



# SEMI-ANNUAL FINANCIAL REPORT AS AT JUNE 30, 2018

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## Gemalto first semester 2018 results

- Revenue at €1,387 million and profit from operations at €92 million in line with our expectations
- 2018 full year outlook confirmed
- Identity, IoT & Cybersecurity: double-digit revenue growth and strong investment to capture market opportunities
- Smartcards & Issuance: operational performance and transition plan on track

Amsterdam, August 31, 2018 at 12:00 AM - Gemalto (Euronext NL0000400653 - GTO), the world leader in digital security today announces its results for the first semester 2018.

### Key figures of the adjusted income statement

(€ in millions)	First semester 2018	First semester 2017	Year-on-year variations	
			at historical exchange rates	at constant exchange rates
Revenue	1,387	1,393	=	+6%
Gross profit	497	502	(1%)	
Operating expenses	(406)	(409)	(1%)	
Profit from operations	92	93	(1%)	
Profit margin	6.6%	6.7%	(0.1 pp)	

**Philippe Vallée, Chief Executive Officer, commented:** “Gemalto first semester results reflect the teams’ strong focus on implementing the Company’s strategic priorities.

The Company’s revenue grew organically +2%, driven by its three growing businesses in the Identity, IoT & Cybersecurity segment and as the US EMV market demand normalizes. The IoT business continued to leverage strong demand for Gemalto solutions in industrial sectors. We see good momentum in Cybersecurity, emphasizing the growing role of Gemalto’s technology in securing cloud services. In addition, the Governments business won its largest ever passport contract in the UK with Her Majesty’s Passport Office, highlighting Gemalto’s strong offering in helping governments better protect their citizens. In Smartcards & Issuance, we continue to drive the segment’s digital transformation as strong pricing discipline in removable SIM and payment cards led to a stabilizing of profit margin. We also delivered on significant milestones of our transition plan and will see their benefits in the coming quarters.

With similar trends expected in our markets in the second part of the year, our strategic priorities remain unchanged. We will continue to focus on growth opportunities in the Identity, IoT & Cybersecurity segment, leading the digital transformation and rightsizing our operations in the Smartcards & Issuance segment toward achieving our 2018 outlook.”

### Basis of preparation of financial information

#### Segment information

The Identity, IoT & Cybersecurity segment comprises businesses associated with homeland security for governments ("Governments"), IoT connectivity for industrial applications ("IoT") and cybersecurity for enterprises ("Cybersecurity").

The Smartcards & Issuance segment comprises businesses mainly associated with removable SIM cards ("SIM"), payment cards ("Payment") and their issuance services. The segment includes as well businesses associated to the digital transformation of smart cards ("Digital") such as digital payment, digital banking, remote subscription management, embedded SIM/MIM and embedded secure elements. Patents business is also included in this segment.

#### Historical exchange rates and constant currency figures

The Company sells its products and services in a very large number of countries and is commonly remunerated in other currencies than the Euro. Fluctuations in these other currencies exchange rates against the Euro have in particular a translation impact on the reported Euro value of the Company revenues. Comparisons at constant exchange rates aim at eliminating the effect of currencies translation movements on the analysis of the Group revenue by translating prior-year revenues at the same average exchange rate as applied in the current year. Revenue variations are at constant exchange rates and include the impact of currencies variation hedging program, except where otherwise noted. All other figures in this press release are at historical exchange rates, except where otherwise noted.

#### Adjusted income statement and profit from operations (PFO) non-GAAP measure

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and with section 2:362(9) of the Netherlands Civil Code.

To better assess its past and future performance, the Company also prepares an adjusted income statement where the key metric used to evaluate the business and make operating decisions over the period 2010 to 2018 is the profit from operations (PFO).

PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and impairment of intangibles resulting from acquisitions, (ii) restructuring and acquisition-related expenses, (iii) all equity-based compensation charges and associated costs; and (iv) fair value adjustments upon business acquisitions. These items are further explained as follows:

- Amortization, and impairment of intangibles resulting from acquisitions are defined as the amortization, and impairment expenses related to intangibles assets and goodwill recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant,...), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well as the rationalization and harmonization of the product and service portfolio and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of an acquisition process).
- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock Purchase plans; (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of Directors to employees; and the related costs.
- Fair value adjustments over net assets acquired are defined as the reversal, in the income statement, of the fair value adjustments recognized as a result of a business combination, as prescribed by IFRS3R. Those adjustments are mainly associated with (i) the amortization expense related to the step-up of the acquired work-in-progress and finished goods assumed at their realizable value and (ii) the amortization of the cancelled commercial margin related to deferred revenue balance acquired.

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

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

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

#### Net debt and net cash

Net debt is a non IFRS measure defined as total borrowings net of cash and cash equivalents. Net cash is a non IFRS measure defined as cash and cash equivalents net of total borrowings.

### Adjusted financial information

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. To better assess its past and future performance, the Company also prepares an adjusted income statement and uses it for daily management purposes.

Extract of the adjusted income statement	First semester 2018		First semester 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	<b>1,386.7</b>		<b>1,392.8</b>		=	+6%
Gross profit	<b>497.4</b>	<b>35.9%</b>	<b>501.9</b>	<b>36.0%</b>	(0.1 pp)	
Operating expenses	<b>(405.6)</b>	<b>(29.3%)</b>	<b>(409.1)</b>	<b>(29.4%)</b>	+0.1 pp	
EBITDA	<b>164.6</b>	<b>11.9%</b>	<b>163.3</b>	<b>11.7%</b>	+0.2 pp	
Profit from operations	<b>91.8</b>	<b>6.6%</b>	<b>92.8</b>	<b>6.7%</b>	(0.1 pp)	
Financial income	<b>(16.8)</b>		<b>(11.4)</b>			
Share of profit/(loss) from associates	<b>(0.8)</b>		<b>1.8</b>			
Non-recurring profit relating to associates			<b>10.1</b>			
Income taxes	<b>(7.7)</b>		<b>(54.3)</b>			
Net profit (excl. non-controlling interests)	<b>66.8</b>	<b>4.8%</b>	<b>39.4</b>	<b>2.8%</b>	+2.0 pp	
Basic Earnings per share (€)	<b>0.74</b>		<b>0.44</b>		+68%	
Diluted Earnings per share (€)	<b>0.73</b>		<b>0.44</b>		+66%	

Gemalto posted revenue of €1,387 million for the first semester, increasing by +6% at constant exchange rates, flat at historical exchange rates on the same period of last year. Excluding the contribution from the Identity Management Business, Gemalto's revenue grew organically +2% at constant exchange rates.

Gross profit came in at €497 million and gross profit margin was at 35.9%, at the same level when compared with the first semester of last year. This evolution essentially reflected the Smartcards & Issuance segment revenue decrease with margin erosion not being fully offset by the revenue growth in the Identity, IoT & Cybersecurity segment.

Operating expenses were down (€4) million, at (€406) million through tighter control of expenses in the Smartcards & issuance segment while the Company continued to invest in the Identity, IoT & Cybersecurity segment in line with its strategic priorities.

As a result, profit from operations was €92 million.

Gemalto's financial income was (€17) million compared to (€11) million in the first semester of 2017. The financial loss variation from last year is mainly due to the interest expenses on the debt drawn in May 2017 to finance the Identity Management Business acquisition.

Share of loss in associates was (€1) million for the first semester 2018.

Adjusted profit before income tax came in at €74 million.

Adjusted income tax expense was (€8) million in the first semester of 2018. The adjusted income tax rate was 10%, in line with the same period of last year excluding the non-cash deferred tax asset reduction.

## First semester 2018 management report

Overall, the adjusted net profit of the Company was €67 million. Consequently, adjusted basic earnings per share and adjusted diluted earnings per share came in respectively at €0.74 and €0.73.

### Reconciliation from Adjusted financial information to IFRS

Six-month period ended June 30 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	1,386,732	-	-	-	-	1,386,732
Cost of sales	(889,325)	(42,119)	(1,362)	(4,481)	-	(937,287)
<b>Gross profit</b>	<b>497,407</b>	<b>(42,119)</b>	<b>(1,362)</b>	<b>(4,481)</b>	-	<b>449,445</b>
Operating expenses	(405,644)		(10,130)	(12,206)		(427,980)
<b>Profit from operations</b>	<b>91,763</b>					
<b>Operating profit</b>		<b>(42,119)</b>	<b>(11,492)</b>	<b>(16,687)</b>	-	<b>21,465</b>

Amortization and impairment of intangibles resulting from acquisitions decreased by €426 million to (€42) million. Most of the improvement resulted from a favorable basis of comparison, as Gemalto had booked a (€425) million one-off non-cash impairment in the first semester of 2017 due to the deteriorated prospects of the removable SIM market. The €42 million charge was essentially related to the Identity Management Business and Safenet acquisitions.

Restructuring and acquisition-related expenses decreased by €25 million to (€11) million as the main actions of the transition plan were accrued in 2017. The (€11) million expenses include the costs related to the Thales project.

As a result, Gemalto recorded an operating profit of €21 million for the first semester of 2018 compared to an operating loss of (€433) million a year ago.

The income tax charge came in at (€1) million compared to (€41) million the previous year which mainly resulted from a non-cash deferred tax asset reduction following Gemalto's 2017 revised profit from operations outlook.

Net profit excluding non-controlling interests came in at €3 million for the first semester of 2018 versus a net loss of (€473) million last year. The basic earnings per share and diluted earnings per share for the first semester 2018 are €0.04 and €0.03 respectively.

### Statement of financial position and cash position variation schedule

In the first semester of 2018, operating activities generated a cash flow of €126 million before changes in working capital, a similar level to that of last year.

Changes in working capital reduced cash flow by (€14) million compared to (€1) million in 2017 as inventories level increased notably in the Governments business as a result of its fast growing backlog.

Cash used in restructuring actions and acquisition related expenses came in at (€27) million and include costs in relation with the Thales project.

Net cash generated by operating activities came in at €99 million.

## First semester 2018 management report

Capital expenditure and acquisition of intangibles represented a net cash outflow of (€67) million. Purchase of Property, Plant, and Equipment was reduced by €7 million to (€18) million and acquisition & capitalization of intangibles came in at (€48) million.

As a result, in the first semester of 2018, the Company generated free cash flow of €32 million compared to €50 million for the same period of 2017. Combined with the cash used in other investing activities, total cash generated by operating and investing activities amounted to €28 million.

Financing activities consumed (€83) million of cash mainly through a reduction in debt.

Cash in hand, net of bank overdrafts amounted to €248 million as at June 30, 2018.

Considering the €881 million total amount of borrowings as at June 30, 2018, Gemalto's net debt position decreased to €633 million compared to a net debt position of €684 million as at December 31, 2017. The €51 million reduction in net debt is due the combination of the Company's free cash flow generation over the last six months and the positive contribution of derivative financial instruments.

### Segment information

Outlined below is the segment information for the second quarter and the first semester 2018. Revenue variations are expressed at constant currency exchange rates unless otherwise noted.

Gemalto posted revenue of €1,387 million for the first semester, increasing by +6% at constant exchange rates, flat at historical exchange rates on the same period of last year. Excluding the contribution from the Identity Management Business, Gemalto's revenue grew organically +2% at constant exchange rates. The Company's top line growth was supported by a strong revenue increase in the Identity, IoT & Cybersecurity segment and the US EMV market demand normalization.

<b>Second quarter 2018</b> (€ in millions)	<b>Total</b>	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	<b>737</b>	351	386
At constant rates	<b>5%</b>	+16%	(4%)
At historical rates	<b>(1%)</b>	+11%	(9%)

During the second quarter, revenue was €737 million, up +5% at constant exchange rates.

The Identity, IoT & Cybersecurity segment's revenue came in at €351 million, increasing +16% at constant exchange rates compared to the previous year.

The Smartcards & Issuance segment posted revenue of €386 million, (4%) lower at constant exchange rates.

<b>First semester 2018</b> (€ in millions)	<b>Total</b>	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	<b>1,387</b>	644	743
At constant rates	<b>+6%</b>	+20%	(3%)
At historical rates	<b>=</b>	+12%	(9%)

In the first semester, revenue grew +6% year-on-year at constant exchange rate. This evolution resulted from strong revenue growth in Enterprise, IoT and Governments including the acquired Identity Management Business coupled to a slowing down in the rate of revenue decrease in the removable SIM businesses and stabilizing Payment business.

The Identity, IoT & Cybersecurity segment's revenue came in at €644 million, increasing +20% compared to the previous year. The backlog in this segment continued to increase driven by solid wins, notably in the Governments business.

The Smartcards & Issuance segment posted revenue of €743 million, (3%) lower at constant exchange rates.

<b>Profit from operations</b> (€ in millions)	<b>Total</b>	Identity, IoT & Cybersecurity	Smartcards & issuance
<b>First semester</b>	<b>92</b>	49	43
As a percentage of the total profit from operations	<b>100%</b>	54%	46%

First semester profit from operations came in at €92 million at around the same level as last year, as the favorable business mix evolution towards Identity, IoT & Cybersecurity was offset by weaker performance in the Smartcards & Issuance segment's digital business.



## First semester 2018 management report

The contribution of the Identity, IoT & Cybersecurity segment to the Company's total profit from operations was 54% for this semester compared to 44% at the same period of last year.

### Identity, IoT & Cybersecurity

	First semester 2018		First semester 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	643.6		572.4		+12%	+20%
Gross profit	265.2	41.2%	237.9	41.6%	(0.4 pp)	
Operating expenses	(215.9)	(33.5%)	(197.1)	(34.4%)	+1.1 pp	
Profit from operations	49.3	7.6%	40.7	7.1%	+0.5 pp	

Identity, IoT and Cybersecurity revenue came in at €644 million, up +20% at constant exchange rates compared to 2017.

In the first semester, the Governments business posted very strong revenue growth compared with the same period of last year. The positive evolution was due to the contribution of the Identity Management Business and substantial secure document deliveries in Europe, Asia, and Africa offsetting a weaker performance in the Middle East. In the second quarter, Gemalto initiated first deliveries of its commercial biometric solutions to a large banking customer. Gemalto also won its largest ever passport contract with the United Kingdom Home Office. The contract spans 11.5 years, including 10 years of production and issuance services. In addition, Gemalto's Live Face Identification System (LFIS) solution excelled at the 2018 biometrics rally, sponsored by the US Department of Homeland Security's (DHS). These results highlight Gemalto's innovation capabilities and unmatched offering, aimed at helping government better protect their citizens.

The Cybersecurity business delivered a strong performance this semester. It was driven by a growing number of encryption and key management software deployments in Europe in light of the new regulatory environment deadline and more broadly as data privacy and data security continue to be a key focus for global organizations. The software monetization sub-business also posted a solid performance supported by large projects in Europe and Asia. The authentication sub-business revenue decreased slightly this semester as the ongoing shift in its product mix from hardware to software continued to progress.

The IoT business posted an outstanding revenue performance in the first semester. The increase was driven by strong deliveries in Europe and Asia to large customers in a variety of key industrial sectors that extend Gemalto's traditional strong foothold in the automotive market. New design wins recorded this semester reflect Gemalto's strong position and continuous investment in its portfolio which enable the Company to further leverage the sustained market demand.

Overall, the Identity, IoT & Cybersecurity segment's gross profit was up +11% at €265 million, gross margin came in at 41.2%, driven notably by a full semester's positive contribution of the Identity Management Business.

The operating expenses for the segment increased by €19 million, up +10% compared with the same period of last year. This increase was mainly due to the full semester integration of the Identity Management Business' operating expenses, continuous R&D investments in the Governments and IoT businesses as well as to the development of the Cybersecurity business' sales channel.

As a result, profit from operations in the Identity, IoT & Cybersecurity segment came in at €49 million and profit from operations margin settled at 7.6% for the first semester of 2018.

### Smartcards & Issuance

	First semester 2018		First semester 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates

## First semester 2018 management report

Revenue	<b>743.1</b>		820,4		(9%)	(3%)
Gross profit	<b>232.2</b>	<b>31.2%</b>	264.1	32.2%	(1 pp)	
Operating expenses	<b>(189.8)</b>	<b>(25.5%)</b>	(212.0)	(25.8%)	+0.3 pp	
Profit from operations	<b>42.5</b>	<b>5.7%</b>	52.1	6.3%	(0.6 pp)	

Smartcards & Issuance first semester revenue came in at €743 million, (3%) lower year-on-year at constant exchange rates.

As expected, the Payment business stabilized this semester. This performance was driven by the return of the US EMV market's demand to a normal pattern combined with strong shipments sales in the CIS, Middle East and Latin America regions. These increases offset performance in Europe, marked by lesser renewal programs, and lower sales in Asia. Removable SIM revenue continued to decrease this semester as a result of the first impact of the exit of a specific low-end SIM market and more broadly as low profit-margin opportunities were dismissed. As SIM market trends look unchanged, Gemalto continues to adjust its operational cost and selective business opportunities' approach to achieve stable profit margin for this segment.

The Digital business revenue was down year-on-year essentially due to lower performance in Digital Banking and Digital Payment services and the first impact of the discontinuation of a payment sub-business as part of the transition plan. Connectivity solutions infrastructure deployments increased in key sectors of the IoT market while the need for On Demand Connectivity (ODC) services gradually spreads to all regions and mobile network operators. In the payment market, Gemalto announced the enabling of Hong Kong's Octopus card through Samsung Pay via its Trusted Service Hub (TSH), another landmark program that follows the recent successes in Japan and Spain, and that confirms the competitiveness of Gemalto's digital offer in this transforming market.

The Smartcards & Issuance segment's gross profit was down (12%) at €232 million and gross margin came in at 31%, down (1) percentage point compared to the same period of last year.

Operating expenses decreased by (€22) million down to (€190) million in the first semester 2018, reflecting initial benefits of the transition plan.

As a result, the Smartcards & Issuance segment's profit from operations for the first semester of 2018 was €42 million and its profit from operations margin settled at 5.7%.

### Thales combination

In December 2017 Thales and Gemalto reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto. This offer was launched on March 27, 2018. Gemalto is working together with Thales towards achieving the regulatory and antitrust approvals required to complete the transaction. Thales expects the transaction to close by year end 2018, after it has secured all customary regulatory approvals and clearances. More information on the Thales offer and the integration, including the offer document and related press releases, can be found on Gemalto's website at [Public Offer by Thales](#).

### 2018 full year outlook confirmed

- **Double digit revenue growth** expected in the Identity, IoT & Cybersecurity segment
- **Stable PFO margin** expected in the Smartcards & Issuance segment
- **Mid to High single digit growth in profit from operations** expected at Gemalto level

### Additional information

Below is a highlight of new contracts and achievements published by the Company in the first semester 2018

#### Identity, IoT & Cybersecurity

January 9, 2018	Gemalto LTE-M wireless module earns AT&T certification expanding highly efficient cellular connectivity for IoT devices
March 21, 2018	Gemalto unveils two new enhanced security features for ID documents
April 11, 2018	More than 2.5 billion records stolen or compromised in 2017
April 17, 2018	Gemalto to protect 5G next generation networks from cyber-attacks with Intel® Software Guard Extensions
April 23, 2018	Gemalto awarded multi-year service contract for British passports
May 03, 2018	Gemalto's biometric authentication technology revolutionizes automated border control in Colombia
May 14, 2018	Gemalto strengthens trust in smart energy with its new end-to-end security solution
June 6, 2018	Gemalto launches virtualized network encryption platform to help customers address evolving data security needs
June 13, 2018	Gemalto facial recognition solution excels at US Department of Homeland security 2018 Biometric Rally
June 21, 2018	Gemalto and Faraday Future work together to deploy secure, connected vehicles

#### Smartcards & Issuance

January 4, 2018	Gemalto launches the first biometric EMV card for contactless payments
January 31, 2018	Gemalto's Discovery Service boosts on-demand connectivity activation for consumer devices worldwide
February 27, 2018	Telefonica Deutschland selects Gemalto solution to deliver identity verification service
March 6, 2018	Korea Telecom selects Gemalto to deliver out-of-box connectivity for connected cars
March 19, 2018	Dai Nippon Printing chooses Gemalto's biometric facial recognition solution to facilitate mobile banking access in Japan
April 26, 2018	Gemalto enables digitization of Hong Kong's Octopus card into Samsung Pay
May 28, 2018	Gemalto announces collaboration with Qualcomm Technologies to integrate eSIM innovation into the Snapdragon Mobile PC Platform

### **Transactions with related parties**

For disclosure regarding transactions with related parties, reference is made to the note 24 to the interim condensed consolidated financial statements as at June 30, 2018.

### **Risks and uncertainties**

In our Annual Report 2017, we have extensively described certain risk categories and risk factors which could have a material adverse effect on the Company's financial position and results. Those risk categories and risk factors are deemed incorporated and repeated in this report by reference.

For the second semester 2018, we currently believe none of them should be particularly emphasized.

Additional risks not known to us, or currently believed not to be material, could later turn out to have a material impact on our businesses, objectives, revenues, incomes, assets, liquidity or capital resources.

Appendix 1

Reconciliation from Adjusted financial information to IFRS

Six-month period ended June 30 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
<b>Revenue</b>	<b>1,386,732</b>	-	-	-	-	<b>1,386,732</b>
Cost of sales	(889,325)	(42,119)	(1,362)	(4,481)		(937,287)
<b>Gross profit</b>	<b>497,407</b>	<b>(42,119)</b>	<b>(1,362)</b>	<b>(4,481)</b>	-	<b>449,445</b>
<b>Operating expenses</b>	<b>(405,644)</b>		(10,130)	(12,206)		<b>(427,980)</b>
<b>Profit from operations</b>	<b>91,763</b>					
<b>Operating profit</b>		<b>(42,119)</b>	<b>(11,492)</b>	<b>(16,687)</b>	-	<b>21,465</b>
Financial income	(16,771)					(16,771)
Share of profit / (loss) from associates	(839)					(839)
Non-recurring profit / (loss) relating to associates						
Income Tax	(7,749)					(1,103)
<b>Net profit adjusted</b>	<b>66,404</b>					<b>2,752</b>
Non-controlling interests	(445)					(445)
<b>Net profit excluding non-controlling interests</b>	<b>66,849</b>					<b>3,197</b>
Number of shares Basic	90,237					90,237
Number of shares Diluted	91,631					91,631
EPS Basic (€)	0.74					0.04
EPS Diluted (€)	0.73					0.03

## First semester 2018 management report

Six-month period ended June 30 2017 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
<b>Revenue</b>	<b>1,392,842</b>	-	-	-	-	<b>1,392,842</b>
Cost of sales	(890,920)	(43,580)	(11,692)	(5,172)	(1,042)	(952,406)
<b>Gross profit</b>	<b>501,922</b>	<b>(43,580)</b>	<b>(11,692)</b>	<b>(5,172)</b>	<b>(1,042)</b>	<b>440,436</b>
<b>Operating expenses</b>	<b>(409,147)</b>	<b>(424,671)</b>	<b>(24,940)</b>	<b>(14,662)</b>		<b>(873,420)</b>
<b>Profit from operations</b>	<b>92,775</b>					
<b>Operating profit</b>		<b>(468,251)</b>	<b>(36,632)</b>	<b>(19,834)</b>	<b>(1,042)</b>	<b>(432,984)</b>
Financial income	(11,420)					(11,420)
Share of profit / (loss) from associates	1,773					1,773
Non-recurring profit / (loss) relating to associates	10,105					10,105
Income Tax	(54,262)					(41,225)
<b>Net profit adjusted</b>	<b>38,972</b>					<b>(473,751)</b>
Non-controlling interests	(459)					(459)
<b>Net profit excluding non-controlling interests</b>	<b>39,431</b>					<b>(473,292)</b>
Number of shares Basic	89,837					89,837
Number of shares Diluted	90,195					90,195
EPS Basic (€)	0.44					(5.27)
EPS Diluted (€)	0.44					(5.27)
*Adjusted from deferred tax asset reduction			**Adjusted from impairments and deferred tax asset reduction			
EPS Basic (€)	*0.91					**0.01
EPS Diluted (€)	*0.90					**0.01

The first semester 2017 adjusted basic earnings per share is determined on the basis of the weighted average number of Gemalto shares outstanding during the six-month period ended June 30, 2017, i.e. 89,836,968 shares. The first semester 2017 adjusted diluted earnings per share is determined by using 90,194,882 shares corresponding to the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding and considering that all outstanding share based instruments were exercised (892,434 instruments) and the proceeds received from the instruments exercised (€29,179,802) were used to buy-back shares at the average share price of the first semester 2017 (534,520 shares) at €54.59.

**Appendix 2**

**Interim consolidated statement of financial position**

(€ in thousands)	June 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	296,507	316,426
Goodwill	1,497,345	1,468,214
Intangible assets	731,288	757,814
Investments in associates	7,192	8,542
Deferred income tax assets	53,310	37,818
Other investment	33,665	39,183
Other non-current assets	81,128	79,584
Derivative financial instruments	369	0
<b>Total non-current assets</b>	<b>2,700,804</b>	<b>2,707,581</b>
<b>Current assets</b>		
Inventories	251,432	226,339
Trade and other receivables	994,780	998,500
Derivative financial instruments	10,712	55,633
Cash and cash equivalents	251,125	320,675
<b>Total current assets</b>	<b>1,508,049</b>	<b>1,601,147</b>
<b>Total assets</b>	<b>4,208,853</b>	<b>4,308,728</b>
<b>Equity</b>		
Share capital	90,786	90,424
Share premium	1,330,696	1,303,799
Treasury shares	(6,592)	(10,721)
Fair value and other reserves	(167)	32,574
Cumulative translation adjustments	(62,111)	(74,485)
Retained earnings	836,120	834,368
<b>Capital and reserves attributable to the owners of the Company</b>	<b>2,188,732</b>	<b>2,175,959</b>
Non-controlling interests	2,440	3,375
<b>Total equity</b>	<b>2,191,172</b>	<b>2,179,334</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	721,100	717,986
Deferred tax liabilities	103,308	102,081
Employee benefit obligations	128,319	126,716
Provisions and other liabilities	127,249	129,972
Derivative financial instruments	1,105	-
<b>Total non-current liabilities</b>	<b>1,081,081</b>	<b>1,076,755</b>
<b>Current liabilities</b>		
Borrowings	163,317	286,788
Trade and other payables	680,039	682,248
Current income tax liabilities	20,810	27,930
Provisions and other liabilities	40,161	52,261
Derivative financial instruments	32,273	3,412
<b>Total current liabilities</b>	<b>936,600</b>	<b>1,052,639</b>
<b>Total liabilities</b>	<b>2,017,681</b>	<b>2,129,394</b>
<b>Total equity and liabilities</b>	<b>4,208,853</b>	<b>4,308,728</b>

**Appendix 3**



Cash position variation schedule

€ in millions	Six-month period ended June 30	
	2018	2017
<b>Cash and bank overdrafts, beginning of period</b>	<b>302</b>	<b>663</b>
Cash generated by operating activities, before changes in working capital	126	121
Net change in working capital	(14)	(1)
Cash used in restructuring actions and acquisition related expenses	(27)	(23)
<b>Net cash generated by operating activities before Time de-correlated hedging effect / (Prepaid derivatives)</b>	<b>84</b>	<b>97</b>
Time de-correlated hedging effect / (Prepaid derivatives)	15	21
<b>Net cash generated by operating activities</b>	<b>99</b>	<b>118</b>
Capital expenditure and acquisitions of intangibles	(67)	(68)
<b>Free cash flow</b>	<b>32</b>	<b>50</b>
Interest received	1	1
Cash used by acquisitions	(2)	(761)
Other cash provided by investing activities	(1)	0
Currency translation adjustments	(2)	(7)
<b>Cash generated (used) by operating and investing activities</b>	<b>28</b>	<b>(717)</b>
Cash generated (used) by the liquidity and share buy-back program	0	(0)
Dividend paid to Gemalto shareholders	0	(45)
Net proceed (repayment) from/of financing instruments	(78)	334
Interest paid	(4)	(2)
Other cash provided (used) by financing activities	(0)	3
<b>Cash and bank overdrafts, end of period</b>	<b>248</b>	<b>236</b>
Current and non-current borrowings excluding bank overdrafts, end of period	(881)	(1,074)
<b>Net (debt), cash, end of period</b>	<b>(633)</b>	<b>(838)</b>

**Appendix 4**

**Revenue by region**

<b>First semester</b> € in millions	<b>First semester</b> <b>2018</b>	First semester 2017	Year-on-year variations	
			at constant exchange rates	at historical exchange rates
Europe, Middle East and Africa	<b>661</b>	<b>636</b>	+6%	+4%
Americas	<b>478</b>	<b>469</b>	+14%	+2%
Asia	<b>248</b>	<b>288</b>	(6%)	(14%)
<b>Total revenue</b>	<b>1,387</b>	<b>1,393</b>	(6%)	(0%)

<b>Second quarter</b> € in millions	<b>Second quarter</b> <b>2018</b>	Second quarter 2017	Year-on-year variations	
			at constant exchange rates	at historical exchange rates
Europe, Middle East and Africa	<b>353</b>	<b>349</b>	+3%	+1%
Americas	<b>257</b>	<b>247</b>	+14%	+4%
Asia	<b>121</b>	<b>146</b>	(6%)	(13%)
<b>Total revenue</b>	<b>737</b>	<b>742</b>	5%	(1%)

**Interim condensed consolidated financial  
statements as at June 30, 2018 (unaudited)**

## Interim consolidated statement of financial position (unaudited)

In thousands of Euro	Notes	June 30, 2018	December 31, 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	296,507	316,426
Goodwill	8	1,497,345	1,468,214
Intangible assets	8	731,288	757,814
Investments in associates		7,192	8,542
Deferred tax assets		53,310	37,818
Other investments		33,665	39,183
Other non-current assets		81,128	79,584
Derivative financial instruments	6	369	-
<b>Total non-current assets</b>		<b>2,700,804</b>	<b>2,707,581</b>
<b>Current assets</b>			
Inventories	9	251,432	226,339
Trade and other receivables	10	994,780	998,500
Derivative financial instruments	6	10,712	55,633
Cash and cash equivalents	11	251,125	320,675
<b>Total current assets</b>		<b>1,508,049</b>	<b>1,601,147</b>
<b>Total assets</b>		<b>4,208,853</b>	<b>4,308,728</b>
<b>Equity</b>			
Share capital		90,786	90,424
Share premium		1,330,696	1,303,799
Treasury shares		(6,592)	(10,721)
Fair value and other reserves		(167)	32,574
Cumulative translation adjustments		(62,111)	(74,485)
Retained earnings		836,120	834,368
<b>Capital and reserves attributable to the owners of the Company</b>		<b>2,188,732</b>	<b>2,175,959</b>
<b>Non-controlling interests</b>		<b>2,440</b>	<b>3,375</b>
<b>Total equity</b>		<b>2,191,172</b>	<b>2,179,334</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	12	721,100	717,986
Deferred tax liabilities		103,308	102,081
Employee benefit obligations		128,319	126,716
Provisions and other liabilities	13	127,249	129,972
Derivative financial instruments	6	1,105	-
<b>Total non-current liabilities</b>		<b>1,081,081</b>	<b>1,076,755</b>
<b>Current liabilities</b>			
Borrowings	12	163,317	286,788
Trade and other payables	14	680,039	682,248
Current income tax liabilities		20,810	27,930
Provisions and other liabilities	15	40,161	52,261
Derivative financial instruments	6	32,273	3,412
<b>Total current liabilities</b>		<b>936,600</b>	<b>1,052,639</b>
<b>Total liabilities</b>		<b>2,017,681</b>	<b>2,129,394</b>
<b>Total equity and liabilities</b>		<b>4,208,853</b>	<b>4,308,728</b>

## Interim consolidated statement of comprehensive income (unaudited)

		Six-month period ended June 30,	
		2018	2017
In thousands of Euro (except earnings per share)			
	Notes		
<b>Revenue</b>		<b>1,386,732</b>	<b>1,392,842</b>
Cost of sales		(937,287)	(952,406)
<b>Gross profit</b>		<b>449,445</b>	<b>440,436</b>
<b>Operating expenses</b>			
Research and engineering		(99,493)	(100,907)
Sales and marketing		(233,662)	(246,283)
General and administrative		(93,868)	(104,490)
Other income		5,028	2,931
Other expense		(5,985)	(424,671)
<b>Operating profit</b>		<b>21,465</b>	<b>(432,984)</b>
Financial income (expense), net	17	(16,771)	(11,420)
Share of profit of associates		(839)	1,773
Impairment of associates		-	10,105
<b>Profit before income tax</b>		<b>3,855</b>	<b>(432,526)</b>
Income tax (expense)	18	(1,103)	(41,225)
<b>Profit (loss) for the period</b>		<b>2,752</b>	<b>(473,751)</b>
Attributable to:			
Owners of the Company		3,197	(473,292)
Non-controlling interests		(445)	(459)
<b>Earnings per share</b>			
Basic earnings per share	19	0.04	(5.27)
Diluted earnings per share	19	0.03	(5.27)
Weighted average number of shares outstanding (in thousands)	19	90,237	89,837
Weighted average number of shares outstanding assuming dilution (in thousands)	19	91,631	89,837

## Interim consolidated statement of comprehensive income (unaudited)

In thousands of Euro	Six-month period ended June 30,	
	2018	2017
<b>Profit (loss) for the period</b>	<b>2,752</b>	<b>(473,751)</b>
<b>Other comprehensive income (loss) that can be reclassified to income statement:</b>		
Currency translation adjustments	15,399	(82,066)
Currency translation adjustments: (credited) / charged to financial (income), expense, net	(3,507)	(12,685)
Effective portion on cash flow hedging (credited) / charged to gross profit	(6,789)	17,285
Ineffective portion on cash flow hedging (credited) / charged to gross profit	(18)	-
Effective portion on cash flow hedging	(2,100)	66,109
Ineffective portion on cash flow hedging	(423)	-
Deferred tax on cash flow hedging	-	(12,968)
Equity securities – net change in fair value	(5,518)	(7,359)
Currency translation differences on other comprehensive income items	(49)	1,005
<b>Other comprehensive income (loss) that cannot be reclassified to income statement:</b>		
Remeasurement of defined benefit obligations	(403)	(303)
Deferred tax on remeasurement of defined benefit obligations	(135)	335
<b>Total other comprehensive income (loss) for the period, net of tax</b>	<b>(3,543)</b>	<b>(30,647)</b>
<b>Total comprehensive income (loss) for the period, net of tax</b>	<b>(791)</b>	<b>(504,398)</b>
<b>Attributable to:</b>		
Owners of the Company	144	(503,480)
Non-controlling interests	(935)	(918)

## Interim consolidated statement of changes in equity (unaudited)

	Number of shares <sup>1</sup>		Attributable to owners of the Company					Non-controlling interests	Total equity	
	Issued	Outstanding	Share capital	Share premium	Treasury shares	Fair value and other reserves	Cumulative translation adjustments			Retained earnings
In thousands of Euro										
<b>Balance as at January 1, 2018</b>	<b>90,423,814</b>	<b>90,084,771</b>	<b>90,424</b>	<b>1,303,799</b>	<b>(10,721)</b>	<b>32,574</b>	<b>(74,485)</b>	<b>834,368</b>	<b>3,375</b>	<b>2,179,334</b>
Profit (loss) for the period								3,197	(445)	2,752
Other comprehensive income (loss)						(15,427)	12,374		(490)	(3,543)
<b>Total comprehensive income (loss)</b>						<b>(15,427)</b>	<b>12,374</b>	<b>3,197</b>	<b>(935)</b>	<b>(791)</b>
Issuance of ordinary shares to fund equity-based compensation plans	362,142	362,142	362	26,897		(27,259)				-
Equity-based compensation charge, equity-settled						12,644				12,644
Other net assets change from associates								(8)		(8)
Employee share option plans		134,498			4,129	(2,699)				1,430
Purchase of Treasury shares, net					-					-
Adjustment on initial application of IFRS 15 (net of tax)								(1,437)		(1,437)
<b>Balance as at June 30, 2018</b>	<b>90,785,956</b>	<b>90,581,411</b>	<b>90,786</b>	<b>1,330,696</b>	<b>(6,592)</b>	<b>(167)</b>	<b>(62,111)</b>	<b>836,120</b>	<b>2,440</b>	<b>2,191,172</b>
<b>Balance as at January 1, 2017</b>	<b>89,928,639</b>	<b>89,210,804</b>	<b>89,929</b>	<b>1,291,795</b>	<b>(29,042)</b>	<b>(59,872)</b>	<b>74,265</b>	<b>1,303,176</b>	<b>5,196</b>	<b>2,675,447</b>
Profit (loss) for the period								(473,292)	(459)	(473,751)
Other comprehensive income (loss)						64,104	(94,292)		(459)	(30,647)
<b>Total comprehensive income (loss)</b>						<b>64,104</b>	<b>(94,292)</b>	<b>(473,292)</b>	<b>(918)</b>	<b>(504,398)</b>
Issuance of ordinary shares to fund equity-based compensation plans	495,175	495,175	495	18,024		(18,519)				-
Equity-based compensation charge, equity-settled						18,517				18,517
Other net assets change from associates								28		28
Employee share option plans		238,039			7,160	(1,337)				5,823
Purchase of Treasury shares, net		(17,000)			(1,320)	865				(455)
Non-controlling interests upon 3M's IMB acquisition									40	40
Excess of purchase price on subsequent acquisition of non-controlling interests				(1,540)					(1,841)	(3,381)
Reclassification of the OCI to retained earnings						(23)		23		-
Dividend paid to owners of the Company								(44,964)		(44,964)
<b>Balance as at June 30, 2017</b>	<b>90,423,814</b>	<b>89,927,018</b>	<b>90,424</b>	<b>1,308,279</b>	<b>(23,202)</b>	<b>3,735</b>	<b>(20,027)</b>	<b>784,971</b>	<b>2,477</b>	<b>2,146,657</b>

<sup>1</sup> As at June 30, 2018 and 2017, the difference between the number of shares issued and the number of shares outstanding corresponds to the shares held in treasury, 204,545 and 496,796 respectively.

## Interim consolidated cash flow statement (unaudited)

In thousands of Euro	Notes	Six-month period ended June 30,	
		2018	2017
<b>Profit (loss) for the period including non-controlling interests</b>		<b>2,752</b>	<b>(473,751)</b>
Adjustment for:			
Income tax	18	1,103	41,225
Research tax credit		(6,893)	(7,698)
Depreciation and amortization	7,8	114,952	105,316
Equity-based compensation charge, equity settled		12,644	18,517
Gains and losses on sale of fixed assets and write-offs		2,139	32
Gain on sale of non-core business		(110)	-
Impairment charge	8	-	433,415
Cumulated translation adjustment transferred to financial income upon liquidation of consolidated entities		(3,507)	(12,685)
Net movement in provisions and other liabilities		(10,856)	6,875
Employee benefit obligations		833	513
Interest income	17	(1,628)	(1,504)
Interest expense and other financial expense	17	6,749	6,348
Share of profit from associates		839	(1,773)
Impairment of associates		-	(10,105)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation):			
Inventories		(25,130)	(4,764)
Trade and other receivables		16,825	35,735
Derivative financial instruments		16,522	24,785
Trade and other payables		(7,658)	(34,335)
<b>Cash generated from operations</b>		<b>119,576</b>	<b>126,146</b>



## Interim consolidated cash flow statement (unaudited)

In thousands of Euro	Notes	Six-month period ended June 30,	
		2018	2017
<b>Cash generated from operations</b>		<b>119,576</b>	<b>126,146</b>
Income tax paid		(20,865)	(7,990)
<b>Net cash provided by operating activities</b>		<b>98,711</b>	<b>118,156</b>
<b>Cash flows provided by (used in) investing activities</b>			
Acquisition of business and subsidiaries, net of cash acquired		(3,376)	(756,767)
Purchase of property, plant and equipment		(22,002)	(25,388)
Proceeds from sale of property, plant and equipment		3,515	220
Acquisition and capitalization of intangible assets		(48,424)	(43,243)
Proceeds from, (increase in) other non-current assets		1,105	227
Purchase of, contribution to investments in associate		(250)	(4,505)
Loan to investment in associates		(2,450)	-
Proceeds from sale of a subsidiary		1,899	-
Interest received		1,004	1,065
Dividends received from investments in associates		53	84
<b>Net cash used in investing activities</b>		<b>(68,926)</b>	<b>(828,307)</b>
<b>Cash flows provided by (used in) financing activities</b>			
Acquisition of non-controlling interests in subsidiaries		-	(3,381)
Proceed from issuance of private placements		-	92,605
Proceed from drawdown of commercial paper	12	410,000	280,000
Repayment of commercial paper	12	(520,000)	(109,000)
Proceeds from exercise of share options		1,430	5,823
Purchase of Treasury shares		-	(455)
Collection (payment) of Fair Value hedge Mark-to-Market		31,988	(9,484)
Proceed from term loan		-	80,000
Proceed, (repayments), of borrowings		(1,772)	425
Interest paid		(4,323)	(1,851)
Dividends paid to owners of the Company		-	(44,964)
<b>Net cash provided by /(used in) financing activities</b>		<b>(82,677)</b>	<b>289,718</b>
<b>Cash and bank overdrafts, beginning of period</b>	<b>11</b>	<b>302,365</b>	<b>663,016</b>
<b>Net increase (decrease) in cash and bank overdrafts</b>		<b>(52,892)</b>	<b>(420,433)</b>
Currency translation effect on cash and bank overdrafts		(1,652)	(6,879)
<b>Cash and bank overdrafts, end of period</b>	<b>11</b>	<b>247,821</b>	<b>235,704</b>

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## Notes to the interim condensed consolidated financial statements

All amounts are stated in thousands of Euro, except per share amounts which are stated in Euro and unless otherwise stated.

The notes below are integral part of these interim consolidated financial statements.

### Note 1. General information

Gemalto, a world leader in digital security, is at the heart of our evolving digital society. Gemalto brings trust to an increasingly connected world. From secure software to biometrics and encryption, our technologies and services enable businesses and governments to authenticate identities and protect data so they stay safe and enable services in personal devices, connected objects, the cloud and in between. Gemalto's solutions are at the heart of modern life, from payment to enterprise security and the internet of things. We authenticate people, transactions and objects, encrypt data and create value for software – enabling our clients to deliver secure digital services for billions of individuals and things.

Gemalto is, in particular, a world leader for electronic passports and identity cards, two-factor authentication devices for online protection, smart credit/debit and contactless payment cards, as well as subscriber identification modules (SIM) and universal integrated circuit cards (UICC) for mobile phones. Also, in the emerging machine-to-machine applications, Gemalto is a leading supplier of wireless modules and machine identification modules (MIM). To operate these solutions and remotely manage the software and confidential data contained in the secure devices, Gemalto also provides server software for back office operations, operates public and private transactional platforms and offers consulting, training, customization, installation, optimization, maintenance and managed services to help its customers achieve their goals.

The Company is a public company with limited liability incorporated and domiciled in the Netherlands and is listed in the stock exchange of Amsterdam which is its primary market, where it is included in the main index, the AEX. The address of its registered office is Barbara Strozzilaan 382, 1083 HN Amsterdam, the Netherlands.

The Company's shares have been listed on Euronext Paris (Euronext NL0000400653) since 2004. These interim consolidated financial statements for the period ended June 30, 2018 have been authorized for issue by the Board on August 30, 2018.

The activity of the Group 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 year. Therefore, the financial performance of the first half of 2018 reported in these interim condensed consolidated financial statements is not necessarily indicative of the results of Gemalto for the full year 2018.

### Note 2. Basis of preparation

The interim condensed consolidated financial statements of Gemalto for the period ended June 30, 2018 have been prepared in accordance with the provisions of IAS 34 Interim Financial Reporting of the International Financial Reporting Standards (IFRS). The interim condensed consolidated financial statements do not include all the information and disclosures required for the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2017.

### Note 3. Changes in accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017 as described in the notes to the annual consolidated financial statements.

New IFRS standards and amendments to existing standards, and IFRIC Interpretations adopted by the European Union and mandatory for 2018, and not early adopted by the Group in 2017, are listed below:

- Amendments to IFRS 2 clarifications of classification and measurement of share-based payment transactions;
- Amendments to IFRS 4 amended by applying IFRS 9 with IFRS 4;

## Notes to the interim condensed consolidated financial statements

- Amendments to IAS 40 transfers of investment property;
- IFRIC 22 foreign currency transactions and advance consideration;
- Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)

The above new standards, interpretations and amendments to existing standards adopted this year by the Group did not have any significant impact on the financial statements.

- IFRS 15 Revenue from contracts with customers including amendments and clarification;

IFRS 15 establishes the accounting principles that an entity shall apply to recognize revenue from contracts with customers. It replaces the previous standards and interpretations related to revenue recognition, notably IAS 18 “Revenue”, IAS 11 “Construction contracts” and IFRIC 13 “Customer Loyalty Programmes”. The Company has adopted IFRS 15 using the modified retrospective method. Under this method, the impact of the initial application of the standard is accounted for in shareholders’ equity as of January 1, 2018, without restating comparative periods presented.

The main impact of the implementation of IFRS 15 results from contracts with multiple elements. Under IAS18 and IAS11, revenue was recognized as each element is earned based on the relative fair value of each element and when there are no undelivered element that are essential to the functionality of the delivered elements. Under IFRS15, contracts are analyzed as a single performance obligation recognized over time using a cost-to-cost method.

The following table summarizes the impact, net of tax, of the transition to IFRS 15 on retained earnings:

Retained earnings	January 1, 2018
Deferral of margin	(1,870)
Related tax	433
Impact as at January 1, 2018	(1,437)

The impact of adopting IFRS 15 on the Group’s interim statements of financial position as at June 30 2018 and its interim statement of profit and loss for the 6 months then ended amounted to €2 million before tax.

### IFRS 9 Financial instruments;

On 1 January 2018 the Group adopted IFRS 9 ‘Financial Instruments’, which replaced IAS 39 ‘Financial Instruments – Recognition and Measurement’. The Group has not restated comparative information for prior periods.

- Classification and Measurement: On 1 January 2018, we reclassified our financial assets to the new categories based on the Group’s reason for holding the assets and the nature of the cash flows from the assets. As permitted by IFRS 9, the Group has designated its equity securities held at the date of initial application as measured at fair value through other comprehensive income. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss. There have been no other changes to the classification or carrying values of the Group’s financial assets from adopting the new classification model. There have been no changes to the classification or measurement of the Group’s financial liabilities.
- Impairment: From 1 January 2018 the Group implemented an expected credit loss impairment model for financial assets. For trade receivables, our calculation methodology has been updated to consider expected losses based on the segmentation of our receivables and their relating ageing profile. The adoption of the expected loss approach has not resulted in any material change in impairment provision for any financial asset.
- Hedge accounting: The Group applied the hedge accounting requirements of IFRS 9 prospectively. At the date of initial application all of the Group’s existing hedging relationships were eligible to be treated as continuing hedge relationships. Under IAS 39, the change in fair value of the forward element of a forward exchange contracts (swap points) was recognized immediately in profit or loss. Under IFRS 9, the swap points are accounted for as a cost for hedging and the Group has elected to recognize them in the OCI. This swap points will subsequently be transferred to the statement of profit and loss and presented in the financial result upon the maturity of the forward contracts.

## Notes to the interim condensed consolidated financial statements

The application of IFRS 9 has not resulted in any significant impact for the Group as of June 30, 2018.

The Group has not applied in advance the standards, amendments or interpretations which had been adopted by the IASB or IFRSIC (« International Financial Reporting Standard Interpretations Committee ») as well as by the European Union as at June 30, 2018 and whose application is not mandatory for 2018.

The main one is related to IFRS 16 which replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

- IFRS 16 Financial instruments;

The Group has not early adopted IFRS 16 'Leases' which is effective from 1 January 2019. Our work on implementing the new lease model prescribed is in progress, and we continue to assess the potential impact of the standard on the Group's consolidated results and financial position.

### Note 4. Use of judgments and estimates

The preparation of the interim condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, Gemalto evaluates its estimates, including those related to doubtful accounts, valuation of investments and inventories, warranty obligations, recoverability of goodwill, intangible assets and property, plant and equipment, income tax provision and recoverability of deferred taxes, contingencies and litigations, and actuarial assumptions for employee benefit plans. Gemalto bases its estimates on historical experience and on various other assumptions that, in management's opinion, are reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As of June 30, 2018, 87% of Gemalto's total benefit obligation and 86% of Gemalto's plan asset fair values were re-measured. The impact of not re-measuring other employee benefit obligations is considered as not material.

### Note 5. Segment information

The Group has revised its operating segments to align with the new strategy under which the business is managed and reviewed by the CODM and decided to report its activities under 2 segments: Identity, IoT & Cybersecurity and Smartcards & Issuance. The first one aims at strengthening our leadership in biometrics, civil identity, data protection and secure the Internet of Things. Gemalto will therefore continue to invest significantly in developing its offers to capture the growth in those large markets. The second segment builds on Gemalto's leadership in digitalization while rightsizing its operations in the more mature businesses. The implementation of the transition plan is central to this segment strategy. From this year onward, Gemalto will be presenting its fast-growing businesses in an Identity, IoT & Cybersecurity segment and the more mature businesses in Smartcards & Issuance segment.

Gemalto's technologies provide two essential, interlocking functions: authenticating people and things, and protecting data by encrypting it. Gemalto's operations can be divided in two market segments: a) The Identity, IoT & Cybersecurity segment reports on businesses associated with Government Programs, Internet-of-things and Enterprise b) The Smartcards & Issuance segment reports on businesses associated with mobile secure elements (SIM, embedded secure element), mobile Platforms & Services, secure personal interactions including Payment. Patents & Others is also included in this segment.

Identity, IoT & Cybersecurity Gemalto designs security solutions that help governments, industrial companies and enterprises to bring trust to a wide range of services. Gemalto supports over 200 programs worldwide supporting

## Notes to the interim condensed consolidated financial statements

government agencies in areas such as ePassports, border and visa management, biometrics, ID and health cards, voter and vehicle registration, drivers' licenses, and eGovernment services. Gemalto works constantly with clients on innovative ways to increase efficiency and meet citizens' expectations. Gemalto's growing capability in biometrics is creating new opportunities in areas such as ID verification, border controls and law enforcement. Gemalto also offers best-in-class biometric solutions in the growing forensics market. With the largest portfolio of machine-to-machine and internet-of-things solutions and services, Gemalto allows industrial companies to accelerate the introduction of new connected objects and services. Gemalto's solutions ensure security throughout an object's lifecycle, cut costs and increase revenue. Gemalto's internet-of-things portfolio is made of M2M modules and software solutions. These enable advanced solutions in industries such as healthcare, retail services, smart energy, transportation, logistics and automotive. Gemalto helps them to bring new connected services to market quickly, add value and open up new revenue streams with secure devices, identities and data. Gemalto's solutions are based on authenticating people when they access networks and encrypting data wherever it is found. As the world's computing moves to the cloud, Gemalto helps organizations overcome complex security challenges by providing its solutions as a service. In addition to encrypting data, securing identities and managing access, Gemalto also offers software licensing solutions to businesses to protect their Intellectual Property and maximize the uptake and profitability of their software business.

Smartcards & Issuance Gemalto offers smart card products and solutions to financial institutions, retail, transport and mobile network operators. Payment services can also be connected to transport and loyalty programs. Gemalto's white label offering enables local customization of the broad EMV standards for local authorities to brand and control national payment networks. Gemalto also secures digital banking and payment apps and services as well as protects sensitive company and customer data through encryption. Gemalto's ID verification solutions enable banks to verify new customers' identity documents when enrolling them in-branch or online. Through Gemalto's mobile and Assurance Hub technologies they can provide personalized authentication steps according to the risk level and the context of usage. Gemalto's Trusted Services Hub helps both banks and retailers to offer consumers easier ways to pay with their smartphones and other devices. And Gemalto's security solutions protect and secure their data at every level of their infrastructure. For mobile network operators, Gemalto's technologies and innovations are focused on enabling richer services and growth throughout the ecosystem, while managing and protecting identities. Gemalto continues exploring opportunities to create new revenue streams as the world transitions to new technologies such as eSIMs and 5G. Gemalto also licenses its intellectual property and provides security and other technology advisory services.

- To supplement the financial statements presented on an IFRS basis, and to better assess its past and future performance, the Group also prepares an additional income statement where the key metric used to understand, evaluate the business and take operating decisions over the period 2010 to 2018 is the Profit From Operations (PFO). PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and impairment of intangibles resulting from acquisitions; (ii) the restructuring and acquisition-related expenses; (iii) all equity-based compensation charges and associated costs; and (iv) fair value adjustments upon business acquisitions.

This supplemental non-GAAP measure is used internally to understand, manage and evaluate business and take operating decisions. It is among the primary factors management uses in planning for and forecasting future periods, and part of the compensation of executives is based on the performance of business measured in accordance with this non-GAAP metric. These items are further explained as follows:

- Amortization, and impairment of intangibles resulting from acquisitions are defined as the amortization, and impairment expenses related to intangibles assets and goodwill recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Restructuring and acquisitions-related expenses are defined as (i) restructuring expenses which are the costs incurred in connection with a restructuring as defined in accordance with the provisions of IAS 37 (e.g. sale or termination of a business, closure of a plant), and consequent costs; (ii) reorganization expenses defined as the costs incurred in connection with headcount reductions, consolidation of manufacturing and offices sites, as well

## Notes to the interim condensed consolidated financial statements

as the rationalization and harmonization of the product and service portfolio, and the integration of IT systems, consequent to a business combination; and (iii) transaction costs (such as fees paid as part of the acquisition process).

- Equity-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Share Purchase Plans; and (ii) the amortization of the fair value of stock options and restricted share units granted by the Board of directors to employees, and the related costs.
- Fair value adjustments over net assets acquired are defined as the reversal, in the income statement, of the fair value adjustments recognized as a result of a business combination, as prescribed by IFRS 3R. Those adjustments are mainly associated with (i) the amortization expense related to the step-up of the acquired work-in-progress and finished goods assumed at their realizable value and (ii) the amortization of the cancelled commercial margin related to deferred revenue balance acquired.

The information reported for each operating segment is the same as reported and reviewed internally on a monthly basis in order to assess performance and allocate resources to the operating segments. Gemalto's operating segments have been determined based on these internal reports.

Financial income and expenses are not included in the result for each operating segment that is reviewed internally. Nor is asset or liability information on a segmented basis reviewed in order to assess performance and allocate resources.

The information by operating segment reported in the following tables applies the same accounting policies as those used and described in these interim condensed consolidated financial statements.

## Notes to the interim condensed consolidated financial statements

Period ended June 30, 2018

	ID, IoT & Cybersecurity	Smart Cards & Issuance	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS Financial information
<b>Revenue</b>	<b>643,639</b>	<b>743,093</b>	<b>1,386,732</b>					<b>1,386,732</b>
Cost of sales	(378,472)	(510,853)	(889,325)	(42,119)	(1,362)	(4,481)	-	(937,287)
<b>Gross profit</b>	<b>265,167</b>	<b>232,240</b>	<b>497,407</b>	<b>(42,119)</b>	<b>(1,362)</b>	<b>(4,481)</b>	-	<b>449,445</b>
<b>Operating expenses</b>								
Research and engineering	(50,418)	(47,504)	(97,922)	-	102	(1,673)	-	(99,493)
Sales and marketing	(124,607)	(105,066)	(229,673)	-	1,551	(5,540)	-	(233,662)
General and administrative	(41,039)	(38,030)	(79,069)	-	(9,806)	(4,993)	-	(93,868)
Other income	674	1,299	1,973	-	3,055		-	5,028
Other expense	(465)	(488)	(953)	-	(5,032)		-	(5,985)
<b>Profit from operations</b>	<b>49,312</b>	<b>42,451</b>	<b>91,763</b>					
<b>Operating profit (loss)</b>				<b>(42,119)</b>	<b>(11,492)</b>	<b>(16,687)</b>	-	<b>21,465</b>



## Notes to the interim condensed consolidated financial statements

Period ended June 30, 2017

	ID, IoT & Cybersec urity	Smart Cards & Issuance	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition- related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS Financial information
<b>Revenue</b>	<b>572,412</b>	<b>820,430</b>	<b>1,392,842</b>	-	-	-	-	<b>1,392,842</b>
Cost of sales	(334,556)	(556,364)	(890,920)	(43,580)	(11,692)	(5,172)	(1,042)	(952,406)
<b>Gross profit</b>	<b>237,856</b>	<b>264,066</b>	<b>501,922</b>	<b>(43,580)</b>	<b>(11,692)</b>	<b>(5,172)</b>	<b>(1,042)</b>	<b>440,436</b>
<b>Operating expenses</b>								
Research and engineering	(44,236)	(53,328)	(97,564)	-	(1,558)	(1,785)	-	(100,907)
Sales and marketing	(118,596)	(119,096)	(237,692)	-	(1,752)	(6,839)	-	(246,283)
General and administrative	(36,025)	(40,586)	(76,611)	-	(21,841)	(6,038)	-	(104,490)
Other income	1,715	1,005	2,720	-	211	-	-	2,931
Other expenses	-	-	-	(424,671)	-	-	-	(424,671)
<b>Profit from operations</b>	<b>40,714</b>	<b>52,061</b>	<b>92,775</b>					
<b>Operating profit (loss)</b>				<b>(468,251)</b>	<b>(36,632)</b>	<b>(19,834)</b>	<b>(1,042)</b>	<b>(432,984)</b>

## Notes to the interim condensed consolidated financial statements

The table below shows revenue and non-current assets (excluding deferred tax assets, derivative financial instruments and goodwill) attributed to geographic areas, on the basis of the location of the customers and the location of the assets, respectively:

	<b>Six-month period ended June 30,</b>	
	<b>2018</b>	2017
<b>Revenue</b>		
Europe, Middle East and Africa	660,601	635,609
United States of America	308,334	328,097
Asia Pacific	247,699	288,436
North and South America excluding the United States of America	170,098	140,700
	<b>1,386,732</b>	<b>1,392,842</b>
<b>Non-current assets</b>	<b>June 30, 2018</b>	December 31, 2017
United States of America	393,205	407,349
France	343,181	365,110
Europe, Middle East and Africa excluding France	272,202	274,581
Asia Pacific	91,564	101,226
North and South America excluding the United States of America	49,628	53,283
	<b>1,149,780</b>	<b>1,201,549</b>

### Note 6. Financial risk management

The company is exposed to a variety of financial risks, including foreign exchange risk, market risk, interest rate risk, liquidity risk, financial counterparty risk and credit risk.

Gemalto overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Gemalto has developed risk management guidelines that set forth its tolerance for risk and its overall risk management policies.

These interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the Group's consolidated financial statements, and should be read in conjunction with the group's annual financial statements as at December 31, 2017.

#### Estimation of derivative financial instrument fair value

The fair value of financial instruments traded in active markets, such as investment funds, is based on quoted market prices at the balance sheet date. A market is regarded as active, if quoted prices are readily and regularly available from a foreign exchange dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. These instruments are included in Level 1 of the fair value hierarchy.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques requiring financial inputs observable on the markets. The fair value of derivative financial instruments is calculated at inception and over the life of the derivative. These instruments are classified in Level 2 of the fair value hierarchy.

As at June 30, 2018, the equity securities are quoted on official market price and classified in Level 1.

The following tables present the Group's assets and liabilities that were measured at fair value as at end of June 30, 2018 and December 31, 2017:

## Notes to the interim condensed consolidated financial statements

June 30, 2018	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivatives used for hedging	-	11,081	-	11,081
Available-for-sale (equity security)	33,665	-	-	33,665
Investments funds	-	-	-	-
<b>Total Assets</b>	<b>33,665</b>	<b>11,081</b>	<b>-</b>	<b>44,746</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	33,378	-	33,378
<b>Total Liabilities</b>	<b>-</b>	<b>33,378</b>	<b>-</b>	<b>33,378</b>
<b>December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Derivatives used for hedging	-	55,633	-	55,633
Available-for-sale (equity security)	39,183	-	-	39,183
Investment funds	99,856	-	-	99,856
<b>Total Assets</b>	<b>139,039</b>	<b>55,633</b>	<b>-</b>	<b>194,672</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	3,412	-	3,412
<b>Total Liabilities</b>	<b>-</b>	<b>3,412</b>	<b>-</b>	<b>3,412</b>

As at June 30, 2018, the Group held forward contracts, which were designated as qualifying cash flow hedges of forecast sales and purchases denominated in US Dollar, Sterling Pound, Japanese Yen and Singapore Dollar.

It also held forward contracts not qualified in hedge accounting and evaluated at fair value, denominated mainly in the same currencies and in Russian Ruble, Canadian Dollar, South Africa Rand and Chinese Yuan.

The fair value of the Group's financial instruments for the foreign exchange risk is recorded in current or non-current assets and liabilities, as 'Derivative Financial Instruments' and details as follows (mark-to-market valuations of forward contracts):

	Period ended June 30, 2018				Year ended December 31, 2017			
	USD	GBP	SGD	Other	USD	GBP	SGD	Other
<b>Cash flow hedges</b>	5,403	477	939	68	27,892	(24)	-	-
<b>Derivative at fair value</b>	(29,849)	(175)	(111)	965	25,335	(25)	103	(586)
<b>Total</b>	<b>(24,446)</b>	<b>302</b>	<b>828</b>	<b>1,033</b>	<b>53,227</b>	<b>(49)</b>	<b>103</b>	<b>(586)</b>

As at June 30, 2018, the total mark-to-market valuation of Gemalto open derivatives was negative €22.3 million compared to the positive €52.7 million as at December 31, 2017.

## Notes to the interim condensed consolidated financial statements

### Note 7. Property, plant and equipment

Property, plant and equipment consist of the following:

	Property, plant and equipment
<b>Net book value as at January 1, 2018</b>	<b>316,426</b>
Acquisition of subsidiary and business	-
Additions	22,468
Disposals and write-offs	(4,300)
Depreciation charge	(36,227)
Currency translation adjustment	(1,860)
<b>Net book value as at June 30, 2018</b>	<b>296,507</b>
<b>Net book value as at January 1, 2017</b>	<b>329,448</b>
Acquisition of subsidiary and business	19,607
Additions	25,762
Disposals and write-offs	(241)
Depreciation charge	(39,425)
Currency translation adjustment	(11,588)
<b>Net book value as at June 30, 2017</b>	<b>323,563</b>

### Note 8. Goodwill and intangible assets

Goodwill and intangible assets consist of the following:

	Goodwill	Intangible assets
<b>Net book value as at January 1, 2018</b>	<b>1,468,214</b>	<b>757,814</b>
Acquisition of subsidiary and business	1,399	-
Additions	-	43,630
Amortization charge	-	(78,725)
Disposals and write-offs	-	(1,354)
Currency translation adjustment	27,732	9,923
<b>Net book value as at June 30, 2018</b>	<b>1,497,345</b>	<b>731,288</b>
<b>Net book value as at January 1, 2017</b>	<b>1,561,666</b>	<b>564,588</b>
Acquisition of subsidiary and business	433,133	316,949
Additions	-	37,702
Amortization charge	-	(65,891)
Impairment charge	(424,671)	(8,744)
Currency translation adjustment	(74,837)	(29,580)
<b>Net book value as at June 30, 2017</b>	<b>1,495,291</b>	<b>815,024</b>

The additions of intangibles assets for the period mainly consist of capitalization of development costs for €37.9 million (€35.9million as at June 30, 2017).

## Notes to the interim condensed consolidated financial statements

### Note 9. Inventories

Inventories consist of the following:

	June 30, 2018	December 31, 2017
<b>Gross book value</b>		
Raw materials and spares	90,944	84,044
Work in progress	116,870	107,761
Finished goods	67,553	62,616
<b>Total</b>	<b>275,367</b>	<b>254,421</b>
<b>Obsolescence reserve</b>		
Raw materials and spares	(5,020)	(7,245)
Work in progress	(7,452)	(6,200)
Finished goods	(11,463)	(14,637)
<b>Total</b>	<b>(23,935)</b>	<b>(28,082)</b>
<b>Net book value</b>	<b>251,432</b>	<b>226,339</b>

### Note 10. Trade and other receivables

Trade and other receivables consist of the following:

	June 30, 2018	December 31, 2017
Trade receivables	660,345	689,394
Provision for impairment of receivables	(21,537)	(25,540)
<b>Trade receivables</b>	<b>638,808</b>	<b>663,854</b>
Prepaid expenses	44,563	44,223
VAT recoverable and tax receivable	82,513	75,124
Advances to suppliers and related parties	16,229	12,023
Unbilled customers	166,425	161,914
Other	46,242	41,362
<b>Total</b>	<b>994,780</b>	<b>998,500</b>

The Company's broad geographic and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Company's sales on the six-month period ended June 30, 2018. Regarding the impairment of trade receivables, the incurred loss model prescribed by IAS 39 has been replaced by a forward-looking expected credit losses ("ECL") approach under IFRS 9. The ECLs were calculated based on actual credit loss experience over the past five year and have not conducted to significant changes on the provision for impairment of receivables as at January 1, 2018. The Group has established impairment methodologies based on internal and external credit ratings or on the Group's historical default rates, adjusted for forward-looking estimates regarding the specific debtor and the economic environment. Additionally, the Company performs ongoing credit evaluations of countries and customer's financial condition. As at June 30, 2018, trade receivables of €193 million (December 31, 2017: €158 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and whose credit rating is regularly assessed.

## Notes to the interim condensed consolidated financial statements

### Note 11. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	June 30, 2018	December 31, 2017
Cash at bank and in hand	228,795	186,824
Short-term bank deposits and investment funds	22,330	133,851
<b>Total</b>	<b>251,125</b>	<b>320,675</b>

The amount of cash and bank overdrafts shown in the cash flow statement consist of the following:

	June 30, 2018	December 31, 2017
Cash and cash equivalents	251,125	320,675
Banks overdrafts	(3,304)	(18,310)
<b>Total</b>	<b>247,821</b>	<b>302,365</b>

### Note 12. Borrowings

Borrowings consist of the following:

	June 30, 2018	December 31, 2017
Bond	400,000	400,000
Deferred costs and premium on bond	(2,221)	(2,561)
Private placement	235,306	232,632
Term Loan	80,000	80,000
Other financial liability	7,673	7,623
Financial lease liabilities	342	292
<b>Total non-current portion</b>	<b>721,100</b>	<b>717,986</b>

	June 30, 2018	December 31, 2017
Commercial paper	150,000	260,000
Short-term loans	9,218	7,064
Bank overdrafts	3,304	18,310
Other financial liability	683	1,283
Financial lease liability	112	131
<b>Total current portion</b>	<b>163,317</b>	<b>286,788</b>

## Notes to the interim condensed consolidated financial statements

The Group has signed a series of bilateral committed revolving credit lines, arranged with first ranking banks. The total amount is €600 million with maturities falling between December 19, 2019 and July 23, 2023. There are no financial covenants (financial ratios) concerning our financial structure in the documentation of these facilities. As at December 31, 2017 and June 30, 2018 the credit lines were not drawn.

As at June 30, 2018 the bond was booked based on amortized cost method and disclosed entirely in long-term financial payables and the related accrued interests in short term payables. For information the fair value of the bond as at June 30, 2018 is €419.4 million, while its carrying value amount is equal to €400 million.

### Note 13. Non-current provisions and other liabilities

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

	June 30, 2018	December 31, 2017
Non-current provisions	48,173	54,706
Other non-current liabilities	79,076	75,266
<b>Total</b>	<b>127,249</b>	<b>129,972</b>

Variation analysis of the non-current provisions is as follows:

	Warranty	Restructuring & Reorganization	Litigation	Tax claims	Provision for other risks	Total
<b>As at January 1, 2018</b>	<b>3,792</b>	<b>24,693</b>	<b>3,010</b>	<b>17,974</b>	<b>5,237</b>	<b>54,706</b>
Additional provisions	441	-	358	713	360	1,872
Acquisition of subsidiary	-	-	-	-	-	-
Unused amount reversed	-	-	(611)	(464)	-	(1,075)
Used during the period	-	(214)	(339)	-	(75)	(628)
Reclassifications	(277)	(6,875)	100	-	210	(6,842)
Currency translation adjustment	11	-	(17)	122	24	140
<b>As at June 30, 2018</b>	<b>3,967</b>	<b>17,604</b>	<b>2,501</b>	<b>18,345</b>	<b>5,756</b>	<b>48,173</b>

	Warranty	Restructuring & Reorganization	Litigation	Tax claims	Provision for other risks	Total
<b>As at January 1, 2017</b>	<b>1,875</b>	<b>1,935</b>	<b>4,655</b>	<b>22,392</b>	<b>8,792</b>	<b>39,649</b>
Additional provisions	823	150	13	1,105	320	2,411
Acquisition of subsidiary	-	-	-	-	40	40
Unused amount reversed	(147)	-	(1,054)	(457)	(104)	(1,762)
Used during the period	-	(336)	(391)	-	(53)	(780)
Reclassifications	613	(44)	-	31	(3,851)	(3,251)
Currency translation adjustment	(21)	-	(21)	(1,399)	(363)	(1,804)
<b>As at June 30, 2017</b>	<b>3,143</b>	<b>1,705</b>	<b>3,202</b>	<b>21,672</b>	<b>4,781</b>	<b>34,503</b>

## Notes to the interim condensed consolidated financial statements

### Note 14. Trade and other payables

Trade and other payables consist of the following:

	<b>June 30, 2018</b>	December 31, 2017
Trade payables	186,506	205,386
Employee related payables	178,182	169,950
Accrued expenses	107,960	122,963
Accrued VAT	34,931	33,311
Deferred revenue	159,030	145,559
Other	13,430	5,079
<b>Total trade and other payables</b>	<b>680,039</b>	<b>682,248</b>

### Note 15. Current provisions and other liabilities

	<b>June 30, 2018</b>	December 31, 2017
Warranty	6,773	6,802
Provision for loss on contracts	646	1,542
Restructuring and reorganization	28,831	37,022
Other	3,911	6,895
<b>Total current provisions</b>	<b>40,161</b>	<b>52,261</b>

Variation analysis of the current provisions is as follows:

	<b>Warranty</b>	<b>Provision for loss on contracts</b>	<b>Restructuring &amp; Reorganization</b>	<b>Other</b>	<b>Total</b>
<b>As at January 1, 2018</b>	<b>6,802</b>	<b>1,542</b>	<b>37,022</b>	<b>6,895</b>	<b>52,261</b>
Additional provisions	400	135	764	383	1,682
Acquisition of a subsidiary	-	-	-	-	-
Unused amount reversed	(403)	(325)	(10,609)	(2,209)	(13,546)
Used during the period	(349)	(654)	(5,238)	(892)	(7,133)
Reclassification	277	-	6,875	(310)	6,842
Currency translation adjustment	46	(52)	17	44	55
<b>As at June 30, 2018</b>	<b>6,773</b>	<b>646</b>	<b>28,831</b>	<b>3,911</b>	<b>40,161</b>



## Notes to the interim condensed consolidated financial statements

	Warranty	Provision for loss on contracts	Restructuring & Reorganization	Other	Total
<b>As at January 1, 2017</b>	<b>4,207</b>	<b>6,162</b>	<b>3,428</b>	<b>3,535</b>	<b>17,332</b>
Additional provisions	787	106	15,562	406	<b>16,861</b>
Unused amount reversed	(656)	-	(169)	(265)	<b>(1,090)</b>
Used during the period	(423)	(5,230)	(2,155)	(1,178)	<b>(8,986)</b>
Reclassification	(613)	3,916	44	(107)	<b>3,240</b>
Currency translation adjustment	(118)	(360)	(295)	(28)	<b>(801)</b>
<b>As at June 30, 2017</b>	<b>3,184</b>	<b>4,594</b>	<b>16,415</b>	<b>2,363</b>	<b>26,556</b>

Provision for restructuring only covers expenses that arise directly from restructuring measures, are necessary for restructuring, and are not related to future business operations. Restructuring measures may include sale or termination of business, sites closures, relocation of business activities, or fundamental reorganization of business units. Restructuring charges are recognized in the period incurred and when the amount is reasonably estimable. Severance, termination benefits are recognized as a liability when the Group is demonstrably committed to either provide termination benefits as a result of an offer made in order to encourage voluntary redundancy or terminate employment before the normal retirement date.

### Note 16. Equity-based compensation plans

On January 1, 2018, the Board of Gemalto N.V. granted service-based RSUs (Restricted Share Units), with the following characteristics of the plan:

RSU Granted	Grant Date	RSU Vested	Valuation assumptions used amounts in euro
10,000	January 2018	None	Share price of €49.59.

## Notes to the interim condensed consolidated financial statements

### Note 17. Financial income (expense)

	Six-month period ended June 30,	
	2018	2017
Interest expense	(1,769)	(1,480)
Interest expense and amortized costs on public bond, private placements, credit lines facilities and commercial paper	(7,718)	(6,772)
Interest income	1,628	1,504
Foreign exchange transaction gains (losses):		
– Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	(3,402)	(3,975)
– Swap points of derivative instruments	(10,916)	(14,408)
Other financial income (expense), net	5,406	13,711
<b>Financial income (expense), net</b>	<b>(16,771)</b>	<b>(11,420)</b>

### Note 18. Income tax expense

	Six-month period ended June 30,	
	2018	2017
Income tax expense at the expected rate for the year	(1,103)	(347)
Income tax expense for the one-off non cash deferred tax asset reduction	-	(40,878)
<b>Income tax expense for the period</b>	<b>(1,103)</b>	<b>(41,225)</b>

The income tax expense recognized is based on management's best estimate of expected tax rate for the full financial year. The average annual income tax rate for the year 2018 is estimated at 28.6% (based on the projected profit before taxation). The 2017 June income tax expense was affected by the one-off non cash deferred tax asset reduction.

### Note 19. Earnings per share

	Six-month period ended June 30,	
	2018	2017
<b>Profit attributable to Owners of the Company</b>	<b>3,197</b>	<b>(473,292)</b>
Weighted average number of ordinary shares – basic	90,237	89,837
Effect of dilution from share options	1,394	-
Weighted average number of ordinary shares – diluted	91,631	89,837
<b>Basic earnings per share</b>	<b>0.04</b>	<b>(5.27)</b>
<b>Diluted earnings per share</b>	<b>0.03</b>	<b>(5.27)</b>

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period ended.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of ordinary shares outstanding including those dilutive. Equity-based compensation plans are considered dilutive when they are vested and in the money. They are assumed to be exercised at the beginning of the period and the proceeds are used by the Company to purchase treasury shares at the average market price for the period.

## Notes to the interim condensed consolidated financial statements

### Note 20. Commitments and contingencies

#### Legal proceedings

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

#### Other commitments

The costs Gemalto has incurred and expects to incur in relation to the Public offer by Thales amount to approximately €40 million and relate to fees of legal advisers, financial advisers, tax advisers, strategic advisers, auditor and communication advisers. These costs will be borne by Gemalto.

### Note 21. Related parties

For a description of Gemalto's transactions with related parties, reference is made to note 31 to the consolidated financial statements as at December 31, 2017. Transactions with related parties are conducted, in the ordinary course of business, on terms comparable to transactions with third parties.

### Note 22. Post-closing events

To management's knowledge, there is no significant event that occurred since June 30, 2018 which would materially impact the interim consolidated financial statements.

### Note 23. Dividends

The 2018 AGM has decided not to pay a final dividend for 2017 in view of the Thales's recommended offer for Gemalto.

### Note 24. Consolidated entities

The main changes in consolidated entities for the six-month period ended June 30, 2018 were as follows:

#### Entities acquired or created:

<b>Country of incorporation</b>	<b>Company name</b>	<b>Gemalto's interest</b>
Cameroon	Gemalto Cameroun S.A.	100%

#### Entities dissolved, merged, sold or deconsolidated following loss of significant influence:

<b>Country of incorporation</b>	<b>Company name</b>	<b>Gemalto's interest</b>
British Virgin Islands	SafeNet (BVI) Co., Ltd.	100%
India	Cogent Systems India Private Limited	100%
Malaysia	Axalto International Ltd	100%
United Kingdom	Serverside Group Ltd	100%

For the above listed entities, the percentage of voting rights equals the percentage of ownership interest.

## Management statement

The Company Management hereby declares that to the best of its knowledge:

- the interim condensed consolidated financial statements prepared in accordance with IAS 34, “*Interim Financial Reporting*”, give a true and fair view of the assets, liabilities, financial position and profit or loss of Gemalto and the undertakings included in the consolidation as a whole; and
- the half year management report includes a fair review of the information required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

Amsterdam, August 30, 2018

Mr. Philippe Vallée  
Chief Executive Officer

Mrs. Virginie Dupérat-Vergne  
Chief Financial Officer