GEMPLUS

Gemplus
Q3 & YTD 2005
Results Presentation

Presenters:

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Agenda

► • **Overview**

• Q3 & YTD 2005 Financials

• Business Highlights

• FY 2005 Outlook

Q3 & YTD 2005: Overview

- Q3 / YTD 2005: strong revenue and income improvement
  - Robust underlying growth in all core businesses
  - Substantial earnings improvement
  - Setec integration very successful
- Favorable trends in core businesses confirmed
  - Rapidly growing Wireless market in all areas
  - EMV* migration progressing well in Financial Services
  - ID & Security driven by e-passports initiatives

* EMV : Europay Mastercard Visa

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- Overview
- ► **Q3 & YTD 2005 Financials**
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3rd quarter 2005 highlights

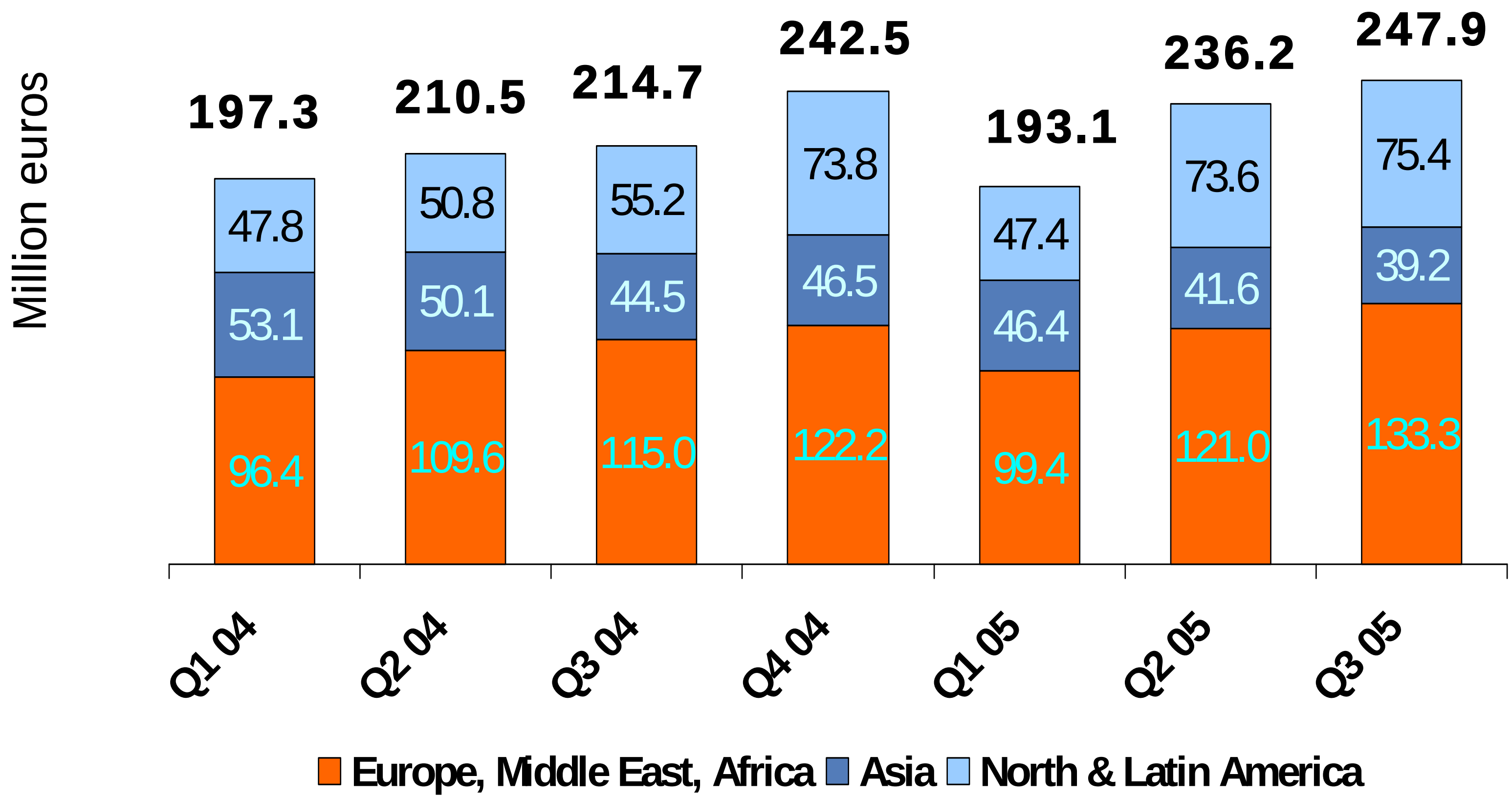
- Q3 05 Group revenue up 15.5 % (7.5 %, currency and acquisition adjusted) year-on-year at **€ 247.9 m**, reflecting:
  - Strong growth in all core businesses: Wireless, EMV* and ID & Security
  - Accelerating Payphone & Scratchcard decrease
  - Setec contribution to Gemplus' growth above expectations
- Gross margin at 33.4 %, up 3.6 ppts year-on-year
- Operating income at € 21.3 m, resulting in 8.6 % operating margin
- Very strong improvement in net attributable income at **€ 20.9 m**
- Strong free cash flow: € 28.2 m, excluding non-recurring items

* EMV : Europay Mastercard Visa

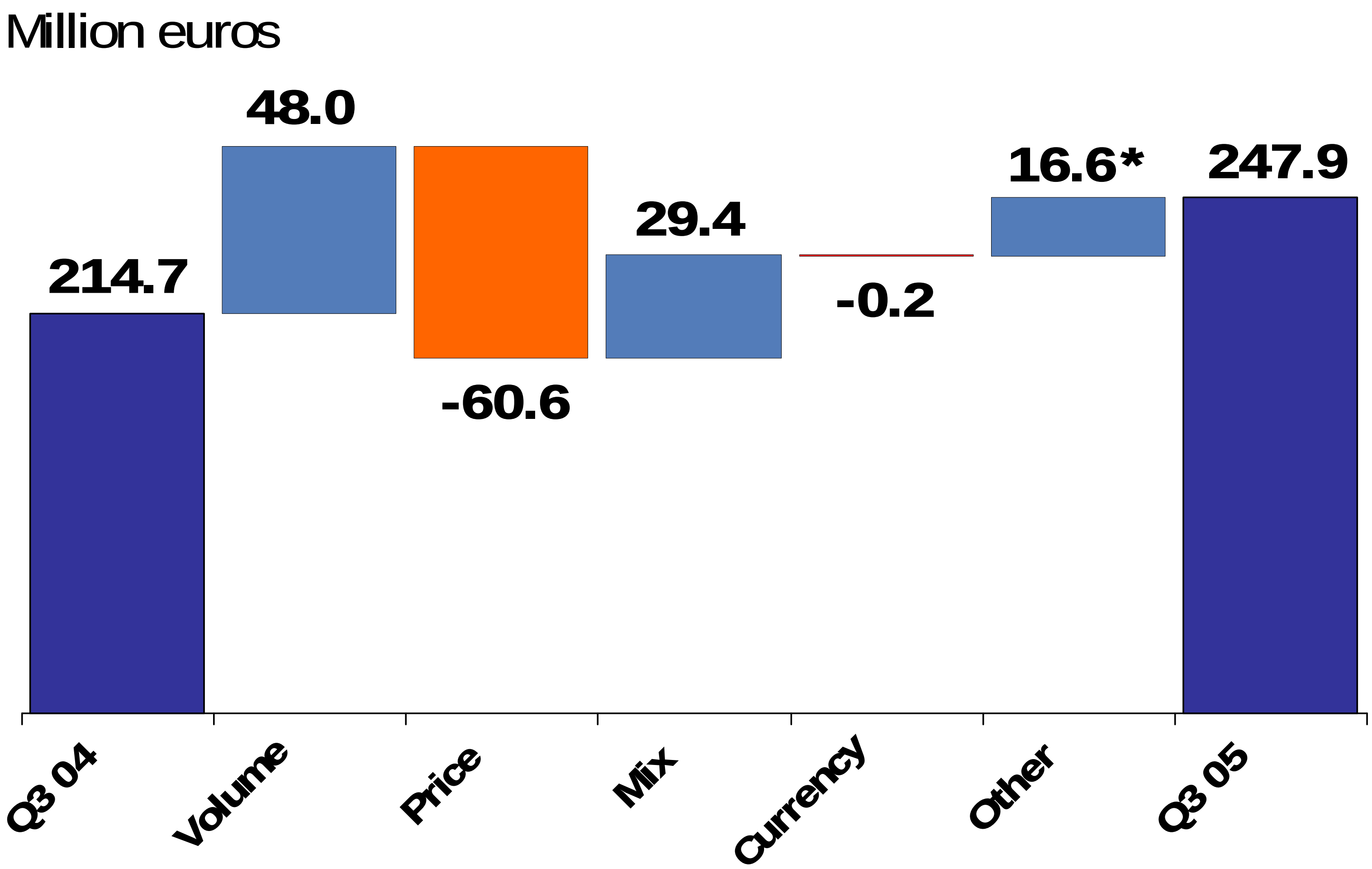
Year-To-Date 2005 highlights

- YTD 05 Group revenue up 8.8 % (+ 5.6 % currency and acquisition adjusted) year-on-year at **€ 677.2 m**, reflecting strong growth in all core businesses
- Gross margin at 33.2 %, up 2.2 ppts year-on-year
- Operating income at € 51.1 m, resulting in 7.6 % operating margin
- Very strong improvement in net attributable income at **€ 49.9 m**
- Strong free cash flows: € 63.7 m, excluding non-recurring items

Strong sales growth in Americas and EMEA



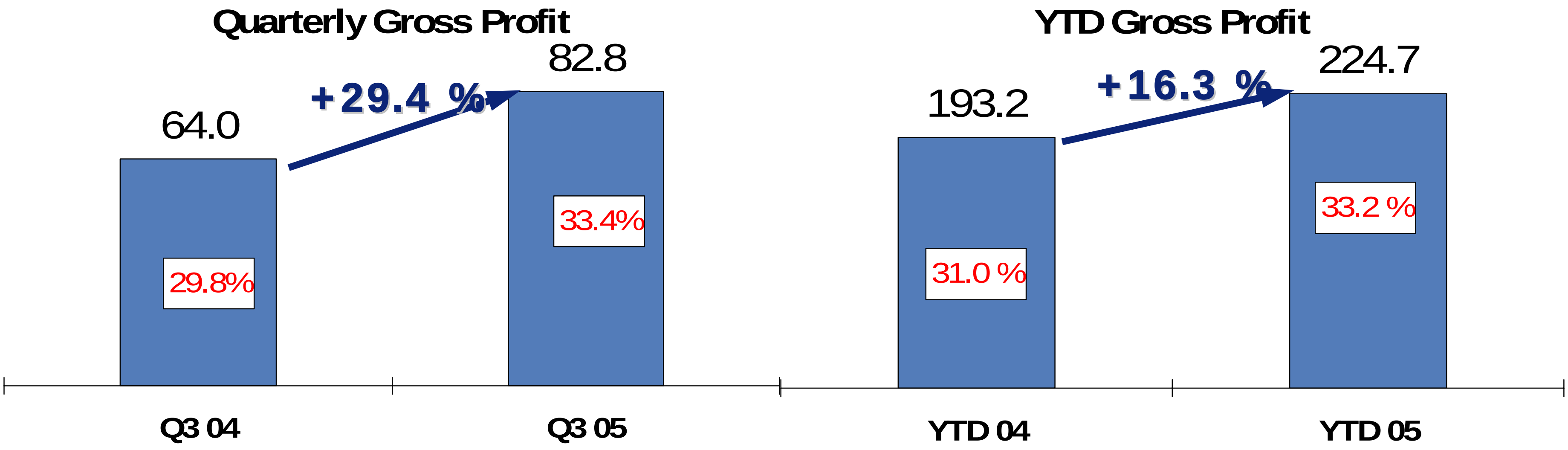
Q3 2005 vs. Q3 2004 revenue



- Wireless volume increase driven by Americas
- Ongoing price pressure
- Strong contribution from Setec

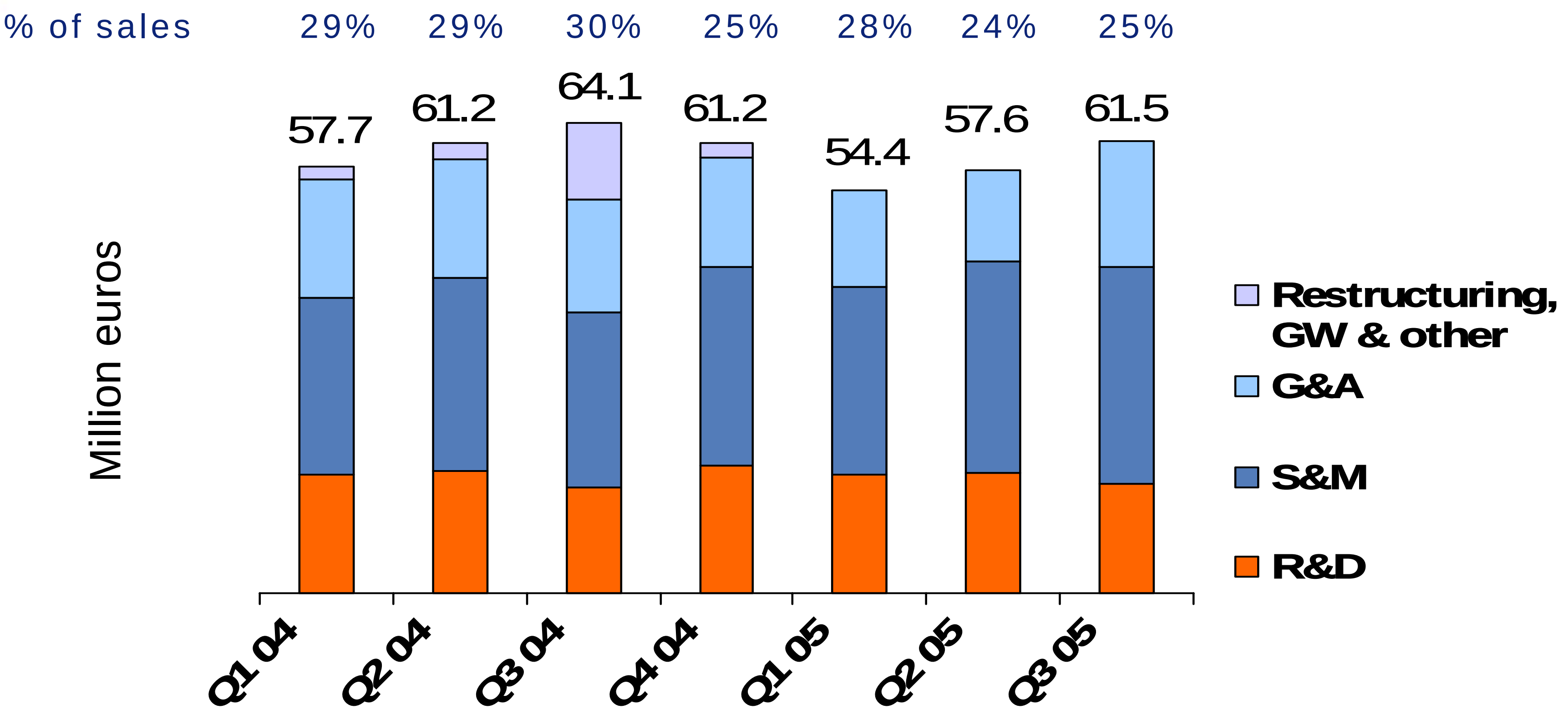
* "Other" mainly Setec contribution

Strong gross profit improvement



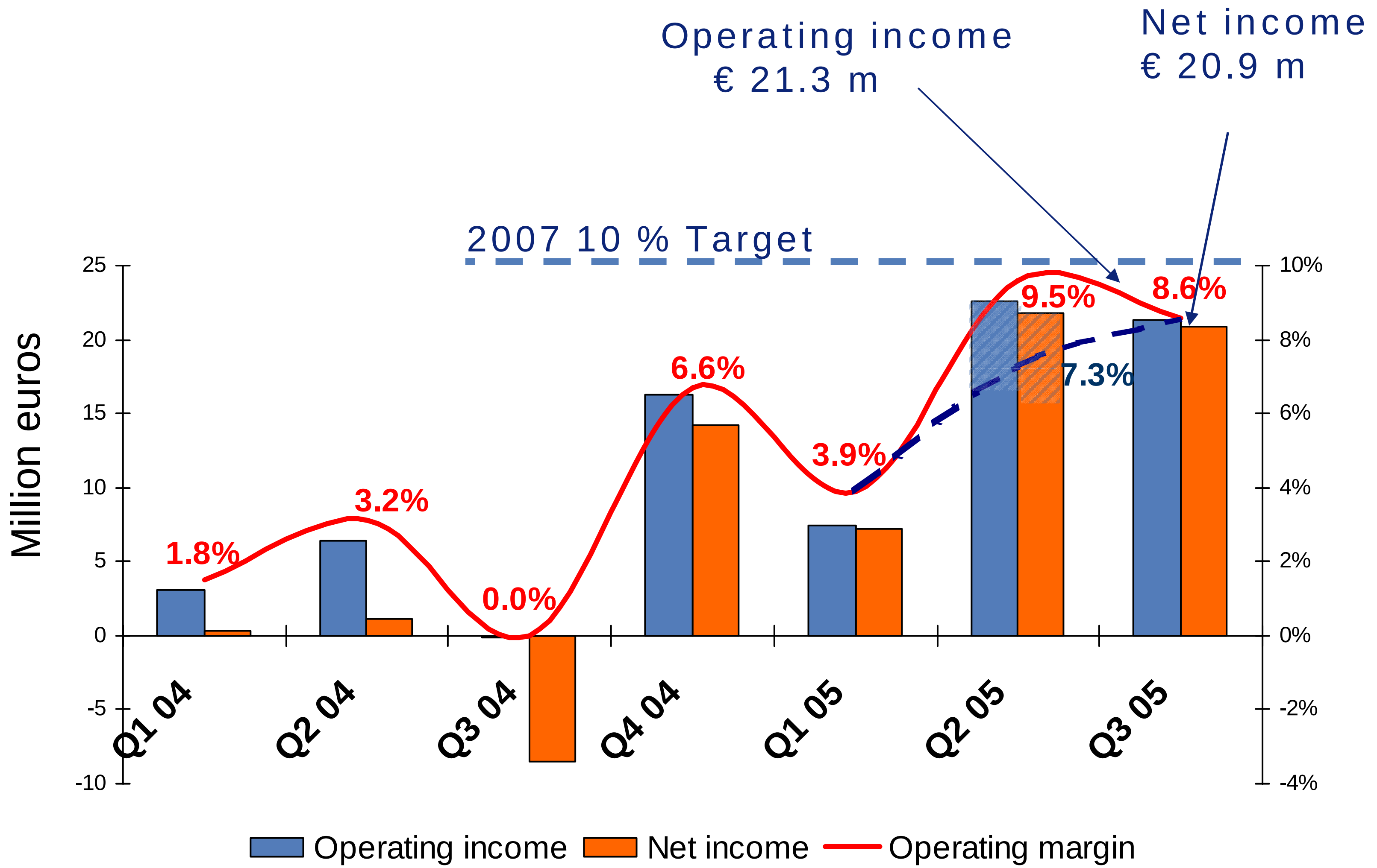
- Favorable volume, better product and regional mix, strongly improved manufacturing efficiency, combined with lower chip prices, more than compensate ongoing price pressure

Operating expenses under control

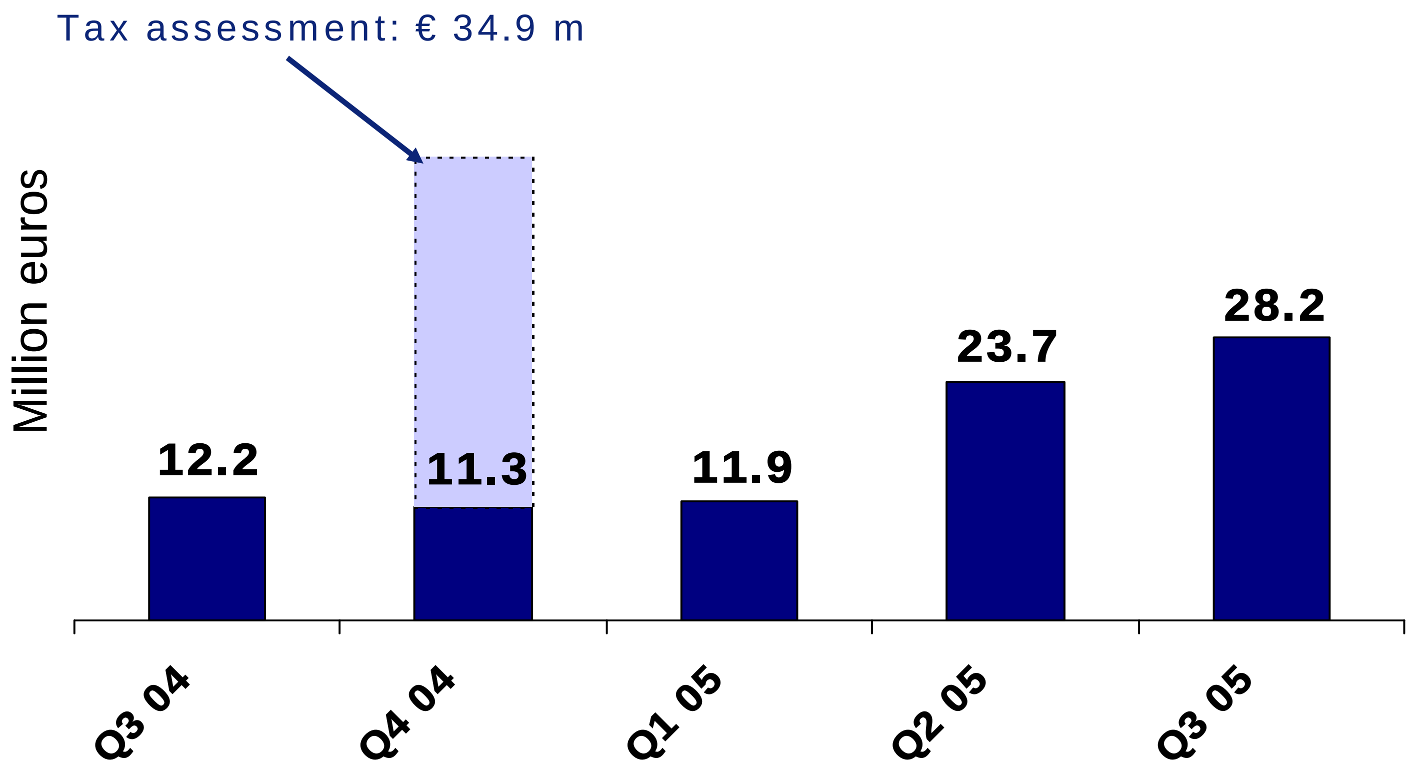


- Year-to-date, stable operating expenses even with 15.5 % revenue increase
- Q3 05 includes Setec operating expenses

Strong operating income & net income improvement

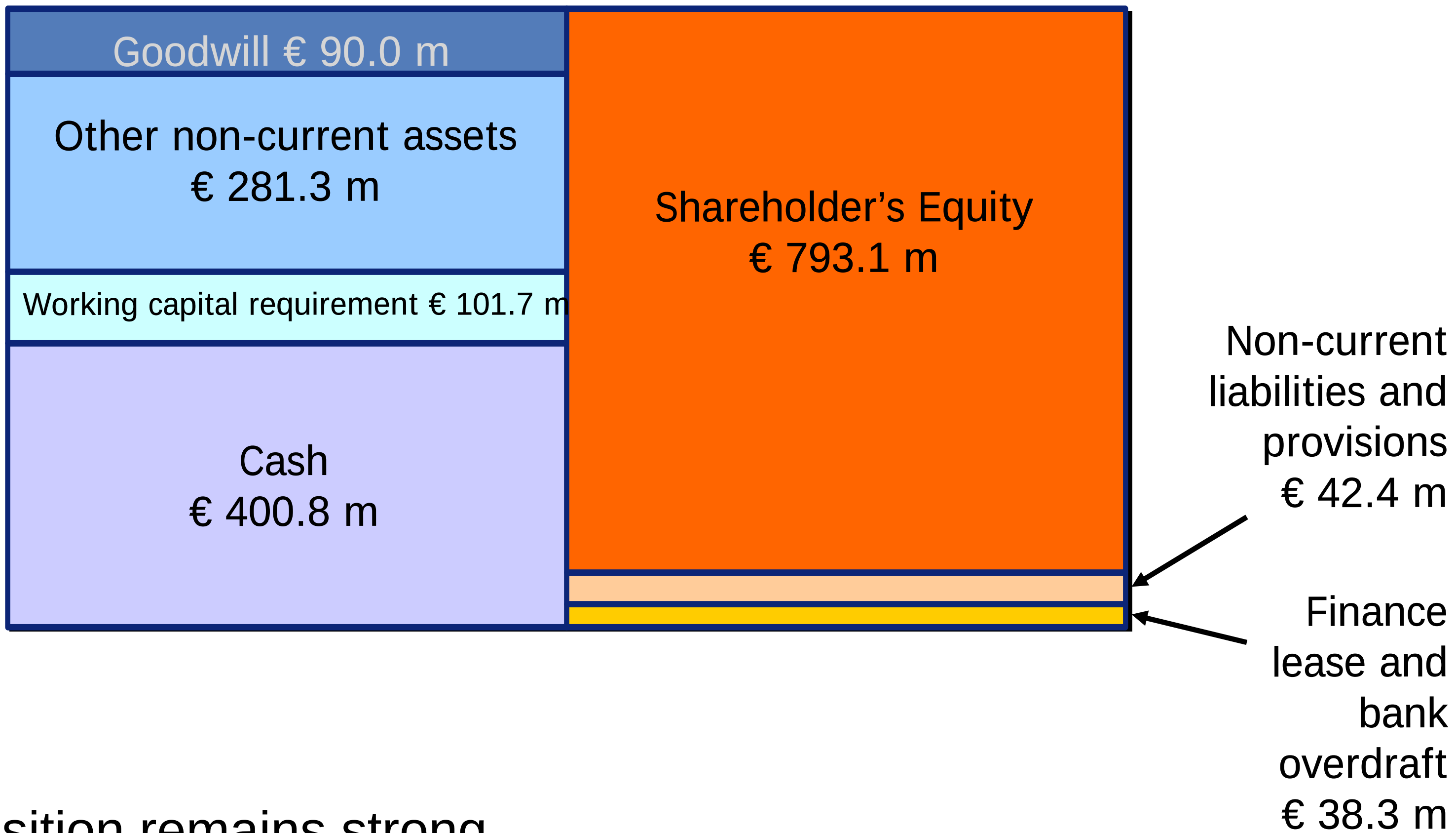


Free cash flows excluding non recurring items



- Robust free cash flows of € 28.2 m (before non-recurring items), leading to a € 63.7 m free cash flow YTD
- Net cash flow at + € 27.3 m, including:
  - € 4.8 m inflow related to the sale of a minority investment
  - € 3.4 m outflow related to the purchase of the majority shares of Setec Denmark

Strong balance sheet (Sept. 30 2005)



- Cash position remains strong
- Focus on WCR, now reduced to 10 % of revenue, from 11 % in Q3 04

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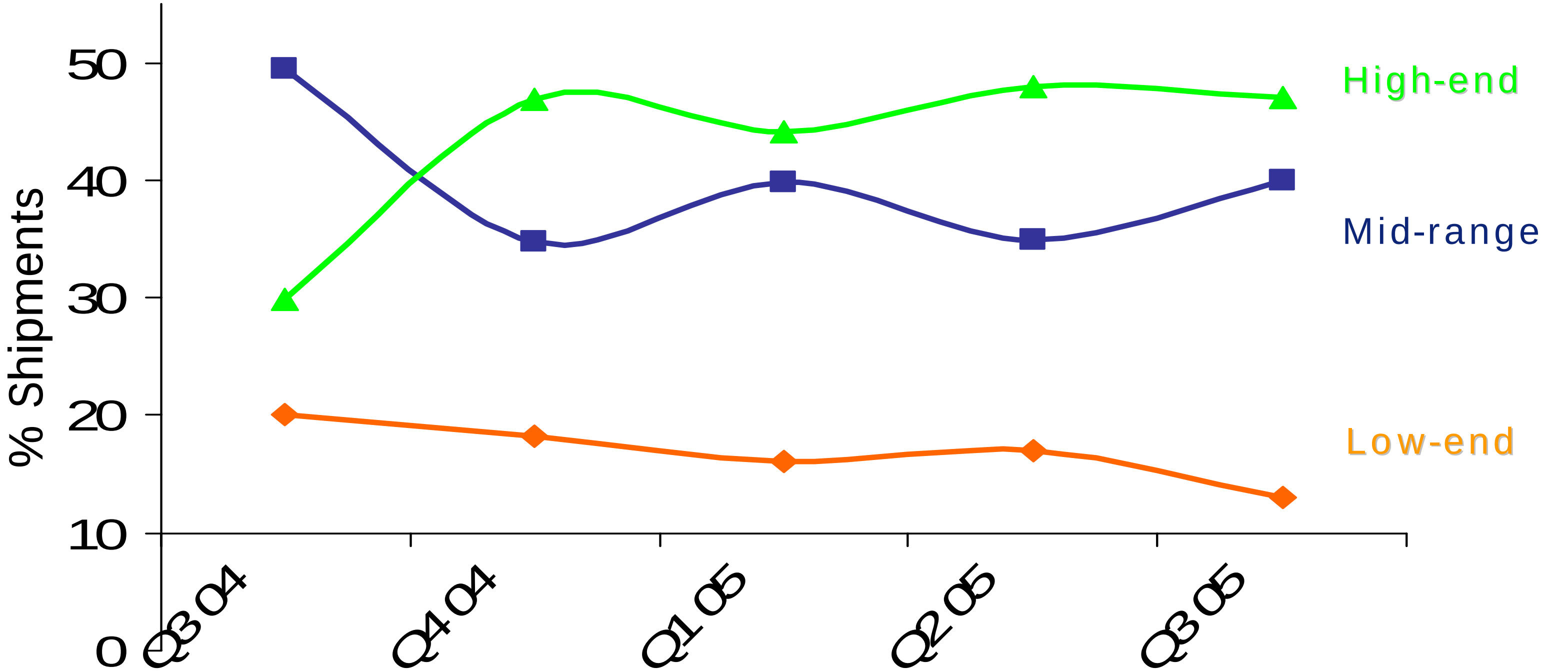
Q3 & YTD 2005: Telecom Business update

million euros	**Q3 2005**	Q3 2004	% change	**YTD 2005**	YTD 2004	% change
Net sales	**167.5**	153.2	+ *9.3 %*	**474.9**	453.9	+ *4.6 %*
Gross profit	**63.2**	51.7	+ *22.3 %*	**176.9**	156.5	+ *13.1 %*
Gross margin	**37.7 %**	33.7 %	+ *4.0 ppts*	**37.2 %**	34.5 %	+ *2.7 ppts*
Operating expenses	**(37.9)**	(32.3)	+ *17.6 %*	**(114.1)**	(109.9)	+ *3.8 %*
Operating income	**25.3**	19.4	+ *30.2 %*	**62.8**	46.5	+ *35.0 %*

- Telecom market environment:
  - Strong demand driven by rapid growth in emerging markets, China soft
  - High volumes combined with ongoing price pressure
- Gemplus in Q3
  - Wireless volume at record level: 87.6 Mu (+ 43 % year-on-year)
  - Accelerated decrease in prepaid phone & scratch cards (- 39 % year-on-year)
  - Operating expenses up 4 %, excluding € 4.1 m restructuring provision reversal in Q3 04

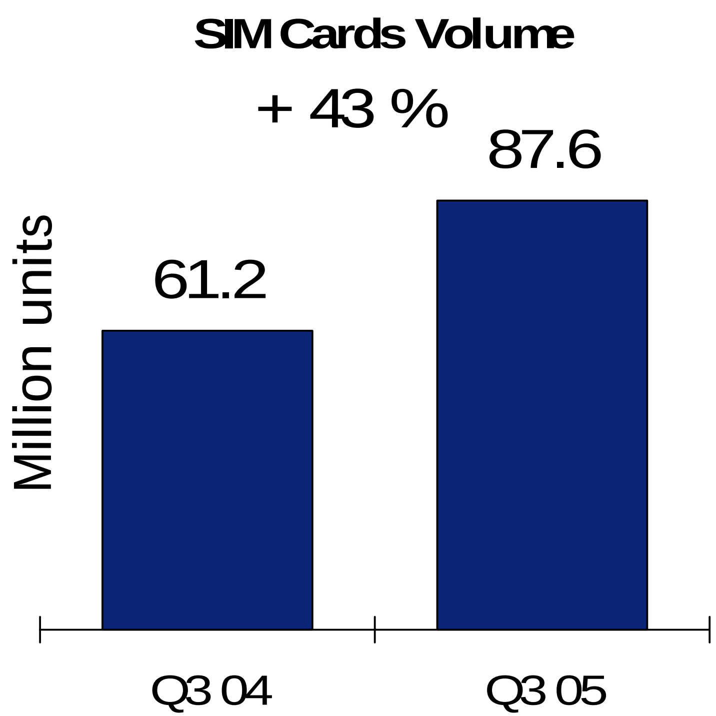
Strong operating profit improvement again:
Q3 05 Operating margin at 15.1 % up 2.4 ppts vs. Q3 04

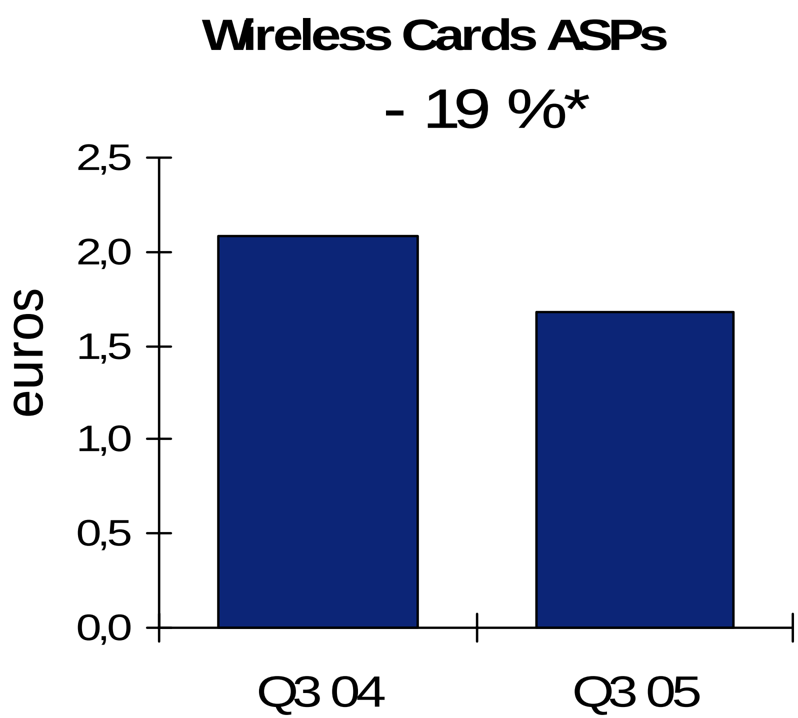
Improving wireless mix



- High-end improved at 47 % of total shipments in Q3 05 compared with 30 % in Q3 04

Q3 2005: Wireless drivers





- Americas and EMEA drive continuous very strong volume growth
- Year-on-year price pressure comparable to previous quarter

* After adjusting for currency fluctuations

Q3 & YTD 2005: Wireless

million euros	**Q3 2005**	Q3 2004	% change	**YTD 2005**	YTD 2004	% change
Net sales	**154.0**	131.1	+ *17.5 %*	**436.8**	393.2	+ *11.1 %*
Gross profit	**62.3**	50.3	+ *23.9 %*	**174.0**	153.2	+ *13.6 %*
Gross margin	**40.4 %**	38.3 %	+ *2.1 ppts*	**39.8 %**	39.0 %	+ *0.8 ppt*

- Business highlights
  - Good momentum for 3G in EMEA
  - Increasing interest in GemXplore Generation
- Q3 Financials
  - Strong volume growth driving sales increase (+ 17.6 % year-on-year currency adjusted)
  - Improved gross margin: stronger volume, favorable product and regional mix, lower chips purchasing price and improved manufacturing efficiency

Q3 & YTD 2005: Financial Services Update

million euros	**Q3 2005**	Q3 2004	% change	**YTD 2005**	YTD 2004	% change
Net sales	**58.9**	53.0	*+ 11.1 %*	**147.1**	138.0	*+ 6.5 %*
Gross profit	**13.7**	10.1	*+ 36.2 %*	**29.7**	28.0	*+ 6.2 %*
Gross margin	**23.3 %**	19.0 %	*+ 4.3 ppts*	**20.2 %**	20.3 %	*- 0.1 ppt*
Operating expenses	**(13.1)**	(24.9)*	*- 47.4 %*	**(30.7)**	(50.3)	*- 38.8 %*
Operating income	**0.6**	(14.8)	*ns*	**(1.0)**	(22.2)	*- 95.4 %*

- Market environment
  - EMV** deployment in Europe and beyond:
    - On-going good level of activity in UK
    - Migration acceleration in Continental Europe

- Gemplus in Q3
  - Strong volume growth in payment microprocessor cards: + 30 % at Mu 22.1
  - Revenue growth primarily driven by Setec
  - High Q3 04 comparison basis (peak in customer renewal cycle in UK)
  - Positive operating income

* Including € 14.1 m restructuring provision and goodwill in 2004

** EMV: Europay Mastercard Visa

Q3 & YTD 2005: ID & Security Update

million euros	**Q3 2005**	Q3 2004	% change	**YTD 2005**	YTD 2004	% change
Net sales	**21.5**	8.5	+ *154.5 %*	**55.2**	30.6	+ *80.4 %*
Gross profit	**5.9**	2.2	+ *162.5 %*	**18.1**	8.7	+ *106.7 %*
Gross margin	**27.4 %**	26.6 %	+ *0.8 ppt*	**32.8 %**	28.6 %	+ *4.2 ppts*
Operating expenses	**(10.5)**	(7.0)	+ *49.6 %*	**(28.7)**	(22.9)	+ *25.6 %*
Operating profit	**(4.6)**	(4.8)	*NM*	**(10.6)**	(14.1)	- *24.5 %*

- Market environment
  - Large number of e-government initiatives (e-passport, ID cards, healthcare, car registration)
  - National roll-outs of e-passports have started
- Gemplus in Q3
  - Organic growth of + 51 %, driven by US Government Agencies and Corporate Security in EMEA
  - Shipping of e-passports datapages to Norway & Sweden, the two first countries in Europe to issue mandatory e-passports nationwide, have started

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Outlook

- The Group continues to see strong momentum in its core businesses. Including Setec, Gemplus will clearly exceed 10% revenue growth.
- Sales of phone & scratch cards are decreasing faster than expected. Therefore, overall Gemplus organic growth will be lower than the 10 % growth expectation indicated earlier. Nonetheless, excluding those businesses, organic revenue growth will be noticeably above 10 %.
- With excellent Q3 results and a 7.6 % operating margin year-to-date, the Company remains confident in its ability to show very strong improvement in operating income in 2005.
- The Group also continues to expect the Financial Services and ID & Security business units to turn profitable in 2006.
- Gemplus intends to remain consistently focused on profitable growth and cost efficiency. The Group continues to expect double digit revenue growth for the coming years and confirms that it is well on track to achieve its mid-term objective of a 10% operating margin in 2007.

Appendix

Cash Flow Statement

Millions of euros	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	YTD 2005
Net income (loss)	-25,6	0,3	1,1	-8,5	11,8	7,1	22,6	21,3	51,0
Depreciation & Amortization	18,5	15,2	13,7	15,0	12,8	9,3	9,7	11,0	30,0
Other adjustments to reconcile net income (loss) to net cash from operating activities	16,4	0,7	4,0	3,9	-31,2	-0,8	-0,5	-5,4	-6,6
Reduction of workforce and other exit costs, provision	7,3	-0,4	0,0	8,1	-0,7	-0,6	-0,4	-0,2	-1,3
Provision for other non-recurring items	8,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Change in working capital requirement	26,5	18,9	-7,8	-3,8	26,6	0,5	-4,2	9,8	6,2
Net cash flow from operating activities excluding non-recurring items	**51,7**	**34,6**	**11,0**	**14,7**	**19,3**	**15,6**	**27,1**	**36,6**	**79,3**
Purchase of property, plant and equipment	-5,9	-4,0	-5,7	-5,6	-7,6	-4,4	-4,5	-8,8	-17,8
Other elements of investing activities related to the operating cycle	1,4	-1,6	0,4	3,1	-0,5	0,6	1,1	0,4	2,2
Free cash flow excluding non-recurring items	**47,2**	**29,0**	**5,7**	**12,2**	**11,3**	**11,9**	**23,7**	**28,2**	**63,7**
Reduction of workforce and other exit costs, cash outflow	-11,2	-12,8	-6,2	-2,7	-3,6	-3,1	-5,2	-2,7	-11,0
Other non-recurring expenses	0,0	-22,0	0,0	0,0	-6,1	0,0	23,4	-0,2	23,3
Free cash flow	**36,0**	**-5,7**	**-0,6**	**9,5**	**1,5**	**8,8**	**41,9**	**25,3**	**76,1**
Proceeds from sale of assets	0,0	0,0	0,0	0,0	1,3	0,0	0,0	4,8	4,8
Acquisitions	-0,1	-1,7	0,8	-2,7	-2,3	0,0	-60,9	-4,0	-64,9
Net cash provided by (used in) financing activities	-3,1	0,7	-1,7	-1,9	-0,4	-2,2	-0,7	-1,3	-4,3
Effect of exchange rate changes on cash	1,3	0,0	0,0	1,2	-1,0	0,1	-1,9	2,5	0,7
Net cash flow	**34,1**	**-6,7**	**-1,4**	**6,1**	**-0,9**	**6,7**	**-21,6**	**27,3**	**12,4**
Cash at the beginning of the period	356,6	390,7	384,6	383,1	389,2	388,4	395,1	373,5	388,4
Cash at the end of the period	**390,7**	**384,6**	**383,1**	**389,2**	**388,4**	**395,1**	**373,5**	**400,8**	**400,8**

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