

Gemalto reports first half 2008 results ¹

- Revenue up 10% at constant exchange rates, with all major segments posting double digit growth
- Operating margin at 8.8% showing benefits of operational improvements
- Secure Transactions returns to profit, with operating margin at 8.5%
- Full-year 2008 EBIT target upgraded

All variations in this press release are stated at constant exchange rates, unless otherwise noted, and are comparing the adjusted first half 2008 figures (unaudited) to the adjusted first half 2007 (unaudited) results. The reconciliation of the first half 2008 IFRS and adjusted income statements (unaudited) is presented in Appendix 6.

Amsterdam, August 21, 2008 - Gemalto (Euronext NL0000400653 - GTO), the world leader in digital security today announced its results for the first half 2008.

Key figures of the adjusted income statement¹:

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	760		791		+ 4% ²
Gross profit	222	29.2%	275	34.7%	+ 5.5 ppt
Operating expenses ³	210	27.6%	205	26.0%	(1.6 ppt)
Operating income (EBIT)	15	2.0%	69	8.8%	x 4.6
Net profit	25	3.2%	63	8.0%	x 2.6

First half 2008 revenue and year-on-year revenue variation at constant exchange rates, by segment:

Mobile Communication	Secure Transactions	Security	Public Telephony	Point-of-Sales Terminals	Total Gemalto
443 M€	215 M€	101 M€	17 M€	16 M€	791 M€
+ 13%	+ 10%	+ 20%	(19%)	(43%)	+ 10.0%

Olivier Piou, Chief Executive Officer, commented: "Gemalto delivered a strong performance for the first half of 2008. Our three main business segments together grew by 13%. The four-fold expansion in operating income demonstrates the benefits of our merger. In particular, our efforts in Secure Transactions produced a turnaround which was realized faster than planned. Based on these first semester results the adjusted operating income for the full year is now anticipated to be around €160 million."

¹ Prepared on an adjusted basis, unaudited (see page 2 "basis of preparation of financial information").

² Year on year variation at constant exchange rates is +10%

³ Operating expenses include Research & Engineering expenses, Sales & Marketing expenses and General & Administrative expenses and exclude Other income (expense), net.

Basis of preparation of financial information

The Company's unaudited condensed consolidated interim financial statements presented in Appendix 8 were prepared in accordance with IAS 34, Interim financial reporting.

Additional financial information on an adjusted basis (unaudited) is presented that is not in conformity with IFRS, in particular the adjustments to revenue and cost of sales, and the presentation of operating expenses and operating income, operating margin and earnings per share which exclude one-off combination related expenses linked to the 2006 combination between Axalto and Gemplus, and reorganization charges and charges resulting from the accounting treatment of the transaction. Charges resulting from the accounting treatment of the transaction consist of additional stock-based compensation due to the revaluation of Gemplus' stock options as of combination date, amortization and depreciation of some intangible assets. One-off combination related expenses consist of charges which would not have been incurred had the transaction not occurred: 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 available in Gemplus. Most of the combination related expenses were incurred in 2006. Reorganization charges consist of costs 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 impairments, 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. The Company believes that this information, which is not in conformity with IFRS, is helpful supplemental information in order to better assess its past and future performance. In addition, the Company's Management uses this information which is based on its best estimate and judgment in its own planning and in assessment of its operating performance. This information provided by the Company may not be comparable to similarly titled measures employed by other companies.

All variations in this document are at constant exchange rates, unless otherwise mentioned, and are by reference comparing the Adjusted first half 2008 figures (unaudited) to that of Adjusted first half 2007. Fluctuations in currency exchange rates against the Euro have an impact on the Euro value of Group revenues. Comparisons at constant exchange rates aim at neutralizing this translation effect on the analysis of the Group operations. When Gemalto compares its historical figures for the current year against the prior year's figures at constant exchange rates, it assumes that the exchange rate of the Euro against such other currencies in the prior year would have been the same as in the current year.

IFRS results and reconciliation between adjusted and IFRS results

The IFRS consolidated income statement (unaudited) for the first half of 2008 shows an operating income of € 50.9 million and a net profit for the period of € 47.0 million.

The Company provides in Appendix 6 the reconciliation between the IFRS and adjusted income statements (unaudited) for the first half of 2008. Reconciling items include: amortization and depreciation of some intangible assets of € 6.5 million; charges incurred in connection with the headcount reductions in the support functions, the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio of € 6.5 million; and combination-related expenses of € 0.2 million. For a more detailed description of adjustments made to the IFRS consolidated interim income statement, please refer to "Description of Adjusted measures" at the end of this press release.

As required by IAS 16 the Company re-assessed on January 1, 2008 the useful life of its tangible assets; as a result, tangible asset depreciation expense for the first half of 2008 was reduced; the net impact on the operating income was € 4.9 million for the first half of 2008. As required by IAS 38, the Company re-assessed the future economic benefits of its intangible assets; as a result an accelerated depreciation of a part of the patent portfolio was performed, and intangible assets depreciation expense for first half 2008 was increased by € 2.7 million compared to the first half of 2007.

Adjusted income statement⁴ analysis

Extract of the adjusted income statement:

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of sales	€ in millions	As a % of sales	
Revenue	759.9		791.2		+ 4.1% *
Gross profit	222.1	29.2%	274.9	34.7%	+ 5.5 ppt
Operating expenses ⁵	209.5	27.6%	205.3	26.0%	(1.6 ppt)
EBITDA ⁶	50.5	6.6%	98.0	12.4%	+ 94%
Operating income (EBIT)	15.2	2.0%	69.5	8.8%	x 4.6
Net profit	24.5	3.2%	63.3	8.0%	x 2.6
Adjusted earnings per share (€ per share) ⁷ :					
- basic	0.26		0.74		
- diluted	0.25		0.73		

* At constant exchange rates, first half 2008 revenue is up 10.0% from the previous year.

Gemalto reported a strong performance in the first half of 2008, with revenue growth of 10% and operating margin at 8.8%, reflecting the benefits of its strategy, of its merger' synergies and restructuring.

Revenue growth was driven by a balanced contribution from the main segments, in particular a strong first quarter in Mobile Communication, a strong second quarter in Secure Transactions, and a consistently good performance in Security throughout the period. In Security, the 20% growth includes the anticipated lower revenue from the patent licensing activity, while Government Programs and Identity & Access Management (IAM) continued to expand rapidly, posting revenue growth of 38% and 26% respectively. The three main segments (Mobile Communication, Secure

⁴ See page 2 "Basis of preparation of financial information" for a detailed description of the adjusted financial information.

⁵ Operating expenses include Research & Engineering expenses, Sales & Marketing expenses and General & Administrative expenses; they do not include Other operating income & expenses, net.

⁶ EBITDA is defined as operating income plus depreciation and amortization expenses. In accordance with the adjusted basis of preparation, these amounts exclude amortization and impairment charges related to the intangible assets of Gemplus identified upon Combination pursuant to IFRS 3 "Business Combination".

⁷ The first half 2008 adjusted basic earnings per share were determined on the basis of the weighted average number of Gemalto common shares outstanding during the six-month period ended June 30, 2008 (83,122,788 shares) taking into account the effect of the share buy-back on the average number of shares outstanding during the period; i.e. on the basis of the weighted average number of Gemalto shares issued during the six-month period ended June 30, 2008 (91,015,844 shares) less the weighted average number of treasury shares held by the Company during the six-month period ended June 30, 2008 (7,893,056 shares). The first half 2008 adjusted diluted earnings per share were determined using the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding during the six-month period ended June 30, 2008 (83,122,788 shares) and considering that all outstanding "in the money" stock options were exercised (4,661,005 options) and the proceeds received from the options exercise were used to buy-back shares at the average share price of the semester (€19.85). The first half 2007 adjusted basic earnings per share were determined on the basis of the weighted average number of Gemalto shares issued during the six-month period ended June 30, 2007 (90,882,515 shares) less the weighted average number of treasury shares held by the Company during the six-month period ended June 30, 2007 (2,511,638 shares). The number of dilutive shares along the IFRS treasury stock method was 1,239,565 in the first semester of 2008. The number of Gemalto shares issued as of June 30, 2008 was 91,015,844, and the number of shares held in treasury by Gemalto on that same date was 7,530,288.

Transactions and Security) together posted 13% revenue growth for the first half of 2008, with a first quarter growth of 16% and a second quarter growth of 11%.

Fall-through to operating income was strong thanks to the continuous efforts to improve operational efficiency in all segments. Gross margin at 34.7% was up by more than 5 full percentage points compared with the first half of 2007, benefiting significantly from production rationalization and scale effects.

Operating expenses decreased by 2.0% at historical exchange rates, and were down by 160 basis points as a percentage of total revenue, reflecting continuous efforts to streamline support functions, without affecting the Company's commitment to innovation or its customers.

As a result, the adjusted operating income for the semester was multiplied by more than four, to € 69.5 million, with a balanced contribution to this increase from Mobile Communications and Secure Transactions. This excellent profitability improvement was built on further productivity gains in Mobile Communication, and on an impressive turnaround in Secure Transactions, that came faster than initially expected.

Financial income was € 3.4 million. It mainly comprised net interest income of € 4.6 million and net foreign exchange hedging costs of € 1.4 million.

Adjusted pre-tax income came in at € 73.9 million. Net income tax expenses amounted to € 10.6 million, resulting in an adjusted net profit for the period of € 63.3 million, a multiple of 2.6 times the € 24.5 million reported in the first half of 2007.

Reorganization charges excluded from the adjusted income statements

Charges incurred in connection with headcount reductions in the support functions, with the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio, amounted to € 12 million in first half 2008: factory under-absorption for plant being closed amounted to € 5.5 million and is reported in the IFRS income statement under the line "Cost of Sales"; costs related to IT integration and other various items amounted to € 6.5 million and are reported under the line "Reorganization expenses".

Balance sheet and cash flow (IFRS measures) statements

Gemalto generated in first half 2008 positive free cash flow⁸ of € 13 million. Cash flow from operations before outflow related to restructuring actions was € 64 million positive, payments in connection with restructuring actions were € 29 million, and capital expenditures amounted to € 22 million, of which € 18 million were incurred for plant, property and equipment purchases net of proceeds from sales. Working capital requirement represented 13.7% of the first half 2008 annualized revenue.

⁸ Free cash flow is defined as net cash flow from operating activities minus the purchase of property, plant and equipment, minus other investments related to the operating cycle, minus restructuring expenses, and excluding acquisitions and financial investments and shares buy-back.

The Gemalto share buy-back program used € 16 million in cash in the first half of 2008 to purchase 886,054 shares representing 0.97% of Gemalto's share capital. As of June 30, 2008, the Company owned 7,530,288, i.e. 8.27% of its own shares in treasury. This volume of shares covers in particular all exercisable stock options. These treasury shares as of June 30, 2008 have been repurchased on the market at an average price of 18.55 euros per share. 83,485,556 Gemalto shares were outstanding as of June 30, 2008.

The proceeds from exercise of stock options by employees amounted to € 11 million.

Consequently, Gemalto's net cash position was € 322 million at the end of June 2008.

The cancellation of three million treasury shares approved by the general meeting of shareholders of May 14, 2008, and corresponding to 3.3% of the then issued share capital, became effective on July 24, 2008. As a result, the total number of Gemalto shares issued is now 88,015,844.

At August 18 2008, Gemalto's holding of its own shares in treasury was 4,561,428 shares, corresponding to 5.18% of the Company's issued share capital. The number of Gemalto shares that were outstanding on that date was hence 83,454,416.

Segment information ⁹

Mobile Communication

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	417.8		442.9		+ 6.0%
Gross profit	144.1	34.5%	180.1	40.7%	+ 6.2 ppt
Operating expenses	109.8	26.3%	114.0	25.7%	(0.6 ppt)
Operating income	35.7	8.5%	66.0	14.9%	+ 6.4 ppt

At constant exchange rates, first half 2008 Mobile Communication revenue is up 13.1% from the previous year.

Mobile Communication reported a very good performance during the first half of 2008, increasing revenue by 13% at constant rates, and significantly improving both gross and operating margins. The focus on value-based segmentation continues to stimulate product mix upgrades in all regions. Equally important, the current operating structure allows Gemalto to address the emerging markets volume competitively, leading to profitable contributions across all market segments. Furthermore, advances in software and services continued to be substantive, with strong sales in Europe, Middle East and Africa and the Americas, leading to a growth in turnover of more than 60%, to € 28 million.

Year-on-year decrease in SIM card average selling price (ASP) was 3.7% compared with the first half of 2007. Further improvements in the product mix combined with persistent price discipline continue to have a positive impact on the ASP. At the same time, the increasing ability to address entry-range markets competitively has led to an increasing turnover from that segment range, which

⁹ All segment information provided in this press release is on an adjusted basis (unaudited) as described in page 2 "Basis of preparation of financial information".

in turn leads to a consequent lowering of the average selling price. These elements, together with the growing contribution from software and services, that is not included in the card selling price, mean the ASP has now become less meaningful as an indicator of business performance for the Mobile Communication segment.

Gross margin benefited from strong productivity gains in manufacturing and from supply chain efficiencies, notably the product portfolio rationalization, to reach 40.7%, i.e. 6.2 percentage points above that of first half 2007 at historical exchange rates.

With operating expenses improving by 60 basis points as a percentage of the segment total revenue, the operating profit came in at € 66 million, corresponding to an operating margin of 14.9%.

During the semester, Gemalto made a number of significant advances with its digital security solutions for major mobile operators in various regions around the world. In June, a successful OTA (over the air) campaign was completed for a major Chinese operator which involved updating the handsets of over 53 million subscribers in eight provinces across China. The efficiency and scalability of this remote updating of SIM cards in the field is a testament to the value of Gemalto's OTA platforms as a cost-effective asset for mobile operators to better manage their subscribers' user experience.

As mobile phones increasingly take centre stage in the digital lifestyle of consumers on the move, Gemalto's diverse solutions continue to attract keen interest. In Italy, Gemalto was recently selected by TIM to deploy the country's first Near Field Communication (NFC) pilot, initially targeted at mass transit applications. Gemalto's portal management software solution also enabled the Italian Mobile Virtual Network Operator (MVNO) PosteMobile to leverage its BancoPosta affiliation and provide its subscribers convenient secure payment and other mobile transaction services. Over 200,000 BancoPosta customers used these services this past semester.

Secure Transactions

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	203.6		214.9		+ 5.5%
Gross profit	34.8	17.1%	60.3	28.1%	+ 11.0 ppt
Operating expenses	46.0	22.6%	42.1	19.6%	(3.0 ppt)
Operating income	(10.6)	(5.2)%	18.3	8.5%	+ 13.7 ppt

At constant exchange rates, first half 2008 Secure Transactions revenue is up 10.2% from the previous year.

Secure Transactions returned to operating profit this semester, posting a positive operating margin of 8.5% for the period. The restructuring plans have been completed, and turnaround was achieved faster than planned.

The strong revenue growth was driven by continuing roll out of EMV and contactless payment systems mainly in Europe, Asia and Latin America. This good performance more than compensated for lower Pay TV and Transport revenue, a consequence of Gemalto selective approach to tenders.

Personalization services also reported a strong growth of 34%, driven by EMV deployments and associated services in existing and emerging markets.

Gross margin was up by 11 percentage points at historical exchange rates, to 28.1%, reflecting the very positive evolution in product and regional mix, and the benefits of the restructuring program.

Operating expenses were reduced by 8.5% at historical exchange rates, and by 3.0 percentage points when compared to the segment total revenue.

As a result Secure Transactions reported an operating profit of € 18.3 million for the semester.

Beyond the steady developments in global EMV adoption, Gemalto continues to develop its innovative solutions to assist banks in better serving their customers. Gemalto's CardLikeMe solution was recently selected by PlasticNow, Canada's leading provider of prepaid, stored value and reloadable payment cards. The web-based solution for end-users to upload card body images and order new cards offers strong opportunities to greatly enhance PlasticNow's offers.

In France, the Pegasus group of five major banks (BNP-Paribas, Crédit Agricole-LCL, Crédit Mutuel-CIC, Caisse d'Epargne, and La Banque Postale Group) renewed their collaboration contract with Gemalto in the "Payez Mobile" program, aimed at developing a set of cohesive contactless mobile payment services. By leveraging its twin Mobile Communications and Secure Transactions know-how in NFC, banking applications, secure data handling and operated services, Gemalto has proven to be best positioned to develop and deploy the required technology and services.

Security

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	87.3		101.2		+ 16.0%
Gross profit	33.0	37.8%	28.1	27.7%	(10.1 ppt)
Operating expenses	43.8	50.2%	40.9	40.4%	(9.8 ppt)
Operating income	(10.4)	(11.9%)	(12.8)	(12.7%)	(0.8 ppt)

At constant exchange rates, first half 2008 Security revenue was up 19.7% from the previous year.

The Sales & Marketing investments made in Government Programs and in Identity and Access Management (IAM) continue to deliver robust growth. As previously communicated, patent licensing revenue returned to a level comparable to its pre-merger run-rates, with € 6.2 million recorded during the semester versus € 14.1 million for the first semester of 2007. Excluding patent licensing, Security revenue (i.e. from Government Programs and IAM together) grew by 34%.

Government Programs revenue was up by 38%, with strong increases in deliveries in the US and EMEA. A significant portion of growth during this semester was related to deployment of new contracts previously won, demonstrating the importance of the backlog in supporting a steady revenue base. Identity and Access Management (IAM) revenue also grew nicely, expanding by 26%, on the back of major deployments of e-banking authentication solutions, especially in Europe.

Security gross profit was reduced by 10.1 percentage points at historical exchange rates due to the reduced patents contribution. Excluding patents, gross profit was up 29.5% at historical exchange rates. This improvement reflects our ability to leverage scale effects and gradually move from a per-project cost base to increasingly industrialized operations.

Combined with improving efficiency that saw operating expenses reduced by 6.6% at historical exchange rates, and by 9.8 percentage points when compared to the segment total revenue, Security reported an operating loss of € 12.8 million in first half 2008. Excluding patents, this operating loss was divided by two when compared to the same period of last year.

During the semester Gemalto extended its lead in Government Programs with numerous successes. In Taiwan Gemalto was selected by the National Immigration Agency to provide electronic Alien Residence Certificate (ARC) cards and the associated personalization system. This ICAO-compliant electronic ID document is built on e-passport technology and drastically enhances the resistance to counterfeiting when compared to ARC documents previously in circulation. To date Gemalto has delivered over 300 000 ARC cards. In Mexico, Gemalto extended its contract to supply electronic driver licenses to three additional Mexican states, building on the success of the first deployment in Nueva León. Partnering with Cosmocolor, a major Mexican integrator, the solution will be deployed in the states of Mexico, Veracruz and Sonora, covering a population of some 50 million drivers.

In Identity and Access Management, Gemalto also continued to extend on existing successes and continued to develop new ones. In Poland the delivery of electronic student cards reached the one million cards mark, with 100 universities and high schools actively issuing cards, and 300 more expected to join: the program enables students to have a single card for identification, physical access, public transport e-ticketing, e-purse and other value-added applications. In the USA, Gemalto's Protiva .NET strong authentication solution was also selected by major accounting firm Virchow Krause & Company LLC, highlighting both the value of enhanced security for sensitivity-critical businesses as well as the attractiveness of Gemalto's solutions that are readily compatible with Microsoft Windows Vista and XP platforms.

Point-of-Sale Terminals

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	29.2		15.7		(46.2%)
Gross profit	5.6	19.2%	2.7	17.2%	(2 ppt)
Operating expenses	7.8	26.8%	6.9	43.8%	(11.5%)
Operating income	(2.1)	(7.3)%	(4.2)	(26.7%)	(19.4 ppt)

Missed commercial opportunities and deliveries due to a faulty component detected in Gemalto contract-manufacturer's supply chain drastically impacted first half 2008 sales and resulting operating performance. As a result, this segment reported an operating loss of € 4.2 million. The issue has been solved and the segment is progressively returning to normal activity level.

Public Telephony

	First half 2007		First half 2008		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	22.0		16.5		(24.8%)
Gross profit	4.6	20.8%	3.7	22.7%	+ 1.9 ppt
Operating expenses	2.2	9.8%	1.5	8.8%	(1.0 ppt)
Operating income	2.6	11.6%	2.3	13.8%	+ 2.2 ppt

At constant exchange rates, revenue shrank by 19%. Worldwide demand for memory cards for Public Telephony continues to contract, reflecting the increasingly widespread usage of mobile telephony worldwide. Gemalto's manufacturing and support structure cost base have been adjusted accordingly. As a result, gross margin was up by 1.9 percentage points at historical exchange rates to 22.7% and operating margin increased by 2.2 percentage points at historical exchange rates to 13.8%. Consequently, the segment reported an operating profit of € 2.3 million in first half 2008.

Outlook

Gemalto has set for itself an objective of achieving exchange-rate-adjusted revenue growth in the range of 8% to 12% over the long run. Revenue growth for 2008 is anticipated to be within this range. 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 significantly impacting our activities, aside from the evolution in the average exchange rates between the Euro and other currencies.

With the delivery of this considerably improved operating result for the first half of 2008, Gemalto is well on track to achieve significant profit expansion in the full year 2008. The adjusted operating income for the full year is now anticipated to be around €160 million.

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

DESCRIPTION OF ADJUSTED MEASURES

Due to the combination with Gemplus, Gemalto's financial statements have undergone significant change, due in particular to the accounting treatment of this transaction in accordance with IFRS 3 "Business Combination". To supplement the financial statements presented on an IFRS basis, the Group presents the adjusted information described in the table below.

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

- **Additional stock-based compensation impact** specifically due to the accounting treatment of the combination: As prescribed by IFRS 2 "Share-based payment" and IFRS 3 "Business Combination", vested and unvested stock options or awards granted by an acquirer in exchange for stock options or awards held by employees of the purchased company, or any substantially equivalent commitment by the acquirer to assume the obligations of the acquiree with regards to stock options granted to the latter's employees, as is the case for Gemalto under the Combination Agreement, shall be considered to be part of the purchase price for the acquirer, and the fair value (at the effective date of the acquisition or merger) of the new (acquirer) awards shall be included in the purchase price. It leads to increase the compensation charge related to stock-options granted by Gemplus prior to the acquisition. The adjustment, eliminating the additional stock-based compensation charge, is intended to reflect the compensation charge that Gemplus would expense if the company continued to operate on a standalone basis. The Group believes this adjustment is useful to investors as a measure of the ongoing performance of its business.

- **Amortization and depreciation of intangible assets:** amortization and depreciation of intangible assets created as a result of the combination with Gemplus have been excluded from the adjusted profit for the period. The Group believes this is useful because, prior to this combination in the second quarter of fiscal 2006, it did not incur significant charges of this nature, and the exclusion of this amount helps investors understand the evolution of IFRS operating expenses in periods subsequent to the combination with Gemplus. Investors should note that the use of intangible assets contributed to revenue earned during the period and will contribute to future revenue generation and that these amortization expenses will be recurring.

• **Combination related charges:** In 2006, Gemalto incurred material expenses in connection with the combination with Gemplus, which it would not have otherwise incurred. Combination related charges consist of professional advisory services incurred in connection with the integration, new Gemalto brand and logo creation and worldwide registration, as well as impairment charges related to capitalized development costs on projects which are redundant with existing products or technologies available in Gemplus. Gemalto also determined that its investment in a listed company was impaired as a consequence of the combination with Gemplus. The related impairment charge was recorded in Financial income (loss) in the first half of 2006. In the first half of 2007, Gemalto incurred combination related charges for € 1.2 million. The Group may incur further combination related expenses in the coming months. It believes it is useful for investors to understand the effect of these expenses on its cost structure.

• **Reorganization charges:** charges incurred in connection with headcount reductions in the support functions, the consolidation of manufacturing and office sites (including property, plant and equipment, intangible asset and inventory write-offs and impairment, asset transfer costs, under-absorption costs linked to plant closure, severance and associated costs, lease termination and building refurbishment cost) and the rationalization and harmonization of the product and service portfolio.

Summary

Gemalto provides two sets of income statements for the first half of 2008:

- IFRS consolidated income statement, pursuant to its regulatory obligations
- Adjusted income statement

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

Reporting calendar

Third quarter 2008 revenue will be reported on October 23, 2008, before the opening of Euronext Paris.

Conference call

Gemalto will hold an analysts and investors conference call in English today at 3:00 pm Paris time (2:00 pm London time and 9:00 am New York time). Callers may participate in the live conference call by dialling:

+44 207 806 1968 or +1 718 354 1391 or +33 1 70 99 42 99.

The presentation slide show will be available for download on our Investor Relations web site (www.gemalto.com/investors) at 1:00 pm Paris time (12:00 am London time, 7:00 am New York time).

Replays of the conference call will be available from approximately 3 hours after the conclusion of the conference call until August 27, 2008 midnight Paris time by dialling:

+44 207 806 1970 or +1 718 354 11 12 or +33 1 71 23 02 48, access code: 2478414#.

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About Gemalto

Gemalto (Euronext NL 0000400653 GTO) is the leader in digital security with 2007 annual revenues of over €1.6 billion, more than 85 offices in 40 countries and about 10,000 employees including 1,300 R&D engineers. In a world where the digital revolution is increasingly transforming our lives, Gemalto's solutions are designed to make personal digital interactions more convenient, secure and enjoyable

Gemalto provides end-to-end digital security solutions, from the development of software applications through design and production of secure personal devices such as smart cards, subscribers' identification modules (SIM's), e-passports and tokens to the deployment of managed services for its customers. More than a billion people worldwide use the company's products and services for telecommunications, financial services, e-government, identity 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. For more information, please visit www.gemalto.com.

This communication does not constitute an offer to purchase or exchange or the solicitation of an offer to sell or exchange any securities of Gemalto.

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 company, 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 company 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 its 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 company's share prices; and changes in global, political, economic, business, competitive, market and regulatory forces. Moreover, neither the company 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 company 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 except as otherwise required by applicable law or regulations.

Appendix 1

First half 2008 adjusted income statement by business segment (unaudited)

(At historical exchange rates)

€ in millions	Six months ended June 30, 2008					
	Mobile Communication	Secure Transactions	Security	Public Telephony	Point-of-Sale Terminals	Total
Revenue	442.9	214.9	101.2	16.5	15.7	791.2
Gross profit	180.1	60.3	28.1	3.7	2.7	274.9
Operating expenses	114.0	42.1	40.9	1.5	6.9	205.3
Operating income (loss)	66.0	18.3	(12.8)	2.3	(4.2)	69.5

First half 2007 adjusted income statement by business segment (unaudited)

(At historical exchange rates)

€ in millions	Six months ended June 30, 2007					
	Mobile Communication	Secure Transactions	Security	Public Telephony	Point-of-Sale Terminals	Total
Revenue	417.8	203.6	87.3	22.0	29.2	759.9
Gross profit	144.1	34.8	33.0	4.6	5.6	222.1
Operating expenses	109.8	46.0	43.8	2.2	7.8	209.5
Operating income (loss)	35.7	(10.6)	(10.4)	2.6	(2.1)	15.2

Appendix 2

Deliveries of secure personal devices (unaudited)

In millions of units	Q2'2007	Q2'2008	% growth
SIM cards	230	257	+11.9%
Secure Transactions	58	78	+33.7%
Security	8	13	+78.7%
Total	296	349	+18.0%

In millions of units	H1 2007	H1 2008	% growth
SIM cards	445	511	+14.7%
Secure Transactions	112	147	+31.8%
Security	13	22	+64.9%
Total	570	680	+19.2%

Appendix 3

Second quarter 2008 revenue by region (unaudited)

€ in millions	Q2 2007	Q2 2008	Year-on-year change at historical exchange rates	Year-on-year change at constant exchange rates
EMEA	219.3	228.2	+4.1%	+6.9%
North & South America	91.4	89.3	(2.3%)	+8.5%
Asia	87.1	86.2	(1.1%)	+10.5%
Total revenue	397.8	403.6	+1.5%	+8.0%

Second quarter 2008 revenue by business segment (unaudited)

€ in millions	Q2 2007	Q2 2008	% change at historical exchange rates	% change at constant exchange rates
Mobile Communication	223.7	219.4	(1.9%)	+5.5%
Secure Transactions	103.3	114.0	+10.3%	+15.7%
Security	44.7	53.9	+20.6%	+25.6%
Public Telephony	11.6	8.2	(29.4%)	(23.9%)
Point-of-Sale Terminals	14.3	8.1	(43.8%)	(40.2%)
Total revenue	397.8	403.6	+1.5%	+8.0%

Appendix 4

First half 2008 revenue by region (unaudited)

€ in millions	H1 2007	H1 2008	Year-on-year change at historical exchange rates	Year-on-year change at constant exchange rates
EMEA	428.0	442.6	+3.4%	+6.3%
North & South America	167.3	177.1	+5.8%	+16.3%
Asia	164.6	171.6	+4.2%	+14.0%
Total revenue	759.9	791.2	+4.1%	+10.0%

First half 2008 revenue by business segment (unaudited)

€ in millions	H1 2007	H1 2008	% change at historical exchange rates	% change at constant exchange rates
Mobile Communication	417.8	442.9	+6.0%	+13.1%
Secure Transactions	203.6	214.9	+5.5%	+10.2%
Security	87.3	101.2	+16.0%	+19.7%
Public Telephony	22.0	16.5	(24.8%)	(19.4%)
Point-of-Sale Terminals	29.2	15.7	(46.2%)	(43.2%)
Total revenue	759.9	791.2	+4.1%	+10.0%

Appendix 5

Average exchange rates between the Euro and the US dollar

	EUR/USD
First quarter 2007	1.31
Second quarter 2007	1.35
First half 2007	1.33
First quarter 2008	1.48
Second quarter 2008	1.56
First half 2008	1.52

Appendix 6

**Consolidated Income Statement for the six month period ended June 30, 2008
Reconciliation from IFRS to Adjusted financial information (unaudited)**

€ in millions	IFRS financial information	Adjustment relating to combination related expenses	Adjustment relating to reorganization charges	Adjustment relating to amortization of intangible assets	Adjustment relating to stock based compensation	Adjusted financial information
Sales	791.2		0.0			791.2
Cost of sales	(521.9)		5.6		0.0	(516.3)
Gross Profit	269.3		5.6			274.9
Research & Engineering expenses	(46.8)				0.0	(46.8)
Sales & Marketing expenses	(109.4)				0.1	(109.3)
G&A expenses	(49.3)				0.0	(49.2)
Other Operating expenses	(0.1)					(0.1)
Combination related expenses	0.2	(0.2)				-
Reorganization expenses	(6.5)		6.5			-
Amortization of intangible assets	(6.5)			6.5		-
Operating Income (EBIT)	50.9	(0.2)	12.1	6.5	0.1	69.5
Financial Income	3.4					3.4
Share of profit (loss) of associates	1.0					1.0
Profit before taxes	55.3	(0.2)	12.1	6.5	0.1	73.9
Income tax	(8.3)		(0.4)	(1.9)		(10.6)
Profit (loss) for the period	47.0	(0.2)	11.7	4.6	0.1	63.3
Attributable to shareholders	45.0					61.3
Attributable to minority interest	2.0					2.0

Appendix 7

Cash position variation schedule (unaudited)

€ in millions	H1 2007	H1 2008
Cash and cash equivalent, beginning of period	430	337
Cash generated by operating activities, before cash outflows related to restructuring actions ⁽¹⁰⁾	21	64
Including cash provided by (used in) decrease (increase) of working capital	1	(40)
Cash used in restructuring actions	(16)	(29)
Capital expenditure and acquisitions of intangibles	(29)	(22)
Free cash flow	(24)	13
Interest received, net ¹⁰	5	5
Cash generated by disposal of investments	21	0
Other cash used in investing activities	(0)	(0)
Cash used in connection with the Combination with Gemplus ¹¹	(4)	0
Cash generated by (used in) operating and investing activities	(3)	18
Cash used by the share buy-back program	(100)	(16)
Other cash provided by (used in) financing activities	(8)	5
Other (translation adjustment mainly)	(1)	(5)
Cash and cash equivalent, end of period	319	340
Current and non-current borrowings including finance lease, end of period	(27)	(18)
Net cash, end of period	291	322

¹⁰ In this cash position variation schedule, interest paid (€ 0.9 million in first half 2008) and interest received (€ 5.6 million in first half 2008) are netted and reported as "Interest received, net" as part of cash flows from investing activities. In the cash flow statement presented in Appendix 8 "Condensed consolidated interim financial statements", interest paid is reported as cash flows used in operating activities, and interest received as cash flows from investing activities.

¹¹ Including acquisition cost of the remaining share of Gemplus during the squeeze-out process in January 2007, for € 4 million

Gemalto

Condensed consolidated interim financial statements

as of June 30, 2008

(Unaudited)

Consolidated balance sheets (unaudited)

In thousands of Euro

	Notes	<u>Consolidated balance sheet as of December 31, 2007</u>	<u>Consolidated balance sheet as of June 30, 2008</u>
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	217,095	213,597
Goodwill, net	8	543,831	542,229
Intangible assets, net	8	73,715	58,136
Investments in associates		8,294	9,296
Deferred income tax assets		21,891	19,913
Available-for-sale financial assets, net		1,445	1,321
Assets held for sale		3,479	3,384
Other non-current assets		22,774	26,843
Total non-current assets		<u>892,524</u>	<u>874,719</u>
Current assets			
Inventories, net	9	173,737	184,425
Trade and other receivables, net	10	439,505	433,154
Derivative financial instruments	11	15,750	12,711
Cash and cash equivalents	12	337,441	340,102
Total current assets		<u>966,433</u>	<u>970,392</u>
Total assets		<u><u>1,858,957</u></u>	<u><u>1,845,111</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		91,016	91,016
Share premium		1,247,140	1,247,140
Treasury shares		(139,932)	(137,620)
Fair value and other reserves		82,674	83,003
Cumulative translation adjustment		(22,475)	(34,781)
Retained earnings		(27,746)	17,255
		<u>1,230,677</u>	<u>1,266,013</u>
Minority interest		<u>11,568</u>	<u>12,262</u>
Total equity		<u><u>1,242,245</u></u>	<u><u>1,278,275</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		16,710	13,594
Deferred income tax liabilities		14,816	13,070
Retirement benefit obligation		25,959	24,773
Provisions and other liabilities	13	79,722	77,039
Total non-current liabilities		<u>137,207</u>	<u>128,476</u>
Current liabilities			
Trade and other payables	14	392,459	374,562
Current income tax liabilities		7,089	6,627
Borrowings		6,918	4,765
Derivative financial instruments	11	468	204
Provisions and other liabilities	15	72,571	52,203
Total current liabilities		<u>479,505</u>	<u>438,361</u>
Total liabilities		<u><u>616,712</u></u>	<u><u>566,837</u></u>
Total equity and liabilities		<u><u>1,858,957</u></u>	<u><u>1,845,111</u></u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Consolidated income statements (unaudited)

<i>In thousands of Euro (except earnings per share)</i>	Notes	Six-month period ended June 30,	
		2007	2008
Revenue		759,863	791,173
Cost of sales		(537,965)	(521,873)
Gross profit		221,898	269,300
Operating expenses			
Research and engineering		(50,823)	(46,778)
Sales and marketing		(109,596)	(109,380)
General and administrative		(50,680)	(49,273)
Other income (expense), net		2,624	(98)
Combination related expenses	4	(1,181)	162
Reorganization expenses	4	(55,128)	(6,533)
Amortization of intangible assets	4	(23,031)	(6,499)
Operating result		(65,917)	50,901
Finance income (expense), net	16	10,097	3,405
Share of profit (loss) of associates		(898)	1,032
Gain on sale of investment in associate		9,393	-
Profit (Loss) before income tax		(47,325)	55,338
Income tax expense		(1,066)	(8,313)
Profit (Loss) for the period		(48,391)	47,025
Attributable to			
Equity holders of the Company		(50,100)	45,001
Minority interest		1,709	2,024
Basic earnings (loss) per share (in Euro)	17	(0.57)	0.54
Diluted earnings (loss) per share (in Euro)	17	(0.57)	0.53
In thousands			
Average number of shares outstanding	17	88,371	83,123
Average number of shares outstanding assuming dilution	17	88,371	84,362

Consolidated statements of changes in equity (unaudited)

<i>In thousands of Euro</i>	Number of shares ⁽¹⁾		Attributable to equity holders of the Company						Minority interest	Total equity
	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adj.	Retained earnings		
Balance as of January 1, 2007	90,082,535	89,854,954	90,083	1,241,326	(5,240)	73,151	(4,158)	22,319	26,884	1,444,365
Movements in fair value & other reserves:										
- Currency translation adjustments							(1,812)		(16)	(1,828)
- Gains/(losses) on Treasury shares (liquidity program)						27				27
- Fair value gains/(losses), net of tax:										
- financial assets available-for-sale						(4,253)				(4,253)
- variation of actuarial gains and losses in benefit obligation						(592)				(592)
- cash flow hedges						598			(22)	576
- revaluation further to acquisition of LM Gemplus Pty Ltd minority interest								125		125
Net income/(expense) recognized directly in equity						(4,220)	(1,812)	125	(38)	(5,945)
Profit/(Loss) for the period								(50,100)	1,709	(48,391)
Total recognized income for the period						(4,220)	(1,812)	(49,975)	1,671	(54,336)
Employee share option scheme		74,396				3,572				3,572
Purchase of Treasury shares		(5,386,365)			(97,884)					(97,884)
Capital increase further to acquisition of minority interests in Gemplus International	933,309	933,309	933	17,763						18,696
Excess of purchase price on subsequent minority interest acquisitions				(10,244)						(10,244)
Minority interest on Gemplus acquisition									(13,748)	(13,748)
Dividend paid/payable to minority interests									(3,606)	(3,606)
Balance as of June 30, 2007	91,015,844	85,476,294	91,016	1,248,845	(103,124)	72,503	(5,970)	(27,656)	11,201	1,286,815
Balance as of January 1, 2008	91,015,844	83,491,578	91,016	1,247,140	(139,932)	82,674	(22,475)	(27,746)	11,568	1,242,245
Movements in fair value & other reserves:										
- Currency translation adjustments							(12,306)		(78)	(12,384)
- Gains/(losses) on Treasury shares (liquidity program)						93				93
- Fair value gains/(losses), net of tax:										
- financial assets available-for-sale						(124)				(124)
- variation of actuarial gains and losses in benefit obligation						485				485
- cash flow hedges						536				536
Net income/(expense) recognized directly in equity						990	(12,306)		(78)	(11,394)
Profit/(Loss) for the period								45,001	2,024	47,025
Total recognized income for the period						990	(12,306)	45,001	1,946	35,631
Employee share option scheme		870,202				(661)				(661)
Purchase of Treasury shares		(876,224)			2,312					2,312
Dividend paid/payable to minority interests									(1,252)	(1,252)
Balance as of June 30, 2008	91,015,844	83,485,556	91,016	1,247,140	(137,620)	83,003	(34,781)	17,255	12,262	1,278,275

⁽¹⁾ As of June 30, 2008, the difference between the number of shares issued and the number of shares outstanding correspond to the 7,530,288 shares held in treasury.

Consolidated statements of cash flows (unaudited)

In thousands of Euro

	Notes	Six-month period ended June 30,	
		2007	2008
Cash flows from (used in) operating activities			
Cash generated from operations	18	11,243	42,792
Interest paid		(1,126)	(852)
Income tax paid		(6,306)	(7,970)
Net cash provided by operating activities		<u>3,811</u>	<u>33,970</u>
Cash flows from (used in) investing activities			
Acquisition of subsidiary, cash acquired net of costs		25	-
Purchase of Gemplus minority interests		(4,068)	-
Purchase of property, plant and equipment		(17,719)	(19,140)
Proceeds from sale of property, plant and equipment		577	1,086
Purchase of intangible assets		(11,762)	(3,563)
Purchase of non-current assets		(282)	(287)
Proceeds from sale of an available-for-sale asset		4,912	-
Proceeds from sale of investments in associates		15,603	202
Purchase of investments in associated companies		(289)	-
Interest received		6,302	5,584
Net cash used in investing activities		<u>(6,701)</u>	<u>(16,118)</u>
Cash flows from (used in) financing activities			
Proceeds from exercise of stock options		1,026	11,000
Purchase of shares held in Treasury (net)		(99,652)	(15,595)
Gains/(losses) on treasury stocks transactions		(4)	-
Proceeds from borrowings		1,228	203
Repayments of borrowings		(7,534)	(4,878)
Dividends paid to minority interest		(2,552)	(662)
Net cash used in financing activities		<u>(107,488)</u>	<u>(9,932)</u>
Net increase (decrease) in cash and bank overdrafts		(110,378)	7,920
Cash and bank overdrafts, beginning of period	12	429,596	336,815
Currency translation effect on cash and bank overdrafts		(1,000)	(4,647)
Cash and bank overdrafts, end of period	12	<u>318,218</u>	<u>340,088</u>

Notes to the condensed consolidated interim financial statements
as of June 30, 2008

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

Note 1 General information

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

Gemalto N.V. ("the Company") and its subsidiaries (together "Gemalto" or "the Group") design, manufacture and sell Smart Cards ("Cards") and Point-of-Sales Terminals ("POS Terminals"). Cards include microprocessor, magnetic stripe, memory, public telephony and other cards. The Group also provides related services for mobile communication, secure transactions (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 condensed consolidated interim financial statements for the six-month period ended June 30, 2008 have been authorized for issue by the Board of Directors of the Company on August 20, 2008.

The activity of Gemalto is subject to seasonal fluctuations, which may result in significant variations in its business and results from operations between the first and the second halves of the fiscal year. Therefore, the financial performance of the first half of 2008 reported in these condensed consolidated interim financial statements is not necessarily indicative of the results of Gemalto for the full year 2008.

Note 2 Basis of preparation

The condensed consolidated interim financial statements for the six-month period ended June 30, 2008 have been prepared in accordance with IAS 34, "Interim financial reporting".

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2007, which were prepared in accordance with IFRS's as adopted by the European Union.

Note 3 Accounting policies

The accounting policies adopted to prepare these condensed consolidated interim financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements for the year ended December 31, 2007, as described in the notes to the annual financial statements.

(a) The following interpretations are mandatory for the first time for the fiscal year beginning January 1, 2008:

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC Interpretation 11 was issued in November 2006 and has become effective for financial years beginning on or after March 1, 2007. The interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Group's reported financial statements.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and has become effective for annual periods beginning on or after January 1, 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

No member of the Group is an operator and hence this Interpretation has no impact on the Group's reported financial statements.

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

IFRIC Interpretation 14 was issued in July 2007 and has become effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19. This Interpretation has no impact on the Group's reported financial statements.

(b) The following new standard and interpretation have been issued but are not mandatory for the fiscal year beginning January 1, 2008 and have not been adopted early by the Group:

IFRS 8 Operating Segments

IFRS 8 was issued in November 2006 and will become 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.

IFRIC 13 *Customer loyalty programs*

IFRIC Interpretation 13 was issued in June 2007 and is effective for annual periods beginning on or after July 1, 2008. This Interpretation will have no impact on the Group's reporting financial statements as no such loyalty scheme currently exists.

(c) The following new standards and amendments to standards have been issued but are not applicable as at June 30, 2008:

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.

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.

IFRS 2 *Share-based payment*

The amendment to IFRS 2 *Share-based payment*, applicable for financial years beginning on or after January 1, 2009, clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions and provides guidance on the accounting treatment for non-vesting conditions and cancellations. This amendment is not expected to have any impact on the Group's reported financial statements.

IFRS 3 (revised 2008) *Business combinations* and consequential amendment to IAS 27 *Consolidated and separate financial statements*

IFRS 3 (revised 2008) and consequential amendment to IAS 27 *Consolidated and separate financial statements* will be effective prospectively to business combinations for which the acquisition date is within the first annual reporting period after July 1, 2009. Management is currently assessing the impact of the new requirements.

IAS 32 Financial instruments: presentation and consequential amendment to IAS 1 Presentation of financial statements

This amendment to IAS 32 *Financial instruments: presentation*, applicable for financial years beginning on or after January 1, 2009, changes the classification of certain qualifying instruments from financial liabilities to equity. This amendment is not expected to have any impact on the Group's reported financial statements as no such qualifying financial instruments currently exist.

Note 4 Additional disclosures 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.

The Group incurred in 2008 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 six month period ended June 30, 2008, for a credit amount of € 162 (€ 1,181 expense as of June 30, 2007).

Charges incurred in connection with headcount reductions in the support functions, with the consolidation of manufacturing and office sites, as well as the rationalization and harmonization of the product and service portfolio, are disclosed under a line named "Reorganization expenses" in the IFRS income statement for an amount of € 6,533 as of June 30, 2008 (€ 55,128 as of June 30, 2007). This amount consisted of severance and associated costs for € 2,681 (€ 42,908 in as of June 30, 2007) and of other costs for € 3,852 (€ 1,252 as of June 30, 2007) mainly related to IT integration costs. The Group also incurred property, plant and equipment, intangible asset and inventory write-offs and impairments for € 10,968 as of June 30, 2007.

The Group discloses under the line named "Amortization of intangible assets" the amortization expense for the six-month period ended June 30, 2008 related to the acquired Existing Technology and Customer Relationships for € 3,681 and € 2,818, respectively (€ 20,213 and € 2,818 respectively as of June 30, 2007).

Note 5 Financial assets / liabilities by category

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

December 31, 2007	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available- for-sale	Total
Assets					
Available-for-sale financial assets, net	-	-	-	1,445	1,445
Other non-current assets	22,774	-	-	-	22,774
Trade and other receivables, net	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

June 30, 2008	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available- for-sale	Total
Assets					
Available-for-sale financial assets, net				1,321	1,321
Other non-current assets	26,843				26,843
Trade and other receivables, net	433,154				433,154
Derivative financial instruments			12,711		12,711
Cash and cash equivalents	118,496	221,606			340,102
Total	578,493	221,606	12,711	1,321	814,131

	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities				
Borrowings			18,359	18,359
Derivative financial instruments		204		204
Total		204	18,359	18,563

Note 6 Segment information

Primary reporting format – Business segment

Gemalto 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 management reviews business performance and allocates resources. The following tables present Gemalto revenue, gross profit, and operating expenses by segment.

Security's income statement includes the revenue, gross and operating margins derived from the licensing of the Group's patent portfolio.

	Six-month period ended June 30, 2007						
	Mobile Communication	Secure Transactions	Security	Public Telephony	Point-of- Sales Terminals	Unallocated	Gemalto
Revenue	417,775	203,639	87,324	21,957	29,168	-	759,863
Cost of sales	(273,830)	(168,860)	(54,308)	(17,397)	(23,570)	-	(537,965)
Gross profit	143,945	34,779	33,016	4,560	5,598	-	221,898
Operating expenses excl.							
Other income, net	(110,727)	(46,363)	(44,056)	(2,156)	(7,798)	-	(211,100)
Other income, net	1,452	573	369	150	81	-	2,625
Combination related expenses	-	-	-	-	-	(1,181)	(1,181)
Reorganization expenses	-	-	-	-	-	(55,128)	(55,128)
Amortization of intangible assets	(14,326)	(4,585)	(4,120)	-	-	-	(23,031)
Operating income (loss)	20,344	(15,596)	(14,791)	2,554	(2,119)	(56,309)	(65,917)

Six-month period ended June 30, 2008

	Mobile Communication	Secure Transactions	Security	Public Telephony	Point-of- Sales Terminals	Unallocated	Gemalto
Revenue	442,899	214,847	101,239	16,509	15,679	-	791,173
Cost of sales	(262,863)	(159,024)	(74,240)	(12,764)	(12,982)	-	(521,873)
Gross profit	180,036	55,823	26,999	3,745	2,697	-	269,300
Operating expenses excl.							
Other income, net	(114,226)	(42,212)	(40,984)	(1,126)	(6,883)	-	(205,431)
Other income, net	(126)	(7)	45	(3)	(7)	-	(98)
Combination related expenses	-	-	-	-	-	162	162
Reorganization expenses	-	-	-	-	-	(6,533)	(6,533)
Amortization of intangible assets	(4,536)	(1,000)	(963)	-	-	-	(6,499)
Operating income (loss)	61,148	12,604	(14,903)	2,616	(4,193)	(6,371)	50,901

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.

To align external reporting with the new operational organization, the Transport business has been reported under the Secure Transaction segment starting July 1, 2007. Previously, it was reported as part of the Security segment. The six-month period ended June 2007 has been aligned to reflect this change.

Secondary reporting format – Geographical segments

The table below shows revenue attributed to geographic areas, on the basis of the location of the customer:

	Six-month period ended June 30,	
	2007	2008
North and South America	167,241	176,632
Europe, Middle East & Africa	427,940	442,970
Asia	164,682	171,571
Total revenues	759,863	791,173

Note 7 Property, plant and equipment

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

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Land	6,039	6,137
Buildings and improvements	215,589	213,848
Machinery and equipment	509,082	503,678
Total cost	730,710	723,663
Less: Accumulated depreciation	(513,615)	(510,066)
Total	<u>217,095</u>	<u>213,597</u>

As required by IAS16, the Company re-assessed on January 1, 2008 the useful life of its tangible assets. As a result, tangible asset depreciation expense for the first half 2008 was reduced by € 6.5 million. The net impact on the operating income was € 4.9 million for the first half of 2008.

Note 8 Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Goodwill	556,142	554,344
Less: accumulated amortization	(12,311)	(12,115)
Goodwill, net	<u>543,831</u>	<u>542 229</u>
Technology and patents	255,509	241,439
Deferred development costs	68,120	65,172
Other intangible assets	97,869	104,052
Intangible assets, gross	421,498	410,663
Less: accumulated amortization	(347,783)	(352,527)
Intangible assets, net	<u>73,715</u>	<u>58,136</u>

A gross book value amount of € 4,254 was reclassified from Technology and patents into Other intangible assets.

As required by IAS 38, the Company re-assessed the future economic benefits of its intangible assets. As a result, an accelerated depreciation of a part of the patent portfolio was performed, and the patent portfolio depreciation expense for the first half of 2008 was increased by € 2.7 million compared to the first half of 2007.

Note 9 Inventories

Inventories consist of the following:

	December 31, 2007	June 30, 2008
Gross book value		
Raw materials and spares	57,458	69,843
Work in progress	88,802	81,352
Finished goods	50,648	55,162
Total	196,908	206,357
Obsolescence reserve	(23,171)	(21,932)
Total	173,737	184,425

Note 10 Trade and other receivables

Trade and other receivables consist of the following:

	December 31, 2007	June 30, 2008
Trade receivables	361,665	344,695
Provision for impairment of receivables	(10,609)	(9,821)
Trade receivables, net	351,056	334,874
Prepaid expenses	15,373	16,073
VAT recoverable and tax receivable	45,745	40,416
Advances to suppliers and related	8,604	12,356
Unbilled customers	7,401	17,046
Other	11,326	12,389
Total	439,505	433,154

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

Note 11 Derivative financial instruments

Derivative financial instruments consist of the following:

	December 31, 2007					June 30, 2008				
	USD	GBP	JPY	SGD	PLN	USD	GBP	JPY	SGD	PLN
Cash Flow hedges										
Forward contracts				(122)	87				57	355
Option contracts	8,059	1,346	1,652			6,037	1,400	1,648		
Fair value hedges										
Forward contracts	(27)	317	750		(6)	(21)	8	20	(122)	212
Option contracts	2,996		229			1,986	306	620		
Total	11,028	1,663	2,631	(122)	81	8,002	1,714	2,288	(65)	567

Note 12 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Cash at bank and in hand	146,641	118,496
Short-term bank deposits and investment funds	190,800	221,606
Total	<u>337,441</u>	<u>340,102</u>

The amount of cash and bank overdrafts shown in the cash flow statement is net of bank overdrafts as reconciled below:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Cash and cash equivalents	337,441	340,102
Bank overdrafts	(626)	(14)
Total	<u>336,815</u>	<u>340,088</u>

Note 13 Non-current provisions and other liabilities

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

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Warranty non-current	3,669	3,496
Restructuring provisions	6,033	5,476
Tax claims	13,272	13,168
Provision for other risks	7,519	7,750
Total non-current provisions	<u>30,493</u>	<u>29,890</u>
Management compensation	8,371	7,894
Unrecognized government grants	2,883	1,790
Long term payables	37,975	37,465
Total non-current other liabilities	<u>49,229</u>	<u>47,149</u>
Total non-current provisions and other liabilities	<u>79,722</u>	<u>77,039</u>

Note 14 Trade and other payables

Trade and other payables consist of the following:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Trade payables	133,733	144,352
Employee related payables	111,190	101,943
Accrued expenses	62,700	42,497
Accrued VAT	34,600	32,495
Deferred revenue	40,212	45,897
Other	10,024	7,378
Total	<u>392,459</u>	<u>374,562</u>

The Accrued expense balance as at December 31, 2007 included € 20,500 which has been reclassified to Trade payables in 2008.

Note 15 Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	<u>December 31, 2007</u>	<u>June 30, 2008</u>
Warranty – current	6,346	3,585
Provision for loss on contracts	560	1,094
Restructuring provisions	51,883	33,660
Other	13,782	13,864
Total	<u>72,571</u>	<u>52,203</u>

The decrease in restructuring provisions mainly relates to severance payments made in connection with restructuring plans.

Note 16 Finance income (expense)

Finance income (expense) includes the following:

	<u>Six-month period ended June 30,</u>	
	<u>2007</u>	<u>2008</u>
Interest expense (*)	(1,351)	(1,119)
Interest income (**)	6,302	5,585
<u>Foreign exchange transaction gains/(losses) (***)</u> :		
- Foreign exchange gains/(losses), net of fair value hedges	3,204	23
- cash flow hedges	(1,811)	(1,420)
Gain/(Loss) on sales of investment	3,753	202
Other	-	134
Finance income (expense), net	<u>10,097</u>	<u>3,405</u>

(*) Other financial liabilities

(**) Assets at fair value through profit and loss

(***) Derivatives used for hedging

Note 17 Earnings per share

	Six-month period ended June 30,	
	2007	2008
Basic		
Profit/(Loss) attributable to equity holders of the Company	(50,100)	45,001
Weighted average number of ordinary shares outstanding (in thousands)	88,371	83,123
Basic earnings/(loss) per share in Euro	<u>(0.57)</u>	<u>0.54</u>
	Six-month period ended June 30,	
	2007	2008
Diluted		
Profit/(Loss) attributable to equity holders of the Company	(50,100)	45,001
Weighted average number of ordinary shares outstanding (in thousands)	88,371	83,123
Adjustment for share options (in thousands)	-	1,239
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	88,371	84,362
Diluted earnings/(loss) per share in Euro	<u>(0.57)</u>	<u>0.53</u>

The Company presents both basic and diluted earnings (loss) per share (EPS) amounts. Basic EPS is calculated by dividing net income (loss) attributable to equity holders of the Company 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 (loss) attributable to equity holders of the Company by the weighted 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. As at June 30, 2007, share options were anti-dilutive as the result for the six-month period then ended was a loss. As at June 30, 2008, the weighted average number of dilutive share options amounts to 1,239,565.

Note 18 Cash generated from operations

	Six-month period ended June 30,	
	2007	2008
Income (loss) for the period before minority interest	(48,391)	47,025
Adjustment for:		
Tax	1,066	8,313
Research tax credit	(765)	(5,101)
Depreciation	26,657	18,523
Amortization	31,657	17,452
Stock option compensation charge	4,346	6,341
Gains and losses on sales of fixed assets and write-offs	4,796	2,254
Gain on sale of an available-for-sale financial asset	(3,737)	-
Gain on sale of an investment in associate	(9,862)	(202)
Net movement in provisions for liabilities and charges	31,069	(21,143)
Retirement benefit obligation	(1,420)	(378)
Interest income	(6,302)	(5,584)
Interest expense	1,400	1,120
Share of profit (loss) from associates	898	(1,032)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)		
Inventories	(16,760)	(14,215)
Trade and other receivables	27,763	(394)
Derivative financial instruments	284	2,314
Trade and other payables	(31,456)	(12,501)
Cash generated from operations	11,243	42,792

Note 19 Commitments and contingencies.**Legal proceedings**

The Company is subject to legal proceedings, claims and legal actions arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Schlumberger residuals

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and the Company agreed to carry out the complete transfer of the Schlumberger group's Cards and POS businesses to the Company or one of its subsidiaries.

These undertakings remain in effect 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.

As of June 30, 2008, the balance of the assets and liabilities belonging to Schlumberger was a net asset of € 3.1 million.

Note 20 Post-closing events

The Annual General Meeting of Shareholders held on May 14, 2008 approved the resolution related to the cancellation of three million shares held by the Company in its own share capital. The share cancellation was completed on July 24, 2008. As a result, the total number of Gemalto shares issued is now 88,015,844.

To management's knowledge, there is no significant event that occurred since June 30, 2008, which would materially impact the financial statements, as presented in these condensed consolidated interim financial statements.

Note 21 Consolidated entities

There was no significant change in the Group consolidation perimeter during the reported interim period.