third parties worldwide to bring best of breed solutions to our customers. Today's increasingly powerful smart cards present countless opportunities for exploitation by providers. By pooling their innovations and our expertise, we are able to build a segmented offer corresponding to the specific requirements of different end-users.

For example, OnePIN has developed an innovative service called "CallerXchange" on our SIM platform. This enables people to stay connected by automatically exchanging, inserting and updating contact information. With our support, CallerXchange has been successfully deployed within numerous major mobile operator groups.



Our capabilities



Key strength no. 7

Thanks to our "virtual factory" concept, we offer secure, flexible, on-time supply from our 19 production and 31 personalization sites worldwide.

Our personalization center at Chambray-les-Tours, France, won the BNP Paribas 2007 Supplier Award Crystal Challenge for the quality of its supply of banking cards and mailers.

Customer-focused production

With 19 production sites and 31 personalization centers around the world, our production system is uniquely placed to deliver the highest quality products efficiently, rapidly and flexibly to our customers.

Yet in order to adjust it to their evolving needs we have initiated a universal "World Class Manufacturing" program, putting all our facilities through a step-change to ensure they are operating at or above "Best in Class" standards. A 6-point charter guides actions at every site and is managed through a series of key performance indicators. Its main areas of focus are management, people development, order flow, Total Productive Maintenance (TPM) and process control aimed at "getting it right first time."

Delivering productivity and performance

Many sites achieved significant progress in raising quality and productivity in 2007. Among many highlights, for example:

- In the US, our Montgomeryville plant increased capacity 43% by implementing Cells, Total Productive Maintenance and Six Sigma methodology.
- In Brazil, our Curitiba plant mapped its "order to delivery" process, cutting product shipment times.
- In Mexico, our Cuernavaca plant set a new record by producing and packaging 10.3 million SIM cards in just one month for 43 customers.
- In Singapore, capacity was boosted 83% for Telecom activity and 43% for Secure Transaction & Security activity.
- In China, several Shanghai plant employees were honored by the Government of Pudong New Area for achieving World Class standards.
- The Gemenos, France, plant increased capacity by 33% with no additional equipment by implementing Full Cell organization, TPM and systematic problem solving techniques.
- In Tours, France, our personalization center cut its cycle time by 60% and achieved a 23% increase in equipment availability by implementing Cell manufacturing and TPM.
- Our Vantaa plant in Finland implemented a new Enterprise Resource Planning system in only five months, resulting in better traceability and inventory management.
- In Tczew, Poland, our site increased capacity by 38% with no additional investment.
- In Filderstadt, Germany, we reduced reject rates and customer complaints by applying Six Sigma methodology to the introduction of new banking cards.

Key strength no. 8

We have all the main **quality certifications** like ISO 9001, ISO 27001, ISO 14001, 0SHA 18000, and MasterCard CQM; CMM 2 for software development; and Lean Six Sigma.

Institutionalized quality procedures

Gemalto strives constantly for the highest standards of quality. This determination is reflected by our ongoing quest for excellence and best-in-class performance, to achieve which we have institutionalized continuous improvement programs at all levels of our company.

At the corporate level, we deploy robust and standardized processes, and we optimize their performance by daily adjustments and periodic reengineering. This notably applies to change management and to internal incident and claims management procedures. These help to safeguard our customers, whose protection is further enhanced by systematically applying both risk analysis studies such as FMEA (Failure Mode and Effects Analysis) and problem solving methodologies (8 Disciplines, DMAIC[1]).

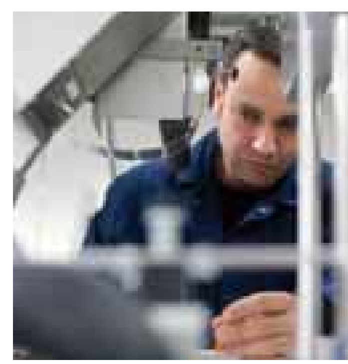
In our production sites, our World Class Manufacturing initiative based on Lean Six Sigma is spreading procurement management and fabrication best practices worldwide. Employee involvement is crucial, and we apply Statistical Process Control and Analysis, Total Productive Maintenance, and Value Stream Mapping methods in our efforts to achieve the highest quality standards.

By implementing these methodologies we are continuously improving both the capabilities and the reliability of our products and services, for which we enjoy a global reputation as confirmed by our customer survey. They also contribute to the success of our ISO9001 certification programs and EFQM[2] recognition, and ensure compliance with customer-specific requirements such as the MasterCard CQM (Card Quality Management) Standard.

Quality certification in R&D

In 2007, our development centers were again recognized for the excellence of their software engineering as measured by a 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 CMMI level 3.

1. *Define, Measure, Analyze, Improve, Control. Incremental process improvement using Six Sigma methodology.*
2. *European Foundation for Quality Management, of which Gemalto is a member.*



Key strength no. 9

Our renowned security expertise and understanding of end-users help us create personal devices, software and services combining security with simplicity.

A strong security culture

Security is critical to our business success. Indeed it is part of the core value of our products and services. As a consequence, one of our top priorities is to achieve the highest security standards in order to safeguard the integrity, confidentiality and availability of our customers' assets and data, as well as our own.

Our policy in this regard is founded on a very strong security culture, implying visibility, awareness, thorough understanding of sensitive assets and first-class execution of security functions. This culture is nurtured by a managed security system built on leadership, commitment, standards, procedures, monitoring and control. It is sustained through continuous improvement.

Over the years, Gemalto has forged a strong risk management process involving assessments, audits and testing. This in turn is backed by close operational support, responding swiftly and effectively to business units' needs and adjusting those responses to regional and local conditions. Particular emphasis is placed on compliance with regulatory standards and trade rules in all parts of the world.

Integration of Gemalto's security management processes took place in the first half of 2007, entailing careful and rigorous management of the many resulting changes affecting our industrial footprint.

In addition to our extensive lineup of already certified sites, we prepared several more sites and activities for assessments in 2007, obtaining new security certifications from either Visa or Mastercard in South Africa, Taiwan, Poland and Brazil. As a result, Gemalto now has 24 production and personalization sites holding either Visa/MasterCard/GSM SAS or ISO 27001 certificates.

Through its ongoing efforts to develop and sustain the highest levels of security, Gemalto is helping to bring digital security to our everyday lives.

€500 million
Adjusted gross profit

€1,631 million
Adjusted revenue

€84 million
Adjusted operating income

€314 million
Net cash

€(46 million)
IFRS net result

Our results

Our results
Financial overview and Key financial information

1 / Financial overview

This financial overview is based on income statements prepared on an Adjusted pro forma basis (2006) and Adjusted basis (2007). Pro forma and Adjusted measures are described in chapter 3 — “Management discussion and analysis” of this annual report.

Gemalto is the world’s leading provider of microprocessor personal devices and a world leader in digital security. The Company has a global presence and expertise in all major areas of microprocessor card applications: Mobile Communication, Secure Transactions (Financial Services; pay-TV; Healthcare; Transportation(1)), Security(2) (Government Programs; Identity & Access Management), Public Telephony, and Point-of-Sale Terminals (POS Terminals).

Gemalto reported a good 2007 performance, through initiatives for profitable growth and cost reduction measures. In Mobile Communication, the combined effects of the price recovery program and return to growth in the second part of the year substantially improved margins. In Secure Transactions, the restructuring actions launched in Western Europe impacted operational performance; nevertheless this segment reported stable revenue and improvements in the product mix. In Security, investment to grow the business began to pay off with numerous government contract wins in 2007 and in the previous years, leading to large-scale projects which were beginning to ramp-up in the latter part of the year.

The Company reported revenue of € 1,631 million in 2007, up 0.3% compared with 2006 at constant exchange rates. Growth in Secure Transactions and Security offset lower revenue in Mobile Communication. Revenue was essentially stable in all regions. In the first part of the year, our price recovery program in Mobile Communication and Secure Transactions led to a very selective approach to tenders, at the expense of revenue growth. With more stable pricing established in the market, the second half of the year saw the return to top line growth, with a strong fall-through to operating income.

Compared with 2006, gross margin was up by 1.1 percentage points to 30.7%. Faster rationalization of production and product portfolio in Mobile Communication more than compensated for slower adjustments in Western Europe related to Secure Transactions and Security.

Operating expenses, at € 420 million, decreased by 22 million or 5%, progressively reflecting the effects of the cost reduction measures implemented in the support functions after the combination.

As a consequence of all these actions adjusted operating income, at € 83.7 million, increased by 40%. Adjusted net profit for the period was € 89.2 million, compared to € 1.6 million in 2006.

Gemalto balance sheet remained strong in 2007, with net cash amounting to € 314 million (€ 396 million in 2006). The share buy-back programs and our restructuring actions used in 2007 € 148 million and € 31 million, respectively (in 2006, no share were repurchased and € 15 million were used in cash in connection with restructuring actions).

(1) Transportation activity was previously reported under Identity & Security. 2006 financial information has been restated to reflect this change.
(2) Security was previously named Identity & Security. This segment includes two activities: Government Programs – previously named Identity – and Identity & Access Management – previously named Security.

2 / Key financial information

The tables below show the Company’s key annual financial data for the years ended December 31, 2006 and 2007.

The income statements presented below were prepared on an Adjusted pro forma basis (2006) and on an Adjusted basis (2007). The Adjusted pro forma basis reflected the combined activity of Gemalto and Gemplus over the full year 2006, assuming that the Combination had taken place as of January 1, 2005. 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 the basis of preparation of Adjusted pro forma and Adjusted financial information, please refer to sections 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, 2006 and 2007 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 period ended December 31, 2006 and 2007”.

For the year ended December 31, 2007, the summary cash flow information below was derived from the IFRS consolidated cash flow statement for the same period. The summary cash flow information for the year ended December 31. 2006 was prepared on a pro forma basis, as described in section 3.1. — “Basis of preparation of the financial information presented and discussed in this chapter”.

Adjusted pro forma (2006) and Adjusted (2007) income statements (unaudited):

	Year ended December 31,	
(€ in millions)	2006	2007
Sales	**1,698**	**1,631**
Cost of sales	(1,195)	(1,131)
Gross profit	**503**	**500**
Gross margin	*29.6%*	*30.7%*
Operating expenses		
Research and engineering	(114)	(103)
Sales and marketing	(218)	(218)
General and administrative	(111)	(100)
Total Operating expenses	**(442)**	**(420)**
Other income, net	(1)	3
Operating income	**60**	**84**
Operating margin	*3.5%*	*5.1%*
Financial income (expenses), net	8	10
Share of profit (loss) of associates	(1)	0
Gain on sale of investment in associate		11
Profit before income tax	**67**	**105**
Income tax expense	(66)	(16)
Profit (loss) for the period	**2**	**89**
Basic earnings per share (Euro)	0.02	0.98

Consolidated balance sheets:

	As of December 31,	
(€ in millions)	2006 (*)	2007
Cash and cash equivalents	430.3	337.4
Trade and other receivables, net	447.2	439.5
Inventories, net	177.8	173.7
Goodwill, net	547.6	543.8
Intangible assets, net	115.6	73.7
Total assets	2,035.0	1,859.0
Borrowings (current portion)	7.8	6.9
Borrowings (non-current portion)	26.4	16.7
Minority interest	26.9	11.6
Capital & reserves attributable to company's equity holders	1,417.5	1,230.7

(*) Compared to the Key Financial Information disclosed in the 2006 Annual Report, balances for 2006 have been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

Cash position variation:

(€ in millions)	2006	2007
Net cash generated by operating activities	68	99
Net cash used in investing activities	(88)	(33)
Net cash used in financing activities	(170)	(153)

3 / Management discussion and analysis

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

To take into account the particular context of the Combination, and to provide a more meaningful appreciation of its operating performance, the Company prepared additional financial information beside the IFRS consolidated financial statements presented in chapter 7 — "Financial statements" of this annual report.

- Income Statements

As the first step of the Combination took place on June 2, 2006, Gemalto's IFRS consolidated income statement for the twelve-month period ended December 31, 2006 only includes seven months of Gemplus activity. Net income for the twelve-month periods ended December 31, 2006 and December 31, 2007 also includes one-off Combination related charges, reorganization expenses and charges resulting from the accounting treatment of the transaction, as described in notes 4 "Business combination with Gemplus" and 5 "Additional disclosure on the effect of the Combination on our financial statements" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report. Consequently, given this particular context, Gemalto's IFRS consolidated income statements do not fully reflect the business and performance of Gemalto as a combined entity over the reported periods.

Therefore, in addition to the summary pro forma information included in Note 4 "Business combination with Gemplus" to the consolidated financial statements presented in chapter 7 — "Financial statements", the Company has been preparing additional financial information since the Combination on June 2, 2006, for its own planning and operating performance assessment. This additional financial information, prepared on an Adjusted pro forma basis (2006) and on an Adjusted basis (2007), has been published in addition to IFRS financial statements starting with the publication of second quarter 2006 revenue.

The operating and financial review in this section will be based on income statements prepared on an Adjusted pro forma basis (2006) and Adjusted basis (2007).

Detailed descriptions of pro forma and Adjusted measures are provided below, including reconciliations with IFRS measures.

- Cash flow statements

As the first step of the Combination took place on June 2, 2006, Gemalto's IFRS consolidated statement of cash flows for the twelve-month period ended December 31, 2006 only includes seven months of Gemplus activity and does not fully reflect the cash flows of Gemalto as a combined entity over this period. Therefore, in order to enhance the understanding of changes in the Group's cash position during this period, an additional pro forma cash position variation schedule is presented for the twelve-month period ended December 31, 2006, assuming that the Combination had taken place as of January 1, 2005.

This pro forma cash position variation schedule has been prepared on the basis of the combined cash flow statements of the two companies for 2006. On that basis, and unlike the assumption applied in pro forma income statements to costs incurred in connection with the preparation and the execution of the combination and the reorganization measures implemented by the Group, cash outflows connected with these items are reported in the year in which they were effectively incurred, so that the net cash position of the Group at year end shown in the pro forma cash position variation schedule is equal to the consolidated net cash position of the Group at December 31, 2006.

The cash position variation schedule for the twelve-month period ended December 31, 2007 has been derived from the IFRS consolidated cash flow statement for the same period.

Review of sources and amounts of the Company's cash flows will be based on the pro forma cash position variation schedule (2006) and the cash position variation schedule (2007).

- Balance sheets

No balance sheet was prepared according to the Adjusted pro forma basis, as management believed this would provide only limited information about the Company's economic performance. Therefore, the review of significant changes in Gemalto's balance sheet between 2006 and 2007 year-ends will be based on the IFRS balance sheets

All comparisons in chapter 3 — "Management Discussion and Analysis" are at historical exchange rates, unless otherwise stated.

3.1.1 Pro forma financial information

3.1.1.1 Financial information used for the preparation of pro forma income statement for the twelve-month period ended December 31, 2006

Pro forma income statement for the twelve-month period ended December 31, 2006 was prepared using Gemalto's unaudited full year consolidated income statement, which includes the activity of Gemplus for the period starting June 2, 2006 (the date of the Combination) and ending December 31, 2006, and Gemplus' consolidated income statement for the five-month period ended June 1, 2006, extracted from Gemplus' unaudited 2006 first half year consolidated income statement.

3.1.1.2 Main assumptions used in the preparation of the consolidated pro forma income statement for the twelve-month period ended December 31, 2006

For the preparation of the consolidated pro forma income statement for the twelve-month period ended December 31, 2006, the contribution in kind was assumed to have occurred on January 1, 2005 instead of June 2, 2006. However, the value of the Combination, Gemplus' adjusted net assets, the inventory step-up and the identified intangible assets (as described in note 4 "Business combination with Gemplus" to the consolidated financial statements included in chapter 7 —

"Financial statements" of this annual report) was not changed, i.e. not adjusted in the light of the context and the value of Gemplus' assets at January 1, 2005.

As the only exception to this presentation basis, and for the purpose of determining the additional stock-based compensation resulting from the revaluation at fair value of the obligation assumed by Gemalto in relation to the outstanding Gemplus' stock options, a calculation of the estimated fair value of the replacement stock options assumed by Gemalto was carried out on the basis of all the Gemplus stock options existing at January 1, 2005.

As a result of these key assumptions:

• the allocation of the value of the Combination (as described in note 4 "Business combination with Gemplus" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report) was made on January 1, 2005. Consequently, amortization of identified intangible assets (technology, customer relationships) and inventory step-up was considered to start as of that date;

• the one-off Combination related expenses were charged to the pro forma combined income statement of the twelve-month period ended December 31, 2005.

3.1.1.3 Pro forma income statement for the twelve-month period ended December 31, 2006

Adjustments were made to the consolidated income statement for the period ended December 31, 2006, on the basis of the assumption that the Combination occurred on January 1, 2005 (amounts below are in thousands of euros), mainly:

• elimination of a charge of € 15,166 corresponding to twelve months amortization of inventory step-up;

• elimination of a charge of € 8,519 corresponding to all one-off Combination related costs;

• elimination of reorganization expenses of € 19,458 (to transfer expenses incurred in 2006 to the fiscal year 2005, in line with the assumption that the Combination took place on January 1, 2005). Reorganization expenses are described in more detail in section 3.2.5.2 — "Items recognized in the IFRS income statement of the Group and eliminated in the Adjusted pro forma basis of presentation";

Then Gemplus' consolidated income statement for the five-month period ended June 1, 2006 was added. Internal transactions within the Gemalto group over this five-month period eliminated (amounts under "Consolidation entries"), in order to reflect the full Gemalto group pro forma activity for the twelve-month period ended December 31, 2006.

Finally, the following adjustments were made:

• recognition of a charge corresponding to twelve month amortization of identified intangible assets: € 5,550 for Customer Relationships and € 26,650 for Existing Technology;

• recognition of an additional stock compensation expense of € 56 charged to Research & Engineering expenses, and of credits related to stock compensation of € 30 booked in cost of sales, of € 35 in Sales & Marketing expenses and € 967 in General & Administrative expenses;

• recognition of a credit of € 1,398 in Cost of Sales and € 222 in Research & Engineering expenses to offset the charges in Gemplus' income statement resulting from the accounting treatment of the acquisition of SETEC in June 2005.

These adjustments are included in the amounts shown in the reconciliation schedules included below in section 3.1.1.5 — "Reconciliations between IFRS and pro forma income statements for the twelve-month period ended December 31, 2006". The amounts under "Consolidation entries" in the reconciliation schedule for 2006 also include the reclassification of certain expenses, in particular between the Research & Engineering, Sales & Marketing and Cost of Sales lines, in accordance with the Group's harmonized chart of accounts.

The adjustments were tax effected as appropriate.

For a better understanding of these adjustments, please refer to note 4 "Business combination with Gemplus" and note 5 "Additional disclosure on the effect of the Combination on our financial statements" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report.

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3.1.1.4 Reconciliation between IFRS and pro forma income statements for the twelve-month period ended December 31, 2006

The following table sets forth the unaudited reconciliation between the IFRS income statement and the pro forma income statement for the twelve-month period ended December 31, 2006.

All amounts in thousands of euros	IFRS income statement for the twelve month period ended December 31, 2006	Adjustments relating to Gemplus' activity from Jan. to May 2006	Adjustments to purchase accounting items making the Combination effective as of Jan. 1, 2005	Adjustments making the Combination effective as of Jan. 1, 2005	Consolidation entries	Pro forma income statement for the twelve month period ended December 31, 2006
Sales	**1,319,392**	**378,811**	**–**	**–**	**–**	**1,698,203**
Cost of sales	(934,727)	(267,578)	–	2,080	3,984	(1,196,241)
Amortization of inventory step-up	(15,166)	–		15,166	–	–
Gross profit	**369,499**	**111,233**	**–**	**17,246**	**3,984**	**501,962**
Operating expenses						
Research and engineering	(85,077)	(27,282)	–	166	(1,560)	(113,753)
Sales and marketing	(164,029)	(52,476)	–	35	(2,117)	(218,587)
General and administrative	(86,027)	(26,576)	–	967	64	(111,572)
Other income, net	(3,933)	3,022	–	–	–	(911)
Combination related (1)	(8,519)	–	–	8,519	–	–
Reorganization expenses (2)	(19,458)	–	–	19,458	–	–
Amortization and impairment of intangible assets (3)	(36,620)	–	4,420	–	–	(32,200)
Operating income (loss)	**(34,164)**	**7,921**	**4,420**	**46,391**	**371**	**24,939**
Financial income (expenses), net	4,355	2,145	–	1,884	–	8,384
Share of profit (loss) of associates	(1,091)	142	–	–	–	(949)
Profit (loss) before income tax	**(30,900)**	**10,208**	**4,420**	**48,275**	**371**	**32,374**
Income tax expense	(42,494)	(4,530)	(1,331)	(7,502)	(128)	(55,985)
Profit (loss) for the period	**(73,394)**	**5,678**	**3,089**	**40,773**	**243**	**(23,611)**

(1) Combination related costs include integration consultant fees and impairment charges related to capitalized development costs.
(2) Reorganization charges consist of costs incurred in connection with headcount reductions in the support functions, the consolidation of manufacturing and office sites (asset write-offs and transfer costs, severance costs, lease termination and building refurbishment costs), as well as the rationalization and harmonization of the product and service portfolio.
(3) Intangible assets identified and recognized in accordance with IFRS 3 "Business Combination".

3.1.2 Adjusted financial information

3.1.2.1 Adjustments to pro forma income statement (2006) and IFRS income statement (2007)

Adjusted financial information reflects adjustments to the pro forma income statement (2006) and IFRS income statement (2007) based on the following items, as well as the related effect on income tax:

• Additional stock-based compensation charge: 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 acquirer with regards to stock options granted to the latter's employees, as it is the case for Gemalto, 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. This increases 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 have if the company 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 impairment of intangible assets: amortization and impairment of intangible assets created as a result of the Combination have been excluded from the adjusted profit for the period. The Group believes this is useful because, prior to the Combination in the second quarter of fiscal year 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 the periods following the Combination. Investors should note that the use of intangible assets contributed to revenue earned during the period and will contribute to future revenue and that these amortization expenses will be recurring.

• Combination related expenses: over the last months, Gemalto incurred material expenses in connection with the Combination, which it would not have otherwise incurred. Combination related expenses 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 with existing products or technologies. The Group may incur further integration-related professional service costs in the coming months. Gemalto believes it is useful for investors to understand the effect of these expenses on its cost structure.

• Reorganization charges: cost related to headcount reductions in the support functions, consolidation of manufacturing and office sites (including property, plant and equipment, intangible asset and inventory write-offs and impairment, asset transfer costs, severance and associated costs, lease termination and building refurbishment costs and under-absorption in the manufacturing plant being closed) as well as rationalization and harmonization of the product and service portfolio.
• In the first half of 2007 the Company realized a gain on the disposal of an investment in an Associate. Management incentive on 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 item line as the gain.

3.1.2.2 Reconciliation between pro forma and Adjusted pro forma income statements for the twelve-month period ended December 31, 2006

The following table sets forth the unaudited reconciliation between the pro forma income statement and the Adjusted pro forma income statement for the twelve-month period ended December 31, 2006.

All amounts in thousands of euros	Pro forma income statement for the twelve month period ended December 31, 2006	Additional stock based compensation	Combination related expenses	Reorganization costs	Amortization & impairment of intangible assets	Adjusted pro forma income statement for the twelve month period ended December 31, 2006
Sales	**1,698,203**	**–**	**–**	**–**	**–**	**1,698,203**
Cost of sales	(1,196,241)	379	634	–	–	(1,195,228)
Gross profit	**501,962**	**379**	**634**	**–**	**–**	**502,975**
Operating expenses						
Research and engineering	(113,753)	77	–	–	–	(113,676)
Sales and marketing	(218,587)	711	–	–	–	(217,876)
General and administrative	(111,572)	936	–	–	–	(110,636)
Other income, net	(911)	–	–	–	–	(911)
Combination related(1)	–	–	–	–	–	–
Reorganization expenses(2)	–	–	–	–	–	–
Amortization and impairment of intangible assets(3)	(32,200)	–	–	–	32,200	–
Operating income	**24,939**	**2,103**	**634**	**–**	**32,200**	**59,876**
Financial income (expenses), net	8,384	–	–	–	–	8,384
Share of profit (loss) of associates	(949)	–	–	–	–	(949)
Profit before income tax	**32,374**	**2,103**	**634**	**–**	**32,200**	**67,311**
Income tax expense	(55,985)	–		–	(9,692)	(65,677)
Profit (loss) for the period	**(23,611)**	**2,103**	**634**	**–**	**22,508**	**1,634**

(1) Combination related costs include integration consultant fees and impairment charges related to capitalized development costs.
(2) Reorganization charges consist of costs incurred in connection with headcount reductions in the support functions, the consolidation of manufacturing and office sites (asset write-offs and transfer costs, severance costs, lease termination and building refurbishment costs), as well as the rationalization and harmonization of the product and service portfolio.
(3) Intangible assets identified and recognized in accordance with IFRS 3 “Business Combination” .

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3.1.2.3 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	1,6 29,487	–	2,005	–	–	–	1,631,492
Cost of sales	(1,135,544)	–	4,384	–	(123)	–	(1,131,283)
Inventory step-up amortization	–	–	–	–	–	–	–
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 (loss) of associates	432	–	–	–	–	–	432
Gain 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**

3.2 OPERATING AND FINANCIAL REVIEW

3.2.1 Introduction to the operating and financial review

Gemalto is the world's leading provider of microprocessor personal devices and a world leader in digital security, with a global presence and expertise in all major areas of microprocessor card applications: Mobile Communication, Secure Transactions (Financial Services; pay-TV; Healthcare; Transportation[(1)]), Security[(2)] (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.

3.2.2 Principal factors affecting revenue

Our three core activities: Mobile Communication, Secure Transactions, and Security, sell microprocessor cards (including embedded software and device management platforms), services and intellectual property rights licenses. Our Public Telephony activity sells memory cards, and our POS Terminals activity sells POS terminals (including embedded software and related servers) and related technical support and maintenance services. We typically sell our products through purchase orders 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 has contributed a small portion of our total revenue during the periods under review, but is expected to increase 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, Security and Public Telephony

Revenue from sales of our Mobile Communication, Secure Transactions, Security and Public Telephony products 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, Security and Public Telephony products cover a wide range of technologies, including plastic cards, magnetic stripe cards, memory cards, microprocessor cards and new form factors all including a microprocessor and embedded, highly secure software. In addition, we sometimes sell modules 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 sophisticated the technology used in our products, the higher the price we can sell. As a result, revenue in our Mobile Communication, Secure Transactions, Security and Public Telephony 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 or purchase orders granted through competitive tender processes. Contracts are usually for a defined volume or a defined period, typically one year, but may be shorter, particularly 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, although our worldwide operations and investments in new technology provide opportunities for new contracts and increased revenue under existing or renewed contracts with other 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 economic conditions, evolution of households general purchasing power, wireless penetration and subscriber growth rates in new or emerging digital wireless markets, increased competition for existing subscribers in mature wireless markets through the introduction of new business models like MVNO (Mobile Virtual Network Operators), new value-added services by wireless operators and the deployment of new wireless standards that use microprocessor cards as a means to activate pre-paid services or subscription 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 clients. In this second case, Gemalto provides a client-server solution including pieces of software connected to the Operator 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. However, as penetration rates increase and the market matures, demand generally shifts away from these products to higher-end products as operators seek to improve their competitiveness and increase average revenue per subscriber. This trend has been particularly pronounced in Western Europe and certain Asian countries in recent years, and is now spreading to all regions, particularly to North and South America. The introduction of new high-end products in turn typically leads to the gradual phase-out of low-end and mid-range products. In particular, the first roll-outs of third-generation technology (3G or UMTS) require cards offering specific functions at the very top end of the market such as

(1) Transportation activity was previously reported under Identity & Security. 2006 financial information has been restated to reflect this change.
(2) Security was previously named Identity & Security. This segment includes two activities: Identity & Access Management – previously named Security – and Government Programs – previously named Identity.

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Mobile TV, advanced phone-book and personal information management, and payment applications. These roll-outs are therefore leading to the replacement of previous generations of microprocessor cards.

The selling prices of our different Mobile Communication products depend mainly on their sophistication, embedded software 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 sophisticated products and solutions to complement and eventually replace prior product generations. However, 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, anticipating and promoting demand by entering markets for new, high-end products ahead of our competitors and 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 has matured in Western Europe, operators in this region have been increasingly focusing on profitability and particularly on the management of their costs. This focus has had a significant effect on operators' relationships with chip card manufacturers as 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, exacerbated the downtrend in prices observed throughout recent years. In 2005, however, 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 the strongest decline in average selling price (ASP) since 2001, which largely explains the lower revenue in 2006 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.

The extent to which prices declined as a result varied 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 general 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. These 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. Furthermore, average chips purchases prices also decreased during the period under review, an evolution which mitigated the impact on the Company's profitability of the average selling prices decline. Average chips purchases prices should continue to decrease in the future.

Sales of our plastic scratch card products also generate revenue for our Mobile Communication business. We sell scratch cards to 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, 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. Compliance with the 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 recent market trend is the United Kingdom, where demand grew strongly in 2004, which marked the peak of EMV deployment, then declined significantly in 2005 before the first replacement cycle which started in 2006 and was completed in 2007.

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 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 11.9% of total Secure Transactions revenue in 2007 from 12.6% in 2006.

Since 2005, the spread of EMV migration to geographic zones representing high growth markets resulted in more intense competition and stronger pressure on selling prices. As a result, despite strong microprocessor card volume growth in 2006 and 2007, revenue from this product category did not evolve at the same pace than the segment's total revenue. On the other hand, revenue generated by our card personalization services increased strongly, as we provide this service to an increasing number of customers migrating to EMV standards outside Western Europe. Revenue from card personalization services, 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 more recently, 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 in 2004 as financial institutions sought to comply with the required migration to EMV standards in Europe, particularly in the UK. The trend continued in 2005, 2006 and 2007, as other European countries, as well as certain countries in Asia and Latin America, started to migrate to EMV standards. We believe that these factors, as well as the replacement of the first EMV cards in the UK followed by other countries that are more recent EMV migrants, 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 that enable additional value-added services or applications. Accordingly, these more basic 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.

Sales of our Proton e-purse products, based on technology acquired with our acquisition of CP8 in April 2001, have also contributed significantly to our Secure Transactions revenue during the periods under review.

The first very large-scale deployments of contact-less 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 contact-less card reader, which is connected directly to the cash register, is cheap and easy to install. Deployments in Asia, and Europe to a lesser extent, followed in 2007.

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 5 customers. As a result, our revenue in this market varies on a yearly basis depending on the orders placed by these customers. In 2007 we recorded strong sales in this activity.

Transportation activity (e.g. for the London and Paris urban transportation authorities), which was previously within the Security segment, is now reported within Secure Transactions. Our transportation sector products consist mainly of lower-end contact-less cards. However, there is also a small but growing market in this sector for high-end combined contact-less and 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 (previously named Identity & Security) combines several growing market segments: Government Programs (previously named Identity) and Identity & Access Management (previously named Security) in which it appears that microprocessor card technology has clear advantages over alternative technologies, due to its versatility, portability and the guarantees it provides in terms of respecting individual freedoms. Security's income statement also includes the revenue, gross and operating profit derived from the licensing of the Group's patent portfolio. At historical exchange rates, revenue from Security represented 12% of total revenue in 2007 compared with 11% in 2006. 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 currently limited, though rapidly increasing, number of projects. Decision-making procedures are 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 of cards over long periods of time. We also usually tailor our products on a project-by-project basis. There are significant variations in our revenue from such tenders given the limited number of large projects currently underway, particularly for identification and public safety applications (ID cards and passports), their size and the fact that we may

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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 card products, particularly for applications in the public sector such as identity, healthcare and security.

Sales of healthcare products (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

Historically, we have earned significant revenue from sales of our Public Telephony products (prepaid scratch and memory phone cards). 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, including mobile phones and scratch card-based calling, 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.

- POS Terminals

POS 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 growing pricing pressure since 2003, due to the increased competition that has developed as our longstanding markets have matured. As a result, in the first quarter of 2004, 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 2007, some of our competitors merged or combined their activity, increasing the level of market concentration. During this period, POS Terminals activity was driven by the successful introduction in the fourth quarter of 2006 of a new high-performance generation of products which combine low production cost with superior versatility and adaptability to the specifications and features of our whole range of terminals.

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 market. Gemalto has strong positions in certain countries outside Europe, particularly India, based on the same competitive advantages.

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 payments made under our 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, 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, our service delivery centre costs and margin contribution. 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. Sales volumes have a major impact on the purchase price of the main components, particularly silicon chips, and on capacity utilization rates and therefore absorption of fixed production costs.

(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 pro forma 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 pro forma basis of presentation adopted for the present discussion.

The second significant factor is the product mix, meaning the ratio of sales volumes of more sophisticated and hence 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 four years. It is paramount for Gemalto to secure the deliveries and customer acceptance of our constantly renewed flow 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 in Mobile Communication. 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 substantially 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.

The final factor affecting gross profit is 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.

Pricing levels are not homogeneous among geographic areas. Gross profit decrease in 2007 was due to a strong activity in areas where prices levels were lower.

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.

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 56.4% of the Gemplus shares described in note 4 "Business combination with Gemplus" to the financial statements presented in chapter 7 — "Financial statements" of this annual report. These benefits consist mainly of synergies. Synergies mainly consist of expected savings derived from lower purchasing costs, lower production costs following the progressive harmonization of the product portfolio, world-wide integration of the manufacturing capacity, the merging of know-how and techniques, and finally from lower operating expenses following the integration of the R&D, 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 2007 and 2006 are described in section 3.2.5.2 — "Items recognized in the IFRS income statement of the Group and eliminated in the Adjusted pro forma basis of presentation".

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- 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 Dollars (or US Dollar-linked currencies), Pounds Sterling, Japanese Yen and Chinese Renminbi.

Overseas subsidiaries' assets and liabilities denominated in local currencies are translated into Euros at exchange rates prevailing at the balance sheet date. The resulting adjustments are recorded in total invested equity on the consolidated balance sheet. Revenue and expenses are translated at weighted-average exchange rates over the relevant period. 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 (foreign exchange forward contracts and options recorded as cash-flow hedges). 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.

For information purposes, forward looking on 2008 and based on the current level of activity and current contributions of our geographic areas to the business of the Group, the Company estimated that its operating margin would deteriorate by 60 to 100 basis points when the exchange rate of the US Dollar against the Euro weakens from 1.55 to 1.65. More generally speaking, the translation effect of a 2.5% depreciation of the US Dollar against the Euro is estimated as follows:

- a 1% decrease in revenue;
- a 1.2% decrease in gross profit (gross margin remaining essentially stable);
- a 0.5% decrease in operating expenses.

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, 2006	1.32	1.25	1.18	1.32
Year ended December 31, 2007	1.46	1.37	1.30	1.48

(1) Represents the exchange rate on the last business day of the applicable period. The Euro/US Dollar exchange rates on the last business days of January and February 2008 were 1.49 and 1.52 to the Euro respectively.
(2) Represents the average of the monthly exchange rates used to convert income statement items in each month during the relevant period. The Euro/US Dollar exchange rates used to convert income statement items in January, February and March 2008 were 1.47, 1.48 and 1.51 dollars to the Euro respectively.
(3) Based on the lowest and highest monthly exchange rates used to convert income statement items in each month during the relevant 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 significantly 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 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 previously 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 recent years, except for 2005 which saw very strong growth in first half Mobile Communication revenue, driven by sustained demand in the Americas region leading to higher volumes and increased sales of high-end products. In 2007, Gemalto's performance reflected two half-year periods with very different profiles. Through to June 30, 2007, we were still in the first 12-month period following the combination. During this period, the Company's main focus was the integration with Gemplus, while also beginning to make adjustments to the organization. In Mobile Communication, a more stringent control of selling prices was implemented to stem the rapid decline in selling prices that was seen at the time. The second half of the year demonstrated the effectiveness of Gemalto's strategy. The Company was able to return on an expansion track and improve its profitability, in particular in Mobile Communication.

We expect 2008 to exhibit the normal seasonal pattern, with higher revenue and profits in the second half of the year.

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3.2.5 Results of operations for the two years ended December 31, 2007 and December 31, 2006

3.2.5.1 Year ended December 31, 2007 compared with year ended December 31, 2006

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 pro forma basis for the twelve-month period ended December 31, 2006 and prepared on an Adjusted basis for the twelve-month period ended December 31, 2007, as described in section 3.1 — "Basis of preparation of the financial information presented and discussed in this section".

€ in millions	Year ended December 31,	
	2006	**2007**
Sales	**1,698**	**1,631**
Cost of sales	(1,195)	(1,131)
Gross profit	**503**	**500**
Gross margin	*29.6%*	*30.7%*
Operating expenses		
Research and engineering	(114)	(103)
Sales and marketing	(218)	(218)
General and administrative	(111)	(100)
Total Operating expenses	**(442)**	**(420)**
Other income, net	(1)	3
Operating income	**60**	**84**
Operating margin	*3.5%*	*5.1%*
Financial income (expenses), net	8	11
Share of profit (loss) of associates	(1)	0
Gain on sale of an Investment in Associate	0	11
Profit before income tax	**67**	**105**
Income tax expense	(66)	(16)
Profit (loss) for the period	**2**	**89**

- Revenue and gross profit

The following table sets forth our revenue and 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):

Segment	Year ended December 31,			
	2006		2007	
	(€ in millions)	(% of total)	(€ in millions)	(% of total)
Revenue				
Mobile Communication	994	59	925	57
Secure Transactions	412	24	413	25
Security (1)	183	11	193	12
Public Telephony	59	3	44	3
POS Terminals	50	3	56	3
Total	**1,698**	**100**	**1,631**	**100**
Gross profit				
Mobile Communication	334	66	345	69
Secure Transactions	82	16	75	15
Security (2)	68	14	59	12
Public Telephony	7	1	11	2
POS Terminals	12	2	10	2
Total	**503**	**100**	**500**	**100**

(1) Includes revenue from the licensing of intellectual property.
(2) Includes gross profit from the licensing of intellectual property.

The following table sets forth our revenue by geographic area at historical exchange rates for the periods indicated, in millions of euros and as a percentage of total revenue:

Sales by area	Year ended December 31,			
	2006		2007	
	(€ in millions)	(% of total)	(€ in millions)	(% of total)
EMEA (1)	924	54	913	56
Asia	358	21	331	20
NSA (2)	416	25	387	24
Total	**1,698**	**100**	**1,631**	**100**

(1) Europe, the Middle East and Africa.
(2) North America and South America.

The Company reported revenue of € 1,631 million in 2007, up 0.3% compared with 2006 at constant exchange rates. Growth in Secure Transactions and Security offset lower revenue in Mobile Communication. Revenue was essentially stable in all regions. At historical exchange rates, revenue fell by 4%, largely owing to depreciation in the US dollar against the euro.

Compared with 2006, gross profit was essentially stable in 2007 and gross margin was up by 1.1 percentage points to 30.7%. Faster rationalization of production and product portfolio in Mobile Communication more than compensated for slower adjustments in Western Europe related to Secure Transactions and Security.

Mobile Communication

While the mobile communication market continued to expand during 2007, with vigorous SIM renewals and, to a lesser extent, strong subscriber net additions, in the first part of the year our price recovery program led to a very selective approach to tenders at the expense of revenue growth. With more stable pricing established in the market, the second half of the year saw the return to top line growth. As a result, Mobile Communication revenue declined 7% at historical exchange rates to € 925 million in 2007. At constant exchange rates, revenue was down 2% in 2007, and up 6% in the second semester.

Year-on-year decrease in average SIM card selling price was contained to 9% at constant exchange rates, with sequential increases in the three latter quarters of the year, compared with the 31% decline witnessed a year ago. Revenue growth in software and services exceeded 30%, driven by keen mobile network operators' interest in EMEA and the Americas.

Gross margin was up by 3.7 percentage points to 37% of revenue, on the back of a strong second semester that benefited from the price recovery program, a strong positive evolution towards higher end products in the product mix, growing contribution from the software and services activities, as well as purchasing and production synergies.

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Secure Transactions

2007 was a transition year for Secure Transactions, operating in a constrained environment as the restructuring program in Western Europe to return the segment to operating profitability gathered speed. The segment's financial performance was negatively impacted despite product mix improvements driven by growth in contactless and higher-end EMV cards.

Secure Transactions reported revenue of € 413 million in 2007, on par with 2006. Strong revenue growth in contactless payment (mainly in Asia), in personalization services and in Pay TV activity did offset the disturbances related to the restructuring program that affected the Payment and Transport activities revenue in Europe.

Gross margin was down by 1.6 percentage points to 18.2%, reflecting evolutions in regional mix and sales prices, and a larger proportion of modules sold to third parties in lieu of finished cards.

Security

The operating performance of Security in 2007 reflected the investments made to support our growth and consolidate our leadership in Government Programs. Profitability was also reduced by the lower contribution from patent licensing in 2007.

Government Programs revenue was up 23% reflecting the ramp up of deliveries in e-passport, e-identity and e-health projects won during previous years around the world.

Identity & Access Management, which addresses on-line security for corporations, posted lower revenue by 3%. Lower deliveries of secure microprocessor devices in the Americas were partly offset by deliveries of online banking authentication solutions in the UK and by shipments of secure USB tokens to Asian customers.

Patent licensing revenue was € 23 million, down by € 4 million compared to 2006.

The lower gross profit and 6.6 percentage points decrease in gross margin in this segment was largely due to the lower patent licensing activity.

Public Telephony

Worldwide demand for Public Telephony memory cards continued to decrease in 2007, reflecting the even more widespread usage of mobile telephony worldwide.

To restore profitability of this segment, Gemalto carried out the required cost adjustments in manufacturing. As a result, gross margin increased to 24% of revenue.

POS Terminals

Much of the revenue growth in 2007 was generated on the new range of products developed on a new technology platform Gemalto launched in the fourth quarter of 2006.

Profitability in this segment was impacted by a less favourable regional mix, with contributions of countries with lower prices and lower margins increasing.

- Operating expenses

Operating expenses declined by € 22 million in 2007, a fall of 5% compared with 2006. This decrease is the result of the cost-cutting measures implemented in the support functions immediately after the Combination. General and Administrative expenses were reduced by 10%. In Research & Engineering, all overlapping projects were rationalized and cutbacks were made to the number of temporary contractors; as a result, the Company reduced its Research & Engineering costs by 10% while increasing its ability to innovate. Lastly Sales & Marketing expenses remained stable, with the greater demand in the Security segment for technical and marketing resources offsetting the fall in the expenses recorded by the other segments.

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

Segment	Year ended December 31,			
	2006		2007	
	(€ in millions)	(% of total)	(€ in millions)	(% of total)
Mobile Communication	256	58	224	53
Secure Transactions	93	21	90	21
ID & Security[(1)]	73	17	86	21
Public Telephony	6	1	4	1
POS Terminals	14	3	16	4
Total	**442**	**100**	**420**	**100**
Operating expenses as a percentage of revenue	*26.0%*		*25.7%*	

(1) Includes operating expenses related to the licensing of intellectual property.

In Mobile Communication, operating expenses were down by 13%. General & Administrative expenses were reduced, and Research & Engineering expenses benefited from the rationalization of the combined products portfolio.

In Secure Transactions, operating expenses were reduced by 4% through the ongoing optimization of support resources.

In Security, Research & Engineering and Sales & Marketing expenses increased by € 4.1 million and € 6.4 million respectively, in line with Gemalto's strategy to expand this business. Allocation of technical and marketing resources to this growing business played a key part in the winning of several large-scale tenders.

In Public Telephony, operating expenses decreased by 37.5 percentage points to 9.1% of revenue, reflecting the aggressive cost adjustment in the support structure carried out since the merger.

In POS Terminals, operating expenses were up 15.6 percentage points to 27.8% of revenue. The Company continued in 2007 to allocate resources in the development of derivative products, customizations and high end applications for the new range of products launched in the fourth quarter of 2006.

- Other income (expense), net

Net other income of € 3.3 million was recorded in 2007 as opposed to net other expense of € 0.9 million in 2006. Our 2007 net other income included a partial reimbursement, for € 1.9 million, of the costs incurred for the relocation of the Gemalto staff from Montrouge and Louveciennes facilities to Meudon (Paris area), a loss of € 0.4 million on the sale of fixed assets, and other items representing income of € 1.8 million.

- Financial income (expenses), net

Financial income was € 10.5 million in 2007 (€ 8.4 million in 2006). It comprised net interest income of € 8.8 million, a gain of € 4.1 million on disposal of investments available-for-sale, offset by net foreign exchange hedging costs of € 2.4 million.

- Income tax benefit (expense)

A net income tax expense of € 15.9 million was recorded in 2007.

In 2006, income tax expense was € 65.7 million. The Company reviewed the valuation allowance for its deferred tax assets at the end of 2006, accounting for the 2006 tax loss and 2007 result forecast for the entities in which these assets are carried. As a result, the 2006 income tax expense included a valuation allowance of €47.5 million related to deferred tax assets in certain entities.

- Net income (loss)

Gemalto's Adjusted net income increased to € 89.2 million in 2007, compared with € 1.6 million in 2006. Initiatives for profitable growth and cost reduction measures supported the good 2007 performance.

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 section", we have adjusted the IFRS income statements to prepare the Adjusted information (for 2007) and the Adjusted pro forma information (for 2006) discussed in this operating and financial review. These adjustments mainly consist of eliminations of one-off charges incurred in connection with the Combination, reorganization charges and charges resulting from the accounting treatment of the Combination.

Descriptions and amounts for the adjustment items (mainly charges) included in the IFRS consolidated income statement for 2006 and 2007 are provided in section 3.1.1.3 and 3.1.2.1 of this chapter. These items are: the amortization of the inventory step-up recognized upon the Combination, Combination related charges, the amortization and impairment of intangible assets recognized and valued in connection with the Combination, reorganization charges and (in 2006 only) an impairment charge related to an investment and recorded as a finance expense in 2006.

In 2007 reorganization charges amounted to € 106.4 million and consisted of:

- Severance and associated costs for € 71.5 million (mainly related to the closure of production 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,
- Other costs for € 10.5 million (mainly related to IT integration costs).

They are reported in the 2007 IFRS income statement under a line named "Reorganization expenses" for € 100.0 million (see note 5 "Additional disclosure on the effect of the Combination on our financial statements" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report), and under revenue and cost of sales for € 6.4 million.

In 2006, reorganization expenses amounted to € 19.5 million, including:

- Severance costs of € 14.3 million,
- € 2.3 million in costs related to office regrouping,
- Fixed asset and inventory write-offs of € 2.1 million,
- Other costs for € 0.8 million.

They are reported in 2006 IFRS income statement under a line named "Reorganization expenses".

The implementation of the reorganization plans will result in the curtailment of certain pension obligations. A credit of € 2.1 million was recognized in the adjusted measures in 2007 in connection with these curtailments, in reduction of cost of sales.

3.2.6 Off-balance sheet commitments

For the periods after December 31, 2007, minimum rental lease commitments under non-cancellable operating leases, primarily real estate and office facilities, amount to € 102.3 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, 2007, bank guarantees, mainly performance and bid bonds, totalled € 36.9 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, 2007, microprocessor chip purchase commitments amounted to € 43.8 million (see note 33 "Commitments and contingencies" to the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report).

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At December 31, 2007, a guarantee of GBP 12 million (equivalent to € 16.4 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 combined and 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 pro forma (2006) and Adjusted (2007) financial 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 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 collectability is reasonably assured. Revenue for services is recognized over the period when services are rendered and collectability is reasonably assured. Revenue for royalties is recognized when income is earned and collectability 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 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 2006 and 2007 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. Depending on the earnings outlook in each country, impairment provisions are booked and existing provisions may be reversed.

- Inventories

We value our inventory at the lower of its cost or 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 forecasted 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.

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, 2007 and 2006 amounted to € 6.9 million and € 7.8 million, respectively. At the same dates, our long-term debt totalled € 16.7 million and € 26.4 million, respectively.

Our bank overdrafts and short-term loans at December 31, 2007 and 2006 consisted mainly of the short-term portion of our finance leases (€ 4.8 million in 2007; € 6.2 million in 2006), bank overdrafts and short term loans incurred in the ordinary course of our operations around the world (€ 2.1 million in 2007, € 1.6 million in 2006).

Our long-term debt of € 16.7 million at December 31, 2007 consisted mainly of the long-term portion of our finance leases (€ 16.1 million). At December 31, 2006, our long-term debt of € 26.4 million related to the long-term portion of our finance leases (€ 21.2 million), several drawings on the syndicated loan (€ 4.4 million), as well as to the use of the bank credit facilities mentioned above (€ 0.9 million).

3.2.9.2 Sources and amounts of the Company's cash flows

The discussion below is based on the pro forma cash position variation schedule for the twelve-month period ended December 31, 2006 and the cash position variation schedule for the twelve-month period ended December 31, 2007 described in section 3.1 — "Basis of preparation of the financial information presented and discussed in this chapter."

- Sources of liquidity

Gemalto generated € 66 million of cash in operating and investing activities in 2007, after cash outflows of € 60 million related to capital expenditure and the use of € 31.2 million in cash in connection with the restructuring actions.

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 six 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 double consolidated EBITDA.

In addition to the syndicated loan ($250 million, equivalent to € 170.6 million at December 31, 2007 closing rate), the Company also has uncommitted bank credit facilities: lease financing for € 20.9 million, credit facilities for € 55.9 millions and guarantees for € 120.8 million. There is no negative covenant with those uncommitted bank credit facilities. Two of the lending banks have been given a € 41 million guarantee by Gemalto N.V.

We therefore had total credit facilities of € 368.2 million at December 31, 2007, € 60.5 million of which were used at that date (including € 36.9 million recorded as bank guarantees).

In 2006 and on a pro forma basis, our operating and investing activities used a net cash flow of € 20 million, after payment of € 27 million for costs incurred in connection with the preparation and execution of the Combination with Gemplus, and capital expenditure of € 71 million.

- Pro forma cash position variation

The following table sets forth the pro forma cash position variation schedules for the fiscal years ended December 31, 2006 and December 31, 2007.

€ in millions	2006	2007
Beginning Cash and cash equivalents, January 1	637	**430**
Cash generated by (used in) operating activities	**68**	**99**
including decrease of (increase in) working capital requirement	*(39)*	*21*
Capital expenditure and acquisition of intangibles	**(71)**	**(60)**
Interest received, net	13	9
Cash generated by disposal of investments	0	25
Other cash used in investing activities	(3)	(3)
Cash used in connection with the Combination	(27)	(4)
Cash generated by (used in) operating and investing activities	**(20)**	**66**
June 2, 2006, distribution to Gemplus shareholders	(164)	0
Cash used by the share buy-back program	**0**	**(144)**
Other cash used in financing activities	(6)	(9)
Other (translation adjustment mainly)	(16)	(6)
Ending Cash and cash equivalents, December 31	**430**	**337**
Current and non-current borrowings, including finance lease*	(34)	(24)
Net cash as of December 31	**396**	**314**

* including finance lease of €28.9 million at December 31, 2006 and €20.9 million at December 31, 2007.

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- Cash generated by operating activities

Operating activities generated € 99 million of cash in 2007 (€ 68 million in 2006), including € 21 million provided by the decrease in working capital (€ 39 million used in 2006 by the increase in working capital), and € 31.2 million used in connection with our reorganization programs.

- Cash generated (used) by investing activities

Investing activities used € 33 million of cash in 2007 (€ 88 million in 2006), including € 25 million provided by the disposal of investments available-for-sale and of investments in Associates, and the dissolution of an investment in an Associate.

Capital expenditures amounted to € 59.7 million in 2007, of which € 40.2 million were incurred for plant, property and equipment purchases, net of proceeds from sales.

- Cash used by financing activities

Financing activities used € 153 million of cash in 2007 (€ 170 million in 2006).

In 2007, € 144 million were used in cash by the Gemalto share buy-back program. 7.8 million shares were purchased over the period, representing 8.5% of Gemalto's share capital. This program authorizes the Company to acquire up to 10% of its share capital. In addition € 4 million were used in cash for the acquisition of the remaining Gemplus shares during the squeeze out program in January 2007.

In 2006, cash of € 164 million was used for the distribution of available reserves to Gemplus' shareholders, prior to the execution of the first step of the Combination and pursuant to the terms of the Combination Agreement.

3.2.9.3 Cash flows as per our IFRS consolidated statement of cash flows

The following table sets forth the cash flows from operating, investing and financing activities as per our IFRS consolidated statements of cash flows, for the fiscal years ended December 31, 2006 and 2007.

€ in millions	Year ended December 31,	
	2006	2007
Net cash provided by operating activities	77	96
Net cash provided by (used in) investing activities	159	(30)
Net cash (used in) financing activities	(8)	(153)

Full IFRS consolidated statements of cash flows are provided in the consolidated financial statements included in chapter 7 — "Financial statements" of this annual report. An analysis of the cash generated from operations is provided in note 31 "Cash generated from operations" to the consolidated financial statements.

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 € 337 million at December 31, 2007, 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. However the Company cannot 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

3.3.1.1 Risks relating to the Combination

The achievement of the full benefits and synergies expected from the Combination will partly depend on the ability to efficiently complete the integration of the respective operations. Gemalto's goal in doing this is to increase the revenues and earnings of the combined businesses through implementation of new initiatives, realization of synergies, optimization of overhead and administrative costs, combining information systems and production sites and other potential restructuring. Significant progress in the integration has been achieved since the Combination became affective. However, Gemalto may encounter difficulties in completing the full integration of the operations and support structures, and therefore fail to achieve the full synergies expected. It could even incur substantial costs as a result of, among other things, loss of key employees; lack of resources; inconsistencies in standards, policies, cultures and compensation structures; the need to implement and integrate various procedures as well as information and other systems; and diversion of management's attention from its other responsibilities as a result.

For these reasons, Gemalto may fail to complete the integration or realize the full expected benefits and synergies. If they are achieved, cost savings and benefits may still be lower than expected and may take longer to achieve.

At the end of 2007, Gemalto showed good progress, with some benefits and synergies from the Combination materializing faster than planned.

3.3.1.2 Risk relating to the Company's business

- Growth of the Mobile Communication and Secure Transactions applications

Mobile Communication products are characterized by declining sales prices. For this reason and in order to foster its growth and profitability, the Company is targeting new opportunities in this area that require high-end microprocessor smart cards and other form factors. The Company intends to take advantage of the development of new value-added services (such as email access, internet browsing, mobile commerce, information services, Mobile TV and multimedia applications which are now accessible thanks to new mobile communication standards) to provide increasingly sophisticated microprocessor cards, USB dongles, software, server solutions and services. The deployment of these new applications may be delayed. Also, the decline in prices attributable to product lifecycles has been recently exacerbated due to a number of factors, including general economic conditions, mergers between operators, increased competition and mobile operators stepping up cost-cutting measures. This trend could continue. Delays in the deployment of new applications or the development of value-added services, or slower than expected growth in the telecommunications industry may lead to lower revenue and profits than projected.

Regarding Secure Transactions, the Company hopes to achieve substantial growth in its financial cards business from the migration from magnetic card-based payment systems around the world to those which rely on microprocessor card technology. An important driver of this change is migration to the Europay, MasterCard and Visa ("EMV") standard. However, in markets in which magnetic stripe cards are widely used there is a reluctance to switch to the EMV standard in view of the associated costs, particularly in the United States. Further delays or failure to migrate to EMV compliant systems could result in lower than anticipated revenue and profits. In addition, such EMV migration has been accompanied in certain countries by severe pricing pressure due to intense competition, as most chip card manufacturers compete for initial entry in these new territories that could potentially lead to large orders. It has also led to the use of low-end rather than high-end cards, which generally generate lower margins. These trends could impact the Company's revenues and profits.

- Uncertainties relating to some applications still in an early stage of development

The use of microprocessor card technology is still uncertain in a number of applications that the Company considers to offer strong growth potential, particularly in Network Security. In the Mobile Communication environment, new applications contemplated in and around the SIM card require new handset generations to hit the market. Handset manufacturers may require more time than anticipated to adapt their entire roadmap, which creates delay effect to reach critical mass for new service uptake. Because these applications are in the early stages of development, there are no market-wide standards or specifications that recommend or require the use of microprocessor card technology. As a result, there are a number of competing technologies for a wide range of applications, including identity, security, access and privacy applications, some of which could be given preference over microprocessor cards. In addition, the public sector requires significant investment in infrastructure, including for nationwide deployment of specialized terminals, servers and software for identity and healthcare applications and for the implementation of contact-less technology in the transportation sector.
The decision to develop such systems is generally subject to lengthy processes that can make microprocessor cards less competitive than other technologies. Given the scale of projects in this sector and the fact that chip cards are just one component of the system, Gemalto also forms partnerships with integrators and its choice of partner can affect its chances of being selected. Moreover, if the Company succeeds in winning contracts, it may be required to commit significant time and resources during the initial stages of each project without any immediate expectation of revenue, which may make its profits more variable from period to period. Finally, as Gemalto's products are often tailored for particular projects and because the activity is still developing, clear trends in pricing have yet to emerge. The Company may experience lower than anticipated prices due to competition in the bidding process or an overall decline in prices following the introduction of new products or technologies.

- Development of microprocessor card technology

Gemalto's principal fields of business are characterized by rapid technological change, continuous improvements in technology, new applications, new standards, short product cycles and rapid changes in demand. While some of these developments relate to the card body, they more often affect the core secure software and chip technology that adds the most value to the Company's products, such as new chip

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design concepts, the memory capacity and processing power of microprocessor cards, and the software loaded on the chips. The rapid pace of change requires Gemalto to commit significant resources to research and engineering in order to introduce new products and improve its existing portfolio. If the Company fails to keep up with technological developments, its products and services may become obsolete and it may not be able to maintain or expand its customer base.

- Availability of chips, the key component of microprocessor cards

Microprocessor card technology is based principally on microprocessor chips, which are manufactured by chip producers that also supply chips for a large number of other applications, such as personal computers, mobile phones, personal digital assistants and automobiles. Fluctuations in demand for chips have led in the past to shortages in supply, which in turn have led to increases in the price for chips and caused producers to allocate them selectively among their customers. Certain chip producers may decide in times of shortage to prioritize satisfying the needs of their own operations, which may further reduce supplies. Furthermore, new generation of chips for smart card require the addition of adjacent technologies into existing designs like, for instance, non volatile memory (NAND or NOR), like new processing core or capabilities (32 bits…), secure kernels to increase the security level. A given chip manufacturer may require more design cycle before being able to ship in volumes creating delayed margin generation from new products for Gemalto. In addition, although the Company has made substantial efforts to diversify its chip suppliers with significant global production capacity, its largest supplier provides approximately one-third of its total requirements. For these reasons, in times of shortage the Company may not be able to secure adequate supplies at commercially acceptable prices. Certain suppliers may also fail to meet the required quality or delivery criteria, which could cause difficulties in fulfilling orders and responding to shifts in demand. This might cause the Company to record lower sales and to lose customers, and could impede it from improving its profitability by shifting the mix of products to include higher-value products that use high-end microprocessor chips.

- Optimization of chip card production capacity

Because its activities are based on orders varying in size and requiring different delivery schedules, the Company needs to anticipate demand accurately and allocate its production capacity in order to meet delivery requirements, best recuperate its fixed costs and maximize its operating margins. Any failure might adversely affect revenue and profitability. In addition, the Company must accurately forecast its own need for chips. If it overestimates its requirements, it might be left with high inventories that it may not be able to use or may need to produce products with less powerful and costly chips, which might generate lower profits.

Finally, contracts with customers can include clauses under which the Company will be responsible for indirect damages including penalties for failure to meet delivery schedules. If these clauses are invoked against the Company, it may need to defend itself in court, which could be time consuming and expensive. It could also be found liable.

- Standards and criteria of industry organizations

Most of Gemalto's customers belong to industry organizations many of which have their own set of standards and criteria relating to chip card manufacturers' facilities and products, which must be satisfied in order to be eligible to supply products and services. The Company must make significant investments in order to meet these demands, which tend to change over time. If it fails, the Company may become ineligible to provide products and services that have constituted in the past an important part of its revenue and profits.

- Protection of confidential information and prepaid cards

In connection with its personalization services, the Company routinely handles confidential information relating to its customers and their end customers. For example, the Company receives information relating to the card user, including bank account numbers and credit or debit parameters, and generates the keys and personal identification numbers that activate and allow use of the card. Although its personalization activities have been accredited with the principal security certifications from industry organizations and bodies, the Company cannot guarantee that it will be able to prevent every attempt to breach its security systems and misappropriate and fraudulently use confidential data. If this were to occur, the Company may be forced to defend itself in court which might be time consuming and expensive. In addition, the Company also loads value onto prepaid cards, particularly prepaid phone cards, which it must protect from theft while they are in its custody. If they are stolen while in its custody, the Company's customers may seek to hold it liable for the aggregate value amounts loaded onto the cards. Finally, a breach of security systems could also adversely affect the Company's reputation.

- Manufacturing or functional capabilities in the Company's products

Gemalto's products and services may contain manufacturing defects. As they represent substantial investment and changes in business operations for its customers, serious defects or errors could harm the Company's reputation and extend the time-to-market, while also requiring it to carry out expensive and time consuming repairs.

Such defects could also cause losses to customers who could attempt to seek compensation. These claims could be time-consuming and costly to defend and generate unfavourable publicity, causing the Company to lose customers. Although its sales and services agreements typically contain provisions designed to limit its exposure to product liability claims, certain laws or unfavourable judicial decisions could limit the effectiveness of these limitations. The Company also has product liability insurance that it believes is consistent with industry practice but it cannot guarantee that it is sufficient to meet any claim or that it will be able to obtain or maintain insurance on acceptable terms or at appropriate levels in the future.

- Protection of intellectual property rights (IPR)

The Company's success depends, in part, upon its proprietary technology and other intellectual property rights. If it is not able to defend its IPR successfully, the Company might lose positions and may no longer be able to license out use of these rights to its competitors. The Company may also be required to pay significant license fees to third parties to be able to use their technology.

To date, the Company has relied primarily on a combination of patent, trade secret and copyright laws, as well as nondisclosure and other contractual restrictions on copying, reverse engineering and distribution, to protect its intellectual property. It also regularly reviews new products and services coming out on the market to determine whether they infringe its intellectual property rights. It cannot guarantee, however, that in future these measures will be sufficient to protect its IPR or that it will be able to obtain all the patents for which it applies. Furthermore, the Company's patents may not cover the scope originally sought or offer meaningful protection. Litigation to enforce the Company's IPR could result in substantial costs and may not be successful. In addition, the laws of certain countries may not protect its products and intellectual property. Any inability to protect its IPR could seriously harm the Company's business, operating performance and financial situation.

Similarly, if third parties claim that the Company is infringing their IPR, it might be required to incur significant costs and devote substantial resources to defending such claims and ultimately might not be successful. The Company may be forced to obtain licenses under terms that are not necessarily favourable and/or incur substantial liabilities, including indirect damages. The Company may also be forced to suspend the sale of products or the use of production processes requiring such technologies.

- Development of third-party technologies and licensing costs

The Company benefits from certain licenses, in particular for trademarks, security and cryptography technology for card operating systems, dual interface technology, and public key infrastructure (PKI) technology.

Technology providers often change their existing products by withdrawing old versions of existing products. The Company may not be able to adapt its products and services in a timely manner to accommodate such changes and might have to discontinue or change certain products and services. Changes in technology may also be accompanied by significant price increases, which would increase the Company's costs and adversely affect its profitability.

- Seasonal nature of sales in the mobile communication segment

Gemalto generally earns more of its revenue in the mobile communication segment in the fourth quarter of each year than in other quarters. This is due to major promotions typically conducted by European and American mobile communication operators during the holiday season, resulting in higher sales of SIM card products. As a result, revenues, gross profits and operating results are usually significantly lower in the first half of the year than in the second. Also, negative developments in the fourth quarter of any year are likely to have a disproportionate impact on operating income for the year, with very limited notice.

The effects of the seasonal nature of sales in the mobile communication segment on Gemalto's revenue and gross profit are described in more details in section 3.2.4 — "Other factors affecting results of operations".

- International activities

Given the international nature of its business, Gemalto is subject to a number of political, regulatory and trade risks, including:

- restrictions on the repatriation of capital, in particular regulations relating to transfer pricing and withholding taxes on payments made by subsidiaries and joint ventures;
- unexpected regulatory reforms;
- customs duties, export controls and other trade barriers;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable in certain countries;
- limited legal protection of intellectual property rights in certain countries;
- social and political instability (in particular strikes and work stoppages).

The Company cannot guarantee that it will be able to manage these risks, many of which are outside its control, or that it will be able to ensure compliance with all applicable regulations without incurring additional costs.

Conducting business in some countries is subject to particular risks, particularly with regard to the regulation of prices, uncertainties about the application, interpretation and enforcement of laws to the industry, currency fluctuations and restrictions on conversion or repatriation of profits.

- Acquisitions and joint ventures

Gemalto has made acquisitions and entered into joint ventures, and may do in the future. This could lead Gemalto in the future to make potentially dilutive issuances of shares and to incur debt. The allocation of the price paid to acquire a business usually leads to the revaluation of its existing assets, as well as the identification and recognition of new intangible assets, which results in additional amortization expenses that will reduce the income of the following periods. Transactions of this nature may also result, upon their completion or in the subsequent years, in charges related to the impairment of redundant or overvalued assets. Furthermore, acquisitions and joint-ventures may result in costly and disruptive restructurings. These events may have an adverse effect on the operating performance, financial situation and share price. Acquisitions involve numerous other risks relating to integration, including the failure to achieve the expected benefits and synergies, the diversion of management's attention from other business concerns and the loss of key employees. Joint ventures present the risk of conflicts of interest or strategy and partners may also be unable to fulfil their obligations under the joint venture agreement or experience financial or other difficulties. If the Company is unable to manage all these risks efficiently, it may have to incur expenses or charges which may have an adverse effect on its financial situation.

- Environmental, health and safety regulations

Gemalto's operations are subject to environmental, health and safety regulations and local, national and international laws relating to the handling, transportation, disposal and emission of hazardous wastes and materials such as ink. The Company generally does not maintain reserves for environmental remediation. Although it has adopted systems for identifying and managing potential liabilities, there can be no assurance that it has identified and is adequately addressing all potential sources of risks. As a result, the Company cannot guarantee

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that it will not incur environmental, health or safety losses or that any incurred will not have an adverse effect on its operating performance or its financial situation. Potential regulatory changes may also have an adverse effect on its performance.

3.3.1.3 Risk relating to the industry

- Competition

The secure plastic cards market is highly competitive. The Company expects competition to increase as existing segments mature and new segments are created. For example, in the mobile communication application, competition has become increasingly fierce for low-end microprocessor cards in all regions. This has led the Company and some of its competitors to seek to strengthen their positions by offering higher-end products that require a higher degree of sophistication and expertise. If the Company is not able to continue to compete successfully, it will lose customers, which would affect its operating performance and financial situation.

Gemalto's current competitors include chip card producers such as Oberthur Card Systems and Giesecke & Devrient. In the SIM card and financial card fields of business, the Company also has to compete with regional manufacturers such as SanDisk-MicroElectronica, STMicroelectronics-Incard, XponCard, and AustriaCard, as well as local manufacturers, particularly in China such as Datang, Eastcom and Watchdata, which are seeking to leverage their positions locally and expand internationally. In addition, as the number of applications for chip card products and services increases, the Company may experience competition from companies that are currently its suppliers and strategic partners. For example, chip manufacturers such as Infineon Technologies, Samsung and NXP (previously known as Philips semiconductor division) could decide to start manufacturing chip cards through acquisitions or joint ventures. Other potential competitors include:

- operating system developers, such as Sun Microsystems and Microsoft;
- electronic security product and service providers, such as Entrust, EMC/RSA Security and Verisign;
- wireless device manufacturers such as Nokia, Ericsson and Motorola;
- systems integrators such as IBM and EDS;
- wireless infrastructure software providers, such as Amdocs and Comverse.

Some of the Company's current and potential competitors have greater resources, larger workforces (including research and engineering staff) and customer bases and greater name recognition. They may be able to develop more attractive products and services at more competitive prices. For example, some of them have greater capabilities in security printing and biometrics, which enables them to offer a broader range of products in these areas and which may serve as a better platform for future developments. In addition competitors may be able to negotiate strategic partnerships on more favourable terms. Many have also established relationships with the Company's existing and prospective customers. Increased competition may result in reduced profitability, and loss of sales or customers, which could harm the Company's business, operating performance and financial situation.

- Technological developments

Gemalto spends considerable time and resources promoting the use of microprocessor cards, including the development of new applications and by participating actively in the creation of industry-wide standards and specifications. There are, however, a number of alternatives to microprocessor card technology, including wireless devices, software-based solutions, magnetic stripe cards, MMC/SD cards and USB tokens and products. If these alternatives become the industry standard, microprocessor card producers would suffer loss of sales and growth opportunities, and may need to invest in new areas of business. In particular, the use of microprocessor cards in mobile communications may be challenged if mobile phone manufacturers decide to incorporate the functions directly into the handset. A decision like this would have a substantial negative effect on the Company's business and its financial situation.

- Decoding of encryption programs

Microprocessor cards are equipped with keys that encrypt and decode messages in order to secure transactions and maintain the confidentiality of data. The security afforded by this technology depends on the integrity of the key and the complexity of the algorithms used to encrypt and decode information. Any significant advance in techniques for attacking cryptographic systems could result in a decline in the security of Gemalto's technology, which in turn could significantly affect the acceptance of or demand for microprocessor card-based products, slow down growth and impact the Company's revenue and profits.

3.3.1.4 Risk relating to Gemalto's financing

The Company's future capital requirements will depend on many factors, including the rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products and the market acceptance of its products. If it cannot raise funds on acceptable terms, as and when needed, the Company may not be able to develop its business, invest in new products and services, take advantage of opportunities or respond to competitive pressures or unanticipated requirements, which could seriously harm its business and financial performance.

3.3.1.5 Dependence on the core management and key personnel

Gemalto's success depends in part on the loyalty of its existing senior management team and other key personnel, particularly in the areas of research and engineering, product development and marketing, production and services delivery, purchasing and supply chain management, financial and human resources management, as well as field personnel trained in card deployment and management services. The Company's senior managers and key employees may choose to leave the Company at any time. If so, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with Gemalto, the Company may not be able to manage its business as efficiently as in the past, which could prevent it from growing as quickly or as profitably as it hopes.

3.3.1.6 Financial market risks

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

Gemalto's overall financial 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 financial risk management guidelines that set forth its risk tolerance and its overall risk management policies.

- Foreign exchange risk

Gemalto operates production and research and engineering facilities in more than 10 countries, and sells products and services in more than 100 countries. The US Dollar, the Pound Sterling, the Japanese Yen, the Chinese Renminbi, the Singapore Dollar, the Mexican Peso and the Polish Zloty are the main currencies beside the Euro in which our entities operate. We try to match our revenue and expenses currencies to set up natural foreign exchange hedges. However, we still remain exposed to residual foreign exchange risk and our results of operations may be affected by foreign currency fluctuations.

The policy of the Company is to hedge a portion of its forecasted commercial transactions, and its assets and liabilities when they are exposed to foreign exchange risk.

We collect, consolidate and analyze the relevant currency exposures. The Company uses derivative financial instruments such as foreign exchange forward contracts and options to hedge those currency exposures. We do not intend to enter into such contracts for purposes other than hedging.

In the past, foreign currency effects have had a significant impact on our reported assets, liabilities, income and losses, and on the comparability of our results of operations between financial periods. They may continue to have a significant effect in the future. We cannot guarantee that our hedging strategy will be effective or that currency transaction losses will be minimized or accurately forecast. Gemalto's earnings and cash flows exposure to exchange rate fluctuations and its efforts to reduce their impact are described above in section 3.2.4 — "Other factors affecting results of operations — Impact of foreign currency exchange rates", and 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.

- Interest rate risk

Our financial assets are invested in bank deposits and money market funds and are classified as Cash and cash equivalents. Our financial liabilities are mainly floating rate financial leases.

The Company has a net cash position and is therefore exposed to interest rate risk. However the Company considers that this risk is unlikely to have a significant impact on its financial situation in the short term.

We do not enter into any interest rate derivative instruments.

- Liquidity risk

The Company maintains sufficient Cash and cash equivalents positions as well as an adequate amount of committed credit facilities, and therefore considers it is not exposed to significant liquidity risk in the short term. However, we cannot guarantee that our level of liquidity will suffice to cover all the Company's future cash requirements whatever the circumstances.

- Financial counterparty risk

Derivative financial instruments and all significant cash deposits are held with major financial institutions of investment grade. The Company has temporary exposure to non-investment grade institutions on payments made by customers in certain countries, until the Company transfers such amounts to investment grade institutions.

- 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 during the years ended December 31, 2006 and 2007. We maintain an allowance for uncollectible accounts receivable based on expected collectibility. We assess the expected collectibility of our accounts receivable periodically or when events lead us to believe that collectibility is uncertain. Additionally, we perform ongoing credit evaluations of our customers' financial situations.

- Equity risk

We do not trade or hold marketable securities as a part of our activities. We do, however, have medium term investments in several non-public start-up companies. The majority of these investments are held by our venture capital subsidiary, GemVentures. Specifically appointed employees manage our venture capital activities in accordance with our internal investment policies, and produce quarterly reports on their activities for our finance department.

3.3.1.7 Risks related to financial reporting

As part of its responsibility for designing and implementing accounting and internal control processes aimed at preventing and detecting errors and fraud affecting the financial statements, Gemalto management has identified and assessed the main risks arising from the nature of its business, the context of the recent combination with Gemplus and specific accounting and reporting matters.

- Complex revenue recognition process for all segments, in particular in the Identity and Security business where multi-year contracts are frequent and often include extended warranty terms, and where revenue derived from patent licensing activities is subject to specific revenue recognition rules.

- Inventory valuation challenges, in connection with obsolescence and excess risks in particular, arising from the integration of the industrial structures of the two groups and the rationalization of the product lines following the Combination.

- Evaluation of certain categories of reserves, in particular those related to warranty offered on new products and for extended periods.

- Restructuring and reorganization costs evaluation and justification.

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• Complex financial reporting and consolidation process until a new, common system has been implemented. All entities are currently migrating to Hyperion Financial Management consolidation and reporting software, with a "go live" planned in 2008.

• Consistent and rigorous application of the basis of preparation adopted for the "Adjusted" financial information used internally for the evaluation of the operating performance and for external financial reporting since the merger, in addition to the financial statements prepared in accordance with IFRS. The basis of preparation of the "Adjusted" financial information is described in section 3.1 — "Basis of preparation of the financial information presented and discussed in this chapter".

• Complex accounting areas, in particular tax accounting, proper evaluation and accounting of deferred tax assets, of goodwill and intangible assets, stock based compensation, pensions and derivative instruments.

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 being implemented in the different countries.

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 entities and to their functional teams (operational audit, legal, human resources), 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, that realization of objectives is monitored, the financial reporting is reliable and where relevant applicable laws and regulations are complied to.

- 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.

Gemalto's Internal Audit department was composed of 7 persons in 2007 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 2007, Internal Audit conducted regular audits according to an audit plan approved by the Audit Committee. 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 directly to the Chairman of the Audit Committee, and administratively to the Group Chief Financial Officer.

3.3.2.2 The Internal Control project

In 2007, Gemalto launched a coordinated review of the Company risk profile, risk management and financial reporting system. This three fold 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,

• Enterprise Risk Assessment, to map major risks (external and internal, financial and non-financial) that could impact the Group performance,

• Fraud Risk Management, to optimize anti-fraud programs and controls.

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 exhaustiveness 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

The monthly operating results review process, applied to all areas and segments since 2004 by Gemalto, is a major step in Gemalto's process for the monitoring and evaluation of the operating performance and the generation of the related financial information that is used internally, communicated to the Board on a monthly basis and released to the public.

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 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 Corporate Controller and the Chief Accounting Officer in the last days of the quarter. The main objectives of these reviews are:

• To allow prompt identification and communication of any transaction or event which could potentially result in significant impacts on the results or the financial condition of the Group.

• Ensure proper review of any non-routine or complex transactions and ensure IFRS compliant, properly approved accounting treatment.

- 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 since January 1, 2005. The content and form of these financial statements and the accounting policies

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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, internal audit and the external auditors 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:

- our risk management and internal control systems provide a reasonable level of assurance that the Company’s financial reports do not contain material misstatements;
- our internal risk management and control systems in relation to financial reporting have operated effectively in the year 2007;
- there are no indications that our risk management and internal control systems in relation to financial reporting will not operate effectively in 2008.

3.3.3 Insurance and risk management

Gemalto has contracted 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 a Group Risk manager 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.

Gemalto insurance programs are underwritten with high-quality and financially sound insurers, willing to support Gemalto in its policy of identification, prevention and control of risks. The prevention policy relies on a complete plan including audits, upstream integration of safety in projects, training and increasing employees’ awareness. By way of illustration, Gemalto key locations are inspected on a regular basis by risk engineering consultants of its insurer (15 inspections conducted in 2007). These inspections lead to recommendations used as a basis for further decision making on safety improvement plans.

Currently, the Group has global insurance programmes covering the following risks:

- Property damage & Business interruption,
- General Liability, Products, Professional and Environmental impairment liability,
- Transportation of all goods,
- Directors & Officers,
- Crime.

The policies are on “All risks” basis, subject to the usual exemptions and exclusions imposed by the market. They are subscribed for limits varying according to the nature of the contract and the scope of cover. These covers are decided taking into consideration the loss history of the Group, statistics available on the market and the capacities of the insurance market. Through the common deductibles stated in the insurance policies, the Group accepts to retain a certain level of risk. The current levels of deductibles accepted by Gemalto do not impact the solvency of the Group. The Group does not own or operate any insurance captive.

As of December 31, 2007, no major loss occurred that is likely to jeopardize the future conditions of cover, the limits granted by the insurers or to increase the insurance premiums.

3.4 OUTLOOK

Gemalto’s 2009 objective of 10% adjusted operating income margin remains unchanged.

In 2008 the Company expects to benefit from the robust market demand it currently experiences in its main segments. Gemalto’s leadership position is generating commercial and operational advantages and the Company is encouraged by the progress in its performance. Gemalto currently sees no evidence of the global financial turmoil impacting its activities, aside from the evolution in the average exchange rates between the Euro and other currencies. Growth and increased profitability will be driven, besides higher synergies, by the return to growth in Mobile Communications, the return to profit in Secure Transactions, and the ramp up of the Company’s recent contract wins in Security

The successful completion of the Company’s 2006-2009 plan will create a strong foundation for Gemalto’s next phase of development.

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 its registered office address is Joop Geesinkweg 541-542, 1096 AX 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. As a result of the Combination and in accordance with the new foreign private issuer deregistration rules adopted by the SEC on March 21, 2007, the Company filed for deregistration as of June 5, 2007 and deregistration was effective on September 5, 2007.

The Company is of the opinion that the majority of the principles and best practice provisions of the Dutch Corporate Governance Code (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. Substantial changes in Gemalto's corporate governance structure and in the Company's compliance with the Corporate Governance Code would be submitted to the Annual General Meeting of Shareholders ("AGM") for discussion.

Following the voluntary public exchange offer (the 'Offer') for the shares of Gemplus and the statutory sell-out right for Gemplus shareholders (from December 23, 2006 to January 23, 2007), Gemalto announced on January 8, 2007 its decision to implement a mandatory squeeze-out relating to the shares of Gemplus not held by Gemalto until January 26, 2007. As a result, Gemalto then held 100% of the share capital of Gemplus. The Gemplus shares were delisted from the Eurolist by Euronext Paris S.A. and the Gemplus American depository shares were delisted from the Nasdaq Global Select Market as of January 29, 2007. For the reason of simplification of the Gemalto structure, Gemalto N.V. and Gemplus announced in November 2007 their intend to proceed to a cross-border legal merger, whereby Gemalto N.V. as surviving company would acquire all the assets and liabilities of Gemplus as disappearing company. Due to some technical considerations, the merger could not become effective on January 1, 2008 and the merger will be revisited at a later stage.

The AGM of May 22, 2007 resolved to amend the Articles of Association. The amendments related to recent and expected evolution of Dutch law and to changes to sections which did not bring additional value to shareholders or could be detrimental to the Company or which did no longer serve a useful purpose.

As of June 2, 2006 for a period which ended on December 2, 2007 (the "Executive Period"), the Company had an Executive Chairman of the Board, appointed by the Extraordinary General Meeting of Shareholders ("EGM") of January 31, 2006. As of December 2, 2007 the Company has a Non-Executive Chairman, appointed by the Board.

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.1.7: During the term of the mandate of Mr. A. Mandl as Executive Chairman, the Company deviated from this provision, as Mr. A. Mandl held three external supervisory board mandates at listed companies and he informed the Nomination and Governance Committee, instead of the Board. See section 4.3.8;
- Provision II.2.2: the options granted to Mr. A. Mandl, in his position as Executive Chairman, vested after eighteen months instead of the recommended three years in accordance with the Combination Agreement. See section 6.7.8;
- 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 6.7.8;
- Provision II.2.7: maximum remuneration in the event of dismissal of Executive Board members reflecting the accrued seniority with the Company. See section 6.7.8;
- Provision II.2.10: content of the Remuneration Report; i.e. non-disclosure of the companies of the comparison group and non-disclosure of the non-financial targets of the Executive Board members. See section 6.7.8;
- 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: only 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 a CEO, Mr. O. Piou, and a majority of Non-Executive Board members. Until December 2, 2007, the Company had an Executive Chairman of the Board. The Board has ultimate responsibility for the management, general affairs, direction and performance of the business as a whole. The responsibility of the Board members is collective, taking into account their respective roles as Executive Board member and Non-Executive Board members.

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The CEO conducts the day-to-day management. Until December 2, 2007, the CEO and the Executive Chairman had shared responsibilities as defined in the Articles of Association, which relevant provisions were effective until December 2, 2007. The CEO does not require the approval or consent of the Board, or the Executive Chairman until December 2, 2007, for any decisions in respect of day-to-day management. The duties and powers of the Board in any event 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 uses written rules as a basis for its own functioning and its relationship with shareholders. 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, being responsible for the quality of its own performance, discusses at least once a year the evaluation of the performance of the Board and the Board Committees and of the individual Non-Executive and Executive Board members and the conclusions to be drawn from this evaluation, and the discussion regarding the desired profile, composition and competence of the Non-Executive Board members. The Non-Executive Board members meet regularly, at least once a year, in the absence of the Executive Board member(s) and members of the management.

4.3.3 Operational and financial objectives and strategy

During 2007, the Board discussed and confirmed the long term strategic plan 2007-2009, adopted the operational and financial objectives of Gemalto for 2008 and the parameters to be used for measuring performance.

Strategy

The Board discussed at several meetings Gemalto's long term strategic plan 2007-2009, the ongoing integration process for the Combination and synergies realization. The Board reviewed the development of business activities and various investment opportunities, as recommended by the Strategy and M&A Committee. In addition, the Board reviewed and monitored management's pricing strategies. For more information on Gemalto's strategy, please refer to section 3.2.5.

Operational and financial objectives — Budget

The operational and financial objectives of Gemalto are set forth in the budget. The Board sets the framework and key objectives of the budget. Budgets of Gemalto's operating companies are constructed bottom-up, assessed by the Board and adjusted top-down where necessary to meet Gemalto's objectives. The budget for 2007 was approved by the Board at the November 2006 Board meeting. The budget for 2008 was approved by the Board at the November 2007 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 with respect to internal controls, financial disclosures, accountability, business practices and legal principles. The Board has also adopted in 2006 a whistleblower procedure for the receipt, retention and treatment of complaints received by Gemalto regarding suspected financial irregularities, which procedure is being implemented in the different countries where Gemalto has employees, in compliance with and subject to the provisions of applicable laws and regulations. The Board decided that in line with developments in the EU regarding data protection rules and more specifically with the rules in France, suspected irregularities of a general or operational nature are not covered by the whistleblower code, although this is not in line with the Corporate Governance Code, but shall be reported internally to the relevant manager. In addition, Gemalto has introduced charters governing internal proceedings of the Board and its Committees and a policy on the ownership of and transactions in Gemalto securities.

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 3.3.2.

4.3.5 Sensitivity of the results to external factors and variables

Reference is made to section 3.3.1.

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. The Board currently consists of ten Board members; nine Non-Executive Board members and one Executive Board member, the CEO.

Board members are appointed by the General Meeting of Shareholders ("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. In such a case, the binding nomination can be overruled by an absolute majority of votes cast at a General Meeting representing at least one-third of the Company's issued capital. 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. On the proposal of the Board, the General Meeting appoints one of the Board members as the CEO. 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:

(i) the Company had an Executive Chairman, Mr. A. Mandl, for the duration of the Executive Period, appointed by the EGM of

January 31, 2006. The appointment of the Executive Chairman was in line with, and results from, the execution of the Combination Agreement; and

(ii) 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 22, 2007, Mr. Soublin and Mr. de Wit were reappointed as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2011.

At the AGM of May 14, 2008, the present term of Messrs. O. Piou, G. Fink and A. van der Poel will end. The Board welcomes the fact that Messrs. O. Piou, G. Fink and A. van der Poel are available for an additional term. The Board resolved to propose to the AGM of May 14, 2008 to reappoint Mr. O. Piou as CEO for a term ending at the end of the AGM to be held in 2012 and to reappoint Messrs. G. Fink and A. van der Poel as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2012. If reappointed, Mr. G. Fink would continue to be a member of the Strategy and M&A Committee and of the Compensation Committee. If reappointed, Mr. A. van der Poel would continue to be chairman of the Compensation Committee and a member of the Nomination and Governance 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. 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 July 25, 2007 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 Audit 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 Audit 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 Audit Committee is a financial expert within the meaning of best practice III.3.2 of the Corporate Governance Code. The Audit Committee meets at least four times per year and may not be chaired by the Chairman of the Board or by a former Executive member of the Board.

4.3.7.2 Compensation Committee

The Compensation Committee assists the Board with a proposal for a Remuneration Policy for the Executive Board members and for the remuneration of the Non-Executive Board members to be adopted by the General Meeting. The Compensation Committee proposes the remuneration of the Executive Board members within the limits of the Remuneration Policy. Furthermore, the Compensation Committee discusses the grant of options, restricted share units and / or share appreciation rights and the opportunity to purchase discounted shares to eligible employees of Gemalto. The Compensation Committee consists of at least three Non-Executive Board members with a majority being independent. The Compensation Committee meets at least three times per year and may not be chaired by the Chairman of the Board or a former Executive Board member.

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 Nomination and Governance Committee consists of at least three Non-Executive Board members with a majority being independent and meets at least three times per year.

4.3.7.4 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 the 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. During 2007, Mr. A. Mandl held three supervisory board memberships at listed companies. The Corporate Governance Code recommends that Executive Board members do not hold more than two supervisory board memberships. The Company deviated from this recommendation only until December 2, 2007, as Mr. A. Mandl was Executive Chairman until that date and was thereafter appointed as Non-Executive Chairman.

The Corporate Governance Code recommends that the Board approves the acceptance by an Executive Board member

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of an external supervisory board mandate at a listed company. Instead, the acceptance of such mandates being potentially sensitive information, the Executive Chairman is required to inform the chairman of the Nomination and Governance Committee of his external supervisory board mandates pursuant to the Board charter.

4.3.9 Conflicts of interest

The Articles of Association state that a potential conflict of interest exists, in any event, if the Company intends to enter into a transaction with a legal entity (i) in which a Board member of the Company personally has a financial interest; (ii) which has a management board member who has a relationship under Dutch family law with a Board member of the Company, or (iii) in which a Board member of the Company has a management or supervisory position.

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 and the Executive Chairman

Dutch law and the Articles of Association stipulate that the General Meeting, upon the proposal of the Board, determines the Remuneration Policy for the CEO (and the Executive Chairman for the duration of the Executive Period). The Remuneration Policy is published on Gemalto's website. The remuneration of the CEO (and the Executive Chairman for the duration of the Executive Period) shall, with due observance of the provisions of the Remuneration Policy, be determined by the Board. Remuneration of the CEO (and the Executive Chairman for the duration of the Executive Period) 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 EGM of January 31, 2006 resolved that the Remuneration Policy for the CEO also applies in principle for determining the remuneration of the Executive Chairman for the duration of the Executive Period. For information on the Remuneration Policy and the implementation thereof for 2007, please refer to section 6.7.

4.3.10.2 Remuneration of the Non-Executive Board members

Dutch law and the Articles of Association stipulate that the General Meeting, upon the proposal of 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 2007, nor are outstanding as of December 31, 2007.

4.3.10.4 Shares owned and rights to acquire shares

Certain Board members are shareholders of the Company. On December 31, 2007, they jointly held 144,500 shares. 139,000 shares were progressively purchased on the market by Mr. O. Piou since 2004. 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, 2007 Mr. O. Piou owned 2,355.63 units in a FCPE (Fonds Commun de Placement d'Entreprise), which units were purchased by subscription to the Global Employee Share Purchase Plans 2004 and 2005.

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 Company shares. The number of restricted share units may vary from 0 up to 80,000 with a maximum multiplier of three in case of extraordinary performance. This grant has been made subject to the subsequent approval of a next AGM, to be held on May 14, 2008. If the AGM of May 14, 2008 does not approve the grant of restricted share units to Mr. O. Piou, he is then granted, as of September 27, 2007, 250,000 options at € 20.83 per share.

As of December 31, 2007, 950,000 options were held by Mr. O. Piou and 200,000 options were held by Mr. A. Mandl (through a company controlled by him). No options were exercised by Mr. O. Piou or Mr. A. Mandl in 2007. Also as of December 31, 2007, the following Board members held Gemplus options: Mr. A. Mandl held 13,562,400, 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 respectively in 1,084,992, 904 and 904 Gemalto options.

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 the rules of Gemalto's policy on the ownership of and transactions in Gemalto N.V. securities, as posted on Gemalto's website.

4.3.10.5 Shares or other Financial Instruments in listed companies other than Gemalto

Gemalto's policy on the ownership of, and transactions in, Gemalto N.V. securities, as drawn up by the Board, contains regulations concerning the ownership of and transactions in securities by Board members in listed companies other than Gemalto. According to these regulations, Board members need to notify transactions in securities in companies listed in the Netherlands to the Company Secretary, also the Central Officer, on a quarterly basis, unless a Board member invests exclusively in listed investment funds or has transferred the discretionary management of his or her securities portfolio to an independent financial firm by means of a written mandate.

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 its 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.

For the duration of the Executive Period:

(i) the Company had an Executive Chairman, Mr. A. Mandl;

(ii) an "Office of the Chairman" had been formed by the Executive Chairman and the CEO, meetings of which were attended by the CFO and the Executive Vice Presidents Human Resources, Strategy, Mergers & Acquisitions and Integration; and

(iii) the Executive Chairman and the CEO had shared responsibilities, as described in article 40 of the Articles of Association.

As of December 2, 2007, Mr. A. Mandl has been appointed as a Non-Executive Chairman.

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, prior to the IPO, the General Meeting adopted a Global Equity Incentive Plan for eligible employees ("GEIP"). Under the GEIP, ending on March 18, 2014, eligible employees may receive options, restricted share units or share appreciation rights. 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. During 2007, 885,000 options and 560,000 restricted share units at 100% vesting, with a maximum up to 1,680,000 restricted share units, were granted to eligible employees, including to the CEO.

In the event of a public offer on the shares of Gemalto N.V. or in the event of a delisting of the shares, all options granted under the GEIP, whether vested or not, may be exercised in whole and each restricted share unit granted under the GEIP will be immediately refunded through the granting of shares during the last five days of the public offer. These shares may then be sold immediately.

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. shares for options to acquire Company shares. A total number of 7 million shares are available for grant and issue under the GEIP 2006.

4.4.2 Global Employee Share Purchase Plan

In 2004, prior to the IPO, the AGM adopted a Global Employee Share Purchase Plan, amended by the Board in 2005, for eligible employees ("GESPP"). 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. Each year, the Board decides whether or nor to allow execution of the GESPP. In 2007, the Board did not offer employees the opportunity to purchase discounted shares in the Company.

In order to benefit from preferential tax treatment, employees of Gemalto 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 part 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 as of December 31, 2007 169,016 shares of Gemalto. 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, 2007 the Company's issued and paid-up share capital amounted to €90,082,535, consisting of 90,082,535 ordinary shares. As of December 31, 2007 the Company's issued and paid-up share capital amounted to €91,015,844, consisting of 91,015,844 ordinary shares of which 7,524,273 shares were held in treasury.

During 2007 the following movements in the issued share capital of the Company took place:

- January 8, 2007: 212,887 shares were issued following the 2nd centralization period of the statutory sell-out;
- February 6, 2007: 720,422 shares were issued following the 3rd centralization period of the statutory sell-out and following the mandatory squeeze-out.

Based upon the authorization to purchase the Company's own shares granted by the AGM of May 19, 2006, which authorization was renewed by the AGM of May 22, 2007 shares were purchased to provide liquidity in the secondary market and to have shares available for the exercise of employee stock options or similar rights under option plans during 2007. As of December 31, 2007, 7,524,273 shares were held in treasury, acquired at an average price of €18.60, with a market value as of December 31, 2007 of € 21.50. The Company cannot vote its treasury shares.

The Company has only issued ordinary shares, all of the same category, and all in registered form. Shares are listed on Eurolist

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

(i) as registered shares, the shareholders being included in the Company's shareholders register kept by Netherlands Management Company B.V.; or

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

No certificates representing shares have been issued.

4.5.2 AGM held in 2007

The AGM was held on May 22, 2007. No shareholders exercised their right to place items on the agenda for the General Meeting in 2007.

At the AGM of May 22, 2007, among other things, the following items were dealt with, all as separate agenda items: the 2006 annual report, the adoption of the 2006 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 2006. 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-fourth of the issued share capital is represented.

4.5.3 Authorizations to the Board

The General Meeting of March 18, 2004 has authorized 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 for a period of five years up to March 18, 2009. 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.

The AGM of May 22, 2007 has renewed the authorization of the Board 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 November 21, 2008.

4.5.4 Distribution of profits

The dividend policy of the Company was dealt with and explained as a separate item on the agenda 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 2007 in respect of the 2006 financial year. With due observance of the dividend policy, the Board will not propose to pay a dividend in 2008 in respect of the 2007 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

Pursuant to the Dutch Financial Markets Supervision Act, as at December 31, 2007, the following disclosure of holdings in the share capital of the Company was made:

- TPG Advisors III Inc (notified on January 31, 2007 as of November 1, 2006): 12.24%

4.6 SPECIFIC PROVISIONS OF THE ARTICLES OF ASSOCIATION

4.6.1 Amendment of the Articles of Association

In accordance with the Company's 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. Any proposal to amend the Articles of Association must be made available for inspection by the shareholders and other persons entitled to attend the General Meetings at the Company's offices as from the day of the notice convening such meeting until the end of the General Meeting.

4.6.2 Anti-takeover measures

Until October 28, 2007, the Articles of Association provided that any person who is required to give notice under the Financial Markets Supervision Act of a direct or indirect acquisition of an interest in the Company's capital or voting rights, from which it follows that the percentage of capital interest of voting rights held by such person has passed a threshold of 25% (a "Substantial Interest Holder") will not be entitled to exercise his/her voting rights unless the Substantial Interest Holder has launched (or caused to be launched) an unconditional public offer to purchase, at a fair price, all issued and outstanding shares in the Company's share capital, as well as all issued and outstanding financial instruments giving rights to shares in the Company's capital or voting rights.

The AGM of May 22, 2007 resolved to amend the Articles of Association to include a transitional clause stating that this forced offer clause would no longer apply as from the date that the Dutch act on the implementation of Directive on public offers, number 2004/25/EC of the European Parliament and the Council of 21 April 2004, dated 24 May 2007 had entered into force. This legislation entered into force on October 28, 2007.

4.6.3 Appointment of the external auditor

At the AGM held on May 22, 2007, PricewaterhouseCoopers Accountants N.V. was appointed as the Company's external auditor for the financial year 2007. The Audit Committee and the Board are required once every four years to conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. In practice, the Audit Committee and Board review the functioning of the external auditor annually. Having regard to the most recent review, the Board will propose at the AGM of May 14, 2008 to reappoint PricewaterhouseCoopers Accountants N.V. as the Company's external auditor for the financial year 2008.

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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
Executive Chairman from June 2, 2006 until December 2, 2007

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

Prior to June 2, 2006, Alex Mandl served as President and CEO of Gemplus from September 2002. 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 acquisitions 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.

Olivier Piou (1958) French
Chief Executive Officer and Board member
Appointed: February 17, 2004 for four years expiring at the AGM of 2008

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

Olivier Piou has been a director and the CEO of Gemalto since its creation in 2006. Previously he was CEO of Axalto (subsequently renamed Gemalto after the merger with Gemplus) from 2004-2006. 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 in France and in the United States. He is a graduate from the Ecole Centrale de Lyon. From 2003-2006, Olivier Piou 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
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. Non-executive director and chairman of the audit committee of Standard Life plc, deputy chairman of Standard Life's Life and Pension board, and a member of Standard Life's investment committee. Non-executive director of Millicom International Cellular SA and a member of its audit and remuneration committees. Chairman of Link Plus Corporation, Maryland, USA.

Kent Atkinson joined the Bank of London and South America (later acquired by Lloyds Bank) in 1964 and held a number of senior managerial positions in Latin America and the Middle East before returning to the UK in 1989. He was the Regional Executive Director for Lloyds TSB's South East Region until he joined the main board as Group Finance Director in 1994, a position he held for eight years until his retirement as an executive in 2002. Kent Atkinson remained on the Lloyds TSB board for a further year as a non-executive director. Until April 2005 he was the senior independent director and chairman of the audit committee 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 plc).

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

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

David Bonderman is a Founder of TPG Capital, LP and serves as a partner in the firm. Prior to forming TPG in 1993, David Bonderman was Chief Operating Officer of the Robert M. Bass Group, Inc. (now doing business as Keystone, Inc.) in Fort 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.

(2) Situation as of the date of this report

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David Bonderman 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. Prior to June 2, 2006, David Bonderman was Vice-Chairman of the Board of Gemplus.

Geoffrey Fink (1969) French
Non-Executive, non-independent Board member
Appointed: June 2, 2006 for two years expiring at the AGM of 2008
Member of the Compensation Committee and the Strategy and M&A Committee

Geoffrey Fink is a London-based partner of TPG Capital, LLP. He has been with TPG since December 2000. From May 1998 to December 2000, Geoffrey Fink was a Vice-President and subsequently Senior Vice-President with Security Capital Group. Between August 1999 and December 2000, he was also Chief Operating Officer, head of the Management Committee and board member of Access Space. In 1993 and from 1995 to 1998, Geoffrey Fink 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 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. Geoffrey Fink was previously a director of Gemplus until June 2, 2006 , served on the board of Eutelsat S.A., and is a member of the New York bar.

Johannes Fritz (1954) German
Non-Executive, non-independent Board member
Appointed: June 2, 2006 for three years expiring at the AGM of 2009
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
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. Member of the group audit committee of HBOS, a UK listed bank. Board member of ITV plc, a UK listed company. Trustee of the Roundhouse Trust and the Design Museum.

John Ormerod is a UK chartered accountant and since 2004 has been a director of a number of private and public companies. He retired as a partner in the UK firm of Deloitte & Touche LLP in 2004 where he was Practice Senior Partner London. After graduating from Oxford University, John 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 for four years expiring at the AGM of 2008
Chairman of the Compensation Committee and member of the Nomination and Governance Committee

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

Arthur van der Poel is a graduate of the Eindhoven Technical University. Upon graduation, he worked for the research and development group of Dutch PTT and then went on to work for the International Telecommunication Union in Indonesia. In 1984, he began working at Philips Semiconductors where he held different marketing and management positions and became chairman and CEO in March 1996. In May 1998, he was appointed 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. Until March 2007 he was the chairman of the European Research and Development consortium, MEDEA plus.

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
Member of the Audit Committee and of the Strategy and M&A Committee

Member of the supervisory board of Atos Origin.

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

John de Wit (1946) Dutch
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
Chairman of the Nomination and Governance Committee and member of the Compensation Committee

Member of the supervisory board of the Open University, the Netherlands.

John de Wit served as chairman of the Board of Gemalto until June 2, 2006. He is a graduate of NOIB Business School in the Netherlands. He has 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.

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 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.

(2) Situation as of the date of this report

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, 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,

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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).

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
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, he 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 oversees the strategy and new product development and introductions for the Telecommunication businesses. Prior to this appointment, he served as Gemplus' Executive Vice-President, Telecom Business Unit. He also served as Vice-President Marketing of Gemplus' Telecom Business Unit from May 2001 to February 2002. He was previously based in Singapore as Executive Vice-President of Gemplus Technologies Asia, and headed the marketing and development activities and professional services operations of Gemplus Asia Pacific. He has 15 years of experience in the chip card industry and has served in various marketing, product management and sales capacities within Gemplus. Prior to joining Gemplus, he served as product manager on the first generation of GSM mobile phones for Matra Communications (now Lagardère Group) in France between 1989 and 1992. Philippe Vallée has a Bachelor's degree in Electronics and Telecommunications Engineering and a Master of Science in Marketing Management from ESSEC.

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6.1 BOARD MEETINGS AND ACTIVITIES DURING 2007

6.1.1 Meetings

The Board held eleven meetings according to a fixed schedule: four in person and seven by conference call. Each of the Board members attended the majority of the meetings. The CEO and the Executive Chairman were not present and did not take part in the discussion or decision-making by the Board at the part of meetings in which their remuneration was discussed. The Board members met regularly in the absence of the senior management.

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;
- management's pricing strategies;
- annual budget plan for 2008;
- convening of the AGM;
- reports of the Board Committees following each of their meetings;
- succession and management development;
- remuneration of the CEO, the Executive Chairman and the senior management, as well as grants to eligible employees under employee incentive plans;
- corporate governance requirements and developments.

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 Induction and training

The Board received a full day training on the Company's products and held informal 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

The Board considers that until December 2, 2007, three of the eight Non-Executive Board members were not independent, within the meaning of best practice provision III.2.2. The Board had two Executive Board members; Mr. O. Piou, CEO, and Mr. A. Mandl, Executive Chairman. The Board considers that as of December 2, 2007, four of the nine Non-Executive Board members are not independent, within the meaning of best practice provision III.2.2. The Board has one Executive Board member; Mr. O. Piou, CEO. The Company deviates from the Dutch 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 TPG
- Mr. G. Fink, a Principal of TPG
- Mr. J. Fritz, Head of the Quandt Family office
- Mr. A. Mandl, former Executive Board member of Gemalto (non independent as of December 2, 2007)

6.2 REMUNERATION OF NON-EXECUTIVE BOARD MEMBERS

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.

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 AGM of May 22, 2007 amended the remuneration structure for the Non-Executive Board members, as of May 23, 2007, 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 AGM of May 22, 2007, in line with the remuneration granted to Non-Executive Board members by the AGM on May 19, 2006 and in view of the substantial additional work in 2006 related to the Combination, granted a one time additional remuneration of € 15,000 to the Non-Executive Board members Messrs. Bonderman, Fink and Fritz.

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 2007, the Committee held eleven meetings: seven in person and four by conference call. The Committee met periodically with the Internal Audit Director, the external auditors, the CFO, the CEO and the General Counsel

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separately. The CFO, the Internal Audit Director and the external auditor were always invited to attend the Committee meetings.

During 2007, the Committee reviewed the 2006 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, 2007 and the announcements of the 2007 quarterly revenue figures, as well as comments thereon made to the Committee by the external auditors.

The Committee reviewed the Company's accounting policies and compliance with accounting standards. It also reviewed the Company's risk management policies and procedures and key internal financial control policies. The Committee received reports on the work of the internal audit department in addition to presentations made during the Audit Committee meetings, and considered their significant reported findings and recommendations.

With regard to the internal audit, the Committee reviewed the internal audit charter, both the revised audit plan for 2007 and the audit plan for 2008 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 reviewed the proposed audit scope, approach and fees, the independence of the external auditors, their performance and the nature and extent of any non-audit services.

The aggregate fees billed by the external auditor, PricewaterhouseCoopers, for professional services rendered for the fiscal year 2007 were as follows:

	PricewaterhouseCoopers Accountants N.V. The Hague, Netherlands				PricewaterhouseCoopers Audit, Countries other than The Netherlands			
	Amount (€ thousands)		%		Amount (€ thousands)		%	
	2007	2006	2007	2006	2007	2006	2007	2006
Independent audit, certification, examination of individual and consolidated financial statements								
Gemalto N.V	110	67	100%	100%	833	538	25%	12%
Gemalto subsidiaries			0%	0%	1880	2596	57%	56%
Ancillary audit work								
Gemalto N.V			0%	0%	400	1200	12%	26%
Gemalto subsidiaries			0%	0%		132	0%	3%
Sub Total	110	67	100%	100%	3113	4466	94%	96%
Other services			0%	0%	205	191	6%	4%
Total	**110**	**67**	**100%**	**100%**	**3318**	**4657**	**100%**	**100%**

On behalf of the Board, the Committee carried out the assessment, review and monitoring of internal controls for the year 2007. The Committee also reviewed and discussed the finance integration following the Combination, the implementation of the corporate structure reorganization plan, tax management, treasury policies and procedures, reports on whistleblowing, and litigation and financial exposures, in particular in the area of pensions.

6.4 REPORT OF THE NOMINATION AND GOVERNANCE COMMITTEE

The Committee consists of three Non-Executive Board members, listed in section 5.1. During 2007, the Committee held four meetings.

In accordance with its charter, the Committee advised the Board in 2007 on the reappointment of Messrs. A. Mandl, M. Soublin and J. de Wit 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 at several meetings the profile of a Non-Executive Chairman to be appointed by the Board after the end of the mandate of Mr. A. Mandl as Executive Chairman, and possible candidates for this position, following interviews held by the Committee.

The Committee supervised the policy of the Board on the selection criteria and appointment procedures for Gemalto's senior management. The Committee monitored the development of senior management and reviewed the succession plan process for the CEO and the senior management. The Committee advised the CEO regarding the appointment and resignation of senior managers.

During 2007, the Committee discussed further steps that the Company could take to improve its corporate governance and the way the Dutch Corporate Governance Code has been implemented. The Committee proposed to the Board to adopt an amended policy on inside information. The Committee reviewed and proposed to the Board an amendment of the Company's articles of association, which were subsequently adopted by the AGM on May 22, 2007. The Committee prepared the annual self-assessment of the Board and the Committees, which took place in the second half year of 2007.

The Committee advised the Board on the reappointment of Messrs. Fink, Piou and van der Poel whose mandates will end at the AGM of May 14, 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 2007, the Committee held seven meetings, as well as an informal full day session on Gemalto's long term strategy 2007-2009 to which the entire Board was invited.

In accordance with its charter, the Committee advised and submitted recommendations to the Board in 2007 on the Board's responsibilities in overseeing and reviewing the major features of the Company's merger, acquisition and divestiture activities and the Company's strategic plans and their implementation. The Committee reviewed the Company's long term strategic plan 2007-2009, reviewed and assessed the ongoing integration planning for the Combination and its implementation and reviewed certain investment and divestiture proposals.

6.6 REPORT OF THE COMPENSATION COMMITTEE

The Committee consists of four Non-Executive Board members who are listed in section 5.1. During 2007, it held seven meetings: five in person and two by conference call.

In these meetings, the Committee reviewed the 2006 achievements and associated bonus payments for the CEO, Executive Chairman and senior management, as well as the proposed 2007 bonus levels and objectives.

The Committee discussed and proposed an amendment to the Remuneration Policy for the CEO and Executive Chairman, as described in more detail in section 6.7.

It reviewed the 2006 stock option plan regarding the exchange of Gemplus options ("GEIP 2006") and proposed certain amendments to the employee incentive plans, which were adopted by the AGM. The Committee reviewed the sales incentive plan for 2007; and during several meetings, it examined a 2007 equity incentive plan, which was endorsed by the Board, under which restricted share units and options were granted to eligible employees. Details of the grant of restricted share units to the CEO are set out in section 6.7.3 below.

The Committee hired an external consultant to provide an update on current executive compensation levels and practices as a basis for recommendations to the Board for 2008 compensation.

The Committee also reviewed and proposed an increase of the remuneration of the Non-Executive Board members, which was adopted by the AGM of May 22, 2007.

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 22, 2007.

The EGM of January 31, 2006 resolved that the Remuneration Policy for the CEO would also apply in principle for the Executive Chairman for the Executive Period. As of December 2, 2007, Mr. A. Mandl was remunerated as Non-Executive Chairman of the Board.

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

The objectives of the Remuneration Policy are to attract, retain and offer incentives to well qualified and experienced executives by offering compensation that is competitive in the industry and which motivates them to surpass the Company's business objectives, aligning their interests with those of the shareholders.

The remuneration of the CEO and Executive Chairman consists of four elements: (i) base salary, (ii) variable bonus or incentives, (iii) long term or deferred incentives and (iv) Board member fee of Gemalto N.V.

The sum of the base salary and the fixed Board member fee constitutes the "Total Reference Compensation" ("TRC").

Their remuneration is periodically calibrated by comparison with other relevant international and European companies, including:
- French general industry companies comparable in size with Gemalto in terms of revenue and market capitalization, with an emphasis on those in the high tech and manufacturing sectors;
- European semiconductor and telecom companies from France, the Netherlands, Germany and the UK;
- US semiconductor companies comparable in size with Gemalto.

Assuming that challenging, but achievable targets have been met, it has been determined that the overall remuneration of the CEO and the Executive Chairman should be clearly above the market median of the remuneration practices of the comparison group. In the case where Gemalto has realized exceptional financial results, the total compensation is designed to be in the upper quartile of the market.

6.7.2 Base Salary and Variable Bonus or Incentives

6.7.2.1 Base Salary

The TRC is fixed and reviewed every year. It is targeted slightly above mid-point (near the 60th percentile) of the comparison group. The TRC of the CEO and of the Executive Chairman respectively, was not adjusted in 2007.

6.7.2.2 Variable bonus or Incentives

As adopted by the AGM of May 22, 2007, the variable compensation of the CEO and Executive Chairman, based on the achievement of personal and financial objectives, ranges from 0 to 120% of the TRC. For 100% (at target) achievement of objectives, the variable compensation is 120% of the TRC. To encourage and reward exceptional financial results (in excess of 100% (at target) achievement of objectives), the variable compensation related to financial objectives provides for stretching targets so that it can reach up to 180% of the TRC.

Part of the variable compensation is related to Gemalto's financial results, such as revenue, and operating income with target levels, 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 (typically 4-6) of strategic, tactical or individual objectives, also determined annually by the Board on the recommendation of the Compensation Committee.

The variable compensation attainable at 100% (at target) achievement of objectives is clearly above the mid-point (60th percentile) of the comparison group. The objectives for variable compensation typically relate to short term (annually) performance targets and are key drivers for value creation and growth in shareholder value. The Board, on the recommendation of the Compensation Committee, sets these targets at the start of each financial year.

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 (100%). At stretch level, the maximum is earned. This compensation is calculated using

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two linear interpolation scales from threshold to target and from target to stretch. The overall ceiling is set at 180%.

For 2007, 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 Executive Chairman's financial targets accounted for 1/3 of the variable compensation and were the same as for the CEO. The non-financial targets, accounting for 1/3 of the CEO's variable compensation and 2/3 of the Executive Chairman's, depended on their specific responsibilities and were linked with the overall success and development of the Company.

6.7.3 Long Term or Deferred Incentives

The long term or deferred incentive part of the total remuneration package for the CEO and the Executive Chairman is designed to be clearly above the mid-point of the comparison group.

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

Global Equity Incentive Plan

Under the GEIP, the CEO and the Executive Chairman may receive options, restricted share units or share appreciation rights (jointly referred to as "Awards"). As adopted by the AGM of May 22, 2007, the Board is authorized to grant them annually a maximum of 250,000 options. Any such options are unconditional. However, when granting option rights, the Board applies performance criteria. The options have no profit criteria, as they are designed as long term equity based remuneration rewarding performance realized. 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.

As of the end of Mr. Mandl's employment contract as Executive Chairman, on December 2, 2007, all his Gemplus and Gemalto options vested.

The AGM of May 22, 2007 approved the grant, as of June 2, 2006, of 200,000 unconditional options for a price of €23.10 per share to Mr. O. Piou, CEO, and to Mr. A. Mandl, Executive Chairman (these options are held through a company controlled by Mr. Mandl), in recognition of their achievements in 2006 related to the Combination. Those granted to Mr. Piou may only be exercised after four years from the date of grant and are valid for up to nine and a half years from the date of grant. Those granted to Mr. Mandl vested in full on December 2, 2007, the end of the Executive Period, and are valid for up to ten years from the date of grant.

On September 27, 2007, the Board granted restricted share units to Mr. Piou with performance criteria based on the stock market value of the Gemalto shares. The performance criteria are met in case of reaching specific thresholds of the Gemalto share market price, for 60 consecutive trading days. Along the philosophy of encouraging management further than target, the Board also designed a set of stretched 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 restricted share units 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. This grant has been made subject to the subsequent approval of a next AGM, which is planned to be held on May 14, 2008.

Should the AGM not approve the grant of restricted share units to Mr. Piou, consistent with the existing authorization granted by the shareholders, the Board would then have granted to Mr. Piou, as of September 27, 2007, 250,000 unconditional options at € 20.83 per share. These could only be exercised after four years from the date of grant and would be valid for up to nine and a half years from the date of grant.

Global Equity Share Purchase Plan

Under the GESPP, the Company may offer eligible employees, including the CEO and Executive Chairman, the opportunity to buy shares in the Company at a discount to the prevailing market price.

The CEO and the Executive Chairman may participate in the GESPP, as well as in any similar plans in the future. Their maximum annual contribution is the lesser of 25% of their total remuneration and €20,000. The maximum discount of the purchase price of the shares is 20% based on the lower of their values on the first and last day of the offering period.

During 2007, the Company did not offer eligible employees, such as the CEO and the Executive Chairman, the opportunity to purchase discounted shares in the Company under the GESPP.

The CEO may participate in the GESPP through a 'Fonds Commun de Placement d'Entreprise' ("FCPE"). For more information, please refer to section 4.4.2.

6.7.4 Remuneration paid for 2007

The remuneration paid by the Company or by companies of the Group to the CEO and the Executive Chairman for the 2007 financial year is as follows:

In Euros	Total Reference Compensation (TRC) (1)	Bonus paid in 2008 for 2007 achievement (percentage of TRC)	Total gross compensation paid for 2007	Number of restricted share units (2)
O. Piou	550,000	857,560 (156 %)	1,407,560	The number may vary from 0 up to 80,000 with a maximum multiplier of three *(i.e. up to 240,000)*
A. Mandl(3)	552,329	695,758 (126 %)	1,248,087	0

(1) Including Board member fees
(2) The grant has been made subject to the approval of the General Meeting
(3) Remuneration for the period January 1 – December 2, 2007

6.7.5 Contracts of employment

Mr. O. Piou was appointed as CEO in 2004 for a term of four years until the AGM of 2008. He has an employment contract, not limited in time, governed by French law with Axalto International SAS, a Gemalto subsidiary. He has a six month notice period.

Mr. A. Mandl was appointed as Executive Chairman for a term of 18 months, which ended on December 2, 2007. His employment contract, which ended on December 2, 2007, was governed by the laws of the State of New York with Gemalto Corp, a Gemalto subsidiary.

If Gemalto terminates the CEO's employment contract, he is entitled to a severance payment equal to one year of the 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 by Axalto International SAS during the twelve months before termination. All bonuses and other discretionary cash incentives, as well as all Board member fees received during that period, will also be added.

Pension Schemes

The pension schemes in force in the Group are in line with local practices in the countries of residence of the CEO and Executive Chairman. The CEO does not benefit from any special pension plan provided by Gemalto, other than the mandatory basic legal pension system in France. During the term of his employment contract, the Executive Chairman did not benefit from any special pension plan provided by Gemalto, other than the 401K plan provided by Gemalto to US employees. For 2007 the related financing costs of the pension scheme of the CEO amount to € 48,349 and of the Executive Chairman to € 9,628.

There are no agreed arrangements for early retirement of the CEO nor were there for the Executive Chairman, as he had an employment contract for a defined period of time which ended on December 2, 2007.

6.7.6 Loans

Gemalto does not grant loans to the CEO and the Executive Chairman.

6.7.7 Compensation for 2008

The CEO's Total Reference Compensation will be adjusted in 2008.

For 2008, 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 2008 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 the Company.

At the AGM of May 14, 2008 the Board will propose to amend the Remuneration Policy as per the financial year 2008 to include the following items:
• The Board will be 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 generally recognized valuation methods.
• A description of performance criteria to be applied in connection with any grants or vesting of Awards granted to the CEO.
• In case of exceptional performance, the variable compensation, both with regards to achievements of financial targets, as well as with regards to achievements of non-financial targets, can be increased so that the total variable compensation can reach up to 180% of the Total Reference Compensation.
• Overall compensation is about 60th percentile in case of on target performance, which may be the upper quartile in case of exceptional performance. The composition of the contributing elements is:
- Base salary: above median;
- Variable bonus or incentives: above median; with an average over the years of about 60th percentile;
- Long term of deferred incentives: above median, which may be the upper quartile in case of exceptional performance.

The Board does not foresee any other changes to the Remuneration Policy for the year 2008.

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Report of the non-executive board members

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

• Provision II.2.2: the options granted to Mr. A. Mandl, in his position as Executive Chairman, vested after eighteen months instead of the recommended three years.
This is not in line with the Dutch Corporate Governance Code, which recommends that options should not be exercisable within the first three years after the date of grant, but it is in line with and results from the execution of the Combination Agreement.
• 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 Axalto International SAS or Gemalto N.V. is terminated for willful misconduct, any option rights vest automatically upon termination of the CEO's employment and also remain exercisable for the full term of the option, notwithstanding any early termination provisions in the GEIP and the relevant Sub-Plan. Any other equity-based schemes will continue to vest even after the date of termination. Although it is not normally 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 Executive Board members. The severance payments for the CEO and the Executive Chairman are not in line with the Dutch Corporate Governance Code, which recommends that the maximum remuneration of one year's salary is based on the fixed remuneration component. However, their severance payments are included in the Remuneration Policy adopted by the AGM and are in line with and result 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 Dutch Corporate Governance Code, the Company does not disclose the names of the companies in the comparison group for confidentiality reasons.
- Non-disclosure of the non-financial targets of the Executive Board members, i.e.
Gemalto does not disclose the non-financial targets for competitive reasons.

6.8 FINANCIAL STATEMENTS 2007

The financial statements of the Company for 2007 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 2007 be adopted in accordance with article 20 of the Articles of Association by the AGM of May 14, 2008 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 contribution during the year.

The Non-Executive Board members

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

Amsterdam, April 10, 2008

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7.1 CONSOLIDATED FINANCIAL STATEMENTS

7.1.1 Consolidated balance sheets for the periods ended December 31, 2006 and 2007

In thousands of Euro		Year ended December 31,	
	Notes	2006(*)	2007
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	242,922	217,095
Goodwill, net	9	547,572	543,831
Intangible assets, net	9	115,633	73,715
Investments in associates	10	15,912	8,294
Deferred income tax assets	29	17,897	21,891
Available-for-sale financial assets, net	11	7,401	1,445
Assets held for sale	11	-	3,479
Other non-current assets	12	25 910	22,774
Total non-current assets		**973,247**	**892,524**
Current assets			
Inventories, net	13	177,814	173,737
Trade & other receivables, net	14	447,162	439,505
Derivative financial instruments	20	6,407	15,750
Cash & cash equivalents	15	430,326	337,441
Total current assets		**1,061,709**	**966,433**
Total assets		**2,034,956**	**1,858,957**

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In thousands of Euro	Notes	Year ended December 31, 2006(*)	2007
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		90,083	91,016
Share premium		1,241,326	1,247,140
Treasury shares		(5,240)	(139,932)
Fair value and other reserves		73,151	82,674
Cumulative translation adjustment		(4,158)	(22,475)
Retained earnings		22,319	(27,746)
		1,417,481	1,230,677
Minority interest		**26,884**	**11,568**
Total equity		**1,444,365**	**1,242,245**
LIABILITIES			
Non-current liabilities			
Borrowings	16	26,429	16,710
Deferred income tax liabilities	29	28,219	14,816
Retirement benefit obligation	17	33,272	25,959
Provision and other liabilities (**)	18	61,395	79,722
Total non-current liabilities		**149,315**	**137,207**
Current liabilities			
Trade & other payables (**)	19	407,883	392,459
Current income tax liabilities		9,902	7,089
Borrowings	16	7,787	6,918
Derivative financial instruments	20	280	468
Provisions & other liabilities	21	15,424	72,571
Total current liabilities		**441,276**	**479,505**
Total liabilities		**590,591**	**616,712**
Total equity and liabilities		**2,034,956**	**1,858,957**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

(**) Compared to the published consolidated financial statements for the year ended December 31, 2006, Trade and other payables have been reclassified to Non-current provisions and other liabilities for €22,587 (see notes 18 and 19).

7.1.2 Consolidated income statements for the periods ended December 31, 2006 and 2007

In thousands of Euro		Year ended December 31,	
	Notes	2006(*)	2007
Revenue	22	1,319,392	1,629,487
Cost of sales		(934,727)	(1,135,544)
Amortization of inventory step up	4	(15,166)	
Gross profit		**369,499**	**493,943**
Operating expenses			
Research and engineering		(85,077)	(102,739)
Sales and marketing		(164,029)	(217,347)
General and administrative		(86,027)	(99,713)
Other income (expense), net	26	(3,933)	3,343
Combination related expenses	5	(8,519)	(1,241)
Reorganization expenses	5	(19,458)	(100,026)
Amortization and depreciation of intangible assets	5	(36,620)	(47,454)
Operating result		**(34,164)**	**(71,234)**
Finance income (expenses), net	27	4,355	10,465
Share of profit (loss) of associates	10	(1,091)	432
Gain on sale of investment in associate		–	11,224
Profit (loss) before income tax		**(30,900)**	**(49,113)**
Income tax credit (expense)	29	(42,494)	3,474
Profit (loss) for the period		**(73,394)**	**(45,639)**
Attributable to			
Equity holders of the company		(66,383)	(50,190)
Minority interest		(7,011)	4,551
Basic earnings per share	30	(1.07)	(0.58)
Diluted earnings per share	30	(1.07)	(0.58)
Average number of shares outstanding	30	62,174	86,172

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

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7.1.3 Consolidated statements of changes in shareholders' equity for the periods ended December 31, 2006 and 2007

In thousands of Euro	Number of shares
Shareholders' equity as of January 1, 2006	40,578,435
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 pension obligation	
Cash flow hedges	
Net income/(expense) recognized directly in equity	
Profit/(Loss) for the period	
Total recognized income for 2006	
Employee share option scheme	
Purchase of Treasury shares, net	
Capital increase further to Contribution in Kind of Gemplus International SA shares (see note 4)	21,985,104
Capital increase further to acquisition of minority interests in Gemplus International S.A. (see note 4)	27,518,996
Costs incurred on Gemalto share capital increase	
Excess of purchase price on subsequent acquisitions of Gemplus shares	
Minority interest on Gemplus acquisition	
Dividend	
Balance as of December 31, 2006 (*)	**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 pension obligation	
Cash flow hedges	
Revaluation further to acquisition of LMG minority interest	
Net income/(expense) recognized directly in equity	
Profit/(Loss) for the period	
Total recognized income for 2007	
Employee share option scheme	
Purchase of Treasury shares, net	
Capital increase further to acquisition of minority interests in Gemplus International S.A. (see note 4)	933,309
Excess of purchase price on subsequent acquisitions	
Minority interest on Gemplus acquisition	
Dividend	
Balance as of December 31, 2007 (**)	**91,015,844**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.
(**) 83,491,578 outstanding shares as of December 31, 2007.

Attributable to equity holders of the company						Minority interest	Total equity
Share capital	Share premium	Treasury shares	Fair value & other reserves	Cumulative translation adjustment	Retained earnings		
40,579	450,369	(3,211)	(4,252)	17,466	88,702	2,424	592,077
				(21,624)		(741)	(22,365)
			1				1
			6,435				6,435
			2,806			75	2,881
			3,868			(888)	2,980
-	-	-	13,110	(21,624)	-	(1,554)	(10,068)
					(66,383)	(7,011)	(73,394)
-	-	-	13,110	(21,624)	(66,383)	(8,565)	(83,462)
			64,293				64,293
		(2,029)					(2,029)
21,985	488,949						510,934
27,519	510,939						538,458
	(3,998)						(3,998)
	(204,933)						(204,933)
						36,704	36,704
						(3,679)	(3,679)
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	(18,317)	125	(442)	(13,042)
					(50,190)	4,551	(45,639)
-	-	-	5,592	(18,317)	(50,065)	4,109	(58,681)
			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**

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7.1.4 Consolidated statements of cash flow for the periods ended December 31, 2006 and 2007

In thousands of Euro		Year ended December 31,	
	Notes	2006	2007
Cash flows from operating activities			
Cash generated from operations	31	93,673	90,978
Interest paid		(1,512)	(2,288)
Income tax paid (refunded)		(15,628)	7,681
Net cash provided by (used in) operating activities		**76,533**	**96,371**
Cash flows from (used in) investing activities			
Acquisition of subsidiary, cash acquired net of costs		205,001	75
Purchase of Gemplus minority interests		-	(4,068)
Purchase of minority interests in subsidiaries		-	(2,486)
Purchase of property, plant & equipment	8	(49,529)	(42,260)
Proceeds from sale of property, plant & equipment		148	2,099
Purchase of intangible assets		(7,474)	(21,657)
Refund (purchase) of non-current assets		(903)	2,132
Proceeds from sale of available-for-sale investments		-	5,614
Proceeds from sale of investments in associate		-	16,877
Proceeds from dissolution of an investment in associate		-	2,343
Purchase of investments in associates		-	(290)
Interest received		11,338	11,650
Net cash provided (used in) investing activities		**158,581**	**(29,971)**
Cash flows from (used in) financing activities			
Proceeds from exercise of stocks options		2,241	6,224
Purchase of Treasury shares (net)		(2,138)	(144,309)
Proceeds from borrowings		1,763	1,560
Repayments of borrowings		(5,767)	(11,154)
Dividends paid to minority interests		(3,813)	(5,486)
Net cash provided by (used in) financing activities		**(7,714)**	**(153,165)**
Net increase (decrease) in cash and bank overdrafts		227,400	(86,765)
Cash and bank overdrafts, beginning of period		219,095	429,597
Currency translation effect on cash and bank overdrafts		(16,898)	(6,017)
Cash and bank overdrafts, end of period	15	**429,597**	**336,815**

7.1.5 Notes to the consolidated financial statements for the periods ended December 31, 2006 and 2007

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 (see note 4).

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 (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 assembly plants and sells around the world.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Koningsgracht Gebouw 1, Joop Geesinkweg 541-542, 1096 AX Amsterdam, the Netherlands.

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

These consolidated financial statements for the year ended December 31, 2007 have been authorized for issue by the Board of Directors of the Company on April 10, 2008 and are subject to adoption at the Annual General Meeting of Shareholders on May 14, 2008.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Gemalto for the year ended December 31, 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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) Standard, Amendment and Interpretations effective for 2007 financial statements

The Group has adopted the following new and amended IFRS / IAS and IFRIC Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the Group's financial performance or position. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

IFRS 7 *Financial Instruments: Disclosures*

This Standard requires new disclosures (of qualitative and quantitative information) that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. This Standard hence introduces specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 *Amendment – Presentation of Financial Statements*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. This amendment does not have any impact on the Group's reported financial statements as Gemalto has no net financial debt.

IFRIC 8 *Scope of IFRS 2*

IFRIC Interpretation 8 requires IFRS 2 to be applied to any arrangement in which the entity cannot identify some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value.

As equity instruments are only issued to employees in accordance with the employee share scheme, the Interpretation has no impact on the Group's reported financial statements.

IFRIC 10 *Interim Financial Reporting and Impairment*

IFRIC Interpretation 10 is effective for financial years beginning on or after November 1, 2006 and established that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The Interpretation has no impact on the Group's reported financial statements.

(b) Interpretations effective for 2007 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on January 1, 2007 but they are not relevant to the Group's operations:

IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*

IFRIC 9 *Reassessment of Embedded Derivatives*

(c) Standards and Interpretations issued but not effective for 2007 financial statements (and not adopted early by the Group)

IFRS 8 *Operating Segments*

IFRS 8 was issued in November 2006 and becomes effective for financial years beginning on or after January 1, 2009. The Standard requires presentation of information regarding operating segments and management approach as segment information must be presented on the same basis as that used for internal reporting purposes. The Group will apply this Standard for the financial year beginning on January 1, 2009. The impact, if any, of the application of this Standard has not been finally assessed at this stage.

IAS 1 (revised 2007) *Presentation of Financial Statements*

IAS 1 (revised 2007)

is applicable for financial years beginning on or after January 1, 2009. This revision changes the structure of the financial statements mostly because changes in the shareholders' equity will be booked only as a consequence of transactions between shareholders (owner changes). Other components currently booked in changes in shareholders' equity would be included in a comprehensive income statement.

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IAS 23 *Borrowing costs*

A revised IAS 23 *Borrowing costs* was issued in March 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No change will be made for borrowing costs incurred to this date that have been expensed.

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

IFRIC Interpretation 11 was issued in November 2006 and becomes 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.

The Group expects that this Interpretation will have no impact on the Group's reported financial statements.

IFRIC 12 *Service Concession Arrangements*

IFRIC Interpretation 12 was issued in November 2006 and becomes 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 will have no impact on the Group's reported financial statements.

IFRIC 13 *Customer Loyalty Programs*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

This Interpretation will have no impact on the Group's reported financial statements as no such loyalty scheme currently exists.

IFRIC 14 *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was issued in July 2007 and becomes 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. The Group expects that this Interpretation will have no impact on the Group's reported financial statements.

2.2 Consolidation

(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. For further acquisitions of minority interests, the excess of the cost of acquisition over the fair value of the Group's additional share of the identifiable net assets acquired is recorded against the share premium in the equity. 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). Adjustments to the fair value of the assets and liabilities acquired 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 associates are accounted for by the equity method of accounting and are initially recognized at cost. Gemalto's investment in associates 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.

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 relevant functional currency 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 which provides 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; 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 or sold, 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's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Gemalto and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are reflected in the result of operations.

Leases of property, plant and equipment where Gemalto has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the asset or 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 associates'. Separately recognized goodwill is reviewed annually for impairment or more frequently when there is an indication that it may be impaired, and carried at cost less accumulated impairment losses. 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;
- significant negative industry or economic trends.

Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

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(b) Other intangible assets

Other intangible assets are shown at historical cost. 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, as described in note 4, 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 is amortized over 19 months and 36% is amortized over 4 years (see note 4).

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 (see note 2.6(a) above). 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.

(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, 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 or 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.

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 forecasted demand, we could be required to record additional inventory write-downs, which could have a negative effect on our gross profit.

2.10 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized costs 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 borrowings 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

The provision for income taxes presented in these consolidated financial statements was computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 income tax is determined 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 deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 credit and government grant

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. 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 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.

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-services 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".

Past-service costs are recognized immediately in income 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. 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 options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about

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the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options 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 over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(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) Products and services 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 collectability is reasonably assured. Revenue for services is recognized over the period when services are rendered and collectability is reasonably assured. Revenue for royalties is recognized when income is earned and collectability 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) Collectability

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, 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 within "Fair value and other reserves" are shown in the Consolidated Statement of Changes in Shareholders Equity.

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 Consolidated Income Statement in the periods when the hedged items will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Income Statement.

For fair value hedges of existing assets and liabilities, the change in the fair value of the derivative is recognized in the income statement under the same heading as the change in the 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 the fair value of the hedging instruments are recorded immediately as foreign exchange gains and losses for the period.

2.23 Estimation of derivative financial instruments 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 the forward exchange contracts at inception is zero. Fair value during the life and at expiration of the forward contract 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 maturity 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.

An option contract's value at inception is the initial premium paid or received. Over the life of the option and at expiration, fair value is determined using standard option pricing models (such as the Black & Scholes 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 price and expiration date).

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, Pound Sterling, Japanese Yen, 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 forecasted 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 these 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 our subsidiaries' known or forecasted commercial transactions not denominated in their functional currencies are qualified as cash flow hedges under IAS 39 until the time when the underlying transactions materialize in profit or loss. Other foreign exchange forward contracts that hedge the foreign exchange risk incurred with the settlement of balance sheet items not denominated in our subsidiaries' functional currency are qualified as fair value hedges (see note 20 Derivative financial instruments).

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

- effect on profit and loss due to changes in the fair value of monetary 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 are much less significant and do not exceed €0.3 million for any given currency.

	Variation in $ rate	Effect on profit before tax as at December 31, (in millions of Euro)	Effect on equity as at December 31, (in millions of Euro)
2007	+2.5%	+0.1	+2.9
	(2.5)%	(0.1)	(3.1)
2006	+2.5%	+1.7	+2.3
	(2.5)%	(1.8)	(1.9)

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3.2 Interest rate risk

Our financial assets are invested in bank deposits and money market funds classified as Cash and cash equivalents. Our 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 in the short term a significant impact on its financial situation, 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 (in millions of Euro)	Variation in interest rate (in basis points)	2006	2007
Borrowings	(50)	0.5	0.3
	50	(0.5)	(0.3)
Short Term deposits and Investment funds	(50)	(1.4)	(1.3)
	50	1.4	1.3

3.3 Liquidity risk

By maintaining sufficient Cash and cash equivalent positions as well as an adequate amount of committed credit facilities (including the syndicated bank loan facility of USD250.0 million referred to in note 16 (equivalent to €170.6 million, based on the USD/EUR accounting exchange rate as of December 31, 2007), which has a maturity date on August 24, 2012, the Company considers 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 net-settled derivative financial liabilities into relevant maturity groupings 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. 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
Borrowings	8,072	15,044	3,842
Derivative financial instruments	468	–	–
Trade & other payables	392,459	–	–
	400,999	**15,044**	**3,842**

3.4 Financial counterparty risk

Derivative financial instruments and all significant cash deposits are exclusively held with major financial institutions of investment grade. Cash deposits are invested in money market fixed term deposits or mutual funds. Custodians of our money market funds are also major financial institutions of investment grade with a minimum rating of AA-. 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.

On December 31, 2007, no financial institution accounted for more than 25% of the cash deposits and 26% of the derivatives financial instruments. The exposure to non-investment grade financial institutions was 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 during the years ended December 31, 2006 and 2007. We maintain an allowance for uncollectible accounts receivable based on expected collectibility. We assess the expected collectibility of our accounts receivable periodically or when events lead us to believe that collectibility is uncertain. Additionally, we perform ongoing credit evaluations of our customers' financial condition.

As of December 31, 2007, trade receivables of €97,576 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

Overdue by:	Year ended December 31, 2007
Up to 1 month	54,747
2 to 3 months	25,659
4 to 6 months	9,803
Later than 6 months	17,976
	108,185
Provision for impairment of receivables	(10,609)
Trade receivables overdue but not impaired	**97,576**

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended December 31, 2007
January 1, 2007	**(14,534)**
Provision for impairment of receivables	(5,181)
Receivables written off during the year as uncollectible	3,684
Unused amounts reversed	4,846
Currency translation adjustment	576
December 31, 2007	**(10,609)**

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk as of December 31, 2007 is the trade receivables mentioned in note 14. The group does not hold any collateral as security.

Note 4 Business combination with Gemplus

On June 2, 2006, the two companies Gemalto N.V. (formerly named Axalto Holding N.V.) (the "Company") and Gemplus International S.A. ("Gemplus") combined to create Gemalto, the world leader in digital security.

Texas Pacific Group ("TPG") and certain Quandt family entities ("Quandt family entities"), the two main shareholders of Gemplus owning approximately 25.3% and 18.3% of Gemplus capital, respectively, contributed their shares to the Company at an exchange ratio of 2 Gemalto shares for every 25 Gemplus shares (the "Contribution In Kind"). Immediately prior to this Contribution in Kind, Gemplus distributed €0.26 per share from its distributable reserves to all its shareholders. As a result of this first step, the Company held approximately 43.6% of the capital of Gemplus.

Subsequently, Gemalto launched a voluntary public exchange offer on July 11, 2006 for the remaining Gemplus shares at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares.

On August 25, 2006, following the public exchange offer by Gemalto for the Gemplus shares, 324,481,977 Gemplus shares had been tendered to the offer, representing in the aggregate, including the shares contributed by TPG and the Quandt family entities, 94,6% of the Gemplus capital.

On September 12, 2006, the public exchange offer initiated by Gemalto for the shares issued by Gemplus was reopened. Following this reopening, on November 17, 2006, Gemalto held 96.6% of the share capital.

On November 2, 2006, Gemalto announced that from November 9, 2006 through February 8, 2007 or such earlier date that Gemalto might determine to implement a mandatory squeeze out under applicable Luxembourg law, Gemplus shareholders were entitled, pursuant to applicable Luxembourg law, to exercise their right to sell ("droit au rachat obligatoire" or "sell-out") any Gemplus shares held by them to Gemalto in exchange either for Gemalto shares (at the same ratio as provided in the exchange offer) or in exchange for cash in the amount of €1.30 per Gemplus share.

Further to the first centralization period of the statutory sell-out (from November 9 to November 30, 2006) and as evidenced in Euronext notice No 20061211-5599 of December 11, 2006, as of such date Gemalto held 97.7% of the share capital of Gemplus.

Further to the second centralization period of the statutory sell-out (from December 1 to December 22, 2006), and as evidenced in the Euronext notice No 20070104-5868 of January 4, 2007, 2,663,280 shares were tendered and consequently, as of January 4, 2007, Gemalto held 98% of the share capital of Gemplus.

On January 8, 2007, Gemalto announced its decision to implement, pursuant to applicable Luxembourg law, the mandatory squeeze-out ("retrait obligatoire") of Gemplus shares which it did not already hold in exchange for either Gemalto shares (in the same ratio as provided in the exchange offer) or cash in the amount of €1.30 per Gemplus share.

Further to the third centralization period of the statutory sell-out (from December 23, 2006 to January 23, 2007), as evidenced in the Euronext notice No 20070201-6240 of February 1, 2007, and upon the settlement of the mandatory squeeze-out on January 29, 2007, Gemalto held 634,630,323 shares of Gemplus representing 100% of the capital of Gemplus.

On January 29, 2007, the Gemplus shares were delisted from the Eurolist by Euronext Paris S.A. and its American depositary shares ("ADS") were delisted from the Nasdaq Global Select Market. As a result, Gemalto was deemed to succeed to the registration of Gemplus. On June 5, 2007, Gemalto elected to terminate the registration of its ordinary shares and any of its remaining US reporting obligations.

Gemalto accounted for the combination with Gemplus applying the purchase method of accounting as defined by IFRS 3 "Business Combination" ("IFRS 3"). Based on the analysis of all factors given by IFRS 3 paragraphs 19 to 21, management concluded that, under IFRS, Gemalto was considered as the acquirer, for accounting purposes, and Gemplus as the acquired entity. As defined by IFRS 3, the cost of the Gemplus shares acquired following the Contribution In Kind and of the subsequent acquisitions were measured as the aggregate of (i) the market value at the closing dates of the Contribution In Kind and of the subsequent acquisitions, of the new Gemalto shares issued in exchange of Gemplus shares and (ii) any costs directly attributable to the business combination.

A summary of the accounting for this transaction is set out below by reference to the various phases of the transaction.

Phase I

After the closing of the Contribution in Kind on June 2, 2006, Gemalto and Gemplus management were immediately integrated. Furthermore Gemalto, owning 43.6% of the Gemplus shares, had become by far the largest shareholder of Gemplus, with no other shareholder or group of shareholders holding more than 7% of Gemplus capital. Therefore, Gemalto was deemed to have obtained effective control of Gemplus.

Gemalto then:

- recognized at fair value the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquired entity,
- recognized a goodwill as the excess of the cost of the business combination over Gemalto interest in the net fair value of Gemplus identifiable assets and liabilities and contingent liabilities,
- measured and recognized the non-controlling interests (56.4%) as the non-controlling interests in the identifiable assets acquired and liabilities and contingent liabilities assumed.

The final purchase consideration for the acquisition of 43.6% of Gemplus shares was calculated as follows:

	In millions of Euro (except for number of shares and share price)
Purchase consideration for 43.6% of Gemplus shares	
Gemalto share price as of June 02, 2006 (1)	23.24
Number of shares issued by Gemalto	21,985,104
Fair Value of acquired shares	**510.9**
Fair Value of Gemplus warrants and stock-options as of June 02, 2006	55.1
Capitalized Acquisition Costs	22.5
Total Purchase Consideration for 43.6% of Gemplus shares	**588.5**

(1) The share price corresponds to the mean of the Gemalto share price for the period beginning 2 days before and ending 2 days after June 2, 2006.

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Gemalto management, assisted by independent, qualified experts, identified and assigned fair values to Gemplus assets and liabilities, as part of the allocation of the value of the combination.

The final 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, is as follows:

Net Assets acquired (excluding intangibles)	In millions of Euro
Gemplus net assets acquired as of the date of the acquisition	657.5
Identified intangible assets on the balance sheet	(126.9)
Net Assets acquired (excluding intangibles)	**530.6**
Minority Interest in Gemplus subsidiaries	(13.6)
Adjustments on Net Assets acquired	
Real estate assets	(4.0)
Inventory:	
- Revaluation to net realizable value	7.0
- Cancellation of commercial margin related to deferred revenue balance	7.8
Cancellation of commercial margin of deferred maintenance balance	0.4
Total adjustments on Net Assets acquired	**11.2**
Fair Value of the acquired intangible assets	
Existing Technology	81.8
In-Process R&D	20.8
Customer Relationships	22.2
Corporate Name	9.8
Fair Value of the acquired intangible assets	**134.6**
Deferred tax impacts	
Deferred tax liability related to the revaluation of the inventory and to amortizable intangible assets	(45.1)
Deferred tax asset related to identified intangible assets on Gemplus balance sheet, eliminated from the net assets acquired	10.1
Total adjusted net assets, including acquired intangible assets	**627.8**
Minority interest in adjusted net assets (56.4%)[(1)]	(354.5)
Gemalto share of Gemplus adjusted net assets	**273.3**
Goodwill	**315.2**

(1) Excluding minority interest in Gemplus subsidiaries and assuming all adjustments to Gemplus net assets and all identified intangible assets are allocated to wholly owned subsidiaries of Gemplus.

Compared with the preliminary valuation made as of December 31, 2006, the goodwill was increased by €3.7 million due to adjustments of the fair value of the net assets acquired from Gemplus and of acquisition costs, as required by IFRS 3.

The intangible assets listed on the balance sheet of Gemplus as of the date of acquisition consisted of €91.9 million of Goodwill, mainly related to the acquisition of Setec (€60.7 million), €20.8 million of In-Process Research & Development and €14.2 million of other intangible assets. After the elimination of those intangible assets, the book value of the acquired shareholders' equity including minority interest was €530.6 million.

IFRS 3 requires that work-in-progress and finished goods inventories assumed in connection with this transaction are recognized at net realizable value (i.e. the estimated revenue derived from the future sale of these goods, over the estimated time to sell this inventory – 2.5 to 7 months – less expected selling or distribution costs). Therefore, the value of work-in-progress and finished goods inventories in the books of Gemplus on combination date was adjusted accordingly (step-up). In accordance with this requirement, the value of Gemplus work-in-progress and finished goods inventories was increased by €14.8 million.

Existing Technology and In-Process R&D were valued using the Relief from Royalty method under the income approach. We estimated the cost of licensing the acquired intangible asset from an independent third party using a royalty rate. Since the company owns the intangible asset, it is relieved from making royalty payments. Then the present value of the resulting cash flow savings in the context of the combined entity was calculated, and attributed to the owned intangible asset.

Customer relationships were valued using the Excess Earnings method under the income approach. It reflects the present value of the projected cash flows that are expected to be generated by the customer relationships in the context of the combined entity, less charges representing the contribution of other assets to those cash flows.

Estimated useful life of the depreciable intangible assets acquired:

Intangible Assets	Fair Value (in millions of Euro)	Amortization period
Existing Technology	81.8	64% until December 2007, 36% over 4 years
In-Process R&D	20.8	3 to 5 years
Customer Relationships	22.2	4 years
Total	**124.8**	

Gemplus corporate name was valued using the market approach: the appraisers analysed some recent transactions in the high-tech industry, for business-to-business products, involving trademarks and considered the price at which the trademarks had been bought. Because the Gemplus trade name ceased to be commercially used as from June 2, 2006, Gemalto Management decided to impair the asset as of that date.

The detail of assets and liabilities acquired is as follows:

In millions of Euro	Historical value as of June 2, 2006	Fair value as of June 2, 2006
Non-current assets		
Tangible assets	162.0	158.0
Intangible assets	131.6	139.3
Investments in associates	11.4	11.4
Deferred income tax assets	31.3	41.4
Available-for-sale financial assets, net	2.5	2.5
Other non-current assets, net	42.0	42.0
Total non-current assets	**380.8**	**394.6**
Current assets		
Inventory, net	125.1	139.9
Trade & other receivable, net	216.0	216.0
Derivative financial instruments	5.9	5.9
Cash and cash equivalents	232.7	232.7
Total current assets	**579.7**	**594.5**
Total assets	**960.5**	**989.1**
Non-current liabilities		
Non-current borrowings	24.7	24.7
Deferred income tax liabilities	2.5	47.6
Retirement benefit obligation	21.5	21.5
Non-current provisions and other liabilities	27.1	27.1
Total non-current liabilities	**75.8**	**120.9**
Current liabilities		
Trade & other payable	204.9	204.5
Tax liabilities	3.8	3.8
Current borrowings	5.5	5.5
Derivative financial instruments	–	–
Current provisions and other liabilities	13.0	13.0
Total current liabilities	**227.2**	**226.8**
Net assets acquired at 100%	**657.5**	**641.4**
Minority interests in Gemplus subsidiaries	**(13.6)**	**(13.6)**
Fair value of net assets acquired	**643.9**	**627.8**

Phase II

Gemalto launched a voluntary public exchange offer on July 11, 2006 for the remaining Gemplus shares at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 51.0% of Gemplus shares were contributed as of August 29, 2006 and 25,958,559 of Gemalto shares were issued.

Gemalto reopened the public exchange offer from September 12, 2006 to November 8, 2006 at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 2.0% of Gemplus shares were contributed and 1,086,546 of Gemalto shares were issued.

In application of the Luxembourg legislation applicable when a company owns more than 90% of the shares, Gemalto launched a statutory sell-out at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 1.1% of Gemplus shares were contributed on December 14, 2006 when the first centralization of shares tendered was available and 473,891 of Gemalto shares were issued.

At the end of the mandatory squeeze-out opened on January 8, 2007, Gemalto issued 933 309 shares and owned 100% of Gemplus.

For these four subsequent acquisitions, the excess of purchase price on share of net assets acquired, which was determined as follows, was recorded against the share premium of the issued Gemalto capital (amounts in millions of Euro):

Total Purchase Consideration for 56.4% of Gemplus shares	562.7
Value of Gemplus net assets acquired	348.0
Amount recorded against Gemalto Share premium	214.7

Note 5 Additional disclosure on the effect of the Combination with Gemplus on our financial statements

Due to the combination with Gemplus, the Company's financial statements have undergone significant change, due in particular to the accounting treatment of the transaction in accordance with IFRS 3 (see note 4 above).

The Group incurred in 2007 expenses in connection with the combination, which would not have been otherwise incurred. Combination related charges are disclosed on a separate expense line in the income statement for the twelve month period ended December 31, 2007, for an amount of €1,241 (€8,519 in 2006).

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, are disclosed under a line named "Reorganization expenses" in the IFRS income statement for an amount of €100,026 as of December 31, 2007 (€19,458 in 2006). This amount consisted of severance and associated costs for €71,503 (€14,258 in 2006) mainly related to the closure of production facilities in America, Asia and Europe, of property, plant and equipment, intangible asset and inventory write-offs and impairments for €20,050 (€2,100 in 2006) and of other costs for €8,473 (€3,100 in 2006) mainly related to IT integration costs.

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The Group also discloses under the line named "Amortization and depreciation of intangible assets" the amortization expense for the twelve month period ended December 31, 2007 related to the acquired Existing Technology and Customer Relationships, determined as per the amortization policy shown in note 4 above, for €40,426 and €5,638, respectively (€23,582 and €3,238 respectively in 2006). The expense resulting from the reduction of the goodwill on Gemplus acquisition as explained in note 9 is also included in this line item for €1,390. In 2006, this line also included the write-off of Gemplus corporate name for €9,800.

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.

	Year ended December 31, 2006						
	Mobile Communication	Secure Transactions	Security(*)	Public telephony	Point-of-sales terminals	Unallocated	Gemalto
Revenue	766,887	324,553	138,706	38,810	50,436		1,319,392
Cost of sales	(522,231)	(259,004)	(80,760)	(34,430)	(38,302)		(934,727)
Amortization of inventory step-up	(10,920)	(3,246)	(1,000)	–	–		(15,166)
Gross profit	**233,736**	**62,303**	**56,946**	**4,380**	**12,134**	**–**	**369,499**
Operating expenses	(190,994)	(72,765)	(52,623)	(5,122)	(13,629)		(335,133)
Other income, net	(2,010)	(1,160)	(453)	(262)	(48)		(3,933)
Combination related expenses						(8,519)	(8,519)
Reorganization expenses						(19,458)	(19,458)
Amortization and depreciation of intangible assets	(23,554)	(6,701)	(6,365)	–	–		(36,620)
Operating income/(loss)	**17,178**	**(18,323)**	**(2,495)**	**(1,004)**	**(1,543)**	**(27,977)**	**(34,164)**
Finance income/(expenses), net							4,355
Share of profit/(loss) of associates							(1,091)
Loss before income tax							**(30,900)**
Income tax expense							**(42,494)**
Loss for the period							**(73,394)**

(*) Includes revenue derived from the Group's patent licensing activities for €27.1 million.

	Year ended December 31, 2007						
	Mobile Commu-nication	Secure Transac-tions	Security(**)	Public telephony	Point-of-sales terminals	Unallo-cated	Gemalto
Revenue	925,475	411,355	192,925	43,696	56,036		1,629,487
Cost of revenue	(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 for €23 million.

Effective July 1, 2007, the Identity & Security segment was renamed Security. This Security segment comprises Government Programs, Identity & Access Management and patent licensing activities.

To align external reporting with the new operational organization, also effective July 1, 2007, the Transport business is now reported under the Secure Transaction segment. Previously, it was reported as part of the Security segment. 2006 and 2007 segment information have been aligned to reflect this change.

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 were not 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 customer:

Sales	Year ended December 31,	
	2006	2007
North and South America	295,896	386,964
Europe, Middle East and Africa	731,749	911,028
Asia Pacific	291,747	331,495
	1,319,392	**1,629,487**

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.

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Note 7 Financial assets / liabilities by category

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

	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
December 31, 2006					
Assets					
Available-for-sale financial assets, net	–	–	–	7,401	7,401
Other non-current assets	25,910	–	–	–	25,910
Trade and other receivables, net	447,162	–	–	–	447,162
Derivative financial instruments	–	–	6,407	–	6,407
Cash and cash equivalents	87,146	343,180	–	–	430,326
Total	**560,218**	**343,180**	**6,407**	**7,401**	**917,206**

	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities				
Borrowings	–	–	34,216	34,216
Derivative financial instruments	–	280	–	280
Total	**–**	**280**	**34,216**	**34,496**

	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total
December 31, 2007					
Assets					
Available-for-sale financial assets, net	–	–	–	1,445	1,445
Other non-current assets	22,774	–	–	–	22,774
Trade and other receivables, net	439,505	–	–	–	439,505
Derivative financial instruments	–	–	15,750	–	15,750
Cash and cash equivalents	146,641	190,800	–	–	337,441
Total	**608,920**	**190,800**	**15,750**	**1,445**	**816,915**

	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities				
Borrowings	–	–	23,628	23,628
Derivative financial instruments	–	468	–	468
Total	**–**	**468**	**23,628**	**24,096**

Note 8 Property, plant and equipment

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

	Land	Buildings & Improve-ments	Machinery & Equipment	Total property, plant and equipment
Gross book value as of January 1, 2006	**1,424**	**62,889**	**200,504**	**264,817**
Acquisition of subsidiary	5,451	155,368	312,438	473,257
Additions	–	12,381	37,148	49,529
Disposals	(444)	(13,563)	(18,247)	(32,254)
Currency translation adjustment	34	(2,005)	(8,675)	(10,646)
Gross book value as of December 31, 2006	**6,465**	**215,070**	**523,168**	**744,703**
Accumulated depreciation as of January 1, 2006	**–**	**(37,720)**	**(140,513)**	**(178,233)**
acquisition of subsidiary	–	(72,357)	(243,214)	(315,571)
Depreciation charge (***)	–	(12,932)	(35,344)	(48,276)
Disposals (***)	–	13,563	17,230	30,793
Transfer (**)	–	–	(425)	(425)
Currency translation adjustment	–	2,246	7,685	9,931
Accumulated depreciation as of December 31, 2006	**–**	**(107,200)**	**(394,581)**	**(501,781)**
Net book value as of December 31, 2006 (*)	**6,465**	**107,870**	**128,587**	**242,922**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.
(**) Includes transfer of fixed assets from a company accounted for according to equity method to a fully consolidated entity.
(***) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

	Land	Buildings & Improve-ments	Machinery & Equipment	Total prop-erty, 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**

For the year ended December 31, 2006, depreciation expense of €38,222 was recorded in cost of sales, €2,953 in research and engineering expenses, €1,893 in sales and marketing expenses, €3,869 in general and administrative expenses and €1,338 in other income (expense).

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 (expense), and €3,998 in reorganization expenses.

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

	Year ended December 31,	
	2006	2007
Gross book value	81,357	59,567
Accumulated depreciation	(27,106)	(31,358)
Net book value	**54,250**	**28,209**

Capitalized leases consist mostly of two lease contracts related to facilities sites in France. They also include a lease of POS Terminals in relation with the sale of these products on a recourse basis to a French financial institution.

Note 9 Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	Goodwill(*)	Patents and Technology	Deferred Development costs	Other	Total
Gross book value as of January 1, 2006	**247,036**	**154,835**	**4,555**	**10,456**	**416,882**
Acquisition of subsidiary (see note 4)	315,262	98,139	58,203	60,022	531,626
Additions	1,344	31	4,279	3,183	8,837
Disposals	–	–	(763)	(1,121)	(1,884)
Currency translation adjustment	(3,339)	(6)	(73)	(41)	(3,459)
Gross book value as of December 31, 2006	**560,303**	**252,999**	**66,201**	**72,499**	**952,002**
Accumulated amortization as of January 1, 2006	**(13,603)**	**(141,882)**	**(1,629)**	**(7,971)**	**(165,085)**
Acquisition of subsidiary (see note 4)	–	(6,345)	(37,368)	(33,255)	(76,968)
Amortization charge (**)	–	(35,996)	(4,476)	(7,910)	(48,382)
Disposals (**)	–	–	–	750	750
Currency translation adjustment	872	29	–	(13)	888
Accumulated amortization as of December 31, 2006	**(12,731)**	**(184,194)**	**(43,473)**	**(48,399)**	**(288,797)**
Net book value as of December 31, 2006	**547,572**	**68,805**	**22,728**	**24,100**	**663,205**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.
(**) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

	Goodwill	Patents and Technology	Deferred Development costs	Other	Total
Gross book value as of January 1, 2007	560,303	252,999	66,201	72,499	952,002
Acquisition of subsidiary	124	–	–	249	373
Additions	–	–	6,321	31,376	37,697
Disposals	–	(222)	(800)	(3,421)	(4,443)
Write-off	(1,390)	–	(3,543)	–	(4,933)
Reclassification 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	255,509	68,120	97,869	977,640
Accumulated amortization as of January 1, 2007	(12,731)	(184,194)	(43,473)	(48,399)	(288,797)
Acquisition of subsidiary	–	–	–	–	–
Amortization charge	–	(47,049)	(7,130)	(14,510)	(68,689)
Disposals	–	191	–	2,685	2,876
Impairment charge	–	–	(4,842)	–	(4,842)
Reclassification within Intangibles	–	(2,187)	–	2,187	–
Other reclassification	–	–	–	(1,160)	(1,160)
Currency translation adjustment	420	63	–	35	518
Accumulated amortization as of December 31, 2007	(12,311)	(233,176)	(55,445)	(59,162)	(360,094)
Net book value as of December 31, 2007	543,831	22,333	12,675	38,707	617,546

For the year ended December 31, 2006, amortization expense of €20,402 was charged to cost of sales, €10,905 was recorded in research and engineering expenses, €4,894 was recorded in selling and marketing expenses and €12,181 was recorded in general and administrative expenses.

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 and depreciation of intangible assets". The €4,842 impairment charge was recorded in reorganization expenses (see note 5).

- *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, has been recognized. In accordance with the provisions of IFRS 3, the carrying amount of the goodwill has been reduced for an amount equivalent to the deferred tax asset, 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 three-year 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, €110 million and €108 million respectively.

The recoverable amount of the cash generating units is determined based on projected cash flows before tax derived from management three-year plan as of the date the review was carried out. Cash flows beyond the three-year period 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 weighted average cost of capital used by the Company, estimated at 12.6% before tax in 2007.

No impairment charge was recognized in 2006 or 2007.

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Note 10 Investments in associates

Investments in associates consist of the following:

	Year ended December 31,	
	2006(*)	2007
Investments as of beginning of period	**5,884**	**15,912**
Acquisition of subsidiary	11,248	–
Acquisition	1,000	290
Share of Profit/(loss)	(1,092)	432
Dilution profit/(loss)	–	615
Disposals	(83)	(8,139)
Currency translation adjustment	(293)	(166)
Other movements	(752)	(650)
Investments as of end of period	**15,912**	**8,294**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

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 Company's investment in associates includes goodwill (net of any impairment loss) identified on acquisition. As of December 31, 2007 and 2006, the net book value of goodwill in associates amounted to €558 and to €1,440 respectively. The amount as of December 31, 2007 relates to investments in Atchik Realtime and Trusted Logic.

The amount of €(650) in other movements includes the value of shares of Leigh Mardon Gemplus Pty Ltd purchased by the Company and resulting in taking control over the mentioned subsidiary. Consequently, this entity which was previously accounted for by the equity method is now fully consolidated.

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

Year	Associates' Total			
	Assets	Liabilities	Revenue	Profit/(loss)
2006	109,365	73,237	162,737	(2,855)
2007 (**)	92,429	71,327	182,456	(6,344)

(**) 2006 financial information were disclosed when 2007 financial information were not available.

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

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

	Year ended December 31,	
	2006	2007
Available-for-sale financial assets as of beginning of period	**530**	**7,401**
Acquisition of subsidiary (see note 4)	2,469	–
Net gains or losses transferred to/from equity	6,272	(235)
Additions	–	–
Impairment charge	(2,149)	–
Disposals	(833)	(5,721)
Other movement	1,175	–
Currency translation adjustment	(63)	–
Available-for-sale financial assets as of end of period	**7,401**	**1,445**

In 2007, investments in Xiring (€5,354) and Bitfund (€367) were disposed of.

	Year ended December 31,	
	2006	2007
Assets held-for-sale as of beginning of period	**–**	**–**
Additions	–	3,479
Assets held-for-sale as of end of period	**–**	**3,479**

Assets held for sale consist of land and buildings located in La Ciotat, France.

Note 12 Other non-current assets

Other non-current assets consist of the following:

	Year ended December 31,	
	2006	2007
Loan receivable from former Gemplus board chairman (net of provision) (1)	9,145	8,371
Research tax credit	9,906	10,121
Long term deposits	2,719	2,775
Entrustment loan (see note 32)	1,938	–
Tax receivable	928	928
Other	1,274	579
Total	**25,910**	**22,774**

(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.

Note 13 Inventories

Inventories consist of the following:

Gross book value	Year ended December 31,	
	2006(*)	2007
Raw materials and spares	63,659	57,458
Work in progress	96,090	88,802
Finished goods	37,631	50,648
Total	**197,380**	**196,908**
Obsolescence reserve		
Raw materials and spares	(10,397)	(9,700)
Work in progress	(5,625)	(8,640)
Finished goods	(3,544)	(4,831)
Total	**(19,566)**	**(23,171)**
Net book value	**177,814**	**173,737**

(*) Compared to published consolidated financial statement for the year ended December 31, 2006, balance sheet has been modified due to the reassessment of the fair value of certain acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

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Note 14 Trade and other receivables

Trade and other receivables consist of the following:

	Year ended December 31,	
	2006	2007
Trade receivables	355,500	361,665
Provision for impairment of receivables	(14,534)	(10,609)
Trade receivables, net	**340,966**	**351,056**
Prepaid expenses	12,437	15,373
VAT recoverable and tax receivable(1)	64,410	45,745
Advances to suppliers and related	7,198	8,604
Unbilled customers	13,742	7,401
Other	8,409	11,326
Total	**447,162**	**439,505**

(1) Including a carry-back receivable from the French tax authorities amounting to €21,251 for 2006 which was collected in 2007.

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

Gemalto has recognized a net bad debt expense of €335 during the year ended December 31, 2007 (€4,305 during the year ended December 31, 2006).

Note 15 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2006	2007
Cash at bank and in hand	87,146	146,641
Short-term bank deposits and investment funds	343,180	190,800
Total	**430,326**	**337,441**

The average effective interest rate on short-term deposits was 4.44% in 2007 (4.08% in 2006). These deposits are invested in the form of overnight and fixed term deposits or in money market funds.

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,	
	2006	2007
Cash and cash equivalents	430,326	337,441
Banks overdrafts	(729)	(626)
Total	**429,597**	**336,815**

Note 16 Borrowings

Borrowings consist of the following:

	Year ended December 31,	
	2006	2007
Non-current portion		
Syndicated bank loan	4,427	–
Long term loans	853	611
Finance lease liabilities	21,150	16,099
	26,430	**16,710**
Current portion		
Short term loans	889	1,485
Bank overdraft	730	626
Finance lease liabilities	6,167	4,807
	7,786	**6,918**
Total	**34,216**	**23,628**

The Group has a syndicated bank loan facility of USD250.0 million (equivalent to €170.6 million, based on the USD/EUR accounting exchange rate as of December 31, 2007), which has a maturity date on August 24, 2012. The draw-down amount of €4.4 million as of December 31, 2006, was reimbursed during 2007 and the facility was not drawn as of December 31, 2007.

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

	Year ended December 31,	
	2006	2007
EUR	29,328	21,364
GBP	4,427	–
USD	–	1,365
SEK	461	450
ZAR	–	449
Total	**34,216**	**23,628**

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The nominal interest rates as of the end of 2006 and 2007 were the following:

	2006				
	EUR	GBP	SEK	USD	ZAR
Long term loans	–	–	4.54%	–	–
Short term loans and bank overdrafts	4.48%	–	–	–	–
Syndicated bank loan	–	5.75%	–	–	–
Finance lease liabilities	4.66%	–	–	–	–

	2007				
	EUR	GBP	SEK	USD	ZAR
Long term loans	–	–	5.80%	–	–
Short term loans and bank overdrafts	4.07%	–	–	6.35%	11.50%
Syndicated bank loan	–	–	–	–	–
Finance lease liabilities	4.76%	–	–	–	–

Finance lease liabilities are as follows:

	Year ended December 31,	
	2006	2007
Finance lease liabilities - minimum lease payments		
Not later than 1 year	7,349	5,942
Later than 1 year and not later than 5 years	17,750	14,416
Later than 5 years	6,111	3,842
	31,210	**24,200**
Future finance charges on finance leases	(3,893)	(3,294)
Present value of finance lease liabilities	**27,317**	**20,906**

The present value of finance lease liabilities is a follows:

	Year ended December 31,	
	2006	2007
Not later than 1 year	6,167	4,807
Later than 1 year and not later than 5 years	15,429	12,458
Later than 5 years	5,721	3,641
	27,317	**20,906**

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 due after respectively 20, 30 and 40 years of service ("*Médailles du travail*").

The defined benefit plan that the Company operated in the United Kingdom was closed on March 31, 2007 and all employees ceased to accrue on the old defined benefit scheme and transferred to 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 at December 31, 2007 and 2006.

Retirement benefit obligation liability by country	Year ended December 31,	
	2006	2007
France	18,131	16,438
UK	13,237	6,229
Other countries	1,904	3,292
Total	**33,272**	**25,959**

The amounts recognized in the income statement are the following:

	Year ended December 31,	
	2006(*)	2007
Current year service cost	1,864	3,263
Past-service cost	(12)	(12)
Interest cost	1,943	3,049
Expected return on plan assets	(1,006)	(2,198)
Gain on curtailment	(814)	(2,825)
Total pension costs	**1,975**	**1,277**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

The actual return on plan assets amounted to €1,203 in 2007 and €833 in 2006.

The amounts recognized in the income statement by country are as follows:

	Year ended December 31,	
	2006(*)	2007
France	675	271
UK	929	1
Other countries	371	1,005
Total	**1,975**	**1,277**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

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The following table sets forth the funded status of defined benefit plans by country:

	Year ended December 31, 2006			
	France	UK	Other countries	Total
Projected benefit obligation	17,891	40,319	4,252	62,462
Plan assets at fair value	–	27,082	2,348	29,430
Projected benefit obligation in excess of plan assets	**17,891**	**13,237**	**1,904**	**33,032**
Past service costs	240	–	–	240
Retirement benefit obligation liability	**18,131**	**13,237**	**1,904**	**33,272**

	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
Retirement benefit obligation liability	**16,438**	**6,229**	**3,292**	**25,959**

In France, the regulations do not provide for any obligation to fund the liability arising from IFC *("Indemnités de fin de carrière")* which are lump sum payments made to employees upon their retirement.

In the United Kingdom, plan assets are comprised of 53% of equity securities, 35% of corporate bonds and 12% of cash. The Pensions Act 2004 in the United Kingdom 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 NV and the trustees of the Gemplus Ltd Staff Pension Scheme have reached an agreement on the ongoing funding of the scheme. This will consist of a plan to fund the deficit over 8 years on a going concern basis and a parental guarantee to be put in place by Gemalto NV in the event that Gemalto UK Ltd were unable to fulfill their funding obligations.

The movement in the projected benefit obligation over the year is as follows:

	Year ended December 31,	
	2006(*)	2007
Beginning of period	**14,340**	**62,462**
Service cost	1,864	3,263
Interest cost	1,943	3,049
Acquisition of a subsidiary (see note 4)	49,227	–
Plan participants' contribution	213	108
Actuarial (gain) and loss	(2,806)	(2,446)
Benefits paid	(2,024)	(2,550)
Gain on curtailment	(814)	(2,790)
Currency translation adjustment	519	(2,954)
End of period	**62,462**	**58,142**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

The movement in the fair value of plan assets is as follows:

	Year ended December 31,	
	2006(*)	2007
Beginning of period	**84**	**29,430**
Actual return on plan assets	833	1,203
Employer contribution	889	5,034
Plan participants' contribution	213	108
Benefits paid	(580)	(1,355)
Acquisition of a subsidiary (see note 4)	27,679	–
Currency translation adjustment	312	(2,044)
End of period	**29,430**	**32,376**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

The main actuarial assumptions used were the following:

	Year ended December 31,	
	2006	2007
France:		
Discount rate	4.50%	5.25%
Future salary increase	3,00%	3.00%
Inflation rate	2.00%	2.00%
UK:		
Discount rate	5.20%	5.80%
Future salary increase	3.50%	n/a
Inflation rate	2.50% – 3.00%	3,25%
Expected rate of return on plan assets	6.62%	6,50%

For the calculations of projected benefit obligation in the United Kingdom, actuaries have used the 1992 series of mortality tables with a +1 year age adjustment and the medium cohort improvement factors. For the calculations of the French plan, actuaries have used the INSEE's mortality table "TV/TD 2003 - 2005".

Note 18 Non-current provisions and other liabilities

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

	Year ended December 31,	
	2006	2007
Non-current provisions (**)	26,788	30,493
Other liabilities (*)	34,607	49,229
Total	**61,395**	**79,722**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, the non-current portion of Trade and other payables has been reclassified to Other non-current liabilities for €22,587 (see note 19).

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

	Warranty non-current	Litigation	Reorg. reserve	Def. comp. and empl. benefits	Tax claims [**]	Prov. for other risks	Other [**]	Total
As of January 1, 2006	**809**	**1,296**	**–**	**255**	**–**	**3,949**	**2,249**	**8,558**
Acquisition of a subsidiary (see note 4)	1,476	–	1,038	–	10,609	–	2,563	15,686
Additional provisions	2,645	1,220	2,587	73	2,015	2,338	1,299	12,177
Unused amount reversed	(301)	(1,922)	–	–	(609)	(400)	–	(3,232)
Used during the year	(1,372)	(561)	(442)	(1)	(2,945)	(373)	(526)	(6,220)
Cumulative translation adjustment	(8)	(33)	–	–	–	(78)	(62)	(181)
As of December 31, 2006	**3,249**	**–**	**3,183**	**327**	**9,070**	**5,436**	**5,523**	**26,788**

	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)
Reclassification	–	–	–	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**

(**) Compared to published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to the reassessment of the fair value of certain acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

Other non-current liabilities consist of the following:

	Year ended December 31,	
	2006	**2007**
Management compensation [1]	9,145	8,371
Unrecognized government grants	2,875	2,883
Long teem payables [2] [3]	22,587	37,975
Total	**34,607**	**49,229**

(1) Management compensation relates to former Gemplus Board chairman termination package conditioned to the refund of a loan granted to him by Gemplus in 2000 (see note 12).
(2) Compared to the published consolidated financial statements for the year ended December 31, 2006, the non-current portion of Trade and other Payables has been reclassified to Other non-current liabilities for €22,587 (see Note 19).
(3) Increase relates mainly to the non-current payable contracted in connection with the acquisition of rights to use and distribute licensed technology until September, 30, 2011 for €10,766.

Note 19 Trade and other payables

Trade and other payables for the years ended December 31, 2006 and 2007 consist of the following:

	Year ended December 31,	
	2006 (*)	2007
Trade payables	160,745	133,733
Employee related payables	100,380	111,190
Accrued expenses (**)	64,441	62,700
Accrued VAT	30,423	34,600
Deferred revenue (**)	38,889	40,212
Other	13,005	10,024
Total trade and other payables	**407,883**	**392,459**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.
(**) Compared to the published consolidated financial statements for the year ended December 31, 2006, the non-current portion of Accrued expenses and Deferred revenue has been reclassified to Other non-current liabilities as at December 31, 2006 for €11,975 and €10,612 respectively (see note 18).

Note 20 Derivative financial instruments

As exposed 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, 2007, the Group held forward and option contracts which were designated as qualifying cash-flow hedges of 2008 forecasted sales and purchases denominated in US Dollar, Japanese Yen, Pound Sterling, 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 currency (except Singapore Dollar).

The fair value of the Company's financial instruments is recorded in current assets or current liabilities as "Derivative financial instruments" and consists of the following (market-to-market calculation):

	Year ended december 31,								
	2006 (*)				2007				
	USD	GBP	JPY	SGD	USD	GBP	JPY	SGD	PLN
Cash Flow hedges									
Forward contracts	341	(129)	373	(14)				(122)	87
Option contracts	3,195	20	375	2	8,059	1,346	1,652		
Non-qualifying hedges									
Forward contracts	783				(27)	317	750		(6)
Option contracts	1,181				2,996		229		
Total	**5,500**	**(109)**	**748**	**(12)**	**11,028**	**1,663**	**2,631**	**(122)**	**81**

The above cash flow hedging contracts represented for Gemalto unrecognized pre-tax profits of €9.8 million and losses of €(0.1) million which are 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 twelve months.

The effective portion of our cash flow hedges generated a €9.3 million net gain in 2007 (€2.6 million net gain in 2006), recorded in the income statement as a credit of €9.2 million to sales and a credit of €0.1 million to cost of sales. Non-qualifying foreign exchange transactions and the ineffective portion of our cash flow and fair value hedges generated a €2.4 million loss in 2007 (€2.1 million loss in 2006), which is included in Finance income (expense), net

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Note 21 Provisions and other liabilities – Current

Provisions and other liabilities – Current consist of the following:

	Year ended December 31,	
	2006	2007
Point-of-Sales terminals operating lease	508	–
Warranty - current	5,762	**6,346**
Provision for loss on contracts	1,041	**560**
Provision for lease cancellation costs	1,643	–
Restructuring provisions	1,275	**51,883**
Other	5,196	**13,782**
Total	**15,425**	**72,571**

	Point-of-sales terminals operating lease	Warranty - current	Provision for loss on contracts	Provision for lease cancellation costs	Restruc-turing provisions (*)	Other (*)	Total
As of January 1, 2007	**508**	**5,762**	**1,041**	**1,643**	**1,275**	**5,196**	**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	(508)	(3,771)	(418)	(1,643)	(389)	(1,028)	(7,757)
Cumulative translation adjustment	–	(122)	–	–	–	(270)	(392)
As of December 31, 2007	**–**	**6,346**	**560**	**–**	**51,883**	**13,782**	**72,571**

(*) Increase includes mainly severance payment commitments in connection with restructuring plans.

No significant releases of unused provision were made in 2006.

Note 22 Revenue

Revenue by category is analyzed as follows:

	Year ended December 31,	
	2006 (*)	2007
Sales of goods	1,201,694	**1,508,442**
Revenue from services	67,919	**68,163**
Other (**)	49,779	**52,882**
	1,319,392	**1,629,487**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).
(**) "Other" includes mainly the revenue derived from Gemalto patent licensing activities, postage and freight on goods sold charged to customers as well as gains and losses on certain cash-flow hedge instruments.

Note 23 Costs of sales and operating expenses by nature

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

	Year ended December 31,	
	2006 (*)	2007
Depreciation, amortization and impairment charges	58,373	**97,391**
Amortization and impairment charges relating to the accounting treatment of the combination	60,660	**53,739**
Employee compensation and benefit expense (see note 24)	387,997	**560,747**
Change in inventories (finished goods and work in progress)	(3,392)	**(13,310)**
Raw material used and consummables	563,121	**694,567**
Freight and transportation costs	43,100	**54,142**
Travel costs	32,410	**41,028**
Buildings and office leases	59,491	**70,930**
Royalties, legal and professional fees	56,191	**74,272**
Subcontracting and temporary workforce	64,921	**65,865**
Other	30,683	**1,350**
Total expenses	**1,353,555**	**1,700,721**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

Note 24 Employee compensation and benefit expense

	Year ended December 31,	
	2006 (*)	2007
Wages and salaries (including severance costs incurred in 2006 and 2007 and recorded in reorganization expenses)	312,965	**488,817**
Pension - Defined benefit plans (1)	1,038	**426**
Pension - Defined contribution plan	16,455	**11,608**
Stock options	10,497	**7,437**
Other	47,042	**52,459**
Employee benefit expense	**387,997**	**560,747**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

(1) Includes mainly the annual charge related to the French IFC ("Indemnités de fin de carrière"), 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.

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 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 per share. The vesting schedule differs, depending of 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 years 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 per share and 685,000 stock options granted

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in September 2005 at the average market price of previous 5 trading days, i.e. €30.65 per share. The vesting schedule differs, depending of 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 per share. The vesting schedule differs, depending of 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 per share, i.e. the average market price during the 5 trading days prior the grant. The vesting schedule depends of 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 of 1.5 and 4.5 years depending on the vesting schedule, expected volatility of 28.50% 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. Once vested, restricted share units will be exchanged against Gemalto shares and the ratio of exchange will depend on the achievement of share price targets. For beneficiaries not employed in the USA, trading of those shares will be restricted during a two-year period starting on vesting date. For beneficiaries employed in the USA, the period of trading restriction can be longer.

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, 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.

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, the historical volatility of the Company's share price returns over the last 360 market days prior 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, 2006 and 2007. The initial numbers and exercise prices of the options for GISA and Gemplus S.A. shares granted to Gemplus stock-options holders have been adjusted for the €0.26 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).

Grant date	Exercise price	Number of options outstanding as of December 31, 2006	Number of options outstanding as of December 31, 2007
17 Dec 97	21.34	43,300	**25,500**
17 Dec 97	18.88	84,087	**44,530**
22 Apr 99	28.58	540,884	**455,256**
22 Apr 99	25.25	77,530	**54,700**
22 Apr 99	43.88	34,500	**26,100**
22 Apr 99	38.75	5,425	**3,165**
27 Jul 00	38.75	455,789	**356,753**
27 Jul 00	38.75	45,208	**45,208**
8 Dec 00	66.25	117,775	**85,927**
13 Jun 01	45.75	420	**420**
13 Jun 01	47.38	14,109	**13,594**
14 Sep 01	32.00	30,972	**21,218**
22 Oct 01	31.63	723	**723**
3 Dec 01	35.00	3,165	**905**
3 Dec 01	35.13	4,521	**–**
31 Jan 02	28.75	2,260	**2,260**
31 Jan 02	29.50	7,767	**1,040**
14 Jul 02	15.63	90,416	**90,416**
29 Jul 02	12.50	1,130	**1,130**
29 Jul 02	14.13	9,042	**9,042**
29 Aug 02	9.25	723,328	**723,328**
29 Aug 02	24.88	361,664	**361,664**
10 Dec 02	12.38	773,347	**559,206**
29 Apr 03	10.50	4,521	**1,809**
2 Jun 03	14.13	1,808	**1,808**
10 Jul 03	13.75	18,083	**18,083**
22 Jul 03	15.50	18,276	**15,528**
14 Aug 03	13.50	131,103	**81,374**
14 Aug 03	9.13	180,832	**90,416**
1 Oct 03	16.75	530,064	**460,014**
1 Oct 03	16.38	3,617	**3,617**
1 Oct 03	16.13	278,052	**200,724**
21 Apr 04	20.13	13,562	**13,562**
21 Apr 04	20.13	9,042	**9,042**
21 Apr 04	16,00	36,166	**18,083**
21 Apr 04	19.75	90,416	**90,416**
1 Jun 04	17.38	90,416	**90,416**
3 Nov 04	18.25	49,729	**30,290**
18 Apr 05	20.13	36,166	**36,166**
23 May 05	19.13	113,924	**104,430**
23 May 05	22,00	406,872	**271,248**
27 May 05	19.50	330,750	**237,012**
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	4,069	**1,017**
		5,823,564	**4,705,874**

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The fair value of each grant has been calculated as of June 2, 2006. It is estimated on the date of grant using a stochastic option-pricing model. The following average parameters were used: no dividend, volatility of 32% and risk-free interest rate from 3.71% to 3.97%. Options typically vest in equal amounts over a period of three to four years.

In the income statement for the period ended December 31, 2007, a compensation expense of €7,437 (€10,497 in 2006) corresponding to the amortization of the fair value of all the outstanding stock options was recorded for €971 (€1,442 in 2006) in cost of sales, €281 (€395 in 2006) in research and engineering expenses, €2,030 (€2,812 in 2006) in sales and marketing expenses and €4,155 (€5,848 in 2006) 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,			
	2006		2007	
	Average exercise price	Outstanding options	Average exercise price	Outstanding options
Beginning of period	**17.75**	**3,721,908**	**20.10**	**11,008,665**
Granted	21.14	7,681,450	20.83	872,000
Forfeited	27.14	(133,696)	23.94	(1,125,395)
Exercised	13.61	(260,997)	13.97	(554,145)
End of period	**20.10**	**11,008,665**	**20.08**	**10,201,125**

As of December 31, 2007, the average remaining life of the 10,201,125 outstanding options was 6.3 years. It was 6.9 years as of December 31, 2006 for the 11,008,665 options.

Share options outstanding at the end of the period have the following expiry date and exercise prices:

Expiry Date	Year ended December 31,			
	2006		2007	
	Average exercise price	Outstanding options	Average exercise price	Outstanding options
2008	19.71	127,387	19.78	70,031
2009	29.07	658,339	29.04	539,221
2010	43.98	618,772	43.59	487,888
2011	36.56	53,910	37.90	36,860
2012	13.77	1,968,954	13.88	1,748,086
2013	14.96	1,166,356	15.41	873,373
2014	15.13	3,174,431	15.13	2,835,809
2015	24.90	1,627,406	25.41	1,342,048
2016	23.13	1,613,110	23.13	1,395,809
2017	–	–	20.83	872,000
		11,008,665		**10,201,125**

Out of the 10,201,125 above-mentioned outstanding options as of December 31, 2007, a total of 4,923,078 are exercisable at a €20.38 average exercise price.

Employee Stock Purchase plan

No employee stock purchase plan was deployed in 2006 and in 2007.

Note 26 Other income (expense), net

	Year ended December 31,	
	2006 (**)	2007
Fixed assets write-offs, net gains/losses on FA sales	(896)	**(384)**
Subsidies and grants	487	**–**
Relocation costs (*)	(4,780)	**1,918**
Other	1,256	**1,809**
	(3,933)	**3,343**

(*) This referred to the costs incurred for the relocation of the Gemalto staff from Montrouge and Louveciennes facilities to Meudon (Paris area). These costs were partially reimbursed in 2007.
(**) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

Note 27 Financial income (expenses)

Financial income (expense) includes the following:

	Year ended December 31,	
	2006 (1)	2007
Interests:		
Interest expense		
Bank borrowings (*)	(1,907)	**(2,860)**
Interest income		
Interest income on short term bank deposits and investment funds (**)	11,268	**11,650**
Foreign exchange transaction gains (losses) (***):		
Foreign exchange gains (losses), net of fair value hedges	1,758	**1,582**
Financial cost of hedges	(3,858)	**(3,980)**
Gain (loss) on sales of investments (****):		
Gain (loss) resulting from dilution	(1,022)	**–**
Gain (loss) resulting from sales investments	–	**4,073**
Impairment on available-for-sale investments	**(1,884)**	**–**
Finance income (expenses), net	**4,355**	**10,465**

(*) Other financial liabilities
(**) Assets at fair value through profit and loss
(***) Derivatives used for hedging
(****) Available-for-sale

(1) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

Gain on sales of investments results mainly from the sale of an available-for-sale investment, Xiring.

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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,	
	2006 (*)	2007
Net sales	5,269	9,146
Cost of sales	(2,679)	118
Finance income (expenses), net	(2,100)	(2,399)
Net foreign exchange gains (losses)	**490**	**6,865**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

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,	
	2006	2007
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	5,267	**8,146**
- Deferred tax asset to be recovered within 12 months	12,630	**13,745**
	17,897	**21,891**
Deferred tax liabilities:		
- Deferred tax liabilities due after more than 12 months	(14,267)	**(10,472)**
- Deferred tax liabilities due within 12 months	(13,952)	**(4,344)**
	(28,219)	**(14,816)**
	(10,322)	**7,075**

The changes in the net deferred income tax assets (liabilities) are as follows:

	Year ended December 31,	
	2006 (*)	2007
Beginning of the period	**36,759**	(10,322)
Acquisition of a subsidiary	(5,981)	–
Charged to income statement	(41,125)	**16,758**
Transfer to other balance sheet accounts	3,152	**39**
Tax cerdit (charge) recognized in equity	(2,856)	**742**
Cumulative translation adjustment	(271)	**(142)**
End of the period	**(10,322)**	7,075

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

Deferred tax assets and liabilities for the years ended December 31, 2006 and 2007 are detailed as follows:

	Year ended December 31,	
	2006	2007
ASSETS		
Loss carry-forward	5,807	**1,599**
Depreciation and amortization	2,123	**2,640**
Employee and retirement benefits	2,059	**5,765**
Warranty reserves and accruals	963	**1,018**
Other temporary differences	6,945	**10,869**
Total Assets	**17,897**	**21,891**
LIABILITIES		
Depreciation and amortization	(27,937)	**(14,816)**
Other temporary differences	(282)	**–**
Total Liabilities	**(28,219)**	**(14,816)**
Deferred tax assets (liabilities), net	**(10,322)**	**7,075**

The income tax credit (expense) is as follows:

	Year ended December 31,	
	2006	2007
Current tax	(1,369)	**(13,283)**
Deferred tax	(41,125)	**16,757**
	(42,494)	**3,474**

The reconciliation between the income tax credit (expense) on Gemalto's profit before income 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,			
	2006		2007	
	€	%	€	%
Profit (loss) before income tax	**(30,900)**	**100.0**	**(49,113)**	**100.0**
Tax calculated at domestic tax rate applicable to profits of the consolidated entities	12,391	(40.1)	**42,503**	**(86.5)**
Effect of the reassessment of the recognition of deferred tax assets	(43,581)		**3,884**	
Effect of utilization of tax assets not recognized in earlier years	365		**1,288**	
Effect of unrecognized deferred tax assets arising in the year	(15,900)		**(36,112)**	
Other permanent differences	4,231		**(8,089)**	
Income tax credit (expense)	**(42,494)**	**137.5**	**3,474**	**(7.1)**

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The company recorded a tax credit of €3.5 million on a pretax loss of €49.1 million. That low level of tax credit is mostly due to the policy of not recognizing deferred tax assets on tax losses and other timing differences as explained in the next paragraph and other permanent differences.

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, 2007 Gemalto did not recognize tax assets amounting to €513.1 million (€410.7 million as of December 31, 2006) relating to tax losses and other future tax deductions.

As of December 31, 2007, the Company had total deferred tax assets available of €456.3 million (1) related to tax loss carry forwards amounting to €1,471 million (2) of which €1,383.5 million can be used indefinitely. In 2006, those amounts were €369.5 million, €1,157.1 million and €1,059.4 million respectively.

No deferred income tax liabilities have been recognized for withholding tax and other tax payable on the unremitted earnings of the subsidiaries either because the remittance of earnings does not trigger such taxes or because Gemalto intends to permanently reinvest its earnings. However deferred taxes are accrued on unremitted earnings of associates when Gemalto does not control the dividend distribution process.

Note 30 Earnings per share

Basic	Year ended December 31,	
	2006	2007
Loss attributable to equity holders of the company	(66,383)	**(50,190)**
Weighted average number of ordinary shares outstanding (thousands)	62,174	**86,172**
Basic earnings per share	**(1.07)**	**(0.58)**

Diluted	Year ended December 31,	
	2006	2007
Loss attributable to equity holders of the company	(66,383)	**(50,190)**
Weighted average number of ordinary shares outstanding (thousands)	62,174	**86,172**
Adjustments for share options (thousands)	–	**–**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**62,174**	**86,172**
Diluted earnings per share	**(1.07)**	**(0.58)**

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 2006 and in 2007, because the result for the year is a loss, stock options are anti-dilutive. The number of dilutive share options as of December 31, 2007 amounts to 1,253,342.

(1) Including €253.5 million related to Gemplus International S.A. (Luxemburg) tax loss carry forwards for which the Company does not anticipate any future use.
(2) Including €855.6 million for Gemplus International S.A. (Luxemburg).

Note 31 Cash generated from operations

	Notes	Year ended December 31, 2006	2007
Income for the period before minority interest		(73,394)	**(45,638)**
Adjustment for:			
Tax	29	42,493	**(3,474)**
Research tax credit		423	**(2,824)**
Depreciation		48,275	**57,685**
Amortization		48,341	**74,912**
Stock option compensation charge	25	9,881	**7,437**
Gains and losses on sale of fixed assets and write-offs		2,405	**6,791**
Gains and losses on sale of available-for-sale financial assets		–	**(4,073)**
Gains and losses on sale of investments in associates		–	**(11,441)**
Gains and losses on dissolution of an investment in an associate		–	**(253)**
Net movement in provisions for liabilities and charges (*)		30,190	**64,565**
Retirement benefit obligation	17	(425)	**(5,502)**
Interest income		(11,338)	**(11,650)**
Interest expense		2,032	**2,861**
Share of loss (profit) from associates	10	347	**(432)**
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)			
Inventories		38,058	**(1,111)**
Trade & other receivables		(42,263)	**(29,976)**
Derivative financial instruments		(2,428)	**(2,403)**
Trade & other payables (*)		1,076	**(4,496)**
Cash generated from operations		**93,673**	**90,978**

(*) Compared to the published consolidated financial statements for the year ended December 31, 2006, Trade and other payables have been reclassified to Non-current provisions and other liabilities for €22,587 (see notes 18 and 19).

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 2006 and 2007 by the Company is summarized as follows:

	Year ended December 31, 2006	2007
Salaries and other short-term employee benefits	7,613	**10,433**
Termination benefits	–	**2,529**
Post-employment benefits	–	**–**
Other long-term benefits	–	**–**
Share-based compensation charge	3,830	**4,268**
Total expenses	**11,443**	**17,230**

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b) Purchases of goods and services

Gemalto and its affiliates are buying computer equipment from Dell. In 2007, the Company purchased some €809 (€1,220 in 2006) 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.

Gemalto has signed a procurement agreement with DataCard Corporation, a US company, to purchase equipment and related services (software, maintenance and training), spare parts and consumables until the end of 2007 for the Company and its affiliates. In 2007, the Company purchased some €4,326 of equipment and services under this agreement (€10,670 in 2006). 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. The members of the Quandt Family entities had no involvement in this transaction.

Gemalto is buying IT services from ATOS Origin. In 2007, Gemalto purchased approximately €7,168 of IT services from Atos Origin (€5,302 in 2006). Mr Michel Soublin, who is a Board member of the Company, is also a Board member of Atos Origin. Mr Soublin had no involvement in this transaction.

In 2007, total purchases from associated companies amounted to €1,179 (€4,432 in 2006).

c) Sales of goods and services

In 2007, total sales to associated companies amounted to €5,558 (€7,918 in 2006).

d) Year-end balances arising from sales/purchases of goods and services

	Year ended December 31,	
	2006	**2007**
Receivable from:		
Associates	2,657	**3,092**
Related parties	2,758	**588**
Total receivables	**5,415**	**3,680**
Payable to:		
Associates	489	**1,850**
Related parties	1,358	**2,741**
Total payables	**1,847**	**4,591**

e) Loans receivable from/payable to related parties

In 2006, due to a downturn in its investee's business, the Company impaired a €495 loan granted to this related party. As of December 31, 2007, the net book value of the Company's loans granted to its related parties was nil.

As of December 31, 2007, the Company had no loans payable to Related Parties.

f) Related Party Transactions

In 2006, a subsidiary of the Company granted a loan to Tianjin Telephone Equipments Factory who owns 49% of Tianjin Gemplus Smart Card Co. Ltd, in which the Company owns 51%. As of December 31, 2006, the outstanding amount was CNY 20,000 thousand (€1,938). The loan was fully reimbursed in October 2007.

Note 33 Commitments and contingencies

Legal proceedings

In November 2005, the Sanctions Commission of the French "Autorité des Marchés Financiers" ("AMF") imposed upon Gemplus a fine of €600. This sanction was in relation to the "documents de référence" filed by Gemplus in respect of the years 2000 and 2001. The Commission ruled that Gemplus had not communicated any misleading information with respect to its accounting results. In March 2007, the Paris Court of Appeal reduced the fine imposed upon Gemplus to €450. Gemplus' appeal of May 2007 to the French Supreme Court ("Cour de Cassation") was rejected in March 2008.

In addition to the legal matters mentioned above, 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 other 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 have 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 so 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 the such 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 2005, a lawsuit was filed against a subsidiary of Gemalto in Asia in connection with the disposal in 2001 by Schlumberger of assets owned by this subsidiary and related to other activities of Schlumberger that were not transferred to Gemalto. In 2006, the court awarded the plaintiff in this action €10.9 million payable jointly by the subsidiary of Gemalto and the purchaser of the assets. That decision was confirmed the same year by the Court of Appeal. In March 2007, the subsidiary of Gemalto lodged an appeal with the Supreme Court, the decision of which is still outstanding.

As of December 31, 2007, the balance of the assets and liabilities belonging to Schlumberger was a net asset of €3.4 million.

Lease commitments

Minimum rental lease commitments under non-cancelable operating leases, primarily real estate and office facilities in effect as of December 31, 2007, are as follows:

	Year ended December 31,	
	2006	2007
Not later than 1 year	19,832	**15,350**
later than 1 year and not later than 5 years	50,558	**46,835**
Later than 5 years	59,791	**40,100**
	130,181	**102,285**

Bank guarantees

As of December 31, 2007, bank guarantees, mainly performance and bid bonds, amounted to €36,928. These guarantees are 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 chips 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. At December 31, 2007, the commitments to purchase these safety stocks valued at the average purchase price amounts to €43,763 (€36,679 in 2006).

Gemalto N.V. guarantees

Gemalto N.V. has issued various guarantees to a maximum of €228 million in respect of:

• banking facilities of certain of its subsidiaries for an amount of USD310 million (equivalent to €211.6 million, based on the USD/EUR accounting exchange rate as of December 31, 2007). This includes the USD250 million (equivalent to €170.6 million) undrawn syndicated facility referred to in note 16;

• a guarantee of GBP12 million (equivalent to €16.4 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension plan.

SAIT Commitment

Gemalto holds a 51% interest in SAIT, 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 28 million (approximately €2.6 million) for 2007 and Chinese renminbi 25 million (approximately €2.3 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

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, 2007 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%
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	Axalto 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	Goldpac Datacard Solutions Zhuhai Co., Ltd	Indirect	67%
China	Goldpac SecurCard Zhuhai Co. Ltd	Indirect	67%
China	Hunan Slb Telecoms Equipment Co. Ltd	Indirect	100%
China	Shanghai Axalto IC Card Technologies Co., Ltd	Direct	51%
China	Silver Dragon (Beijing) Microelectronics Co. Ltd	Indirect	100%
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	Setec Danmark A/S	Indirect	100%
Egypt	Makxalto Advanced Card Technology Co (*)	Direct	34%
Finland	Gemplus Nordic Oy	Indirect	100%
Finland	Setec Corporate Holding Oy	Indirect	100%
Finland	Setec Oy	Indirect	100%
France	Atchik-Realtime (*)	Indirect	24%
France	Axalto International S.A.S.	Direct	100%
France	Axalto Participations S.A.S.	Indirect	100%
France	Axalto S.A.	Direct	100%
France	CP8 Technologies S.A.	Indirect	100%
France	Electronic Transactions Integrated Services S.A.	Indirect	100%
France	Gemplus S.A.	Indirect	100%
France	Gemplus Trading S.A.S.	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	ST GEM GIE	Indirect	50%

Country of incorporation	Company name	Direct or indirect ownership	Percentage of Group voting rights
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%
Gibraltar	Zenzus Holdings Ltd	Indirect	100%
Hong Kong	Gemalto Technologies Asia Ltd	Direct	100%
Hong Kong	CP8 Hong Kong Ltd	Indirect	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	Axalto Terminals India Private Ltd	Direct	100%
India	Gemplus India Private Ltd	Indirect	100%
Indonesia	PT Gemalto Indonesia	Indirect	100%
Ireland	Celocom Limited	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%
Luxembourg	Gemplus International S.A.	Direct	100%
Malaysia	Axalto (M) Sdn Bhd	Direct	100%
Malaysia	Axalto International Ltd	Indirect	100%
Malaysia	Gemalto Sdn Bhd	Indirect	100%
Mexico	Axalto de Mexico S.A. de CV	Indirect	100%
Mexico	Conrena S.A. de CV (*)	Indirect	20%
Mexico	CP8 Mexico S.A. de CV	Indirect	100%
Mexico	SLB Distribucion S.A. de CV	Indirect	100%
Mexico	Gemplus Industrial S.A. de CV	Indirect	100%
Netherlands	Gemalto B.V.	Direct	100%
Netherlands	Celo communications B.V.	Indirect	100%
Netherlands	Gemplus B.V.	Indirect	100%
Netherlands Antilles	Cards & Terminals N.V.	Direct	100%
Norway	Setec Norge AS	Indirect	100%
Panama	Axalto Eastern Holdings Inc.	Indirect	100%
Philippines	Gemalto Philippines Inc.	Indirect	100%
Poland	Gemalto Sp zoo	Indirect	100%
Poland	Polski Plastik Sp.zo.o.	Indirect	100%
Russia	Gemalto LLC	Indirect	100%
Singapore	Axalto Singapore Pte Ltd	Direct	100%
Singapore	Gemplus Asia Pacific Pte. Ltd	Indirect	100%
Singapore	Gemplus EDBV Smart Labs Management Pte ltd	Indirect	100%
Singapore	GemVentures Smart Labs Pte. Ltd	Indirect	100%
Singapore	Gemplus Microelectronic Asia Pte Ltd	Indirect	100%

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Country of incorporation	Company name	Direct or indirect ownership	Percentage of Group voting rights
Singapore	Gemalto Pte Ltd	Indirect	100%
Singapore	SecurCard Gemplus Pte Ltd	Indirect	100%
Singapore	V3 Teletec Pte Ltd (*)	Indirect	21%
South Africa	Axalto Southern Africa (Pty) Ltd	Direct	70%
South Africa	Axalto ZA Pty Ltd	Direct	100%
South Africa	Gemalto Southern Africa Pty Ltd	Indirect	70%
Spain	Gemalto SP S.A.	Indirect	100%
Sweden	AB Svenska Pass (*)	Indirect	50%
Sweden	Axalto AB	Indirect	100%
Sweden	Setec Sverige AB	Indirect	100%
Sweden	Setec Tag AB	Indirect	100%
Switzerland	Gemplus Management and Trading S.A.	Indirect	100%
Taiwan	Gemalto Taiwan Co., Ltd	Indirect	100%
Thailand	Gemalto (Thailand) Ltd	Indirect	100%
Thailand	Boolanakarn Holdings (Thailand) Ltd	Indirect	100%
Thailand	GemCard (Thailand) Co. Ltd	Indirect	100%
Thailand	Setec Card Ltd	Indirect	100%
Turkey	Gemalto Kart ve Terminaller Ltd Sirketi	Direct	100%
United Arab Emirates	Gemalto Middle East FZ LLC	Indirect	100%
United Kingdom	Axalto 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 States of America	Gemalto Inc.	Indirect	100%
Venezuela	Gemplus Card International de Venezuela CA	Indirect	100%

(*) Associated companies accounted for according to the equity method.

7.2 COMPANY FINANCIAL STATEMENTS

7.2.1 Company balance sheets for the periods ended December 31, 2006 and 2007

(in thousands of Euro) before appropriation of income	Notes	Year ended December 31, 2006	2007
ASSETS			
Non-current assets			
Goodwill	2	538,776	535,551
Property, plant and equipment	3	95	59
Investments in subsidiaries and associates	4	854,741	809,500
Long term loans to subsidiaries	4	7,459	4,993
Total non-current assets		**1,401,071**	**1,350,103**
Current assets			
Short term loans to subsidiaries	4	8,171	7,885
Receivables due from subsidiaries		4,560	5,161
Other receivables		5,329	2,502
Cash and cash equivalents	5	30,874	38,117
Total current assets		**48,934**	**53,665**
Total assets		**1,450,005**	**1,403,768**
EQUITY			
Issued and paid in share capital	6	90,083	91,016
Share premium	6	1,241,326	1,247,140
Legal reserves	6	1,618	(11,960)
Other reserves		64,028	(66,661)
Retained earnings		86,809	21,332
Net loss for the period		(66,383)	(50,190)
Total equity		**1,417,481**	**1,230,677**
LIABILITIES			
Current liabilities			
Short term borrowing from subsidiaries	8	-	143,546
Payables to subsidiaries		13,425	18,189
Other payables	7	19,099	11,356
Total current liabilities		**32,524**	**173,091**
Total liabilities		**32,524**	**173,091**
Total equity and liabilities		**1,450,005**	**1,403,768**

(*) Compared to the published annual accounts for the year ended December 31, 2006, the balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

7.2.2 Company income statements for the periods ended December 31, 2006 and 2007

(in thousands of Euro)	Year ended December 31, 2006 (*)	2007
Income (loss) after taxes	(14,918)	(13,424)
Income (loss) from subsidiaries	(51,465)	(36,766)
Net income (loss)	**(66,383)**	**(50,190)**

(*) Balance values shown for 2006 include 7 months of Gemplus operations only (from June 2, 2006 to December 31, 2006).

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7.2.3 Company statement of changes in shareholders' equity for the periods ended December 31, 2006 and 2007

(in thousands of Euro)	Number of shares
Shareholders' equity as of January 1, 2006	**40,578,435**
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 loss for the period	
Total recognized income for 2006	
Employee share option scheme	
Reclassification from / to retained earnings	
Purchase of Treasury shares, net	
Capital increase further to contribution of Gemplus International SA shares	49,504,100
Costs incurred on Gemalto share capital increase	
Excess of purchase price on subsequent acquisitions of Gemplus shares	
Balance as of December 31, 2006 (*)	90,082,535
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	
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 SA shares	933,309
Excess of purchase price on subsequent acquisitions of Gemplus shares	
Balance as of December 31, 2007 (**)	**91,015,844**

(*) Compared to the published annual accounts for the year ended December 31, 2006, the balance sheet has been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.
(**) 83,491,578 outstanding shares as of December 31, 2007

7.2.4. Notes to the company financial statements for the periods ended December 31, 2006 and 2007

The notes 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

Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
40,579	**450,369**	**11,166**	**1,763**	**85,776**	**589,653**
					-
		(21,624)			(21,624)
			1		1
		6,435			6,435
		2,806			2,806
		3,868			3,868
–	–	(8,515)	1	–	(8,514)
				(66,383)	(66,383)
–	–	(8,515)	1	(66,383)	(74,897)
			64,293		64,293
		(1,033)		1,033	
			(2,029)		(2,029)
49,504	999,888				1,049,392
	(3,998)				(3,998)
	(204,933)				(204,933)
90,083	1,241,326	1,618	64,028	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**	**(11,960)**	**(66,661)**	**(28,858)**	**1,230,677**

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, 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. In case the net asset value of an investment in a subsidiary is negative and the Company has the firm intention to enable the investment to settle its debts, a provision for a corresponding amount is recognized.

Note 2 Intangible assets

	Goodwill
January 1, 2007 (*)	**538,776**
Write-off	(1,390)
Currency translation adjustment	(1,835)
December 31, 2007	**535,551**

(*) Compared to the published annual accounts for the year ended December 31, 2006, goodwill has been increased by €3,669 due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

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, has been recognized. In accordance with the provisions of IFRS 3, the carrying amount of the goodwill has been reduced for an amount equivalent to the deferred tax asset resulting in an increase of the investment in the related subsidiary.

Note 3 Property, plant and equipment

	Office furniture and equipment
January 1, 2007	
Gross book value	188
Accumulated depreciation	(93)
Net book value	**95**
2007 movements	
Additions	10
Depreciation	(46)
December 31, 2007	
Gross book value	198
Accumulated depreciation	(139)
Net book value	**59**

Note 4 Investments and loans

An overview of the movements in investments and loans is presented below:

	Investments in subsidiaries	Investments in associates	Long term loans to subsidiaries	Short term loans to subsidiaries	Total
January 1, 2007					
Book value (*)	853,953	788	7,459	8,171	870,371
2007 movements					
Acquisitions	10,817				10,817
Fair value gains (losses)	5,520				5,520
Dividends	(7,688)				(7,688)
Net result from subsidiaries	(36,826)				(36,826)
Net result from associates		60			60
Transfer to short term			(1,706)	1,706	
Refund of loan				(912)	(912)
Currency translation adjustment	(17,060)	(65)	(760)	(1,080)	(18,965)
December 31, 2007					
Book value	**808,716**	**783**	**4,993**	**7,885**	**822,377**

(*) Compared to the published annual accounts for the year ended December 31, 2006, investments in subsidiaries have been modified due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date, as required by IFRS 3.

Loans to subsidiaries

As at December 31, 2007, the loans to subsidiaries consisted of loans to finance the Indian, Mexican and Russian subsidiaries.

On April 2, 2004, the Company financed its Indian subsidiary 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, 2007 and 2006. The equivalent in Euro as at December 31, 2007 was €1.7 million (December 31, 2006: €1.9 million). The final repayment date of this loan was extended till December 31, 2008. 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, 2007 and 2006. The equivalent in Euro as at December 31, 2007 was €5 million (December 31, 2006: €5.6 million). The final repayment date of this loan was extended till December 31, 2010.

On May 1, 2004, the Company financed its Mexican subsidiary 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, 2008. The balance as of December 31, 2007 and 2006 amounted to USD 4.1 million. The equivalent in Euro as of December 31, 2007 was €2.8 million (€3.1 million as of December 31, 2006).

On May 26, 2005, the Company financed its Russian subsidiary 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 and will mature on December 31, 2008. The balance as of December 31, 2007 amounted to USD 5 million (USD 5.5 million as of December 31, 2006). The equivalent in Euro as of December 31, 2007 was €3.4 million (€4.2 million as of December 31, 2006).

On May 10, 2005, the Company financed its Canadian subsidiary with an interest-bearing loan denominated in US dollars. The loan, with a maximum facility of USD 1.2 million, had a one-year maturity extended to December 31, 2007. The balance as at December 31, 2006 amounted to USD 1.2 million (€0.9 million). The loan was fully reimbursed in June 2007.

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Note 5 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	Year ended December 31,	
	2006	2007
Cash at bank and in hand	597	**1,527**
Short-term bank deposits and investment funds	30,277	**36,590**
Total	**30,874**	**38,117**

The average effective interest rate on short term deposits was 3.93% in 2007 (4.51% in 2006). 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, 2007 and consisted of 150 million ordinary shares with a nominal value of €1 each.

Issued and fully paid-in share capital amounted to €91,016 as at December 31, 2007 (December 31, 2006: €90,083) and consisted of 91,015,844 ordinary shares with a nominal value of €1 (December 31, 2006: 90,082,535).

The increase in the issued and fully paid-in share capital of the Company during the year entirely related to the shares issued to the former shareholders of Gemplus International S.A. as a result of the statutory sell-out and the settlement of the mandatory squeeze-out.

Share premium

As at December 31, 2007, the share premium amounted to €1,247,140 (December 31, 2006: €1,241,326). Compared to the published annual accounts for the year ended December 31, 2006, share premium has decreased by €4,567 due to reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed form Gemplus at the contribution date, as required by IFRS 3.The increase during the year entirely related to the shares issued to the former shareholders of Gemplus International S.A. For a discussion of the business combination and further details on the effects on share premium, reference is made to note 4 to the consolidated financial statements.

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, 2007				
Balance	(2,594)	(4,158)	8,370	**1,618**
2007 movements				
Additions, net	7,382	(18,317)	(2,643)	**(13,578)**
December 31, 2007				
Balance	4,788	(22,475)	5,727	**(11,960)**

Pursuant to section 373, Book 2 of the Netherlands Civil Code, the reserves for cumulative translation adjustments, the part of retained earnings in relation to non-distributable results of Group companies and associates and the reserves for cash-flow hedges are legal reserves. The movement in non-distributable results of Group companies consists of fair value gains and losses in relation to financial assets available-for-sale for €(4,417), actuarial gains and losses of defined benefit obligations for €2,555 and capitalized research and development expenses for €(781) at the Group company level. For a discussion of the movements during the year of the reserves for the fair value gains and losses, reference is made to note 11 "Available-for-sale financial assets", note 17 "Pension and other benefit plans" and note 20 "Derivative financial instruments" to the consolidated financial statements.

Other reserves

As at December 31, 2007, the other reserves consisted of Treasury shares for €(139,879) (€(5,238) as at December 31, 2006) and a stock option reserve amounting to €73,218 (€69,287 as at December 31, 2006).

A share buy-back program started on January 29, 2007. This program authorizes the Company to acquire up to 10% of its share capital. At December 31, 2007, 7.8 million shares have been purchased, representing 8.5% of Gemalto share capital which have been designated for issue to the holders of option rights to company shares.

Retained earnings

Retained earnings amounted to €(28,858) as at December 31, 2007 (€20,426 as at December 31, 2006). The difference with the amount of retained earnings mentioned in the consolidated statement of changes in shareholders' equity relates to the reclassification to legal reserves of the non-distributable results of Group companies and associates as mentioned above.

Note 7 Other Payables

The account "Other Payables" includes the payable due to Schlumberger, per the terms of the Master Separation Agreement (2006: €11,644; 2007: €5,543).

Note 8 Short term borrowing from a subsidiary

On February 1, 2007, the Company signed an interest bearing loan agreement with Gemplus International S.A. (Swiss Branch), which acts as the cash pooling entity of the Gemalto group. Under the agreement, the Company agrees 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, 2007, the amount borrowed by the Company amounted to €143.5 million.

Note 9 Employees

The average number of staff employed by the Company during 2007 was 6 (2006: 5). None of these employees was employed abroad (2006 : nil).

Note 10 Information relating to the Board

Amounts in this note are stated in Euro.

Remuneration of the Board

The Board currently has nine Non-Executive Board members and one Executive Board member.

The Annual General Meeting of Shareholders ("AGM") of May 22, 2007 reappointed Mr. A. Mandl as Non-Executive Chairman of the Board as of December 2, 2007 for a first term ending at the end of the AGM to be held in 2011.

At the AGM of May 22, 2007, Messrs M. Soublin and J. de Wit were reappointed as Non-Executive Board members for a second term ending at the end of the AGM to be held in 2011.

At the AGM of May 14, 2008, the present term of Messrs O. Piou, G. Fink and A. van der Poel will end.

The present term of Messrs K. Atkinson, D. Bonderman and J. Ormerod will end at the AGM to be held in 2009.

(Amounts in Euro)

Axalto Board January 1 to June 2, 2006		Board Member fee per annum	Special Remuneration	Board Committee fee per annum	Total remuneration per annum	Remuneration until June 2, 2006
John de Wit	Chairman	45,000	25,000	10,000	80,000	48,055
Olivier Piou	Chief Executive Officer	35,000	–	–	35,000	14,671
Maarten Scholten	Non-Exec Director	35,000	15,000	10,000	60,000	60,000
Kent Atkinson	Non-Exec Director	35,000	15,000	12,500	62,500	34,911
Michel Soublin	Non-Exec Director	35,000	15,000	10,000	60,000	33,683
Willem Stolwijk	Non-Exec Director	35,000	15,000	10,000	60,000	60,000
Arthur van der Poel	Non-Exec Director	35,000	15,000	10,000	60,000	33,863
Total		**255,000**	**100,000**	**62,500**	**417,500**	**285,183**

Gemalto Board June 2 to December 31, 2006		Board Member fee per annum	Special Remuneration	Board Committee fee per annum	Total remuneration per annum	Remuneration from June 2 until December 31, 2006
Alex Mandl	Executive Chairman	45,000	–	–	45,000	26,384
Olivier Piou	Chief Executive Officer	35,000	–	–	35,000	20,520
Kent Atkinson	Non-Exec Director	35,000	–	15,000	50,000	29,315
David Bonderman	Non-Exec Director	35,000	–	5,000	40,000	23,452
Geoffrey Fink	Non-Exec Director	35,000	–	10,000	45,000	26,384
Johannes Fritz	Non-Exec Director	35,000	–	15,000	50,000	29,315
John Ormerod	Non-Exec Director	35,000	25,000	17,500	77,500	55,781
Michel Soublin	Non-Exec Director	35,000	–	15,000	50,000	29,315
John de Wit	Non-Exec Director	35,000	–	10,000	45,000	26,384
Arthur van der Poel	Non-Exec Director	35,000	–	10,000	45,000	26,384
Total		**360,000**	**25,000**	**97,500**	**482,500**	**293,234**

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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-Exec Director	65,000	–	24,000	89,000	73,828
David Bonderman	Non-Exec Director	65,000	15,000	8,000	88,000	75,162
Geoffrey Fink	Non-Exec Director	65,000	15,000	16,000	96,000	81,995
Johannes Fritz	Non-Exec Director	65,000	15,000	28,000	108,000	91,271
John Ormerod	Non-Exec Director	65,000	_	32,000	97,000	79,688
Michel Soublin	Non-Exec Director	65,000	_	24,000	89,000	73,828
John de Wit	Non-Exec Director	65,000	_	20,000	85,000	69,439
Arthur van der Poel	Non-Exec Director	65,000	_	20,000	85,000	69,439
Total		**755,000**	**45,000**	**172,000**	**972,000**	**666,088**

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 AGM of May 22, 2007 amended the remuneration structure for the Non-Executive Board members, as of May 23, 2007, as follows:

- €200,000 per calendar year for the Non-Executive Chairman of the Board, who was appointed by the Board after Mr. A. Mandl's mandate as Executive Chairman ended 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 AGM of May 22, 2007, in line with the remuneration granted to Non-Executive Board members by the AGM on May 19, 2006 and in view of the substantial additional work in 2006 related to the Combination, granted a one-time additional remuneration of €15,000 to the Non-Executive Board members Messrs. D. Bonderman, G. Fink and J. Fritz.

The remuneration paid by the Company or by companies of the Group to the CEO, Mr. O. Piou, and the Executive Chairman, Mr. A. Mandl, for the 2007 financial year is as follows.

	Total Reference Compensation	Bonus (percentage of Total Reference Compensation)	Total gross compensation paid for 2007
O. Piou (*)	550,000	156%	1,407,560
A. Mandl	552,329	126%	1,248,087

(*) Including Board member fees

Mr. Piou has been appointed as CEO for a term of four years ending at the end of the Annual General Meeting of Shareholders of May 14, 2008. Mr. Piou has an employment contract, not limited in time, governed by French law with Axalto International S.A.S., a Gemalto subsidiary.

Mr. Mandl was appointed as Non-Executive Chairman as of December 2, 2007 for a first term ending at the end of the AGM to be held in 2011. Mr. Mandl had an employment contract governed by the laws of the State of New York with Gemalto Corp, a Gemalto subsidiary which ended on December 2, 2007.

Stock options granted to Board Members

Stock options have been attributed under the Global Equity Incentive Plan as described in note 25 to the consolidated financial statements. No stock options were granted in 2007.

	Date of attribution	Number	Exercise price (€)	Fair value of stock options granted (€)	Date of exercise
Alex Mandl	June 2006	200,000	23.10	1,052,200	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

The gross compensation paid for 2007 (see table above) excludes stock compensation charge. Total stock compensation charge for the options above which is recognised in financial year 2007 for Mr Mandl and Piou is €645,145 and €1,149,260, respectively.

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. This grant has been made subject to the subsequent approval of the AGM to be held on May 14, 2008. The stock compensation charge recognized in 2007 for this grant is €97,608. If the AGM of May 14, 2008 does not approve the grant of restricted share units to Mr. O. Piou, he is then granted, as of September 27, 2007, 250,000 options at € 20.83 per share.

Gemalto shares held by Board Members

Certain Board members are shareholders of the Company. On December 31, 2007, they jointly held 144,500 shares. 139,000 shares were purchased on the market by Mr. O. Piou since 2004. 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, 2007 Mr. O. Piou owned 2,355.63 units in a FCPE (Fonds Commun de Placement d'Entreprise), which units were purchased by subscription to the Global Employee Share Purchase Plans 2004 and 2005.

Note 11 Guarantees granted by the Company

Gemalto N.V. has issued various guarantees to a maximum of €228 million in respect of:

- banking facilities of certain of its subsidiaries for an amount of USD310 million (equivalent to €211.6 million, based on the USD/EUR accounting exchange rate as of December 31, 2007). These guarantees are continuing securities and cover our banks against the risk of default of payment of borrowing subsidiaries; the guarantees will be valid until final payment in full of all amounts owed. This includes the USD250 million (equivalent to €170.6 million) undrawn syndicated facility referred to in note 16 to the consolidated financial statements;
- a guarantee of GBP12 million (equivalent to €16.4 million) granted to the trustees of the Gemplus Ltd Staff Pension Scheme for the funding deficit of the pension referred to in note 17 to the consolidated financial statements.

Amsterdam, April 10, 2008

Mr. Olivier Piou Chief Executive Officer	**Mr. Alex Mandl** Non-Executive Chairman of the Board
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	**Mr. John de Wit** 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 auditor's report on 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 2007 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 2007, 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 2007, the company profit and loss account for the year then ended and the notes.

Our results
Financial statements

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 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 2007, 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 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, April 10, 2008

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.

Following adoption of the annual Company and consolidated financial statements by the General Meeting of shareholders, the Company may distribute profits, provided that the financial statements show that this is permissible. The Company may only pay dividends insofar as its equity exceeds the sum of the issued share capital and the mandatory statutory reserves.

The Board of Directors determines, with due observance of the Company's policy on additions to reserves and on distribution of profits, and taking into account the legal provisions relating to mandatory statutory reserves, what portion of the profit shall be retained by way of reserve. The portion of the profits that shall not be reserved shall be at the free disposal of the General Meeting of shareholders. The General Meeting of shareholders may also resolve, upon the recommendation of the Board of Directors, to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts which are not prescribed by the law.

The Board of Directors determines the terms of distributions to shareholders. Subject to having obtained, in accordance with the Articles of Association, the authorization of the General Meeting of shareholders to issue shares, the Board of Directors may decide to pay dividends in shares or grant shareholders the option to choose distribution in cash or in shares. If no such approval is given, this power is passed on to the General Meeting of shareholders, on the recommendation of the Board of Directors.

Before the annual financial statements are adopted by the General Meeting of shareholders, the Board of Directors may, at its own discretion and subject to the provisions of Section 105, subsection 4 of Book 2 of the Dutch Civil Code and with due observance of the Company's policy on additions to reserves and on distribution of profits, resolve to distribute one or more interim dividends to shareholders.

7.3.3 Appropriation of result

The Board of Directors has determined with due observance of the Company's policy on additions to reserves and on distribution of profits to allocate the result for the period to retained earnings.

7.3.4 Post-closing events

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' wishes and opinions. Relevant information for potential and current shareholders may be found on the Gemalto website under the link "Investor Relations" (www.gemalto.com).

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 Gemalto Group. The corporate seat of Gemalto N.V. is Amsterdam, the Netherlands, and its registered office address is Joop Geesinkweg 541-542, 1096 AX 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, 2007 the Company's issued and paid-up share capital amounted to €91,015,844, consisting of 91,015,844 ordinary shares of which 7,524,273 shares were held in treasury.

8.4 STOCK EXCHANGE LISTING — 2007 STOCK MARKET DATA

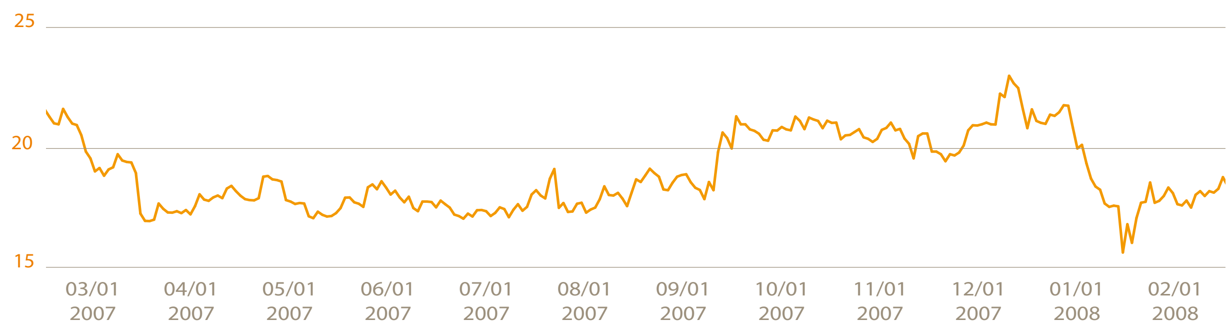
Gemalto N.V. (Euronext NL 0000400653) is listed on Eurolist by Euronext Paris S.A. Gemalto shares were eligible for the Deferred Settlement System or *Service de Règlement Différé* (SRD) from January 26, 2006 onwards.

- Average daily trading volume in 2007: 459,038 shares
- Market capitalization as of December 31, 2007: €1,956,840,646

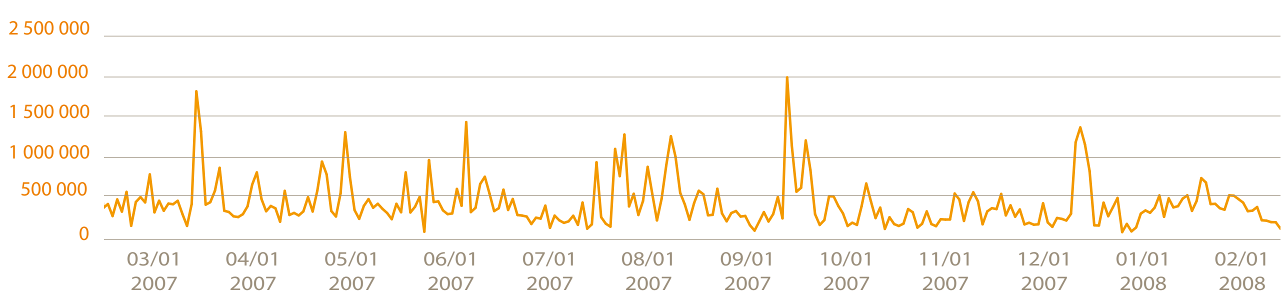
8.5 SHARE PRICE DEVELOPMENT IN 2007

Gemalto N.V. share price performance from February 14, 2005 to February 14, 2008

Gemalto share closing price (€)



Gemalto share daily trading volume



Our results
Investor information

Historic share price data

	High* EURO	Low* EURO	Average daily volume	Total volume
2007				
January	19.52	17.34	586,767	12,908,875
February	21.64	19.59	560,620	11,212,399
March	19.76	16.99	523,527	11,517,604
April	18.86	17.61	467,590	8,884,210
May	18.63	17.11	481,852	10,600,740
June	18.64	17.09	454,151	9,537,169
July	19.15	17.15	399,760	8,794,715
August	17.34	19.16	499,942	11,498,677
September	21.33	17.90	531,146	10,622,913
October	21.32	20.27	259,371	5,965,535
November	21.07	19.47	336,106	7,394,337
December	23.01	20.84	427,238	8,117,518
2008				
January	21.79	15.69	446,423	9,821,303

* Based on closing prices
Between January 2, 2007 and February 14, 2008, the average daily trading volume was 451,438 shares. Based on January 2, 2007 closing price of €19.16 per share and the closing price on February 14, 2008 of €18.03 per share, the Company's share price has decreased by 5.90%.

8.6 DIVIDEND 2007

The Company did not pay a dividend in 2007 in respect of the 2006 financial year. With due observance of the Company's policy on additions to reserves and distributions of dividends, the Board will not propose to pay a dividend in 2008 in respect of the 2007 financial year. For more information on the dividend policy please refer to section 4.5.4.

8.7 SHARE BUY-BACK PROGRAM

During 2007 the Board initiated a new share buy-back program on December 20, 2007. For information on the share buy-back program, please refer to section 4.5.1.

8.8 NUMBER OF OUTSTANDING SHARES AND DILUTION

The number of outstanding shares on December 31, 2007 was 83,491,578.

Adjusted diluted earnings per share are determined as per the IFRS Treasury methodology i.e. on the basis of the average number of Gemalto shares outstanding during the period (i.e. common shares less Treasury shares) and considering that all outstanding "in the money" stock options and warrants have all been exercised and common shares have been repurchased at 2007 average share price with the proceeds from stock options and warrants exercise.

2007 Weighted average number of outstanding shares	**86,171,755**
add Number of outstanding "in the money" stock options and warrants	4,954,268
less Repurchase of common shares at 2007 average share price with the proceeds from stock options and warrants exercise	(3,700,725)
2007 diluted weighted average number of outstanding shares	**87,425,298**

8.9 FINANCIAL CALENDAR

8.9.1 Important dates of financial calendar

2007	
February 1, 2007	Publication of 2006 Fourth Quarter Revenue
March 15, 2007	Publication of 2006 Full Year Results
May 3, 2007	Publication of 2007 First Quarter Revenue
May 22, 2007	AGM
July 26, 2007	Publication of 2007 Second Quarter Revenue
September 13, 2007	Publication of 2007 First Half Results
November 8, 2007	Publication of 2007 Third Quarter Revenue
2008	
January 30, 2008	Publication of 2007 Fourth Quarter 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

8.9.2 2008 AGM

Gemalto N.V. will hold its 2008 AGM at the Radisson SAS Hotel, Boeing Avenue 2, Schiphol-Rijk, the Netherlands, on Wednesday, May 14, 2008 at 10:30 a.m. CET.

For the AGM on May 14, 2008 a record date (being May 5, 2008) will apply: those persons, who on May 5, 2008 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.

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Reuters: GTO.PA
Bloomberg: GTO:FP

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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

Our results
Glossary

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.

e-passport: an electronic passport with high security printing, an inlay including an antenna and a microprocessor, and other security features *(see page 27)*.

e-purse: a small portable device that contains ìelectronic moneyî and is generally used for low-value transactions.

e-ticketing: 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 ìsecure and reliable forms of identificationî 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 ìIP addressî is a unique computer address using the IP standard.

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

OTP (One Time Password) *(see page 20)*.

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.

Strong authentication *(see page 23)*.

Thin client: a computer (client) that depends primarily on a central server for processing activities. In contrast, a thick or fat 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.

We would like to thank
all the employees of Gemalto
who appear in these pages.

Gemalto Corporate
Communication / April 2008

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Illustration: James Joyce

gemalto

security to be free

www.gemalto.com