

Gemplus

Q2 & H1 2005

Results Presentation

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Agenda

- ▶ • **Overview**
- Q2 & H1 2005 Financials
- Business Highlights
- FY 2005 Outlook



Q2 & H1 2005: Overview

- Q2 / H1 2005: strong revenue and income improvement
 - Strong growth in all core business
 - Very strong earnings improvement
 - Cash remains at a high level, even after Setec acquisition
- Gemplus well positioned to benefit from favorable trends:
 - Rapidly growing Wireless market in North & Latin America
 - Strong interest in large memory SIM cards
 - Good progress in EMV*, further worldwide deployment
 - Opportunities in ID & Security materializing into contracts and deliveries



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2nd quarter 2005 highlights

- Q2 05 Group revenue up 12.2% (11.3 %, currency and acquisition adjusted) year-on-year at **€ 236.2 m**, reflecting:
 - Strong growth in all core businesses: Wireless, EMV* and ID & Security
 - Finalization of Setec acquisition
- Highest gross margin in 4 years: 33.9 %, up 1.6 ppt year-on-year
- Operating expenses at € 57.6 m, including € 5.2 m related to the reversal of a litigation provision
- Operating income at € 22.4 m, tripled compared to last year, resulting in a 9.5 % operating margin
- Strong improvement in net attributable income at **€ 21.8 m**

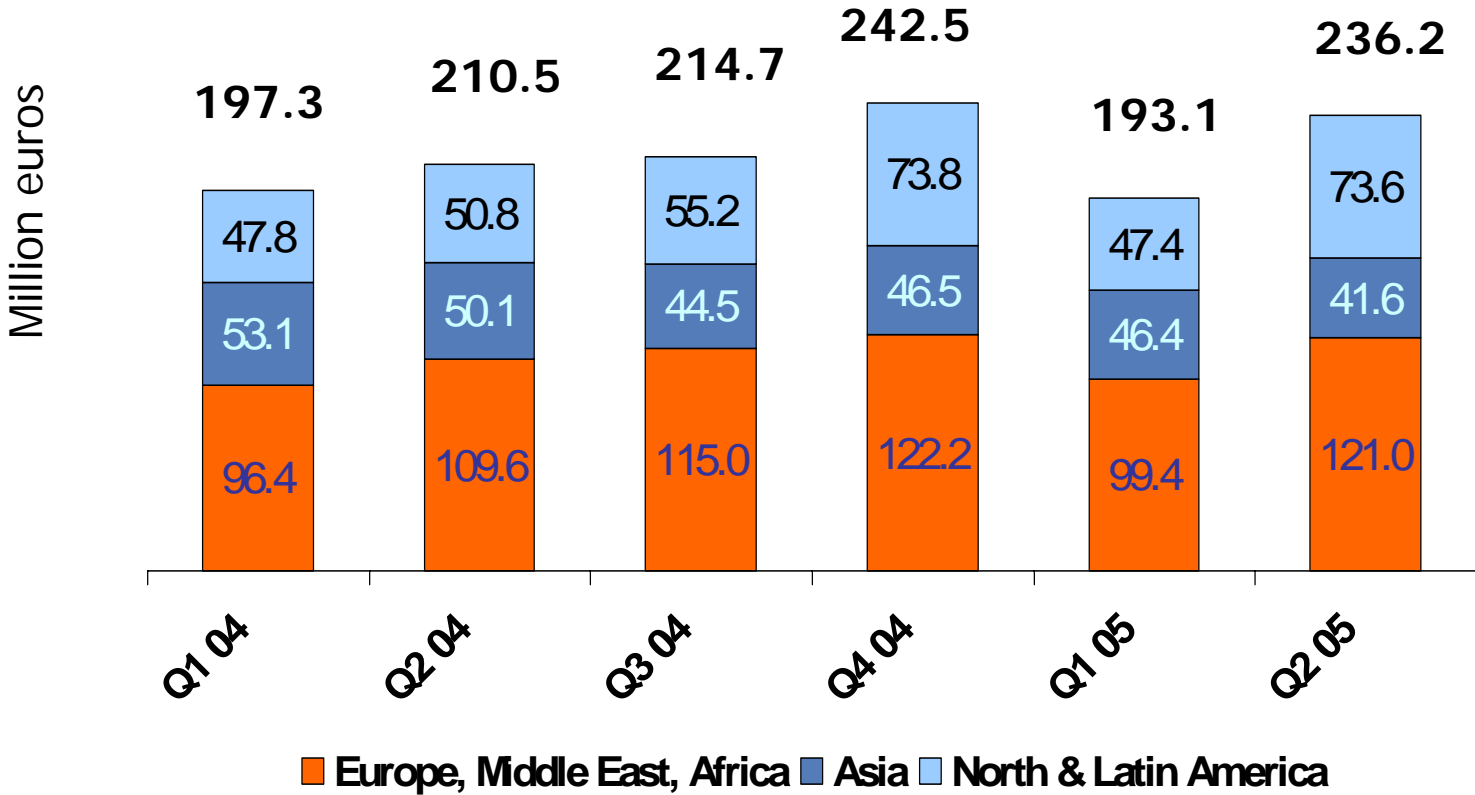
* EMV : Europay Mastercard Visa



First Half 2005 highlights

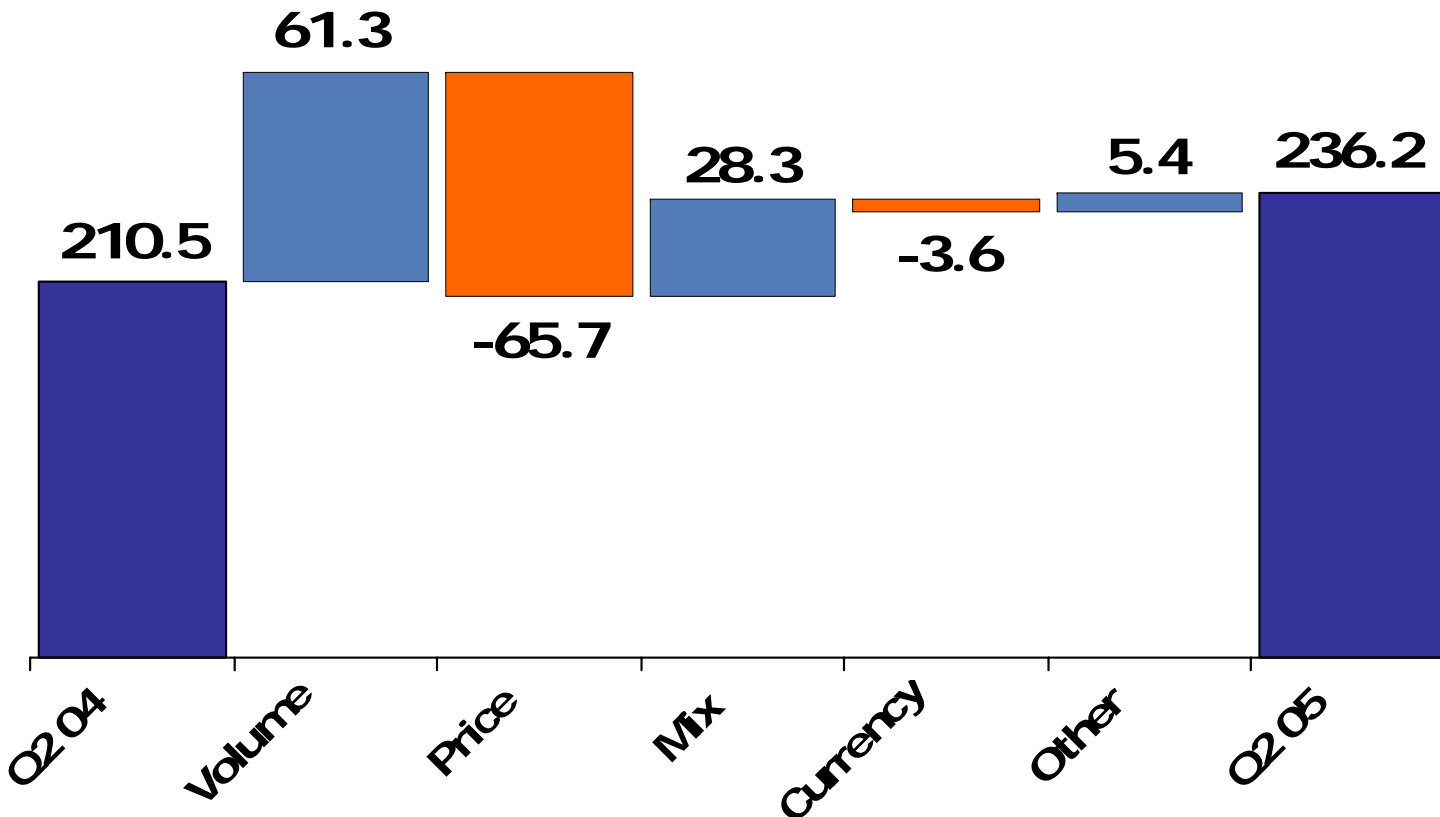
- H1 05 Group revenue up 5.3 % (4.6 % currency and acquisition adjusted) year-on-year at € **429.3 m**, reflecting strong growth in all core businesses
- Gross margin at 33.1 %, up 1.4 ppt year-on-year
- Operating expenses down 5.8 % year-on-year at € 112.0 m, including € 5.2 m related to the reversal of a litigation provision
- Operating income at € 29.9 m, tripled compared to last year, resulting in a 7.0 % operating margin
- Very strong improvement in net attributable income at € **29.0 m**

Net sales: Very strong development in North & Latin America and EMEA



Q2 2005 vs. Q2 2004 revenue

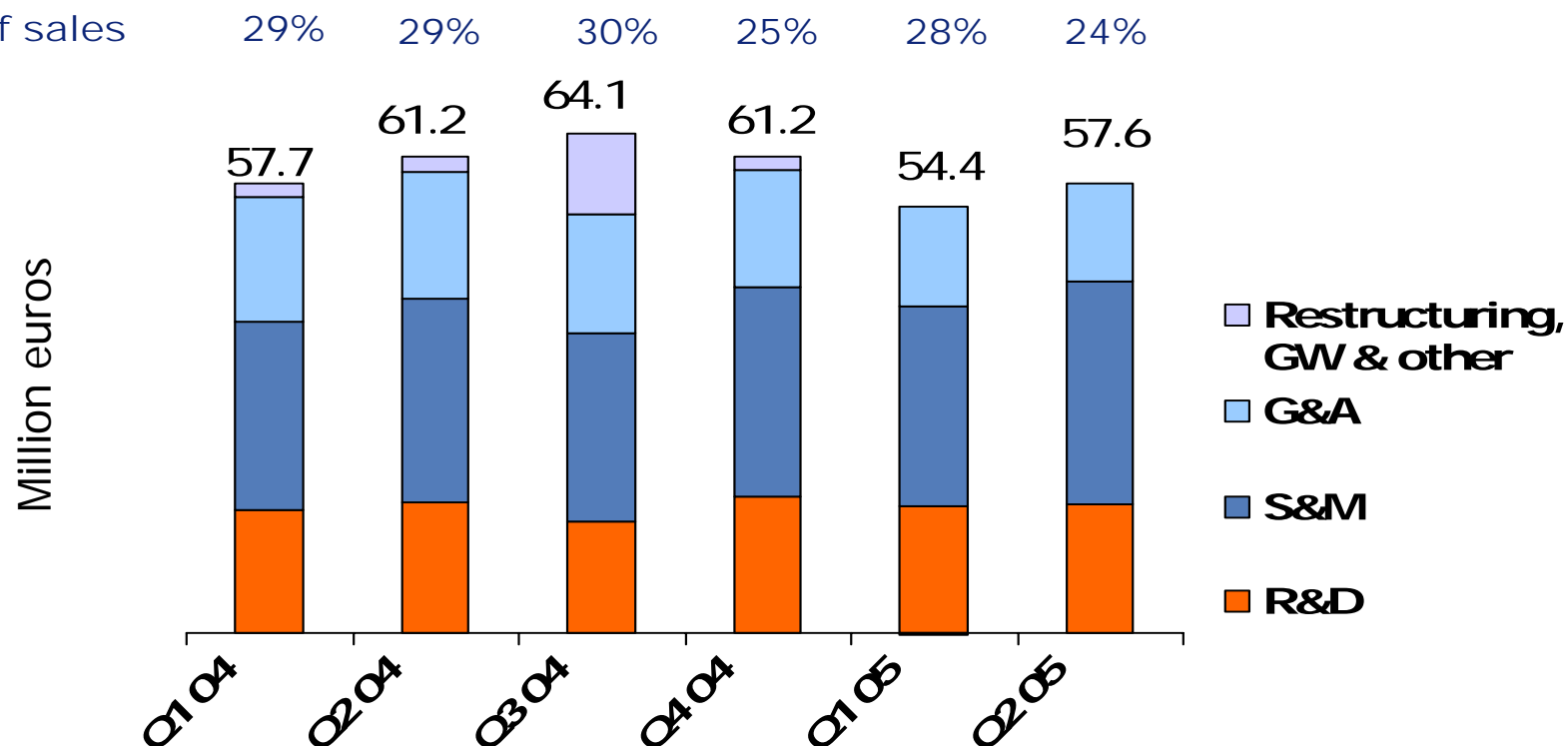
Million euros



- Wireless volume increase, driven by American operators, partly offset by prepaid phone cards
- Strong price pressure
- Mix improvement reflects a continuous shift to higher end products

Stable operating expenses*

% of sales



- Operating expenses includes the reversal of a litigation provision for € 5.2 m
- Stable operating expenses year-on-year despite 11.3 %** revenue increase (excluding the reversal of a litigation provision and Setec operating expenses)

* Due to adoption of IAS1 (revised 2003). "Presentation of financial statements". the Company has modified its Consolidated Statement of Income

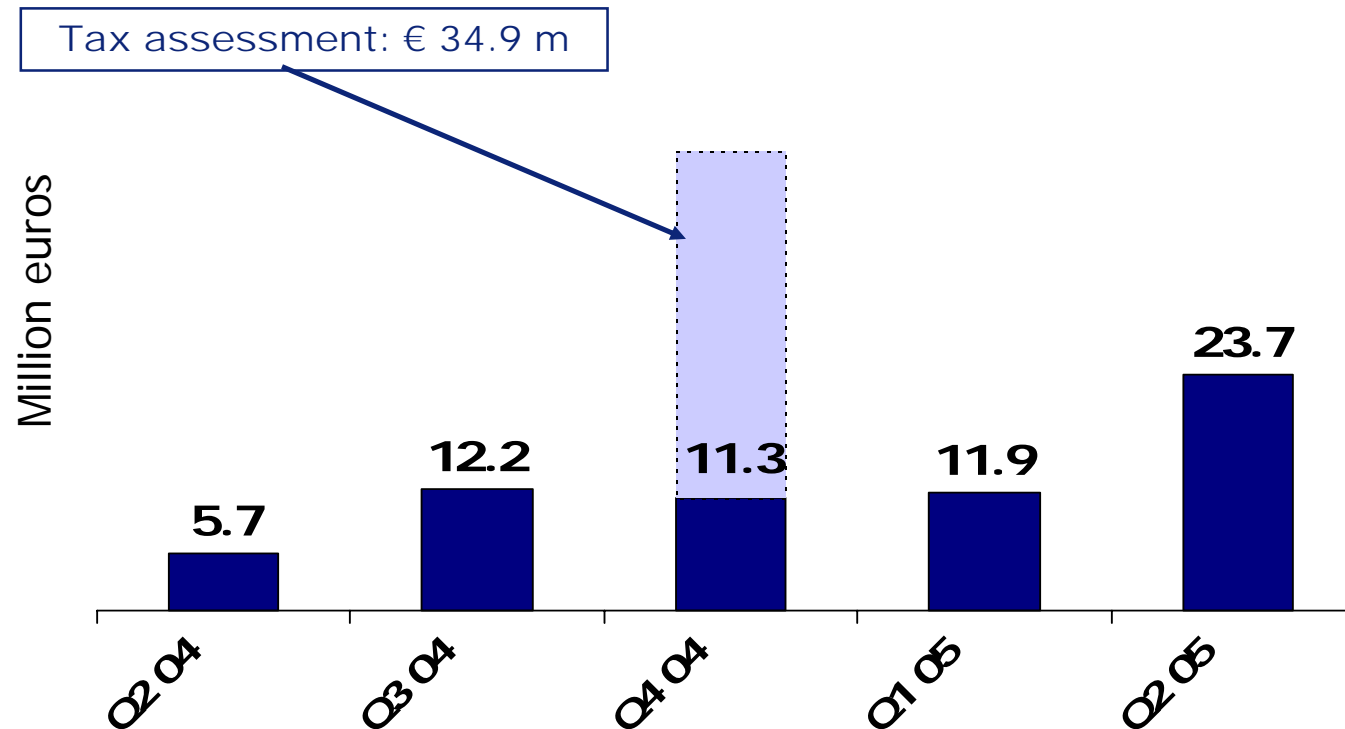
** After adjusting for currency fluctuations. discontinued operations and acquisitions

Strong improvement in net income*

Million euros	Q2 05	Q2 04	H1 05	H1 04
Net sales	236.2	210.5	429.3	407.8
Gross profit	80.0	68.0	141.9	129.3
Operating income	22.4	6.8	29.9	10.4
Financial income, net	1.7	1.5	3.5	2.8
Share of associates	-	(1.2)	(0.8)	(4.0)
Other non operating income (expense), net	(0.3)	(3.0)	0.1	(2.8)
Income tax expense	(1.2)	(2.3)	(2.9)	(3.7)
Net income	22.6	1.8	29.7	2.7
Net income attributable to Equity holders	21.8	1.1	29.0	1.4

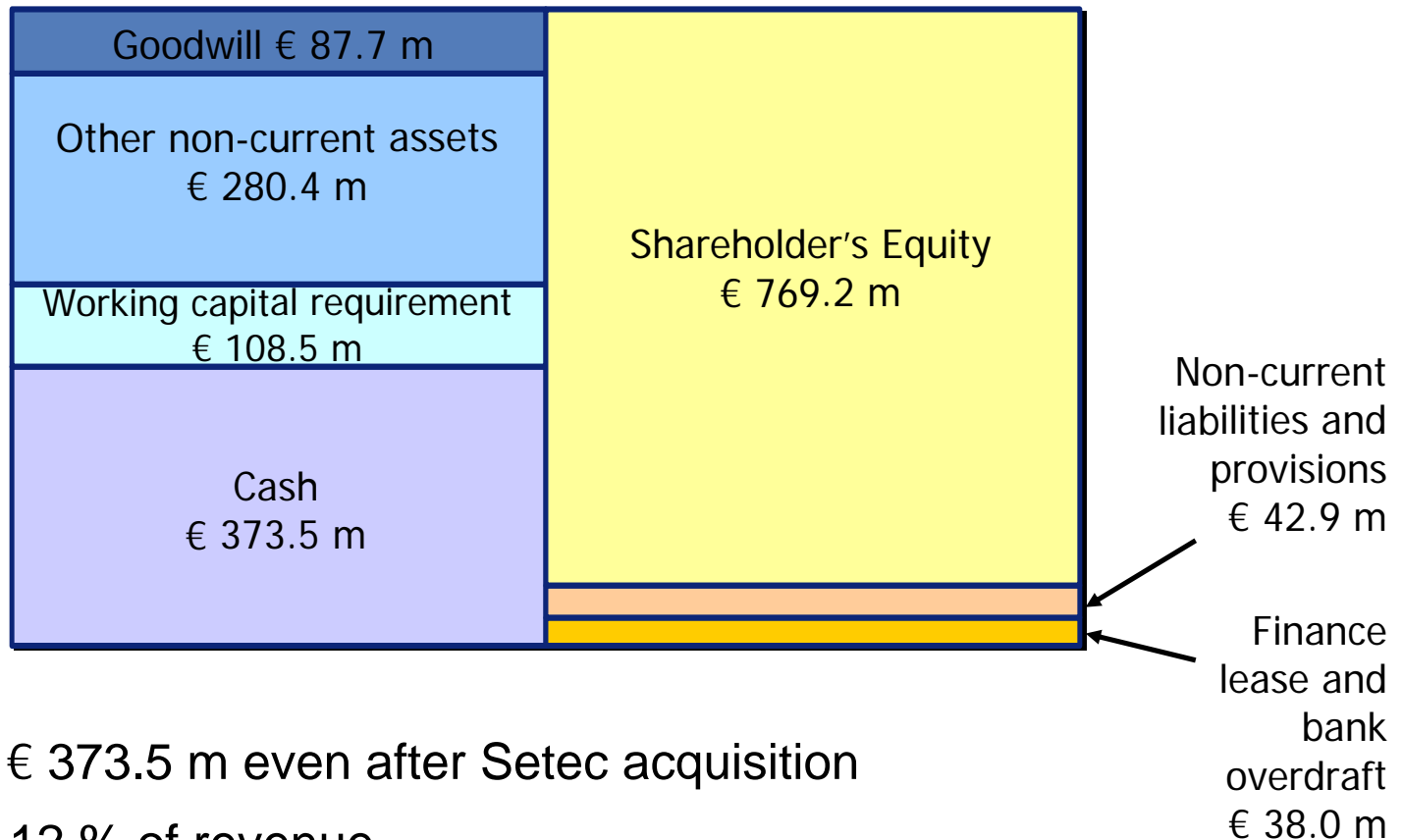
* Due to adoption of IAS1 (revised 2003) "Presentation of financial statements".
the Company has modified its Consolidated Statement of Income

Free cash flow excluding non recurring items



- Positive free cash flow of € 23.7 m (before non-recurring items)
- Net cash flow at - € 21.6 m reflecting:
 - Setec acquisition for € 58.0 m
 - € 22.5 m cash inflow in relation to the successful outcome of a litigation

Strong balance sheet (June 30. 2005)



- Cash at € 373.5 m even after Setec acquisition
- WCR at 12 % of revenue



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Q2 & H1 2005: Telecom Business update



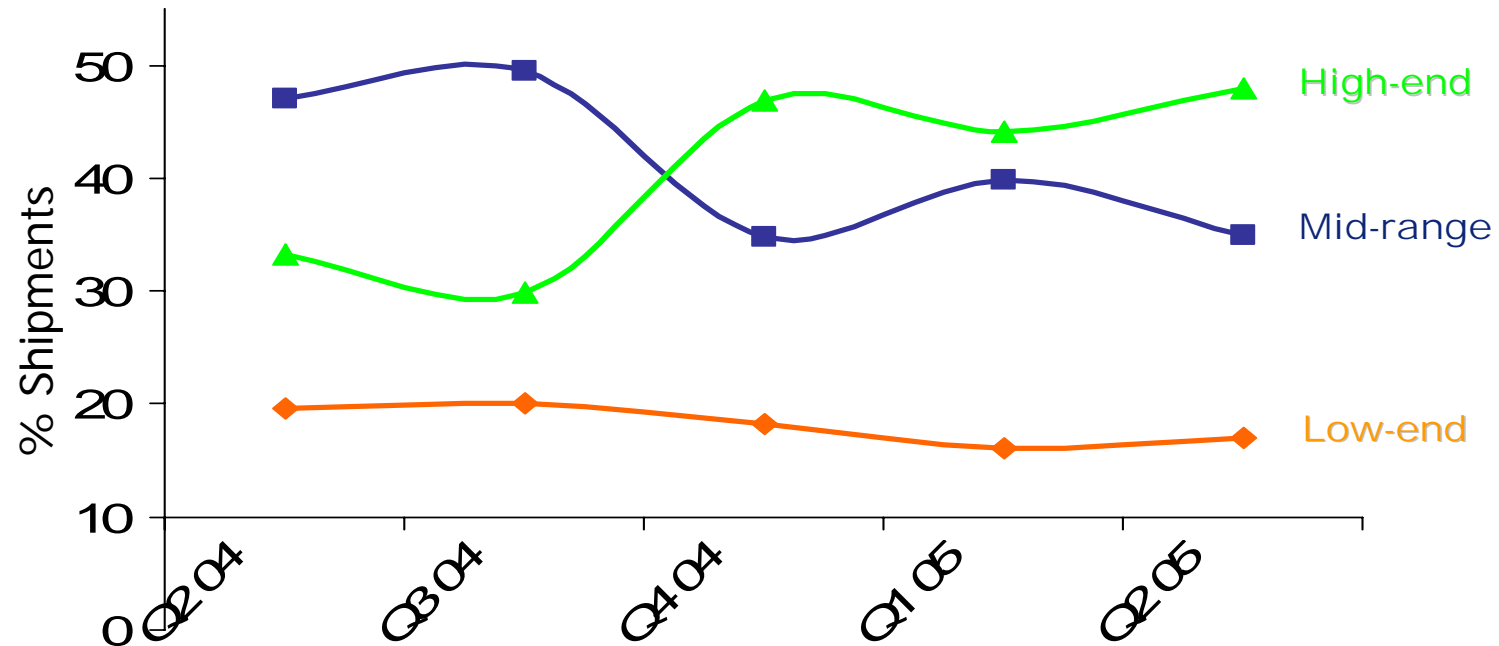
million euros	Q2 2005	Q2 2004	% change	H1 2005	H1 2004	% change
Net sales	163.2	154.0	+ 6.0 %	307.5	300.6	+ 2.3 %
Gross profit	61.4	55.1	+ 11.5 %	113.7	104.8	+ 8.5 %
Gross margin	37.6 %	35.8 %	+ 1.8 <i>ppt</i>	37.0 %	34.9 %	+ 2.1 <i>ppts</i>
Operating expenses	40.3	39.9	+ 1.2 %	76.1	77.7	- 2.0 %
Operating profit	21.1	15.2	+ 38.5 %	37.6	27.1	+ 38.8 %

- Telecom market environment:
 - Strong demand in North & Latin America and EMEA
 - Continued decrease in prepaid phone cards
 - Strong price pressure combined with very strong volume growth

- Gemplus
 - Record for Wireless volume at 85.8 Mu (+ 44 % year-on-year) in Q2 05
 - Strong market share gains in North & Latin America and emerging markets in EMEA
 - Stable operating expenses

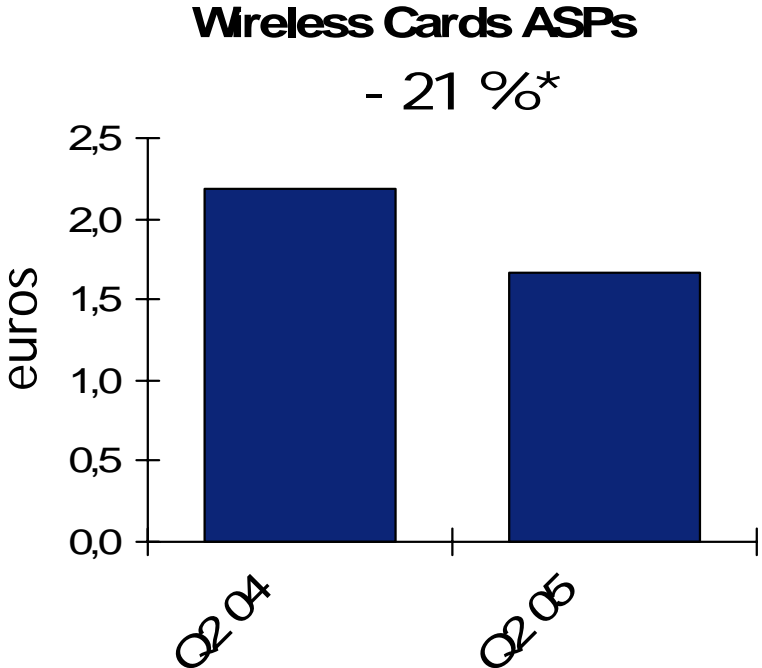
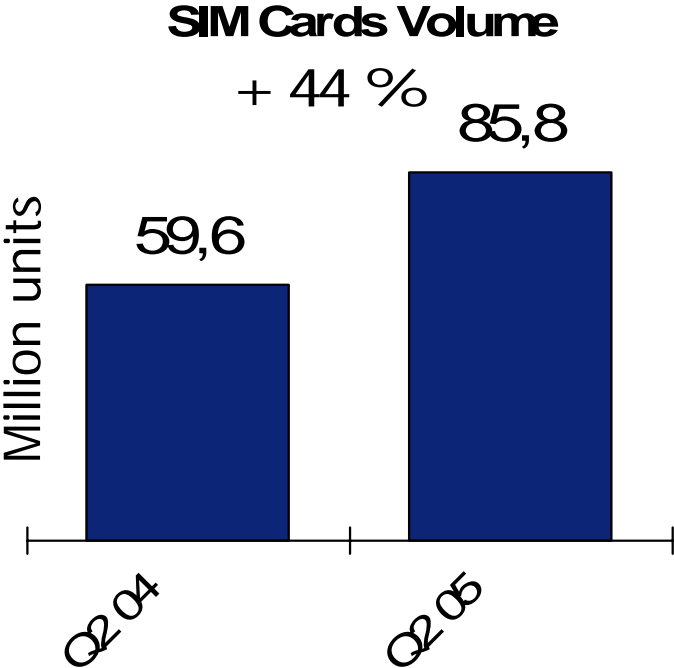
**Strong operating profit improvement:
Q2 05 Operating margin stands at 12.9 %. up 3.0 ppts**

Improving wireless mix



- Continuous mix improvement: high-end at 48 % of the total shipments in Q2 05
- Growth driven by very strong performance in 64 Kb

Q2 2005: Wireless drivers



- Volume growth driven by North & Latin America and EMEA
- Strong price pressure for all products

* After adjusting for currency fluctuations

Q2 & H1 2005: Wireless



million euros	Q2 2005	Q2 2004	% change	H1 2005	H1 2004	% change
Net sales	150.2	135.0	+ 11.3 %	282.9	262.1	+ 7.9 %
Gross profit	60.6	54.2	+ 11.8 %	111.8	103.0	+ 8.5 %
Gross margin	40.4 %	40.2 %	+ 0.2 <i>ppts</i>	39.5 %	39.3 %	+ 0.2 <i>ppts</i>

- Business highlights
 - GemXplore Generation (extended memory SIM): strong customer endorsement
 - Strong market share improvement in some key markets

- Financials
 - Higher sales (+ 13.0 %* YoY), even compared with strong Q2 04
 - Stable gross margin with stronger volume, lower chip prices and improved manufacturing efficiency, fully offsetting price pressure

Q2 & H1 2005: Financial Services Update



million euros	Q2 2005	Q2 2004	% change	H1 2005	H1 2004	% change
Net sales	50.3	44.7	+ 12.4 %	88.2	85.1	+ 3.7 %
Gross profit	10.2	8.8	+ 15.7 %	16.0	18.0	- 10.8 %
Gross margin	20.3 %	19.7 %	+ 0.6 ppt	18.1 %	21.1 %	- 3.0 ppts
Operating expenses	7.3	13.5	- 46.2 %	17.7	25.4	- 30.5 %
Operating profit	2.9	- 4.7	NM	- 1.7	- 7.4	NM

- Market environment
 - Favorable trends in EMV* deployment:
 - On-going good level of activity in UK
 - New markets in Europe, Turkey and Japan
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 - First EMV cards delivery in Japan, Italy and Netherlands
 - Strong growth in payment microprocessor cards driven by EMV deployment
 - Shipments up 30.0 % at Mu 16.8 supports 31.0 % revenue growth
 - Lower revenue in Pay-TV and Metering
 - Slight improvement in gross margin in Q2
 - Stable operating expenses (excluding the reversal of a litigation provision)

Q2 & H1 2005: ID & Security Update



million euros	Q2 2005	Q2 2004	% change	H1 2005	H1 2004	% change
Net sales	22.7	11.8	+ 92.1 %	33.6	22.1	+ 51.8 %
Gross profit	8.4	4.1	+ 103.9 %	12.2	6.5	+ 86.9 %
Gross margin	37.1 %	34.9 %	+ 2.2 <i>ppts</i>	36.3 %	29.5 %	+ 6.8 <i>ppts</i>
Operating expenses	10.0	7.8	+ 28.1 %	18.2	15.8	+ 15.0 %
Operating profit	- 1.6	- 3.7	<i>NM</i>	- 6.0	- 9.3	<i>NM</i>

- Market environment
 - Global trend still very positive
 - Growing number of e-government initiatives (e-passport, ID cards, healthcare, car registration)
 - Delay of the US e-passport planning: limited impact on EMEA projects
 - Increased requirements for sites/staff security in Europe, similar to US evolution (TWIC)*

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 - Best quarter ever for ID & Security: + 66.5 % (currency & acquisition adjusted)
 - Substantial high-end cards deliveries: UAE, Royal Oman Police, US Department of Defense, Boeing
 - Strong gross margin improvement
 - Operating expenses increase mainly due to Setec

* TWIC: Transportation Worker Identification Credential



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Outlook

- The Group continues to see strong momentum in its core markets. Gemplus expects to increase revenue, excluding acquisitions, by around 10% in 2005
- The Company continues to focus on cost efficiency and is confident to show very strong improvement on operating income in 2005
- The Group also expects the Financial Services and ID & Security business units to become profitable in 2006
- With excellent Q2 results, Gemplus confirms it is well on track to realize its mid-term objective of a 10% operating margin in 2007



Appendix

Cash Flow Statement

Millions of euros	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Net income (loss)	-13.1	-25.6	0.3	1.1	-8.5	11.8	7.1	22.6
Depreciation & Amortization	16.6	18.5	15.2	13.7	15.0	12.8	9.3	9.7
Other adjustments to reconcile net income (loss) to net cash from operating activities	3.2	16.4	0.7	4.0	3.9	-31.2	-0.8	-0.5
Reduction of workforce and other exit costs, provision	4.7	7.3	-0.4	0.0	8.1	-0.7	-0.6	-0.4
Provision for other non-recurring items	0.0	8.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital requirement	-29.0	26.5	18.9	-7.8	-3.8	26.6	0.5	-4.2
Net cash flow from operating activities excluding non-recurring items	-17.5	51.7	34.6	11.0	14.7	19.3	15.6	27.1
Purchase of property, plant and equipment	-4.1	-5.9	-4.0	-5.7	-5.6	-7.6	-4.4	-4.5
Other elements of investing activities related to the operating cycle	-0.6	1.4	-1.6	0.4	3.1	-0.5	0.6	1.1
Free cash flow excluding non-recurring items	-22.2	47.2	29.0	5.7	12.2	11.2	11.9	23.7
Reduction of workforce and other exit costs, cash outflow	-17.2	-11.2	-12.8	-6.2	-2.7	-3.6	-3.1	-5.2
Other non-recurring expenses	0.0	0.0	-22.0	0.0	0.0	-6.1	0.0	23.4
Free cash flow	-39.4	36.0	-5.7	-0.6	9.5	1.5	8.8	41.9
Sale of property, plant and equipment	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0
Acquisitions	0.0	-0.1	-1.7	0.8	-2.7	-2.3	0.0	-60.9
Net cash provided by (used in) financing activities	-2.0	-3.1	0.7	-1.7	-1.9	-0.4	-2.2	-0.7
Effect of exchange rate changes on cash	-8.3	1.3	0.0	0.0	1.2	-1.0	0.1	-1.9
Net cash flow	-49.7	34.1	-6.7	-1.4	6.1	-0.9	6.7	-21.6
Cash at the beginning of the period	406.2	356.6	390.7	384.6	383.1	389.2	388.4	395.1
Cash at the end of the period	356.6	390.7	384.6	383.1	389.2	388.4	395.1	373.5