

Gemalto Full Year 2018 Results

Regulatory News:

Gemalto (Euronext NL0000400653 - GTO), the world leader in digital security today announces its results for the full year 2018.

Key figures of the adjusted income statement

(€ in millions)	Full year 2018	Full year 2017	Year-on-year variations	
			at historical exchange rates	at constant exchange rates
Revenue	2,969	2,972	=	+3%
Gross profit	1,099	1,105	(1%)	
Operating expenses	(767)	(795)	(4%)	
Profit from operations (PFO)	332	310	+7%	
PFO as % of revenue	11.2%	10.4%	+0.8 pp	

Philippe Vallée, Chief Executive Officer, commented: "Gemalto's 2018 results reflect its success at implementing its strategic priorities with a return to the Company's historical pattern of growing profits.

In the Identity, IoT & Cybersecurity segment, double digit revenue growth was fueled by the broadening of our portfolio in a dynamic Governments market, by the growing enterprise demand for cloud-based cybersecurity solutions and by the rapid expansion of IoT connectivity for industrial applications. In these businesses, Gemalto continued throughout the year to increase its marketing and R&D investments in order to strengthen its long-term competitive positioning. In the Smartcards & Issuance segment, the Payment business stabilized in large part due to the US EMV normalization, while the removable SIM continued to decrease in line with expectations. The sound execution of the Company's transition plan, its portfolio optimization and selective approach of business opportunities delivered solid profit margin in 2018.

Moving forward, in the Identity, IoT & Cybersecurity segment, we anticipate strong demand for border management and biometric solutions driven by the sharp increase in air traffic and evolving law enforcement needs. We also expect an acceleration in deployments of cloud-based cybersecurity solutions in line with stringent regulation and more high-profile breaches. We should also see a proliferation of power-sensitive IoT connectivity use cases across various industrial sectors. In the Smartcards & Issuance segment, demand for both payment cards and digital payment should increase in line with cashless trends. In parallel, removable SIM demand will continue to gradually shift toward eSIM as an increasing array of devices use dematerialized connectivity.

In this context, our strategic priorities are confirmed. We will continue to invest in the fast growing Identity, IoT and Cybersecurity segment. In Smartcards & Issuance, we will pursue the digitalization of the segment while leveraging our strong market positions.

As the Thales transaction comes to a close, we are fully prepared to join forces with the Thales teams in order to accelerate the deployment of Gemalto's strategic plan in the digital security market."

Basis of preparation of financial information

Segment information

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

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

Historical exchange rates and constant currency figures

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

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

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

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

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

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

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

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

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

Net debt and net cash

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

Adjusted financial information

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

Extract of the adjusted income statement	Full year 2018		Full year 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	2,968.7		2,971.7		=	+3%
Gross profit	1,099.0	37.0%	1,104.8	37.2%	(0.2 pp)	
Operating expenses	(766.7)	(25.8%)	(795.2)	(26.8%)	+0.9 pp	
EBITDA	479.7	16.2%	456.7	15.4%	+0.8 pp	
Profit from operations	332.2	11.2%	309.6	10.4%	+0.8 pp	
Financial income (expense), net	(49.8)		(32.8)			
Share of profit (loss) of associates	(2.6)		(1.2)			
Non-recurring profit (loss) relating to associates			10.1			
Income tax (expense)	(68.8)		(109.8)			
Net profit (loss)	211.0		175.9			
Net profit (loss) non-controlling interests	(1.4)		(0.6)			
Net profit (loss) owners of the company	212.4	7.2%	176.5	5.9%	+1.3 pp	
Basic Earnings per share (€)	2.35		1.96		+20%	
Diluted Earnings per share (€)	2.31		1.94		+19%	

Gemalto posted revenue of €2,969 million for the full year, increasing by +3% at constant exchange rates and stable at historical exchange rates when compared to the same period of last year. The Company's revenue growth was driven by a double digit revenue increase from the Identity, IoT and Cybersecurity segment partially offset by revenue erosion from the Smartcards & Issuance segment.

Gross profit came in at €1,099 million and gross profit margin settled at 37%, a comparable level to last year. This result combines an increase in gross profit resulting from strong revenue growth in the Identity, IoT & Cybersecurity segment that came with slight margin erosion and that was offset by a gross profit decrease in line with the revenue drop in the Smartcards & Issuance segment.

Operating expenses were down (€28) million, at (€767) million through tighter control of expenses in the Smartcards & Issuance segment including the disposal of a mobile sub-business line even as the Company continued to invest in the Identity, IoT & Cybersecurity segment in line with its strategic priorities.

As a result, profit from operations was €332 million.

Gemalto's financial income was (€50) million, composed of interest on financial debt and currency fluctuations net of hedging.

Share of loss in associates was (€3) million for the full year 2018.

Adjusted profit before income tax came in at €280 million.

Adjusted income tax expense was (€69) million resulting in an adjusted income tax rate of 25% for the full year 2018.

Overall, the adjusted net profit of the Company was €212 million. Consequently, adjusted basic earnings per share and adjusted diluted earnings per share came in respectively at €2.35 and €2.31.

Reconciliation from adjusted financial information to IFRS

Twelve-month period ended December 31 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,968,694	-	-	-	-	2,968,694
Cost of sales	(1,869,728)	(84,986)	(5,223)	(8,897)	-	(1,968,834)
Gross profit	1,098,966	(84,986)	(5,223)	(8,897)	-	999,860
Operating expenses	(766,730)		(44,307)	(22,820)		(833,857)
Profit from operations	332,236					
Operating profit (loss)		(84,986)	(49,530)	(31,717)	-	166,003

Amortization and depreciation of intangibles resulting from acquisitions came in at (€85) million. This amount is mainly composed of the amortization of the Identity Management Business acquired in 2017 and that of Safenet acquired in 2015.

Restructuring and acquisition-related expenses were (€50) million, compared to (€114) million in 2017, essentially corresponding to restructuring and portfolio optimization costs of the transition plan as well as initial costs related to the Thales project. Year-on-year expenses were down (€64) million, reflecting the effects of the transition plan initiatives that were launched in 2017.

The equity-based compensation charge was (€32) million, down (€5) million from last year, as no major Long-Term Incentive plan was launched in 2018.

As a result, Gemalto recorded an operating profit of €166 million for the full year 2018.

The income tax charge came in at (€54) million compared to (€36) million the previous year. Excluding the impacts of the transition plan and the Thales project, the income tax rate was at 24% in line with the Gemalto long term income tax rate.

The net result was at €61 million profit for the full year 2018 leading to a basic earnings per share of €0.68.

Statement of financial position and cash position variation schedule

For the full year 2018, operating activities generated a cash flow of €366 million compared to changes in working capital.

Changes in working capital reduced cash flow generation by (€20) million in 2018 compared to (€14) million in 2017. The (€6) million deterioration of working capital from last year was attributable to the increase in inventories which were exceptionally low in 2017.

Cash consumed in restructuring activities and acquisition related expenses was (€70) million, up €22 million from last year. The cash was essentially used as part of the transition plan and through costs associated to the Thales project.

Capital expenditure and acquisition of intangibles amounted to (€129) million, i.e. 4.3% of revenue compared to 5.1% in 2017. The investment in Property, Plant, and Equipment amounted to (€33) million in 2018, (€32) million lower than last year resulting from the one-off effect of the rationalization of the Governments business footprint. The investment in intangible assets accounted for (€96) million, up €9 million on last year, mostly due to an increase in R&D capitalization.

As a result, in 2018 Gemalto generated free cash flow of €177 million.

At the announcement of the Thales offer on December 17, 2017, Gemalto treasury's liquidity program was immediately suspended and ultimately closed in 2018.

As at December 31, 2018, the Company held 201,045 shares, or 0.22% of its own shares in treasury, a reduction of 137,998 shares from December 31, 2017, allocated to the employee share options plans. The total number of Gemalto shares issued was 90,920,356 shares as consequence of the issuance of 496,542 ordinary shares used to fund share based compensation plans. Net of the 201,045 shares held in treasury, 90,719,311 shares were outstanding as at December 31, 2018. The average acquisition price of the shares repurchased on the market by the Company held in treasury as at December 31, 2018 was €31.22.

In 2018, due to the Thales offer, Gemalto's Board of Directors elected not to distribute a dividend in respect of the fiscal year 2017, leaving the offer at €51 euros cum dividend for each issued and outstanding share of Gemalto. As the Thales transaction is expected to close in Q1 2019, Gemalto's Board of Directors will not propose a dividend distribution for the 2018 fiscal year.

Repayment of financing instruments including interests consumed (€194) million.

Cash in hand, net of bank overdrafts amounted to €257 million as of year-end 2018 versus €302 million at the end of 2017.

Considering the €808 million total amount of borrowings as at December 31, 2018, Gemalto's net debt position decreased by €132 million down to €552 million. The net debt reduction was the product of free cash flow generated in 2018 and was partially offset by a cash outflow from merger and acquisition activities. Company net debt currently represents 1.15 times its adjusted EBITDA.

Segment information

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

Fourth quarter 2018 (€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	855	392	463
At constant rates	+3%	+9%	(2%)
At historical rates	+3%	+10%	(2%)

During the fourth quarter, revenue was up by +3% at constant exchange rates.

The Identity, IoT & Cybersecurity segment's revenue came in at €392 million, increasing +9% at constant exchange rates compared to the previous year. During the quarter, the Governments and IoT businesses delivered strong performances contrasting with more modest revenue growth in the Cybersecurity business.

The Smartcards & Issuance segment posted revenue of €463 million, (2%) lower at constant exchange rates. The Payment business grew well in the fourth quarter on the back of the US normalization and solid deliveries in other markets. The removable SIM business continued to decrease in line with expectations.

Second semester 2018 (€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	1,582	737	845
At constant rates	=	+4%	(3%)
At historical rates	=	+5%	(3%)

Second semester revenue was stable year-on-year at constant exchange rates.

The Identity, IoT & Cybersecurity segment's revenue came in at €737 million, increasing +4% at constant exchange rates compared to the previous year.

The Smartcards & Issuance segment posted revenue of €845 million, (3%) lower at constant exchange rates.

Full year 2018 (€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Revenue	2,969	1,381	1,588
At constant rates	+3%	+11%	(3%)
At historical rates	=	+8%	(6%)
As percentage of total revenue		47%	53%

Gemalto posted revenue of €2,969 million for the full year 2018, increasing +3% at constant exchange rates, stable at historical exchange rates compared to the same period of last year.

The Identity, IoT & Cybersecurity segment's revenue came in at €1,381 million, increasing +11% at constant exchange rates compared to the previous year. The segment contributed to 47% of Gemalto's total 2018 revenue.

The Smartcards & Issuance segment posted revenue of €1,588 million, (3%) lower at constant exchange rates, accounting for 53% of Gemalto total 2018 revenue.

Profit from operations (€ in millions)	Total	Identity, IoT & Cybersecurity	Smartcards & issuance
Second semester 2018	240	88	152
Full year 2018	332	137	195
As a percentage of the total profit from operations		41%	59%

The second semester profit from operations was €240 million representing 72% of the 2018 full year profit from operations which came in at €332 million.

Identity, IoT & Cybersecurity

Full year 2018	Full year 2017	Year-on-year variations
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	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	1,380.8		1,277.8		+8%	+11%
Gross profit	564.0	40.8%	539.8	42.2%	(1.4 pp)	
Operating expenses	(426.6)	(30.9%)	(400.4)	(31.3%)	+0.4 pp	
Profit from operations	137.4	9.9%	139.4	10.9%	(1.0 pp)	

Identity, IoT and Cybersecurity full year revenue came in at €1,381 million, up +11% at constant exchange rates compared to 2017.

The Governments business posted strong revenue growth compared with the same period of last year. The positive performance was due to the contribution of the Identity Management Business and substantial secure document deliveries in Europe, Asia, and Africa offsetting weaker performance in the Middle East. In the second quarter, Gemalto won its largest ever passport contract with the United Kingdom Home Office. The contract spans 11.5 years, including 10 years of production and issuance services. Initial project deliveries took place in the fourth quarter. Gemalto also deployed a number of its commercial biometric solutions to large banking and telecom customers. These results highlight Gemalto's innovation capabilities aimed at helping governments better protect their citizens, and Gemalto's ability to apply biometric solutions in commercial markets where demand is fast growing.

The Cybersecurity business delivered a contrasted performance this year, in spite of revenue growth in its three sub-businesses. As more stringent regulatory environments on data privacy come into force, companies, especially in Europe, remained slow at developing cybersecurity initiatives which led to lower than expected revenue growth this year in the encryption sub business line. The software monetization sub-business revenue grew, supported by large projects in Europe and Asia while the authentication sub-business returned to growth on the back of acceleration in deployments of its cloud offer. In this context, Gemalto continued to increase its Marketing and R&D investments with a focus on its cloud offers that help organizations efficiently manage users' authentication, access management and data protection across multiple private and public cloud environments. As a result of these investments, Gemalto is increasingly well positioned to capture the growing demand for cloud cybersecurity solutions.

The IoT business posted an outstanding revenue performance this year. The increase was driven by strong deliveries in Europe and Asia to large customers in Automotive, Health, Payment and Metering sectors. These successes reflect the unique combination of Gemalto's extensive set of IoT modules that provide a sturdy foundation for secure connectivity and an improved lifecycle management which extends durability, reliability and flexibility. A combination that proves a compelling answer for the growing number of industrial solutions that require high availability, expanded coverage and long-life such as utility meters and smart city solutions. In addition, it also strengthens the business case for cellular IoT technology and Gemalto should continue to benefit from the sustained market demand across key industrial sectors.

Overall, the Identity, IoT & Cybersecurity segment's gross profit was up +4% from last year at €564 million driven notably by the Governments business. Gross margin for the segment came in at 41%, down (1%) due to a business mix effect resulting from faster revenue growth in the IoT business.

Operating expenses for the segment came in at €427 million, up by €27 million compared with the same period of last year. This increase was mainly due to strong marketing and R&D investments in the three business lines to support the sustained growth.

As a result, profit from operations in the Identity, IoT & Cybersecurity segment came in at €137 million and profit from operations margin settled at 10% for the full year 2018.

Smartcards & Issuance

	Full year 2018		Full year 2017		Year-on-year variations	
	€ in millions	As a % of revenue	€ in millions	As a % of revenue	at historical exchange rates	at constant exchange rates
Revenue	1,587.9		1,693.9		(6%)	(3%)
Gross profit	535.0	33.7%	565.0	33.4%	+0.3 pp	
Operating expenses	(340.1)	(21.4%)	(394.8)	(23.3%)	+1.9 pp	
Profit from operations	194.8	12.3%	170.1	10.0%	+2.2 pp	

Smartcards & Issuance full year revenue came in at €1,588 million, (3%) lower year-on-year at constant exchange rates.

As expected, the Payment business stabilized this year. This performance was due to US EMV market demand normalizing combined with solid payment card shipments in other regions and sustained contactless migrations across countries worldwide. This year also saw growing interest and initial scale deployments of the promising biometric technology for payment cards. The payment market is expected to continue to evolve along current trends. Removable SIM revenue continued to decrease this year due to the limited product mix evolution and, to a lesser extent, to the dismissal of low profit-margin opportunities. This business pattern is expected to continue, resulting in a sustained tight control of associated expenses.

The Digital business revenue was down year-on-year mostly due to Gemalto's mobile services portfolio optimization as MNOs focus their investments toward eSIM. During the year, infrastructure deployments of connectivity solutions increased in key sectors of the IoT market and Apple's decision in September to introduce eSIM technology in its new generation of iPhones was a turning point in the adoption of such technology. It should trigger an acceleration in the rate of activations that will benefit Gemalto's eSIM solutions with Mobile Network Operators.

The Digital Banking sub businesses grew thanks to large authentication programs roll out with banks in Europe and Latin America. In digital payment, Gemalto grew its revenue and announced the enabling of Hong Kong's Octopus card through Samsung Pay via its Trusted Service Hub (TSH), a landmark program that follows recent successes in Japan and Spain and one that confirms the competitiveness of Gemalto's digital offer in this transforming market.

The Smartcards & Issuance segment's gross profit was down (5%) at €535 million compared with last year, as a result of the impact of the revenue decrease in the removable SIM business and its ensuing revenue mix evolution. Gross margin improved slightly at 34% as the benefits of the transition plan were partially offset by the impact of the shift in the revenue mix toward Payment.

Operating expenses decreased by (€55) million down to (€340) million, reflecting the strong benefits of the transition plan and the disposal of a mobile sub business line as part of the portfolio optimization.

As a result, the Smartcards & Issuance segment's profit from operations for 2018 was €195 million and its profit from operations margin settled at 12.3%. Excluding the one-off effect of a mobile sub business line disposal, the profit margin came in at 10.7%, in line with expectations.

Thales combination

In December 2017, Thales and Gemalto reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto. This offer was launched on March 27, 2018. We are working together with Thales toward achieving the regulatory and antitrust approvals required to complete the transaction. Together with the antitrust clearances obtained in China, Israel, New Zealand, South Africa, Turkey, the European Union, Australia and Mexico and clearances relating to foreign investments in Australia, Canada and the United States (CFIUS), Thales and Gemalto have already obtained 11 of the required 14 Regulatory Clearances. The transaction should close shortly after all of the Regulatory Clearances have been secured, which is expected to occur in Q1 2019. More information on the Thales offer and the integration, including the offer document and related press releases, can be found on our website at [Public Offer by Thales](#).

Additional information

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

Identity, IoT & Cybersecurity

January 9, 2018

Gemalto LTE-M wireless module earns AT&T certification expanding highly efficient cellular connectivity for IoT devices

March 6, 2018

Korea Telecom selects Gemalto to deliver out-of-box connectivity for connected cars

March 21, 2018	Gemalto unveils two new enhanced security features for ID documents
April 17, 2018	Gemalto to protect 5G next generation networks from cyber-attacks with Intel® Software Guard Extensions
April 23, 2018	Gemalto awarded multi-year service contract for British passports
May 3, 2018	Gemalto's biometric authentication technology revolutionizes automated border control in Colombia
June 6, 2018	Gemalto launches virtualized network encryption platform to help customers address evolving data security needs
June 13, 2018	Gemalto facial recognition solution excels at US Department of Homeland security 2018 Biometric Rally
June 21, 2018	Gemalto and Faraday Future work together to deploy secure, connected vehicles
August 7, 2018	Gemalto boosts cloud security with a scalable virtual key management solution
October 23, 2018	Data Breaches Compromised 3.3 Billion Records in First Half of 2018
October 31, 2018	Alaska extends contract with Gemalto to enhance driver's license security
November 7, 2018	Gemalto boosts highly efficient IoT connectivity with secure NB-IoT platform
November 29, 2018	Gemalto unveils industry's first cloud access management and single sign on solution enhanced for smart card users
December 6, 2018	Gemalto pilots biometric boarding at Los Angeles International Airport
December 13, 2018	Gemalto and GlobalmatIX go full speed with high performance IoT automotive telematics

Smartcards & Issuance

January 4, 2018	Gemalto launches the first biometric EMV card for contactless payments
January 31, 2018	Gemalto's Discovery Service boosts on-demand connectivity activation for consumer devices worldwide
February 27, 2018	Telefonica Deutschland selects Gemalto solution to deliver identity verification service
March 19, 2018	Dai Nippon Printing chooses Gemalto's biometric facial recognition solution to facilitate mobile banking access in Japan
April 26, 2018	Gemalto enables digitization of Hong Kong's Octopus card into Samsung Pay
May 28, 2018	Gemalto announces collaboration with Qualcomm Technologies to integrate eSIM innovation into the Snapdragon Mobile PC Platform
October 24, 2018	Gemalto celebrates 100 eSIM solutions deployed worldwide
October 29, 2018	UK consumers excited by the new biometric payment cards
November 27, 2018	The French Ministry of Interior selects Gemalto to secure critical communication mobile networks
December 19, 2018	Intesa Sanpaolo turns to Gemalto for Italy's first biometric contactless payment card pilot

Website and Q&A

This press release as well as the annual report, including the financial statements as of December 31, 2018, are available on our Investor web site (www.gemalto.com/investors).

Investors and analysts wishing to ask questions may reach the Investor Relations team.

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Email: investorrelations@gemalto.com or jean-claude.deturche@gemalto.com

Stock Exchange Listing

Gemalto N.V. is dual listed on Euronext Amsterdam and Paris, in the compartment A (Large Caps).

Mnemonic:	GTO
Exchange	Dual listing on Euronext Amsterdam and Paris
Market of reference	Euronext Amsterdam
ISIN Code	NL0000400653
Reuters	GTO.AS
Bloomberg	GTO:NA

Gemalto has also established a sponsored Level I American Depositary Receipt (ADR) Program in the United States since November 2009. Each Gemalto ordinary share is represented by two ADRs. Gemalto's ADRs trade in U.S. dollar and give access to the voting rights and to the dividends attached to the underlying Gemalto shares. The dividends are paid to investors in U.S. dollar, after being converted into U.S. dollar by the depository bank at the prevailing rate.

Structure	Sponsored Level I ADR
Exchange	OTC
Ratio (ORD:DR)	1:2
DR ISIN	US36863N2080
DR CUSIP	36863N 208

This press release contains inside information as referred to in article 7 paragraph 1 of Regulation (EU) 596/2014 (Market Abuse Regulation).

About Gemalto

Gemalto (Euronext NL0000400653 GTO) is the global leader in digital security, with 2018 annual revenues of €3 billion and customers in over 180 countries. We bring trust to an increasingly connected world.

From secure software to biometrics and encryption, our technologies and services enable businesses and governments to authenticate identities and protect data so they stay safe and enable services in personal devices, connected objects, the cloud and in between.

Gemalto's solutions are at the heart of modern life, from payment to enterprise security and the internet of things. We authenticate people, transactions and objects, encrypt data and create value for software – enabling our clients to deliver secure digital services for billions of individuals and things.

Our 15,000 employees operate out of 110 offices, 47 personalization and data centers, and 35 research and software development centers located in 47 countries.

For more information visit www.gemalto.com, or follow @gemalto on Twitter.

This communication does not constitute an offer to purchase or exchange or the solicitation of an offer to sell or exchange any securities of Gemalto.

This communication contains certain statements that are neither reported financial results nor other historical information and other statements concerning Gemalto. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, events, products and services and future performance. Forward-looking statements are generally identified by the words "expects", "anticipates", "believes", "intends", "estimates" and similar expressions. These and other information and statements contained in this communication constitute forward-looking statements for purposes of applicable securities laws. Although management of the Company believes that the expectations reflected in the forward-looking statements are reasonable, investors and security holders are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of the Company, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by the forward-looking information and statements, and the Company cannot guarantee future results, levels of activity, performance or achievements. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this communication include, but are not limited to: trends in wireless communication and mobile commerce markets; the Company's ability to develop new technology and the effects of competing technologies developed; effects of the intense competition in the Company's main

markets; challenges to or loss of intellectual property rights; ability to establish and maintain strategic relationships in its major businesses; ability to develop and take advantage of new software, platforms and services; profitability of the expansion strategy; effects of acquisitions and investments; ability of the Company's to integrate acquired businesses, activities and companies according to expectations; ability of the Company to achieve the expected synergies from acquisitions; and changes in global, political, economic, business, competitive, market and regulatory forces. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such forward-looking statements. The forward-looking statements contained in this communication speak only as of the date of this communication and the Company or its representatives are under no duty, and do not undertake, to update any of the forward-looking statements after this date to conform such statements to actual results, to reflect the occurrence of anticipated results or otherwise except as required by applicable law or regulations.

Appendix 1

Reconciliation from adjusted financial information to IFRS

Full year period ended December 31 2018 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,968,694	-	-	-	-	2,968,694
Cost of sales	(1,869,728)	(84,986)	(5,223)	(8,897)	-	(1,968,834)
Gross profit	1,098,966	(84,986)	(5,223)	(8,897)	-	999,860
Operating expenses	(766,730)		(44,307)	(22,820)		(833,857)
Profit from operations	332,236					
Operating profit (loss)		(84,986)	(49,530)	(31,717)	-	166,003
Financial income (expense), net	(49,797)					(49,797)
Share of profit (loss) of associates	(2,612)					(2,612)
Income tax (expense)	(68,836)					(53,956)
Net profit (loss)	210,991					59,638
Net profit (loss) non-controlling interests	(1,438)					(1,438)
Net profit (loss) owners of the company	212,429					61,076
Number of shares Basic	90,452					90,452
Number of shares Diluted	91,993					91,993
EPS Basic (€)	2.35					0.68
EPS Diluted (€)	2.31					0.66
Full year period ended December 31 2017 (€ in thousands)	Adjusted financial information	Amortization and impairment of intangibles resulting from acquisitions	Restructuring and acquisition-related expenses	Equity-based compensation charge and associated costs	Fair value adjustment upon business acquisitions	IFRS financial information
Revenue	2,971,717	-	-	-	-	2,971,717
Cost of sales	(1,866,942)	(89,006)	(38,727)	(8,910)	(9,542)	(2,013,127)
Gross profit	1,104,775	(89,006)	(38,727)	(8,910)	(9,542)	958,590
Operating expenses	(795,215)	(424,671)	(75,527)	(28,101)		(1,323,514)
Profit from operations	309,560					
Operating profit (loss)		(513,677)	(114,254)	(37,011)	(9,542)	(364,924)
Financial income (expense), net	(32,806)					(32,806)
Share of profit (loss) of associates	(1,243)					(1,243)
Non-recurring profit (loss) relating to associates	10,105					10,105
Income tax (expense)	(109,759)					(35,688)
Net profit (loss)	175,857					(424,556)
Net profit (loss) non-controlling interests	(649)					(649)
Net profit (loss) owners of the company	176,505					(423,907)
Number of shares Basic	89,883					89,883
Number of shares Diluted	91,062					89,883
EPS Basic (€)	1.96					(4.72)
EPS Diluted (€)	1.94					(4.72)

The full year 2017 adjusted basic earnings per share is determined on the basis of the weighted average number of Gemalto shares outstanding during the twelve-month period ended December 31, 2017, i.e. 89,882,565 shares. The full year 2017 adjusted diluted earnings per share is determined by using 91,062,048 shares corresponding to the IFRS treasury stock

method, i.e. on the basis of the same weighted average number of Gemalto shares outstanding and considering that all outstanding share based instruments were exercised (2,251,366 instruments) and the proceeds received from the instruments exercised (€51,148,401) were used to buy-back shares at the average share price of the full year 2017 (1,071,884 shares) at €47.72. However for the computation of the IFRS diluted earnings per share, their conversion to ordinary shares would not decrease earnings per share or increase loss per share and as such they have not been treated as dilutive.

Appendix 2

Consolidated statement of financial position

(€ in thousands)	December 31, 2018	December 31, 2017
Assets		
Non-current assets		
Property, plant and equipment	280,677	316,426
Goodwill	1,534,341	1,468,214
Intangible assets	717,958	757,814
Investments in associates	5,399	8,542
Deferred income tax assets	32,260	37,818
Other investment	32,455	39,183
Other non-current assets	83,725	79,584
Total non-current assets	2,686,815	2,707,581
Current assets		
Inventories	256,392	226,339
Trade and other receivables	1,048,421	998,500
Derivative financial instruments	4,002	55,633
Cash and cash equivalents	261,608	320,675
Total current assets	1,570,423	1,601,147
Total assets	4,257,238	4,308,728
Equity		
Share capital	90,921	90,424
Share premium	1,338,388	1,303,799
Treasury shares	(6,477)	(10,721)
Fair value and other reserves	6,495	32,574
Cumulative translation adjustments	(51,511)	(74,485)
Retained earnings	894,014	834,368
Capital and reserves attributable to the owners of the Company	2,271,830	2,175,959
Non-controlling interests	2,481	3,375
Total equity	2,274,311	2,179,334
Liabilities		
Non-current liabilities		
Borrowings	722,893	717,986
Deferred tax liabilities	103,255	102,081
Employee benefit obligations	121,543	126,716
Provisions and other liabilities	121,782	129,972
Derivative financial instruments	-	-
Total non-current liabilities	1,069,473	1,076,755
Current liabilities		
Borrowings	90,557	286,788
Trade and other payables	728,329	682,248
Current income tax liabilities	26,607	27,930
Provisions and other liabilities	38,580	52,261
Derivative financial instruments	29,381	3,412
Total current liabilities	913,454	1,052,639
Total liabilities	1,982,927	2,129,394
Total equity and liabilities	4,257,238	4,308,728

Appendix 3

Cash position variation schedule

€ in millions	Year ended December 31	
	2018	2017
Cash and bank overdrafts, beginning of period	302	663
Cash generated by operating activities, before changes in working capital	366	356
Net change in working capital	(20)	(14)
Cash used in restructuring actions and acquisition related expenses	(70)	(48)
Net cash generated by operating activities before Time de-correlated hedging effect/(Prepaid derivatives)	276	294
Time-decorrelated hedging effect/(Prepaid derivatives)	30	48
Net cash generated by operating activities	306	342
Capital expenditure and acquisitions of intangibles	(129)	(152)
Free cash flow	177	190
Interest received	2	2
Cash used by acquisitions	(30)	(759)
Other cash provided by investing activities	(1)	2
Currency translation adjustments	(3)	(11)
Cash generated (used) by operating and investing activities	145	(576)
Cash generated (used) by the liquidity and share buy-back programs	0	(1)
Dividend paid to Gemalto shareholders	0	(45)
Net proceed (repayment) from/of financing instruments	(178)	267
Interest paid	(17)	(14)
Other cash provided (used) by financing activities	3	8
Cash and bank overdrafts, end of period	257	302
Current and non-current borrowings excluding bank overdrafts, end of period	(808)	(986)

Appendix 4**Revenue by region**

Full year € in millions	Full year 2018	Full year 2017	Year-on-year variations	
			at constant exchange rates	at historical exchange rates
Europe, Middle East and Africa	1,402	1,373	+3%	+2%
Americas	1,051	1,009	+10%	+4%
Asia	516	589	(9%)	(12%)
Total revenue	2,969	2,972	+3%	=

Fourth quarter € in millions	Fourth quarter 2018	Fourth quarter 2017	Year-on-year variations	
			at constant exchange rates	at historical exchange rates
Europe, Middle East and Africa	406	391	+4%	+4%
Americas	306	284	+7%	+8%
Asia	143	153	(8%)	(7%)
Total revenue	855	828	+3%	+3%

Appendix 5**Average exchange rates between the Euro and the US dollar**

EUR/USD	2018	2017
First quarter	1.22	1.06
Second quarter	1.20	1.09
First half	1.21	1.08
Third quarter	1.17	1.17
Fourth quarter	1.15	1.18
Second half	1.16	1.17
Full year	1.18	1.12

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