First semester 2016 results

August 26, 2016

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26 August 2016
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.
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**: €1,495m (+1%)
- **Gross profit**: €586m (39.2%) (+2%)
- **Operating expenses**: (€415m) (27.7%) (-9bp)
- **Profit from operations**: €172m (11.5%) (+8%)
- **Earnings per share**: €1.20

Extracts from the adjusted income statement

*at historical rates*

Gross margin +92bp
OpEx ratio (9bp)
PFO margin +84bp
First semester revenue composition

Main segment revenues

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue (€ million)</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment</td>
<td>980</td>
<td>+14%</td>
</tr>
<tr>
<td>Payment &amp; Identity</td>
<td>6,234</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>730</td>
<td></td>
</tr>
<tr>
<td>Enterprise</td>
<td>370</td>
<td></td>
</tr>
<tr>
<td>Mobile E&amp;P</td>
<td>280</td>
<td></td>
</tr>
<tr>
<td>Mobile P&amp;S</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>M2M</td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

37% of total revenue

63% of total revenue

Activity revenues

<table>
<thead>
<tr>
<th>Activity</th>
<th>Revenue (€ million)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platforms &amp; Services</td>
<td>1,010</td>
<td>68%</td>
</tr>
<tr>
<td>Embedded software &amp; Products</td>
<td>484</td>
<td>32%</td>
</tr>
</tbody>
</table>

26 August 2016

Gemalto first semester 2016 results
### Adjusted income statement and IFRS

<table>
<thead>
<tr>
<th>€ in millions</th>
<th><strong>All operations</strong></th>
<th>Fair value adjustment upon acquisitions</th>
<th>Amortization of intangible assets</th>
<th>Equity based compensation</th>
<th>Restructuring and acquisitions related expenses</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,495</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,495</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>172</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS operating profit</td>
<td>(2)</td>
<td>(29)</td>
<td>(19)</td>
<td>(14)</td>
<td></td>
<td>108</td>
</tr>
<tr>
<td><strong>H1 2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,499</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,499</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>160</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS operating profit</td>
<td>(67)</td>
<td>(23)</td>
<td>(17)</td>
<td>(19)</td>
<td></td>
<td>33</td>
</tr>
</tbody>
</table>
## Key items of the cash flow statement

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

- 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%.

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<table>
<thead>
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<tbody>
<tr>
<td>Revenue</td>
<td>€ 937m</td>
</tr>
<tr>
<td>+14%</td>
<td></td>
</tr>
<tr>
<td>(2015 H1: € 840m)</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>€ 374m</td>
</tr>
<tr>
<td>+20%</td>
<td></td>
</tr>
<tr>
<td>(2015 H1: € 311m)</td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td>39.9%</td>
</tr>
<tr>
<td>+296bp</td>
<td></td>
</tr>
<tr>
<td>(2015 H1: 37.0%)</td>
<td></td>
</tr>
<tr>
<td>Profit from operations</td>
<td>€ 118m</td>
</tr>
<tr>
<td>+53%</td>
<td></td>
</tr>
<tr>
<td>(2015 H1: € 77m)</td>
<td></td>
</tr>
<tr>
<td>PFO Margin</td>
<td>12.6%</td>
</tr>
<tr>
<td>+340bp</td>
<td></td>
</tr>
<tr>
<td>(2015 H1: 9.2%)</td>
<td></td>
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</tbody>
</table>
Mobile – key financial information

- 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

<table>
<thead>
<tr>
<th>Revenue (13%)</th>
<th>€ 557m (2015 H1: € 641m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit (14%)</td>
<td>€ 212m (2015 H1: € 246m)</td>
</tr>
<tr>
<td>Gross Margin (33bp)</td>
<td>38.1% (2015 H1: 38.4%)</td>
</tr>
<tr>
<td>Profit from operations (17%)</td>
<td>€ 59m (2015 H1: € 71m)</td>
</tr>
<tr>
<td>PFO Margin (50bp)</td>
<td>10.6% (2015 H1: 11.1%)</td>
</tr>
</tbody>
</table>
Priorities of the Payment business

**Embedded software & Products**
- Portfolio migration (Credit, Debit, Private label, Prepaid)
- Need for more security (DDA, Dynamic CVV)
- Dual interface (User Experience)

**Platforms & Services**
- Issuers
- Key management and data preparation
- Perso Centers
- Instant Issuance
- Self-Service Issuance
- Mobile Issuance

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

- 2016: 6.3bn
- 2020: 9.1bn

Penetration rate
- > 80%
- > 50%
- > 20%

Smart Payment Card Issuances (millions)

+5.5% CAGR

Source: IHS Technology, ABI, Gemalto

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Embedded Secure Element (eSE)  
To authenticate and secure connection with Service Providers

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

Machine Identification Modules / Embedded SIM  
To authenticate on Mobile Network

Embedded software & Products

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

Source: GSMA Forecasts
While SIM market evolves, the need to authenticate remains

- **2014**: Machine-to-Machine (M2M)
- **2016**: Consumer secondary devices
- **Currently being defined**: Consumer primary devices

**Embedded software & Products**
- MNO subscriptions
  - Embedded SIM
  - Removable SIM
  - Embedded Secure Element (eSE)
  - Trusted Execution Environment (TEE)

**Platforms & Services**
- On-Demand Connectivity
  - Remote subscription management
  - >20 references
- Over the Air (OTA)
  - Lifecycle management
  - >300 references
- Trusted Services Hub
  - Credential and token management
  - >20 references

**Bringing technical expertise to both device manufacturers and mobile network operators**

- **GSMA Specifications**
  - Embedded SIM and Remote subscription management

**eSIM market for Consumer and M2M (bn $)**

- **Source**: Gemalto, McKinsey&Company
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
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