



Gemplus

3rd Quarter 2002 Results

Conference Call

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Key Messages

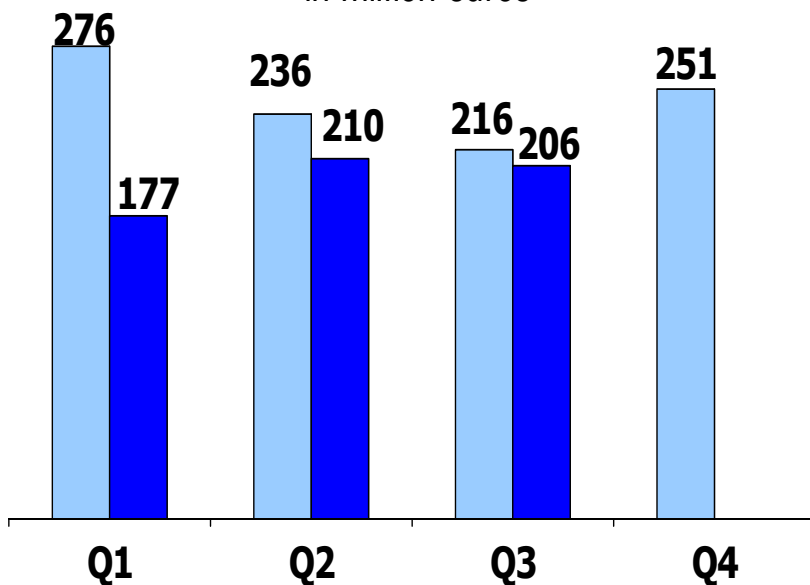
- Q3 revenue down 2.0% sequentially*, down 9.1% year-on-year
- After adjusting for currency fluctuations, discontinued operations and acquisitions, **Q3 revenue is up 0.9% sequentially*, down 0.7% year-on-year**
- **Restructuring benefits on track:** operating loss before restructuring expenses limited at 6.5 million euros for the quarter
- **Cash position almost unchanged at 401 million euros** due to continued focus of working capital management
- **Forward visibility remains poor:** Gemplus will need further adjustments

*Sequentially: comparison Q3 2002 vs Q2 2002

Q3 2002 Revenue**

Quarter to Quarter Revenue

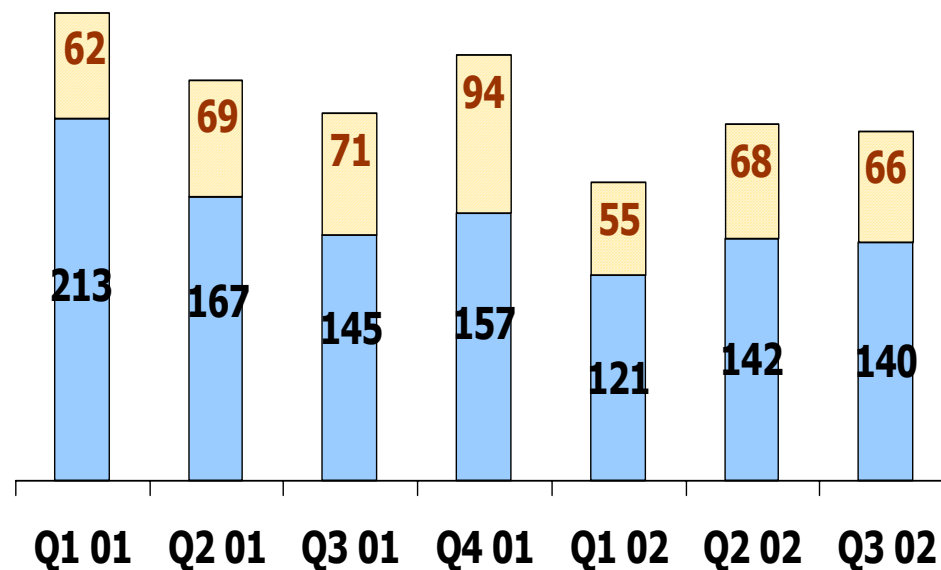
in million euros



■ Revenues 01 ■ Revenues 02

Revenue by Business Unit

in million euros



■ Telecom ■ FSS

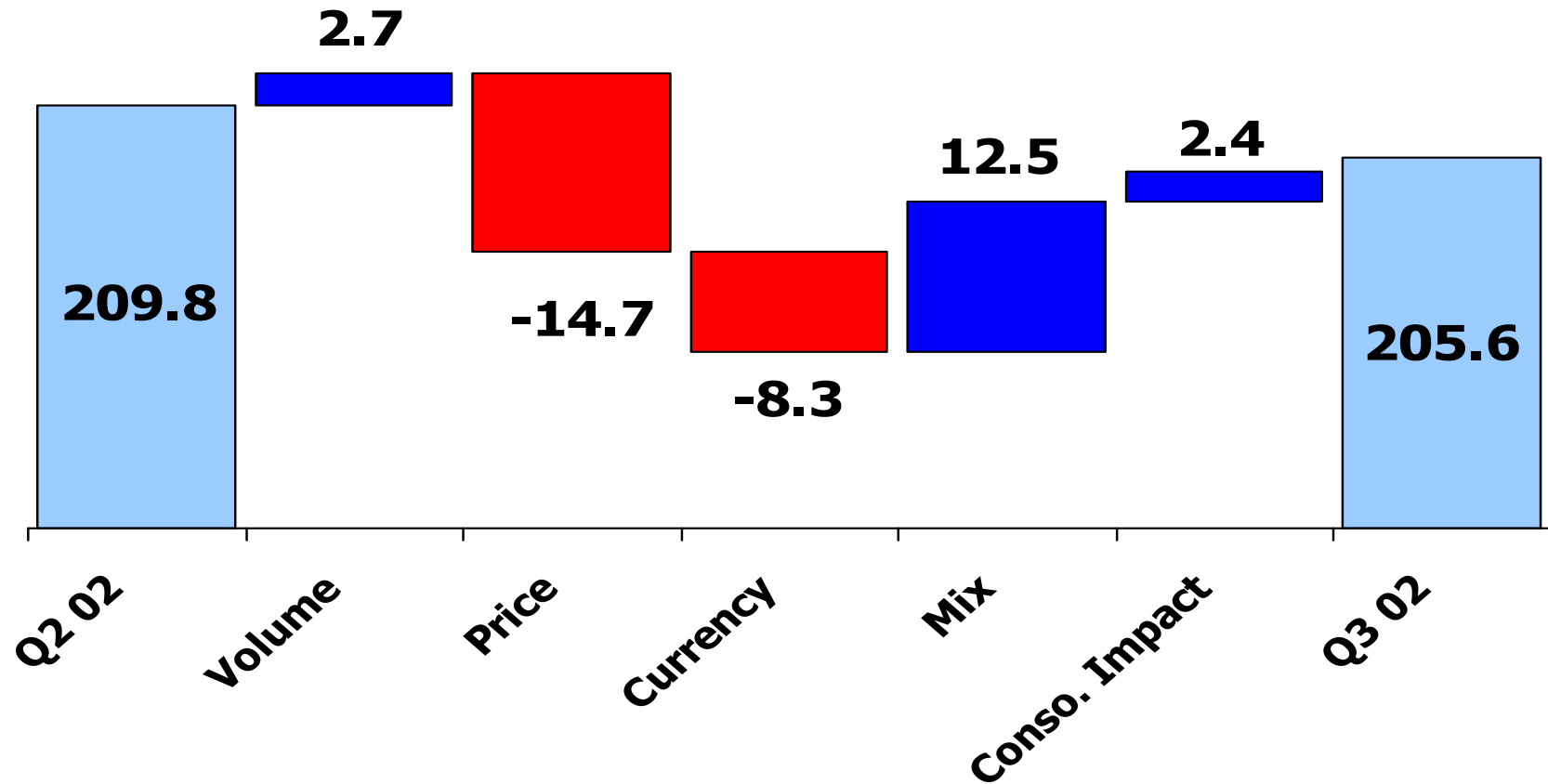
- Q3 02 revenue stabilization (on a year-on-year basis)*
- Contrasted business units performance: Telecom up 1.9% sequentially*, FSS revenue down 1.3% sequentially*
- Expected seasonality weaker than usual

*after adjusting for currency fluctuations, discontinued operations and acquisitions

** Restated for disposals of Tag & Ski Data

Q3 2002 vs Q2 2002 Revenue

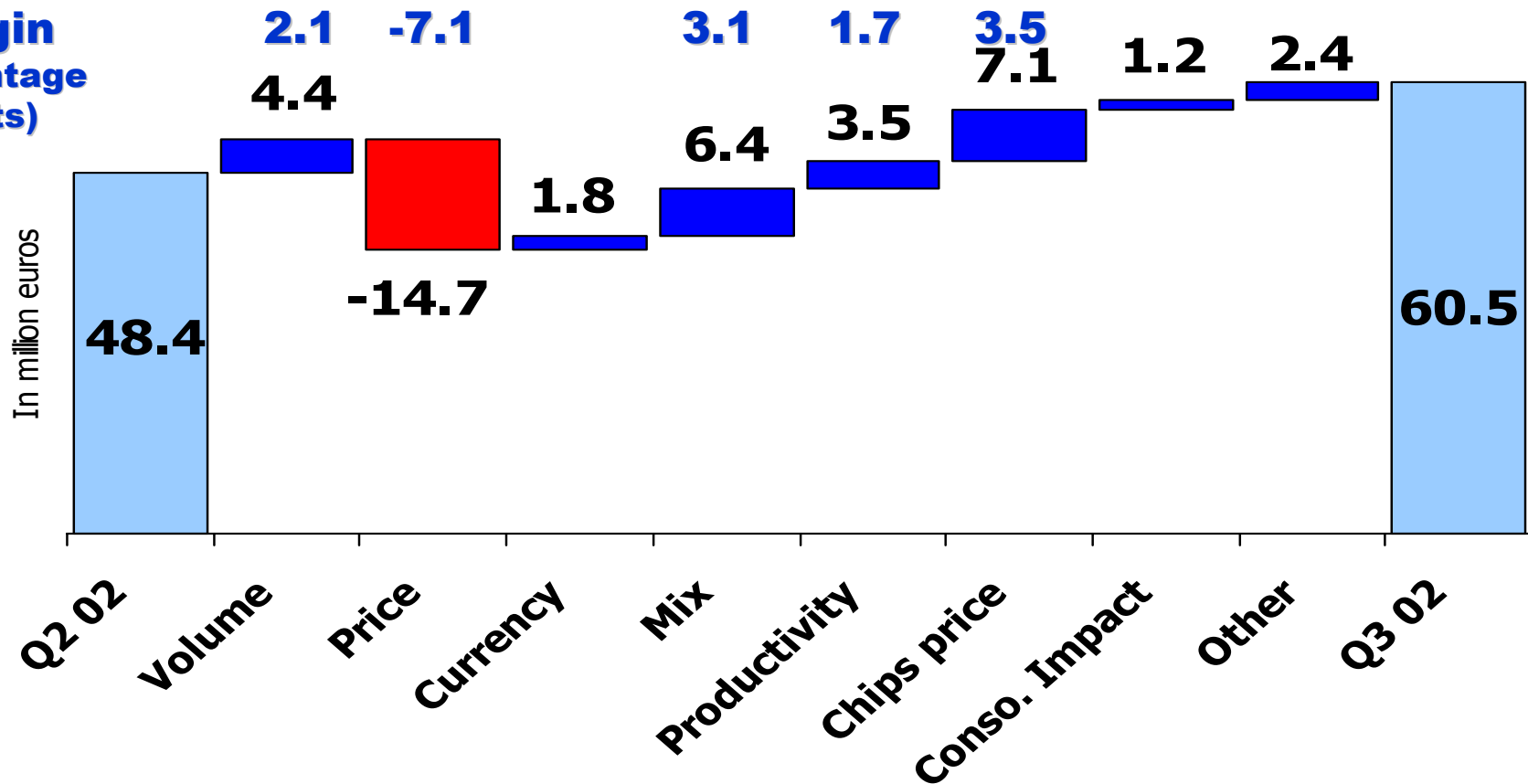
In million euros



- Revenue declined due to price pressure and currency impact

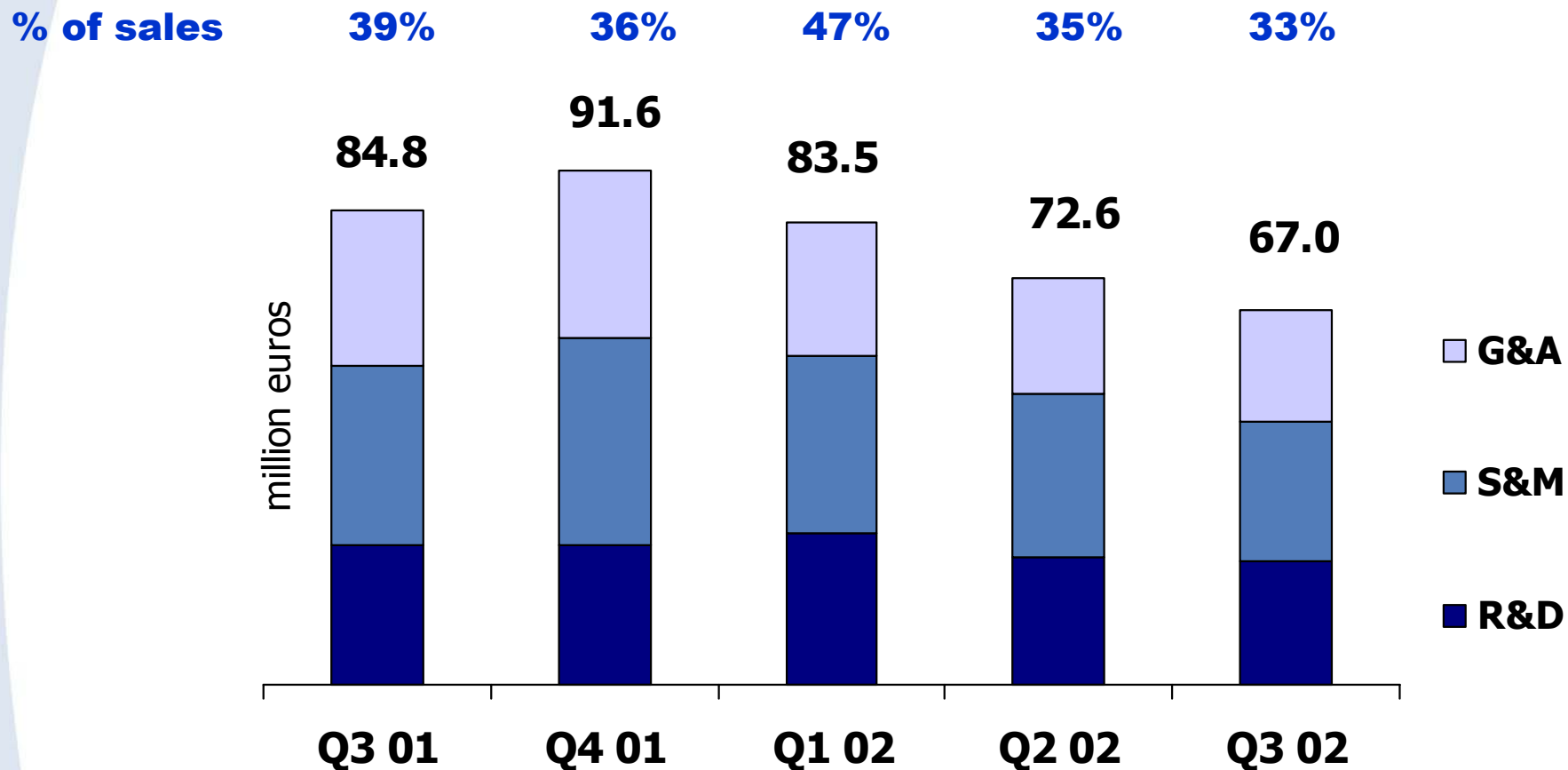
Q3 2002 vs Q2 2002 Gross Profit

**Margin
(Percentage
Points)**



- **Strong price pressure** limiting Gross Profit improvement
- **Chips cost currently at market price**
- **Sales mix (product and region) and volume improvement**, concentrated on Telecom business unit

Operating Expenses Evolution*



- Operating expenses Q3 down 8% sequentially to 67 million euros (down 21% year-on-year)
- All components of operating expenses contributed

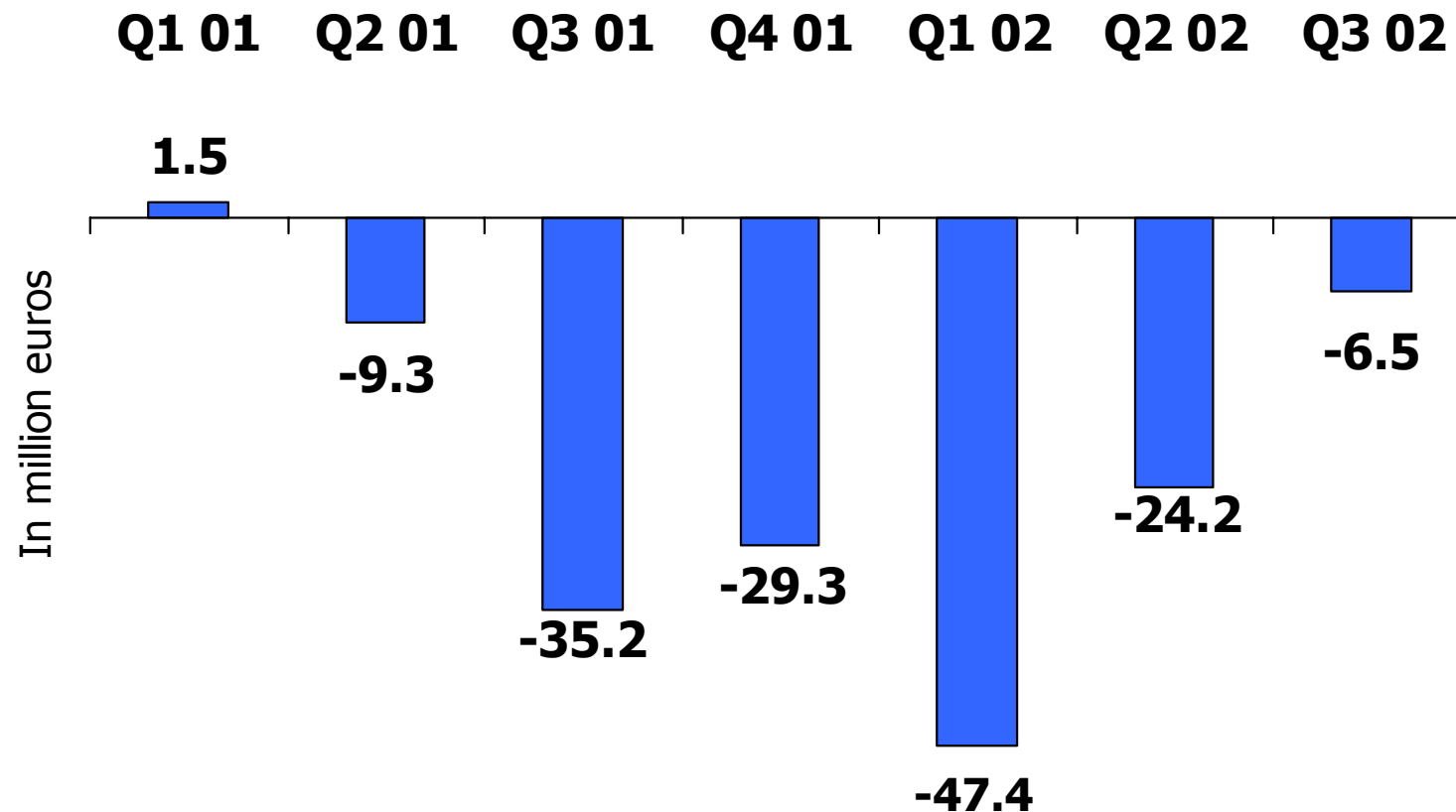
* Restated for disposals of Tag & Ski Data

Restructuring and Cost Cutting Initiatives Update

In million euros	Provision	Cash Costs	Headcount reduction	Annualized Savings	
				Initial Target	Update
June 2001 • Restructuring	28	22	567	40	Completed
February 2002 • Restructuring	71	63	1,140	60	65
• Cost cutting Initiative	-	-	-	40	45

- Feb. 2002 restructuring plan on track to reach target of 1,140 headcount reduction (achieved: 854 at the end of Q3 02, of which 615 at the end of Q2 02)
- Annualized savings target: Restructuring and cost cutting initiative projected at 110 million euros

Operating Profit* Before Exceptional Items



- Price pressure and rapidly changing environment limiting **operating profit** improvement
- **Favorable** impact of restructuring plan

* Restated for disposals of Tag & Ski Data

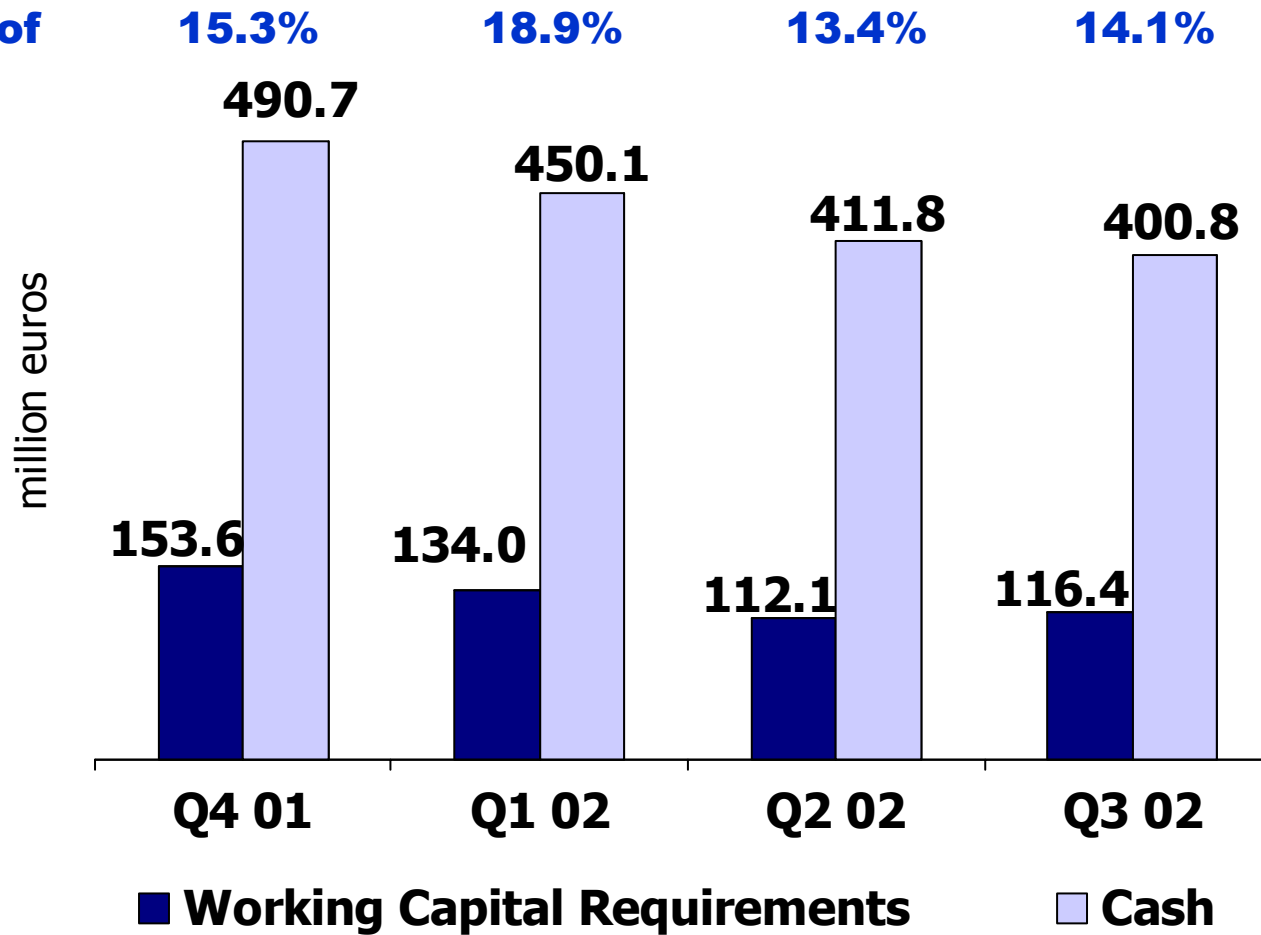
Statement of Income: Other Items

million euros	Q3 02	Q2 02	Q3 01		9M 02	9M 01
Operating Profit	(6.5)	(24.2)	(37.2)		(78.1)	(52.1)
Non recurring exp.	(24.0)	(110.1)	50.2		(153.4)	21.7
Interest, net	2.5	4.6	6.2		12.0	16.3
Other income net	(5.6)	(4.3)	1.7		(15.1)	(13.1)
Income tax	2.3	18.1	(7,7)		31.2	7.7
Goodwill amort.	(7.3)	(7.2)	(6.6)		(20.6)	(21.0)
Net Income (loss)	(38.6)	(123.1)	6.6		(224.1)	(40.4)

- **Non recurring expenses includes:** Tag & Ski Data capital gain, restructuring expenses, litigation expenses, management severance expenses, provision to Dr. Lassus loan, goodwill write-off
- **Other income** includes 3 million euros foreign exchange losses in Q3 02

Cash Position

WCR as % of revenue



- Marginal decline of cash in Q3 vs Q2
- Stabilized Working Capital Requirement

Balance Sheet Items

- **Strong Cash** and Cash Equivalents at **401 million euros**
- **Continuous focus** on working capital requirement:
 - Day Sales Outstanding (DSOs) at 57 days (compared to 53 days in Q2 02 and 63 in Q1 02)
 - Inventories at 78 days (compared to 71 in Q2 02 and 94 in Q1 02)
- **Social plan in France:** restructuring cash expenses spread over a few months
- **No off-balance financing**
- **Off-balance liabilities limited** to those which are deemed necessary to run normal business operations (chip purchase, operating lease commitments and normal guarantees): 90 million euros

Revenue and Gross Profit by Business Unit

million euros	Q3 2002	Q2 2002	Q3 2001*	Sequential Growth	Growth vs Q3 01
Telecom					
Sales	139.9	141.8	145.0	- 1.3%	-3.5%
Gross Profit	45.1	34.6	37.7	+ 30.4%	+19.6%
Gross Margin	32.2%	24.4%	26.0%		
Financial Services & Security					
Sales	65.7	68.0	71,1	- 3.4%	- 7.6%
Gross Profit	15.4	13.8	11.9	+ 11.6%	+29.4%
Gross Margin	23.4%	20.3%	16.7%		

- Stabilizing sales
- Gross profit improvement in each business unit

* Restated for disposals of Tag & Ski Data

Wireless Update

- **Market environment**
 - **Contrasted demand:**
 - Solid in developing countries
 - Lackluster in developed countries
 - **Still substantial price pressure, easing on some products**
 - **Indication of demand shifting progressively toward higher value added products**
- **Gemplus**
 - **Q3 shipment up 5.6%** sequentially to 38 million units (99 m YTD)
 - **Dynamic end-user menu** display equipped SIM cards: 16% of Q3 shipments vs 5% in Q2
 - **America** accounted for 11% of Q3 shipments vs 7% in FY 2001

Finance Services & Security Update

- **Market environment**

- EMV* roll-out delays to 2003 in Western Europe
- Very slow US banking/retail market due to economic conditions
- Highly competitive Asian market with entrance of local card manufacturers and severe price pressure

- **Gemplus:**

- GeldKarte peaking in Q3, should gradually start declining in Q4 02
- No replacement for Target will impact Q4
- US existing customers have slowed down significantly their deployment
- Progress in solutions & services through Oman ID contract signed in October

Third Quarter Highlights

- **Environment remains uncertain**, despite revenue stabilization
- **Improvement in gross margin** in Q3: boosted by lower chips price; further gains from chips price will be marginal
- **Encouraging productivity gains**, but not yet at the required level
- **Operating expenses**: continuous progress
- **Strong** balance sheet
- Environment justifies **caution for Q4**

What are my Initial Findings ?

Strengths:

- A **strong** financial position, with **adequate cash**
- Attractive market **growth opportunities**
- Strong **customer base**
- Basis for a **profitable** card business
- Card linked software technologies will **fuel growth**
- **Improving** cost structure

Concerns:

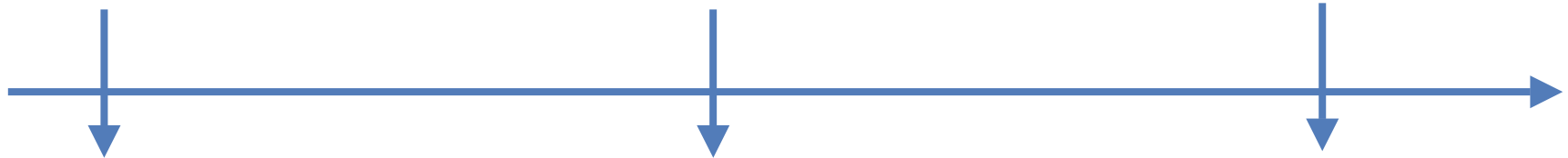
- Business being **commoditized**, leading to **declining** ASPs
- **Overcapacity**
- **Challenging** competitive environment
- **Money losing** position
- **Disappointing** revenue growth
- Organizational effectiveness **impaired** by:
 - **Lack** of continuous leadership for a number of years
 - Board issues
 - **Challenging** market environment

What are the Milestones to Rebuild Gemplus ?

Q4 2002
Strategic and financial review

2003
A year of rebuilding

2004 and beyond



- **Measures to be taken now** to reach reasonable performance level in 2003
 - **Determination of what Gemplus should look like** longer range (i.e. 2005)
 - **Long term growth opportunities**
 - **Interim milestones**
- **Cost competitive**
 - **Strengthen** customer facing capabilities
 - **Strengthen** regions
 - **Rebuild** morale
 - **Focus** product innovation – launch a number of key initiatives
- **Business is:**
 - Attractively **profitable**
 - **Growing** in the low double digit range
 - A **reenergized**, effective, organization
 - A **clear leader** in its industry

Appendix

Recurring Free Cash Flow

In million euros	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002
Net Profit	-7.2	-39.8	6.6	-59.9	-62.5	-123.1	-38.6
Depreciation and Amortization	28.4	36.7	28.2	27.1	25.8	26.6	40.9
Other adj. to reconcile net income to net cash from op. activ.	1.5	-25.0	-55.1	-5.1	-15.8	-11.8	0.7
Provision for reduction of workforce and exit costs	0.0	22.0	0.0	0.0	18.1	39.1	6.3
Provision for litigation expenses	0.0	0.0	18.1	0.0	0.0	0.0	0.0
Provision for management severance expenses	0.0	0.0	0.0	25.7	0.0	0.0	0.0
Provision for a loan to the former Chairman of the Board	0.0	0.0	0.0	0.0	0.0	66.9	0.0
Change in Working Capital Requirements	-71.6	7.4	-17.3	71.8	39.2	-29.3	-0.5
Net cash used in oper. activities excl. non recurring items	-48.9	1.4	-19.5	59.5	4.8	-31.5	8.8
Purchase of property, plant and equipment	-40.3	-31.3	-22.7	-8.3	-12.2	-10.1	-9.7
Other changes in investing activities related to the oper. cycle	-2.5	-12.8	-5.3	-8.8	5.8	-4.4	-0.1
Recurring free cash flow	-91.7	-42.7	-47.6	42.5	-1.6	-46.0	-0.9
Restructuring expenses	0.0	-1.6	-7.4	-6.8	-8.5	-6.8	-7.3
Litigation expenses	0.0	0.0	0.0	0.0	-18.1	0.0	0.0
Management severance expenses	0.0	0.0	0.0	0.0	-10.5	-0.1	0.0
Free cash flow	-91.7	-44.3	-55.0	35.7	-38.8	-53.0	-8.2
Acquisitions	-21.8	-14.1	118.5	-15.9	-1.1	-11.1	-1.7
Net cash provided by financing activities	-5.1	-1.9	-7.2	-20.5	2.1	0.5	1.5
Effect of exchange rate changes of cash	-12.8	-14.7	16.6	-11.5	-2.8	25.3	-2.6
Net cash flow	-131.4	-75.0	72.9	-12.1	-40.6	-38.3	-11.0
Cash at the beginning of the period	636.3	504.9	429.9	502.8	490.7	450.1	411.8
Cash at the end of the period	504.9	429.9	502.8	490.7	450.1	411.8	400.8