

# Gemplus

## Q1 2006

### Results Presentation

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# Agenda

- ▶ • **Overview**
- Q1 2006 Financials
- Business Highlights
- FY 2006 Outlook

# Q1 2006: Overview on operations

- Q1 2006: Strong revenue growth
  - Improving position in all our core businesses
  - Solid revenue growth in Financial Services and ID & Security, validating the Company's strategy
  - Setec integration very successful
- Gemalto proposed transaction progressing in line with schedule
  - Approval by Gemplus shareholders of matters related to the Transaction
  - Clearance from U.S. antitrust authorities

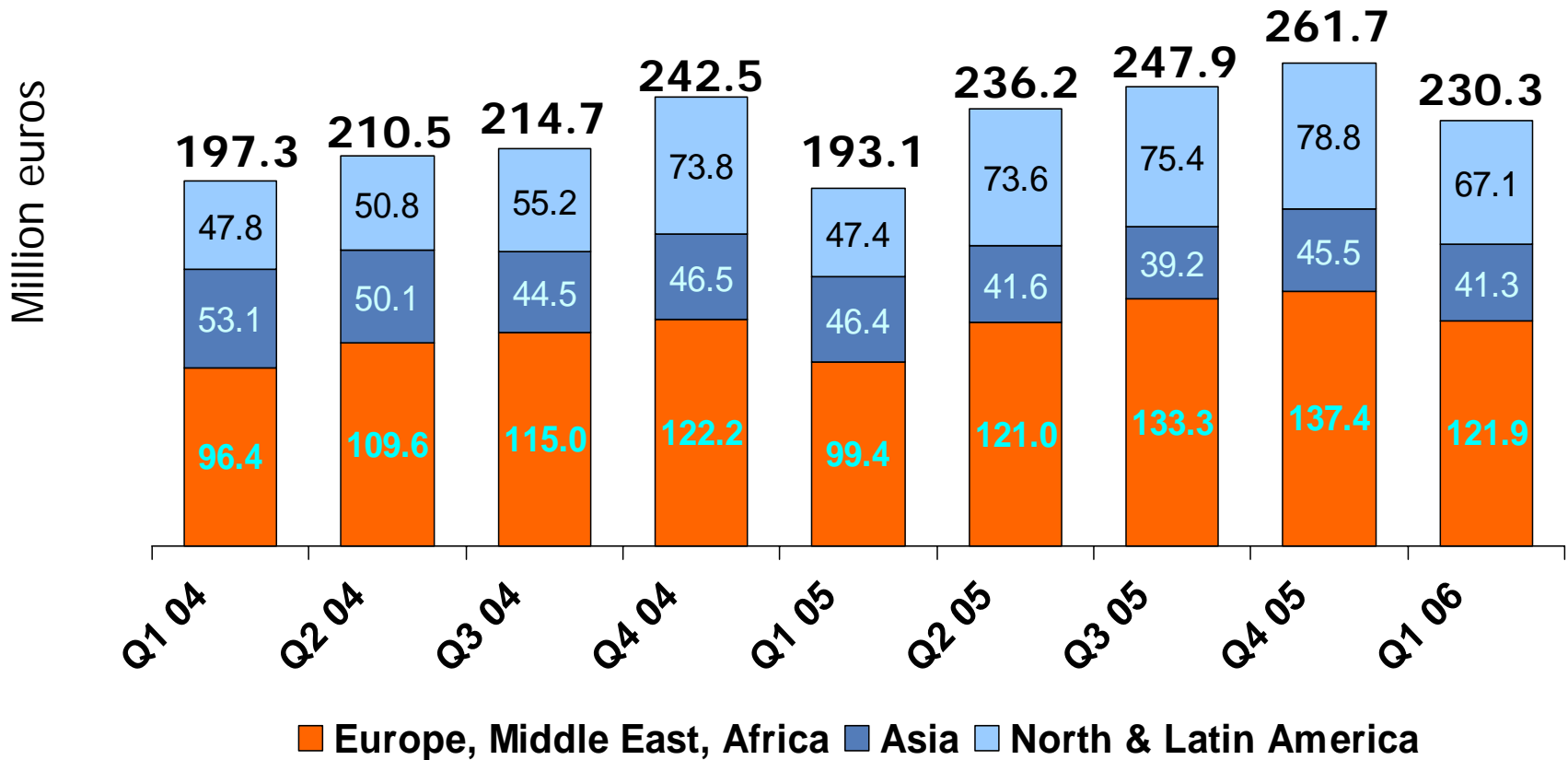
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# 1st quarter 2006 highlights

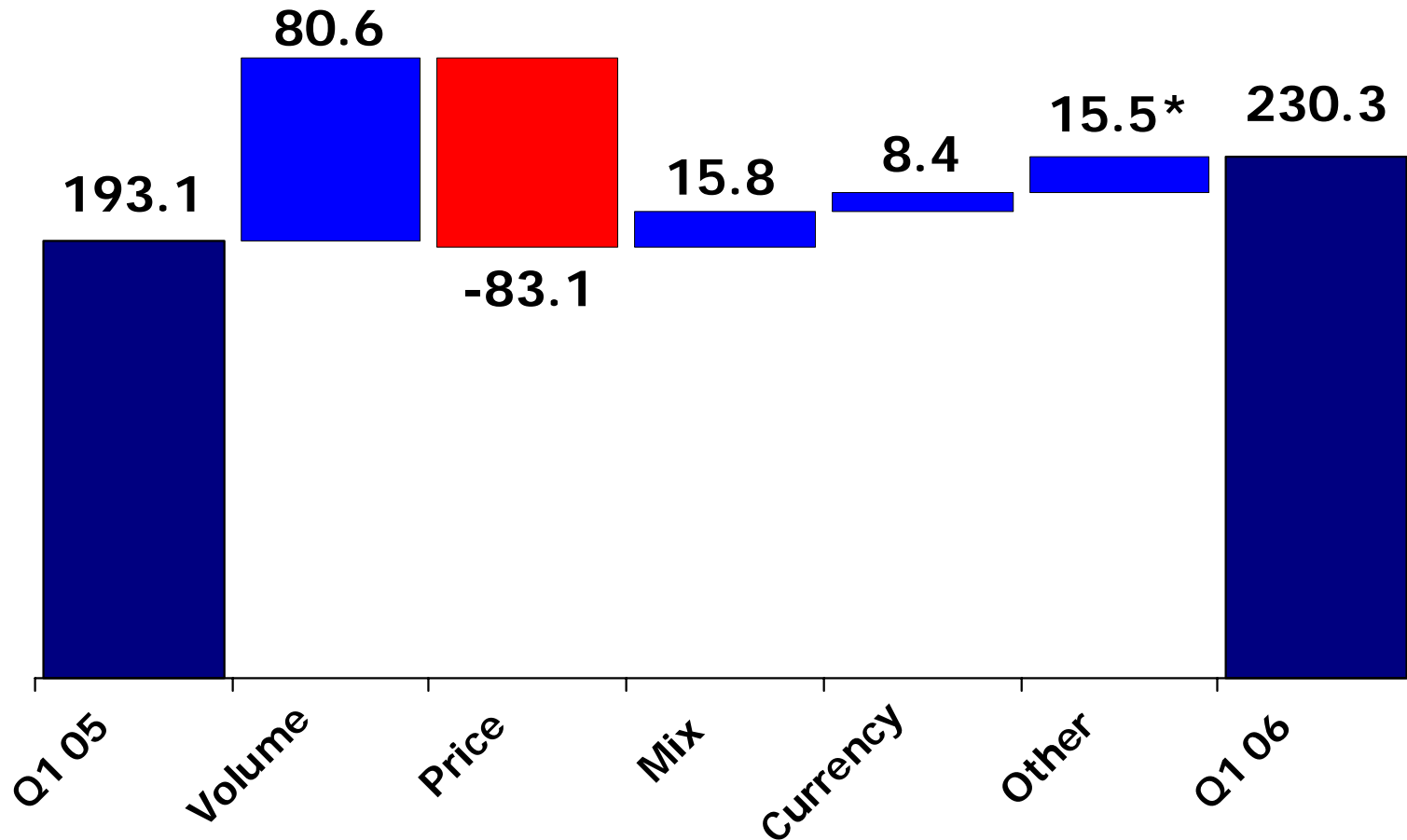
- Q1 06 Group revenue up 19.3 % (up 5.3 %, currency and acquisition adjusted) year-on-year at € **230.3 m**, reflecting:
  - Strong growth in ID & Security and Financial Services
  - Sharply lower SIM prices in Wireless
  - Good Setec contribution to Gemplus' growth
- Gross margin at 30.5 %
- Operating income at € 8.4 m, resulting in 3.7 % operating margin
- Attributable net income at € **6.3 m**

# Q1 06: Strong sales growth driven by EMEA and Americas



# Q1 2006 vs. Q1 2005 revenue

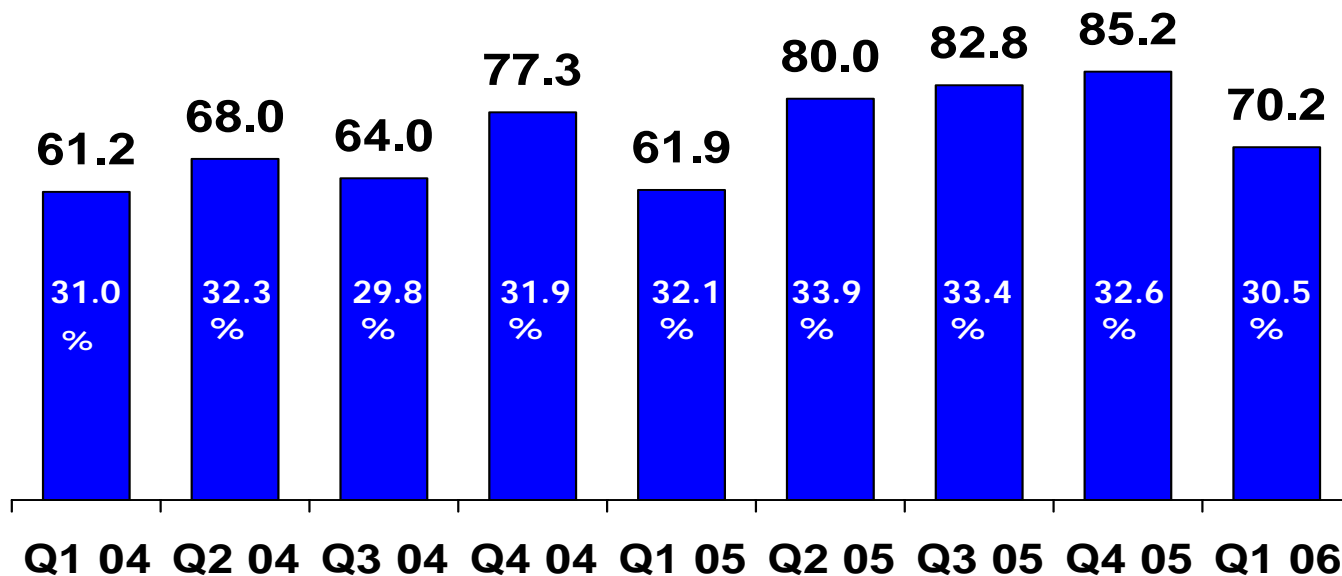
In million euros



- Strong volume increase and mix improvement compensate ongoing price pressure

\* "Other" mainly Setec contribution

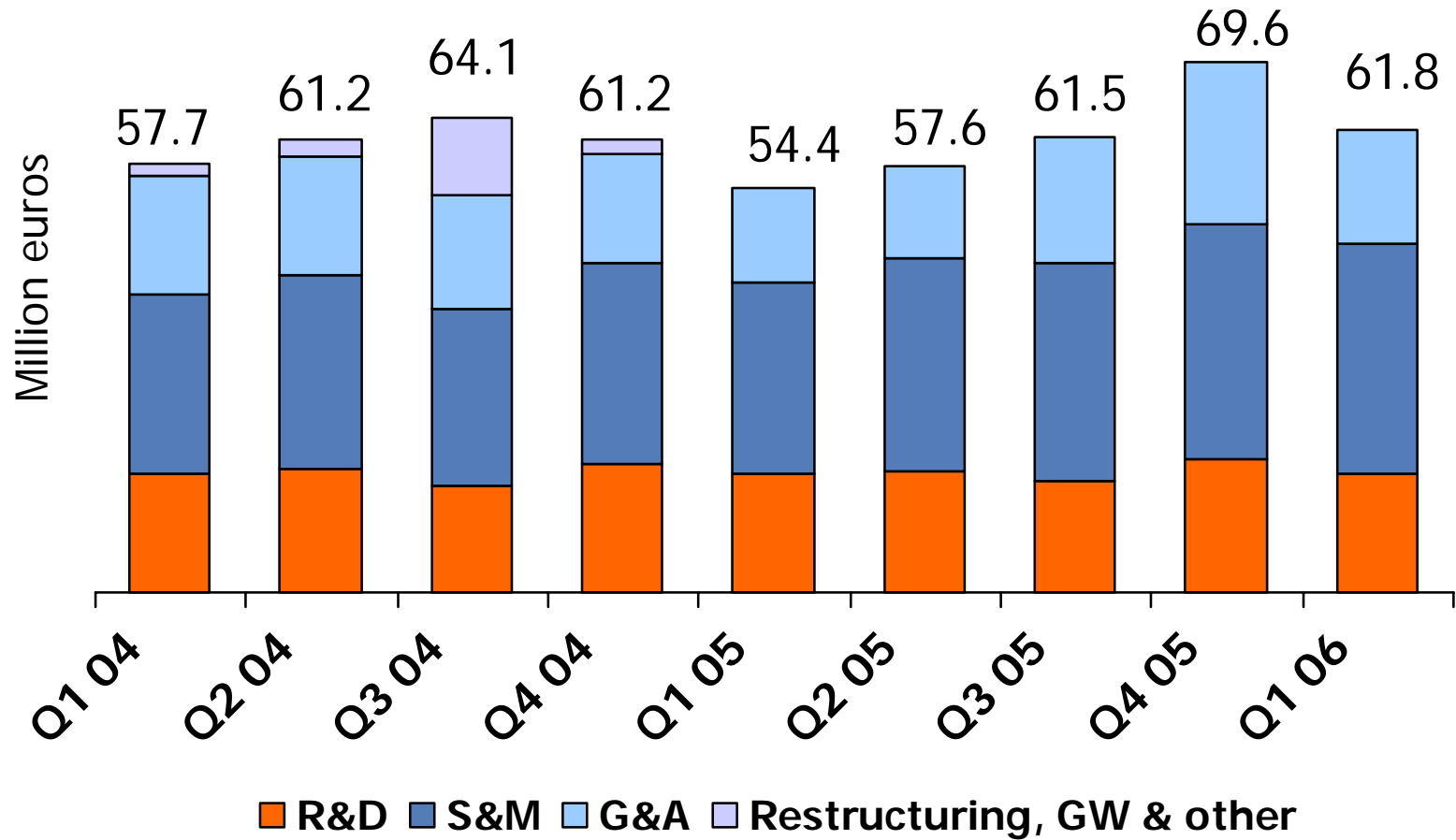
# Gross Profit



- Q1 06 gross margin influenced by business mix, wireless price pressure and purchase accounting

# Operating expenses

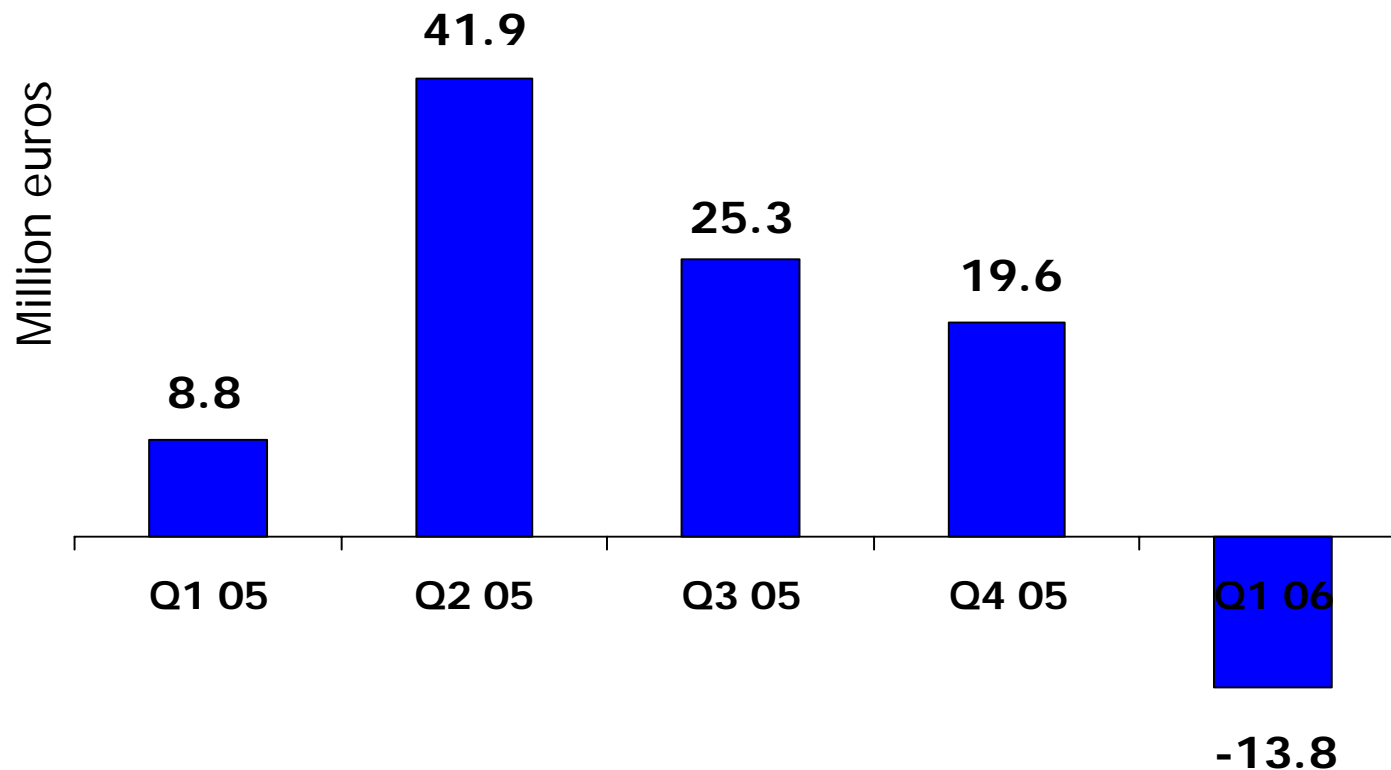
% of sales 29% 29% 30% 25% 28% 24% 25% 27% 27%



# Key Figures

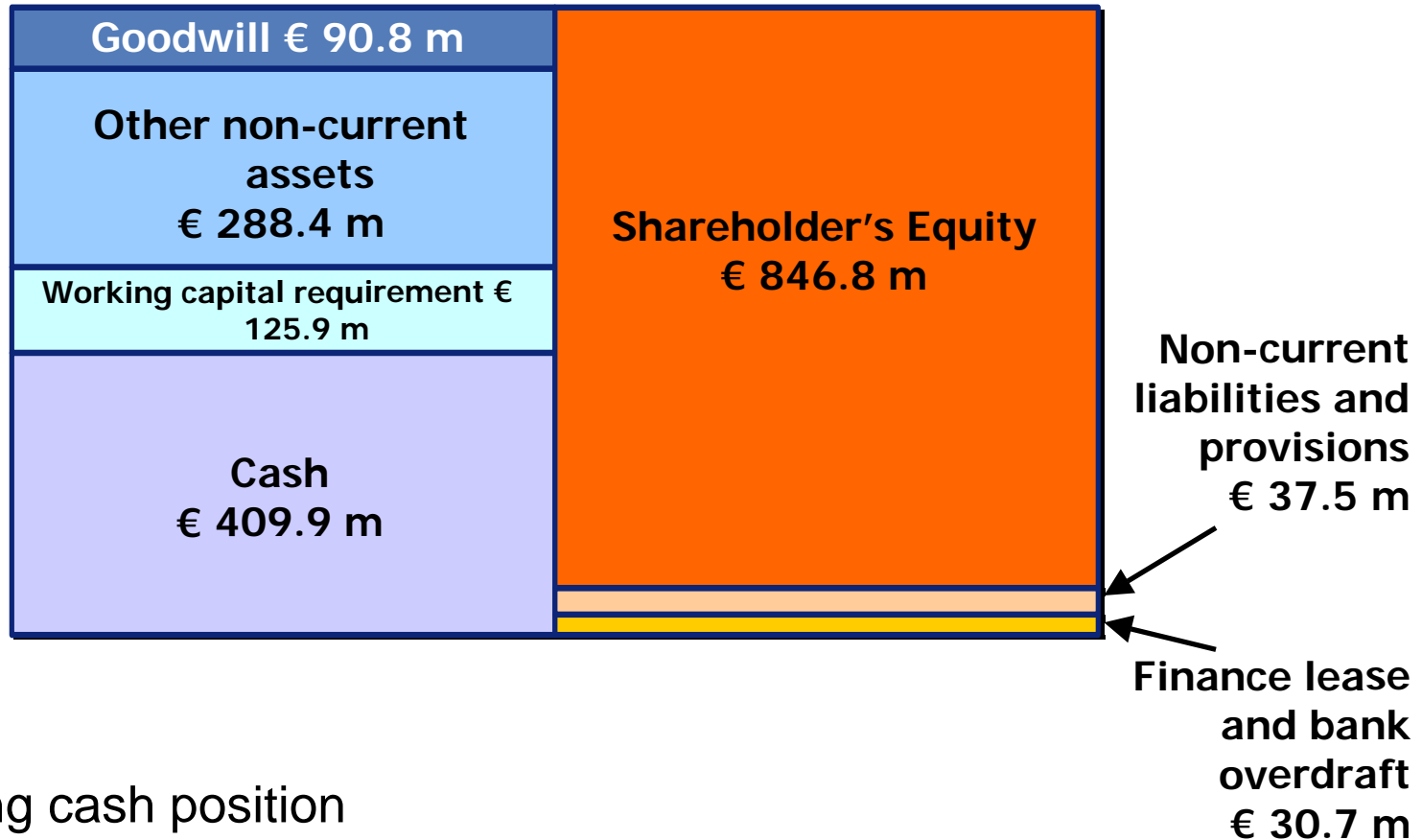
Million euros	Q1 06	Q1 05
<b>Net sales</b>	<b>230.3</b>	193.1
<b>Gross profit</b>	<b>70.2</b>	61.9
Gross margin	<b>30.5 %</b>	32.1 %
Operating expenses	<b>61.8</b>	54.4
Operating income	<b>8.4</b>	7.5
Operating margin	<b>3.7 %</b>	3.9 %

# Free cash flow



- Free cash flow reflecting increase of inventories and receivables due to strong growth
- Net cash flow at € - 8.4 m, including inflow from sale of minority stake

# Strong balance sheet (March, 31 2006)



- Strong cash position
- WCR improved to 14 % of revenue, from 16 % in Q1 05

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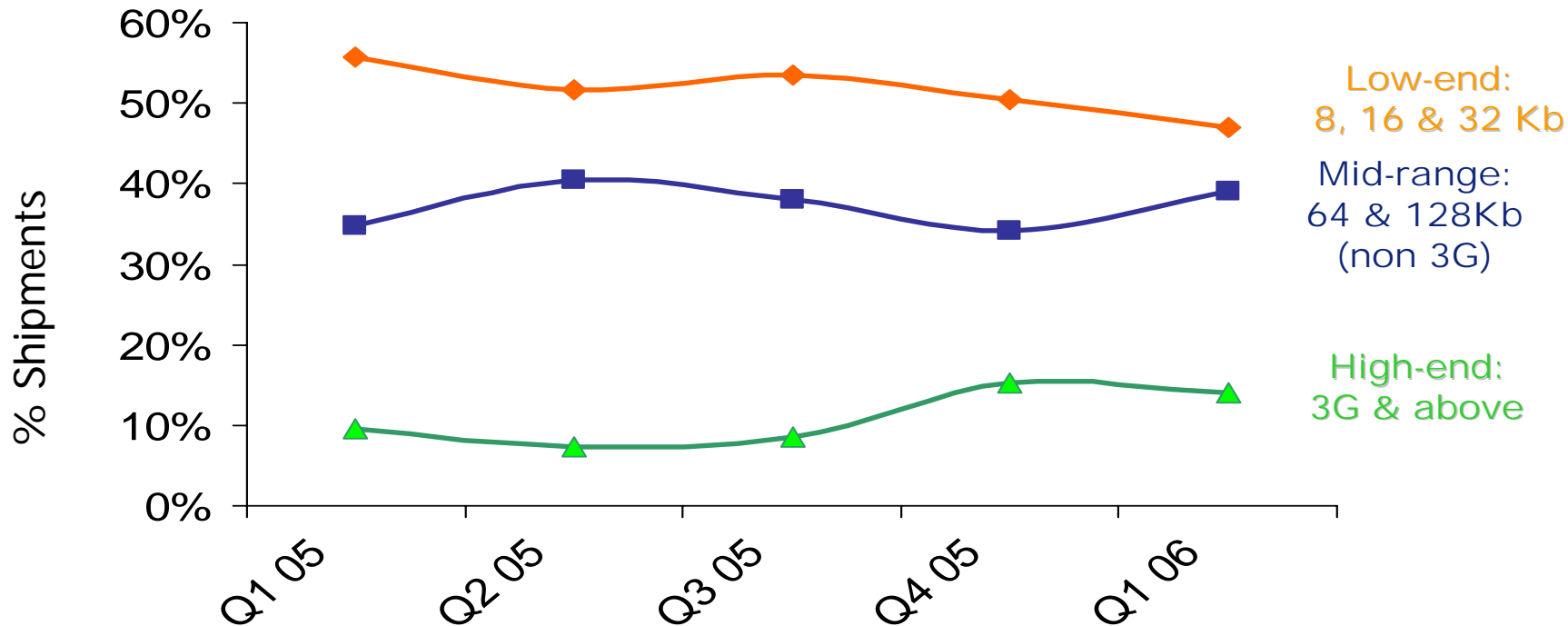


# Q1 06: Wireless

million euros	Q1 2006	Q1 2005	% change
Net sales	<b>134.3</b>	132.7	+1.2 %
Gross profit	<b>50.2</b>	51.1	- 1.8 %
Gross margin	<b>37.4 %</b>	38.6 %	- 1.2 ppt

- Wireless segment environment
  - Steady 3G development going on
  - Strong momentum in the wireless segment, combined with ongoing strong price pressure
  - SIM volume growth estimated above 30% in Q1 06, largely driven by emerging markets
- Q1 06
  - Wireless volume at new highs: 101 Mu (+ 48 % year-on-year)
  - ASP declined 33% (currency adjusted) year-on-year
  - Gross margin under pressure, this quarter, because of product and regional mix
  - Small residual impact of quality issue

# Q1 06: wireless mix



- High end (3G and above): 14 % of volumes in Q1 06 (vs. 10 % in Q1 05)
- 3G and mid-range continue to gain share at the expense of low end products



# Q1 06: Telecom

million euros	Q1 2006	Q1 2005	% change
Net sales	<b>148.4</b>	144.3	+ 2.9 %
Gross profit	<b>52.1</b>	52.3	- 0.4 %
Gross margin	<b>35.1 %</b>	36.3 %	- 1.1 ppt
Operating expenses	<b>(38.3)</b>	(35.8)	+ 7.0 %
Operating income	<b>13.7</b>	16.5	- 16.4 %

- Despite significant volume increase, limited revenue growth due to strong price pressure
- Rebound in phone cards
- Gross margin change reflecting wireless performance & change in business mix
- Operating income impacted by lower gross margin and continuous investments in innovative new products

# Q1 06: Financial Services



million euros	Q1 2006	Q1 2005	% change
Net sales	<b>56.4</b>	37.9	+ 48.6 %
Gross profit	<b>10.5</b>	5.8	+ 80.6 %
Gross margin	<b>18.6 %</b>	15.3 %	+ 3.3 <i>ppts</i>
Operating expenses	<b>(11.4)</b>	(10.4)	+ 9.8 %
Operating loss	<b>(0.9)</b>	(4.6)	<i>n.s.</i>

- **Segment environment**

- EMV\* deployment ongoing
  - Southern Europe roll-outs expanding
  - Roll-outs acceleration in Latin America & Asia-Pacific
- Contactless initiatives in USA and Asia-Pacific

- **Q1 06**

- Best 1st quarter ever: + 48.6 %, driven by EMV\* roll-out (mainly in Latin America, Southern Europe and Japan) and Setec contribution
- Payment microprocessor cards: + 75 % at Mu 22.3
- Operating income close to breakeven

\* EMV: Europay Mastercard Visa

# Q1 06: ID & Security



million euros	Q1 2006	Q1 2005	% change
Net sales	<b>25.6</b>	10.9	+ 134.3%
Gross profit	<b>7.6</b>	3.8	+ 102.1 %
Gross margin	<b>29.8 %</b>	34.6 %	- 4.8 <i>ppts</i>
Operating expenses	<b>(12.1)</b>	(8.2)	+ 47.8 %
Operating loss	<b>(4.4)</b>	(4.4)	<i>n.s.</i>

- Segment environment
  - Increasing number of e-government initiatives (e-passport, ID cards, healthcare, car registration)
- Q1 06
  - Triple digit revenue increase driven by Setec contribution and 26 % organic growth
  - Revenue increase driven by Government ID projects (e-passports & healthcare) as well as Corporate Security projects (mainly USA)
  - Gross margin influenced by product mix and purchase accounting

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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: Creation of a world class leader in digital security

- Dec. 7, 2005: Announcement of the proposed transaction
- Jan. 31, 2006: Axalto extraordinary shareholders meeting approved the merger
- Feb. 28, 2006: Gemplus shareholders meeting approved matters related to the Gemalto transaction
- Transaction cleared by US antitrust Authorities
- European antitrust approval pending
- Following antitrust approvals, launch of the 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	Q1 2006
Net income (loss)	0.9	1.8	-8.1	11.7	7.1	22.6	21.3	40.4	91.4	7.1
Depreciation, Amortization & Impairment	15.2	13.7	15.0	12.8	9.3	9.7	11.0	11.3	41.4	10.6
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	0.3
Reduction of workforce & other exit costs, provision	-0.4	-	8.1	-0.7	-0.6	-0.4	-0.2	-1.7	-3.0	-0.1
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	-22.5
<b>Net cash flow from operating activities excluding non-recurring items</b>	<b>35.2</b>	<b>11.0</b>	<b>14.7</b>	<b>19.5</b>	<b>15.6</b>	<b>27.1</b>	<b>36.6</b>	<b>31.6</b>	<b>111.0</b>	<b>-4.5</b>
Purchase of property, plant and equipment	-4.0	-5.7	-5.6	-7.6	-4.4	-4.5	-8.8	-7.3	-25.1	-8.6
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	0.9
<b>Free cash flow excluding non-recurring items</b>	<b>29.6</b>	<b>5.7</b>	<b>12.2</b>	<b>11.3</b>	<b>11.9</b>	<b>23.7</b>	<b>28.2</b>	<b>21.5</b>	<b>85.3</b>	<b>-12.3</b>
Reduction of workforce & other exit costs, cash outflow	-12.8	-6.2	-2.7	-3.6	-3.1	-5.2	-2.7	-1.9	-12.9	-1.5
Other non-recurring expenses	-22.0	-	-	-6.1	-	23.4	-0.2	-	23.3	-
<b>Free cash flow</b>	<b>-5.1</b>	<b>-0.6</b>	<b>9.5</b>	<b>1.7</b>	<b>8.8</b>	<b>41.9</b>	<b>25.3</b>	<b>19.6</b>	<b>95.7</b>	<b>-13.8</b>
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	-
Disposals	-	-	-	-	-	-	-	-	-	4.6
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	0.9
Effect of exchange rate changes on cash	-	-	1.2	-1.0	0.1	-1.9	2.5	-	0.7	-0.2
<b>Net cash flow</b>	<b>-6.1</b>	<b>-1.4</b>	<b>6.1</b>	<b>-0.8</b>	<b>6.7</b>	<b>-21.6</b>	<b>27.3</b>	<b>17.5</b>	<b>29.9</b>	<b>-8.4</b>
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	418.4
<b>Cash at the end of the period</b>	<b>384.6</b>	<b>383.1</b>	<b>389.2</b>	<b>388.4</b>	<b>395.1</b>	<b>373.5</b>	<b>400.8</b>	<b>418.4</b>	<b>418.4</b>	<b>409.9</b>