

Gemalto first half 2007 results

- Revenue for the first half at € 760 million
- Operating income¹ at € 15 million
- Ongoing adjustments in operating cost structure delivering benefits
- Strong net cash position at € 291 million after use of € 100 million in share buyback program

Amsterdam, September 13, 2007 - Gemalto (Euronext NL0000400653 - GTO), the leader in digital security, today announced its results for the half year ended June 30, 2007.

Highlights of the adjusted income statement¹ (figures below are at historical exchange rates):

€ in millions	H1 2006	H1 2007	Year-on-year change ²
Net sales	846	760	(10.2)%
Gross profit	260	222	(14.6)%
<i>Gross margin (%)</i>	30.7%	29.2%	(1.5) ppts
Operating expenses ³	227	210	(7.8)%
Operating income	32.7	15.2	(53.6)%
<i>Operating margin (%)</i>	3.9%	2.0%	(1.9) ppts
Profit for the period	28.9	24.5	(15.2)%
Adjusted basic earnings per share (euro) ⁴	0.30	0.26	(15.3)%

The above mentioned adjusted measures (unaudited) exclude accounting entries related to the business combination with Gemplus, as well as one-off expenses and reorganization charges incurred in connection with this transaction. They are not meant to be considered in isolation or as a substitute for comparable IFRS measures, and should be read only in conjunction with the condensed consolidated interim financial statements prepared in accordance with IFRS (unaudited) provided in appendix 6. Gemalto believes these adjusted financial measures are helpful in assessing its past financial performance and its future results.

Olivier Piou, Chief Executive Officer, commented: “Gemalto’s performance in the first half of 2007 reflects the benefits of our pricing discipline in Mobile Communication, the first effects of our cost structure adjustments to better address the market environment, and good patent licensing activity. During this first semester, we moved from managing post-merger integration to actively developing our joint capabilities and winning significant digital security business. We remain confident that the second half of 2007 will further reflect the benefits of our strategy, which combines initiatives for profitable growth with cost reduction programs.”

¹ The H1 2007 adjusted income statement measures presented in this press release were prepared on an adjusted basis reflecting the consolidated activity of the Group over the first half-year, excluding accounting entries related to the business combination with Gemplus, as well as one-off expenses and reorganization charges incurred in connection with this transaction; the H1 2006 adjusted income statement measures presented for comparison were prepared on the same adjusted basis and are pro forma measures, reflecting the combined activity of Gemalto and Gemplus over the period, and assuming that the combination had taken place as of January 1, 2005.

² At historical (reported) exchange rates.

³ Operating expenses include research & engineering expenses, sales & marketing expenses and general & administrative expenses; they do not include other operating income & expenses, net.

⁴ The H1 2007 Adjusted basic earnings per share were determined on the basis of the average number of Gemalto shares outstanding during the six-month period ended June 30, 2007 i.e. taking into account the effect of the share buy-back on the average number of shares outstanding during the period. The H1 2006 Adjusted basic earnings per share were determined on the basis of the average number of Gemalto shares issued during the six-month period ended June 30, 2007 less the average number of Treasury shares held by the Company during the six-month period ended June 30, 2006.

Basis of preparation of financial information

The Company's condensed consolidated interim income statements, balance sheets, statements of shareholders equity and cash flow statements (unaudited) presented in appendix 6 were prepared in accordance with International Financial Reporting Standard (IFRS).

Additional financial information on an adjusted basis (unaudited) is presented that is not in conformity with IFRS, in particular the presentation of cost of sales, operating expenses and operating income, operating margin and earnings per share which exclude one-off combination related expenses, reorganization charges and charges resulting from the accounting treatment of the transaction. Charges resulting from the accounting treatment of the transaction consist of amortization of inventory step-up, additional stock-based compensation due to the revaluation of Gemplus' stock options as of combination date, amortization and impairment of intangible assets. One-off combination related expenses consist of charges which would have not 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 cost related headcount reductions in the support functions, the consolidation of manufacturing and office sites (including asset write-offs and transfer cost, severance cost, lease termination and building refurbishment cost) as well as the 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 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.

Because the business combination between Gemalto and Gemplus took place as of June 2, 2006, the adjusted financial information presented for the first half of 2006 was prepared on a pro forma basis, and reflects the combined activity of the two companies over the period, assuming that the combination had taken place as of January 1, 2005.

The Company provides reconciliations between the IFRS and adjusted income statements for the first half of 2007. This reconciliation is presented in a table in appendix 4. The IFRS consolidated income statement for the first half 2007 (unaudited) shows an operating loss of € 65.9 million and a loss for the period of € 48.4 million, including amortization and impairment of intangible assets for € 23.0 million, reorganization expenses for € 55.1 million and combination related expenses for € 1.2 million.

For a more detailed description of adjustments made to the IFRS consolidated income statement, please refer to DESCRIPTION OF ADJUSTED MEASURES at the end of this press release.

All comparisons in this document are at historical (reported) exchange rates, unless stated otherwise, and describe the evolution of the adjusted first half 2007 information compared to that of the first half 2006 prepared on a pro forma basis.

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.

Adjusted income statement⁵ analysis

Extract of the adjusted income statement (figures below are at historical exchange rates):

	Six months ended June 30, 2006		Six months ended June 30, 2007		% change ⁶
	€ in millions	As a % of sales	€ in millions	As a % of sales	
Revenue	846.3		759.9		(10.2)%
Gross profit	260.2	30.7%	222.1	29.2%	(14.6)%
EBITDA ⁷	74.2	8.8%	50.5	6.6%	(31.9)%
Operating expenses ²	227.3	26.9%	209.5	27.6%	(7.8)%
Operating income	32.7	3.9%	15.2	2.0%	(53.6)%
Profit for the period	28.9	3.4%	24.5	3.2%	(15.2)%

At constant exchange rates revenue was down 6% reflecting lower revenue in Mobile Communication and patent licensing, partly offset by growth in Secure Transactions revenue driven by EMV⁸ and contactless payment volumes and higher pay TV activity.

On a geographic basis and at constant exchange rates revenue was down 15% in the Americas and down 4% in Asia, mainly due to lower revenue in Mobile Communication. In EMEA⁹ revenue was down 4%, with growth in Secure Transactions and ID & Security offsetting lower revenue in Mobile Communication.

Gross margin was 29.2% compared with 30.7% in a first half of 2006 that had benefited from unusually high patent licensing revenue (€ 24.1 million against € 14.1 million in the first half of 2007) and from a number of positive one-off items. The lower contribution of Mobile Communication to total revenue and lower margin in Secure Transactions also accounted for the year-on-year decrease.

Operating expenses decreased by € 17.8 million, i.e. 7.8% year-on-year, reflecting the effects of cost reduction measures implemented in the support functions after the combination. Compared with the first half of 2006, General & Administrative expenses were down by 13.6%.

Consequently, operating income was at € 15.2 million with operating margin at 2.0%. This performance reflects higher margins in Mobile Communication and to patent licensing revenue recorded earlier in the year than anticipated.

⁵ The H1 2007 adjusted income statement measures presented in this press release were prepared on an adjusted basis reflecting the consolidated activity of the Group over the first half-year, excluding accounting entries related to the business combination with Gemplus, as well as one-off expenses and reorganization charges incurred in connection with this transaction; the H1 2006 adjusted income statement measures presented for comparison were prepared on the same adjusted basis and are pro forma measures, reflecting the combined activity of Gemalto and Gemplus over the period, and assuming that the combination has taken place as of January 1, 2005.

⁶ At historical (reported) exchange rates.

⁷ EBITDA is defined as operating income plus depreciation (€ 26.7 million in H1 2007 versus € 31.2 million in H1 2006) and amortization expenses (€ 8.6 million in H1 2007 versus € 10.3 million in H1 2006). These amounts exclude amortization and impairment charges related to the intangible assets of Gemplus identified upon Combination pursuant to IFRS 3 « Business Combination ».

⁸ EMV is a set of specifications adopted by Europay, MasterCard and Visa Card for the migration of bank cards to smart card technology

⁹ Europe, Middle East, Africa

Financial income was € 10.1 million. It comprises net interest income of € 5.0 million, a gain of € 3.8 million on the disposal of an investment held for sale, and foreign exchange gains of € 1.4 million. The Company also recognized a gain of € 9.4 million in relation with the sale of an investment in an Associate. Adjusted pre-tax income was € 33.1 million, and income tax charges amounted to € 8.6 million. As a result, adjusted profit for the period was € 24.5 million.

Reorganization charges reported in the IFRS income statement

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 and amounted to € 55.1 million. This amount consisted of severance costs for € 42.9 million (mainly related to the closure of production facilities in the Americas, Asia and Europe), to fixed asset and inventory write-offs for € 11.0 million and to other costs, mainly related to IT integration, for € 1.2 million.

The implementation of the related reorganization plans will result in the curtailment of certain pension obligations. A credit of € 2.4 million was recognized in the first half of 2007 in connection with these curtailments, in reduction of cost of sales and operating expenses. This credit is reflected in the Adjusted measures.

Balance sheet and cash flow (IFRS measures)

Free cash flow¹⁰ was an outflow of € 24.9 million, after capital expenditure of € 29.2 million, of which € 17.7 million was incurred for plant, property and equipment purchases, and approximately € 16 million used in connection with restructuring measures. The disposal of the investment held for sale and of the investment in an Associate mentioned above provided € 20.5 million in cash.

Working capital requirements slightly decreased during the first half by € 1 million. Excluding the increase in reserves for restructuring plans launched in the period, working capital requirements grew by an estimated € 29 million compared with 2006 year-end. This evolution was mainly due to the seasonal increase in inventory recorded at June 30, 2007 in anticipation of the stronger activity scheduled for the second half of the year. Compared with June 30, 2006 working capital requirement was down by € 28 million, a year-on-year improvement of 13%.

The share buy-back program effectively started on January 29 and used € 100 million in cash. 5.4 million shares were purchased in the first half of the year, representing 5.9% of Gemalto's share capital. This program authorizes the Company to acquire up to 10% of its share capital. In addition, € 4 million in cash were used as part of the completion of the squeeze-out of Gemplus shares.

Gemalto's net cash position was € 291 million at June 30, 2007. The decrease of € 105 million compared with December 31, 2006 corresponds almost exactly to the cash used in the share buy-back and the acquisition of the remaining Gemplus shares.

¹⁰ Free cash flow is defined as net cash flow from operating activities less the purchase of property, plant and equipment and other investments related to the operating cycle (excluding acquisitions and financial investments).

Segment information¹¹

Extract of the adjusted pro forma income statements are at historical exchange rates unless otherwise mentioned.

Mobile Communication

	Six months ended June 30, 2006		Six months ended June 30, 2007		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	% change ¹²
Revenue	490.7		417.8		(14.9)%
Gross profit	163.9	33.4%	144.1	34.5%	(12.1)%
Operating expenses	133.1	27.1%	109.8	26.3%	(17.5)%
Operating income	30.5	6.2%	35.7	8.5%	17.1%

At constant exchange rates, Mobile Communication revenue was down 11%. Deliveries of SIM cards rose 4%, reflecting Gemalto's strict pricing discipline and selective approach to tenders.

As a result, the year-on-year decrease in average SIM card selling price was contained to 15% at constant exchange rates, a very significant improvement compared with 34% a year ago. The average selling price increased by 7% at constant exchange rates in the second quarter compared with the first, due to more favorable regional and product mixes. The purchasing and other manufacturing synergy measures implemented in the last twelve months have begun to generate significant savings. Consequently, with lower revenue, gross margin in the first half was up 1.1 percentage points to 34.5% of revenue.

Operating expenses were reduced by 18%, reflecting the positive impact of the operating adjustments put in place following the merger, especially in General & Administrative expenses as well as the redeployment of Research & Engineering and support resources to other segments. Accordingly, operating income was € 35.7 million with operating margin at 8.5%. This marks a strong improvement when compared with the 6.2% reported in the first half of 2006, a figure that included favorable one-off items.

¹¹ All segment information provided in this press release is on an adjusted basis (unaudited), excluding one-off expenses incurred in connection with the combination with Gemplus, reorganization charges and charges resulting from the accounting treatment of the transaction. The segment information related to H1 2006 was prepared on a pro forma basis, reflecting the combined activity of Gemalto and Gemplus over the period, and assuming that the combination had taken place as of January 1, 2005.

¹² At historical (reported) exchange rates.

Secure Transactions

	Six months ended June 30, 2006		Six months ended June 30, 2007		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	% change ¹³
Revenue	191.3		192.8		+0.8%
Gross profit	40.4	21.1%	33.4	17.3%	(17.3)%
Operating expenses	44.3	23.1%	43.4	22.5%	(2.0)%
Operating income (loss)	(3.9)	(2.0)%	(9.5)	(4.9)%	NM

At constant exchange rates revenue was up by 4%, with strong growth in microprocessor-based payment products, personalization services as well as pay TV activity offsetting continued pressure on selling prices. Deliveries of microprocessor cards were up 13%, led mainly by EMV migration and card renewals in developed markets in Western Europe, and contactless payment in Asia.

Gross margin in this segment was down by 3.8 percentage points to 17.3%, reflecting the decrease in sales prices and less favorable product and regional mixes. The cost reductions expected from the restructuring plans launched should materialize significantly in this segment only in 2008. Consequently, the segment reported a € 9.5 million operating loss.

ID & Security

	Six months ended June 30, 2006		Six months ended June 30, 2007		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	% change ¹³
Revenue	106.6		98.1		(8.0)%
Gross profit	47.3	44.3%	34.5	35.1%	(27.1)%
Operating expenses	39.6	37.1%	46.3	47.2%	+16.9%
Operating income (loss)	7.7	7.2%	(11.5)	(11.7)%	NM

At constant exchange rates revenue was down 5%, as a result of lower patent licensing revenue (€ 14.1 million) when compared with the unusually high revenue (€ 24.1 million) reported in the first half of 2006. Revenue from Government Programs that includes e-passports, e-identity and healthcare cards was stable, as many of the large-scale projects recently won were only in their ramp-up phase. Security (i.e. Identity & Access Management for on-line applications) revenue was down slightly due to lower deliveries of microprocessor devices in the Americas. Transport revenue increased thanks to higher activity in Latin America.

The lower gross profit and 9.2 percentage point decrease in gross margin in the segment was mainly due to the lower patent licensing revenue. In line with Gemalto's strategy to grow the ID & Security business, operating expenses were driven up by € 6.7 million. Research & Engineering and Sales & Marketing expenses increased by € 3.3 million and € 2.2 million respectively, following the reallocation to this growth business of technical and marketing resources which played a key part in the winning of several large-

¹³ At historical (reported) exchange rates.

scale tenders, such as the German healthcare project. Consequently, the segment reported an operating loss of € 11.5 million for the semester.

Public Telephony

	Six months ended June 30, 2006		Six months ended June 30, 2007		% change ¹⁴
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	32.9		22.0		(33.1)%
Gross profit	2.1	6.3%	4.6	20.8%	+119.0%
Operating expenses	3.6	10.8%	2.2	9.8%	(38.9)%
Operating income (loss)	(1.5)	(4.5)%	2.6	11.6%	NM

Memory cards for Public Telephony contribute less than 3% of Group revenue, as worldwide demand continues to decrease, reflecting the even more widespread usage of mobile telephony worldwide.

The significant improvement in gross margin and the decrease in operating expenses reflect the aggressive cost adjustments in manufacturing and support structure carried out since the merger. Consequently, the segment reported an operating income of € 2.6 million, against a € 1.5 million loss in the first half 2006.

Point-of-Sale Terminals

	Six months ended June 30, 2006		Six months ended June 30, 2007		% change ¹⁴
	€ in millions	As a % of sales	€ in millions	As a % of sales	
Revenue	24.8		29.2		+17.7%
Gross profit	6.6	26.5%	5.6	19.2%	(15.2)%
Operating expenses	6.7	27.0%	7.8	26.8%	+16.4%
Operating income (loss)	(0.1)	(0.3)%	(2.1)	(7.3)%	NM

The launch of a new range of products developed on a new technology platform in the fourth quarter of 2006 supported much of the revenue growth in the first half of 2007. During this period, strong activity in geographic areas where pricing levels are lower accounted for the decrease in gross profit compared with the same period of last year. Research & Engineering resources continued to be invested in the development of customizations and high end applications for the new platform, resulting in an operating loss of € 2.1 million.

¹⁴ At historical (reported) exchange rates.

Outlook

In the second half of 2007, operating margin¹⁵ should reflect the usual favorable seasonal pattern and the increasing contribution of the first digital security solutions deployments. It will also benefit from additional cost synergies from the combination.

Gemalto continues to anticipate sustained demand in all of its key markets. It will continue to proactively make the necessary adjustments to its cost base and remains determined to reach its stated objective of an operating margin¹⁵ above 10% in 2009.

Reporting calendar

Third quarter 2007 revenue will be reported on November 8, 2007, before the opening of Euronext Paris.

¹⁵ Prepared on an adjusted basis, reflecting the consolidated activity of the Group over the first half year, excluding one-off expenses incurred in connection with the combination with Gemplus, reorganization charges and charges resulting from the accounting treatment of the transaction

**GEMALTO
FIRST HALF 2007 FINANCIAL RESULTS
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:

- **Amortization of inventory step-up:** IFRS 3 "Business Combination" requires Gemalto to value work-in progress and finished goods assumed in connection with the combination at net realizable value (the estimated revenue derived from the future sale of these goods less expected selling cost). Therefore, the value of this inventory in the books of Gemplus on combination date was adjusted accordingly (step-up). Thus, subsequent sales of the work-in-progress and finished products carried in Gemplus' inventory at the time of the combination generate a lower margin than if they were manufactured after the acquisition, all other factors being equal. The amortization expense related to this step up is therefore disclosed in the income statement under a separate line below Cost of Sales. The adjustment, eliminating amortization of inventory step-up, is intended to restore the normal margin of such sales. The Group believes this adjustment is useful to investors as a measure of the ongoing performance of its business.

- **Additional stock-based compensation charge:** As prescribed by IFRS 2 "Share-based payment" and IFRS 3 "Business Combination", vested and unvested stock options or awards granted by an acquirer in exchange for stock options or awards held by employees of the purchased company, or any substantially equivalent commitment by the acquirer to assume the obligations of the 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 impairment of intangible assets:** amortization and impairment 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 asset write-offs and transfer cost, severance cost, 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 2007:

- 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 (combination related charges).
Gemalto adjusted income statement	- Combination assumed to have taken place as of January 1, 2005. - Excludes one-off expenses and reorganization charges incurred in connection with the combination with Gemplus (combination related charges) and all charges resulting from the accounting treatment of the combination.

In addition, because the business combination between Gemalto and Gemplus took place as of June 2, 2006, the adjusted financial information presented for the first half of 2006 was prepared on a pro forma basis, and reflects the combined activity of the two companies over the period, assuming that the combination had taken place as of January 1, 2005.

Conference call

Gemalto will hold an analysts and investors meeting to present its financial results for the first half year of 2007. The meeting will take place today at Pavillon Ledoyen (Salon Cocteau), Carré des Champs-Élysées, 1, avenue Dutuit, 75008 Paris; and will start at 10:00 am Paris time. Prepared remarks will be in French.

The company has also scheduled a conference call in English for 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 (0) 207 806 1967 or +1 718 354 1388 or +33 1 70 99 43 04.

The presentation slide show will be available for download on our Investor Relations web site (www.gemalto.com/investors) at 9:00 am Paris time (8:00 am London time).

Replays of the conference call will be available from approximately 2 hours after the conclusion of the conference call until September 19, 2007 midnight Paris time by dialling:

+44 (0) 207 806 1970 or +1 718 354 11 12 or +33 1 71 23 02 48, access code: 4561554#.

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About Gemalto

Gemalto (Euronext NL 0000400653 GTO) is the leader in digital security with pro forma 2006 annual revenues of €1.7 billion, offices in more than 85 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, SIMs, 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.

Gemalto was formed in June 2006 by the combination of Axalto and Gemplus.

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 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; changes in global, political, economic, business, competitive, market and regulatory forces; and those discussed by the companies in filings, submissions or furnishings to the SEC, including under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors". 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.

Appendix 1

First half 2007 Adjusted income statement by business segment

€ in millions	Six months ended June 30, 2007					
	Mobile Communication	Secure Transactions	ID & Security	Public Telephony	Point-of-Sale Terminals	Total
Revenue	417.8	192.8	98.1	22.0	29.2	759.9
Gross profit	144.1	33.4	34.5	4.6	5.6	222.1
Operating expenses	109.8	43.4	46.3	2.2	7.8	209.5
Operating income (loss)	35.7	(9.5)	(11.5)	2.6	(2.1)	15.2

First half 2006 Adjusted pro forma income statement by business segment

€ in millions	Six months ended June 30, 2006					
	Mobile Communication	Secure Transactions	ID & Security	Public Telephony	Point-of-Sale Terminals	Total
Revenue	490.7	191.3	106.6	32.9	24.8	846.3
Gross profit	163.9	40.4	47.3	2.1	6.6	260.2
Operating expenses	133.1	44.3	39.6	3.6	6.7	227.3
Operating income (loss)	30.5	(3.9)	7.7	(1.5)	(0.1)	32.7

Appendix 2

Deliveries of secure personal devices

In millions of units	H1 2006 pro forma	H1 2007	% growth
SIM cards	430	445	+4%
Secure Transactions	97	111	+13%
ID & Security	18	15	(17%)
Total	545	570	+5%

Appendix 3

First half revenue by region

€ in millions	H1 2006 pro forma	H1 2007	Year-on-year change at historical exchange rates	Year-on-year change at constant exchange rates
EMEA	449.2	427.9	(5%)	(4%)
North & South America	212.0	167.2	(21%)	(15%)
Asia	185.1	164.7	(11%)	(4%)
Total revenue	846.3	759.9	(10%)	(6%)

Appendix 4

Consolidated Income Statement for the six month period ended June 30, 2007
Reconciliation from IFRS to Adjusted financial information

€ in millions

	IFRS financial information	Adjustment relating to combination related expenses	Adjustment relating to reorganization expenses	Adjustment relating to amortization of intangible assets	Adjustment relating to stock based compensation	Adjustment relating to Management incentives on investment disposal	Adjusted financial information
Sales	759.9						759.9
Cost of sales	(538.0)				0.2		(537.8)
Inventory step-up amortization	0.0						0.0
Gross Profit	221.9	0.0	0.0	0.0	0.2	0.0	222.1
Research & Engineering expenses	(50.8)				0.0		(50.8)
Sales & Marketing expenses	(109.6)				0.3		(109.3)
G&A expenses	(50.7)				0.6	0.7	(49.4)
Other Operating expenses	2.6						2.6
Combination related expenses	(1.2)	1.2					0.0
Reorganization expenses	(55.1)		55.1				0.0
Amortization and impairment of intangible assets	(23.0)			23.0			0.0
Operating Income	(65.9)	1.2	55.1	23.0	1.1	0.7	15.2
Financial Income	10.1						10.1
Share of profit (loss) of associates	(0.9)						(0.9)
Gain on sale of an Investment in Associate	9.4					(0.7)	8.7
Profit before taxes	(47.3)	1.2	55.1	23.0	1.1	0.0	33.1
Income tax	(1.1)		(0.6)	(6.9)			(8.6)
Profit (loss) for the period	(48.4)	1.2	54.5	16.1	1.1	0.0	24.5
Attributable to shareholders	(50.1)						22.8
Attributable to minority interest	(1.7)						(1.7)

Appendix 5

Estimated cash position variation schedule

€ in millions	H1 2006 *	H1 2007
Cash & cash equivalent, beginning of period	637	430
Cash generated by (used in) operating activities **	(46)	5
Including cash provided by (used in) decrease (increase) of working capital	(70)	1
Capital expenditure and acquisitions of intangibles	(41)	(29)
Free cash flow	(86)	(24)
Interest received (paid), net	8	5
Cash generated by disposal of investments	0	21
Other cash generated by (used in) investing activities	(3)	(0)
Cash used in connection with the Combination with Gemplus	0	(4)
Cash generated by (used in) operating and investing activities	(82)	(3)
June 2, 2006 distribution to Gemplus shareholders	(164)	0
Cash used by the share buy-back program	0	(100)
Cash generated (used) by other share purchase or disposal	(3)	2
Other cash used in financing activities (excluding proceeds and repayments of borrowings)	0	(8)
Other (translation adjustment mainly)	(6)	(1)
Cash and cash equivalent, end of period	382	319
Current and non-current borrowings including finance lease, end of period	(38)	(27)
Net cash, end of period	344	291

* Prepared on a pro forma basis

** Cash generated by (used in) operating activities takes into account the use of € 16 million in cash in connection with restructuring actions in H1 2007. There was no such use of cash in H1 2006.

Gemalto

Condensed consolidated interim financial statements

as of June 30, 2007

(Unaudited)

Consolidated balance sheets (unaudited)

In thousands of Euro

	Notes	<u>Consolidated balance sheet as of December 31, 2006 (*)</u>	<u>Consolidated balance sheet as of June 30, 2007</u>
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	242,922	228,928
Goodwill, net	8	547,572	547,290
Intangible assets, net	8	115,633	113,176
Investments in associates		15,912	8,620
Deferred income tax assets		17,897	12,037
Available-for-sale financial assets, net		7,401	1,979
Other non-current assets		25,910	23,752
Total non-current assets		<u>973,247</u>	<u>935,782</u>
Current assets			
Inventories, net	9	177,814	194,529
Trade and other receivables, net	10	447,162	422,486
Derivative financial instruments	11	6,407	6,399
Cash and cash equivalents	12	430,326	318,461
Total current assets		<u>1,061,709</u>	<u>941,875</u>
Total ASSETS		<u>2,034,956</u>	<u>1,877,657</u>
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		90,083	91,016
Share premium		1,241,326	1,248,845
Treasury shares		(5,240)	(103,124)
Fair value and other reserves		73,151	72,503
Cumulative translation adjustment		(4,158)	(5,970)
Retained earnings		22,319	(27,656)
		<u>1,417,481</u>	<u>1,275,614</u>
Minority interest		<u>26,884</u>	<u>11,201</u>
Total EQUITY		<u>1,444,365</u>	<u>1,286,815</u>
LIABILITIES			
Non-current liabilities			
Borrowings		26,429	19,376
Deferred income tax liabilities		28,219	18,610
Retirement benefit obligation		33,272	32,779
Provisions and other liabilities	13	38,808	59,378
Total non-current liabilities		<u>126,728</u>	<u>130,143</u>
Current liabilities			
Trade and other payables	14	430,470	403,102
Current income tax liabilities		9,902	6,885
Borrowings		7,787	8,082
Derivative financial instruments	11	280	505
Provisions and other liabilities	15	15,424	42,125
Total current liabilities		<u>463,863</u>	<u>460,699</u>
Total LIABILITIES		<u>590,591</u>	<u>590,842</u>
Total EQUITY and LIABILITIES		<u>2,034,956</u>	<u>1,877,657</u>

(*) 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 contribution date.

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,	
		2006 (*)	2007
Revenue		467,691	759,863
Cost of sales		(329,869)	(537,965)
Amortization of inventory step-up	4	(4,009)	-
Gross profit		133,813	221,898
Operating expenses			
Research and engineering		(30,429)	(50,823)
Sales and marketing		(57,797)	(109,596)
General and administrative		(30,958)	(50,680)
Other income (expense), net		(1,892)	2,624
Combination related expenses	5	(6,746)	(1,181)
Reorganization expenses	5	-	(55,128)
Amortization and impairment of intangible assets	4, 5	(13,631)	(23,031)
Operating result		(7,640)	(65,917)
Finance income (expenses), net	17	1,102	10,097
Share of profit (loss) of associates		129	(898)
Gain on sale of investment in associate		-	9,393
Profit (Loss) before income tax		(6,409)	(47,325)
Income tax expense	16	1,427	(1,066)
Profit (Loss) for the period		(4,982)	(48,391)
Attributable to			
Equity holders of the company		(4,439)	(50,100)
Minority interest		(543)	1,709
Basic earnings (loss) per share (in Euro)	18	(0.10)	(0.57)
Diluted earnings (loss) per share (in Euro)	18	(0.10)	(0.57)
In thousands			
Average number of shares outstanding	18	43,917	88,371
Average number of shares outstanding assuming dilution	18	43,917	88,371

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Consolidated statements of changes in equity (unaudited)

<i>In thousands of Euro</i>	Number of shares	Attributable to equity holders of the company						Minority interest	Total equity
		Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adj.	Retained earnings		
Balance as of January 1, 2006	40,578,435	40,579	450,369	(3,211)	(4,252)	17,466	88,702	2,424	592,077
Movements in fair value and other reserves:									
- Currency translation adjustments						(11,997)		(170)	(12,167)
- Gains/(losses) on treasury shares					(17)				(17)
- Fair value gains/(losses), net of tax:									
- financial assets available-for-sale					2,151				2,151
- cash flow hedges					4,546			(987)	3,559
Net income/(expense) recognized directly in equity		-	-	-	6,680	(11,997)	-	(1,157)	(6,474)
Profit/(Loss) for the period							(4,439)	(543)	(4,982)
Total recognized income for the period		-	-	-	6,680	(11,997)	(4,439)	(1,700)	(11,456)
Employee share option scheme					57,671				57,671
Purchase of Treasury shares, net (143,983 shares purchased during the period)				(3,231)					(3,231)
Capital increase further to contribution in kind of Gemplus International SA shares	21,985,104	21,985	488,949						510,934
Cost incurred on Gemalto share capital increase			(2,920)						(2,920)
Minority interest on Gemplus acquisition								368,722	368,722
Dividend paid / payable to minority interests								(1,282)	(1,282)
Balance as of June 30, 2006 (*)	62,563,539	62,564	936,398	(6,442)	60,099	5,469	84,263	368,164	1,510,515
Balance as of January 1, 2007 (*)	90,082,535	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					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					3,572				3,572
Purchase of Treasury shares, net (5,310,565 shares purchased during the period)				(97,884)					(97,884)
Capital increase further to acquisition of minority interests in Gemplus International SA	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 (**)	91,016	1,248,845	(103,124)	72,503	(5,970)	(27,656)	11,201	1,286,815

(*) Compared to the published condensed consolidated interim financial statements as of June 30, 2006 and to the published consolidated financial statements for the year ended December 31, 2006 respectively, the balances as of June 30, 2006 and January 1, 2007 have been modified due to the reassessment of the fair value of certain assets acquired, liabilities and contingent liabilities assumed from Gemplus at the contribution date.

(**) Including 5,539,557 treasury shares

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

Consolidated statements of cash flows (unaudited)

In thousands of Euro

	Notes	<u>Six-month period ended June 30,</u>	
		<u>2006 (*)</u>	<u>2007</u>
Cash flows from operating activities			
Cash generated from (used in) operations	19	(25,525)	11,243
Interest paid		(508)	(1,126)
Income tax paid		(4,954)	(6,306)
Net cash provided by (used in) operating activities		<u>(30,987)</u>	<u>3,811</u>
Cash flows from (used in) investing activities			
Acquisition of subsidiary, cash acquired net of costs		225,786	25
Purchase of Gemplus minority interests		-	(4,068)
Purchase of property, plant and equipment		(20,325)	(17,719)
Proceeds from sale of property, plant and equipment		86	577
Purchase of intangible assets		(2,262)	(11,762)
Purchase of non-current assets		(2,561)	(282)
Proceeds from sale of an available-for-sale asset		-	4,912
Proceeds from sale of an investment in associate		-	15,603
Purchase of investments in associated companies		-	(289)
Interest received		4,566	6,302
Net cash provided by (used in) investing activities		<u>205,290</u>	<u>(6,701)</u>
Cash flows from (used in) financing activities			
Proceeds from exercise of stock options		1,109	1,026
Purchase of shares held in Treasury (net)		(3,230)	(99,652)
Gains/(losses) on treasury stocks transactions		(581)	(4)
Proceeds from borrowings		2,566	1,228
Repayments of borrowings		(2,654)	(7,534)
Dividends paid to minority interests		(1,921)	(2,552)
Net cash provided by (used in) financing activities		<u>(4,711)</u>	<u>(107,488)</u>
Net increase (decrease) in cash and bank overdrafts		169,592	(110,378)
Cash and bank overdrafts, beginning of period	12	219,095	429,596
Currency translation effect on cash and bank overdrafts		(7,621)	(1,000)
Cash and bank overdrafts, end of period	12	<u>381,066</u>	<u>318,218</u>

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Notes to the condensed consolidated interim financial statements

as of June 30, 2007

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

Note 1 General information

On December 6, 2005, the two companies Axalto Holding N.V. and Gemplus International S.A. signed an agreement to merge and create Gemalto, a world leader in digital security. Following regulatory reviews and approvals, the transaction took place on June 2, 2006 (see Note 4), and Axalto Holding N.V. changed its name to Gemalto N.V.

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 Euronext Paris on May 18, 2004.

These condensed consolidated interim financial statements for the six-month period ended June 30, 2007 have been authorized for issue by the Board of Directors of the Company on September 12, 2007.

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 2007 reported in these condensed consolidated interim financial statements is not necessarily indicative of the results of Gemalto for the full year 2007.

Note 2 Basis of preparation

The condensed consolidated interim financial statements for the semester ended June 30, 2007 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, 2006.

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, 2006, as described in the notes to these annual financial statements.

- (a) Standards and amendments to published standards effective for accounting periods beginning on January 1, 2007

IFRS 7 – Financial instruments: disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Amendment to IAS 1 – Presentation of financial statements: Capital disclosures. This amendment introduces disclosures about the level of an entity's capital and how an entity manages capital.

The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures in year-end financial statements will be the sensitivity analysis to market risk required by IFRS 7 and capital disclosures required by the amendment of IAS 1.

- (b) Interpretations effective for accounting periods beginning on or after March 1, 2006

IFRIC 7 – Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. This interpretation has no impact on the Group's accounts.

IFRIC 8 – Scope of IFRS 2. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. This interpretation has no impact on the Group's accounts.

IFRIC 9 – Reassessment of Embedded Derivatives. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract, in which case the reassessment is required. This interpretation has no impact on the Group's accounts.

IFRIC 10 – Interim Financial Reporting and Impairment. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation has no impact on the Group's accounts.

- (c) Standards and interpretations effective for accounting periods beginning on or after March 1, 2007

IFRS 8 – Operating segments. IFRS 8 specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 "Interim financial reporting", requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. This standard has not yet been adopted by the European Union.

IAS 23 – Borrowing costs. The core principle of this standard is that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing

costs are recognized as an expense. The Group will apply IAS 23 from January 1, 2008, but it is not expected to have any impact on the Group's accounts.

IFRIC 11 – Group and Treasury Share Transactions. This interpretation mainly addresses two matters. The first is whether some specific transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2. The second concerns share-based payment arrangements that involve two or more entities within the same group. The Group will apply IFRIC 11 from January 1, 2008, but it is not expected to have any impact on the Group's accounts.

IFRIC 12 – Service Concession Arrangements. This interpretation sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements. This interpretation is not applicable to the Group.

Note 4 Business combination with Gemplus

On December 6, 2005, the two companies Axalto Holding N.V. and Gemplus International S.A. announced their willingness to merge and create Gemalto, a world leader in digital security.

Following regulatory reviews and approvals, the transaction took place on June 2, 2006, and was executed following a two-step approach.

Texas Pacific Group ('TPG') and the Quandt family entities, the two main shareholders of Gemplus owning 25.3% and 18.3% of Gemplus capital, respectively, contributed their shares to Axalto at an exchange ratio of 2 Axalto shares for every 25 Gemplus shares (the Contribution In Kind). Immediately prior to this contribution, Gemplus distributed €0.26 per share from its distributable reserves to all its shareholders. As a result of this first step, Axalto held 43.6% of the capital of Gemplus and changed its name to Gemalto.

Subsequently, Gemalto launched a voluntary public exchange offer on July 11, 2006 for the remaining Gemplus shares at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares.

On August 25, 2006, following the public exchange offer by Gemalto for the Gemplus shares, 324,481,977 Gemplus shares had been tendered to the offer, representing in the aggregate, including the shares contributed by TPG and entities related to the Quandt family, 94.6% of the share capital.

On September 12, 2006, the public exchange offer initiated by Gemalto for the shares issued by Gemplus was reopened. Following this reopening, on November 17, 2006, Gemalto held 96.6% of the share capital.

On November 2, 2006, Gemalto announced that from November 9, 2006 through February 8, 2007 or such earlier date that Gemalto might determine to implement a mandatory squeeze out under applicable Luxembourg law, Gemplus shareholders were entitled, pursuant to applicable Luxembourg law, to exercise their right to sell ("droit au rachat obligatoire" or "sell-out") any Gemplus shares held by them to Gemalto in exchange either for Gemalto shares (at the same ratio as provided in the exchange offer) or in exchange for cash in the amount of €1.30 per Gemplus share.

Further to the first centralization period of the statutory sell-out (from November 9 to November 30, 2006) and as evidenced in Euronext notice No 20061211-5599 of December 11, 2006, as of such date Gemalto held 97.7% of the share capital of Gemplus.

Further to the second centralization period of the statutory sell-out (from December 1 to December 22, 2006), and as evidenced in the Euronext notice No 20070104-5868 of January 4, 2007, 2,663,280 shares were tendered and consequently, as of January 4, 2007, Gemalto held 98% of the share capital of Gemplus.

On January 8, 2007, Gemalto announced its decision to implement, pursuant to applicable Luxembourg law, the mandatory squeeze-out ("retrait obligatoire") of Gemplus shares which it did not already hold in exchange for either

Gemalto shares (in the same ratio as provided in the exchange offer) or cash in the amount of €1.30 per Gemplus share.

Upon the settlement of the mandatory squeeze-out on January 29, 2007, Gemalto held 634,630,323 shares of Gemplus International SA representing 100% of the capital of Gemplus International SA. On January 29, 2007, the Gemplus International SA shares were delisted from the Eurolist by Euronext Paris SA and its ADSs were delisted from the Nasdaq Global Select Market. As a result, Gemalto was deemed to succeed to the registration of Gemplus. On June 5, 2007, Gemalto elected to terminate the registration of its ordinary shares and any of its remaining reporting obligations and filed with the US Securities and Exchange Commission a certification on Form 15F in order to effect such termination. Such termination of registration and reporting requirements under the US securities laws became effective on September 4, 2007 after expiration of the applicable 90-day waiting period following the filing of Form 15F.

Gemalto accounted for the combination with Gemplus applying the purchase method of accounting as defined by IFRS 3 "Business Combination" ("IFRS 3"). Based on the analysis of all factors given by IFRS 3 paragraphs 19 to 21, management concluded that, under IFRS, Gemalto was considered as the acquirer, for accounting purposes, and Gemplus as the acquired entity. As defined by IFRS 3, the cost of the Gemplus shares acquired following the Contribution In Kind and of the subsequent acquisitions were measured as the aggregate of (i) the market value at the closing dates of the Contribution In Kind and of the subsequent acquisitions, of the new Gemalto shares issued in exchange of Gemplus shares and (ii) any costs directly attributable to the business combination.

A summary of the accounting for this transaction is set out below by reference to the various phases of the transaction.

Phase I

After the closing of the Contribution in Kind on June 2, 2006, Gemalto and Gemplus management were immediately integrated and the new Group operated as one company. Furthermore Gemalto, owning 43.6% of the Gemplus shares, had become by far the largest shareholder of Gemplus, with no other shareholder or group of shareholders holding more than 7% of Gemplus capital. Therefore, Gemalto was deemed to have obtained effective control of Gemplus.

Gemalto then:

- recognized at fair value the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquired entity,
- recognized a goodwill as the excess of the cost of the business combination over Gemalto interest in the net fair value of Gemplus identifiable assets and liabilities and contingent liabilities,
- measured and recognized the non-controlling interests (56.4%) as the non-controlling interests in the identifiable assets acquired and liabilities assumed.

On the other hand, the measurement of the Gemalto existing assets and liabilities was not affected by the transaction.

The final purchase consideration for the acquisition of 43.6% of Gemplus shares was calculated as follows:

	In millions of Euro (except for number of shares and share price)
Purchase consideration for 43.6% of Gemplus shares	
Gemalto share price as of June 02, 2006 ⁽¹⁾	23.24
Number of shares issued by Gemalto	21,985,104
Fair Value of acquired shares	<u>510.9</u>
Fair Value of Gemplus warrants and stock-options as of June 02, 2006	55.1
Capitalized Acquisition Costs	22.5
Total Purchase Consideration for 43.6% of Gemplus shares	<u>588.5</u>

⁽¹⁾ The share price corresponds to the mean of the Gemalto share price for the period beginning 2 days before and ending 2 days after June 2, 2006.

Gemalto management, assisted by independent, qualified experts, identified and assigned fair values to Gemplus assets and liabilities, as part of the allocation of the value of the combination.

The final allocation of the value of the combination to the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognized by the acquired entity, is as follows:

	In millions of Euro
Net Assets acquired (excluding intangibles)	
Gemplus net assets acquired as of the date of the acquisition	657.5
Identified intangible assets on the balance sheet	<u>(126.9)</u>
Net Assets acquired (excluding intangibles)	530.6
Minority Interest in Gemplus subsidiaries	(13.6)
Adjustments on Net Assets acquired	
Real estate assets	(4.0)
Inventory:	
- Revaluation to net realizable value	7.0
- Cancellation of commercial margin related to deferred revenue balance	7.8
Cancellation of commercial margin of deferred maintenance balance	<u>0.4</u>
Total adjustments on Net Assets acquired	11.2
Fair Value of the acquired intangible assets	
Existing Technology	81.8
In-Process R&D	20.8
Customer Relationships	22.2
Corporate Name	<u>9.8</u>
Fair Value of the acquired intangible assets	134.6
Deferred tax impacts	
Deferred tax liability related to the revaluation of the inventory and to amortizable intangible assets	(45.1)
Deferred tax asset related to identified intangible assets on Gemplus balance sheet, eliminated from the net assets acquired	10.1
Total adjusted net assets, including acquired intangible assets	<u>627.8</u>
Minority interest in adjusted net assets (56.4%) *	(354.5)
Gemalto share of Gemplus adjusted net assets	<u>273.3</u>
Goodwill	<u>315.2</u>

* Excluding minority interest in Gemplus subsidiaries and assuming all adjustments to Gemplus net assets and all identified intangible assets are allocated to wholly owned subsidiaries of Gemplus.

Compared with the preliminary valuation made as of December 31, 2006, the goodwill was increased by €3.7 million due to adjustments of the fair value of the net assets acquired from Gemplus and of acquisition costs.

The intangible assets listed on the balance sheet of Gemplus as of the date of acquisition consisted of €91.9 million of Goodwill, mainly related to the acquisition of Setec (€60.7 million), €20.8 million of In-Process Research & Development and €14.2 million of other intangible assets. After the elimination of those intangible assets, the book value of the acquired shareholders' equity including minority interest was €530.6 million.

IFRS 3 requires that work-in-progress and finished goods inventories assumed in connection with this transaction are recognized at net realizable value (i.e. the estimated revenue derived from the future sale of these goods, over the estimated time to sell this inventory – 2.5 to 7 months – less expected selling or distribution costs). Therefore, the value of work-in-progress and finished goods inventories in the books of Gemplus on combination date was adjusted accordingly (step-up). In accordance with this requirement, the value of Gemplus work-in-progress and finished goods inventories was increased by €14.8 million.

Existing Technology and In-Process R&D were valued using the Relief from Royalty method under the income approach. We estimated the cost of licensing the acquired intangible asset from an independent third party using a royalty rate. Since the company owns the intangible asset, it is relieved from making royalty payments. Then the present value of the resulting cash flow savings in the context of the combined entity was calculated, and attributed to the owned intangible asset.

Customer relationships were valued using the Excess Earnings method under the income approach. It reflects the present value of the projected cash flows that are expected to be generated by the customer relationships in the context of the combined entity, less charges representing the contribution of other assets to those cash flows.

Estimated useful life of the depreciable intangible assets acquired:

Intangible Assets	Fair Value (in millions of Euro)	Amortization period
Existing Technology	81.8	64% until December 2007, 36% over 4 years
In-Process R&D	20.8	3 to 5 years
Customer Relationships	22.2	4 years
Total	<u>124.8</u>	

Gemplus corporate name was valued using the market approach: the appraisers analysed some recent transactions in the high-tech industry, for B-to-B products, involving trademarks and considered the price at which the trademarks had been bought. Because the Gemplus trade name ceased to be commercially used as from June 2, 2006, Gemalto Management decided to impair the asset as of that date.

The detail of assets and liabilities acquired is as follows:

In millions of Euro	Historical value as of June 2, 2006	Fair value as of June 2, 2006
Non-current assets		
Tangible assets	162.0	158.0
Intangible assets	131.6	139.3
Investments in associates	11.4	11.4
Deferred income tax assets	31.3	41.4
Available-for-sale financial assets, net	2.5	2.5
Other non-current assets, net	42.0	42.0
Total non-current assets	<u>380.8</u>	<u>394.6</u>

Current assets		
Inventory, net	125.1	139.9
Trade & other receivable, net	216.0	216.0
Derivative financial instruments	5.9	5.9
Cash and cash equivalents	232.7	232.7
Total current assets	579.7	594.5
Total assets	960.5	989.1
Non-current liabilities		
Non-current borrowings	24.7	24.7
Deferred income tax liabilities	2.5	47.6
Retirement benefit obligation	21.5	21.5
Non-current provisions and other liabilities	27.1	27.1
Total non-current liabilities	75.8	120.9
Current liabilities		
Trade & other payable	204.9	204.5
Tax liabilities	3.8	3.8
Current borrowings	5.5	5.5
Derivative financial instruments	0.0	0.0
Current provisions and other liabilities	13.0	13.0
Total current liabilities	227.2	226.8
Net assets acquired at 100%	657.5	641.4
Minority interests in Gemplus subsidiaries	(13.6)	(13.6)
Fair value of net assets acquired	643.9	627.8

Phase II

Gemalto launched a voluntary public exchange offer on July 11, 2006 for the remaining Gemplus shares at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 51.0% of Gemplus shares were contributed as of August 29, 2006 and 25,958,559 of Gemalto shares were issued.

Gemalto reopened the public exchange offer from September 12, 2006 to November 8, 2006 at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 2.0% of Gemplus shares were contributed and 1,086,546 of Gemalto shares were issued.

In application of the Luxembourg legislation applicable when a company owns more than 90% of the shares, Gemalto launched a statutory sell-out at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. 1.1% of Gemplus shares were contributed on December 14, 2006 when the first centralization of shares tendered was available and 473,891 of Gemalto shares were issued.

At the end of the mandatory squeeze-out opened on January 8, 2007, Gemalto issued 933 309 shares and owned 100% of Gemplus.

For these four subsequent acquisitions, the excess of purchase price on share of net assets acquired, which was determined as follows, was recorded against the share premium of the issued Gemalto capital (amounts in millions of Euro):

Total Purchase Consideration for 56.4% of Gemplus shares	562.7
Value of Gemplus net assets acquired	348.0
Amount recorded against Gemalto share premium	214.7

Note 5 Additional disclosure on the effect of the combination with Gemplus on our financial statements

Due to the combination with Gemplus, our financial statements have undergone significant change, due in particular to the accounting treatment of the transaction in accordance with IFRS 3 (see Note 4 above).

We incurred in the first six-month period of 2007, expenses in connection with the combination, which we would not have otherwise incurred. Combination related charges are disclosed on a separate expense line in our income statement for the first half 2007, for an amount of €1,181.

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 and amounted to €55,128. This amount consisted of severance costs for €42,908 (mainly related to the closure of production facilities in America, Asia and Europe), to fixed asset and inventory write-offs for €10,968 and to other costs for €1,252 (mainly related to IT integration costs).

We also disclose under the line named "Amortization and Impairment of Intangible Assets" the amortization expense for the six-month period ending June 30, 2007 related to the acquired Existing Technology and Customer relationships, determined as per the amortization policy shown in Note 4 above, for €20,213 and €2,818, respectively.

Note 6 Segment information

Primary reporting format – Business segment

Gemalto operations are organized into five business segments: Mobile Communication, Secure Transactions, ID & 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.

ID & 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, 2006 (*)					Gemalto
	Mobile Communication	Secure Transactions	ID & Security	Public Telephony	Point-of-Sales Terminals	
Revenue	263,791	105,715	60,473	12,914	24,798	467,691
Cost of sales	(189,570)	(81,963)	(27,193)	(12,922)	(18,221)	(329,869)
Amortization of inventory step-up	(3,146)	(463)	(400)	-	-	(4,009)
Gross profit	71,075	23,289	32,880	(8)	6,577	133,813
Operating expenses excl. Other income, net	(67,935)	(23,545)	(18,713)	(2,296)	(6,695)	(119,184)
Other income, net	(1,262)	(471)	(178)	(33)	52	(1,892)
Combination related expenses	(4,719)	(1,925)	(102)	-	-	(6,746)
Amortization and impairment of intangible assets	(8,679)	(2,543)	(2,409)	-	-	(13,631)
Operating income (loss)	(11,520)	(5,195)	11,418	(2,337)	(66)	(7,640)

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

	Six-month period ended June 30, 2007						
	Mobile Communica tion	Secure Transactions	ID & Security	Public Telephony	Point-of- Sales Terminals	Unallocated	Gemalto
Revenue	417,775	192,818	98,145	21,957	29,168	-	759,863
Cost of sales	(273,830)	(159,486)	(63,682)	(17,397)	(23,570)	-	(537,965)
Amortization of inventory step-up	-	-	-	-	-	-	-
Gross profit	143,945	33,332	34,463	4,560	5,598	-	221,898
Operating expenses excl. Other income, net	(110,727)	(43,834)	(46,585)	(2,156)	(7,798)	-	(211,100)
Other income, net	1,452	545	397	150	81	-	2,625
Combination related expenses	-	-	-	-	-	(1,181)	(1,181)
Reorganization expenses	-	-	-	-	-	(55,128)	(55,128)
Amortization and impairment of intangible assets	(14,326)	(4,585)	(4,120)	-	-	-	(23,031)
Operating income (loss)	20,344	(14,542)	(15,845)	2,554	(2,119)	(56,309)	(65,917)

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.

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,	
	2006 (*)	2007
North and South America	92,122	167,241
Europe, Middle East & Africa	257,188	427,940
Asia	118,381	164,682
Total revenues	467,691	759,863

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Note 7 Property, plant and equipment

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

	December 31, 2006	June 30, 2007
Land	6,465	6,163
Buildings and improvements	215,070	211,666
Machinery and equipment	523,168	519,669
Total cost	744,703	737,498
Less: Accumulated depreciation	(501,781)	(508,570)
Total	242,922	228,928

Note 8 Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	December 31, 2006	June 30, 2007
Goodwill	560,303	559,850
Less: Accumulated amortization	(12,731)	(12,560)
Goodwill, net	547,572	547,290
Patents and technology	252,999	245,615
Deferred development costs	66,201	69,601
Other (*)	72,499	94,663
Intangible assets Gross Book Value	391,699	409,879
Less: Accumulated amortization	(276,066)	(296,703)
Intangible assets, net	115,633	113,176

(*) Increase mainly relates to the acquisition of rights to use and distribute licensed technology until September 30, 2011.

Note 9 Inventories

Inventories consist of the following:

	December 31, 2006	June 30, 2007
Gross book value		
Raw materials and spares	63,659	70,407
Work in progress	96,090	98,749
Finished goods	37,631	43,623
Total	197,380	212,779
Obsolescence reserve	(19,566)	(18,250)
Total	177,814	194,529

Note 10 Trade and other receivables

Trade and other receivables consist of the following:

	December 31, 2006	June 30, 2007
Trade receivables	355,500	335,524
Provision for impairment of receivables	(14,534)	(12,165)
Trade receivables, net	340,966	323,359
Prepaid expenses	12,437	16,363
VAT recoverable and tax receivable	64,410	52,673
Advances to suppliers	7,198	5,839
Unbilled revenue	13,742	14,004
Other	8,409	10,248
Total	447,162	422,486

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, 2006		June 30, 2007	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts - Cash flow hedge under IAS39	749	178	1,834	10
Option foreign exchange contracts - Cash flow hedge under IAS 39	3,694	102	4,554	403
Forward foreign exchange contracts – Financial instruments not qualifying as cash flow hedge under IAS 39	1,964	-	-	-
Forward foreign exchange contracts - Fair value hedge	-	-	11	92
Total	6,407	280	6,399	505

Note 12 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	December 31, 2006	June 30, 2007
Cash at bank and in hand	87,146	66,209
Short-term bank deposits and investment funds	343,180	252,252
Total	430,326	318,461

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

	December 31, 2006	June 30, 2007
Cash and cash equivalents	430,326	318,461
Bank overdrafts	(729)	(243)
Total	429,597	318,218

Note 13 Non-current provisions and other liabilities

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

	December 31, 2006	June 30, 2007
Warranty non-current	3,249	3,340
Reorganization reserve	3,183	7,142
Deferred compensation and employees benefits	327	312
Taxation	9,071	11,630
Provision for other risks	5,435	8,298
Other (*)	5,523	17,680
Total non-current provisions	26,788	48,402
Management compensation	9,145	8,980
Unrecognized government grants	2,875	1,996
Total non-current other liabilities	12,020	10,976
Total non-current provisions and other liabilities	38,808	59,378

(*) Increase mainly relates to the non-current debt contracted in connection with the acquisition of rights to use and distribute licensed technology until September 30, 2011.

Note 14 Trade and other payables

Trade and other payables consist of the following:

	December 31, 2006	June 30, 2007
Trade payables	160,745	154,150
Employee related payables	100,380	97,492
Accrued expenses	76,416	67,264
Accrued VAT	30,423	17,926
Deferred revenue	49,501	52,264
Other	13,005	14,006
Total	430,470	403,102

Note 15 Current provisions and other liabilities

Current provisions and other liabilities consist of the following:

	December 31, 2006	June 30, 2007
POS Terminals operating lease	508	-
Warranty - Current	5,762	4,756
Provision for loss on contracts	1,041	485
Provision for lease cancellation costs	1,643	-
Restructuring provisions (*)	1,275	30,608
Other	5,195	6,276
Total	15,424	42,125

(*) Increase includes mainly severance payment commitments in connection with restructuring plans.

Note 16 Taxes on Income

	Six-month period ended June 30,	
	2006 (*)	2007
Current tax	(3,016)	(4,253)
Deferred tax	4,443	3,187
Income tax credit / (expense)	1,427	(1,066)

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Note 17 Finance income (costs), net

	Six-month period ended June 30,	
	2006 (*)	2007
Interest expense	(704)	(1,351)
Interest income	4,169	6,302
<u>Foreign exchange transaction gains/(losses)</u>		
- Foreign exchange gains/(losses), net of fair value hedges	347	3,204
- cash flow hedges	(944)	(1,811)
Gain/(Loss) on investment sales	118	3,753
Impairment of financial asset available-for-sale	(1,884)	
Other		
Finance income (expenses), net	1,102	10,097

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Note 18 Earnings per share

	Six-month period ended June 30,	
	2006 (*)	2007
Basic		
Profit/(Loss) attributable to equity holders of the company	(4,439)	(50,100)
Weighted average number of ordinary shares outstanding (in thousands)	43,917	88,371
Basic earnings/(loss) per share in Euro	(0.10)	(0.57)
	Six-month period ended June 30,	
	2006 (*)	2007
Diluted		
Profit/(Loss) attributable to equity holders of the company	(4,439)	(50,100)
Weighted average number of ordinary shares outstanding (in thousands)	43,917	88,371
Adjustment for share options (in thousands)	-	-
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	43,917	88,371
Diluted earnings/(loss) per share in Euro	(0.10)	(0.57)

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

The company presents both basic and diluted earnings (loss) per share (EPS) amounts. Basic EPS is calculated by dividing net income (loss) 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) by the average number of common shares outstanding assuming dilution. Dilution is determined assuming that all stock options, which are in the money, are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period. At June 30, 2006 and 2007, because the results for the periods then ended are losses, stock options are anti-dilutive.

Note 19 Cash generated from operations

	Six-month period ended June 30,	
	2006 (*)	2007
Income (loss) for the period before minority interest	(4,982)	(48,391)
Adjustment for:		
Tax	(1,427)	1,067
Research tax credit	(656)	(765)
Depreciation	19,014	26,657
Amortization	18,683	31,657
Stock option compensation charge	3,107	4,346
Gains and losses on sales of fixed assets and write-offs	283	4,796
Gain on sale of an available-for-sale financial asset	-	(3,737)
Gain on sale of an investment in associate	-	(9,862)
Net movement in provisions for liabilities and charges	1,228	31,069
Retirement benefit obligation	447	(1,420)
Interest income	(4,566)	(6,302)
Interest expense	805	1,400
Share of profit (loss) from associates	(129)	897
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)		
Inventories	7,074	(16,760)
Trade and other receivables	(55,596)	27,763
Derivative financial instruments	(668)	284
Trade and other payables	(8,142)	(31,456)
Cash generated from (used in) operations	(25,525)	11,243

(*) Balances shown for the six-month period ended June 30, 2006 include one month of Gemplus operations.

Note 20 Commitments and contingencies

Legal proceedings

In August 2002, a €12.5 million claim was brought against Gemalto by a distributor for damages suffered and costs incurred resulting from the Company's alleged failure to deliver POS Terminal software on time and to provide agreed specifications. The court ordered an evaluation of damages by a technical expert, whose preliminary report issued in June 2006 established damages at €2.5 million, whereas the plaintiff estimated its damages at €8.3 million in documents that he submitted in the context of this evaluation. Furthermore, any liability arising from the case would be assumed by Schlumberger under the applicable provisions of the Master Separation Agreement signed in May 2004 and described below and consequently the Company has not recognized any provision.

In 2000, a former chairman of Gemplus Board was granted a loan of €71,900 to finance the exercise of stock options. In December 2001, this former chairman ceased his active involvement with Gemplus. In the second quarter of 2002, Gemplus learned that the former chairman had financial difficulties that would affect his ability to repay the loan. Accordingly, Gemplus recorded a provision originally as of June 30, 2002 amounting to €69,620 as of December 31, 2006 taking into account a severance payable, which is conditioned on reimbursement of the loan. In proceedings brought by Gemplus, in April 2004, an arbitral tribunal issued a final award in favor of Gemplus and its indirect subsidiary against this former chairman in the amount of €71,900, plus accrued interest and attorneys' fees and costs. Gemplus has not forgiven the loan or released the arbitration award. Gemplus has recovered SGD\$ 25,000 in Singapore in July 2006. The former Chairman's challenge against French enforcement before Paris Court of Appeal was rejected in February 2006, and he was ordered to pay €25 in attorney's fees.

In the first quarter of 2006, the Sanctions Commission of the French "Autorité des Marchés Financiers" ("AMF") imposed upon Gemplus a fine of €600. This sanction was in relation to the "documents de reference" filed by Gemplus in respect of the years 2000 and 2001. The Commission ruled that Gemplus had not communicated any

misleading information with respect to its accounting results. Gemplus recorded a provision in the amount of €600 in respect of this matter in 2005. The amount was paid in full in 2006. On March 20, 2007, the Paris Court of Appeal reduced Gemplus fine from €600 to €450 based upon dismissal of an additional charge. Gemplus, as well as other defendants, have introduced a request for further review in front of the French Supreme Court ("*pourvoi en cassation*") which is limited to questions of law.

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

Schlumberger residuals

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and the Company have agreed to carry out the complete transfer of the Schlumberger group's Cards and POS Terminals 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 these contracts, assets or liabilities to the Company or to Schlumberger, as the case may be, 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 (including all taxes normally due, other than those due as a result of a tax reassessment, and which are covered by tax indemnification provisions) 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.

In 2005, a lawsuit was filed against a subsidiary of Gemalto in Asia in connection with the disposal in 2001 by Schlumberger of assets owned by this subsidiary and related to other activities of Schlumberger that were not transferred to Gemalto. In March 2006 the court awarded the plaintiff in this action €10.9 million payable jointly by the subsidiary of Gemalto and the purchaser of the assets. An appeal was lodged and the Court of Appeal has sentenced all defendants to pay jointly and severally PHP 129,597,977,123 (€10.4 million). An appeal has been lodged with the Indonesian Supreme Court in March 2007. Any liability arising from this litigation will be assumed by Schlumberger under the applicable provisions of the Master Separation Agreement. Accordingly the Company has not made any provision in respect of this matter. Schlumberger has arranged for the defense of the subsidiary of Gemalto and is directly overseeing the case.

As of June 30, 2007, the balance of the non-transferred assets and liabilities belonging to Schlumberger was a net asset of €4.2 million.

Note 21 Post-closing events

To management's knowledge, there is no significant event that occurred since June 30, 2007, which would materially impact the financial statements, as presented in these condensed consolidated interim financial statements.

Note 22 Consolidated entities

The consolidated financial statements as of June 30, 2007 include the accounts of Gemalto NV and the following entities:

Country of incorporation	Company name	Direct or indirect ownership	Percentage of group voting rights
Argentina	Gemplus Argentina S.A.	Indirect	100%
Australia	Gemalto Pty Ltd	Direct	100%
Australia	LM Gemplus Pty Ltd	Indirect	100%
Belgium	Gemplus N.V.	Indirect	100%
Belgium	Gemventures 1 N.V.	Indirect	100%
Brazil	Gemalto do Brasil Cartoes e Terminais Ltda	Direct	100%
Brazil	Gemplus Bank Note Ltda	Indirect	100%
Brazil	Gemplus do Brasil Produtos Electronicos Ltda	Indirect	100%
British Virgin Islands	Axalto Cards & Terminals Ltd	Indirect	100%
British Virgin Islands	Axalto Technology Ltd	Indirect	100%
Canada	Gemalto Canada, Inc	Direct	100%
Canada	Solutions Fides *	Indirect	49%
China	Axalto (Beijing) Smart Cards Technology Co. Ltd	Indirect	100%
China	Axalto Technologies (Shanghai) Co., Ltd	Direct	100%
China	Gemplus (Beijing) Electronics Research and Development Co. Ltd	Indirect	100%
China	Gemplus International Trade (Shanghai) Co. Ltd	Indirect	100%
China	Gemplus (Tianjin) New Technologies Co. Ltd	Indirect	100%
China	Goldpac Datacard Solutions Zhuhai Co., Ltd	Indirect	67%
China	Goldpac SecurCard Zhuhai Co. Ltd	Indirect	67%
China	Hunan Sib Telecoms Equipment Co. Ltd	Indirect	100%
China	Shanghai Axalto IC Card Technologies Co., Ltd	Indirect	51%
China	Shanghai Solaic IC Card Co. Ltd *	Indirect	31%
China	Silver Dragon (Beijing) Microelectronics Co. Ltd	Indirect	100%
China	Tianjin Gemplus Smart Cards Co. Ltd	Indirect	51%
Colombia	Gemalto Colombia S.A.	Indirect	100%
Czech Republic	Gemalto S.R.O.	Direct	100%
Czech Republic	Gemplus S.R.O.	Indirect	100%
Denmark	Setec Danmark A/S	Indirect	100%
Egypt	Makxalto Advanced Card Technology*	Direct	34%
Finland	Gemplus Nordic Oy	Indirect	100%
Finland	Setec Corporate Holding Oy	Indirect	100%
Finland	Setec Oy	Indirect	100%
France	Atchik-Realtime *	Indirect	24%
France	Axalto International S.A.S.	Direct	100%
France	Axalto Participations S.A.S.	Indirect	100%
France	Axalto S.A.	Direct	100%
France	CP8 Technologies S.A.	Indirect	100%
France	Electronic Transactions Integrated Services S.A.	Indirect	100%
France	Gemplus S.A.	Indirect	100%
France	Gemplus Trading S.A.S.	Indirect	100%
France	Gkard S.A.S.*	Indirect	50%
France	Immotec Systemes S.A.S.*	Indirect	49%
France	Netsize S.A.*	Indirect	23.2%

France	Setelis S.A.*	Indirect	22%
France	SLP S.A.S.	Indirect	100%
France	ST GEM GIE	Indirect	50%
France	Trusted Logic S.A.*	Indirect	32%
Germany	Axalto GmbH	Direct	100%
Germany	Celo communications GmbH	Indirect	100%
Germany	CLM GmbH*	Indirect	50%
Germany	CLM GmbH & Co KG*	Indirect	50%
Germany	Gemplus GmbH	Indirect	100%
Gibraltar	Zenzus Holdings Ltd	Indirect	100%
Hong Kong	Gemalto Technologies Asia Ltd	Direct	100%
Hong Kong	CP8 Hong Kong Ltd	Indirect	100%
Hong Kong	Gemplus Goldpac Group Ltd	Indirect	67%
Hong Kong	Goldpac Datacard Solutions Co. Ltd	Indirect	67%
Hungary	Gemalto Hungary Commercial and Services Ltd	Direct	100%
India	Axalto Cards & Terminals India Ltd	Direct	100%
India	Axalto Terminals India Private Ltd	Direct	100%
India	Gemplus India Pvt Ltd	Indirect	100%
Indonesia	PT Axalto Indonesia	Indirect	100%
Ireland	Celocom Limited	Indirect	100%
Italy	Axalto SPA	Direct	100%
Italy	Gemplus Italia Srl	Indirect	100%
Japan	Axalto KK	Direct	100%
Japan	Gemplus Japan Co. Ltd	Indirect	100%
Japan	SPOM Japan Co Ltd	Indirect	100%
Japan	Toppan Gemplus Services Co. Ltd *	Indirect	50%
Luxembourg	Gemplus Finance S.A.	Indirect	100%
Luxembourg	Gemplus International S.A.	Direct	100%
Malaysia	Axalto (M) Sdn Bhd	Direct	100%
Malaysia	Axalto International Ltd	Indirect	100%
Malaysia	Gemalto Sdn Bhd	Indirect	100%
Mexico	Axalto de Mexico S.A. de CV	Indirect	100%
Mexico	Concesionaria Renave S.A. de CV*	Indirect	20%
Mexico	CP8 Mexico S.A. de CV	Indirect	100%
Mexico	Sib Distribucion S.A. de CV	Direct	100%
Mexico	Gemplus Industrial S.A. de CV	Indirect	100%
Netherlands	Gemalto B.V.	Direct	100%
Netherlands	Celo communications B.V.	Indirect	100%
Netherlands	Gemplus B.V.	Indirect	100%
Netherlands Antilles	Cards & Terminals N.V.	Direct	100%
Norway	Setec Norge AS	Indirect	100%
Panama	Axalto Eastern Holdings Inc.	Indirect	100%
Philippines	Gemalto Philippines Inc.	Indirect	100%
Poland	Gemalto Pologne Sp.zo.o.	Indirect	100%
Poland	Gemplus Sp.zo.o.	Indirect	100%
Poland	Gemrokitki Sp.zo.o.	Indirect	100%
Poland	Polski Plastik Sp.zo.o.	Indirect	100%
Russia	Gemplus LLC	Indirect	100%
Singapore	Axalto Singapore Pte Ltd	Direct	100%
Singapore	Gemplus Asia Pacific Pte. Ltd	Indirect	100%
Singapore	Gemplus EDBV Smart Labs Management Pte ltd	Indirect	100%
Singapore	GemVentures Smart Labs Pte. Ltd	Indirect	100%
Singapore	Gemplus Microelectronic Asia Pte Ltd	Indirect	100%
Singapore	Gemalto Pte Ltd	Indirect	100%
Singapore	SecurCard Gemplus Pte Ltd	Indirect	100%
Singapore	V3 Teletec Pte Ltd*	Indirect	21%
South Africa	Axalto Southern Africa (Pty) Ltd	Direct	70%
South Africa	Axalto ZA Pty Ltd	Direct	100%

South Africa	Gemalto Southern Africa Pty Ltd	Indirect	100%
Spain	Gemalto SP S.A.	Indirect	100%
Spain	Gemplus Card International España S.A.	Indirect	100%
Sweden	AB Svenska Pass*	Indirect	50%
Sweden	Axalto AB	Indirect	100%
Sweden	Setec Sverige AB	Indirect	100%
Sweden	Setec Tag AB	Indirect	56%
Switzerland	Gemplus Management and Trading S.A.	Indirect	100%
Taiwan	Gemalto Taiwan Co., Ltd	Indirect	100%
Thailand	Gemalto (Thailand) Ltd	Indirect	100%
Thailand	Boolanakam Holdings (Thailand) Ltd	Indirect	100%
Thailand	GemCard (Thailand) Co. Ltd	Indirect	100%
Thailand	Setec Card Ltd	Indirect	99%
Turkey	Axalto Cards & Terminals Ltd Sirketi	Direct	100%
United Arab Emirates	Gemplus Middle-East FZ-LLC	Indirect	100%
United Kingdom	Axalto Cards Ltd	Indirect	100%
United Kingdom	Axalto Terminals Ltd	Indirect	100%
United Kingdom	Gemalto UK Ltd	Direct	100%
United Kingdom	Gemplus Associates International Ltd	Indirect	100%
United Kingdom	Gemplus Ltd	Indirect	100%
United States of America	Gemalto Inc.	Indirect	100%
Venezuela	Gemplus Card International de Venezuela CA	Indirect	100%

(*) Associated companies accounted for according to the equity method

For all companies listed above, the percentage of ownership is the same as the percentage of voting right except for Boolanakam Holdings (Thailand) Ltd and Netsize S.A. (France) that are held respectively at 49% and 10%.