



# FY 2007 Earnings Release

**Olivier Piou, CEO**

**Jacques Tierny, CFO**

**Jacques Seneca, EVP Security**

March 20, 2008

# Disclaimer

## *Forward-Looking Statements*

This communication contains certain statements that are neither reported financial results nor other historical information and other statements concerning Gemalto. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, events, products and services and future performance. Forward-looking statements are generally identified by the words "expects", "anticipates", "believes", "intends", "estimates" and similar expressions. These and other information and statements contained in this communication constitute forward-looking statements for purposes of applicable securities laws. Although management of the company believes that the expectations reflected in the forward-looking statements are reasonable, investors and security holders are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of the companies, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements, and the companies cannot guarantee future results, levels of activity, performance or achievements. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this communication include, but are not limited to: the ability of the company's to integrate according to expectations; the ability of the company to achieve the expected synergies from the combination; trends in wireless communication and mobile commerce markets; the company's ability to develop new technology and the effects of competing technologies developed and expected intense competition generally in the companies' main markets; profitability of expansion strategy; challenges to or loss of intellectual property rights; ability to establish and maintain strategic relationships in their major businesses; ability to develop and take advantage of new software and services; the effect of the combination and any future acquisitions and investments on the companies' share prices; and changes in global, political, economic, business, competitive, market and regulatory forces. Moreover, neither the companies nor any other person assumes responsibility for the accuracy and completeness of such forward-looking statements. The forward-looking statements contained in this communication speak only as of the date of this communication and the companies are under no duty, and do not undertake, to update any of the forward-looking statements after this date to conform such statements to actual results, to reflect the occurrence of anticipated results or otherwise.

# ★ **Overview**

**Olivier Piou, CEO**

- ★ Financial Results
- ★ Security Business Update
- ★ Outlook



# Full year 2007 highlights

- ✦ Adjusted operating income up 40% at € 84m\*
- ✦ Successful implementation of price recovery, cost streamlining, and restructuring
- ✦ Strong performance in Mobile Communication leveraging H2 growth
- ✦ Restructuring program well underway to return Secure Transactions to profit
- ✦ Security continues to develop, driven by growth in Government Programs (up 23%)
- ✦ Clear segmentation enables the capturing of more market value



\* Operating income variation is by reference to FY2006 figure and stated at historical exchange rates

# Developing Gemalto's potential

Our customer centricity is of strategic importance. The latest satisfaction survey again shows customers' confidence in Gemalto's vision and market leadership. Our customers also place strong emphasis on reinforcing our innovation roadmaps and solution offers, as we set out to achieve ambitious progress in 2008.



Paul Beverly  
EVP Marketing



Claude Dahan  
EVP Operations

The success of operations streamlining is yielding good results. Combination synergies are ahead of schedule. Our intense focus on world-class efficiency continues in all areas of our activity.

Teamwork is absolutely tremendous, and talent development programs are in place. Our annual employee survey continues to help us identify key issues and monitor progress: in 2007, the highest scores were registered in '*relating to Gemalto core values*', '*good relationship with managers*', and '*a strong customer focus*'.



Philippe Cabanettes  
EVP Human Resources

# Showcasing Gemalto's latest innovations



Barcelona  
February 2008

- ★ UpTeq Convergence Dongle that enables Orange's subscribers to securely access mobile applications and services via their computers
- ★ Allynis OTA services including one-time password solution
- ★ UpTeq NFC solutions that fully utilize the central role of the SIM card to deliver innovative mobile services



- ★ Enterprise security solutions, including the Allynis Device Administration service, the Instant Issuance solution for corporate badges, and the Smart Enterprise Guardian, the multi-purpose USB device co-launched with Lexar
- ★ Online banking solution Ezio which offers strong authentication for banks and online services and can also be used to digital sign transactions
- ★ e-Healthcare solution for Germany, covering cards and terminals

Hanover  
March 2008



OTA = Over-the-air; NFC = Near Field Communication

# 10 points to keep in mind about Gemalto

- ✦ Demand for our products is not directly correlated to consumer spending
  - SIM market is largely (80%+) driven by churn and prepaid subscription
  - Consumers might talk less but are unlikely to cease having mobile subscriptions
  - Chip payment card business remains largely driven by regular re-issuance
  - Security remains a key concern for governments
- ✦ No single country or customer represents more than 10% of our revenue
- ✦ We have a strong net cash position and continue to generate positive cash flow
- ✦ We are the industry leader with a diversified business portfolio
- ✦ Our clients depend on us for their operation: we are part of *Cost of Sales*, not *Capex*
- ✦ Our customers are blue chip companies, more resilient during economic uncertainties
- ✦ Our customers regularly confirm the relevance of our offers and innovation roadmaps
- ✦ We have an increasing contribution from long-term contracts
- ✦ Our production base is widely distributed and we have low exposure to energy prices
- ✦ We have a large reserve of synergies that have not yet translated to the bottom line

✦ Overview

✦ **Financial Results**

Jacques Tierny, CFO

✦ Security Business Update

✦ Outlook



# Basis of presentation of 2007 financial information

- ✦ Accounting treatment of the combination in accordance with IFRS 3 has several significant impacts on Gemalto's financial statements
- ✦ For a better understanding and appreciation of Gemalto's operating performance over the period, and supporting today's presentation:
  - Adjusted pro forma income statement for 2006 and Adjusted income statement for 2007
  - Analysis of change in cash position of the Company
- ✦ Effective July 1, 2007 Transport activity is reported under Secure Transactions, instead of under Identity & Security.
- ✦ Also effective July 1, 2007 Identity & Security has been renamed Security, and comprises Government Programs (previously named Identity), Identity & Access Management (previously named Security) and patent licensing activities

# Adjusted income statement

€ in millions	FY 2006 Adjusted pro forma	% of Revenue	FY 2007 Adjusted	% of Revenue
Revenue	1,698		<b>1,631</b>	
Gross Profit	503	29.6%	500	30.7%
Research & Engineering expenses	(114)	6.7%	(103)	6.3%
Sales & Marketing expenses	(218)	12.8%	(218)	13.3%
General & Administrative expenses	(111)	6.5%	(100)	6.1%
Operating expenses	(442)	26.0%	(420)	25.7%
Other operating income (expenses)	(1)	0%	3	0%
EBITDA*	131	7.7%	160	9.8%
Adjusted operating income (Adjusted EBIT)	60	3.5%	84	5.1%

## ★ Adjusted operating income increased by 40% to € 84 million

- Gross margin up 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 down € 22 million
  - Benefits of the cost reduction measures implemented in the support functions

\* EBITDA: Operating income + Amortization and Depreciation

# Adjusted income statement - Other items

€ in millions	<b>FY 2006 Adjusted pro forma</b>	% of Revenue	<b>FY 2007 Adjusted</b>	% of Revenue
Adjusted operating income (EBIT)	60	3.5%	84	5.1%
Financial Income	8		10	
Share of profit (loss) in associates	(1)		0	
Gain on sale of investment in associates	-		11	
<b>Adjusted profit before taxes</b>	<b>67</b>	<b>4.0%</b>	<b>105</b>	<b>6.4%</b>
Income tax	(66)		(16)	
<b>Adjusted profit for the period</b>	<b>2</b>	<b>0%</b>	<b>89</b>	<b>5.5%</b>

## ★ Adjusted profit for the period at € 89 million

- Adjusted basic EPS at € 98 cents per share
- 86 million shares outstanding in average in 2007, 82.8 million shares as of February 29, 2008

# Mobile Communication: margins well above expectations

## ★ Gross margin up 3.7 ppt to 37%

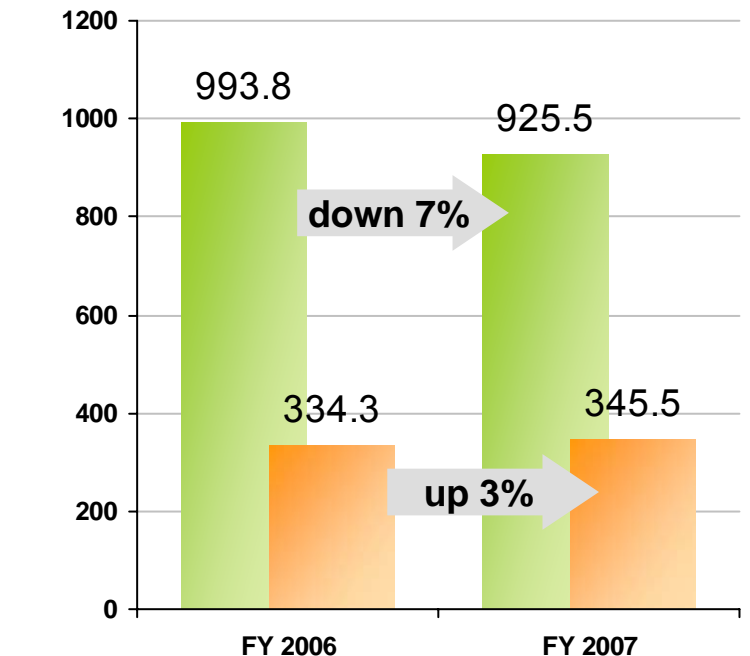
- First results of purchasing synergies and production footprint optimization
- Product mix improvement
- Growth of over 30% in software and services

## ★ Operating expenses down 13%

- G&A reduced
- R&E benefited from rationalization of the combined product portfolio

## ★ Operating margin at 13% for the year

**Revenue and Adjusted Gross Profit**  
(€ in millions)



	FY 2006	FY 2007
Gross Margin	33.6%	37.3%

Back to growth in H2, strongly profitable and cash generating

# Secure Transactions: a year of transition

## ★ Resilient revenue

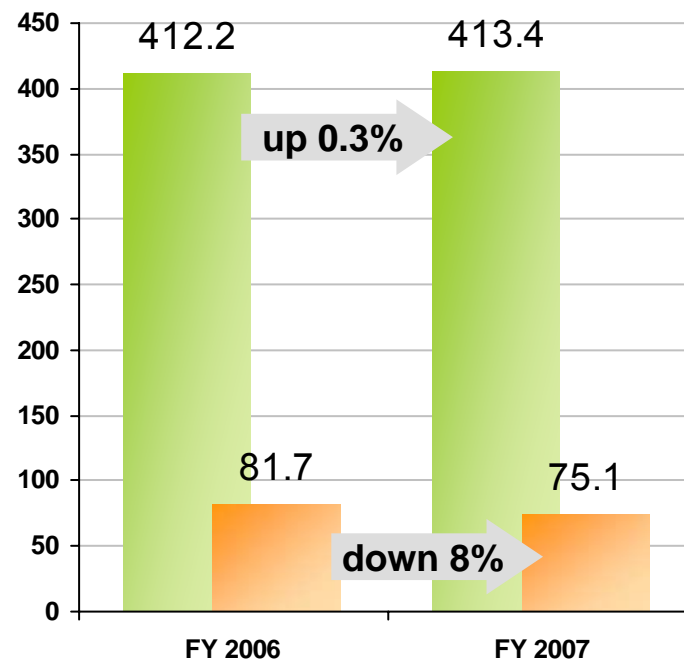
- Growth in contactless payment and in Pay TV activity
- Increase in personalization services
- Offsetting disturbances related to the restructuring program

## ★ Gross margin at 18.2%, down 1.6 ppt year on year

- Price pressure in certain countries and larger proportion of modules

## ★ Operating expenses down 4% yet cost adjustments will materialize significantly only in 2008

### Revenue and Adjusted Gross Profit (€ in millions)



Gross Margin	FY 2006	FY 2007
	19.8%	18.2%

Will benefit in 2008 from its restructuring actions

# Security: investing for growth

## ★ Revenue up 6%

- Over 38 million e-documents and secure personal devices delivered
- Good performance in Government Programs
- Patent licensing revenue at € 23m

## ★ Gross margin down 6.6 ppt

- Largely due to the lower patent licensing compared to 2006

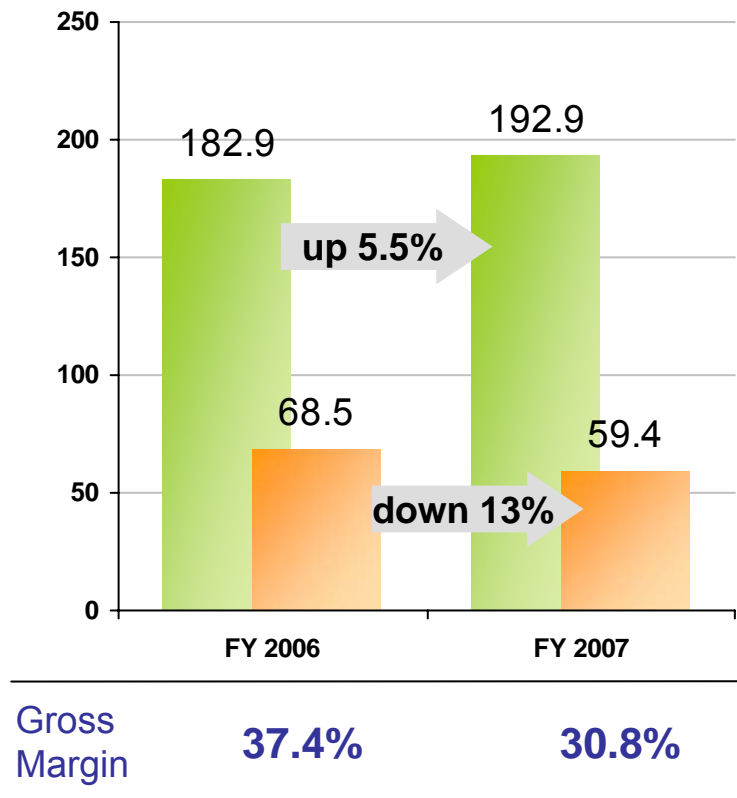
## ★ Operating expenses up € 13.5m

- More technical and marketing resources spent to support growth and leadership in Government Programs

## ★ Commercial effort successful

- 10 new government contracts won in 2007 for ramp up over 2008 and the following years

**Revenue and Adjusted Gross Profit**  
(€ in millions)



High growth in a business with recurring cash flows

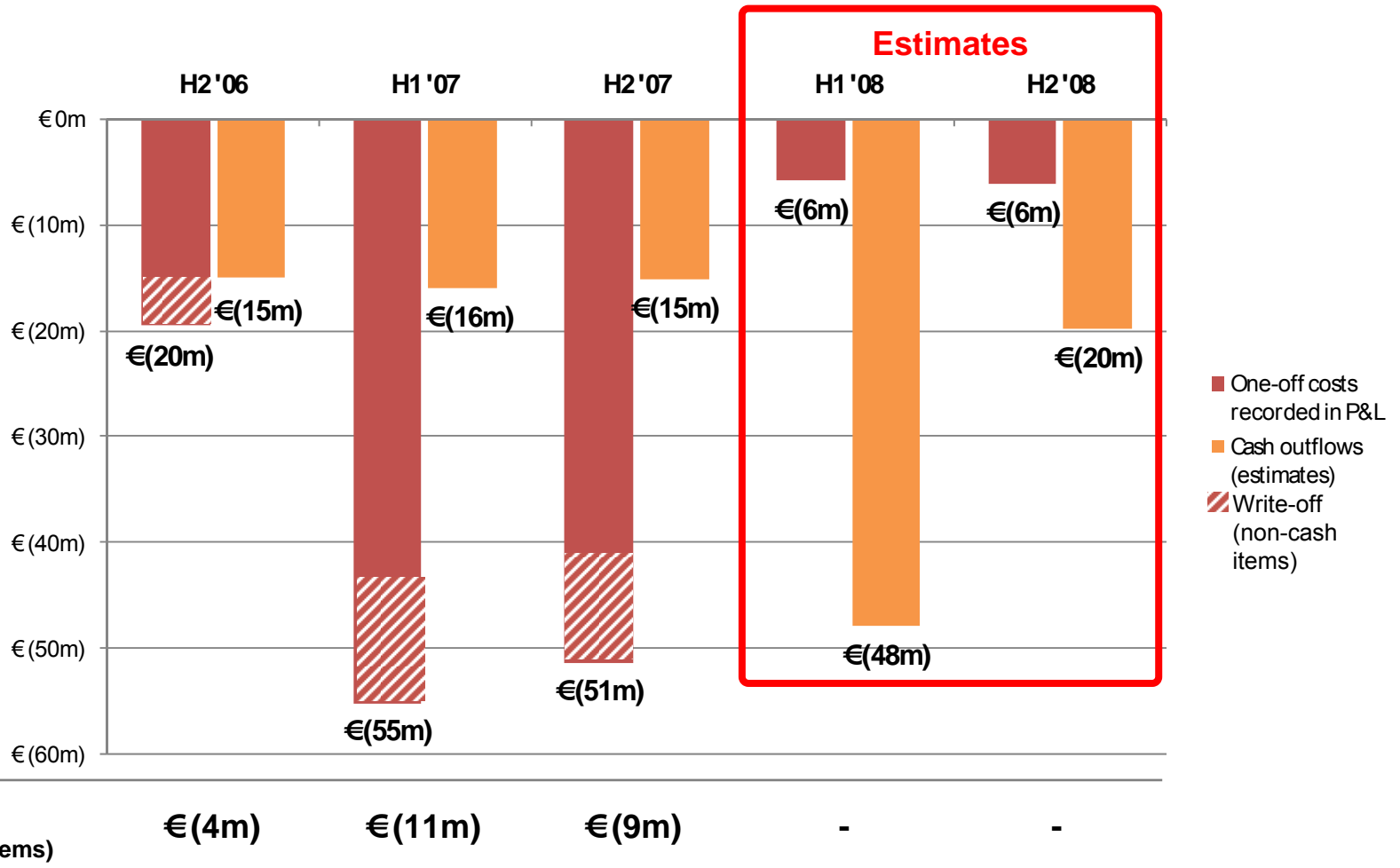
# Reorganization charges

(Reorganization charges are excluded from the Adjusted income statements and are part of the IFRS income statements)

- ✦ Reorganization charges consist of charges incurred in connection with:
  - headcount reductions in the support functions,
  - consolidation of manufacturing and office sites,
  - the rationalization and harmonization of the product and service portfolio.
  
- ✦ Reorganization charges amounted to € 106.4m in 2007
  - Severance costs (mainly related to the closure of production facilities in the Americas, Asia and Europe) of € 71.5m
  - Factory under-absorption for plant being closed for € 4.4m
  - Property, plant and equipment, intangible asset and inventory write-offs and impairment for € 20m
  - Other costs (mainly IT integration) amounting to € 10.5m

# Timing of one-off costs and related cash outflows

(estimates; updated March 18, 2008)



## Very solid balance sheet

€ in millions All figures at period end	Dec. 31, 2006*	Dec. 31, 2007
Property, plant & equipment	243	217
Goodwill	548	544
Other intangibles	116	74
<b>Net Fixed Assets</b>	<b>906</b>	<b>835</b>
Working Capital Requirements	197	176
Other Assets (Liabilities), Nets	(55)	(83)
<b>Total Capital Employed, Net</b>	<b>1,048</b>	<b>928</b>
Equity	1,417	1,231
Minority interest	27	12
<b>Total equity</b>	<b>1,444</b>	<b>1,242</b>
Net Debt (Net Cash)	(396)	(314)
<b>Total Capital Invested, Net</b>	<b>1,048</b>	<b>928</b>
Working Capital Requirements as a percentage of the annualized last quarter's revenue	10%	9%

\* Compared to the 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 assets acquired, liabilities and contingent liabilities assumed from Gemplus at the combination date

# Strong net cash position

€ in millions	FY 2006 *	FY 2007
<b>Cash &amp; cash equivalent, beginning of period</b>	<b>637</b>	<b>430</b>
Cash generated by operating activities**	68	99
Cash used in investing activities	(88)	(33)
June 2, 2006 distribution to Gemplus shareholders	(164)	0
Cash used in the share buy-back program	0	(144)
Other cash used in financing activities	(22)	(15)
<b>Cash and cash equivalent, end of period</b>	<b>430</b>	<b>337</b>
Current and non-current borrowings including finance lease, end of period	(34)	(24)
<b>Net cash, end of period</b>	<b>396</b>	<b>314</b>

★ Our USD 250m syndicated facility remains unused; it is available until August 24, 2012

\* Prepared on a pro forma basis

\*\* Cash generated by (used in) operating activities takes into account the use of € 31.2 million in cash in connection with restructuring actions in 2007 (estimate). Restructuring actions used € 15.0m in cash in 2006 (estimate).

# Global business indicators

In € millions, unless otherwise mentioned	FY 2006 Pro forma	FY 2007	Change
R&E expenses as a percentage of revenue	7%	<b>6%</b>	down 1 ppt
CAPEX (tangibles, net of disposals)	69	<b>40</b>	(45%)
% of revenue	4.1%	<b>2.5%</b>	
Cash flow from operating and investing activities and before restructuring expenses	(5)	<b>97</b>	up € 102m
Working Capital Requirements as a percentage of the annualized last quarter's revenue	10%	<b>9%</b>	down 1 ppt

Operations are on track towards our '09 objective

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# Emerging businesses in a growth phase

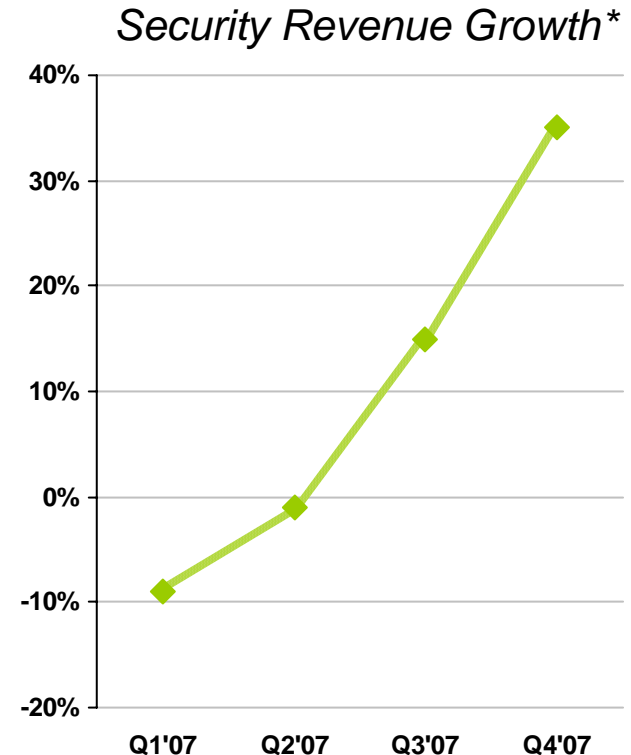
## ✦ Identity & Access Management (IAM)

- Leverage the need for strong authentication devices for enterprises and e-banking
- Preparing for growth with reinforced go-to-market
- Business tend to be project-based
- Develop strategic partnerships and indirect channels

## ✦ Government Programs (GP)

- Recurring revenue as business maturity picks up
- Many additional countries still to adopt e-documents in the coming years
- Unrivalled references and high brand recognition

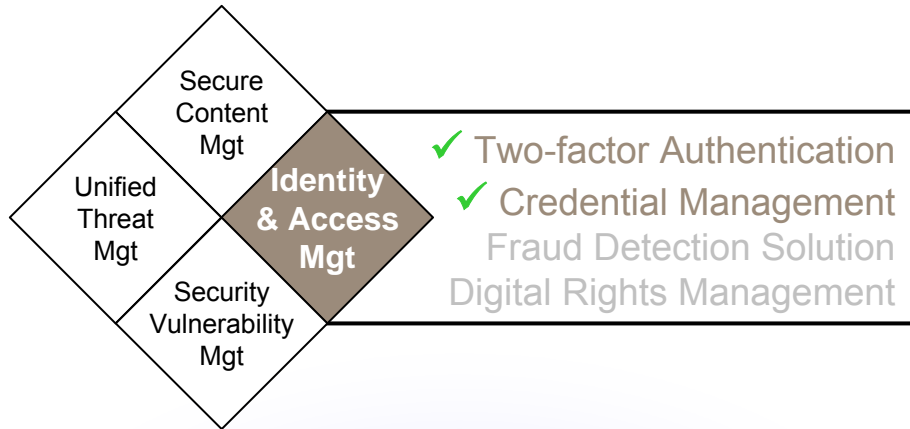
## ✦ Progressive benefits from combination synergy and operational optimization



\* Year-on-year variations are by reference to 2006 figures and stated at constant exchange rates



# Our IAM offers today address mainly the identity verification process



## ✦ Portable authentication solutions

- Portfolio of authentication devices
- Middleware and server
- Use of EMV CAP for e-banking

## ✦ Leverage the Gemalto advantage

- Security software & device expertise
- Scale benefits for volume ramp-up
- Native Microsoft Vista compatibility
- .NET-ready operating system
- Track record in EMV deployment
- Proven success with blue-chip clients



CAP = Chip Authentication Program



# Demand is on the rise for all security solutions

★ Recent end-user survey highlights the need to address security concerns

	Americans	French
Feels at risk from identity theft	74%	58%
Have not bought online because they did not trust the site	54%	68%
Would make more online purchase if security was improved	36%	56%

Source: TNS Sofres / Gemalto

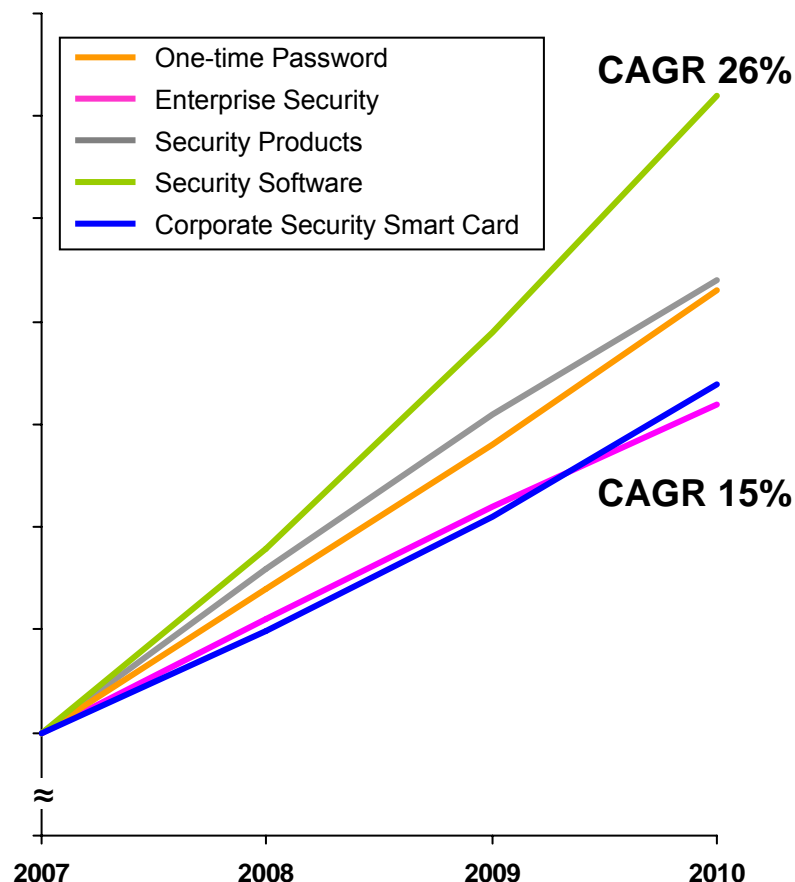
★ Online banking raising concerns

- over 75% of online customers want more than username/password (Datamonitor)
- 6% of consumers switched banks to reduce risk on the Internet (IDC)

★ Enterprises ready for security upgrade

- Microsoft Vista is readily “smart security” friendly, and has surpassed 100 million licenses in its first year

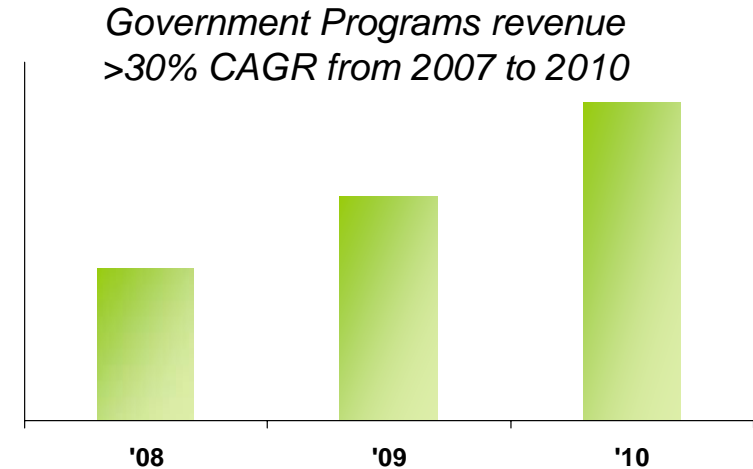
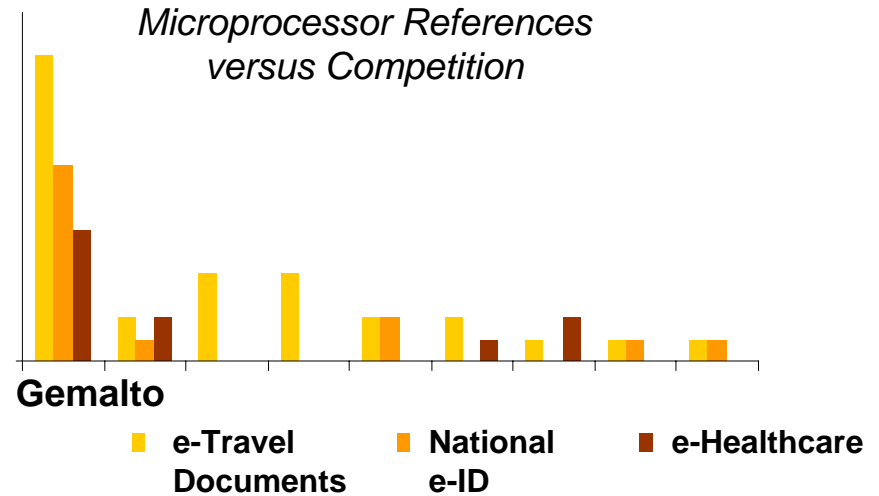
Growth Projections (Base 2007)



Source: Datamonitor, IDC and Frost & Sullivan

# The reference name in Government Programs

- ✦ High brand recognition amongst government agencies globally
  - World leading ID solution provider
  - Proven track record
  - Critical mass on the whole value chain, from secure documents through to e-gov services
  
- ✦ Winning long-term relationships
  - Long sales cycle but ramp-up period shortens with experience
  - Building a growing base of recurring revenue
  - Strong barriers to entry in an established business



Source: Gemalto

# Steady ramp up, and new deployments

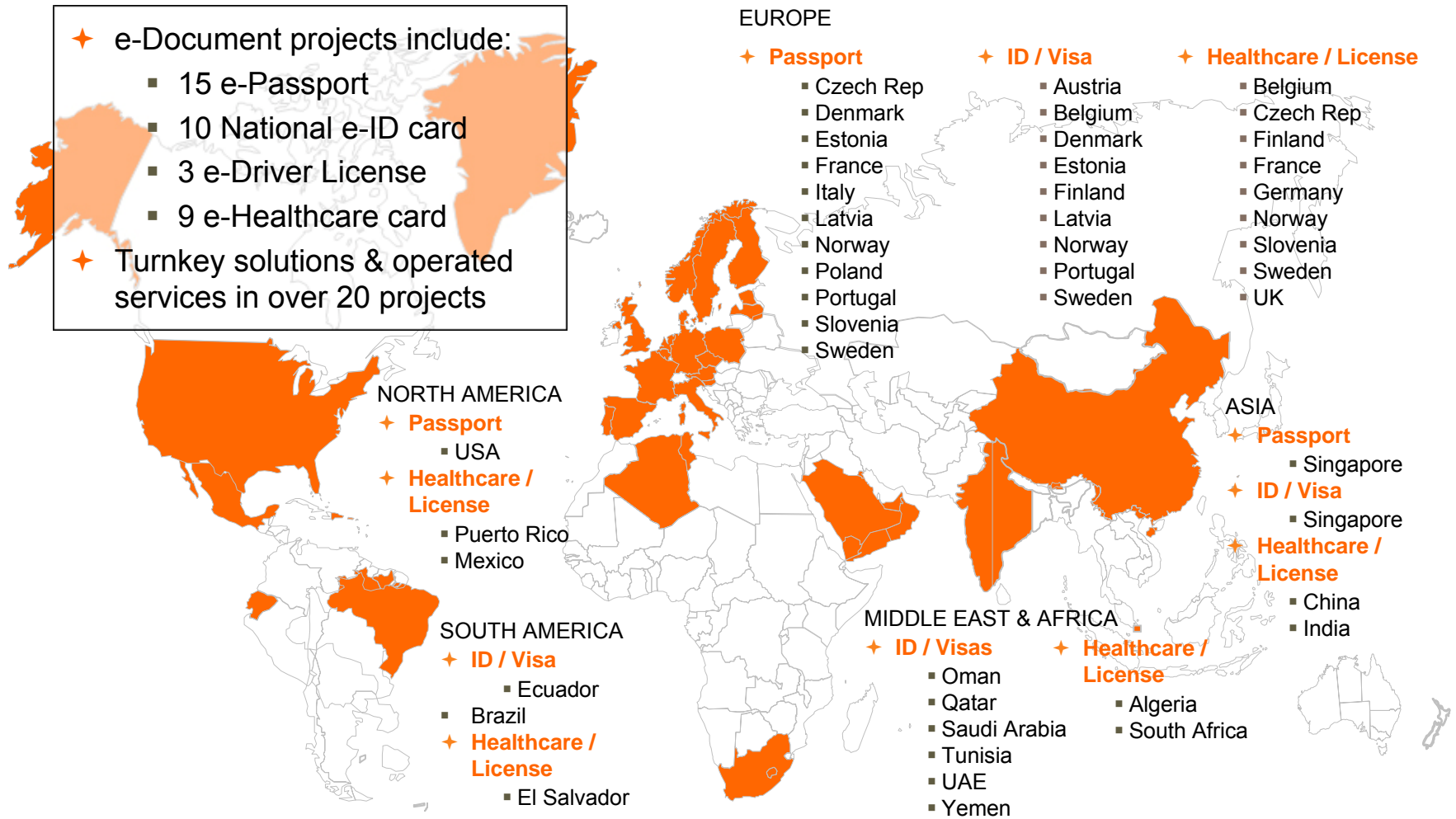
- ✦ Some 40 countries already in e-passport deployment, plus 34 countries in national e-ID, e-Healthcare and e-Drivers License projects
- ✦ e-Passport adoption driven by ICAO mandates, and the launch of new generation of EAC e-passports
- ✦ National e-ID and e-Healthcare projects due in several large European countries

	Number of Countries	Relevant Population
Countries deploying e-Passport	40	1.1 billion
Countries deploying national e-ID, e-Healthcare or e-Drivers License	34	3.2 billion
New countries subject to e-documents* deployment by 2013	63	2.1 billion

Source: Gemalto

\* Including e-passport, national e-ID, e-healthcare, and e-driving license  
 ICAO = International Civil Aviation Organization; EAC = Enhanced Access Control

# Leader in government references worldwide



As of March 2008; map shows references that have been made public only

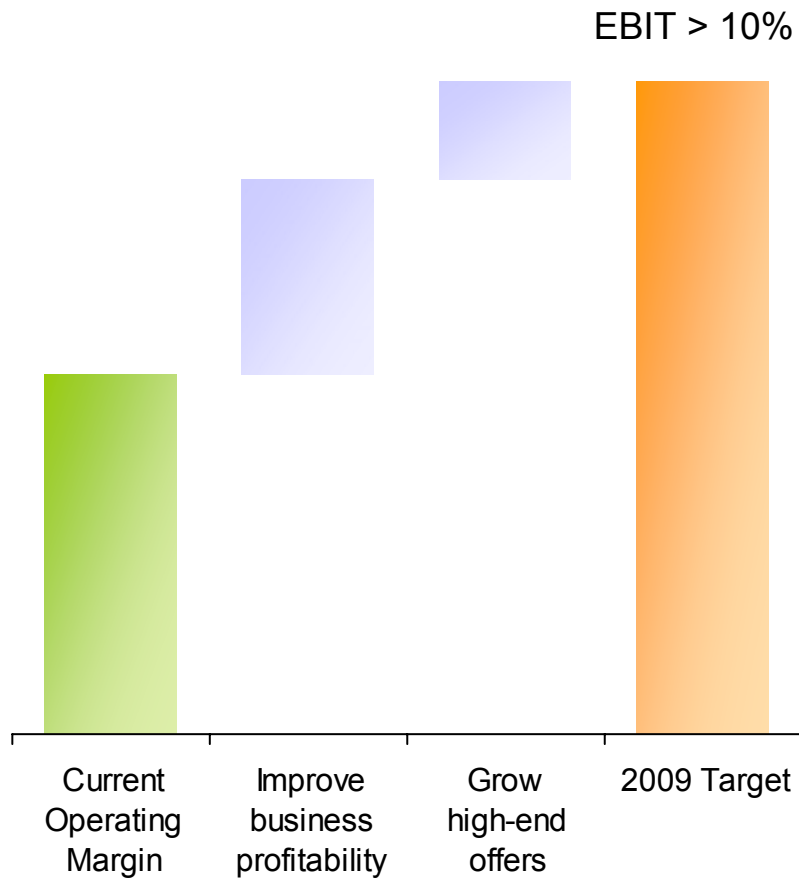
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**Olivier Piou, CEO**



# Reaching our 2009 objectives



## *Improving business profitability*

- Complete restructuring program
- Fully leverage scale benefits
- Operational excellence on new footprint
- Stronger focus on profitability in Secure Transactions and Security

## *Grow through high-end offers*

- Mobile NFC contactless, mobile TV, Convergence and Multimedia
- Contactless payments and personalization
- e-Passport and e-ID roll-out
- Growth in Identity & Access Management
- Leverage our installed base for more software and services

# Outlook

Our 2009 objective of 10% adjusted operating income remains unchanged.

In 2008 we will benefit from the robust market demand we currently experience in our main segments. Our leadership position is generating commercial and operational advantages and we are encouraged by the progress in our performance. We currently see no evidence of the global financial turmoil impacting our 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 our recent contract wins in Security.

The successful completion of our 2006-2009 plan will create a strong foundation for our next phase of development



- ✦ World Leader in Digital Security ✦
- ✦ Markets in Strong Development ✦
- ✦ Unique Technology Portfolio ✦
  - ✦ Blue Chip Customers ✦
- ✦ Large Free Float and Robust Financials ✦
- ✦ A Business Model with Strong Leverage on Growth ✦