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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross profit for the Company was up +8%, or €72 million to €936 million, expanding in all segments. This represents a gross margin of 39.2%, higher by +0.7 percentage points compared to 2012. This gross margin improvement came from a better product mix in the Mobile Communication and Machine-to-Machine segments. Improvement in these two segments more than offset the temporary impact of startup costs for new operations for Secure Transactions and Security that occurred during the first semester and the additional resources expended by Gemalto service delivery teams on the high contract backlog in Platforms & Services. The increase in operating expenses was +5% with the year-on-year expansion occurring during the first semester. As anticipated, the step-up in investments in operations put in place in the second half of 2012 caused the strong semester-on-semester profit seasonality observed in 2013.
Other income was a charge of €2 million in 2013 compared to a positive non-recurring contribution of +€9 million in 2012, hence slightly reducing the year-on-year expansion in profit from operations, which came in at €347 million, up +13% on the previous year. All segments contributed significantly to the profit increase, except Security that incurred additional costs in 2013 related to major capacity upgrades. Profit margin from operations for all operations of the Company hence reached 14.5% of revenue, adding +0.9 percentage points on 2012’s figure and delivering progress in line with the expected annual gains needed to reach the new long-term objective of €600 million profit from operations in 2017.

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

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

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

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

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

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

### Adjusted financial information for all operations

<table>
<thead>
<tr>
<th>Extract of the adjusted income statement for all operations</th>
<th>Full year 2013</th>
<th>Full year 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>€2,388.6</td>
<td>€2,249.5</td>
</tr>
<tr>
<td>Gross profit</td>
<td>936.2</td>
<td>864.4</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(588.8)</td>
<td>(558.1)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>434.8</td>
<td>381.3</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>347.4</td>
<td>306.3</td>
</tr>
<tr>
<td>Net profit</td>
<td>315.5</td>
<td>261.6</td>
</tr>
<tr>
<td>Basic Earnings per share (€)</td>
<td>3.68</td>
<td>3.14</td>
</tr>
<tr>
<td>Diluted Earnings per share (€)</td>
<td>3.57</td>
<td>3.00</td>
</tr>
</tbody>
</table>

### Platforms & Services

<table>
<thead>
<tr>
<th>Revenue from ongoing operations in Platforms &amp; Services activities (€ in millions)</th>
<th>2013</th>
<th>2012</th>
<th>Year-on-year variations at constant exchange rates</th>
<th>Year-on-year variations at historical exchange rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>247</td>
<td>210</td>
<td>+21%</td>
<td>+18%</td>
</tr>
<tr>
<td>Payment &amp; Identity</td>
<td>215</td>
<td>181</td>
<td>+21%</td>
<td>+18%</td>
</tr>
<tr>
<td>Total</td>
<td>462</td>
<td>392</td>
<td>+21%</td>
<td>+18%</td>
</tr>
</tbody>
</table>
Due to the strong variation in working capital observed for the first part of the year, cash conversion demonstrated significant seasonality in 2013, with a positive free cash flow for the full year 2013 of +€152 million composed of a free cash inflow for the second semester of +€163 million and a (€12) million outflow for the first semester relating to rapidly growing businesses in Asia.

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

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

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

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

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

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

- Mobile: 54%
- Payment & Identity: 45%
- Patents: 1%

Full year 2013

Revenue contributions by sector and activity (€ in millions, ongoing operations)

<table>
<thead>
<tr>
<th>Sector, Activity</th>
<th>Mobile</th>
<th>Payment &amp; Identity</th>
<th>Total four main segments</th>
<th>Embedded software &amp; Products</th>
<th>Platforms &amp; Services</th>
<th>Total four main segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,292</td>
<td>1,076</td>
<td>2,368</td>
<td>1,905</td>
<td>462</td>
<td>2,368</td>
</tr>
<tr>
<td>As a percentage of total revenue</td>
<td>54%</td>
<td>45%</td>
<td>99%</td>
<td>80%</td>
<td>19%</td>
<td>99%</td>
</tr>
<tr>
<td>Year-on-year variations at constant exchange rates</td>
<td>+5%</td>
<td>+16%</td>
<td>+10%</td>
<td>+8%</td>
<td>+21%</td>
<td>+10%</td>
</tr>
<tr>
<td>As a percentage of total revenue growth at constant exchange rates</td>
<td>28%</td>
<td>66%</td>
<td>94%</td>
<td>59%</td>
<td>35%</td>
<td>94%</td>
</tr>
</tbody>
</table>

Segment information

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

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

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

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

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

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

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

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

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

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

Outlook

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

Trusted to manage our risks

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

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

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

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

The foundations of our approach

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

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

What we focused on during the year

We continue to drive improvements to our risk management process and the quality of risk information generation, whilst at the same time maintaining a simple and practical approach. During the year we focused on a number of key areas:

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

What we plan to do in the future

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

- Strengthening our resilience to business interruption.

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

Olivier Piou
Chief Executive Officer
How we share our risk management responsibilities

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

The Board

Sets strategic objectives and defines risk appetite.
Reviews the Company’s risk management and internal control systems and assesses their effectiveness through its Audit committee.

Senior Management

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

Business and operations management

Identifies and manages risks for their scope of responsibility.
Maintains effective internal control day-to-day.

Business support functions

Defines internal control systems in their scope of expertise ensuring their continuous appropriateness to the Company’s risks.
Develops risk management culture and awareness of those internal control systems.

Risk prevention and management and internal control department

Develops and promotes the ERM framework to support management in the identification, assessment, management, monitoring and reporting of risks.
Facilitates consistent and periodic reviews of the design and implementation of internal control systems.

Internal audit

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

Key processes

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

Foundations

Our processes are underpinned and informed by:

- Strategy and objectives
- Culture and values
- Internal control
- Sustainability
How we address risk management

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

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

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

1. Budgeting, planning and reporting

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

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

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

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

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

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

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

Drawing on the review of the operating results and the treasury report, the Group Controller and CFO prepare the operating dashboard and accompanying CEO and CFO letter. These are reviewed by the CEO before being circulated to the Board and Senior Management. The dashboard and accompanying letter cover the activity by segment, the updated operating income statement forecast for the current quarter, and the cash, debt and working capital positions. A review of the activity is presented by the CEO and the CFO at each Board meeting.
In the last days of each quarter the Head of Consolidation holds pre-close reviews with each segment and region. Combined with the monthly result calls, these allow prompt identification and communication of any transaction or event which could significantly impact the Group’s results or financial condition.

2. Risk assessment and mitigation

Our risk management process involves:

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

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

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

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

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

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

3. Crisis management and business continuity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

How we monitor effectiveness

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

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

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

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

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

Our dedicated Security, Quality, Health, Safety and Environment department, with representatives throughout the Group, promotes the appropriate culture and performs regular audits.
The Anti-fraud Commission ensures that proper controls are enforced on potential fraud areas.

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

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

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

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

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

**Financial control**

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

**How we provide independent assurance on effectiveness**

**Internal audit**

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

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

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

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

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

**External certifications**

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

**External auditor**

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

The Audit committee assesses the work of the external auditor at least once a year. The external auditor provides an independent opinion on the financial results of the Group, and its report is available on page 120.
This table outlines what Gemalto’s management believes to be the principal risks to the Company and the actions taken to mitigate them. It is not an exhaustive list of all the risks that may affect Gemalto but aims to report the main ones that stem from our activities.

## Principal risks

### Strategic risks

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Main mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower growth and profitability</td>
<td>• 2014–2017 Development Plan. • Diversified portfolio of activities. • Focus on innovation: Gemalto filed 113 new patent applications in 2013.</td>
</tr>
<tr>
<td>Acquisitions and/or joint ventures</td>
<td>• Dedicated team manages corporate development plan and M&amp;A. • Formal process to manage acquisitions and integrations.</td>
</tr>
<tr>
<td>Technology shift</td>
<td>• Competitive and market intelligence program. • Diversified technology portfolio (including through M&amp;A). • Strong R&amp;D and standardization teams.</td>
</tr>
</tbody>
</table>

### Legal and compliance risks

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Main mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual property rights risks</td>
<td>• Dedicated and qualified internal IP team organized by technology. • Internal IP department and internal inventor policies.</td>
</tr>
<tr>
<td>Internal fraud and non-ethical behavior</td>
<td>• Policies and procedures, code of ethics, whistle-blowing tool, etc. • Anti-fraud commission. • Security certifications and organization.</td>
</tr>
<tr>
<td>Changes in regulatory environment</td>
<td>• Legal organization in regions and by activity. • Training on tax and other regulations. • Tax department with regional antennas.</td>
</tr>
</tbody>
</table>

### Operational risks

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Main mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business interruption and crisis</td>
<td>• Risk mapping with regular updates (both at site and Group levels). • Crisis Management framework and worldwide training program. • Diversified industrial footprint.</td>
</tr>
<tr>
<td>Sourcing risks and dependency on suppliers</td>
<td>• Business intelligence on suppliers. • Multiple sourcing strategy. • Safety stocks management and protection clauses in contracts.</td>
</tr>
<tr>
<td>Bidding and execution failures of major contracts</td>
<td>• Bid and contract reviews with approval process according to limits of authority. • Risk assessment performed for major deals.</td>
</tr>
<tr>
<td></td>
<td>• Continued investment to improve and secure manufacturing activities. • Business continuity responses build-up. • Regular internal and external audits of facilities (including on Crisis Management and Business Continuity plans).</td>
</tr>
<tr>
<td></td>
<td>• Responsible purchasing program. • Supplier selection, qualification and monitoring process. Audits of some key suppliers.</td>
</tr>
<tr>
<td></td>
<td>• Project-based organization for Government Programs and software, solutions and services contracts.</td>
</tr>
</tbody>
</table>
### Operational risks continued

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Main mitigating actions</th>
</tr>
</thead>
</table>
| Defective products and/or service failures | • Standardized manufacturing processes.  
  • Quality Management system and World-Class Enterprise organization.  
  • 28 sites with ISO 9001 certification in 2013.  
  • Participation in standardization committees.  
  • Advice from law firms, tax advisors and authorities where we operate.  
  • Dedicated organization for software, products, platforms and services.  
  • Product and Professional Liability insurance.  
  • High overall customer confidence in annual survey (Tell Me).[i] |
| Exposure to country risk | • Involvement of treasury, tax and legal departments at the early stages of international operations.  
  • Medical assistance and repatriation insurance.  
  • Agreements with specialized security consulting companies.  
  • Country risk alert monitoring and communication.  
  • Travel policy and travel security policy.  
  • Appointment of a Director of Global Data Privacy.  
  • Security certifications by third-parties (including ISO 27001, EMV, GSM, SAS, etc.).  
  • Internal security audits (extended to IT subcontractors).  
  • Anti-fraud commission.  
  • Focus on diversity, ethics and community.  
  • Focus on training, promotion from within, and mobility.  
  • Focus on creating value to clients: High overall customer confidence in the annual ‘Tell Me’ survey.  
  • Key account management. |
| Confidential data mismanagement | • Security and cryptography expertise.  
  • Extensive set of security and IT policies with regular training sessions.  
  • Worldwide security organization with security officers in all important sites and regional/corporate security support.  
  • Comprehensive Human Resources strategy.  
  • Focus on recruitment, management by objectives, compensation and benefits.  
  • Focus on training, promotion from within, and mobility. |
| Dependence on key managers and employees | • Diversified portfolio of clients in about 190 countries, operations from worldwide locations.  
  • No customer represents more than 10% of Group’s annual revenue.  
  • Centralized currency risk management by the Treasury department with regional antennas, and currency reporting.  
  • Treasury committee and Treasury policies.  
  • Risk limits set for counterparties and regularly reviewed.  
  • Treasury committee.  
  • Use of plain vanilla hedging instruments and low-risk money market investment.  
  • Financial policies and procedures.  
  • Single financial reporting tool Company-wide and single Enterprise Resource Planning under continuing deployment.  
  • Revenue recognition process.  
  • Consolidation department with dedicated specialists.  
  • Regular balance sheet analysis.  
  • Tax, Controlling and Treasury departments with regional antennas. Dedicated Internal Control and Audit departments.  
  • Specific reviews performed by the Internal Audit department.  
  • Regular reviews by the Audit committee.  
  • Audit by external renowned independent audit firm. |
| Customer retention | • High overall customer confidence in annual ‘Tell Me’ survey.  
  • Key account management. |

### Financial risks

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Main mitigating actions</th>
</tr>
</thead>
</table>
| Foreign exchange risk | • Centralized currency risk management by the Treasury department with regional antennas, and currency reporting.  
  • Treasury committee and Treasury policies.  
  • Hedging strategies including natural hedging (i.e. matching costs and revenue currencies) and transaction hedging (foreign exchange forward contracts and options recorded as cash flow hedges).  
  • Working with financial institutions of investment grade (deposits, hedging transactions).  
  • Set-off provisions in financial contracts. |
| Financial counterparty risk | • Risk limits set for counterparties and regularly reviewed.  
  • Treasury committee.  
  • Use of plain vanilla hedging instruments and low-risk money market investment.  
  • Financial policies and procedures.  
  • Single financial reporting tool Company-wide and single Enterprise Resource Planning under continuing deployment.  
  • Revenue recognition process.  
  • Consolidation department with dedicated specialists.  
  • Regular balance sheet analysis.  
  • Tax, Controlling and Treasury departments with regional antennas. Dedicated Internal Control and Audit departments.  
  • Specific reviews performed by the Internal Audit department.  
  • Regular reviews by the Audit committee.  
  • Audit by external renowned independent audit firm. |
| Financial reporting risks | • High overall customer confidence in annual ‘Tell Me’ survey.  
  • Key account management. |

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