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First semester 2016 results

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Basis of preparation

Segment information

The Mobile segment reports on businesses associated with mobile cellular technologies including Machine-to-Machine, mobile secure elements (SIM, embedded secure element) and mobile Platform & Services. The Payment & Identity segment reports on businesses associated with secure personal interactions including Payment, Government Programs and Enterprise. The SafeNet acquisition is part of the Enterprise business.

In addition to this segment information the Company also reports revenues of Mobile and Payment & Identity by type of activity: Embedded software & Products (E&P) and Platforms & Services (P&S).

Adjusted income statement and profit from operations (PFO)

PFO is a non-GAAP measure defined as IFRS operating profit adjusted for (i) the amortization and depreciation 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.

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

Return on capital employed (ROCE) is defined as after-tax PFO divided by capital employed.

Currency exchange rates

In this presentation, revenue variations are at constant exchange rates, and all other figures are at historical exchange rates, except where otherwise noted.

Olivier PIOU - CEO

Overview

First semester 2016 Highlights

- Revenue of €1.5 billion, up +1% at constant exchange rates and stable at historical exchange rates
- Revenue growth in Government Programs up +25%, Enterprise up +12%, Payment up +11% and Machine-to-Machine up +9%, at constant exchange rates, fully offsets lower sales to mobile network operators
- Gross margin increases by +92 basis points, confirming 2016 outlook
- Strong free cash flow generated, up +€128 million compared to first semester of 2015

Extracts from the adjusted income statement, revenue variations at constant exchange rate.

Jacques TIERNY - CFO

Financial results

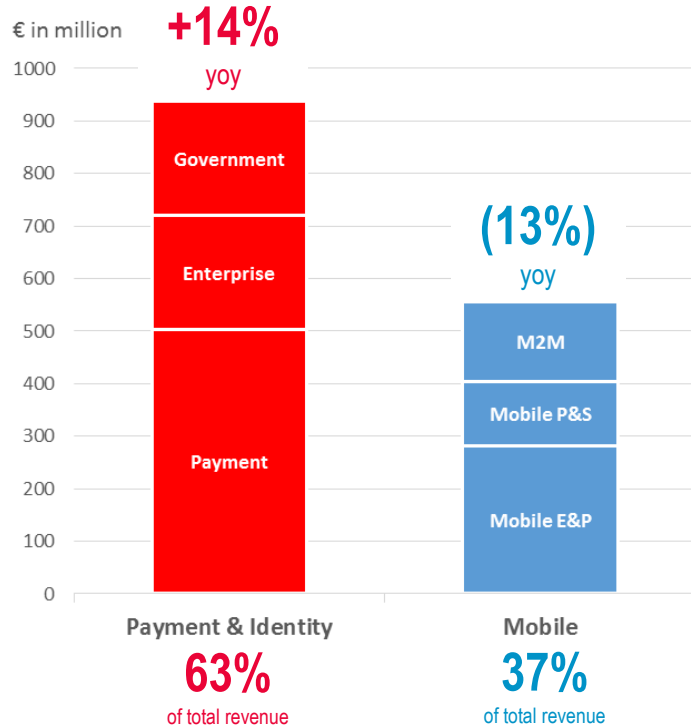
Key figures from H1 2016 financial results

Revenue +1%	€1,495m		at historical rates =
Gross profit +2%	€586m	39.2%	Gross margin +92bp
Operating expenses =	(€415m)	(27.7%)	OpEx ratio (9bp)
Profit from operations +8%	€172m	11.5%	PFO margin +84bp
Earnings per share =	€1.20		

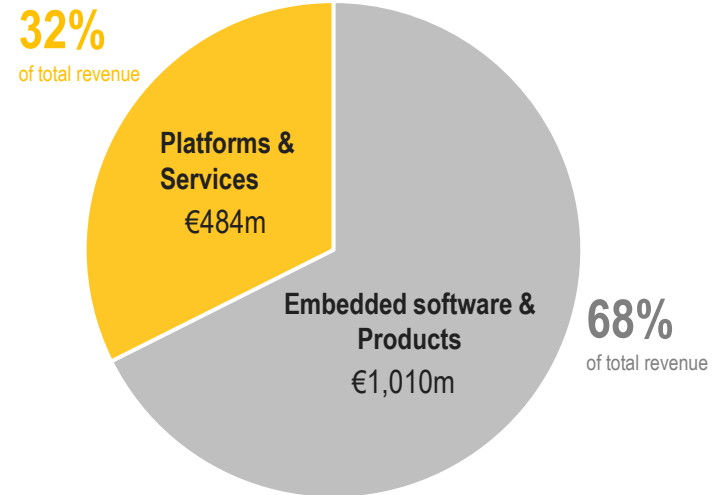
Extracts from the adjusted income statement

First semester revenue composition

Main segment revenues



Activity revenues



Adjusted income statement and IFRS

€ in millions	Adjusted income statement					IFRS
	All operations	Fair value adjustment upon acquisitions	Amortization of intangible assets	Equity based compensation	Restructuring and acquisitions related expenses	
H1 2016						
Revenue	1,495					1,495
Profit from operations	172					
IFRS operating profit		(2)	(29)	(19)	(14)	108
H1 2015						
Revenue	1,499					1,499
Profit from operations	160					
IFRS operating profit		(67)	(23)	(17)	(19)	33

Key items of the cash flow statement

<i>€ in millions</i>	First Semester 2016	First Semester 2015
Cash generated by operating activities before changes in working capital	177	199
Net change in working capital	(43)	(57)
Cash used in restructuring actions and acquisition related expenses	(16)	(19)
Time de-correlated hedging effect / (Prepaid derivatives)	22	(84)
Net cash generated by operating activities	139	40
Capital expenditure and acquisition of intangibles	(75)	(104)
Free Cash Flow	64	(64)
Acquisitions	(3)	(888)
Dividend paid to Gemalto shareholders	(42)	(37)
Net proceed (repayment) from/of financing instruments and others	(24)	177
Net (debt) / cash, end of period	(334)	(490)

Philippe VALLEE - COO

Segment information

Payment & Identity – key financial information

Revenue
€ 937m
+14%
(2015 H1: € 840m)

Gross Profit
€ 374m
+20%
(2015 H1: € 311m)

Gross Margin
39.9%
+296bp
(2015 H1: 37.0%)

Profit from operations
€ 118m
+53%
(2015 H1: € 77m)

PFO Margin
12.6%
+340bp
(2015 H1: 9.2%)

- Embedded software & Products sales were up by +7% at €576 million. Platforms & Services sales increased to €361 million, up +27% at constant exchange rates
- The Payment business grew by +11% year-on-year in H1 2016
 - The Americas posted the largest growth, on strong sales of EMV payment cards and rapid expansion of issuance services in the United States, offsetting the lower sales in Asia
- Revenue from the Enterprise business grew to €217 million, up +12% year-on-year
 - The revenue improvement came from all three business lines, Encryption, Authentication and Software Monetization
 - Accelerate sales & marketing and R&D investment to meet the increasing demand for cybersecurity and strengthen the Company's offering
- Government Programs revenue came in at €217 million, up +25% year-on-year
 - Sales expansion came from deliveries of previously won projects and addition of Trüb in Q1
 - All regions contributed to the growth and project backlog continued to expand
- Payment & Identity's gross margin improved to 40%, up +3 percentage points and PFO came in at €118 million, up +53%

Mobile – key financial information

Revenue
(13%)
€ 557m
(2015 H1: € 641m)

Gross Profit
(14%)
€ 212m
(2015 H1: € 246m)

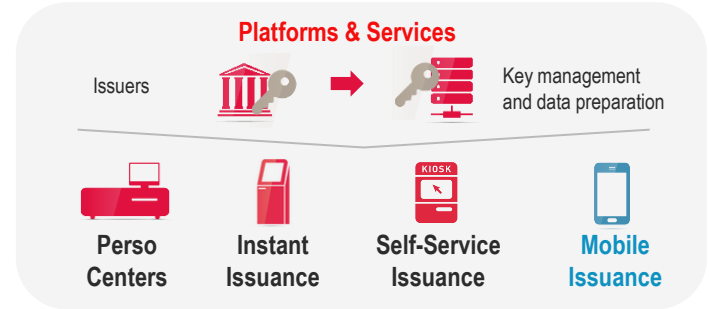
Gross Margin
(33bp)
38.1%
(2015 H1: 38.4%)

Profit from operations
(17%)
€ 59m
(2015 H1: € 71m)

PFO Margin
(50bp)
10.6%
(2015 H1: 11.1%)

- Mobile revenue reduced by (13%) at constant exchange rates
- The SIM business decreased by (26%) in first semester with a (16%) year-on-year decrease in the second quarter
 - This was mainly due to the first quarter tail-end effect of the United States operators' mobile payment venture closing, coupled with lower demand in Latin America and Asia
- Machine-to-Machine business for IoT continued to grow, by +9% year-on-year
 - The certifications of Gemalto M2M “Cat 1” wireless modules by several major Mobile Network Operators and the launch of world’s first Voice over LTE (VoLTE) Cat 1 modules with important new design wins continue to drive the business expansion across sectors and regions
- Mobile Platforms & Services grew by +15% in Q2 leading to a +3% growth in H1
 - Selected to provide On-Demand Connectivity (ODC) subscription management solution for KDDI connectivity to cars and IoT applications worldwide
 - Gemalto has also recently provided the ODC service to Orange for Samsung Gear S2 smartwatch
- Overall gross margin for the Mobile segment decreased slightly to 38.1% from 38.4%
- PFO came in at €59 million, i.e. a 10.6% profit from operations margin

Priorities of the Payment business

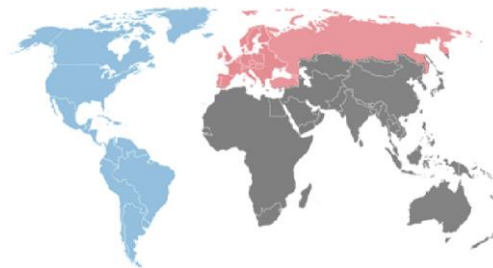
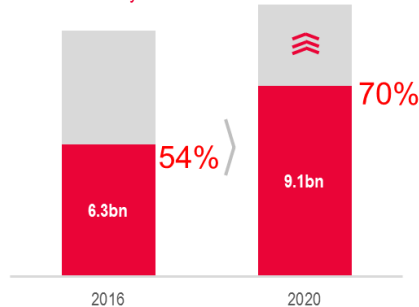


Focus and Improve efficiency in Payment services

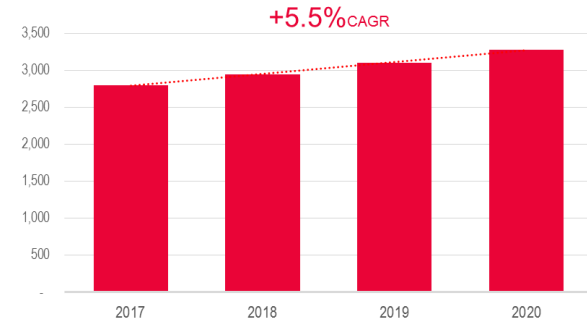
Smart Payment Cards penetration in the banked population

Total number of Payment Cards in circulation

Penetration of Smart Payment Cards



Smart Payment Card Issuances (millions)



Gemalto's end-to-end offer for the Internet of Things (IoT)

Embedded software & Products

Wireless Modules

To bring the connectivity feature
(World first VoLTE, Cat1)



Machine Identification Modules / Embedded SIM

To authenticate on Mobile Network



Embedded Secure Element (eSE)

To authenticate and secure connection with Service Providers



Example:



Use cases:

- eCall
- Entertainment
- Telematics
- Maintenance

Platforms & Services



On-Demand Connectivity

Remote subscription management



SensorLogic Platform

Transform big data into smarter data for business actions



Consulting Services

Expertise in security architecture



Trusted Services Hub

Credential and token management

Investments in innovation continue to drive business expansion across sectors and regions

Focus our efforts on verticals which value our expertise

Automotive

Site Security

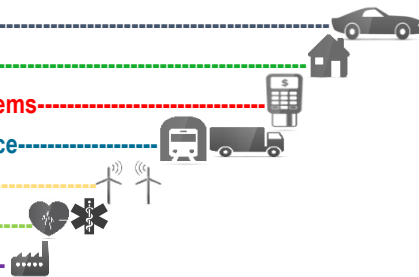
Payment Systems

Track and Trace

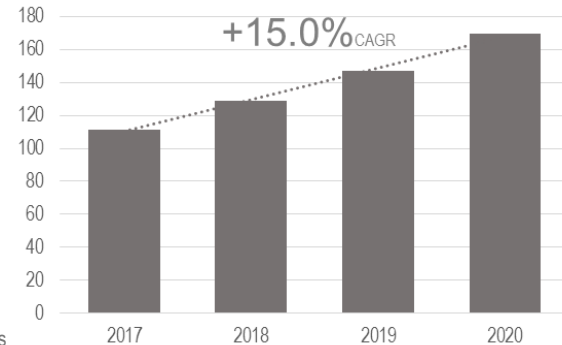
Metering

eHealth

Maintenance



M2M cellular module new connections



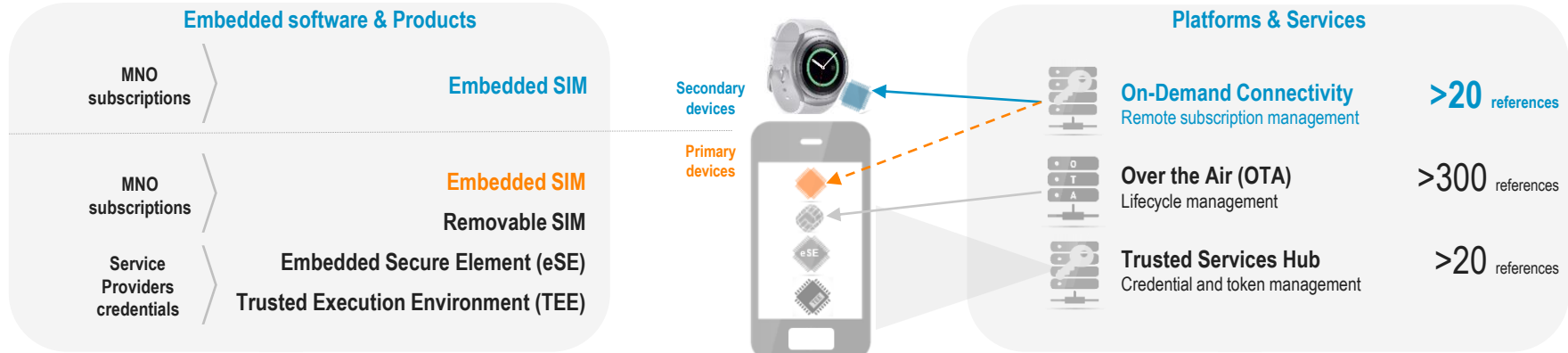
While SIM market evolves, the need to authenticate remains

GSMA Specifications
Embedded SIM and
Remote subscription management

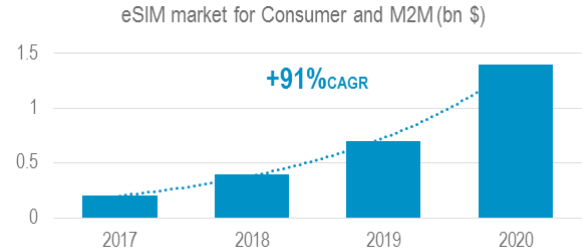
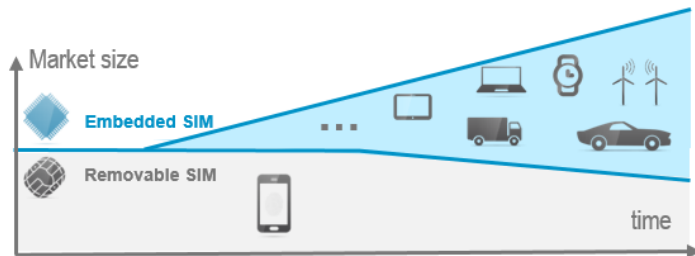
2014
Machine-to-Machine (M2M)

2016
Consumer secondary devices

Currently being defined
Consumer primary devices



Bringing technical expertise to both device manufacturers and mobile network operators



Key trends for H2 2016

- Growth acceleration in the Internet of Things
- Soft market environment in Asia and Latin America
- Continuing expansion for Government Programs with solid win-rate
- High comparison basis for US EMV with strong deliveries in the previous year
- Take-up of dual interface cards in the US to be confirmed
- Increasing demand for data protection, software monetization and cybersecurity solutions

Olivier PIOU - CEO

Outlook

Outlook for 2016

For 2016, Gemalto expects to generate a +1.5 percentage point gross margin increase, accelerating its profit from operations expansion towards its 2017 objectives.

Gemalto

Enabling trust in the digital world

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