

SEMI-ANNUAL FINANCIAL REPORT AS OF JUNE 30, 2011

TABLE OF CONTENTS

Interim condensed consolidated financial statements as of June 30, 2011 (unaudited)	3
Interim consolidated statement of financial position (unaudited)	4
Interim consolidated income statement (unaudited)	5
Interim consolidated statement of comprehensive income (unaudited)	6
Interim consolidated statement of changes in equity (unaudited)	7
Interim consolidated cash flow statement (unaudited)	8
Notes to the interim condensed consolidated financial statements	9
First half 2011 Management Report	35
Highlights	36
Basis of preparation of financial information	37
IFRS results	38
Balance sheet and cash position variation schedule	38
Adjusted financial information	39
Segment information	41
Additional information	47
Outlook	48
Acquisition of businesses and subsidiaries	49
Transactions with related parties	49
Risks and uncertainties	49
Changes in share capital ownership	49
Appendices	50
Management Statement	58

**Interim condensed consolidated financial
statements as of June 30, 2011
(unaudited)**

Interim consolidated statement of financial position (unaudited)

In thousands of Euro

	Notes	December 31, 2010	June 30, 2011
ASSETS			
Non-current assets			
Property, plant and equipment, net	9	217,211	210,933
Goodwill, net	10	798,993	796,335
Intangible assets, net	10	152,561	154,774
Investments in associate	11	10,934	8,106
Deferred income tax assets		51,318	59,096
Available-for-sale financial assets, net	11	1,667	-
Other non-current assets		33,335	34,658
Derivative financial instruments	7	7,451	13,704
Total non-current assets		1,273,470	1,277,606
Current assets			
Inventories, net	13	155,254	173,323
Trade and other receivables, net	14	537,099	491,240
Derivative financial instruments	7	7,937	15,688
Cash and cash equivalents	15	256,110	214,072
Total current assets		956,400	894,323
Assets held for sale	12	57,183	47,520
Total assets		2,287,053	2,219,449
EQUITY			
Share capital		88,016	88,016
Share premium		1,209,437	1,209,251
Treasury shares		(132,046)	(142,824)
Fair value and other reserves		79,962	110,355
Cumulative translation adjustments		5,879	(18,810)
Retained earnings		344,302	365,177
Capital and reserves attributable to the Owners of the Company		1,595,550	1,611,165
Non-controlling interests		14,757	3,865
Total equity		1,610,307	1,615,030
LIABILITIES			
Non-current liabilities			
Borrowings		14,772	13,189
Deferred income tax liabilities		19,213	24,194
Employee benefit obligations		43,587	44,456
Provisions and other liabilities	16	71,712	65,077
Derivative financial instruments	7	764	640
Total non-current liabilities		150,048	147,556
Current liabilities			
Borrowings		5,423	14,950
Trade and other payables	17	463,094	418,563
Current income tax liabilities		15,754	11,072
Provisions and other liabilities	18	13,710	10,803
Derivative financial instruments	7	8,929	1,475
Total current liabilities		506,910	456,863
Liabilities associated with assets held for sale	12	19,788	-
Total liabilities		676,746	604,419
Total equity and liabilities		2,287,053	2,219,449

Interim consolidated income statement (unaudited)

In thousands of Euro (except earnings per share)

	Notes	Six-month period ended June 30,	
		2010 (represented ¹)	2011
Continuing operations			
Revenue		814,996	928,457
Cost of sales		(523,896)	(608,520)
Gross profit		291,100	319,937
Operating expenses			
Research and engineering		(52,958)	(59,299)
Sales and marketing		(128,572)	(141,256)
General and administrative		(59,862)	(67,865)
Gain on re-measurement to fair value of an investment in associate	12	-	21,147
Other income (expense), net	20	7,858	4,445
Restructuring and acquisition-related expenses	3,6	(2,343)	(3,997)
Amortization and depreciation of intangibles resulting from acquisitions	6	(9,620)	(9,972)
Operating result		45,603	63,140
Financial income (expense), net	21	870	(2,776)
Share of profit of associates	11	361	1,251
Profit before income tax		46,834	61,615
Income tax (expense) credit	22	(2,574)	(15,890)
Profit from continuing operations		44,260	45,725
Discontinued operation			
Profit/(loss) from discontinued operation (net of income tax)	12	568	(1,543)
Profit for the period		44,828	44,182
Attributable to:			
Owners of the Company	23	44,483	44,590
Non-controlling interests		345	(408)
Earnings per share			
Basic earnings per share	23	0.54	0.54
Diluted earnings per share	23	0.53	0.52
Earnings per share - continuing operations			
Basic earnings per share		0.53	0.55
Diluted earnings per share		0.52	0.54
Weighted average number of shares outstanding (in thousands)	23	82,959	83,227
Weighted average number of shares outstanding assuming dilution (in thousands)	23	84,495	85,886

¹ Compared to the published interim condensed consolidated financial statements for the six-month period ended June 30, 2010, the income statement has been represented to take into account the operation discontinued in December 2010 (see note 12).

Interim consolidated statement of comprehensive income (unaudited)

<i>In thousands of Euro</i>	Notes	Six-month period ended June 30,	
		2010	2011
Profit for the period		44,828	44,182
Gains (losses) recognized directly in equity:			
Currency translation:			
- currency translation adjustments		44,929	(23,589)
- transfer to profit and loss account (financial income)		-	(1,970)
Gains on Treasury shares (liquidity program)		565	54
Fair value gains (losses) on:			
- financial assets available-for-sale	11	55	-
- transfer of accumulated fair value on available-for-sale financial assets to investments in associate upon change in consolidation method	11	-	(662)
- variation of actuarial gains and losses in benefit obligations		(726)	581
- deferred tax on actuarial gains and losses		424	(207)
- cash flow hedges		(36,653)	20,957
- currency translation differences on fair value gains (losses)		(1,891)	850
Other comprehensive income for the period		6,703	(3,986)
Total comprehensive income for the period, net of tax		51,531	40,196
Attributable to			
Owners of the company		49,075	41,474
Non-controlling interests		2,456	(1,278)

Interim consolidated statement of changes in equity (unaudited)

In thousands of Euro	Number of shares ²		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		
Balance as of January 1, 2010	88,015,844	82,776,213	88,016	1,215,868	(129,640)	55,101	(22,879)	201,226	11,795	1,419,487
Profit for the period								44,483	345	44,828
Other comprehensive income						(38,226)	42,818		2,111	6,703
Total comprehensive income						(38,226)	42,818	44,483	2,456	51,531
Share-based compensation expense						8,602				8,602
Employee share option scheme		455,210			8,052	(222)				7,830
Purchase of Treasury shares, net		(740,758)			(22,935)					(22,935)
Treasury shares used for the acquisition of Todos AB		800,000			21,933	4,867				26,800
Excess purchase price on subsequent acquisition of Netsize S.A.				(6,585)					(34)	(6,619)
Dividends paid/payable to Owners of the Company								(20,844)		(20,844)
Dividend paid/payable to Non-controlling interests									(869)	(869)
Balance as of June 30, 2010	88,015,844	83,290,665	88,016	1,209,283	(122,590)	30,122	19,939	224,865	13,348	1,462,983
Balance as of January 1, 2011	88,015,844	83,131,248	88,016	1,209,437	(132,046)	79,962	5,879	344,302	14,757	1,610,307
Profit for the period								44,590	(408)	44,182
Other comprehensive income						21,573	(24,689)		(870)	(3,986)
Total comprehensive income						21,573	(24,689)	44,590	(1,278)	40,196
Share-based compensation expense						13,166				13,166
Employee share option scheme		915,167			21,464	(4,346)				17,118
Purchase of Treasury shares, net		(938,958)			(32,242)					(32,242)
Excess purchase price on acquisition of Non-controlling interests				(186)						(186)
Dividends paid/payable to Owners of the Company ³								(23,275)		(23,275)
Dividend paid/payable to Non-controlling interests									(324)	(324)
Changes in consolidation method ⁴								(440)	(9,290)	(9,730)
Balance as of June 30, 2011	88,015,844	83,107,457	88,016	1,209,251	(142,824)	110,355	(18,810)	365,177	3,865	1,615,030

² As at June 30, 2010 and 2011, the difference between the number of shares issued and the number of shares outstanding corresponds to the 4,725,179 and 4,908,387 shares held in treasury, respectively.

³ See note 28.

⁴ See notes 11 and 12.

Interim consolidated cash flow statement (unaudited)

<i>In thousands of Euro</i>	Notes	Six-month period ended June 30,	
		2010	2011
Cash flows provided by (used in) operating activities			
Cash generated from operations	24	29,794	72,376
Income tax paid		(6,202)	(32,528)
Net cash provided by operating activities		23,592	39,848
Cash flows provided by (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		(16,986)	6,312
Acquisition of businesses		(856)	-
Purchase of property, plant & equipment		(19,742)	(19,846)
Proceeds from sale of property, plant & equipment		205	427
Acquisition and capitalization of intangible assets		(10,243)	(18,366)
Proceeds from sale of non-current assets		801	778
Loan to investments in associate		-	(2,783)
Purchase of investments in associate		(2,000)	(1,727)
Interest paid		(578)	(749)
Interest received		1,342	1,406
Dividends received from investments in associate	11	410	131
Net cash used in investing activities		(47,647)	(34,417)
Cash flows provided by (used in) financing activities			
Purchase of Non-controlling interests in subsidiaries		-	(1,243)
Proceeds from exercise of stocks options		7,830	17,118
Purchase of Treasury shares (net)		(22,370)	(32,188)
Repayments of borrowings		(3,745)	(2,285)
Dividends paid to Owners of the Company		(20,844)	(23,275)
Dividends paid to Non-controlling interests		(869)	(324)
Net cash used in financing activities		(39,998)	(42,197)
Net increase (decrease) in cash and bank overdrafts		(64,053)	(36,766)
Cash and bank overdrafts, beginning of period	15	402,174	275,301
Change in cash and cash equivalent due to change in consolidation method		-	(19,403)
Currency translation effect on cash and bank overdrafts		11,905	(6,088)
Cash and bank overdrafts, end of period	15	350,026	213,044

Index of Notes

Note 1	General information	10
Note 2	Basis of preparation.....	10
Note 3	Accounting policies.....	11
Note 4	Use of judgments and estimates	12
Note 5	Business combination.....	13
Note 6	Additional information on specific line items of the income statement	13
Note 7	Financial risk management.....	14
Note 8	Segment information	17
Note 9	Property, plant and equipment	20
Note 10	Goodwill and intangible assets	21
Note 11	Investments in associate and available-for-sale financial assets	22
Note 12	Assets held for sale and discontinued operation.....	23
Note 13	Inventories.....	25
Note 14	Trade and other receivables.....	25
Note 15	Cash and cash equivalents	26
Note 16	Non-current provisions and other liabilities.....	26
Note 17	Trade and other payables.....	27
Note 18	Current provisions and other liabilities.....	28
Note 19	Share-based compensation plans	29
Note 20	Other income (expense), net.....	29
Note 21	Financial income (expense).....	30
Note 22	Income tax expense	30
Note 23	Earnings per share	31
Note 24	Cash generated from operations	32
Note 25	Commitments and contingencies.....	33
Note 26	Related parties	34
Note 27	Events after the balance sheet date	34
Note 28	Dividends.....	34

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.

Note 1 General information

Gemalto (also referred to as “the Group” or “the Company”), the world leader in digital security, is at the heart of our evolving digital society. The freedom to communicate, travel, shop, bank, entertain, and work – anytime, anywhere – has become an integral part of what people want and expect, in ways that are convenient, enjoyable and secure.

Gemalto delivers on the growing demands of billions of people worldwide for mobile connectivity, identity and data protection, credit card safety, health and transportation services, e-government and national security. We do this by supplying to governments, wireless operators, banks and enterprises, a wide range of secure personal devices, such as subscriber identification modules (SIM) in mobile phones, smart banking cards, electronic passports, and USB tokens for online identity protection. To complete the solutions, we also provide software, systems and services to help our customers achieve their goals. The Group has facilities and sells around the world.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Barbara Strozilaan 382, 1083 HN Amsterdam, The Netherlands.

The Company was first listed on Eurolist by Euronext Paris on May 18, 2004.

These interim condensed consolidated financial statements for the six-month period ended June 30, 2011 have been authorized for issue by the Board of Directors of the Company on August 24, 2011.

The activity of Gemalto is subject to seasonal fluctuations, which may result in significant variations in its business and results from operations between the first and the second halves of the fiscal year. Therefore, the financial performance of the first half of 2011 reported in these interim condensed consolidated financial statements is not necessarily indicative of the results of Gemalto for the full year 2011.

Note 2 Basis of preparation

The interim condensed consolidated financial statements of Gemalto for the six-month period ended June 30, 2011 have been prepared in accordance with the provisions of IAS 34 *Interim Financial Reporting*. International Financial Reporting Standards (IFRS) as adopted by the European Union are available at the following internet address:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2010.

Note 3 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, 2010 as described in the notes to the annual consolidated financial statements, except as noted below:

1. Standards, amendments to existing standards and interpretations mandatory for financial statements as at June 30, 2011
 - IAS 24 *Related Party Disclosures (Amended)*
 - IAS 32 *Financial Instruments: Presentation (Amended) – Classification of Rights Issues*
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) – Limited Exception from Comparative IFRS 7 Disclosures for First-time Adopters*
 - 2010 Improvements to IFRS (for those effective for periods beginning after January 1, 2010 and on or before January 1, 2011)
 - IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The amendments, improvements and interpretation above did not have any impact on the Group's financial statements as at June 30, 2011.

2. Standards, amendments to existing standards and interpretations issued but not mandatory for financial statements as at June 30, 2011 (and not early adopted by the Group)
 - IAS 1 *Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income*
 - IAS 12 *Income Taxes (Amended) – Deferred Tax Accounting for Investment Properties at Fair Value*
 - IAS 19 *Employee Benefits (Amended)*
 - IAS 27 *Separate Financial Statements (Revised)*
 - IAS 28 *Investments in Associates and Joint Ventures (Revised)*
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
 - IFRS 7 *Financial Instruments: Disclosures (Amended) – Transfers of Financial Assets*
 - IFRS 9 *Financial Instruments: Classification and Measurement*
 - IFRS 10 *Consolidated Financial Statements*
 - IFRS 11 *Joint Arrangements*
 - IFRS 12 *Disclosure of Interests in Other Entities*
 - IFRS 13 *Fair Value Measurement*

Notes to the interim condensed consolidated financial statements

3. Presentation of the income statement

The Group reports under the line 'Restructuring and acquisition-related expenses' (as detailed in note 6):

(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).

The Group also discloses under the line named 'Amortization and depreciation of intangibles resulting from acquisitions' the amortization and depreciation expense related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.

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, liabilities (including the classification of assets and liabilities as held for sale – see note 12), disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements, and the reported amounts of revenues and expenses (including the classification as restructuring and acquisition-related expenses) during the reporting period. On an ongoing basis, Gemalto re-evaluates its estimates, including those related to doubtful accounts, valuation of inventories and investments, warranty obligations, recoverability of goodwill, intangible assets and property, plant and equipment, income tax provision and recoverability of deferred taxes, contingencies and litigation.

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, 2011, 82% of Gemalto's total benefit obligation and 88% 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.

The €46 million fair value retained to calculate the €21 million gain on the re-measurement at fair value of our investment in associate (see note 12) is based upon the transactional value in the restructuring deed signed with our partner on March 29, 2011 and which is expected to be completed on August 31, 2011. Should such completion not occur, management would review the fair value to be retained for year-end closing.

Note 5 Business combination

Pursuant to a binding share purchase agreement signed on January, 19, 2011, Gemalto took control over AB Svenska Pass on March, 8, 2011. This company, in which Gemalto already held a 50% ownership interest, was previously accounted for using the equity method. This transaction, which consisted in the acquisition by the Group of the 50% ownership interest held in AB Svenska Pass by its partner, gave rise to a €11.5 million liability. The provisional goodwill arising from this acquisition amounted to €6.3 million as at June 30, 2011, and may be subject to significant change over the purchase price allocation period.

AB Svenska Pass was created in 1997 to manufacture, personalize and distribute the Swedish passport to the National Swedish Police Board. AB Svenska Pass is based in Tumba, Sweden.

The incremental contributions of AB Svenska Pass to the Group's revenue and net profit as of June 30, 2011 were €6 million and €(1) million, respectively.

Note 6 Additional information on specific line items of the income statement

The Group reported 'Restructuring and acquisition-related expenses' for €3,997 as at June 30, 2011 (€2,343 in 2010). This amount consisted of employee benefits, severance and associated costs for €4,167 (€400 in 2010), of property, plant and equipment, intangible asset and inventory write-offs and impairments for €194 (€205 in 2010) and of other income for €364 (€1,738 expense in 2010). Transaction costs are also included in this amount for €58 (€1,186 in 2010).

Amortization and depreciation of intangibles resulting from acquisitions amounted to €9,972 for the period ended June 30, 2011 (€9,620 for the period ended June 30, 2010).

Note 7 Financial risk management

The company is exposed to a variety of financial risks, including foreign exchange 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.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements as at December 31, 2010.

Financial assets/liability by category

In accordance with IFRS 7 provisions, financial assets and liabilities would be allocated as follows:

December 31, 2010	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available- for-sale	Total
Assets					
Available-for-sale financial assets, net	-	-	-	1,667	1,667
Other non-current assets	33,335	-	-	-	33,335
Trade and other receivables, net	537,099	-	-	-	537,099
Derivative financial instruments	-	-	15,388	-	15,388
Cash and cash equivalents	98,345	157,765	-	-	256,110
Total	668,779	157,765	15,388	1,667	843,599

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	-	20,195	20,195
Derivative financial instruments	9,693	-	9,693
Total	9,693	20,195	29,888

Notes to the interim condensed consolidated financial statements

June 30, 2011	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for- sale	Total
Assets					
Available-for-sale financial assets, net	-	-	-	-	-
Other non-current assets	34,658	-	-	-	34,658
Trade and other receivables, net	491,240	-	-	-	491,240
Derivative financial instruments	-	-	29,392	-	29,392
Cash and cash equivalents	74,910	139,162	-	-	214,072
Total	600,808	139,162	29,392	-	769,362

	Derivatives used for hedging	Financial liabilities	Total
Liabilities			
Borrowings	-	28,139	28,139
Derivative financial instruments	2,115	-	2,115
Total	2,115	28,139	30,254

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.

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.

For the available-for-sale financial assets, they are either quoted on official markets and classified in Level 1, otherwise their fair value is based on a valuation model using assumptions neither supported by prices from observable current transactions nor on available market data. They are consequently disclosed in the Level 3 of the fair value hierarchy. As at June 30, 2011, the value of level 3 is nil as there is no financial instrument classified as available-for-sale financial assets.

Notes to the interim condensed consolidated financial statements

The following tables present the Group's assets and liabilities that were measured at fair value as at December 31, 2010 and June 30, 2011:

December 31, 2010	Level 1	Level 2	Level 3	Total balance
Assets				
Derivatives used for hedging	-	15,388	-	15,388
Short term bank deposits and investment funds	157,765	-	-	157,765
Available-for-sale financial assets	-	-	1,667	1,667
Total Assets	157,765	15,388	1,667	174,820
Liabilities				
Derivatives used for hedging	-	9,693	-	9,693
Total Liabilities	-	9,693	-	9,693
 June 30, 2011	 Level 1	 Level 2	 Level 3	 Total balance
Assets				
Derivatives used for hedging	-	29,392	-	29,392
Short term bank deposits and investment funds	139,162	-	-	139,162
Available-for-sale financial assets	-	-	-	-
Total Assets	139,162	29,392		168,554
Liabilities				
Derivatives used for hedging	-	2,115	-	2,115
Total Liabilities	-	2,115	-	2,115

Foreign exchange derivative financial instrument fair values by currency

The fair value of the Company's financial instruments is recorded either in current or non-current assets and liabilities as 'Derivative Financial Instruments' and detailed as follows:

	December 31, 2010						June 30, 2011					
	USD	GBP	JPY	SGD	PLN	ZAR	USD	GBP	JPY	SGD	PLN	ZAR
Cash flow hedges												
Forward contracts	9,879	(539)	(1,684)	232	866	-	23,293	925	1,674	16	289	-
Option contracts	-	-	(904)	-	-	-	-	314	(34)	-	-	-
Fair value hedges												
Forward contracts	(913)	(192)	33	(43)	(40)	(465)	1,235	(252)	(202)	1	19	(1)
Option contracts	-	-	(535)	-	-	-	-	-	-	-	-	-
	8,966	(731)	(3,090)	189	826	(465)	24,528	987	1,438	17	308	(1)

As at June 30, 2011, the total mark-to-market valuation of Gemalto open foreign exchange derivatives is €27.3 million (€5.7 million as at December 31, 2011). The increase in the positive fair value of our foreign exchange derivatives mainly reflects the strengthening of the EUR against the USD observed over the first semester 2011.

Note 8 Segment information

In accordance with IFRS 8 *Operating Segments*, the information by operating segment is derived from the business organization and activities of Gemalto.

Gemalto operates four core activities – Mobile Communication, Machine-to-Machine, Secure Transactions and Security – and sells microprocessor cards (including embedded software), software solutions and services (including device management platforms, services to personalize each device individually), and intellectual property right licenses. The Company also sells, mostly in the security segment, other microprocessor-based products such as electronic passports and secured USB keys.

Mobile Communication customers are mobile operators. Effective January 1, 2011, the public telephony activity, previously reported in the segment 'Others', is included in the segment Mobile Communication. Machine-to-Machine supplies wireless communication modules; these include among others, remote monitoring of utility meters or patients at home, tracking of high-value items or stolen vehicles and optimized real-time management of fleets, smart energy grids for more efficient energy consumption and air pollution detection systems for urban reduction programs in CO₂ emissions. Secure Transactions supply financial cards to financial institutions, transportation cards to large urban mass transit operators, and Pay TV subscriber authentication and right management cards to large secure access service providers. Security offers include secure electronic documents, such as e-passports or e-identity cards, and issuance-related services for governmental agencies; they also include products and solutions based on microprocessor technology for strong user authentication, typically used in a corporate environment or to securely access services over the internet such as eBanking. The patent licensing activity, reported as part of the segment Security until December 31, 2010, is now presented separately for reporting purposes.

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 2013 is the *Profit from operations*. *Profit from operations* is a non-GAAP measure defined as IFRS operating result adjusted for (i) all share-based compensation charges and associated costs (reported in the column 'Adjustments' within the tables below); (ii) amortization and depreciation of intangibles resulting from acquisitions; and (iii) restructuring and acquisition-related expenses (see note 3.3). 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. Compensation of executives is based in part on the performance of the business, assessed on this non-GAAP measure.

For a better understanding of the year-on-year performance of the business, the adjusted interim income statement for Ongoing operations, as reported within the tables below, excludes the contributions from both discontinued operation and assets held for sale, reported in the column 'Reconciling items'.

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 tables below 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

	Six-month period ended June 30, 2010								
	Ongoing operations				Adjusted financial information for ongoing operations	Reconciling items	Adjusted financial information	Adjustments ⁶	IFRS financial information
	Mobile communication	Secure Transactions	Security	Others ⁵					
Revenue	459,415	207,377	132,136	16,068	814,996	-	814,996	-	814,996
Cost of sales	(284,662)	(153,049)	(84,140)	(1,022)	(522,873)	-	(522,873)	(1,023)	(523,896)
Gross profit	174,753	54,328	47,996	15,046	292,123	-	292,123	(1,023)	291,100
Operating expenses									
Research and engineering	(31,258)	(8,613)	(9,438)	(3,267)	(52,576)	-	(52,576)	(382)	(52,958)
Sales and marketing	(69,040)	(27,784)	(28,329)	(60)	(125,213)	-	(125,213)	(3,359)	(128,572)
General and administrative	(36,119)	(12,798)	(6,463)	(212)	(55,592)	-	(55,592)	(4,270)	(59,862)
Other income (expense), net	1,924	438	5,379	117	7,858	-	7,858	-	7,858
Profit from operations	40,260	5,571	9,145	11,624	66,600	-	66,600		
Restructuring & acquisition-related expenses									(2,343)
Amortization and depreciation of intangibles resulting from acquisitions									(9,620)
Operating result (EBIT)									45,603
Financial income (expense), net									870
Share of profit of associates									361
Profit before income tax									46,834
Income tax expense									(2,574)
Profit from continuing operations									44,260
Profit from discontinued operation (net of income tax)									568
Profit for the period									44,828

⁵ Compared to the published interim condensed consolidated financial statements as of June 30, 2010, the public telephony activity and the patent licensing activity have been reclassified from 'Others' to 'Mobile Communication' and from 'Security' to 'Others', respectively.

⁶ The amounts reported in the column 'Adjustments' correspond to the €9,034 share-based compensation charges and associated costs.

Notes to the interim condensed consolidated financial statements

Six-month period ended June 30, 2011

	<i>Ongoing operations</i>					Adjusted financial information for ongoing operations	Reconciling items	Adjusted financial information	Adjustments ⁷	IFRS financial information
	Mobile communication	Machine-to-Machine	Secure Transactions	Security	Patents					
Revenue	444,069	84,200	251,146	146,489	2,553	928,457	-	928,457	-	928,457
Cost of sales	(284,338)	(55,288)	(173,848)	(92,748)	(1,024)	(607,246)	-	(607,246)	(1,274)	(608,520)
Gross profit	159,731	28,912	77,298	53,741	1,529	321,211	-	321,211	(1,274)	319,937
Operating expenses										
Research and engineering	(28,937)	(6,069)	(9,425)	(11,092)	(3,008)	(58,531)	-	(58,531)	(768)	(59,299)
Sales and marketing	(69,164)	(9,532)	(30,496)	(26,390)	(566)	(136,148)	-	(136,148)	(5,108)	(141,256)
General and administrative	(31,700)	(7,561)	(11,379)	(8,317)	(160)	(59,117)	-	(59,117)	(8,748)	(67,865)
Gain on re-measurement to fair value of an investment in associate	-	-	-	-	-	-	21,147	21,147	-	21,147
Other income (expense), net	567	21	443	3,408	6	4,445	-	4,445	-	4,445
Profit from operations	30,497	5,771	26,441	11,350	(2,199)	71,860	21,147	93,007		
Restructuring & acquisition-related expenses										(3,997)
Amortization and depreciation of intangibles resulting from acquisitions										(9,972)
Operating result (EBIT)										63,140
Financial income (expense), net										(2,776)
Share of profit of associates										1,251
Profit before income tax										61,615
Income tax expense										(15,890)
Profit from continuing operations										45,725
Loss from discontinued operation (net of income tax)										(1,543)
Profit for the period										44,182

⁷ The amounts reported in the column 'Adjustments' correspond to the €15,898 share-based compensation charges and associated costs.

Notes to the interim condensed consolidated financial statements

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

	Six-month period ended June 30,	
	2010	2011
Revenue		
North and South America	199,728	255,990
Europe, Middle East and Africa	452,025	498,434
Asia Pacific	163,243	174,033
	814,996	928,457
	December 31, 2010	June 30, 2011
Non-current assets excluding goodwill, (net)		
North and South America	58,643	57,126
France	195,519	195,944
Germany	72,135	74,615
Rest of Europe, Middle East and Africa	83,352	84,635
Asia Pacific	64,828	68,951
	474,477	481,271

Note 9 Property, plant and equipment

Property, plant and equipment consist of the following:

	Property, plant and equipment
Net book value as at January 1, 2010	220,005
Additions	19,742
Disposals	(535)
Depreciation charge	(22,663)
Reclassification from intangible assets	127
Acquisition of subsidiary and business	949
Currency translation adjustment	12,544
Net book value as at June 30, 2010	230,169
Net book value as at January 1, 2011	217,211
Additions	20,115
Disposals	(760)
Depreciation charge	(23,083)
Other reclassifications	133
Acquisition of subsidiary and business ⁸	1,973
Currency translation adjustment	(4,656)
Net book value as at June 30, 2011	210,933

⁸ Including the acquisition of a 50% interest in AB Svenska Pass (see note 5)

Note 10 Goodwill and intangible assets

Goodwill and intangible assets (net) consist of the following:

	Goodwill	Intangible assets
Net book value as at January 1, 2010	596,602	81,527
Additions	-	13,260
Acquisition of subsidiary and business	63,667	7,792
Write-offs	-	(142)
Amortization charge	-	(15,336)
Reclassification to tangible assets	-	(127)
Currency translation adjustment	6,037	1,205
Net book value as at June 30, 2010	666,306	88,179
Net book value as at January 1, 2011	798,993	152,561
Additions ⁹	-	18,366
Acquisition of subsidiary and business ¹⁰	3,315	1,379
Disposal	-	(22)
Write-offs	-	(33)
Amortization charge	-	(17,433)
Other reclassifications	-	811
Currency translation adjustment	(5,973)	(855)
Net book value as at June 30, 2011	796,335	154,774

Goodwill arising from the acquisition of a 50% interest in AB Svenska Pass was not fully allocated as of June 30, 2011. As a result, goodwill may be subject to significant change during the course of the purchase price allocation period.

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value in use calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were discussed in annual financial statements for the year ended December 31, 2010. As at June 30, 2011, there were no indications of goodwill impairment.

⁹ Additions mostly include capitalized development costs for €15,174.

¹⁰ Including the acquisition of a 50% interest in AB Svenska Pass (see note 5)

Note 11 Investments in associate and available-for-sale financial assets

Changes in investments in associate consist of the following:

	June 30, 2010	June 30, 2011
Investments in associate as of beginning of period	9,970	10,934
Acquisition of associates	-	1,429
Dividends paid by associates	(410)	(131)
Share of profit	361	1,251
Change in consolidation method of AB Svenska Pass	-	(5,186)
Currency translation adjustment	638	(191)
Investments in associate as of end of period	10,559	8,106

Keynectis S.A.

On May 3, 2011, Gemalto increased its interest in Keynectis S.A. from 15% to 22%. As a consequence of Gemalto's significant influence over Keynectis S.A. financial and strategic policies, the investment is no longer classified as an available-for-sale financial asset but accounted for using the equity method.

Keynectis develops digital certificates based on Public Key Infrastructures and services for applications such as digital identification using smart card e-passports and electronic national ID applications.

The value of Keynectis investment, under the cost approach, amounted to €1,392 and included a goodwill of €554.

Fair value of the available-for-sale financial asset	1,667
Reversal of accumulated fair value on available-for-sale financial assets	(662)
Share of prior years accumulated losses	(440)
Consideration paid	827
Investment in Keynectis S.A.	1,392

Newcard S.A.S.U.

On May 11, 2011, Gemalto contributed to the creation of Newcard S.A.S.U. Gemalto owns 49% of the voting rights of Newcard S.A.S.U. and the investment is classified as an investment in associate.

Newcard S.A.S.U. develops a server solution allowing connected eBanking readers to make EMV payments for on-line commerce.

Notes to the interim condensed consolidated financial statements

Available-for-sale financial assets consist of the following:

	June 30, 2010	June 30, 2011
Available-for-sale financial assets as of beginning of period	1,270	1,667
Change in consolidation method of Keynectis S.A.	-	(1,667)
Net gains transferred to equity	55	-
Available-for-sale financial assets as of end of period	1,325	-

Note 12 Assets held for sale and discontinued operation

Assets held for sale

On March 29, 2011, Gemalto and its partner in the joint venture signed a restructuring deed pursuant to which Gemalto made official its will to immediately transfer its power to govern the financial and operating policies of the joint venture to its partner. Following the restructuring, Gemalto will hold a 20% interest in the previous affiliate. The major consequence of this change of control, without any transfer of legal ownership, is the change in the consolidation method applied to this joint venture as Gemalto's 67% ownership interest in the former subsidiary is now reported as an equity investment held for sale. In the Group's consolidated financial statements for the year 2010, the joint venture was reported as a disposal group held for sale.

As at June 30, 2011, our investment in associate held for sale is presented at its fair value (€46 million). The fair value retained is based on the consideration Gemalto is entitled to receive upon the completion of the restructuring deed (August 31, 2011), increased by all dividends to be received with respect to financial years 2008 to 2010. The recognition of the equity investment at fair value gave rise to a €21 million gain presented in the line item "Gain on re-measurement to fair value of an investment in associate" of our interim consolidated income statement.

Impact of the change of control:

Fair value of the investment in associate classified as held for sale	45,809
Book value of the assets held for sale	52,552
Book value of the liabilities held for sale	(18,600)
Cancellation of the Non-controlling interest in the joint venture	(9,290)
Gemalto's share in the book value of the joint venture	24,662
Difference arising from the re-measurement to fair value of the associate	21,147

Notes to the interim condensed consolidated financial statements

	December 31, 2010	June 30, 2011
Assets held for sale as of beginning of period	1,711	57,183
Additions	55,058	-
Reclassification from liabilities held for sale	-	(18,600)
Cancellation of Non-controlling interests in the joint venture	-	(9,290)
Reassessment to fair value	-	21,147
Currency translation adjustment	414	(2,920)
Assets held for sale as of end of period	57,183	47,520
Liabilities held for sale as of beginning of period	-	19,788
Additions	19,636	-
Reclassification to assets held for sale	-	(18,600)
Currency translation adjustment	152	(1,188)
Liabilities held for sale as of end of period	19,788	-

Discontinued operation

In 2011, Gemalto incurred some residual costs relating to its former POS solutions business, which was discontinued on December 31, 2010. All these costs have been classified under the line item Profit (loss) from discontinued operation (net of income tax) in our consolidated income statement.

The net profit/(loss) from discontinued operation comprises the following:

	Six-month period ended June 30,	
	2010	2011
<i>In thousands of Euro (except earnings per share)</i>		
Revenue from discontinued operation	25,114	-
Cost of sales	(18,224)	(7)
Gross profit from discontinued operation	6,890	(7)
Operating expenses	(6,322)	(1,394)
Operating result from discontinued operation	568	(1,401)
Financial income (expense), net	-	-
Profit/(loss) before income tax from discontinued operation	568	(1,401)
Income tax expense	-	-
Profit/(loss) from discontinued operation	568	(1,401)
Loss on sale of discontinued operation	-	(142)
Income tax on loss on sale of discontinued operation	-	-
Profit (loss) from discontinued operation (net of income tax)	568	(1,543)

Notes to the interim condensed consolidated financial statements

Earnings per share on discontinued operation

		Six-month period ended June 30,	
		2010	2011
Basic	Notes		
Profit (loss) from discontinued operation attributable to Owners of the Company		568	(1,543)
Weighted average number of ordinary shares outstanding (thousands)		82,520	83,227
Basic earnings per share		0.01	(0.02)
		Six-month period ended June 30,	
		2010	2011
Diluted			
Profit (loss) from discontinued operation attributable to Owners of the Company		568	(1,543)
Weighted average number of ordinary shares for diluted earnings per share (thousands)	23	84,056	85,886
Diluted earnings per share		0.01	(0.02)

Note 13 Inventories

Inventories consist of the following:

	December 31, 2010	June 30, 2011
Gross book value		
Raw materials and spares	41,877	48,075
Work in progress	86,875	96,053
Finished goods	40,503	43,685
Total	169,255	187,813
Obsolescence reserve		
Raw materials and spares	(4,645)	(5,400)
Work in progress	(4,981)	(3,924)
Finished goods	(4,375)	(5,166)
Total	(14,001)	(14,490)
Net book value	155,254	173,323

Note 14 Trade and other receivables

Trade and other receivables consist of the following:

	December 31, 2010	June 30, 2011
Trade receivables	398,367	356,437
Provision for impairment of receivables	(8,576)	(7,351)
Trade receivables, net	389,791	349,086
Prepaid expenses	13,521	14,914
VAT recoverable and tax receivable	51,761	53,102
Advances to suppliers and related	8,756	10,899
Unbilled customers	42,198	45,717
Other	31,072	17,522
Total	537,099	491,240

Notes to the interim condensed consolidated financial statements

The company's broad geographic and customer distribution spreads 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, 2011. An allowance for uncollectible accounts receivable is maintained based on expected collectibility. The expected collectibility of accounts receivable is assessed periodically or when events lead to believe that collectibility is uncertain. Additionally, the company performs ongoing credit evaluations of customer's financial position. As of June 30, 2011, trade receivables of €92,554 (December 31, 2010: €97,474) 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.

Note 15 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	December 31, 2010	June 30, 2011
Cash at bank and in hand	98,345	74,910
Short term bank deposits and investment funds	157,765	139,162
Total	256,110	214,072

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

	December 31, 2010	June 30, 2011
Cash and cash equivalents	256,110	214,072
Cash included in assets classified as held for sale	19,403	-
Banks overdrafts	(212)	(1,028)
Total	275,301	213,044

Note 16 Non-current provisions and other liabilities

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

	December 31, 2010	June 30, 2011
Non-current provisions	37,116	33,694
Other liabilities	34,596	31,383
	71,712	65,077
Management compensation ¹¹	9,098	8,494
Government grants	8,473	6,671
Long term payables ¹²	17,025	16,218
Total other non-current liabilities	34,596	31,383

¹¹ Management compensation relates to former Gemplus Board chairman's termination package conditioned to the refund of a loan granted to him by Gemplus in 2000.

¹² The carrying value of long term payables is assessed to be equivalent to their fair value.

Notes to the interim condensed consolidated financial statements

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

	Warranty non- current	Restr. & Reorg. Reserves	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2010	5,404	4,319	2,562	17,661	4,830	34,776
Additional provisions	960	74	711	849	560	3,154
Acquisition of a subsidiary	-	-	1,406	544	317	2,267
Unused amount reversed	(324)	(198)	(538)	(5,750)	(658)	(7,468)
Used during the period	(105)	(412)	(315)	(201)	(746)	(1,779)
Reclassifications	190	110	355	56	538	1,249
Currency translation adjustment	85	469	62	2,468	328	3,412
As of June 30, 2010	6,210	4,362	4,243	15,627	5,169	35,611

	Warranty non- current	Restr. & Reorg. Reserves	Litigation	Tax claims	Prov. for other risks	Total
As of January 1, 2011	6,256	2,028	2,413	22,268	4,151	37,116
Additional provisions	940	-	347	1,446	290	3,023
Unused amount reversed	(420)	(6)	(965)	(613)	(748)	(2,752)
Used during the period	(203)	(1,946)	-	(27)	(554)	(2,730)
Reclassifications	266	(19)	-	-	-	247
Currency translation adjustment	(45)	(9)	(3)	(1,007)	(146)	(1,210)
As of June 30, 2011	6,794	48	1,792	22,067	2,993	33,694

Note 17 Trade and other payables

	December 31, 2010	June 30, 2011
Trade payables	188,106	175,751
Employee related payables	148,076	126,468
Accrued expenses	54,371	46,023
Accrued VAT	22,177	15,860
Deferred revenue	45,201	50,956
Other	5,163	3,505
Total trade and other payables	463,094	418,563

Note 18 Current provisions and other liabilities

	December 31, 2010	June 30, 2011
Warranty - current	4,527	3,216
Provision for loss on contracts	534	292
Restructuring and reorganization	2,141	4,544
Other	6,508	2,751
Total current provisions	13,710	10,803

Variation analysis of the current provisions is as follows:

	Warranty - current	Provision for loss on contracts	Restr. & Reorg. Reserves ¹³	Other	Total
As of January 1, 2010	3,200	1,248	3,790	17,776	26,014
Additional provisions	1,508	136	345	456	2,445
Acquisition of a subsidiary	219	-	1,359	377	1,955
Unused amount reversed	(681)	(582)	(814)	(111)	(2,188)
Used during the period	(461)	(198)	(2,828)	(8,808)	(12,295)
Reclassifications	(88)	-	(109)	(510)	(707)
Currency translation adjustment	147	15	24	187	373
As of June 30, 2010	3,844	619	1,767	9,367	15,597

	Warranty - current	Provision for loss on contracts	Restr. & Reorg. Reserves ¹⁴	Other	Total
As of January 1, 2011	4,527	534	2,141	6,508	13,710
Additional provisions	290	-	3,537	390	4,217
Unused amount reversed	(1,003)	-	(9)	(1,807)	(2,819)
Used during the year	(296)	(226)	(1,013)	(2,323)	(3,858)
Other reclassifications	(266)	4	19	-	(243)
Currency translation adjustment	(36)	(20)	(131)	(17)	(204)
As of June 30, 2011	3,216	292	4,544	2,751	10,803

¹³ Usage mainly consists of severance payments made in connection with restructuring and reorganization plans.

¹⁴ For the period ended June 30, 2011, severance payments were made in connection with restructuring plans previously accrued for. As a consequence, restructuring and reorganization reserves have been released for €739.

Note 19 Share-based compensation plans

The following table summarizes the main characteristics of the new Restricted Share Unit (RSU) plans granted by the Board of Gemalto N.V. in 2011.

RSU Granted	Grant Date	Vesting schedule and conditions	RSU Vested	Valuation assumptions used amounts in euro
990,000	Mar-11	Maximum end of the vesting period: March 2014 Vesting conditions are both service-based and market-based: RSU will vest if share price achieves targeted thresholds, and if the participant is an employee of the company at this time.	nil	Share price of €34.84 Risk-free interest rate of 2.22% Expected volatility of 30% Fair value discounted by 4.72% for each year of restriction on share trading Stochastic model used
200,000	Mar-11	End of the vesting period: March 2014 Vesting condition is service-based.	nil	Share price of €34.84 1-year risk-free interest rate: 1.13% 2-year risk-free interest rate: 1.81% 3-year risk-free interest rate: 2.16% 4-year risk-free interest rate: 2.50% 5-year risk-free interest rate: 2.85% Fair value discounted by 4.72% for each year of restriction on share trading

In the income statement for the six-month period ended June 30, 2011, a compensation expense of €12,643 (€7,828 in 2010) corresponding to the amortization of the fair value of all the outstanding share options and restricted share units was recorded for €1,273 (€979 in 2010) in cost of sales, €768 (€343 in 2010) in research and engineering expenses, €5,108 (€3,116 in 2010) in sales and marketing expenses and €5,494 (€3,390 in 2010) in general and administrative expenses.

Note 20 Other income (expense), net

	Six-month period ended June 30,	
	2010	2011
Gains and losses on sale of fixed assets	(89)	278
Compensation from customers and suppliers, net ¹⁵	5,876	3,171
Other	2,071	996
Total	7,858	4,445

¹⁵ Mainly composed in 2010 of a compensation resulting from the final judgment in a lawsuit.

Note 21 Financial income (expense)

	Six-month period ended June 30,	
	2010	2011
Interest expense	(1,330)	(1,401)
Interest income	1,342	1,406
Foreign exchange transaction gains (losses)		
- Foreign exchange gains (losses), including derivative instruments not designated as cash flow hedges	3,018	(1,933)
- Ineffective part of derivative instruments - Cash flow hedges (hedging)	(2,073)	(2,327)
Other financial income (expense), net	(87)	1,479
Financial income (expense), net	870	(2,776)

Note 22 Income tax expense

	Six-month period ended June 30,	
	2010	2011
Income tax expense at the expected rate for the year	(7,181)	(14,902)
(Addition to)/release unused of income tax provisions	4,607	(988)
Income tax expense for the period	(2,574)	(15,890)

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 2011 is estimated at 19.3%, compared to 13.1% in 2009. The 2010 rate (2.3%) was affected by the income tax credit booked further to the recognition of a €32.2 million deferred tax asset on French loss carry forwards.

Note 23 Earnings per share

	Six-month period ended June 30,	
	2010	2011
Profit attributable to Owners of the Company	44,483	44,590
Weighted average number of ordinary shares outstanding (thousands)	82,520	83,227
Basic earnings per share	0.54	0.54

	Six-month period ended June 30,	
	2010	2011
Diluted		
Profit attributable to Owners of the Company	44,483	44,590
Weighted average number of ordinary shares outstanding (thousands)	82,520	83,227
Dilution from share options (thousands)	1,536	2,659
Weighted average number of ordinary shares for diluted earnings per share (thousands)	84,056	85,886
Diluted earnings per share	0.53	0.52

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 common shares outstanding during the period. Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of common shares outstanding assuming dilution. Dilution is determined assuming that all share-based compensation instruments, which are in the money, are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period.

Note 24 Cash generated from operations

	Notes	Six-month period ended June 30,	
		2010	2011
Profit for the period including Non-controlling interest		44,828	44,182
Adjustment for:			
Tax	22	2,574	15,890
Research tax credit		(6,154)	(7,325)
Depreciation	9	22,663	23,083
Amortization	10	15,478	17,488
Share-based compensation expense		8,602	13,166
Gains and losses on sale of property, plant and equipment and write-offs		471	241
Gain on re-measurement to fair value of an investment in associate		-	(21,147)
Loss on sale of a discontinued operation, net of tax		-	149
Currency translation adjustment transferred to financial income		142	(1,970)
Net change in provisions and other liabilities		(13,336)	(8,961)
Retirement benefit obligation		991	1,951
Interest income		(1,342)	(1,406)
Interest expense and other financial expense		1,330	777
Share of profit from associates	11	(361)	(1,251)
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)			
Inventories		(12,872)	(22,867)
Trade & other receivables		(3,296)	57,303
Derivative financial instruments		9,557	(620)
Trade & other payables		(39,481)	(36,307)
Cash generated from operations		29,794	72,376

Note 25 Commitments and contingencies

Legal proceedings

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

Schlumberger residuals

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

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

Until the date of transfer of these contracts, assets or liabilities to the Company or to Schlumberger or in the event that they could not be transferred or shall not be transferred as agreed by the parties, Schlumberger and the Company have agreed to cooperate and execute the contracts or manage the assets and liabilities in the name of and for the account of the other party, pursuant to the instructions of such party, who will receive all profits and bear all losses resulting from these contracts, assets and liabilities.

Therefore, the activities, assets and liabilities pertaining to Schlumberger activities falling under the provisions of the Master Separation Agreement are not disclosed in the accompanying consolidated financial statements of the Company nor is the associated payable from the Company to Schlumberger or the associated receivable by the Company from Schlumberger.

However, one legal action is reported here below. Any liability arising from this action will be assumed by Schlumberger under the applicable provisions of the Master Separation Agreement. Accordingly, the Company has not made any provision in respect of this matter.

In 2002, a €12.5 million claim was brought against Gemalto in front of the Brussels commercial court by a distributor for damages suffered and costs incurred resulting from the Company's alleged failure to deliver POS terminal software on time and to provide agreed specifications. The court ordered a report by a technical expert. The expert's final report issued in July 2007 established damages at €2,376.

As of June 30, 2011, the balance of the assets and liabilities belonging to Schlumberger was nil.

Note 26 Related parties

For a description of Gemalto's transactions with related parties, reference is made to note 32 to the consolidated financial statements as at December 31, 2010.

Transactions with related parties are conducted, in the ordinary course of business, on terms comparable to transactions with third parties.

Two loans have been granted to associates in 2011 for a total amount of €3,700 as at June 30, 2011.

Note 27 Events after the balance sheet date

To the best of management's knowledge, there is no significant event that occurred since June 30, 2011, which would materially impact the interim condensed consolidated financial statements.

Note 28 Dividends

Amounts in this note are stated in Euro.

The Annual General Meeting of May 18, 2011 has approved the distribution of a €23,274,831 dividend in respect of the financial year 2010. This represents a dividend of €0.28 per share.

First half 2011 Management Report

Gemalto first half 2011 results

- Revenue at €928 million increases by 14%, with 21% growth in Secure Transactions
- Profit from ongoing operations at €72 million increases by 8%, and by 35% in the main segments¹
- Secure Transactions and Security expand to generate more than half of this profit

All figures in this press release are unaudited. The income statement is presented on an adjusted basis (see page 37 “Basis of preparation of financial information”). 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. The reconciliation with the IFRS income statement is presented in Appendix 3. The balance sheet is prepared in accordance with IFRS, and the cash position variation schedule is derived from the IFRS cash flow statement.

Amsterdam, August 25, 2011 - Gemalto (Euronext NL0000400653 - GTO), the world leader in digital security today announces its results for the first half of 2011.

Key figures of the adjusted income statement

	First Half 2011	First Half 2010	
	€ in millions	€ in millions	Year-on-year variation at historical exchange rates
Ongoing operations			
Revenue	928	815	+14%
Gross profit	321	292	+10%
Operating expenses	249	225	+11%
Profit from operations	72	67	+8%
Profit from other operations (JV deconsolidation gain)	21	0	n.c.

Olivier Piou, Chief Executive Officer, commented: “Our four main segments generated 16% revenue growth and 35% profit expansion. These results evidence Gemalto’s strong progress along its strategic plan, which combines organic growth with bolt-on acquisitions. Secure Transactions stood out, with 21% revenue growth and double-digit profit margin. Security also recorded double-digit revenue growth and increased profit margin. We continued to invest in our new mobile offerings and as a result, we expect Mobile Communication to return to year-on-year profit expansion for the second semester. The sustainable and wider adoption of the EMV standard and dual interface contactless cards further adds to our confidence in delivering on the € 300 million profit from operations target we have set for ourselves in 2013.”

¹ The main segments include the Mobile Communication, Machine-to-Machine, Secure Transactions, and Security business segments representing close to 100% of the semester’s Company revenue; i.e. they exclude the Patents segment which accounted for € 2.6 million revenue in H1 2011 and €16 million revenue in H1 2010.

Basis of preparation of financial information

In this press release, the information for the first semester of both 2011 and 2010 is presented for ongoing operations and under the 2011 format of segment reporting unless otherwise specified.

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

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards. 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 take operating decisions over the period 2010 to 2013 is the profit from operations.

Profit from operations (PFO) is a non-GAAP measure defined as the IFRS operating result adjusted for the amortization and depreciation of intangibles resulting from acquisitions, for share-based compensation charges, and for restructuring and acquisition-related expenses. These items are further explained as follows:

- Amortization and depreciation of intangibles resulting from acquisitions are defined as the amortization and depreciation expenses related to the intangibles recognized as part of the allocation of the excess purchase consideration over the share of net assets acquired.
- Share-based compensation charges are defined as (i) the discount granted to employees acquiring Gemalto shares under Gemalto Employee Stock 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.
- 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 the acquisition process) which were previously capitalized as part of the cost of an acquisition under previous IFRS versions.

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, Sales and Marketing and General and Administrative expenses, and Other income (expense) net.

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

The Appendix 3 bridges the Adjusted income statement to the IFRS income statement.

Ongoing operations

For a better understanding of the current and future year-on-year evolution of the business, the Company also provides an adjusted income statement for "Ongoing operations" for both 2011 and 2010 reporting periods.

- Ongoing operations: The adjusted income statement for "Ongoing operations" not only excludes, as per the IFRS income statement, the contribution from discontinued operation to the income statement, but also the contribution from assets classified as held for sale.
- Assets held for sale: The assets of one of the Company joint ventures (the "JV") active in China in Secure Transactions and Security, and for which shareholding restructuring agreement has been signed with the partner.
- Discontinued operation: The disposal of the Company business in point of sale ("POS") terminals to Verifone was effective on December 31, 2010. As per IFRS, the contribution of this activity to the IFRS income statement is reclassified for 2010 reporting periods and its net contribution is presented on the line item "Profit (loss) from discontinued operation (net of income tax)". Consequently, in the adjusted income statement, the contribution of POS and the impact of the transaction are not included in the profit from operations.

The Appendix 1 bridges the adjusted income statement, with the discontinued operation, assets held for sales and adjusted income statement for ongoing operations.

Basis of presentation of the segment information starting 2011

Starting January 1, 2011, the segment information accounts for the following changes:

- the patent licensing activity, previously reported as part of the segment Security, is reported separately, in a new segment "Patents".
- the public telephony activity, which is reaching end of life as it is now almost fully substituted by mobile telephony, previously reported in the segment Others, is included in the segment Mobile Communication.

In this press release the financial information for 2010 is presented pro-forma on the above basis of presentation.

The Appendix 8 bridges the adjusted income statement for ongoing operations under the 2011 and 2010 basis of segment information.

Historical exchange rates and constant currency figures

Figures in this press release are at historical exchange rates, except where otherwise noted. 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 a translation impact on the reported Euro value of Group 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.

IFRS results

The IFRS consolidated income statement for the first semester 2011 shows an operating result of € 63 million for the Company and a net profit for the period of € 44 million. These were respectively € 46 million and € 45 million for the first semester 2010, and respectively € 46 million and € 45 million when represented to take into account the operation discontinued in 2010.

Basic earnings per share and Diluted earnings per share were essentially stable year on year at € 0.54 and € 0.52 for the reported period. These were respectively € 0.54 and € 0.53 in the first semester of 2010.

The Company provides in Appendix 3 the reconciliation between the IFRS and adjusted income statements. In the first semester 2011, restructuring and acquisition-related expenses amounted to € 4 million (€ 2 million in the first half 2010), equity-based compensation charges were € 16 million (€ 9 million in H1 2010); and amortization and depreciation of intangibles resulting from acquisitions were € 10 million (€ 10 million in H1 2010).

Balance sheet and cash position variation schedule

In the first half 2011, operating activities generated a cash flow before restructuring actions of € 43 million versus € 27 million in the first half 2010 including cash used in working capital, up by € 2 million on June 30th 2011 when compared to the beginning of the semester. Cash used in restructuring actions was stable at € 3 million.

Capital expenditure and acquisition of intangibles amounted to € 37 million, or 4.0 % of revenue, of which € 20 million were incurred for Property, Plant and Equipment purchases.

Acquisition and divestiture of subsidiaries and businesses, net of cash acquired, provided €5 million in cash.

Gemalto's share buy-back program used € 31 million in cash for the purchase of 903,000 shares in the first half of 2011. As at June 30, 2011, the Company owned 4,908,387 shares, i.e. 5.58% of its own shares in treasury. The total number of Gemalto shares issued remains unchanged, at 88,015,844 shares. Net of the 4,908,387 shares held in treasury, 83,107,457 shares were outstanding as at June 30, 2011. The average acquisition price of the shares repurchased on the market and held in treasury as of June 30, 2011 was €29.10.

As at August 22, 2011, the Company owned 5 328 178 shares i.e. 6.05% of its own shares in treasury. Net of these shares held in treasury, 82 687 666 shares were outstanding.

On May 31, 2011, Gemalto paid a cash dividend of € 0.28 per share in respect of the fiscal year 2010, up 12% on the dividend paid in 2010 (€ 0.25 per share). This distribution used € 23 million in cash. Other financing activities generated € 13 million in cash, including € 17 million of proceeds received by the Company from the exercise of stock options by employees.

As a result of these elements, of the deconsolidation of assets held for sales and of variations in current, and non-current borrowings, Gemalto's net cash position as of June 30, 2011 was € 186 million, a reduction of € 69 million when compared with December 31, 2010.

Adjusted financial information

In this section, the financial information is presented for all operations. In comparison to adjusted income statement for ongoing operations, the adjusted income statement for all operations also includes:

- For 2011, the gain recognized during the semester further to the deconsolidation of a joint venture.
- For 2010, the contribution from the Point of Sales (POS) operation disposed in December 2010.
As per the full year 2010 publication, this contribution is reclassified in discontinued operations and its net contribution is reported below the profit from operations.

Extract from the adjusted income statement for all operations

	First Half 2011		First Half 2010		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	Year-on-year variation at historical exchange rates
Revenue	928.5		815.0		+14%
Gross profit	321.2	34.6%	292.1	35.8%	(1.2 ppt)
Operating expenses	249.4	26.9%	225.5	27.7%	(0.8 ppt)
JV deconsolidation gain ²	21.1		0.0		
EBITDA	123.6	13.3%	95.1	11.7%	+1.6 ppt
Profit from operations	93.0	10.0%	66.6	8.2%	+1.8 ppt
ongoing operations	71.9	7.7%	66.6	8.2%	(0.4 ppt)
other operations	21.1		0.0		
Net profit	73.8	7.9%	63.2	7.8%	+0.2 ppt
Earnings per share (€)					
Basic	0.89		0.76		+18%
Diluted	0.86		0.74		+16%

Revenue for the first semester was up by +14% at historical rates, to € 928.5 million. Expansion was supported by strong growth in the Secure Transactions, Security and Machine-to-Machine segments partially offset by lower activity in the Mobile Communication segment. Software & Services revenue expanded across the company by +12% to € 123 million, and accounted for 13% of the total semester revenue. These results evidence Gemalto's strong progress towards the implementation of its 2009-13 strategic plan through a combination of organic growth and the successful integration of acquired businesses.

Gross profit for the Company was up € 29.1 million or +10% at € 321.2 million. This represents a gross margin of 34.6%, lower by 1.2 percentage point from previous year, essentially due to the temporarily lower level of patent licensing activity. Productivity gains and service delivery optimization techniques implemented with select customers helped offset the combined adverse effects of higher prices in raw materials, plastic and gold in particular, and unfavorable purchasing conditions of silicon chips during the period.

Operating expenses decreased by 3.1 percentage points when expressed as percentage of revenue at € 228.2 million. This evolution includes a reduction of 1.3 percentage points on R&D and SG&A expenses for on-going operations, as

² Gain on re-measurement to fair value of an investment in associate

First half 2011 Management Report

synergies from acquisitions progressively materialize and additional expenses required by organic development in new growth areas were kept under tight control. It also includes a € 21.1 million gain in the re-measurement at fair value of Gemalto's participation in a Chinese JV deconsolidated during the first semester, further to a transaction planned to be completed in the second semester.

First semester 2011 profit from operations came in at € 93.0 million, i.e. 10.0% of revenue. The year-on-year variation benefited from both the one-off €21.1 million JV deconsolidation gain and the positive developments in the business. Indeed, for ongoing operations, profit grew from € 66.6 million to € 71.9 million despite the year-on-year € 13.8 million shortfall effect of the Patents' contribution to profit. The increase was driven by the accelerated global migration to EMV and contactless payment in Secure Transactions, double digit growth in Security, notable progress made in delivering synergies from acquired companies and profitability improvements in the Software and Services activities as usage picks up and efficiency from replication begins to kick-in.

As with the first half of 2010, net interest income was not material this semester. Foreign exchange transactions resulted in a loss of € 4.3 million, compared with a gain of € 0.9 million in the first half of 2010, partially offset by € 1.5 million of other financial income. As a result, Gemalto's financial income of (€ 2.8) million for the first half of 2011 was lower by € 3.6 million year-on-year. Share of profit in associates increased by € 0.9 million, at € 1.3 million.

Profit before income tax was € 91.5 million.

Net income tax expenses were € 16.1 million; and a € 1.5 million charge from discontinued operations was recorded in relation to the Point of Sales disposal transaction.

Consequently the adjusted net profit for the Company was € 73.8 million, a 17% increase when compared to last year's figure of € 63.2 million.

Basic adjusted earnings per share came at € 0.89 and fully diluted adjusted earnings per share at € 0.86, increasing respectively by 18% and 16% when compared to first semester 2010 basic adjusted earnings per share of € 0.76 and fully diluted adjusted earnings per share of € 0.74.

Segment information

For a better understanding of Gemalto's business evolution, comments and comparisons address ongoing operations. The basis of presentation of this document describes the changes that occurred in the segments' presentation for the year 2011, as announced in 2010. The segment financial information for 2010 is presented pro-forma on the above basis of presentation.

Segment contribution to Gemalto H1'2011 results	Mobile Communication	Machine-to-Machine	Secure Transactions	Security	Patents	Total
As a percentage of revenue	48%	9%	27%	16%	0%	100%
As a percentage of ongoing PFO	42%	8%	37%	16%	-3%	100%

This semester, it is worth noting that the contribution of the Secure Transactions, Security and Machine-to-Machine segments progressed rapidly and represents 52% of Gemalto revenue and 61% of profit from operations (PFO). In consequence, Mobile Communication had lower contribution, accounting for 48% of the Company revenue and 42% of total profit from operations.

Year-on-year variations	Mobile Communication	Machine-to-Machine	Secure Transactions	Security	Total four main segments	Patents	Total Gemalto
Q2' 2011							
Revenue	230 M€	41 M€	130 M€	81 M€	482 M€	2 M€	485 M€
At historical rates	(6%)	-	+16%	+10%	+12%	(64%)	+11%
At constant rates	(2%)	-	+19%	+12%	+16%	(64%)	+15%
H1' 2011							
Revenue	444 M€	84 M€	251 M€	146 M€	926 M€	3 M€	928 M€
At historical rates	(3%)	-	+21%	+11%	+16%	(84%)	+14%
At constant rates	(3%)	-	+21%	+11%	+16%	(84%)	+14%
Profit from ongoing operations	30 M€	6 M€	26 M€	11 M€	74 M€	(2M€)	72 M€
At historical rates	(24%)		x4.7	+25%	+35%	n.c.	+8%

Currency exchanges rates had significant individual variations over the first and second quarters but their overall impact was limited, with no significant difference between historical and constant rate year-on-year variations of segment revenues.

The four main segments of activities comprising Mobile Communication, Machine-to-Machine, Secure Transactions and Security represented close to 100% of Gemalto's revenue this semester and had combined revenue growth of 16%, at both historical and constant rates. Their contribution to the Company's profit from operations increased by 35%, to € 74 million.

Mobile Communication

	First Half 2011		First Half 2010		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	444.1		459.4		(3%)
Gross profit	159.7	36.0%	174.8	38.0%	(2.1 ppt)
Operating expenses	129.2	29.1%	134.5	29.3%	(0.2 ppt)
Profit from operations	30.5	6.9%	40.3	8.8%	(1.9 ppt)

Mobile communication posted revenue of € 444.1 million, lower by 3% year on year at constant exchange rates.

Software and Services grew to € 72 million in revenue this semester as developments in new service offerings were realized. The organic developments made notably in mobile contactless (Near Field Communication - NFC) and mobile financial services (MFS) led to significant “pay-per-use” contracts wins that will produce effects gradually as consumer adoption ramps up. In parallel, the Company continued to trim revenue of the least profitable activities in the recently acquired businesses.

Product revenue was lower by 4% year-on-year at constant exchange rates in line with the more marked seasonal sales pattern anticipated for 2011. Volume growth was once again strong in rapidly developing countries. The product mix improvement was still limited in developed countries, as major operators finalize their upgrade plans towards fourth generation networks (LTE) and NFC services, which they expect to launch near the end of the year.

Gross margin for the segment was lower by 2.1 percentage points, mainly due to these mix variations. The combined adverse effect of significantly higher prices for raw materials - gold and plastic in particular, and of this semester's adverse silicon chips purchasing conditions was neutralized by new productivity gains and pricing discipline

Operating expenses settled at € 129.2 million, lower by € 5.3 million compared to last year. The decrease essentially reflects acquired businesses synergies that more than offset the additional resources the company chose to deploy to support strong demand from its customers for more field trials of its new NFC and MFS services.

Profit from operations came in at € 30.5 million for the segment, lower by € 9.8 million. This represents a profit margin of 6.9% during the period, a sound basis for performance considering the seasonality that has historically characterized this segment.

After three semesters of unfavorable evolution, the segment is expected to return to expansion of year-on-year profits in the second half of 2011. It will start to benefit from the software and services investments that have been made, and from the improved profitability of acquired businesses progressing toward Gemalto's broader level of performance. The segment should also benefit from an improved product mix as the first deployments of NFC and MFS services trigger a faster product upgrade rate in the developed countries' traditionally slow-rotating installed base of consumer SIM and UICC cards.

Machine-to-Machine

	First Half 2011		First Half 2010		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	84.2				-
Gross profit	28.9	34.3%			-
Operating expenses	23.1	27.5%			-
Profit from operations	5.8	6.9%			-

The Machine-to-Machine segment posted revenue of € 84.2 million driven by the continuing growth of this activity in the industrial sector. The Machine-to-Machine segment includes mainly the activity of Cinterion, which was acquired in July 2010 and consolidated as of August 1st 2010.

The events that occurred in Japan in the first quarter led several customers to delay certain deliveries, especially in the automobile sector. This resulted in a small shift in quarterly revenues, which is however expected to have minimal impact, if any, on the full year revenue of the segment.

Due to productivity gains, the segment's gross margin improved this semester to 34.3%, up by 1.7 percentage points when compared to last year's initial consolidation period of August-December 2010.

Operating expenses were € 23.1 million, as R&D expenses in new products and services were sustained and supplemental marketing efforts were deployed to support the newly integrated offerings.

As a result, profit from operations for the segment came in at € 5.8 million, or 6.9% when expressed as a percentage of this semester's segment revenue.

Secure Transactions

	First Half 2011		First Half 2010		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	251.1		207.4		+21%
Gross profit	77.3	30.8%	54.3	26.2%	+4.6 ppt
Operating expenses	50.9	20.3%	48.8	23.5%	(3.3 ppt)
Profit from operations	26.4	10.5%	5.6	2.7%	+7.8 ppt

Secure Transactions posted a record performance this semester, growing by an impressive 21% at constant exchange rates to € 251.1 million. In line with the trend that began in the second half of 2010, growth this semester was driven by countries migrating to EMV in the Americas, as well as European financial institutions upgrading to contactless dual interface payment cards. In this rapidly expanding market, Gemalto continued to leverage its geographical presence and its recently renewed product and services portfolio to capture the market growth worldwide.

The improvement in volume and product mix, the better absorption of fixed costs in high growth areas and higher personalization activity led to a significant gross margin increase of 4.6 percentage points on the previous year, to 30.8%. Gross profit settled at a record € 77.3 million for the semester, up 42%. This performance is all the more impressive as the segment was also confronted this semester with increases in raw material costs, and with various issues with suppliers that had difficulty meeting Gemalto's large increase in demand.

Revenue growth significantly outpaced the operating expenses increase, which came in lower by 3.3 percentage points when expressed as percentage of revenue.

Excellent fall through from revenue growth to profit from operations was thus generated, and the segment's profit from operations for the period settled at € 26.4 million, a close to five-fold increase on last year's figure. This corresponds to a double-digit profit margin of 10.5%, up almost 8 percentage points on 2010, and a new record for a first semester.

Coming after the excellent second semester of 2010, the performance of Secure Transactions confirms the sustained improvement in the development of this part of Gemalto business. This segment is now expected to outperform the objective set out as part of the company's long-range development plan in 2009, and record double digit profit margin from operations for the full year 2011.

Security

	First Half 2011		First Half 2010		
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	Year-on-year variation at historical exchange rates
Revenue	146.5		132.1		+11%
Gross profit	53.7	36.7%	48.0	36.3%	+0.4 ppt
Operating expenses	42.4	28.9%	38.9	29.4%	(0.5 ppt)
Profit from operations	11.4	7.7%	9.1	6.9%	+0.9 ppt

Security posted yet another semester of double-digit revenue growth at 11% at constant exchange rates, generating € 146.5 million in revenue. The segment's growth accelerated in the second quarter on the back of new e-documents and e-services deployments in the Government Programs activity whose revenue for the semester increased +14% at constant exchange rate.

The segment's gross profit margin continued to improve through additional productivity gains, reaching 36.7% and leading to gross profit generation of € 53.7 million.

Operating expenses remained controlled at € 42.4 million, lower by 0.5 percentage points representing 28.9% of revenue.

Supported by the segment's strong operational leverage of its top line growth, Security's profit from operations grew by 24% to €11.4 million, leading to 7.7% profit margin from operations this first semester. With the continued growth the Company expects for this segment, this result is in line with the intermediate 2011 milestone objective of high single digit profit margin from operations, which was set as part of the Gemalto 2009 long-range plan.

Patents

	First Half 2011		First Half 2010		Year-on-year variation at historical exchange rates
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	
Revenue	2.6		16.1		(84%)
Gross profit	1.5	60.2%	15.0	93.4%	(33.3 ppt)
Operating expenses	3.7	146.1%	3.4	21.1%	+125.0 ppt
Profit from operations	(2.2)	(85.9%)	11.6	72.3%	(158.3 ppt)

Patent revenue settled at € 2.6 million, lower by €13.5 million on last year's figure, confirming the anticipated impact on the segment's activity of the public patent litigation the Company initiated in the USA to protect its intellectual property.

This lower revenue translated directly into reduced gross profit for the segment as a large part of the segment costs is fixed.

Operating expenses remained tightly contained, growing by €0.3 million to €3.7 million, despite the initial litigation costs incurred.

The temporary decrease in the segment's level of activity was associated to the difficulty in signing new intellectual property licenses for the Company's portfolio of 4500 patents on a fair reasonable and non-discriminatory basis pending the outcome of this litigation.

Additional information

- As anticipated, the agreement for shareholding restructuring of the JV whose assets were held for sale was signed with our partner in the JV. This transaction is expected to complete in the second half of 2011 and Gemalto will become a minority shareholder, holding a 20% interest in the JV. From March 29, 2011, at transfer of Gemalto's power to govern to the JV partner, a €21 million gain in the re-measurement at fair value of Gemalto's participation was recognized. Gemalto will receive several payments in conjunction with the operation plus an additional income in case of an IPO. As a minority shareholder, Gemalto will continue to benefit from the JV activities, especially since the JV will continue to use Gemalto technologies.
- In relation to Mobile Communication segment's activities, Gemalto reinforced its collaboration with the Orange Group in mobile contactless payment deployment in Europe. During the semester, were announced both the commercial deployment of Barclays-Orange services in the UK and the PTK Centertel commercial pilot in Poland, in which Gemalto provides
 - an end-to-end solution that includes NFC software and user interface applications securely embedded on an NFC SIM,
 - the Trusted Service Management (TSM) services, to securely personalize and manage the highly sensitive security credentials and payment applications over the air.

Related press releases:

Jun 21, 2011: Gemalto and Orange Group Extend Collaboration on NFC with Rollout of Poland's Largest Mobile Contactless Program

Jan 27, 2011: The UK's first commercial launch of contactless mobile payments by Everything Everywhere and Barclaycard, set to revolutionize buying on the High Street (issued by Barclays)

Outlook

In 2011, Gemalto confirms its target of another year of expansion in revenue and profit from its ongoing operations, progressing in its 2010-2013 development plan, even without the benefit of the usual contribution from its patent licensing activities that is expected to be substantially lower in 2011 due to the public patent litigation the Company initiated in the USA. Gemalto confirms it is anticipating a return to year-on-year profit expansion in Mobile Communication for the second semester, on the back of the first large deployments of Near-Field Communication (NFC) mobile contactless services and LTE fourth generation networks announced for the latter part of the year. The Company confirms its upgraded view on Security which is now expected to deliver high single-digit profit margin from operations in 2011 even without patent licensing contribution. Gemalto now expects Secure Transactions to deliver double-digit revenue growth and double-digit profit margin from operations in 2011, thus outperforming its initial objective. Gemalto confirms its target of € 300 million in profit from operations in 2013.

Acquisition of businesses and subsidiaries

Acquisition of businesses and subsidiaries for the period represented an estimated purchase consideration of €11.5 million.

For additional disclosures regarding acquisitions of businesses and subsidiaries, reference is made to the above note 5 to the interim condensed consolidated financial statements as at June 30, 2011.

Transactions with related parties

For disclosure regarding transactions with related parties, reference is made to the above note 26 to the interim condensed consolidated financial statements as at June 30, 2011.

Risks and uncertainties

In our Annual Report 2010, 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 half of 2011, 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.

Changes in share capital ownership

On April 29, 2011, Fidelity Management & Research LLC notified the AFM that they had increased their holding in Gemalto's ordinary shares to 10.09%.

Appendix 1

Adjusted income statement by business segment

First half 2011	Ongoing operations							
Adjusted income statement (€ in millions)	Mobile Communication (with public telephony)	Machine-to-Machine	Secure Transactions	Security (excluding patents)	Patents	First half 2011 Ongoing operations	Assets held for sale (JV)	First half 2011 Total Gemalto
Revenue	444.1	84.2	251.1	146.5	2.6	928.5	-	928.5
Gross profit	159.7	28.9	77.3	53.7	1.5	321.2	-	321.2
Operating expenses	(129.2)	(23.1)	(50.9)	(42.4)	(3.7)	(249.4)	21.1	(228.2)
Profit from operations	30.5	5.8	26.4	11.4	(2.2)	71.9	21.1	93.0

First half 2010	Ongoing operations									
Adjusted income statement (€ in millions)	Mobile Communication (with public telephony)	Machine-to-Machine	Secure Transactions	Security (excluding patents)	Patents	First half 2010 Ongoing operations	Assets held for sale (JV)	First half 2010 Total Gemalto	Discontinued operations (POS)	First half 2010 as previously reported
Revenue	459.4	0.0	207.4	132.1	16.1	815.0	-	815.0	25.1	840.1
Gross profit	174.8	0.0	54.3	48.0	15.0	292.1	-	292.1	6.9	299.0
Operating expenses	(134.5)	0.0	(48.8)	(38.9)	(3.4)	(225.5)	-	(225.5)	(6.3)	(231.8)
Profit from operations	40.3	0.0	5.6	9.1	11.6	66.6	-	66.6	0.6	67.2

Appendix 2

Summary of evolutions of revenue and profit from operations

€ in millions	Mobile Communication	Secure Transactions	Security	Machine-to- Machine	Four main segments	Patents	Total Gemalto	Discontinued operations and Assets held for sale	As reported
Variations at historical rates									
Revenue									
H1'2011	444	251	146	84	926	3	928	-	928
H1'2010	459	207	132	-	799	16	815	25	840
Year-on-year variations					+16%		+14%		+11%
PFO									
H1'2011	30	26	11	6	74	(2)	72	21	93
H1'2010	40	6	9	-	55	12	67	1	67
Year-on-year variations					+35%		+8%		+38%

Appendix 3

Reconciliation from Adjusted financial information to IFRS

6 month period ending June 30, 2011

	Adjusted financial information for ongoing operations	Contribution from JV and POS	Adjusted financial information	Adjustment PFO to EBIT	IFRS financial information
<i>In thousands of Euro</i>					
Revenue	928 457		928 457		928 457
Cost of sales	(607 246)		(607 246)	(1 274)	(608 520)
Gross profit	321 211		321 211	(1 274)	319 937
Operating expenses					
Research and engineering	(58 531)		(58 531)	(768)	(59 299)
Sales and marketing	(136 148)		(136 148)	(5 108)	(141 256)
General and administrative	(59 117)		(59 117)	(8 748)	(67 865)
Gain on remeasurement to fair value of an investment in associate		21 147	21 147		21 147
Other income (expense), net	4 445		4 445		4 445
Profit from Operations (PFO)	71 860	21 147	93 007		
Share-based compensation charges				(15 898)	
Restructuring & acquisition-related expenses				(3 997)	(3 997)
Amortization and depreciation of intangibles resulting from acquisitions				(9 972)	(9 972)
Operating result (EBIT)				(29 867)	63 140
Financial income (expense), net	(4 798)	2 022	(2 776)		(2 776)
Share of profit of associates	1 251		1 251		1 251
Gain on sale of investment in associate					-
Profit before income tax	68 313	23 169	91 482	(29 867)	61 615
Income tax expense	(14 039)	(2 100)	(16 139)	249	(15 890)
Profit from continuing operations	54 274	21 069	75 343	(29 618)	45 725
Profit (loss) from discontinued operation (net of income tax)		(1 543)	(1 543)		(1 543)
Profit for the period (Net profit)	54 274	19 526	73 800	(29 618)	44 182
Attributable to					
Owners of the Company - Profit for the period (Net profit)	54 682		74 208		44 590
Non-controlling interests	(408)		(408)		(408)
Earnings per share (€ per share)					
Basic	0.66		0.89		0.54
Diluted	0.64		0.86		0.52

The half year 2011 adjusted basic earnings per share are determined on the basis of the weighted average number of Gemalto shares outstanding during the six-month period ended June 30, 2011, i.e. 83,227,288 shares, which takes into account the effect of the share buy-back program. The half year 2011 adjusted diluted earnings per share were determined using 85,885,831 shares corresponding to the IFRS treasury stock method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding for the six-month period ended June 30, 2011 and considering that all outstanding "in the money" share based instruments were exercised (6,960,014 instruments) and the proceeds received from the instruments exercised (€147,926,063) were used to buy-back shares at the average share price of the half year of 2011 (4,301,471 shares at €34.39).

Notes to the interim condensed consolidated financial statements

6 month period ending June 30, 2010 (represented to account for POS disposal)

	Adjusted financial information for ongoing operations	Contribution from JV and POS	Adjusted financial information	Adjustment PFO to EBIT	IFRS financial information
<i>In thousands of Euro</i>					
Revenue	814 996		814 996		814 996
Cost of sales	(522 873)		(522 873)	(1 023)	(523 896)
Gross profit	292 123		292 123	(1 023)	291 100
Operating expenses					
Research and engineering	(52 576)		(52 576)	(382)	(52 958)
Sales and marketing	(125 213)		(125 213)	(3 359)	(128 572)
General and administrative	(55 592)		(55 592)	(4 270)	(59 862)
Other income (expense), net	7 858		7 858		7 858
Profit from Operations (PFO)	66 600		66 600		
Share-based compensation charges				(9 034)	
Restructuring & acquisition-related expenses				(2 343)	(2 343)
Amortization and depreciation of intangibles resulting from acquisitions				(9 620)	(9 620)
Operating result (EBIT)				(20 997)	45 603
Financial income (expense), net	870		870		870
Share of profit of associates	361		361		361
Gain on sale of investment in associate					
Profit before income tax	67 831		67 831	(20 997)	46 834
Income tax expense	(5 217)		(5 217)	2 643	(2 574)
Profit from continuing operations	62 614		62 614	(18 354)	44 260
Profit (loss) from discontinued operation (net of income tax)		568	568		568
Profit for the period (Net profit)	62 614	568	63 182	(18 354)	44 828
Attributable to					
Owners of the Company - Profit for the period (Net profit)	62 269		62 837		44 483
Non-controlling interests	345		345		345
Earnings per share (€ per share)					
Basic	0.75		0.76		0.54
Diluted	0.74		0.74		0.53

Notes to the interim condensed consolidated financial statements

Appendix 4

Revenue by region

First half 2011 € in millions	First half 2011	First half 2010	Year-on-year variation at historical exchange rates	Year-on-year variation at constant exchange rates
EMEA	498	452	10%	9%
North & South America	256	200	28%	30%
Asia	174	163	7%	10%
Total revenue	928	815	14%	14%

Second quarter 2011 € in millions	Second quarter 2011	Second quarter 2010	Year-on-year variation at historical exchange rates	Year-on-year variation at constant exchange rates
EMEA	255	244	5%	3%
North & South America	141	108	31%	41%
Asia	88	86	3%	17%
Total revenue	485	437	11%	15%

Appendix 5

Average exchange rates between the Euro and the US dollar

EUR/USD	2011	2010
First quarter	1.36	1.40
Second quarter	1.44	1.31
First half	1.40	1.35
Third quarter		1.27
Fourth quarter		1.36
Second half		1.31
Full year		1.33

Notes to the interim condensed consolidated financial statements

Appendix 6

In thousands of Euro

		June 30, 2011	December 31, 2010
ASSETS			
Non-current assets			
	Property, plant and equipment, net	210 933	217 211
	Goodwill, net	796 335	798 993
	Intangible assets, net	154 774	152 561
	Investments in associate	8 106	10 934
	Deferred income tax assets	59 096	51 318
	Available-for-sale financial assets, net	-	1 667
	Other non-current assets	34 658	33 335
	Derivative financial instruments	13 704	7 451
	Total non-current assets	1 277 606	1 273 470
Current assets			
	Inventories, net	173 323	155 254
	Trade and other receivables, net	491 240	537 099
	Derivative financial instruments	15 688	7 937
	Cash and cash equivalents	214 072	256 110
	Total current assets	894 323	956 400
	Assets held for sale	47 520	57 183
	Total assets	2 219 449	2 287 053
EQUITY			
	Share capital	88 016	88 016
	Share premium	1 209 251	1 209 437
	Treasury shares	(142 824)	(132 046)
	Fair value and other reserves	110 355	79 962
	Cumulative translation adjustments	(18 810)	5 879
	Retained earnings	365 177	344 302
	Capital and reserves attributable to the Owners of the Company	1 611 165	1 595 550
	Non-controlling interests	3 865	14 757
	Total equity	1 615 030	1 610 307
LIABILITIES			
Non-current liabilities			
	Borrowings	13 189	14 772
	Deferred income tax liabilities	24 194	19 213
	Employee benefit obligations	44 456	43 587
	Provisions and other liabilities	65 077	71 712
	Derivative financial instruments	640	764
	Total non-current liabilities	147 556	150 048
Current liabilities			
	Borrowings	14 950	5 423
	Trade and other payables	418 563	463 094
	Current income tax liabilities	11 072	15 754
	Provisions and other liabilities	10 803	13 710
	Derivative financial instruments	1 475	8 929
	Total current liabilities	456 863	506 910
	Liabilities associated with assets held for sale	-	19 788
	Total liabilities	604 419	676 746
	Total equity and liabilities	2 219 449	2 287 053

Appendix 7

Cash position variation schedule

€ in millions	First Half 2011	First Half 2010
Net cash, beginning of period	255	381
Cash generated by operating activities, before cash outflows related to restructuring actions	43	27
Including cash provided (used) by working capital decrease (increase)	(2)	(10)
Cash used in restructuring actions	(3)	(3)
Cash generated by operating activities	40	24
Capital expenditure and acquisitions of intangibles	(37)	(29)
Free cash flow	3	(5)
Interest received, net	1	1
Cash used by acquisitions	5	(20)
Other cash used by investing activities	(3)	0
Currency translation adjustments	(6)	12
Cash generated (used) by operating and investing activities	(1)	(12)
Cash used by the share buy-back program	(31)	(23)
Dividend paid to Gemalto shareholders	(23)	(22)
Other cash provided (used) by financing activities	13	5
Change in cash and cash equivalent due to change in consolidation method	(19)	0
Cash and cash equivalents, end of period	214	352
Current and non-current borrowings including finance lease and bank overdrafts, end of period	(28)	(22)
Net cash, end of period	186	330

Appendix 8

Changes in the segment reporting

Activity (€ in millions)	First half 2010 reporting segment	First half 2011 reporting segment	First half 2010 revenue	First half 2010 PFO
Patent licensing	Security	Patents	16	12
Public telephony	Others	Mobile Communication	8	(0)
POS	Others	None (Discontinued)	25	1

Management Statement

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 24, 2011

Mr. Olivier Piou
Chief Executive Officer

Mr. Jacques Tierny
Chief Financial Officer