

## Gemalto first half 2006 results

- Revenue<sup>1</sup> up 2% at constant exchange rates (-1% at current exchange rates)
- Operating margin<sup>1</sup> at 3.7%, reflecting fierce competition in Mobile Communication
- Cash and cash equivalents at USD 478 million
- Continuing challenging industry environment
- Synergies and long-term objectives confirmed

Amsterdam, September 13, 2006 - Gemalto (Euronext NL0000400653 - GTO), a leader in digital security, today announced its results for the half year ended June 30, 2006.

Highlights of the adjusted pro forma income statement<sup>1</sup> (all figures below are at current exchange rates):

In millions of USD	H1 2005	H1 2006	Year-on-year change
Net sales	1,047.0	1,035.9	-1.1%
Gross profit	342.2	313.7	-8.3%
<i>Gross margin (%)</i>	<i>32.7%</i>	<i>30.3%</i>	<i>-2.4 pts</i>
Operating expenses	266.1	275.0	+3.4%
Operating income	76.1	38.7	-49.1%
<i>Operating margin (%)</i>	<i>7.3%</i>	<i>3.7%</i>	<i>-3.6 pts</i>
Profit for the period	65.3	34.4	-47.3%
Basic earnings per share (USD)	0.67	0.27	-59.5%

The above mentioned adjusted measures exclude business combination accounting entries, and one-off expenses incurred in connection with the combination with Gemplus. Gemalto believes these measures 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 the condensed consolidated interim financial statements prepared in accordance with IFRS provided in appendix.**

**Olivier Piou, Chief Executive Officer, commented:** "I would like to thank our shareholders for the outstanding success of the public exchange offer: it demonstrates their endorsement of our vision to create a global leader in digital security.

The integration is progressing smoothly and Gemalto is fully focused on capturing growth opportunities and on realizing the planned synergies that will both materialize progressively. Our work since execution of the combination allows us to confirm the synergies and long term financial objectives previously outlined.

Since the beginning of this year competitive pressure has been intense. We expect that our market environment will remain challenging in the coming months and we are adjusting to these demanding circumstances.

Yet, the simultaneous global spread of communications systems, mobile personal devices, and the internet, all requiring higher levels of security, plays well for fully realizing our digital security vision."

<sup>1</sup> Prepared on an adjusted pro forma basis, reflecting the combined activity of Gemalto and Gemplus over the whole first half year, excluding one-off expenses incurred in connection with the combination with Gemplus and charges resulting from the accounting treatment of the transaction, and assuming that the combination had taken place as of January 1, 2005

The Company's condensed consolidated interim financial statements (unaudited) are prepared in accordance with International Financial Reporting Standard (IFRS).

The pro forma income statement for the first half 2006 has been prepared assuming that the combination with Gemplus had taken place as of January 1, 2005, allowing the Group to present it in comparison with the first half of 2005. The one-off, combination related items are therefore charged to the first half 2005 pro forma income statement, so that the first half 2006 income statement only reflects the recurring intangible asset amortization charges resulting from the accounting treatment of the transaction, as well as the additional stock compensation charge arising from it.

Additional financial information on an adjusted pro forma basis 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 charges arising from the accounting treatment of the combination and one-off combination related expenses. 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 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. The Company believes that this information, which is not in conformity with IFRS, is helpful supplemental information in order to better understand its past and future performance. In addition, the Company's management uses this information in its own planning. This information provided by the Company may not be comparable to similarly titled measures employed by other companies.

The Company provides reconciliation between pro forma and adjusted pro forma income statements which is displayed in tables at the end of this press release. The IFRS consolidated income statement for the first half 2006 shows operating loss of USD 9.7 million and net loss of USD 6.4 million, and the pro forma income statement shows operating income of USD 11.8 million and profit for the period of USD 13.4 million.

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

All comparisons in this document are at current exchange rates, unless stated otherwise, and describe the evolution of the adjusted pro forma first half 2006 information compared to that of the first half 2005.

\* \* \*

As of the third quarter 2006, the Company will adopt the euro as its reporting currency.

As of the first quarter 2007, the Company will report full financial results on a quarterly basis.

## Adjusted pro forma income statement<sup>2</sup> analysis

Extract of the adjusted pro forma income statement<sup>2</sup>:

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	As a % of sales	USD millions	As a % of sales	
Revenue <sup>3</sup>	1,047.0		<b>1,035.9</b>		-1.1%
Gross profit	342.2	32.7%	<b>313.7</b>	<b>30.3%</b>	-8.3%
EBITDA <sup>4</sup>	125.1	11.9%	<b>86.8</b>	<b>8.4%</b>	-30.6%
Operating expenses	266.1	25.4%	<b>275.0</b>	<b>26.6%</b>	+3.4%
Operating income	76.1	7.3%	<b>38.7</b>	<b>3.7%</b>	-49.1%
Profit for the period	65.3	6.2%	<b>34.4</b>	<b>3.3%</b>	-47.3%

At constant exchange rates, revenue was up 2%, reflecting varying performance between market segments. Solid revenue growth in Identity & Security and Secure Transactions was fully offset by the effect of strong price pressure on Mobile Communication revenue. After adjusting for the acquisition of Setec and currency fluctuations, revenue was down 2 %.

On a geographic basis, revenue was up 3% in Asia, driven by Identity & Security and Secure Transactions. In EMEA<sup>5</sup>, revenue was almost stable, while in the Americas revenue was down 6%.

Microprocessor card shipments grew 39% to 561 million units, sustained by strong demand in all core segments.

Gross margin was 30.3% compared to 32.7% a year ago, due to the lower performance in Mobile Communication.

Overall, operating expenses were up 3.4% including Setec. Research & engineering and general & administrative expenses were stable, while sales & marketing expenses were up 5.6%, due to increased field marketing and customer support resources in the regions.

Consequently, operating income was USD 38.7 million and operating margin was 3.7%.

Financial income was USD 7.0 million. The effective tax rate for the period was 25%. As a result, profit for the period was USD 34.4 million.

<sup>2</sup> Prepared on an adjusted pro forma basis, reflecting the combined activity of Gemalto and Gemplus over the whole first half year, excluding one-off expenses incurred in connection with the combination with Gemplus and charges resulting from the accounting treatment of the transaction, and assuming that the combination had taken place as of January 1, 2005.

<sup>3</sup> Setec consolidated as of June 1, 2005.

<sup>4</sup> EBITDA is defined as operating income plus depreciation (USD 36.6 million in H1 2006 vs. USD 36.5 million in H1 2005) and amortization expenses (USD 11.5 million in H1 2006 vs. USD 12.5 million in H1 2005). These amounts exclude amortization and impairment charges related to the intangibles assets identified pursuant to IFRS 3 "Business Combination".

<sup>5</sup> Europe, Middle East, Africa

## Balance sheet and pro forma cash flow

Pro forma free cash flow<sup>6</sup> of the period was an outflow USD 90 million. Capital expenditure amounted to USD 50 million and USD 100 million were used by an increase in working capital requirement. Payments of costs incurred in connection with the preparation and execution of the combination amounted to approximately USD 14 million.

After the distribution of reserves (USD 212 million) to the Gemplus shareholders prior to the execution of the first step of the combination (€ 0.26 per share), cash and cash equivalents remain strong at USD 478 million as of June 30, 2006.

## Segment information<sup>7</sup>

### Mobile Communication performance impacted by strong price pressure

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	As a % of revenue	USD millions	As a % of revenue	
Revenue	672.8		600.8		-10.7%
Gross profit	259.7	38.6%	200.4	33.3%	-22.8%
Operating expenses	164.7	24.5%	162.4	27.0%	-1.4%
Operating income	95.0	14.1%	38.0	6.3%	-60.0%

At constant exchange rates, Mobile Communication revenue was down 9%: the strong volume growth was not sufficient to fully compensate for extreme price pressure.

SIM cards shipments for the first half 2006 were up 38% to 430 million units, driven by strong demand in Asia and in EMEA. Shipments in the Americas show limited growth compared with a strong first half 2005.

The average SIM card selling price for the first half 2006 was down 35% compared to the first half 2005, reflecting the intensified competitive environment this year. In the first half 2006, the market was characterized by very strong volume growth in emerging countries which use a higher proportion of low-end cards, and by delays in migration to high-end products in other countries.

The average SIM card selling price for the second quarter 2006 was down 1% at current exchange rates, compared with the first quarter 2006.

Compared with the strong performance of the first half 2005, gross margin decreased, reflecting the intensified competitive environment since the beginning of the year.

<sup>6</sup> 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). The pro forma free cash flow is the combination of Axalto and Gemplus free cash flow for the full six months ended June 30, 2006.

<sup>7</sup> All segment information provided in this press release is on an adjusted pro forma basis, reflecting the combined activity of Gemalto and Gemplus over the whole first half year, excluding one-off expenses incurred in connection with the combination with Gemplus and charges resulting from the accounting treatment of the transaction, and assuming that the combination had taken place as of January 1, 2005.

### Secure Transactions (Financial Services and pay-TV)

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	<i>As a % of revenue</i>	USD millions	<i>As a % of revenue</i>	
Revenue <sup>8</sup>	213.9		<b>234.4</b>		+9.6%
Gross profit	45.4	21.2%	<b>47.7</b>	<b>20.4%</b>	+5.1%
Operating expenses	46.4	21.7%	<b>52.6</b>	<b>22.5%</b>	+13.4%
Operating income	(1.0)	-0.5%	<b>(4.9)</b>	<b>-2.1%</b>	NM

At constant exchange rates, revenue was up 14%. After adjusting for the acquisition of Setec and currency fluctuations, revenue was up 9%.

Microprocessor card shipments for the first half 2006 were up 37% to 109 million units, driven by on-going EMV<sup>9</sup> deployment, particularly in Turkey, Latin America, North Asia and Southern Europe.

Average selling prices decreased reflecting price pressure in certain markets, as well as a change in the regional mix and a greater share of modules in the total volume sold.

### ID & Security

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	<i>As a % of revenue</i>	USD millions	<i>As a % of revenue</i>	
Revenue <sup>8</sup>	77.0		<b>130.3</b>		+69.2%
Gross profit	26.4	34.3%	<b>55.4</b>	<b>42.5%</b>	+109.8%
Operating expenses	41.3	53.6%	<b>47.9</b>	<b>36.8%</b>	+16.0%
Operating income	(14.9)	-19.3%	<b>7.5</b>	<b>5.7%</b>	NM

At constant exchange rates, revenue was up 73%, driven by strong sales of microprocessor card solutions for e-passports, healthcare and transportation management, as well as by increased IP licensing activity. After adjusting for the acquisition of Setec and currency fluctuations, revenue was up 44%.

Microprocessor cards shipments for the first half 2006 were up 58% to 22 million units, fuelled by initial deployments of large scale e-passports programs in France and Portugal and by strong Transportation activity.

During the first half 2006, the Group won several meaningful and highly visible contracts for e-passport projects in France, the Czech Republic, Portugal and Slovenia, and healthcare management in France and Mexico.

Gross margin was up 8.2 percentage points compared with a strong first half 2005, reflecting high revenue derived from patent licensing contracts: these are fully offsetting lower margin in the ID business as the rollout of e-passports in Europe is still in its early stages.

<sup>8</sup> Compared with the pro forma segment revenue information reported on July 27, 2006, USD 1.9 million was reclassified from Secure Transactions to ID & Security.

<sup>9</sup> EMV is a jointly defined set of specifications adopted by Europay, MasterCard and Visa for the migration of bank cards to smart card technology.

## Public Telephony

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	As a % of revenue	USD millions	As a % of revenue	
Revenue	44.7		40.1		-10.3%
Gross profit	1.0	2.2%	2.5	6.3%	+164.0%
Operating expenses	6.6	14.7%	4.3	10.8%	-33.7%
Operating income	(5.6)	-12.5%	(1.8)	-4.5%	NM

Memory cards for Public Telephony now contribute for less than 4% of Group revenue.

## Point-of-Sale Terminals

	Six months ended June 30, 2005		Six months ended June 30, 2006		% change
	USD millions	As a % of sales	USD millions	As a % of sales	
Revenue	38.6		30.2		-21.6%
Gross profit	9.7	25.2%	7.7	25.5%	-20.6%
Operating expenses	7.1	18.5%	7.8	25.8%	+9.2%
Operating income	2.6	6.7%	(0.1)	-0.3%	NM

The activity in this segment reflects a transition period in advance of the introduction of a new range of products later this year.

## Outlook

Market conditions have been difficult since the beginning of this year, and the Company expects it will remain challenging, particularly in light of the uncertainties in the global economic environment. With synergies from the combination materializing progressively, in line with plans, and the significant resources required this year to converge product roadmaps and processes, Gemalto expects operating performance in the second half 2006 to be similar to that of the first half.

The deployment of the electronic passport and ID projects won in recent months will produce their full effect in 2007.

The Group has taken cost reduction measures beyond the initially identified synergies, and continues to review the adequacy of its current configuration in light of these circumstances. On August 31, 2006, Gemalto announced consolidation of its two production centres in Owing Mills and Montgomeryville in the United States into the latter's facility, which better meets the future needs of its business strategy and customers.

Given its technology and market leadership, Gemalto is uniquely positioned to address the increasing need for security in the digital world. The Company is confident in its ability to play a leading role in the digital security industry as it expands on a global scale and to realize its objective for 2009 of a low teens operating margin.

**GEMALTO  
FIRST HALF 2006 FINANCIAL RESULTS  
EXPLANATION OF ADJUSTED AND PRO FORMA 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 pro forma and adjusted pro forma information described in the table below.

**Pro forma measures**

The pro forma income statement for the first half 2006 has been prepared assuming that the combination had taken place as of January 1, 2005, allowing the Group to present it in comparison with the first half 2005. The one-off, combination related items are therefore charged to the first half 2005 pro forma income statement, so that the first half 2006 income statement only reflects the recurring intangible asset amortization charge resulting from the Purchase Price Allocation and the additional stock-based compensation charge.

**Adjusted measures**

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 condensed consolidated interim 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 acquirer 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 the last months, 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. The Group expects to continue to incur integration-related professional services in the coming months. 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 period. Gemalto believes it is useful for investors to understand the effect of these expenses on its cost structure.

## Summary

Gemalto provides three sets of income statements:

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

<p>Gemalto IFRS consolidated income statement</p>	<ul style="list-style-type: none"> <li>- Includes Gemplus income statement consolidated as from June 2, 2006, date on which the first step of the combination between Gemalto and Gemplus was executed.</li> <li>- Includes all charges resulting from the accounting treatment of the combination (amortization and impairment of intangible assets, additional stock-based compensation), and one-off charges incurred in connection with the combination with Gemplus (combination related charges), as described in notes 4 and 5 to the condensed consolidated interim financial statements attached to this press release.</li> </ul>
<p>Gemalto pro forma income statement</p> <p>Basis of presentation and assumptions for preparation are described in note 6 to the condensed consolidated interim financial statements, which also includes the reconciliation of the pro forma income statement with the consolidated income statement</p>	<ul style="list-style-type: none"> <li>- Includes Gemplus income statement for the full reported period (6 months).</li> <li>- Combination assumed to have taken place as of January 1, 2005.</li> <li>- Consequently, one-off charges incurred in connection with the combination with Gemplus (combination related charges), as described in note 5 to the condensed consolidated interim financial statements, are booked in fiscal year 2005.</li> <li>- Recurring charges resulting from the accounting treatment of the combination with Gemplus (amortization of intangible assets, additional stock-based compensation) are booked in fiscal year 2005 and 2006 according to the amortization schedule set as if the combination had taken place on January 1, 2005.</li> </ul>
<p>Gemalto adjusted pro forma income statement</p>	<ul style="list-style-type: none"> <li>- Includes Gemplus income statement for the full reported period (6 months).</li> <li>- Combination assumed to have taken place as of January 1, 2005.</li> <li>- Excludes one-off expenses incurred in connection with the combination with Gemplus (combination related charges), as described in note 5 to the condensed consolidated interim financial statements, and all charges resulting from the accounting treatment of the transaction.</li> </ul>

The first half 2005 and 2006 pro forma income statements established in accordance with IFRS are included in the condensed consolidated interim financial statements attached to this press release.

### Conference call

The company has scheduled a conference call for Wednesday, September 13, 2006 at 3:00 pm CET (2:00 pm GMT and 9:00 am New-York time). Callers may participate in the live conference call by dialling:

+44 (0) 207 138 0816 or +1 718 354 1171 or +33 1 55 17 41 49.

The slide show will be available on the web site at 10:00 CET (9:00 GMT).

Replays of the conference call will be available approximately 3 hours after the conclusion of the conference call until September 19, 2006 midnight by dialling:

+44 (0) 207 806 1970 or +1 718 354 11 12 or +33 1 71 23 02 48, access code: 8442332.

### Earnings calendar

Third quarter 2006 revenue is scheduled to be reported on October 26, 2006, before the opening of Euronext Paris.

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### About Gemalto

Gemalto (Euronext NL 0000400653 GTO) is a leader in digital security with pro forma 2005 annual revenues of \$2.2 billion (€1.7 billion), operations in 120 countries and 11,000 employees including 1,500 R&D engineers. The company's solutions make personal digital interactions secure and easy in a world where everything of value -from money to identities - is represented as information communicated over networks.

Gemalto thrives on creating and deploying secure platforms, portable and secure forms of software in highly personal objects like smart cards, SIMs, e-passports, readers and tokens. More than a billion people worldwide use the company's products and services for telecommunications, banking, e-government, identity management, multimedia digital right management, IT security and other applications. Gemalto was formed in June 2006 by the combination of Axalto and Gemplus.

For more information please visit [www.gemalto.com](http://www.gemalto.com)

#### DISCLAIMER

The Gemalto N.V. securities referred to herein issued in connection with the exchange offer of Gemalto N.V. for the securities of Gemplus International S.A., and the Gemalto N.V. shares issued in connection with the reopening of such exchange offer, have not been (and are not intended to be) registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Gemalto securities have been and will be made available within the United States in connection with the exchange offer pursuant to an exemption from the registration requirements of the Securities Act.

The exchange offer and its reopening relate to the securities of a non-US company and are subject to disclosure requirements of a foreign country that are different from those of the United States. Financial statements presented have been prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for an investor to enforce its rights and any claim it may have arising under U.S. federal securities laws, since Gemalto N.V. and Gemplus International S.A. have their corporate headquarters outside of the United States, and some or all of their officers and directors may be residents of foreign countries. An investor may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

This release does not constitute an offer to purchase or exchange or the solicitation of an offer to sell or exchange any securities of Gemalto N.V. or an offer to sell or exchange or the solicitation of an offer to buy or exchange any securities of Gemplus International S.A.

Gemplus security holders are strongly advised to read the offering circular relating to the exchange offer and related exchange offer materials regarding the transaction (see below), as well as any amendments and supplements to those documents because they contain important information.

The exchange offer and its reopening described herein are not (and are not intended to be) made, directly or indirectly, in or into the United Kingdom, Italy, the Netherlands, Canada or Japan or in or into any other jurisdiction in which such offer would be unlawful prior to the registration or qualification under the laws of such jurisdiction. Accordingly, persons who come into possession of this release should inform themselves of and observe these restrictions.

Copies of the free English translation of the joint French language offering document which has received visa No. 06-252 of July 6, 2006 from the French Autorité des marchés financiers and of the documents incorporated by reference thereto are available from the Internet websites of Gemalto N.V. ([www.gemalto.com](http://www.gemalto.com)) and of Gemplus International S.A. ([www.gemplus.com](http://www.gemplus.com)) as well as free of charge upon request to the following: Gemalto N.V.: Koningsgracht Gebouw 1, Joop Geesinkweg 541-542, 1096 AX Amsterdam, the Netherlands; Gemplus International S.A.: 46A, avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg; Mellon Investor Services LLC, U.S. Exchange Agent: 480 Washington Boulevard, Attn: Information Agent Group, AIM # 074-2800, Jersey City, New Jersey 07310, Call Toll Free: 1-866-768-4951.

## Gemalto IFRS Consolidated income statement

All amounts in USD thousands (except where otherwise stated)

	Six months ended June 30		
	2005	2006	% change
<b>Sales</b>	<b>498 200</b>	<b>578 446</b>	+16,1%
Cost of sales	(329 995)	(408 372)	+23,8%
Amortization of inventory step-up		(5 153)	N/M
<b>Gross profit</b>	<b>168 205</b>	<b>164 921</b>	<b>-2,0%</b>
<i>Gross margin</i>	33,8%	28,5%	
Operating expenses:			
Research and engineering	(35 432)	(37 397)	+5,5%
Sales and marketing	(56 554)	(70 584)	+24,8%
General and administrative	(31 070)	(38 106)	+22,6%
Other income, net	1 914	(2 328)	N/M
Combination related expenses*		(8 671)	N/M
Amortization and impairment of intangible assets **		(17 521)	N/M
<b>Operating income (loss)</b>	<b>47 063</b>	<b>(9 686)</b>	<b>N/M</b>
<i>Operating margin</i>	9,4%	-1,7%	
Financial income (expenses), net	401	1 320	N/M
Share of profit (losses) of associates	(196)	157	N/M
<b>Profit (loss) before income tax</b>	<b>47 268</b>	<b>(8 209)</b>	<b>N/M</b>
Income tax expense	(14 018)	1 848	N/M
<b>Profit (loss) for the period</b>	<b>33 250</b>	<b>(6 361)</b>	<b>N/M</b>
Attributable to:			
Equity holders of the company	31 914	(5 620)	N/M
Minority interest	1 336	(741)	N/M
Basic earnings (loss) per share (in USD)	0,79	(0,13)	N/M
Diluted earnings (loss) per share (in USD)	0,77	(0,13)	N/M
In thousands :			
Basic average number of shares outstanding	40 440	43 917	+8,6%
Diluted average number of shares outstanding	41 558	44 796	+7,8%
* Combination related expenses:		(8 671)	
- Integration consultant fees		(3 376)	
- Gemalto brand and logo creation and registration		(1 111)	
- Capitalized costs related to redundant devlpt. projects		(4 184)	
** Amortization and impairment of intangible assets:		(17 521)	
- Gemplus brand name impairment		(12 596)	
- Gemplus Customer Relationships		(595)	
- Gemplus existing Technology		(4 330)	

## Gemalto pro forma income statement

(assuming the combination was executed on January 1, 2005)

All amounts in USD thousands (except where otherwise stated)

	Six months ended June 30		
	2005	2006	% change
<b>Sales</b>	<b>1 046 983</b>	<b>1 035 881</b>	-1,1%
Cost of sales	(705 514)	(720 383)	+2,1%
Amortization of inventory step-up	(18 492)	0	-100,0%
<b>Gross profit</b>	<b>322 977</b>	<b>315 498</b>	<b>-2,3%</b>
<i>Gross margin</i>	30,8%	30,5%	
Operating expenses:			
Research and engineering	(72 920)	(71 469)	-2,0%
Sales and marketing	(127 554)	(132 360)	+3,8%
General and administrative	(72 373)	(71 596)	-1,1%
Other income, net	2 193	(189)	N/M
Combination related expenses *	(10 805)	0	-100,0%
Amortization and impairment of intangible assets **	(43 305)	(28 040)	-35,2%
<b>Operating income (loss)</b>	<b>(1 787)</b>	<b>11 844</b>	<b>N/M</b>
<i>Operating margin</i>	-0,2%	1,1%	
Financial income (expenses), net	2 680	6 973	+160,2%
Share of profit (losses) of associates	(1 306)	327	N/M
<b>Profit before income tax</b>	<b>(413)</b>	<b>19 144</b>	<b>N/M</b>
Income tax expense	6 801	(3 970)	N/M
<b>Profit for the period</b>	<b>6 388</b>	<b>15 174</b>	<b>N/M</b>
Attributable to:			
Equity holders of the company	10 358	8 739	-15,6%
Minority interest	(3 970)	6 435	N/M
Basic earnings per share (in USD)	0,17	0,14	-15,6%
In thousands:			
Basic average number of shares outstanding ('000)	62 425	62 399	-0,0%
* Combination related expenses:	(10 805)	0	
- Integration consultant fees	(3 408)	0	
- Gemalto brand and logo creation and registration	(1 111)	0	
- Capitalized costs related to redundant devlpt. projects	(6 286)	0	
** Amortization and impairment of intangible assets:	(43 305)	(28 040)	
- Gemplus brand name impairment	(13 333)	0	
- Gemplus Customer Relationships	(3 618)	(3 385)	
- Gemplus existing Technology	(26 354)	(24 655)	

## Gemalto adjusted\* pro forma income statement

(assuming the combination was executed on January 1, 2005)

All amounts in USD thousands (except where otherwise stated)

	Six months ended June 30		
	2005	2006	% change
<b>Sales</b>	<b>1 046 983</b>	<b>1 035 881</b>	-1,1%
Cost of sales	(704 794)	(722 154)	+2,5%
<b>Gross profit</b>	<b>342 189</b>	<b>313 727</b>	<b>-8,3%</b>
<i>Gross margin</i>	32,7%	30,3%	
Operating expenses:			
Research and engineering	(72 623)	(72 417)	-0,3%
Sales and marketing	(124 934)	(131 873)	+5,6%
General and administrative	(70 763)	(70 566)	-0,3%
Other income, net	2 193	(189)	N/M
<b>Operating income</b>	<b>76 062</b>	<b>38 682</b>	<b>-49,1%</b>
<i>Operating margin</i>	7,3%	3,7%	
Financial income (expenses), net	5 102	6 973	+36,7%
Share of profit (losses) of associates	(1 306)	327	N/M
<b>Profit before income tax</b>	<b>79 858</b>	<b>45 982</b>	<b>-42,4%</b>
Income tax expense	(14 524)	(11 540)	-20,5%
<b>Profit for the period</b>	<b>65 334</b>	<b>34 442</b>	<b>-47,3%</b>
Attributable :			
Equity holders of the company	41 803	16 903	-59,6%
Minority interest	23 531	17 539	-25,5%
Basic earnings per share (in USD)	0,67	0,27	-59,5%
In thousands:			
Basic average number of shares outstanding	62 425	62 399	-0,0%

\* excluding one-off expenses incurred in connection with the combination with Gemplus and charges resulting from the accounting treatment of the transaction

**Gemalto adjusted pro forma income statement**  
(assuming the combination was executed on January 1, 2005)  
**Reconciliation from pro forma to adjusted pro forma**  
**Six months ended June 30, 2006**

	IFRS	Amortization of inventory step-up	Additional stock based compensation	Combination related expenses	Amort. or impairment of intangible assets	Adjusted
All amounts in US\$ thousands						
<b>Sales</b>	<b>1 035 881</b>					<b>1 035 881</b>
Cost of sales	(720 383)		277		-2048	(722 154)
<b>Gross profit</b>	<b>315 498</b>	<b>0</b>	<b>277</b>	<b>0</b>	<b>(2 048)</b>	<b>313 727</b>
Operating expenses:						
Research and engineering	(71 469)		38	-662	-324	(72 417)
Sales and marketing	(132 360)		487			(131 873)
General and administrative	(71 596)		1030			(70 566)
Other income, net	(189)					(189)
Combination related *	0					0
Amortization and impairment of intangible assets **	(28 040)				28 040	0
<b>Operating income</b>	<b>11 844</b>	<b>0</b>	<b>1 832</b>	<b>(662)</b>	<b>25 668</b>	<b>38 682</b>
Financial income (expenses), net	6 973					6 973
Share of profit (losses) of associates	327					327
<b>Profit before income tax</b>	<b>19 144</b>	<b>0</b>	<b>1 832</b>	<b>(662)</b>	<b>25 668</b>	<b>45 982</b>
Income tax expense	(3 970)			228	-7798	(11 540)
<b>Profit (loss) for the period</b>	<b>15 174</b>	<b>0</b>	<b>1 832</b>	<b>(434)</b>	<b>17 870</b>	<b>34 442</b>
Attributable to:						
Equity holders of the company	8 739		800	(434)	7 798	16 903
Minority interest	6 435		1 032		10 072	17 539

**Gemalto adjusted pro forma income statement**  
(assuming the combination was executed on January 1, 2005)  
**Reconciliation from pro forma to adjusted pro forma**  
**Six months ended June 30, 2005**

	IFRS	Amortization of inventory step-up	Additional stock based compensation	Combination related expenses	Amort. or impairment of intangible assets	Adjusted
All amounts in US\$ thousands						
<b>Sales</b>	<b>1 046 983</b>					<b>1 046 983</b>
Cost of sales	(705 514)		1 401		(681)	(704 794)
Amortization of inventory step-up	(18 492)	18 492				0
<b>Gross profit</b>	<b>322 977</b>	<b>18 492</b>	<b>1 401</b>	<b>0</b>	<b>(681)</b>	<b>342 189</b>
Operating expenses:						
Research and engineering	(72 920)		536	(182)	(57)	(72 623)
Sales and marketing	(127 554)		2 620			(124 934)
General and administrative	(72 373)		1 610			(70 763)
Other income, net	2 193					2 193
Combination related *	(10 805)			10 805		0
Amortization and impairment of intangible assets **	(43 305)				43 305	0
<b>Operating income</b>	<b>(1 787)</b>	<b>18 492</b>	<b>6 167</b>	<b>10 623</b>	<b>42 567</b>	<b>76 062</b>
Financial income (expenses), net	2 680			2 422		5 102
Share of profit (losses) of associates	(1 306)					(1 306)
<b>Profit before income tax</b>	<b>(413)</b>	<b>18 492</b>	<b>6 167</b>	<b>13 045</b>	<b>42 567</b>	<b>79 858</b>
Income tax expense	6 801	(5 566)		(2 894)	(12 865)	(14 524)
<b>Profit (loss) for the period</b>	<b>6 388</b>	<b>12 926</b>	<b>6 167</b>	<b>10 151</b>	<b>29 702</b>	<b>65 334</b>
Attributable to:						
Equity holders of the company	10 358	5 641	2 691	10 151	12 962	41 803
Minority interest	(3 970)	7 285	3 476		16 740	23 531

\* Combination related costs include integration consultant fees and write-off of capitalized development costs

\*\* Intangible assets identified and recognized in accordance with IFRS 3 Business Combination

### Pro forma cash position variation schedule

In USD millions	H1 2005		H1 2006	
Beginning net cash* as of January 1.	713		745	
Cash generated by (used in) operating activities <i>including decrease of (increase) in working capital requirement</i>	111	4	(33)	(100)
Capital expenditure and acquisition of intangibles	(29)		(50)	
Setec acquisition	(75)			
Other cash generated by investing activities	26		7	
Cash used in connection with the combination			(14)	
Cash generated by (used in) operating and investing activities	33		(90)	
June 2, 2006, distribution to Gemplus shareholders			(212)	
Other cash used in financing activities, <i>excluding proceeds &amp; repayments of borrowings</i>	(9)		(5)	
Other (translation adjustment mainly)	(67)		29	
Ending net cash* as of June 30.	670		467	
Current and non-current borrowings, excluding finance lease			11	
Cash & Cash equivalents as of June 30, 2006			478	

\* excluding finance lease of USD 50 million at January 1, 2005, USD 48 million at June 30, 2005, USD 38 million at January 1, 2006 and USD 36 million at June 30, 2006.

### Pro forma revenue

In USD millions	Q2 2005	Q2 2006	% change at current exchange rates	% change at constant exchange rates	H1 2005	H1 2006	% change at current exchange rates	% change at constant exchange rates
Mobile Communication	358.8	326.0	-9.1%	-9%	672.8	600.8	-10.7%	-9%
Secure Transactions	118.4	125.0	+5.6%	+8%	213.9	234.4	+9.6%	+14%
ID & Security	47.0	66.9	+42.4%	+43%	77.0	130.3	+69.2%	+73%
Public Telephony	21.1	18.6	-11.4%	-12%	44.7	40.1	-10.3%	-9%
POS Terminals	17.7	13.8	-22.4%	-22%	38.6	30.2	-21.6%	-17%
Total	562.9	550.3	-2.2%	-2%	1,047.0	1,035.9	-1.1%	+2%

Compared with the pro forma segment revenue information reported on July 27, 2006, USD 1.9 million was reclassified from Secure Transactions to ID & Security

Recurring charges resulting from the accounting treatment of the combination with Gemplus

	In the pro forma income statements				Forecast							
	H1 2005		H1 2006		H2 2006	H1 2007	H2 2007	H1 2008	H2 2008	H1 2009	H2 2009	H1 2010
	in USD million	in EUR million	in USD million	in EUR million	in EUR million							
Additional stock-based compensation resulting from the combination	6.2	4.7	1.8	1.5	2.8	1.6	0.6	0.3	(0.0)	(0.1)	(0.0)	
<i>COGS</i>	1.4	1.1	0.3	0.2	0.4	0.2	0.1	0.0	(0.0)	(0.0)	(0.0)	
<i>R&amp;E</i>	0.5	0.4	0.0	0.0	0.1	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	
<i>S&amp;M</i>	2.6	2.0	0.5	0.4	0.7	0.4	0.1	0.1	(0.0)	(0.0)	(0.0)	
<i>G&amp;A</i>	1.6	1.2	1.0	0.8	1.6	0.9	0.3	0.2	(0.0)	(0.0)	(0.0)	
Amortization and impairment of identified intangible assets recognized as a consequence of the combination	43.3	32.8	28.0	23.0	23.0	23.0	23.0	6.5	6.5	6.5	6.5	5.4

# Gemalto

Condensed consolidated interim financial statements

as of June 30, 2006

(Unaudited)

## Consolidated balance sheet (unaudited)

*In thousands of USD*

	Notes	Consolidated balance sheet as of December 31, 2005	Consolidated balance sheet as of June 30, 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	102,468	309,937
Goodwill	9	276,252	667,689
Intangible assets	9	21,732	177,371
Investments in associates		6,963	24,335
Deferred income tax assets		49,256	89,842
Available for sale financial assets		628	3,845
Other non-current assets		3,122	59,909
Total non-current assets		460,421	1,332,928
<b>Current assets</b>			
Inventories	10	93,331	265,549
Trade and other receivables	11	230,959	578,386
Derivative financial instruments	13	-	10,348
Cash and cash equivalents		259,284	478,178
Total current assets		583,574	1,332,461
<b>Total assets</b>		1,043,995	2,665,389
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital		50,710	78,969
Share premium		562,746	1,187,462
Treasury shares		(4,275)	(8,100)
Fair value and other reserves		(4,110)	77,431
Cumulative translation adjustment		(16,932)	(7,968)
Retained earnings		110,620	105,000
		698,759	1,432,794
<b>Minority interest</b>		2,869	483,646
<b>Total equity</b>		701,628	1,916,440
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		6,908	36,157
Deferred income tax liabilities		5,755	48,588
Retirement benefit obligation		16,225	24,848
Provisions and other liabilities		10,128	36,552
Total non-current liabilities		39,016	146,145
<b>Current liabilities</b>			
Trade and other payables	12	270,001	546,340
Current income tax liabilities		15,936	23,142
Borrowings		1,835	11,302
Derivative financial instruments	13	9,151	4,288
Provisions and other liabilities		6,428	17,732
Total current liabilities		303,351	602,804
<b>Total liabilities</b>		342,367	748,949
<b>Total equity and liabilities</b>		1,043,995	2,665,389

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

## Consolidated income statement (unaudited)

<i>In thousands of USD (except earnings per share)</i>	Notes	Six-month period ended June 30,	
		2005	2006
Revenue		498,200	578,446
Cost of sales		(329,995)	(408,372)
Amortization of inventory step-up	4, 5	-	(5,153)
Gross profit		168,205	164,921
Operating expenses			
Research and engineering		(35,432)	(37,397)
Sales and marketing		(56,554)	(70,584)
General and administrative		(31,070)	(38,106)
Other income, net		1,914	(2,328)
Combination related expenses	5	-	(8,671)
Amortization and impairment of intangible assets	4, 5	-	(17,521)
Operating income (loss)		47,063	(9,686)
Finance income (expenses), net	5, 15	401	1,320
Share of profit (loss) of associates		(196)	157
Profit (Loss) before income tax		47,268	(8,209)
Income tax expense	14	(14,018)	1,848
Profit (Loss) for the period		33,250	(6,361)
Attributable to			
Equity holders of the company		31,914	(5,620)
Minority interest		1,336	(741)
Basic earnings (loss) per share (in US dollars)	16	0.79	(0.13)
Diluted earnings (loss) per share (in US dollars)	16	0.77	(0.13)
In thousands of shares			
Average number of shares outstanding	16	40,440	43,917
Average number of shares outstanding assuming dilution	16	41,558	44,796

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

**Consolidated statements of changes in equity (unaudited)**

<i>In thousands of USD</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 December 31, 2004	40,490,668	50,604	551,526	-	6,858	40,490	52,742	7,059	709,279
Movements in fair value and other reserves									
- Currency translation adjustments						(50,115)			(50,115)
- Fair value gains (losses), net of tax:									
- financial assets available for sale					(805)				(805)
- cash flow hedges					(16,363)				(16,363)
- machinery and equipment further to HSTE acquisition of minority interest							810	(202)	608
Net income/(expense) recognized directly in equity		-	-	-	(17,168)	(50,115)	810	(202)	(66,675)
Profit (Loss) for the period							31,914	1,336	33,250
Total recognized income for the period		-	-	-	(17,168)	(50,115)	32,724	1,134	(33,425)
Employee share option scheme					1,873				1,873
Contribution from Schlumberger further to dividend payment to HSTE JV minority interest			8,718						8,718
Purchase of Treasury shares, net (178,275 shares)				(5,485)					(5,485)
Equity of the Phones business of the HSTE JV (*)								(73)	(73)
Dividend								(6,171)	(6,171)
Balance as of June 30, 2005	40,490,668	50,604	560,244	(5,485)	(8,437)	(9,625)	85,466	1,949	674,716

Balance as of December 31, 2005	40,578,435	50,710	562,746	(4,275)	(4,110)	(16,932)	110,620	2,869	701,628
Movements in fair value & other reserves									
- Currency translation adjustments						8,964			8,964
- Gain/(losses) on treasury shares					(49)				(49)
- Fair value gains (losses), net of tax:									
- financial assets available for sale					2,546				2,546
- cash flow hedges					5,258				5,258
Net income/(expense) recognized directly in equity		-	-	-	7,755	8,964	-	-	16,719
Profit (Loss) for the period							(5,620)	(741)	(6,361)
Total recognized income for first six-month period 2006		-	-	-	7,755	8,964	(5,620)	(741)	10,358
Employee share option scheme					73,786				73,786
Purchase of Treasury shares, net (143,983 shares)				(3,825)					(3,825)
Capital increase further to contribution in kind in Gemplus International SA shares by the two reference shareholders	21,985,104	28,259	628,468						656,727
Gemalto share capital increase costs incurred			(3,752)						(3,752)
Minority interest on Gemplus acquisition								483,147	483,147
Dividend								(1,629)	(1,629)
Balance as of June 30, 2006	62,563,539	78,969	1,187,462	(8,100)	77,431	(7,968)	105,000	483,646	1,916,440

(\*) On March 11, 2005, Gemalto purchased the 49% minority interests in H.S.T.E., a company located in China of which Gemalto had owned 51% until then. A portion of H.S.T.E.'s business includes Schlumberger's public phones equipment business in China, which is not in the scope of Gemalto's operations. Pursuant to the Separation Agreement signed on March 19, 2004 between Schlumberger and Gemalto, Schlumberger has agreed to assume all the risks and rewards of past and future operations of the public phone equipment business in H.S.T.E. As a result, it was not considered appropriate to include the results of operations of the public phones equipment business in the income statement of Gemalto.

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

## Consolidated statement of cash flows (unaudited)

*In thousands of USD*

	Notes	Six-month period ended June 30,	
		2005	2006
<b>Cash flows from operating activities</b>	17		
Cash generated from operations		64,896	(33,987)
Interest paid		(629)	(631)
Income tax paid		(8,840)	(5,997)
Net cash provided by operating activities		<u>55,427</u>	<u>(40,615)</u>
<b>Cash flows from (used in) investing activities</b>			
Acquisition of subsidiary, cash acquired net of costs		-	290,213
Purchase of property, plant and equipment		(11,060)	(25,489)
Proceeds from sale of property, plant and equipment		435	107
Purchase of intangible assets		(2,177)	(2,719)
Purchase of non-current assets		-	(3,289)
Purchase of investments in other companies		(3,138)	-
Interest received		2,651	5,636
Net cash provided by (used in) investing activities		<u>(13,289)</u>	<u>264,459</u>
<b>Cash flows from (used in) financing activities</b>			
Invested equity		10,930	5,094
Costs of shares held in Treasury (net)		(5,824)	(3,825)
Gains/(losses) on stock options and treasury stocks transactions		-	(987)
Proceeds from borrowings		-	3,132
Repayments of borrowings		(30,807)	(3,232)
Dividends paid to minority interests		(10,128)	(2,469)
Net cash provided by (used in) financing activities		<u>(35,829)</u>	<u>(2,287)</u>
Net increase in cash and bank overdrafts		6,309	221,557
Cash and bank overdrafts, beginning of period		223,820	259,284
Exchange gains (losses) on cash and bank overdrafts		(2,282)	(3,312)
Cash and bank overdrafts, end of period		<u>227,847</u>	<u>477,529</u>

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

## **Notes to the condensed consolidated interim financial statements**

**as of June 30, 2006**

All amounts are stated in thousands of US dollars (USD) unless otherwise stated.

### **Note 1 General information**

Gemalto N.V. (« the Company ») and its subsidiaries (together « Gemalto » or « the Group ») design, manufacture and sell Smart Cards ("Cards") and Point of Sale Terminals ("POS Terminals"). Cards includes microprocessor, magnetic stripe, memory and other cards and related services for mobile communication, secure transactions (in the financial and pay TV sector), identity and security applications, including licensing of intellectual property rights, and public telephony cards. 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 interim consolidated financial statements for the six-month period ended June 30, 2006 have been approved for issue by the Board of Directors of the Company on September 12, 2006.

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 2006 reported in these condensed consolidated interim financial statements is not necessarily indicative of the results of Gemalto for the full year 2006.

### **Note 2 Basis of preparation**

The condensed consolidated interim financial statements for the semester ended June 30, 2006 have been prepared in accordance with IAS 34, "interim financial reporting".

These interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2005.

### **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, 2005, as described in the notes to these annual financial statements.

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

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment has not been adopted by the Group for the preparation of these condensed consolidated interim financial statements;
- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006;
- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intra-company transactions', effective for annual periods beginning on or after 1 January 2006. This amendment has been early adopted as of January 1, 2005.;
- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. This interpretation had no material impact on Group's Financial Statements;
- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;
- IFRIC 6, 'Liabilities arising from participating in a specific market - waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Group's operations;
- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivative;
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

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

## **Note 4 Business combination with Gemplus**

On the 6<sup>th</sup> of December 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 the 2<sup>nd</sup> of June, 2006, and was executed following a two-step approach:

Texas Pacific Group 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's shares for every 25 Gemplus' shares.

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 has concluded that, under IFRS, Gemalto is 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 was measured as the aggregate of (i) the market value at the closing date of the Contribution In Kind of the new Gemalto shares issued in exchange of Gemplus shares and (ii) any costs directly attributable to the business combination.

After the closing of the Contribution in Kind, Gemalto and Gemplus management were immediately integrated and operated as one company. Furthermore Gemalto, owning 43.6% of the Gemplus shares has been by far the largest shareholders 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's 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's assets and liabilities is not affected by the transaction.

The preliminary 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:

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

	Fair Value (in USD million unless otherwise stated)
Combination value for 43.6% of Gemplus' shares	
Gemalto share price as of June 02, 2006 : € 23.24 <sup>(1)</sup>	USD 29.87
Number of shares issued by Gemalto	<u>21,985,104 shares</u>
Fair Value of acquired shares	656.7
Fair Value of Gemplus' warrants and stock-options as of June 02, 06	70.9
Capitalized Acquisition Costs	26.1
Total Purchase Consideration for 43.6% of Gemplus' shares	<u><u>753.7</u></u>

<sup>(1)</sup> The retained 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's management, assisted by independent, qualified experts, identified Gemplus' assets and liabilities, as part of the allocation of the value of the combination.

The preliminary allocation of the value of the combination is as follows:

	In USD million
Net Assets acquired (excluding intangibles)	
Gemplus' net assets acquired as of the date of the acquisition	880.4
Identified intangible assets on the balance sheet	<u>(163.1)</u>
Net Assets acquired (excluding intangibles)	717.3
Minority Interest in Gemplus subsidiaries	(17.5)
Adjustments on Net Assets acquired	
Real estate assets	(5.1)
Inventory: revaluation to net realizable value	9.0
Cancellation of commercial margin of deferred products and maintenance revenue balance	10.5
Total adjustments on Net Assets acquired	<u>14.4</u>
Fair Value of the acquired intangible assets	
Existing Technology	105.1
In-process Research and Development	26.8
Customer Relationships	28.6
Corporate Name	<u>12.6</u>
Fair Value of the acquired intangible assets	173.1
Deferred tax impacts	
Deferred tax liability related to the revaluation of the inventory and to amortizable intangible assets	(58.0)
Deferred tax asset related to identified intangible assets on Gemplus balance sheet, eliminated from the net assets acquired	12.9
<b>Total adjusted net assets, including acquired intangible assets</b>	<u><b>842.2</b></u>
Minority interest on adjusted net assets (56.4%) *	(474.7)
<b>Gemalto share of Gemplus adjusted net assets</b>	<u><b>367.5</b></u>
<b>Goodwill</b>	<u><b>386.2</b></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.

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

The intangible assets listed on the balance sheet as of the date of acquisition consist of USD 118.2 million of Goodwill, mainly due to the acquisition of Setec by Gemplus (USD 78 million), USD 26.8 million of in-process Research & Development and USD 18.1 million of other intangible assets. After the elimination of those intangible assets, the acquired shareholders' equity including minority interest is worth USD 699.8 million.

IFRS 3 requires us to value work-in-progress and finished goods assumed in connection with this transaction at net realizable value (the estimated revenue derived from the future sale of these goods, over the estimated time to sell this inventory less expected selling cost, except for the inventories relating to deferred revenues). Therefore, the value of this inventory in the books of Gemplus on combination date was adjusted accordingly (step-up). In accordance with this requirement, the value of Gemplus' inventory of work-in-progress and finished goods was increased by USD19.0 million.

Existing Technology and in-process Research & Development 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 USD million)	Amortization period
Existing Technology	105.1	64% until December 2007, 36% over 4 years
In-process Research & Development	26.8	Over estimated useful life, usually 3 to 5 years
Customer Relationships	28.6	4 years
Total	<u>160.5</u>	

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

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

The details of the assets and liabilities acquired is as follows:

<i>In millions of USD</i>	Historical value as of June 2, 2006	Fair value as of June 2, 2006
<b>Current assets:</b>		
Cash and cash equivalents	299.1	299.1
Trade accounts receivables	222.2	222.2
Inventory, net	162.8	181.8
Derivative financial instruments	7.6	7.6
Other current receivables	57.1	57.1
<b>Total current assets</b>	<b>748.8</b>	<b>767.8</b>
<b>Non current assets:</b>		
Tangible assets	210.0	204.9
Intangible assets	169.1	179.1
Deferred income tax assets	39.2	44.1
Investments in associates	17.6	17.6
Available-for-sale financial assets, net	3.2	3.2
Other non-current receivables, net	53.9	53.9
<b>Total non-current assets</b>	<b>493.0</b>	<b>502.8</b>
<b>Total assets</b>	<b>1,241.8</b>	<b>1,270.6</b>
<b>Current liabilities</b>		
Accounts payables	(145.2)	(144.7)
Salaries, wages and related items	(57.1)	(57.1)
Current portion of provisions and other liabilities	(56.6)	(56.5)
Tax liabilities	(26.7)	(26.7)
Current obligations under finance leases	(6.9)	(6.9)
<b>Current liabilities</b>	<b>(292.5)</b>	<b>(292.0)</b>
<b>Non-current liabilities</b>		
Non-current obligations under finance leases	(31.0)	(31.0)
Non-current portion of provisions	(19.3)	(19.3)
Other non-current liabilities	(15.3)	(15.3)
Deferred income tax liabilities	(3.3)	(53.3)
<b>Total non-current liabilities</b>	<b>(68.9)</b>	<b>(118.9)</b>
<b>Net assets acquired at 100%</b>	<b>880.4</b>	<b>859.7</b>

#### Results of the voluntary exchange offer launched by Gemalto on the remaining Gemplus shares

324.481 million Gemplus shares were presented to the voluntary exchange offer launched on July 11, 2006 by Gemalto on the remaining Gemplus shares, and which closed on August 14, 2006. Consequently, 25.959 million new Gemalto shares were issued, for a value estimated at US\$ 646 million, and Gemalto owned 94.56% of Gemplus capital and 94.68% of the voting rights. Gemalto then decided to reopen the exchange offer, as it had announced it would if it reached ownership of 66% or more of Gemplus following the first offer. The offer reopened effective on September 12 and will close on October 9.

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

## **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).

As a consequence of the valuation of work-in-progress and finished goods assumed in connection with this transaction at net realizable value, as describe in Note 4 above, 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. We therefore disclose in our first half 2006 income statement under a separate line below Cost of Sales the amortization expense for the month of June related to the revaluation (step-up) of the Gemplus inventory, as described in Note 4, of \$5,153.

We also disclose under the line named "Amortization and Impairment of Intangible Assets" the charges related to the write-off of the Gemplus corporate name, for \$12,596, and the amortization expense for the month of June related to the acquired Existing Technology and Customer relationships, determined as per the amortization policy shown in Note 4 above, for \$4,330 and \$595, respectively.

Also we incurred in the last months material 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 2006, for an amount of \$8,671. They consist of integration related professional services, for \$3,376, Gemalto's new brand and logo creation and worldwide registration, for \$1,111, as well as impairment charges related to capitalized development costs on projects which are redundant with existing products or technologies available in Gemplus, for \$4,184. We expect to continue to incur integration related professional services in the coming months.

Finally, we recorded a charge of \$2,422 representing the excess between the acquisition price and the market value as of June 30, 2006 of our investment in a listed company in which Gemalto invested in 2000. Gemalto invested in this company for potential future strategic complementarities, and this company has been a business partner in the US since, procuring smart cards from Gemalto that it bundles with its products and services into digital security solutions. As Gemalto's Management is considering alternatives for further development, this company, a direct competitor of Gemplus in the US, no longer appears to be the best strategic partner.

Therefore we determined that our initial investment in this company was impaired for \$ 2,422 and the charge was recorded as part of "finance income (expense), net", of the period.

## **Note 6 Pro forma information**

Because the first step of the combination between Gemalto and Gemplus took place on June 2, 2006, Gemalto's consolidated income statement for the six-month period ended June 30, 2006 includes only one month of Gemplus activity, while the comparative consolidated income statement for the same period of 2005 reflects only Axalto's business. Gemalto's consolidated operating and net income for the six-month period ended as of June 30, 2006 also includes one-off, combination related charges and charges resulting from the accounting treatment of the transaction, as described in Notes 4 and 5 above. Consequently, in this particular context, the consolidated income statement of Gemalto does not provide fully meaningful information with regards to the business and performance of Gemalto as a combined entity over the reported periods.

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

Therefore, pro forma income statements for the six-month periods ended June 30, 2005 and 2006 were prepared in order to help in understanding the performance of the combined business over the two periods presented.

The pro forma information has however been prepared for illustrative purposes only. As detailed in paragraph 6.1.2 below, the main assumption used for the preparation of the pro forma income statements for the six-month periods ended June 30, 2005 and 2006, is that the contribution in kind is assumed to have occurred on January 1st, 2005 instead of June 2nd, 2006. As a result the pro forma information presented addresses a hypothetical situation, and, therefore, does not represent the company's actual financial results for the six-month periods ended June 30, 2005 and 2006.

## **6.1 Notes to the pro forma combined income statements**

### **6.1.1 Financial information used for the preparation of the pro forma income statements**

The pro forma income statements were prepared using:

- for the six-month period ended June 30, 2005 : full first half year consolidated income statements for both Gemalto (formerly Axalto) and Gemplus as published (unaudited). Gemplus' income statement, originally prepared in euro, was converted into US Dollars on a month by month basis, using Gemalto's monthly accounting exchange rates;
- for the six-month period ended June 30, 2006 : full first half year consolidated income statement for Gemalto, which includes the activity of Gemplus as from June 2, 2006, the date of the combination, unaudited, and the consolidated income statement of Gemplus for the five-month period ended June 1, 2006, extracted from Gemplus' first half year consolidated income statement, unaudited, converted from Euro into US dollars on a month by month basis, using Gemalto's monthly accounting exchange rates.

### **6.1.2 Main assumptions used in the preparation of the consolidated pro forma income statements**

For the preparation of the consolidated income statements, the contribution in kind was assumed to have occurred on January 1<sup>st</sup>, 2005 instead of June 2<sup>nd</sup>, 2006. However, the value of the combination, of the adjusted net assets of Gemplus, of the inventory step-up and of the identified intangible assets as described in Note 4 above was unchanged, i.e. not adjusted in light of the context and of the value of the assets of Gemplus as of January 1, 2005. However, for the purpose of determining the additional stock-based compensation resulting from the revaluation at fair value of the obligation assumed by Gemalto in relation to the outstanding Gemplus' stock options, a calculation of the estimated fair value of the replacement stock options assumed by Gemalto was carried out on the basis of all the Gemplus stock options existing as of January 1<sup>st</sup>, 2005.

As consequences of these key assumptions:

- the allocation of the value of the combination as described in note 4 was made on January 1<sup>st</sup>, 2005 and consequently the amortization of the identified intangible assets (technology, customer relationships) and of the inventory step-up was considered as starting as of that date;
- the one off, combination related expenses were charged to the pro forma combined income statement of the six-month period ended June 30, 2005.

### 6.1.3 Pro forma combined income statement for the period ended June 30, 2005

As described in 6.1.1 above, the 2005 pro forma combined income statement was prepared on the basis of the combination of Gemalto (formerly Axalto) and Gemplus consolidated income statements for the six-month period ended June 30, 2005.

In accordance with the assumptions described in the same section above, the following adjustments to the combined Gemalto income statement have been effected:

- elimination of all inter-company transactions, including \$9,571 of license revenue,
- recognition of a charge corresponding to six months of amortization of the inventory step-up \$18,492;
- recognition of a charge corresponding to six months of amortization of the identified intangible assets (see note 4 above) : Customer Relationships for \$3,618 and Existing Technology for \$26,354;
- recognition of a charge corresponding to all one off, combination related costs : integration costs for \$4,519, impairment of the Gemplus corporate name for \$13,333 and redundant capitalized R&E in Gemalto books for \$6,105;
- recognition of an additional stock compensation charge amounting to \$6,167 was booked in cost of sales for \$1,400, R&E for \$537, S&M for \$2,620 and G&A for \$1,610.

All entries were tax affected except the additional stock compensation charge.

The share of net income attributable to minority interests was calculated on the basis of the actual minority shareholding of 56.4% as of June 2<sup>nd</sup>, 2006.

### 6.1.4 Pro forma combined income statement for the period ended June 30, 2006

The adjustments to the pro forma income statement for the period ended June 30, 2005 described in 6.1.4 above, effected on the basis of the assumption that the combination has occurred on January 1, 2005, were consequently eliminated from the consolidated income statement for the period ended June 30, 2006.

Then Gemplus' consolidated income statement for the five-month period ended June 1, 2006 was added, and internal transactions within the Gemalto group eliminated, in order to reflect the full Gemalto group pro forma activity for the six-month period ended June 30, 2006.

Finally, the following adjustments were effected:

- recognition of a charge corresponding to five months of amortization of the identified intangible assets (see note 4 above) : Customer Relationships for \$2,790 and Existing Technology for \$20,325;
- recognition of an additional stock compensation charge amounting to \$1,079, booked in cost of sales for \$164, in R&E for \$18, S&M for \$289 and G&A for \$608.

All entries were tax affected except for additional stock compensation charge.

The share of net income attributable to minority interests was calculated on the basis of the actual minority shareholding of 56.4% as of June 2<sup>nd</sup>, 2006.

## 6.2 Pro forma consolidated income statements

	Six-month period ended June 30,	
	2005	2006
Revenue	1,046,983	1,035,881
Cost of sales	(705,514)	(720,383)
Amortization of inventory step-up	(18,492)	-
Gross profit	322,977	315,498
Operating expenses		
Research and engineering	(72,920)	(71,469)
Sales and marketing	(127,554)	(132,360)
General and administrative	(72,373)	(71,596)
Other income, net	2,193	(189)
Combination related expenses	(10,806)	-
Amortization and impairment of intangible assets	(43,305)	(28,040)
Operating income	(1,787)	11,844
Finance income (expenses), net	2,680	6,973
Share of profit (loss) of associates	(1,306)	327
Profit (Loss) before income tax	(413)	19,144
Income tax expense	6,802	(3,971)
Profit (Loss) for the period	6,388	15,174
Attributable to		
Equity holders of the company	10,358	8,739
Minority interest	(3,970)	6,435

### Pro forma consolidated income statement for the six-month period ended June 30, 2005

	Total combined	Adjustment related to the combination value allocation	Adjustments giving effect to the combination as of January 1, 2005	Consolidation entries	GEMALTO H1 '05 pro forma
Revenue	1,056,554	-	-	(9,571)	1,046,983
Cost of sales	(703,768)	-	(518)	(1,228)	(705,514)
Amortization of inventory step-up		(18,492)	-	-	(18,492)
Gross profit	352,786	(18,492)	(518)	(10,799)	322,977
Operating expenses					
Research and engineering	(73,742)	-	(297)	1,119	(72,920)
Sales and marketing	(127,381)	-	(2,620)	2,447	(127,554)
General and administrative	(68,353)	-	(1,610)	(2,410)	(72,373)
Other income, net	2,193	-	-	-	2,193
Combination related expenses		-	(10,806)	-	(10,806)
Amortization and impairment of intangible assets		(43,305)	-	-	(43,305)
Operating income (loss)	85,503	(61,797)	(15,851)	(9,642)	(1,787)
Finance income (expenses), net	5,102	-	(2,422)	-	2,680
Share of profit (loss) of associates	(1,306)	-	-	-	(1,306)
Profit (Loss) before income tax	89,299	(61,797)	(18,273)	(9,642)	(413)
Income tax expense	(17,893)	18,601	2,726	3,368	6,802
Profit (Loss) for the period	71,406	(43,196)	(15,547)	(6,274)	6,388
Attributable to					
Equity holders of the company	69,225	(18,850)	(33,535)	(6,482)	10,358
Minority interest	2,181	(24,346)	17,988	207	(3,970)

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

*Pro forma consolidated income statement for the six-month period ended June 30, 2006*

	IFRS consolidated for six months ended June 30, 2006	Adjustments to combine first five month activity of Gemplus	Adjustments giving effect to the combination as of January 1, 2005	Consolidation entries	GEMALTO H1 '06 pro forma
Revenue	578,446	457,597	-	(162)	1,035,881
Cost of sales	(408,372)	(316,067)	1,722	2,334	(720,383)
Amortization of inventory step-up	(5,153)	-	5,153	-	-
Gross profit	164,921	141,530	6,875	2,172	315,498
Operating expenses					
Research and engineering	(37,397)	(33,101)	912	(1,882)	(71,469)
Sales and marketing	(70,584)	(61,487)	(289)	-	(132,360)
General and administrative	(38,106)	(32,960)	(607)	77	(71,596)
Other income, net	(2,328)	2,139	-	-	(189)
Combination related expenses	(8,671)	-	8,671	-	-
Amortization and impairment of intangible assets	(17,521)	-	(10,519)	-	(28,040)
Operating income (loss)	(9,686)	16,121	5,042	367	11,844
Finance income (expenses), net	1,320	3,231	2,422	-	6,973
Share of profit (loss) of associates	157	170	-	-	327
Profit (Loss) before income tax	(8,209)	19,522	7,464	367	19,144
Income tax expense	1,848	(4,464)	(1,228)	(126)	(3,971)
Profit (Loss) for the period	(6,361)	15,058	6,236	241	15,174
Attributable to					
Equity holders of the company	(5,620)	6,205	8,049	105	8,739
Minority interest	(741)	8,853	(1,813)	136	6,435

**Note 7 Segment information**

*Primary reporting format – Business segment*

Gemalto's 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's management reviews business performance and allocates resources. The following tables present Gemalto's 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, 2005					
	Mobile Communication	Secure transactions	ID & Security	Public Telephony	Point-of-Sale Terminals	Gemalto
Revenue	295,535	102,407	40,105	21,598	38,555	498,200
Cost of sales	(183,609)	(76,939)	(20,535)	(20,081)	(28,831)	(329,995)
Amortization of inventory step-up	-	-	-	-	-	-
Gross profit	111,926	25,468	19,570	1,517	9,724	168,205
Operating expenses excl. Other income, net	(70,835)	(24,682)	(16,243)	(3,132)	(8,164)	(123,056)
Other income, net	429	90	25	403	967	1,914
Combination related expenses	-	-	-	-	-	-
Amortization and impairment of intangible assets	-	-	-	-	-	-
Operating income (loss)	41,520	876	3,352	(1,212)	2,527	47,063

	Six-month period ended June 30, 2006					
	Mobile Communication	Secure transactions	ID & Security	Public Telephony	Point-of-Sale Terminals	Gemalto
Revenue	326,606	131,048	74,604	15,956	30,232	578,446
Cost of sales	(234,398)	(101,679)	(33,852)	(15,932)	(22,511)	(408,372)
Amortization of inventory step-up	(4,043)	(596)	(514)	-	-	(5,153)
Gross profit	88,165	28,773	40,238	24	7,721	164,921
Operating expenses excl. Other income, net	(83,668)	(28,782)	(22,943)	(2,819)	(7,875)	(146,087)
Other income, net	(1,549)	(579)	(221)	(40)	61	(2,328)
Combination related expenses	(5,631)	(2,498)	(406)	(137)	-	(8,671)
Amortization and impairment of intangible assets	(11,156)	(3,269)	(3,097)	-	-	(17,521)
Operating income (loss)	(13,839)	(6,354)	13,572	(2,972)	(93)	(9,686)

*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,	
	2005	2006
North and South America	118,016	114,421
Europe, Middle East & Africa	274,963	317,713
Asia	105,221	146,312
Total revenues	498,200	578,446

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

## Note 8 Property, plant and equipment

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

	<u>December 31, 2005</u>	<u>June 30, 2006</u>
Land	1,686	8,679
Buildings and improvements	74,426	271,289
Machinery and equipment	237,290	672,066
Total cost	313,402	952,034
Less: Accumulated depreciation	(210,934)	(642,097)
Total	<u>102,468</u>	<u>309,937</u>

## Note 9 Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	<u>December 31, 2005</u>	<u>June 30, 2006</u>
Goodwill	292,351	684,132
Patents and technology	183,273	304,819
Deferred development costs	5,391	79,245
Software	10,965	57,279
Customer's contractor relationship	-	27,820
Other	1,371	1,968
Total cost	493,351	1,155,263
Less: Accumulated depreciation	(195,367)	(310,203)
Total	<u>297,984</u>	<u>845,060</u>

## Note 10 Inventories

Inventories consist of the following:

	<u>December 31, 2005</u>	<u>June 30, 2006</u>
<b>Gross book value</b>		
Raw materials and spares	71,193	123,228
Work in progress	15,245	110,420
Finished goods	20,525	54,005
Total	<u>106,963</u>	<u>287,653</u>
<b>Obsolescence reserve</b>		
Raw materials and spares	(6,992)	(10,792)
Work in progress	(3,188)	(6,819)
Finished goods	(3,452)	(4,493)
Total	<u>(13,632)</u>	<u>(22,104)</u>
<b>Net book value</b>	<u>93,331</u>	<u>265,549</u>

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

### Note 11 Trade and other receivables

Trade and other receivables consist of the following:

	<u>December 31, 2005</u>	<u>June 30, 2006</u>
Trade receivables	198,405	468,921
Provision for impairment of receivables	(9,136)	(15,937)
Trade receivables, net	189,269	452,985
Prepaid expenses	8,386	19,292
VAT recoverable and tax receivable	17,777	47,126
Advances to suppliers	4,273	14,220
Unbilled revenue	4,233	20,081
Other	7,021	24,682
<b>Total</b>	<u>230,959</u>	<u>578,386</u>

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

### Note 12 Trade and other payables

Trade and other payables consist of the following:

	<u>December 31, 2005</u>	<u>June 30, 2006</u>
Trade payables	126,559	234,393
Employee related payables	62,156	113,534
Accrued expenses	32,946	88,845
Accrued VAT	11,689	30,550
Deferred revenue	31,309	66,235
Other	5,342	12,783
<b>Total</b>	<u>270,001</u>	<u>546,340</u>

### Note 13 Derivative Financial instruments

These derivative financial instruments consist of the following:

	<u>December 31, 2005</u>		<u>June 30, 2006</u>	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts - Cash flow hedge - Forward	-	8,544	5,932	4,288
Foreign exchange contracts - Cash flow hedge - Option	-	-	4,416	-
Foreign exchange contracts - Non qualifying cash flow hedge - Forward	-	537	-	-
Foreign exchange contracts - Fair value hedge - Forward	-	70	-	-
<b>Total</b>	-	<u>9,151</u>	<u>10,348</u>	<u>4,288</u>

### Note 14 Taxes on Income

	<u>Six-month period ended June 30,</u>	
	<u>2005</u>	<u>2006</u>
Current tax benefit (expense)	(13,574)	(3,262)
Deferred tax benefit (expense)	(444)	5,110
Income tax expense booked to the statement of operations	<u>(14,018)</u>	<u>1,848</u>

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

## Note 15 Finance income (costs), net

	Six-month period ended June 30,	
	2005	2006
Interest cost related to the French retirement obligation	(305)	(317)
Interest expense	(629)	(545)
Interest income	2,651	5,126
<u>Foreign exchange transaction gains/(losses)</u>		-
- Foreign exchange gains/(losses), net of fair value hedges	(288)	494
- cash flow hedges	(1,028)	(1,172)
Gain/(Loss) on investment sales	-	(154)
Impairment of financial asset available for sale	-	(2,422)
Other	-	310
Finance income (expenses), net	401	1,320

## Note 16 Earnings per share

	Six-month period ended June 30,	
	2005	2006
<b>Basic</b>		
Profit (Loss) attributable to equity holders of the company	31,914	(5,620)
Weighted average number of ordinary shares outstanding (in thousands)	40,440	43,917
Basic earnings (loss) per share	\$0.79	(\$0.13)

	Six-month period ended June 30,	
	2005	2006
<b>Diluted</b>		
Profit (Loss) attributable to equity holders of the company	31,914	(5,620)
Weighted average number of ordinary shares outstanding (in thousands)	40,440	43,917
Adjustment for share options (in thousands)	1,118	879
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	41,558	44,796
Diluted earnings (loss) per share	\$0.77	(\$0.13)

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.

## Note 17 Cash generated from operations

	Six-month period ended June 30,	
	2005	2006
Income (loss) for the period before minority interest	33,250	(6,361)
Adjustment for:		
Tax	14,018	(1,848)
Research tax credit	-	(828)
Depreciation	15,675	26,199
Amortization	2,999	21,356
Stock option compensation charge	-	3,865
Gains and losses on sales of fixed assets and write-offs	353	316
Net movement in provisions for liabilities and charges	1,181	(1,956)
Retirement benefit obligation	-	545
Interest income	(2,651)	(5,636)
Interest expense	934	997
Share of profit (loss) from associates	197	(161)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)		
Inventories	16,509	9,531
Trade and other receivables	1,326	(63,108)
Retirement benefit obligation	328	-
Derivative financial instruments	(658)	(811)
Trade and other payables	(18,565)	(16,087)
Cash generated from operations	<u>64,896</u>	<u>(33,987)</u>

## Note 18 Commitments and contingencies

### *Schlumberger residuals*

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

These undertakings remain in effect so long as there are contracts, assets or liabilities falling within the scope of Gemalto's business that have not been transferred at the time of the Separation. This also applies to contracts, assets or liabilities falling within the scope of Schlumberger's business that have not been transferred at that same time.

Until the date of transfer of the such contracts, assets or liabilities to Gemalto 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 Gemalto 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 Separation Agreement are not disclosed in the accompanying consolidated financial statements of Gemalto nor is the associated payable from Gemalto to Schlumberger or the associated receivable by Gemalto from Schlumberger.

As of June 30, 2006, the balance of the assets and liabilities belonging to Schlumberger was a net asset of \$11,1 millions.

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

### *Legal proceedings reported by Gemplus*

On May 26, 2005, the Aix-en-Provence Court of Appeal rendered a decision in favor of Gemplus SA in a proceeding originally brought by Mr. Alain Nicolai. That decision reversed a judgment of the Marseille Commercial Court against Gemplus SA in the amount of € 21,952 thousand, and ordered the reimbursement of an escrow in such amount that Gemplus SA had established in 2004. In 2005, Gemplus recorded the reimbursement of the escrow, and reversed a provision for this matter that it had recorded on December 31, 2004, in the amount of € 5,200 thousand. The claimants in this action have filed requests for further review by the French Supreme Court and the Aix-en-Provence Court of Appeal, which are currently pending, and which Gemplus believes are without merit.

In 2000, Marc Lassus, a former chairman of Gemplus' Board, was granted a loan of € 71,900 thousand to finance the exercise of stock options. In December 2001, Mr. Lassus ceased his positions with Gemplus. In the second quarter of 2002, Gemplus learned that Mr. Lassus had financial difficulties that would affect his ability to repay the loan. Accordingly, Gemplus recorded a provision amounting to € 67,582 thousand, taking into account an outstanding liability of USD 10,000 thousand (corresponding to € 8,392 thousand, € 7,335 thousand and € 8,001 thousand as of December 31, 2005, 2004 and 2003, respectively) relating to a severance payment and an amount of € 1,545 thousand relating to employment payments, which are 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 Mr. Lassus in the amount of € 71,900 thousand, plus accrued interest and attorneys' fees and costs. Gemplus has not forgiven the loan or released the arbitration award.

In the first quarter of 2006, the Sanctions Commission of the *Autorité des Marchés Financiers* ("AMF") imposed upon Gemplus a fine of € 600 thousand. This sanction was in respect of the documents de référence filed by Gemplus in respect of the years 2000 and 2001. The Commission ruled that Gemplus had not communicated any misleading information with respect to its accounting results. Gemplus has decided to appeal this decision before the Paris Court of Appeal. Gemplus recorded a provision in the amount of € 600 thousand in respect of this matter in the fourth quarter of 2005.

### *Other*

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

### **Note 19 Post-closing events**

On August 31, 2006, Gemalto announced consolidation of its two production centers of Owing Mills and Montgomeryville in the United States into the Montgomeryville facility, which better meets the future needs of its business strategy and customers. The project is expected to be completed in the course of the first quarter of 2007. It will entail capital expenditure to upgrade the Montgomery facility and charges related to redundancies, equipment transfers and the idling of the Owing Mills facility.

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

## Note 20 Consolidated entities

The consolidated financial statements as of June 30, 2006 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	43%
Australia	Axalto Pty Ltd	Direct	100%
Australia	LM Gemplus Pty Ltd	Indirect	22%
Belgium	Gemplus N.V.	Indirect	43%
Belgium	Gemventures 1 N.V.	Indirect	43%
Brazil	Axalto do Brazil Cartoes e Terminais Ltda	Direct	100%
Brazil	Gemplus Bank Note Ltda	Indirect	22%
Brazil	Gemplus do Brasil Produtos Electronicos Ltda	Indirect	43%
British Virgin Islands	Axalto Cards & Terminals Ltd	Indirect	100%
British Virgin Islands	Axalto Technology Ltd	Indirect	100%
Canada	Axalto Canada Ltd	Direct	100%
Canada	Gemplus Canada Inc	Indirect	43%
Canada	Solutions Fides	Indirect	21%
China	Axalto (Beijing) Smart Cards Technology Co. Ltd	Indirect	100%
China	Gemplus Beijing Electronics Research and Development Co. Ltd	Indirect	43%
China	Gemplus China Investment Co. Ltd	Indirect	43%
China	Gemplus International Trading Shanghai Co. Ltd	Indirect	43%
China	Gemplus Tianjin New Technologies Co. Ltd	Indirect	43%
China	Goldpac Datacard Solutions Zhuhai Co. Ltd	Indirect	29%
China	Goldpac SecurCard Zhuhai Co. Ltd	Indirect	29%
China	Hunan Telecommunications Equipment Co. Ltd	Indirect	100%
China	Shanghai Axalto IC Cards Technology Co. Ltd	Indirect	51%
China	Shanghai Solaic Smart Card Co. Ltd	Indirect	31%
China	Silver Dragon Microelectronics Co. Ltd	Indirect	43%
China	Tianjin Gemplus Smart Card Co. Ltd	Indirect	22%
Colombia	Gemplus de Colombia S.A.	Indirect	43%
Czech Republic	Axalto S.R.O.	Direct	100%
Czech Republic	Gemplus S.R.O.	Indirect	43%
Denmark	Setec Danmark A/S	Indirect	39%
Egypt	Makxalto Advanced Card Technology	Direct	34%
Finland	Gemplus Nordic Oy	Indirect	43%
Finland	Setec Corporate Holding Oy	Indirect	43%
Finland	Setec Oy	Indirect	43%
France	Atchik-Realtime	Indirect	10%
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	Electronics Transactions Integration Services S.A.	Indirect	100%
France	Gemplus Participations S.A.	Indirect	43%
France	Gemplus S.A.	Indirect	43%
France	Gemplus Trading S.A.	Indirect	43%
France	Gkard S.A.S.	Indirect	22%
France	Immotec Systemes S.A.S.	Indirect	21%
France	Netsize S.A.	Indirect	11%
France	Setelis S.A.	Indirect	9%
France	SLP S.A.S.	Indirect	43%
France	ST GEM GIE	Indirect	22%

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

France	Trusted Logic S.A.	Indirect	34%
France	Welcome Real Time S.A.	Indirect	21%
France	Xiring S.A.	Indirect	23%
Germany	Axalto GmbH	Direct	100%
Germany	Celo communications GmbH	Indirect	43%
Germany	CLM GmbH	Indirect	22%
Germany	CLM GmbH & Co KG	Indirect	22%
Germany	Gemplus GmbH	Indirect	43%
Gibraltar	Zenzus Holdings Ltd	Indirect	43%
Hong Kong	Axalto Technologies Asia Ltd	Direct	100%
Hong Kong	CP8 Hong Kong Ltd	Indirect	100%
Hong Kong	Gemplus Goldpac Group Ltd	Indirect	29%
Hong Kong	Goldpac Datacard Solutions Co. Ltd	Indirect	29%
Hungary	Axalto 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 Ptd Ltd	Indirect	43%
Indonesia	PT Axalto Indonesia	Indirect	100%
Ireland	Celocom Limited	Indirect	43%
Italy	Axalto SPA	Direct	100%
Italy	Gemplus Italia Srl	Indirect	43%
Japan	Axalto KK	Direct	100%
Japan	Gemplus Japan Co. Ltd	Indirect	43%
Japan	SPOM Japan KK	Indirect	100%
Japan	Toppan Gemplus Services Co. Ltd	Indirect	22%
Luxembourg	Gemplus Finance S.A.	Indirect	43%
Luxembourg	Gemplus International S.A.	Direct	43%
Malaysia	Axalto (M) Sdn Bhd	Direct	100%
Malaysia	Axalto International Ltd	Indirect	100%
Malaysia	Gemcard Sdn Bhd Pte Ltd	Indirect	43%
Mexico	Axalto Cards Mexico S.A. de CV	Indirect	100%
Mexico	Concesionaria Renave S.A. de CV	Indirect	9%
Mexico	CP8 Mexico S.A. de CV	Indirect	100%
Mexico	Distribucion S.A. de CV	Direct	100%
Mexico	Gemplus Industrial S.A. de CV	Indirect	43%
Netherlands	Axalto B.V.	Direct	100%
Netherlands	Celo communications B.V.	Indirect	43%
Netherlands	Gemplus B.V.	Indirect	43%
Netherlands Antilles	Cards & Terminals N.V.	Direct	100%
Norway	Setec Norge AS	Indirect	43%
Panama	Axalto Eastern Holdings Inc.	Indirect	100%
Philippines	Axalto Philippines Inc.	Indirect	100%
Poland	Gemplus Pologne Sp.zo.o.	Indirect	43%
Poland	Gemplus Sp.zo.o.	Indirect	43%
Poland	Gemrokitki Sp.zo.o.	Indirect	43%
Poland	Polski Plastik Sp.zo.o.	Indirect	43%
Russia	Gemplus LLC	Indirect	43%
Singapore	Axalto Singapore Pte Ltd	Direct	100%
Singapore	Gemplus Asia Pacific Pte. Ltd	Indirect	43%
Singapore	Gemplus EDBV Smart Labs Management Pte ltd	Indirect	43%
Singapore	Gemplus EDBV Smart Labs Pte. Ltd	Indirect	43%
Singapore	Gemplus Microelectronics Asia Pte Ltd	Indirect	43%
Singapore	Gemplus Technologies Asia Pte Ltd	Indirect	43%
Singapore	SecurCard Gemplus Pte Ltd	Indirect	43%
South Africa	Axalto Southern Africa (Pty) Ltd	Direct	70%
South Africa	Axalto ZA Pty Ltd	Direct	100%
South Africa	Gemplus Southern Africa Pty Ltd	Indirect	43%

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

Spain	Axalto SP S.A.	Indirect	100%
Spain	Gemplus Card International España S.A.	Indirect	43%
Sweden	AB Svenska Pass	Indirect	22%
Sweden	Axalto AB	Indirect	100%
Sweden	Setec Sverige AB	Indirect	43%
Sweden	Setec Tag AB	Indirect	24%
Switzerland	Gemplus Management and Trading S.A.	Indirect	43%
Thailand	Axalto Industries (Thailand) Ltd	Indirect	100%
Thailand	Boonakarn Holdings (Thailand) Ltd	Indirect	100%
Thailand	GemCard (Thailand) Co. Ltd	Indirect	43%
Thailand	Setec Card Ltd	Indirect	43%
Turkey	Axalto Cards & Terminals Ltd Sirketi	Indirect	100%
United Arab Emirates	Gemplus Middle-East FZ-LLC	Indirect	43%
United Kingdom	Axalto Cards Ltd	Indirect	100%
United Kingdom	Axalto Terminals Ltd	Indirect	100%
United Kingdom	Axalto UK Ltd	Direct	100%
United Kingdom	Gemplus Associates International Ltd	Indirect	43%
United Kingdom	Gemplus Ltd	Indirect	43%
United States of America	Axalto CP8 Inc.	Indirect	100%
United States of America	Axalto Inc.	Direct	100%
United States of America	Gemplus Corp.	Indirect	43%
Venezuela	Gemplus Card International de Venezuela CA	Indirect	43%

For all companies listed above, the percentage of ownership is the same as the percentage of voting right except for Boonakarn Holdings (Thailand) Ltd, Netsize S.A. (France) and Welcome Real Time S.A. (France) that are held respectively at 49%, 10% and 23%.

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