

Gemplus

Q4 & FY 2005

Results Presentation

Presenters:

Alex Mandl

President & CEO

Frans Spaargaren

Executive Vice-President & CFO

Philippe Vallée

Executive Vice-President & CTO

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Agenda

- ▶ • **Overview**
- Q4 & FY 2005 Financials
- Business Highlights
- FY 2006 Outlook

FY 2005: Overview on operations

- FY 2005: a very successful year
 - Improving competitive position and sustained growth in all core businesses
 - Operating income more than doubled
 - Setec integration very successful
- Favorable trends in all core businesses
 - Strong volume growth in Wireless segment
 - EMV* migration progressing well in Financial Services
 - ID & Security driven by Government projects

* EMV: Europay Mastercard Visa

2005: A year of strategic moves

- Setec: a key acquisition in ID & Security
 - Covering a fast-growing segment
 - Acquiring new capabilities
 - Additional purchase price triggered
- Gemalto proposed transaction
 - Creates a world class leader in digital security
 - Preparing plans for integration
 - Process under way to complete the transaction

* EMV : Europay Mastercard Visa

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- ▶ • **Q4 & FY 2005 Financials**
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4th quarter 2005 highlights

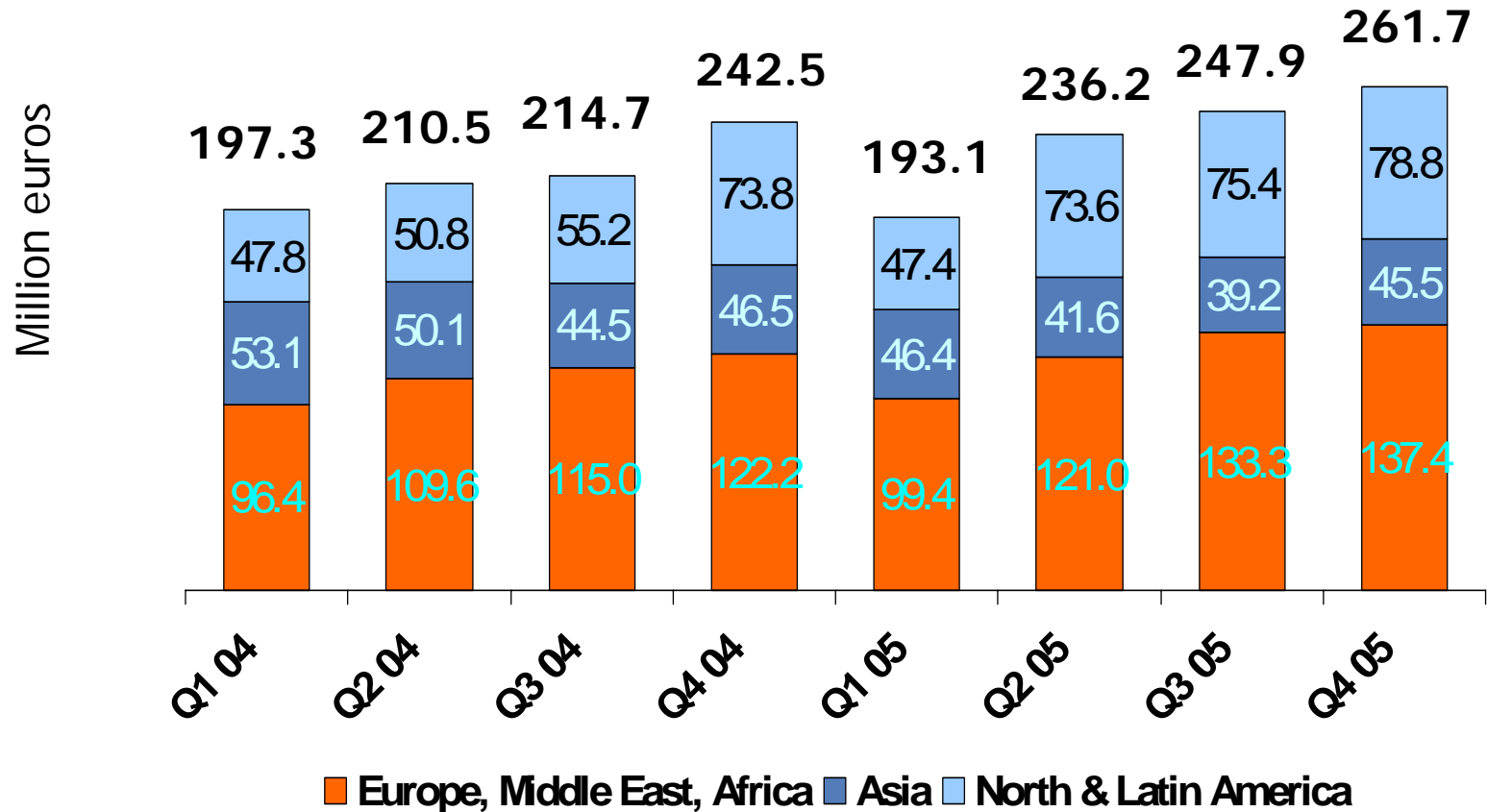
- Q4 05 Group revenue up 7.9 % (down 1.5 %, currency and acquisition adjusted) year-on-year at € **261.7 m**, reflecting:
 - Setec contribution to Gemplus' growth
 - Strong growth in Financial Services and ID & Security, offset by lower SIM prices and Payphone & Scratchcard decrease
 - One-time event related to chip quality
- Gross margin at 32.6 %, up 0.7 ppt year-on-year
- Operating income at € 15.6 m, resulting in 6 % operating margin
- Very strong improvement in attributable net income at € **40.0 m**
- Robust free cash flow at € 21.5 m, excluding non-recurring items

FY 2005 highlights

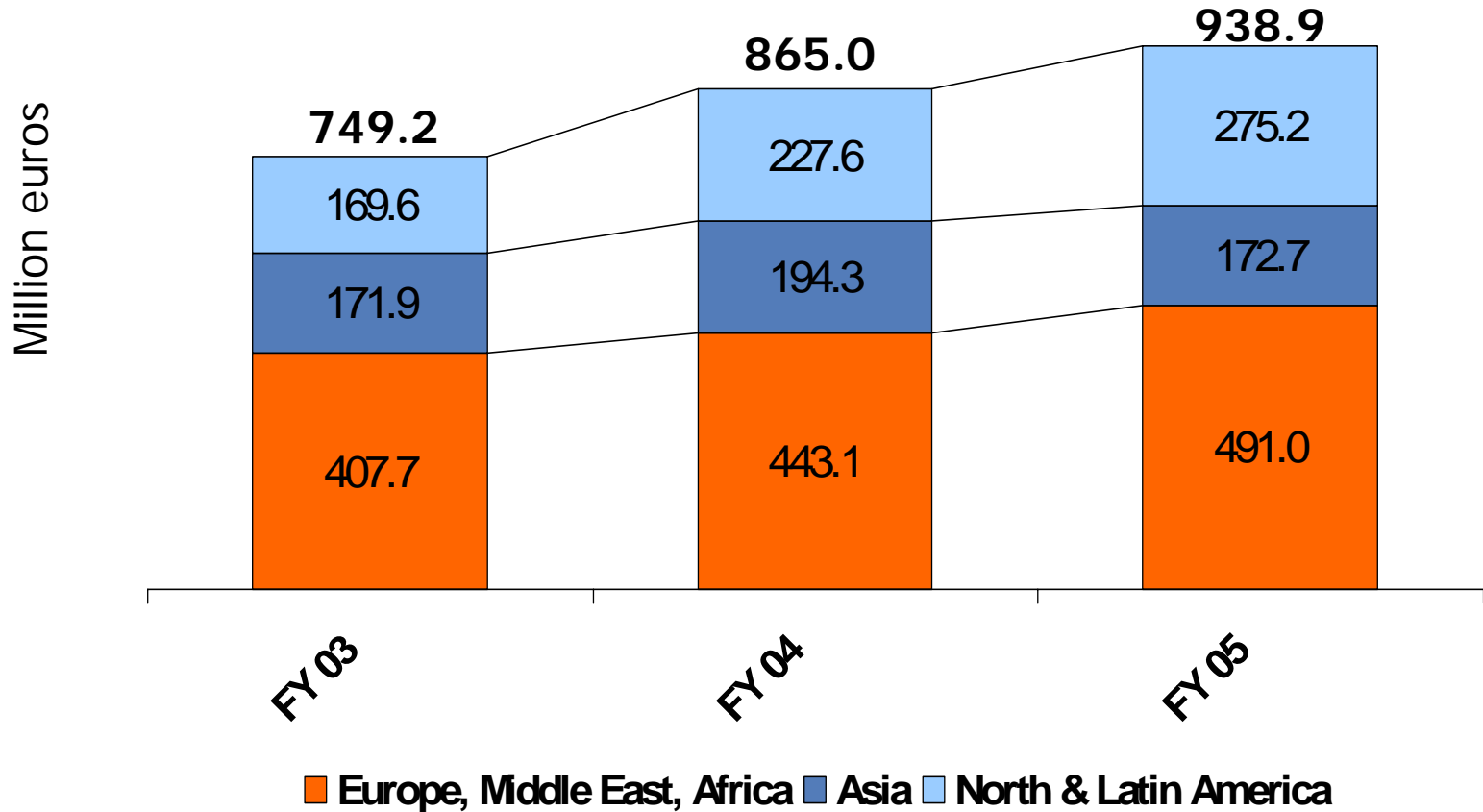
- **Group revenue up 8.5 % (3.6 % adjusted*) at € 938.9 m**
- **Gross margin at 33.0 %, up 1.7 ppts**
- **Operating expenses down 0.7 %, well under control**
- **Operating income at € 66.8 m (up 154 %), resulting in a 7.1 % operating margin**
- **Net attributable income at € 89.9 m (vs. € 4.7 m in 2004)**
- **Very strong free cash flow at € 85.3 m, excluding non-recurring items**

* After adjusting for currency fluctuations, discontinued operations and acquisitions

Q4 05: Strong sales growth driven by EMEA and Americas

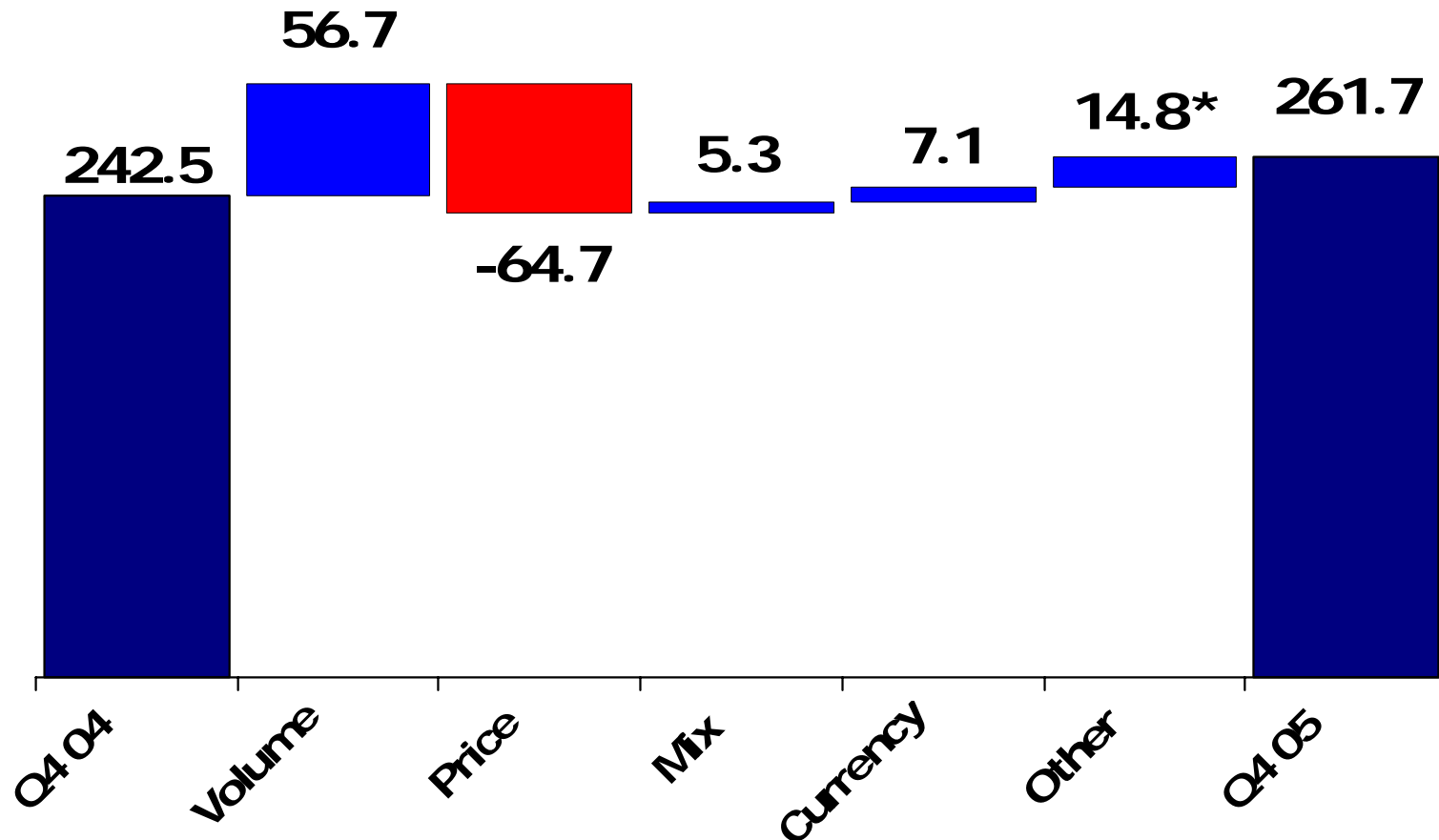


FY 05: Strong sales growth in Americas and EMEA



Q4 2005 vs. Q4 2004 revenue

In million euros

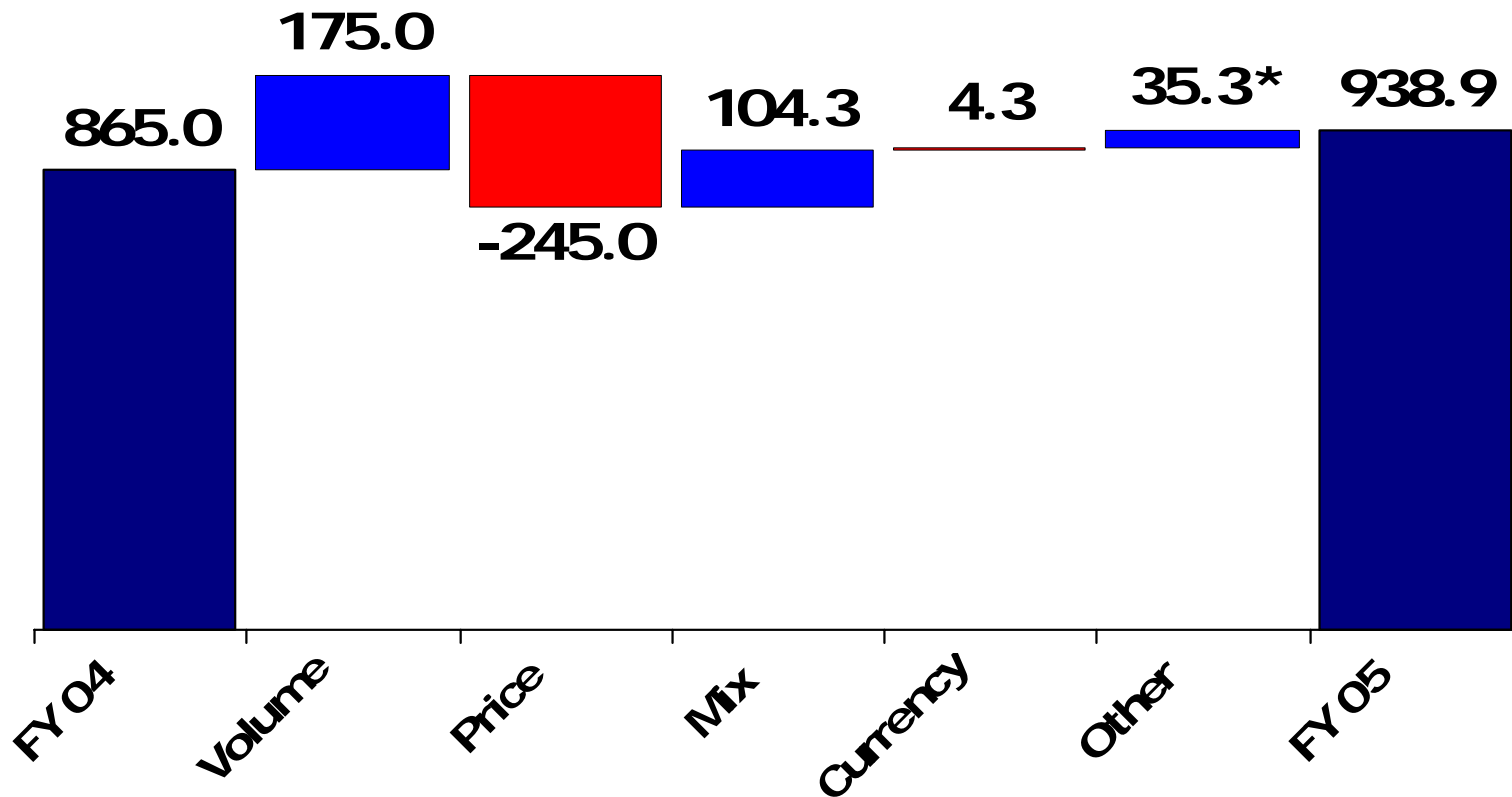


- Volume and mix increase almost compensating for ongoing price pressure
- Volume and price impacted by Phone & Scratch cards and quality issue

* "Other" mainly Setec contribution

FY 2005 vs. FY 2004 revenue

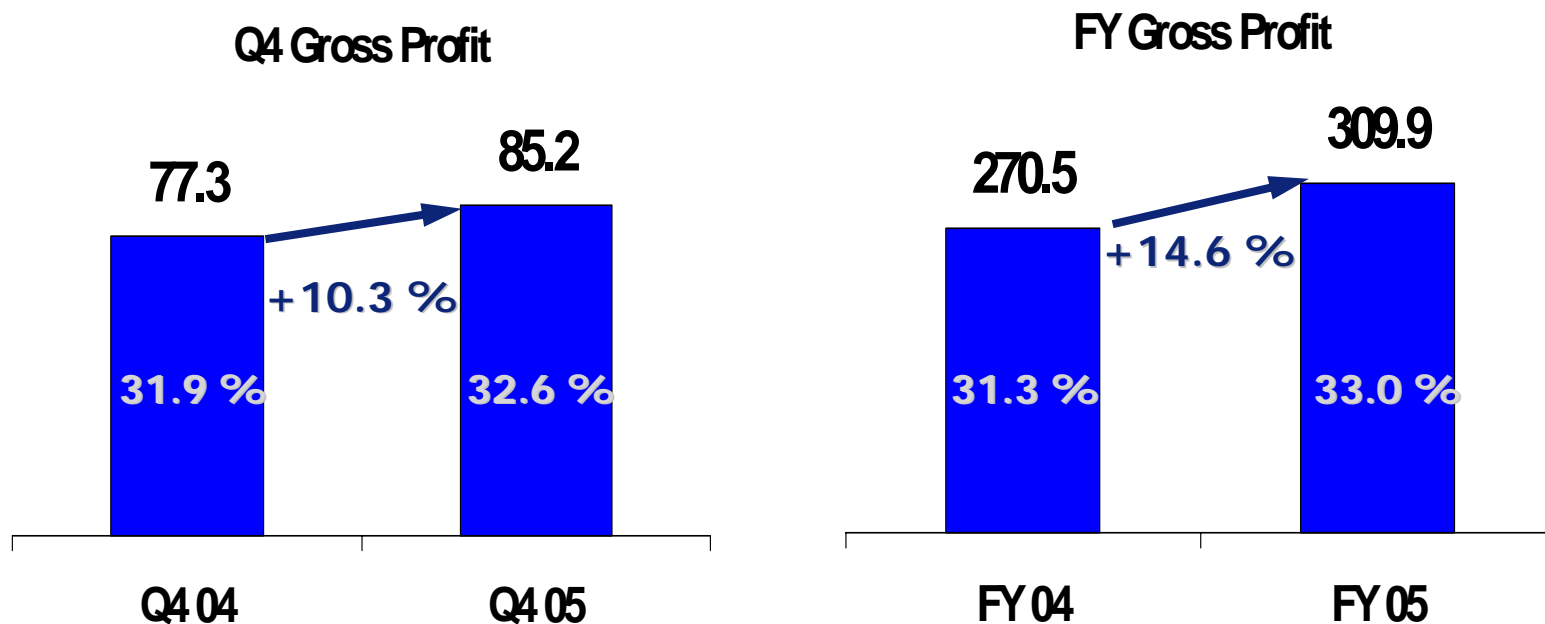
In million euros



- Strong volume increase in Wireless & Financial Services
- Mix and volume improvement more than compensating for price pressure

* "Other" mainly Setec contribution

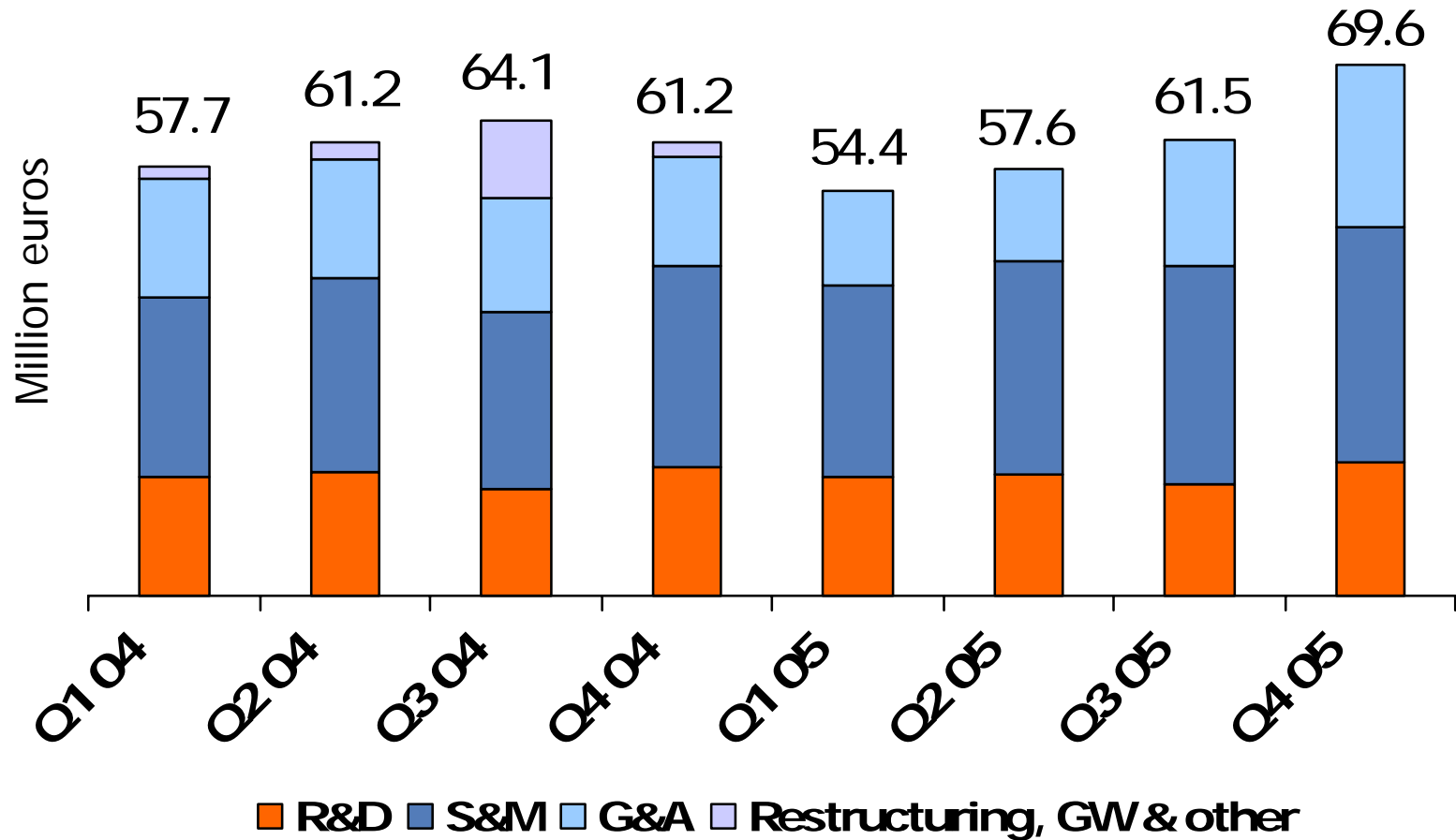
Strong gross profit improvement



- Q4 :
 - Gross profit improvement driven by favorable volume and lower chip prices, almost compensating ongoing price pressure
 - Improvement in business mix and manufacturing efficiency
- FY : Continuous profitability improvement

Operating expenses

% of sales 29% 29% 30% 25% 28% 24% 25% 27%



- Increase notably driven by Setec operating expenses and severance packages

Operating expenses well under control

(excluding restructuring & goodwill)

% of sales

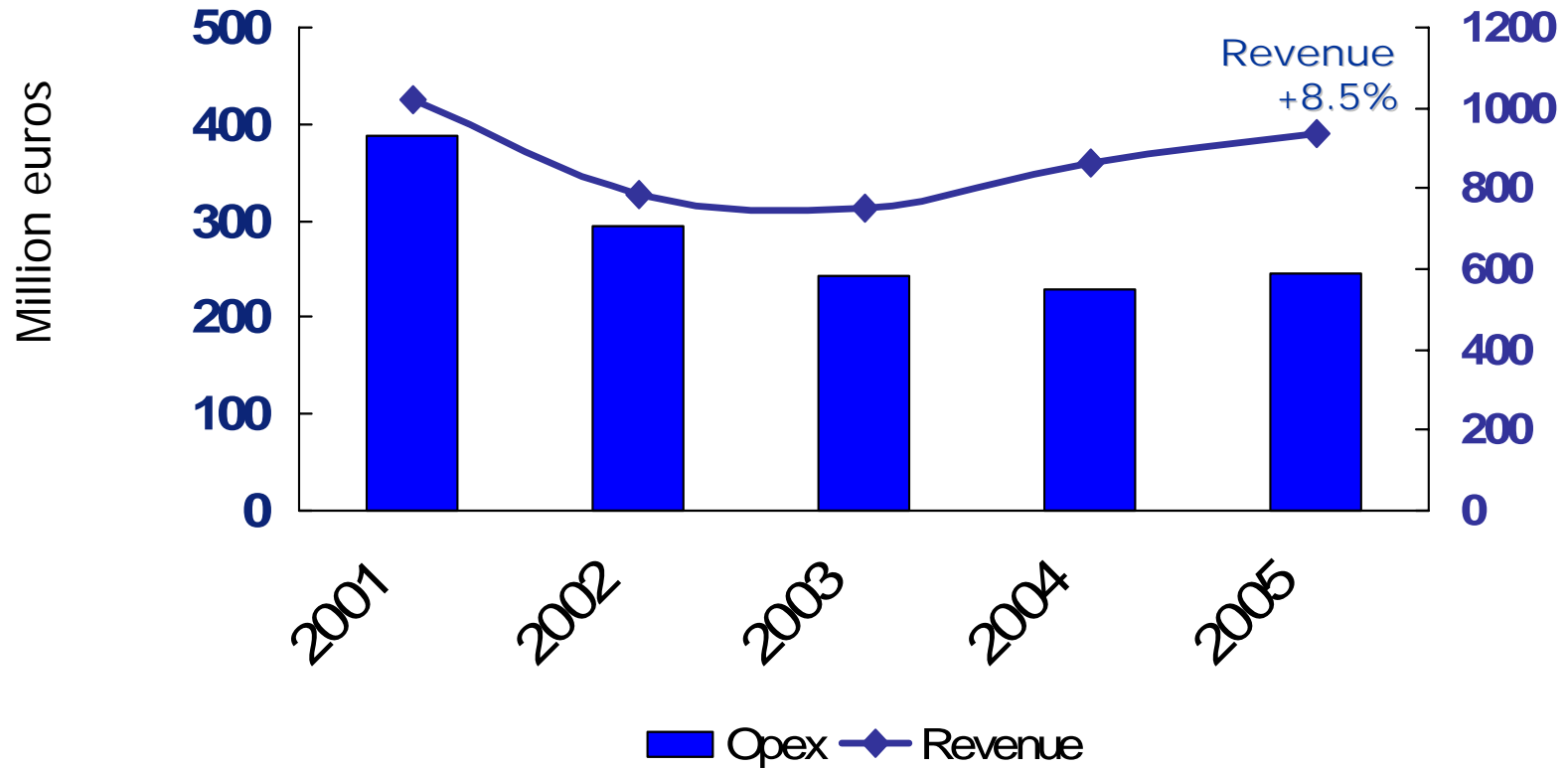
38.0%

37.4%

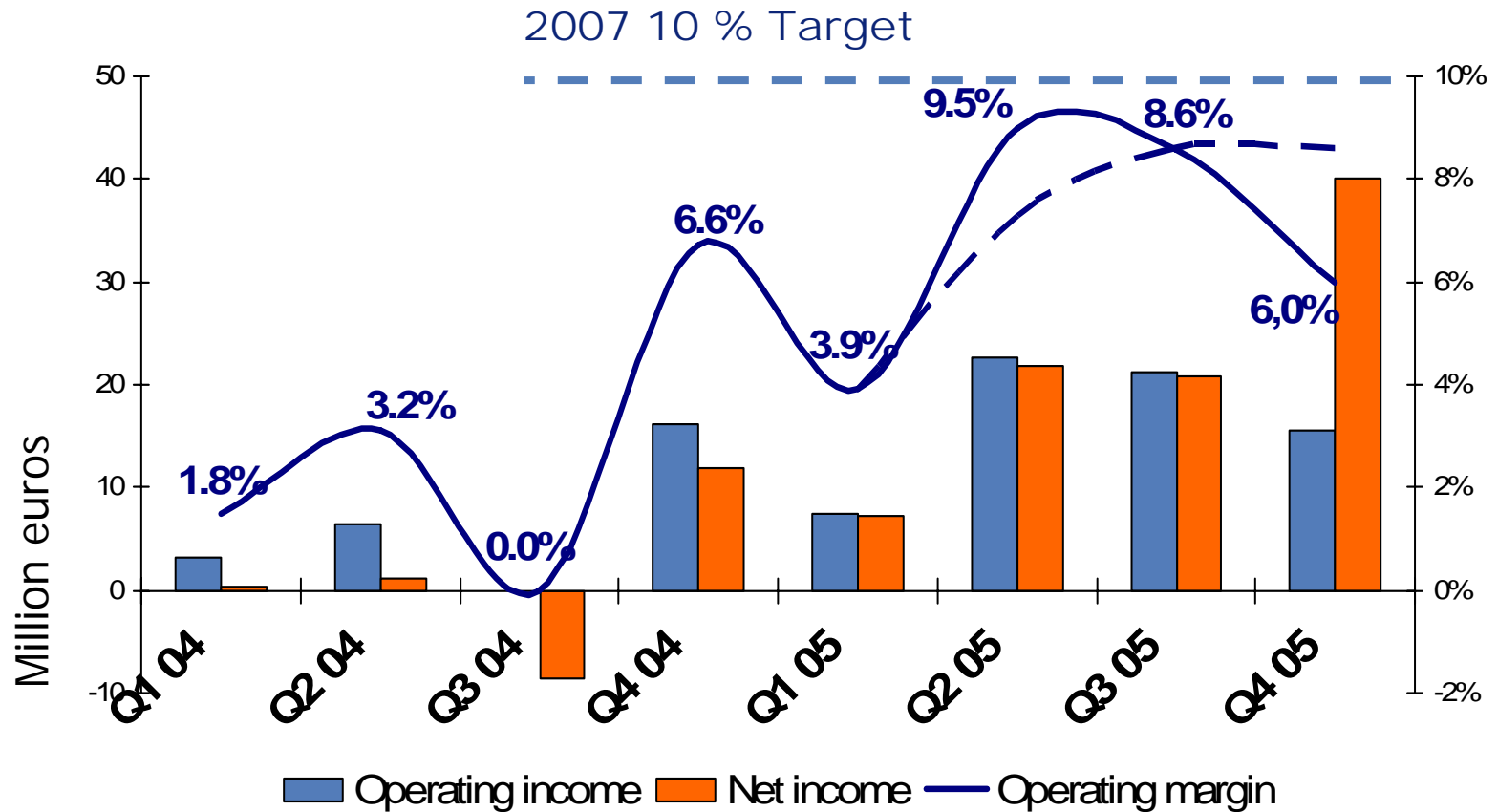
32.9%

26.4%

26.2%

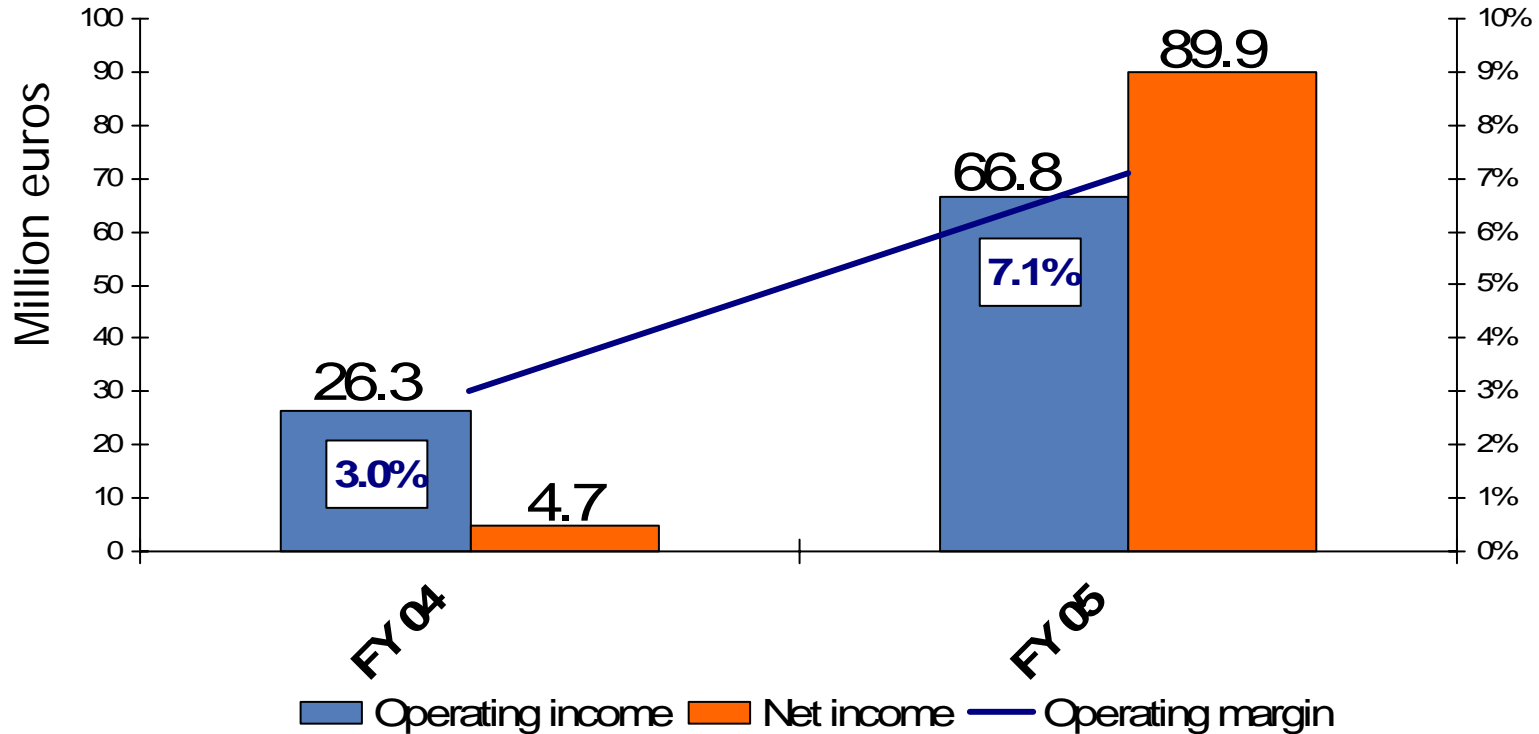


Strong net income improvement



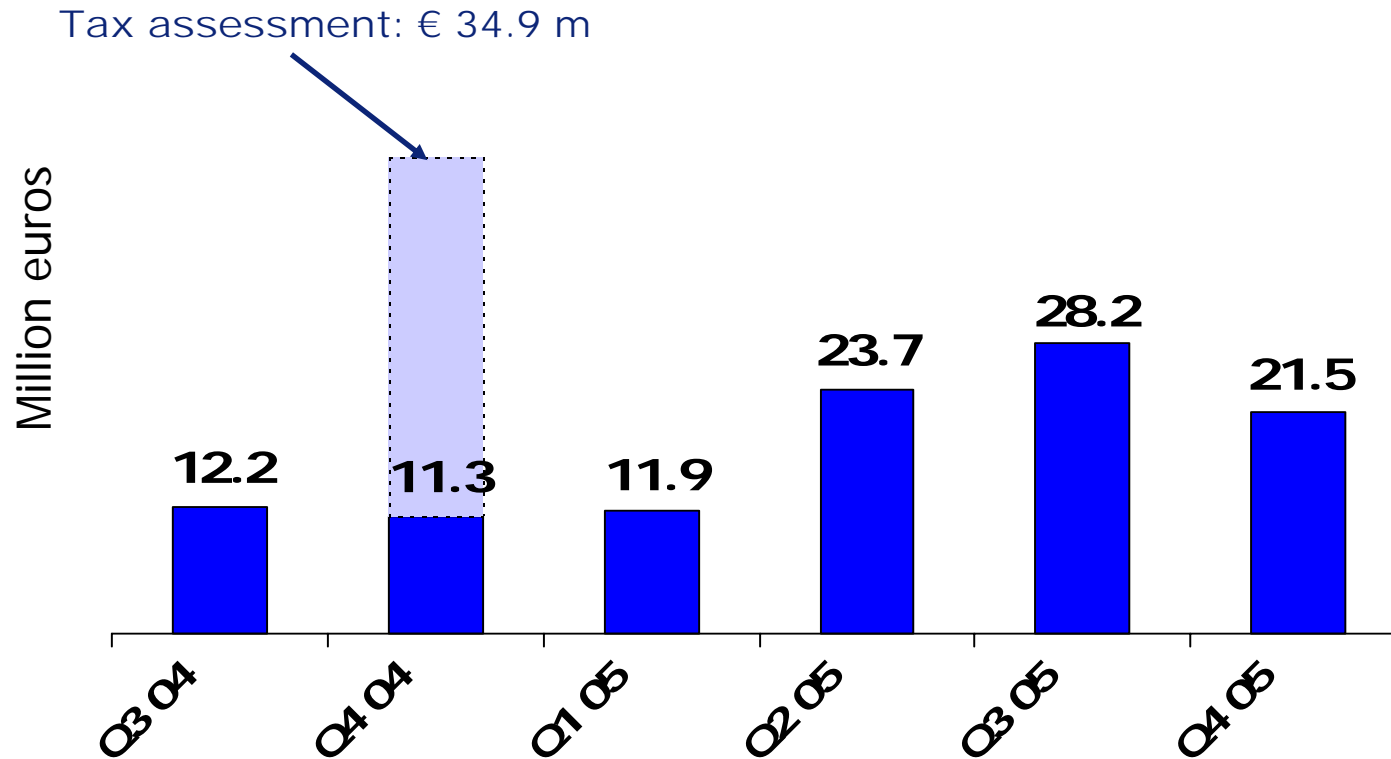
- Operating income: € 15.6 m, slightly below Q4 04, including a one-time quality issue and severance packages
- Net income at € 40.0 m, benefiting from recognition of deferred tax assets for € 26.9 m

Strong operating income & net income improvement



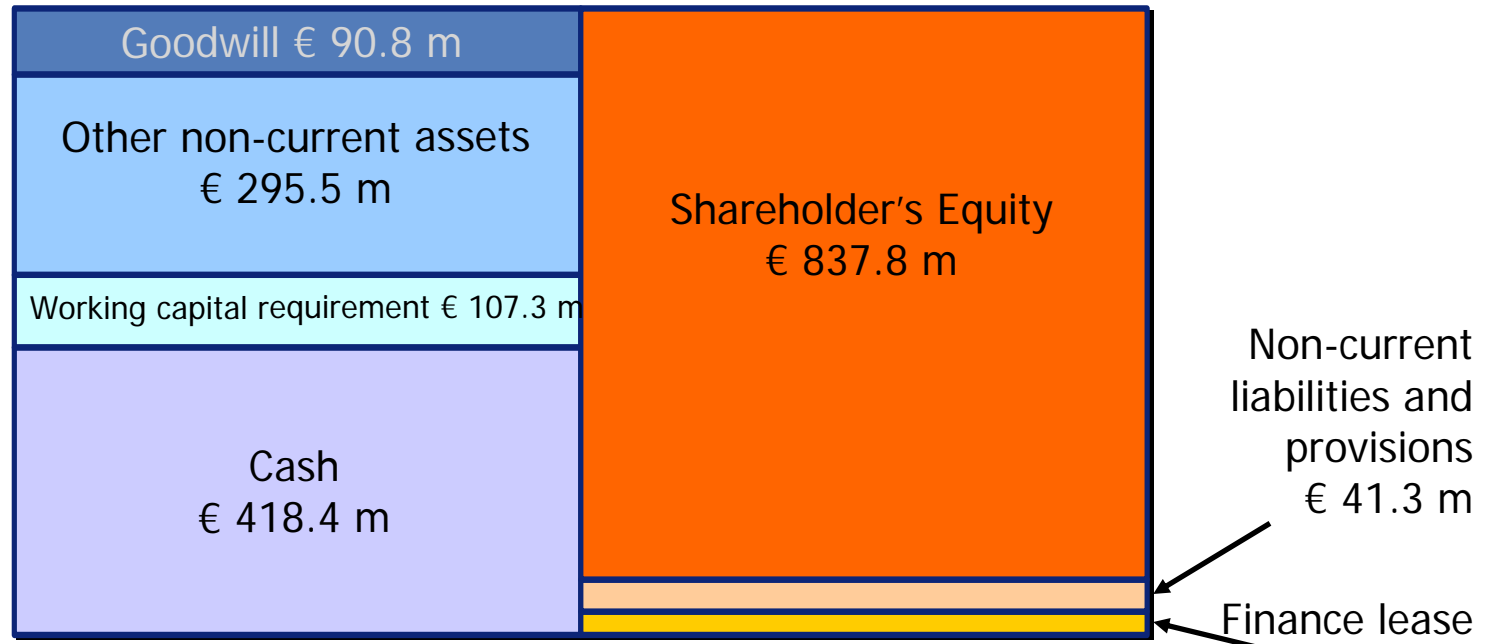
- Operating income: € 66.8 m, more than doubled vs. FY 2004
- Net attributable income at € 89.9 m

Free cash flow excluding non recurring items



- Free cash flow of € 85.3 m for the FY (before non-recurring items)
- Net cash flow in Q4 05 at + € 17.6 m, € 29.9 m for FY 2005, including € 63 m cash portion of the Setec acquisition price

Strong balance sheet (Dec. 31 2005)



- Ongoing very strong cash position
- WCR improved to 10 % of revenue, from 14 % in Q4 04
- Capital expenditures maintained at € 25 m



Q4 & FY 2005: Wireless

million euros	Q4 2005	Q4 2004	% change	FY 2005	FY 2004	% change
Net sales	163.6	165.3	-1.0 %	600.4	558.5	+7.5 %
Gross profit	62.6	62.4	+0.3 %	236.6	215.6	+9.7 %
Gross margin	38.2 %	37.7 %	+0.5 ppt	39.4 %	38.6 %	+0.8 ppt

- Q4 05
 - Wireless volume at new highs: 101 Mu (+ 35 % year-on-year)
 - Chip quality issue impacted revenue and gross profit
- FY 2005
 - SIM cards volume at 342 Mu (34 % increase vs. 2004)
 - ASP down by -20 %, currency adj.



Q4 & FY 2005: Telecom

million euros	Q4 2005	Q4 2004	% change	FY 2005	FY 2004	% change
Net sales	179.5	187.9	- 4.5 %	654.5	641.8	+2.0 %
Gross profit	64.6	64.3	+0.5 %	241.5	220.8	+9.4 %
Gross margin	36.0 %	34.2 %	+1.8 <i>ppts</i>	36.9 %	34.4 %	+2.5 <i>ppts</i>
Operating expenses	(44.5)	(39.1)	+ 14.0 %	(158.7)	(149.0)	+ 6.0 %
Operating income	20.1	25.2	-20.4 %	82.8	71.8	+15.4 %

- Q4 05 & FY 05

- Revenue growth hampered by strong decrease in prepaid phone & scratch cards
- Gross margin increase reflecting wireless performance & improvement of business mix
- **Operating margin at 11.2 % in FY 05**

Q4 & FY 2005: Financial Services



million euros	Q4 2005	Q4 2004	% change	YTD 2005	YTD 2004	% change
Net sales	55.8	44.2	+26.3 %	202.9	182.2	+11.3 %
Gross profit	12.2	9.7	+26.0 %	41.9	37.7	+11.2 %
Gross margin	21.8 %	21.9 %	-0.1 ppts	20.6 %	20.7 %	- 0.1 ppt
Operating expenses	(12.5)	(13.7)	-9.0 %	(43.2)	(63.9)*	-32.0 %
Operating income	(0.3)	(4.0)	<i>n.s.</i>	(1.3)	(26.3)	<i>n.s.</i>

- Q4
 - Excellent quarter: + 26.3 %, driven by EMV** roll-out and Setec contribution
 - Payment microprocessor cards: + 70 % at Mu 18.1
 - Operating income almost breakeven

- FY
 - Revenue increase driven by EMV migration in Europe, Latin America and Setec
 - 70 Mu payment microprocessor cards (+ 36 %)

* Including € 14.1 m restructuring provision and goodwill

** EMV: Europay Mastercard Visa

Q4 & FY 2005: ID & Security



million euros	Q4 2005	Q4 2004	% change	FY 2005	FY 2004	% change
Net sales	26.4	10.4	152.5 %	81.5	41.0	+98.7 %
Gross profit	8.4	3.3	+157.1 %	26.5	12.0	+120.5 %
Gross margin	32.0 %	31.5 %	+0.5 ppt	32.5 %	29.4 %	+3.1 ppts
Operating expenses	(12.6)	(8.4)	+50.3 %	(41.3)	(31.3)	+32.0 %
Operating loss	(4.2)	(5.1)	<i>n.s.</i>	(14.7)	(19.2)	<i>n.s.</i>

- Q4 and FY
 - Strong growth driven by Corporate Security projects (mainly USA) and Government ID (Middle East and Europe (Setec))
 - Margin improvement due to better business mix
 - Operating expenses reflect investments to realize future growth opportunities

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FY 2005: Telecom



- **Telecom segment environment**

- 3G development going on
- Q4 confirmed the strong momentum in the wireless segment, combined with ongoing strong price pressure
- SIM volume growth close to 30% in 2005, largely driven by the increased penetration in developing countries, except in China where demand has decreased
- Very rapid decrease of the payphone cards segment

- **FY 2005 Gemplus achievements**

- Maintained N°1 position in 3G
- Successfully developed further position in fast growing countries
- Launched first multimedia SIM cards
 - Product launched at 3GSM Congress (Feb. 05)
 - First commercial roll-out with Orange in Nov. 05

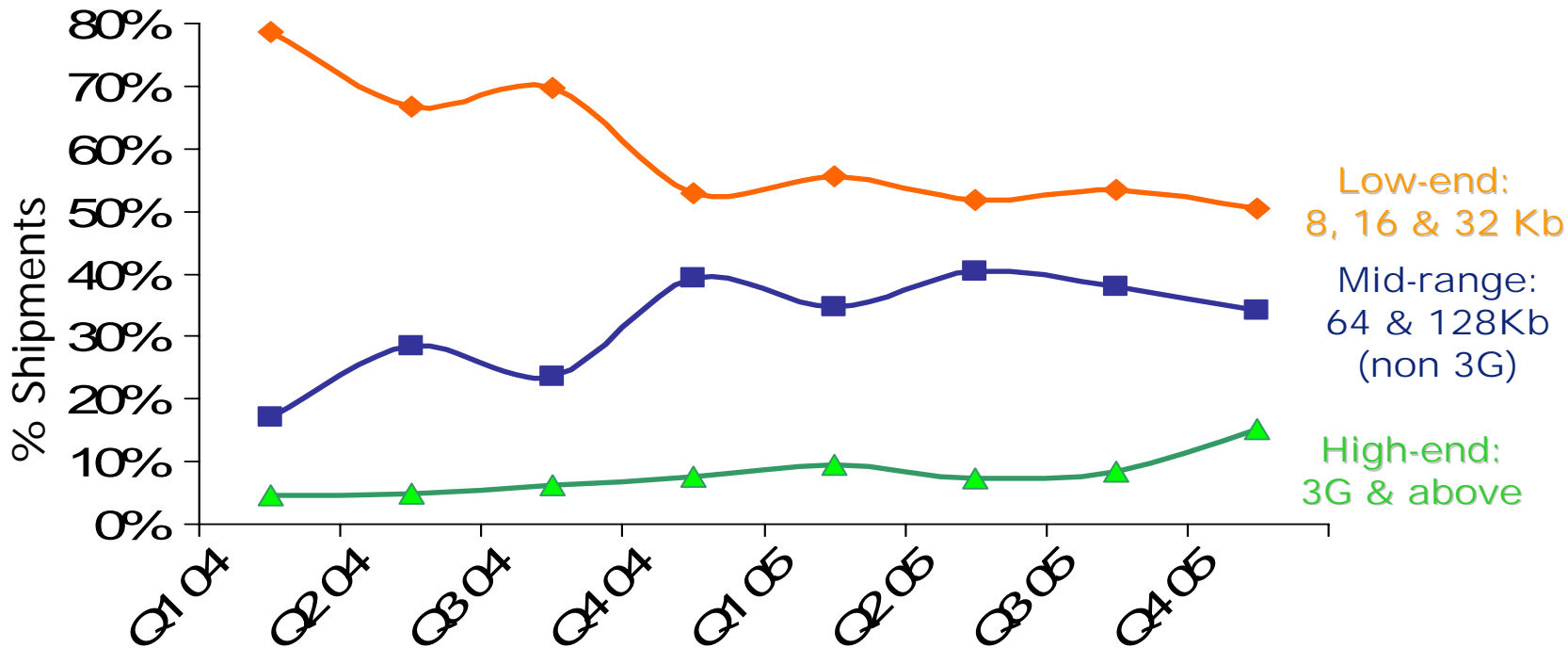


Chip quality issue

- A very complex technical issue
 - E²PROM* did not meet the write / erase cycle specifications on a random basis, i.e. not all products were faulty
 - SIM became mute after a variable number of writing / erasing cycles
 - exacerbated by Gemplus stringent security measures
 - Influenced by combinations of network, handset & applet behavior
- Timeline
 - Sept. 05: First quality complaints from customers; initial impact assessment and containment actions (including remote update)
 - Oct. 05: Root cause identified and discussions with the supplier; risk assessment and corrective measures implemented
 - Dec 05: further evaluation of the potential impact; decision to withdraw and replace certain chip batches

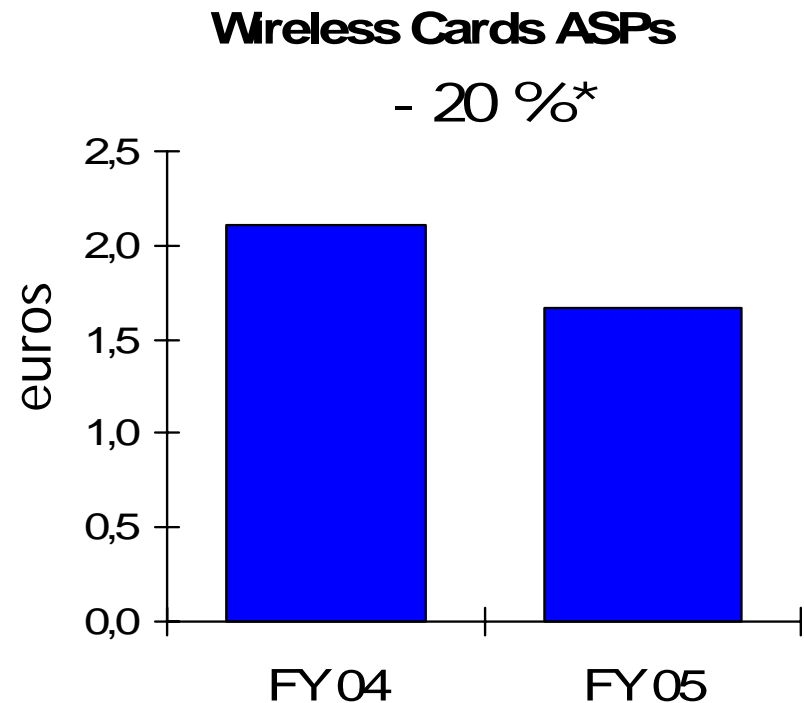
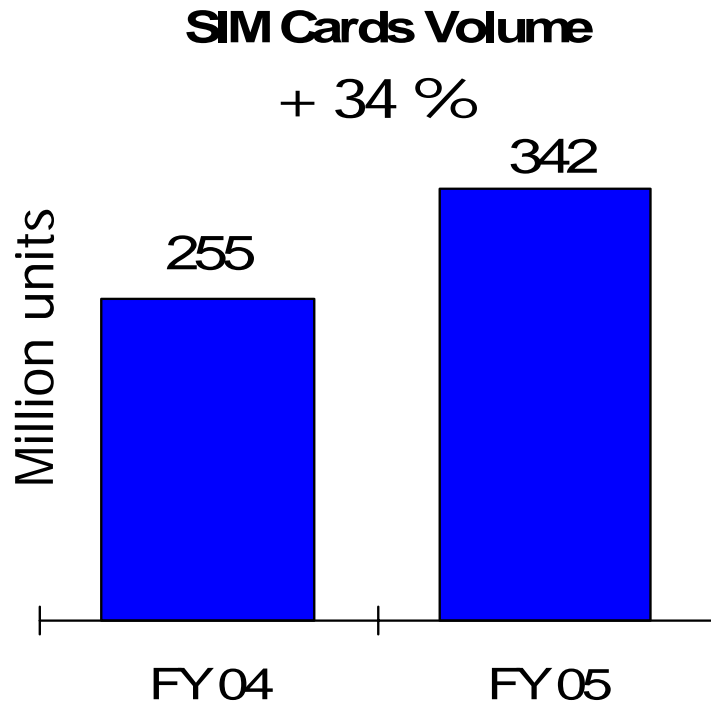
* Electrically Erasable Programmable Read Only Memory

Q4 05: Improving wireless mix



- High end (3G and above): 15.3 % of volumes in Q4 05

Q4 2005: Wireless revenue drivers



- Americas and EMEA drive very strong volume growth
- Gains in share (total demand 05+ 30 %**)

* After adjusting for currency fluctuations

** Gemplus estimate

FY 2005: Financial Services



- Segment environment
 - EMV* deployment further enlarged
 - Continental Europe roll outs
 - New roll outs in Latin America, Asia-Pacific & Russia
 - First deployment of contactless cards in the US
- FY 05 Gemplus achievements
 - Consolidation and improvement of position in microprocessor payment cards: Volume growth of + 36 % in 2005
 - Further EMV deployments with first EMV cards delivered in Japan, China, Italy
 - First contactless payment cards delivered in US & Asia-Pacific
 - First mass issuance of a translucent card in France: the GemLucence cards shipped to Caisse d'Epargne

* EMV : Europay Mastercard Visa

FY 2005: ID & Security



- Segment environment
 - Large number of e-government initiatives (e-passport, ID cards, healthcare, car registration)
 - Healthcare projects are being implemented
 - National roll-outs of e-passports have started
 - US Regulations (FIPS201) to enforce smartcard badges for Federal Agencies
- FY 05 Gemplus achievements:
 - Triple digit growth in ID & Security
 - Major e-passports contract secured & installed and first e-passport roll-out (Norway, Sweden, Singapore)
 - Strong increase of share in US public and private sector
 - UAE identity project roll-out

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Outlook

- The Group continues to see strong momentum in its core segments and will maintain its focus on cost efficiency.
- Gemplus confirms that it is well on its way to realize its mid-term objective to achieve 10% operating margin in 2007.
- The Group remains confident in its ability to further strongly improve its operating income in 2006, taking into account the usual seasonality effect of stronger organic growth in the second half than in the first half
- Gemplus also continues to expect the Financial Services and ID & Security segments to turn profitable in 2006.

Gemalto : Key Investment Highlights

- Creation of a world class leader in digital security
- Strongly positioned to capture growth opportunities in existing and emerging sectors
- Substantial synergies expected, estimated to have a net impact on operating income of approximately € 85 million (US\$ 100 million) per annum on a fully phased basis (in the third year following closing)
- Management team with unique depth of expertise and experience
- Enhanced standing in capital markets
- Robust balance sheet

Gemalto: Sequence of Events

- Dec. 7, 2005: Announcement of the proposed transaction
- Jan. 31, 2006: Axalto extraordinary shareholders meeting approved the merger
- Feb. 28, 2006: Gemplus shareholders meeting (including special distribution approval)
- Anti trust approvals pending
- Following anti trust approvals, public exchange offer

Appendix

Cash Flow Statement

Millions of euros	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	FY 2005
Net income (loss)	0.9	1.8	-8.1	11.7	7.1	22.6	21.3	40.4	91.4
Depreciation & Amortization	15.2	13.7	15.0	12.8	9.3	9.7	11.0	11.3	41.4
Other adjustments to reconcile net income (loss) to net cash from operating activities	0.7	3.2	3.5	-30.9	-0.8	-0.5	-5.4	-26.9	-33.6
Reduction of workforce and other exit costs, provision	-0.4	-	8.1	-0.7	-0.6	-0.4	-0.2	-1.7	-3.0
Provision for other non-recurring items	-	-	-	-	-	-	-	-	-
Change in working capital requirement	18.9	-7.8	-3.8	26.6	0.5	-4.2	9.8	8.6	14.8
Net cash flow from operating activities excluding non-recurring items	35.2	11.0	14.7	19.5	15.6	27.1	36.6	31.6	111.0
Purchase of property, plant and equipment	-4.0	-5.7	-5.6	-7.6	-4.4	-4.5	-8.8	-7.3	-25.1
Other elements of investing activities related to the operating cycle	-1.6	0.4	3.1	-0.5	0.6	1.1	0.4	-2.8	-0.6
Free cash flow excluding non-recurring items	29.6	5.7	12.2	11.3	11.9	23.7	28.2	21.5	85.3
Reduction of workforce and other exit costs, cash outflow	-12.8	-6.2	-2.7	-3.6	-3.1	-5.2	-2.7	-1.9	-12.9
Other non-recurring expenses	-22.0	-	-	-6.1	-	23.4	-0.2	-	23.3
Free cash flow	-5.1	-0.6	9.5	1.7	8.8	41.9	25.3	19.6	95.7
Proceeds from sale of assets	-	-	-	1.3	-	-	4.8	2.2	7.0
Acquisitions	-1.7	0.8	-2.7	-2.3	-	-60.9	-4.0	-0.3	-65.1
Net cash provided by (used in) financing activities	0.7	-1.7	-1.9	-0.4	-2.2	-0.7	-1.3	-4.0	-8.3
Effect of exchange rate changes on cash	-	-	1.2	-1.0	0.1	-1.9	2.5	-	0.7
Net cash flow	-6.1	-1.4	6.1	-0.8	6.7	-21.6	27.3	17.5	29.9
Cash at the beginning of the period	390.7	384.6	383.1	389.2	388.4	395.1	373.5	400.8	388.4
Cash at the end of the period	384.6	383.1	389.2	388.4	395.1	373.5	400.8	418.4	418.4