



# Gemplus 2<sup>nd</sup> Quarter 2003 Results Presentation

**Presenters:**    **Alex Mandl**  
                          **Yves Guillaumot**

**President & CEO**  
**Executive Vice-President CFO**

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# Agenda

- **Introduction**
- Q2 2003 Financial Presentation
- 2003 Outlook

# Gemplus: a reminder of our strategy

- Run an efficient commodity business
- Get closer to our customers
- Differentiate on value
- Excellence in execution

# The SIM card: the only operator-controlled element of the handset

- Strategic and operational benefits:
  - Capturing lost revenues in connection with roaming and fraud
  - Assisting migration from 2G>2.5G>3G
  - Deliver new services to keep interest, educate and encourage usage
  - Strengthening brand differentiation against handset manufacturers
  - Driving key performance indicators such as usage, ARPU, loyalty, margins, CRM, cash generation

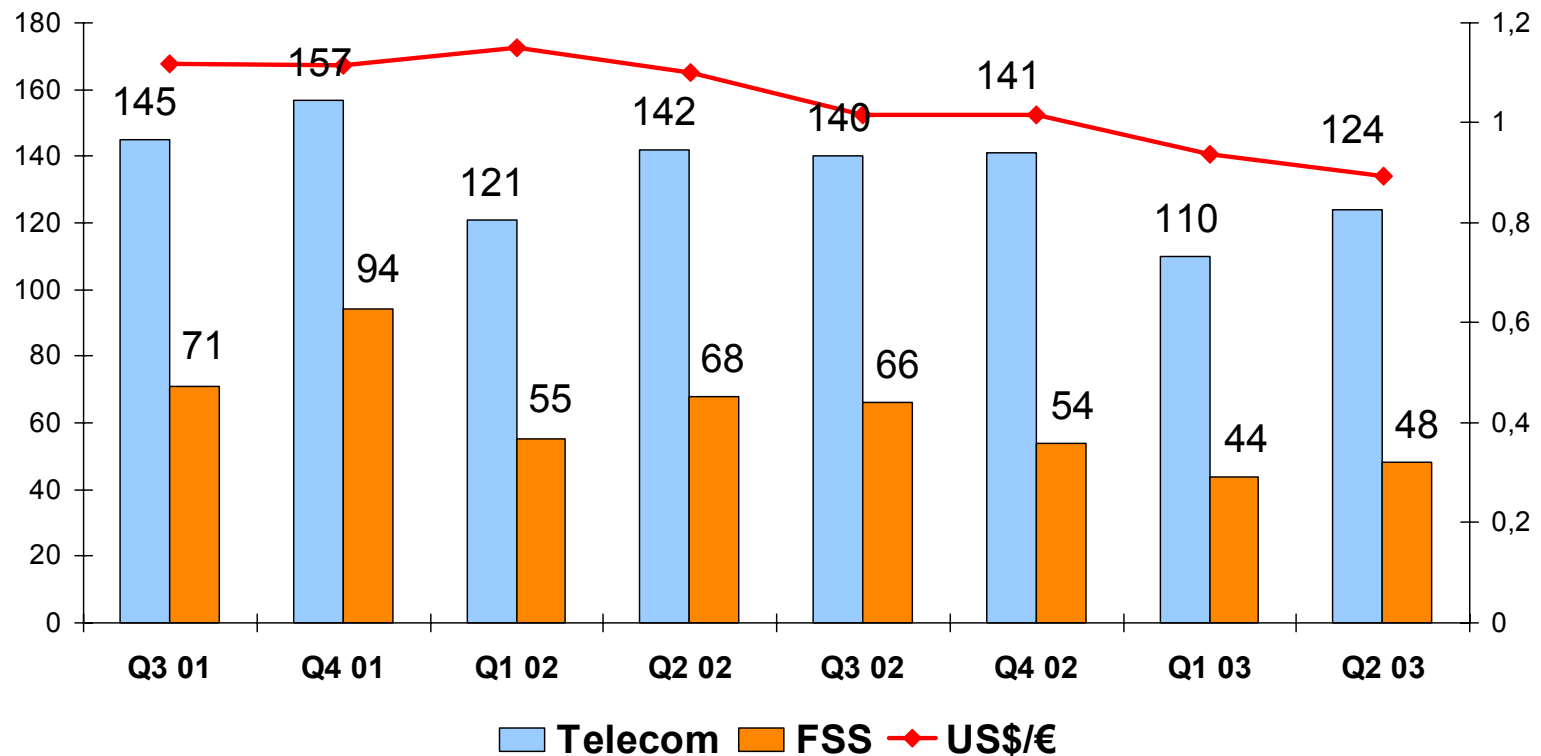
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- Introduction
- **Q2 2003 Financial Presentation**
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# 2<sup>nd</sup> Quarter 2003 Highlights

- **Group revenue up 16.0 %** quarter-on-quarter\* to € 172.4 m, reflecting:
  - Solid revenue growth in Wireless cards
  - Breakthrough in the U.S. SIM cards market
  - EMV migration ramp-up
  - Adverse currency fluctuations
- Gross margin **improved 3.3** pts to **27.7 %**
- Operating expenses run rate cut by 5.5 %
- Operating loss before restructuring nearly halved to € 13.9 m
- Net loss: € 82.4 m, including € 65.7 m of non-recurring items
- Free cash flow before restructuring almost neutral: - € 5.5 m
- **Cash nearly stable at € 406.2 m**

# Revenue by Business Unit (2 Years Rolling)

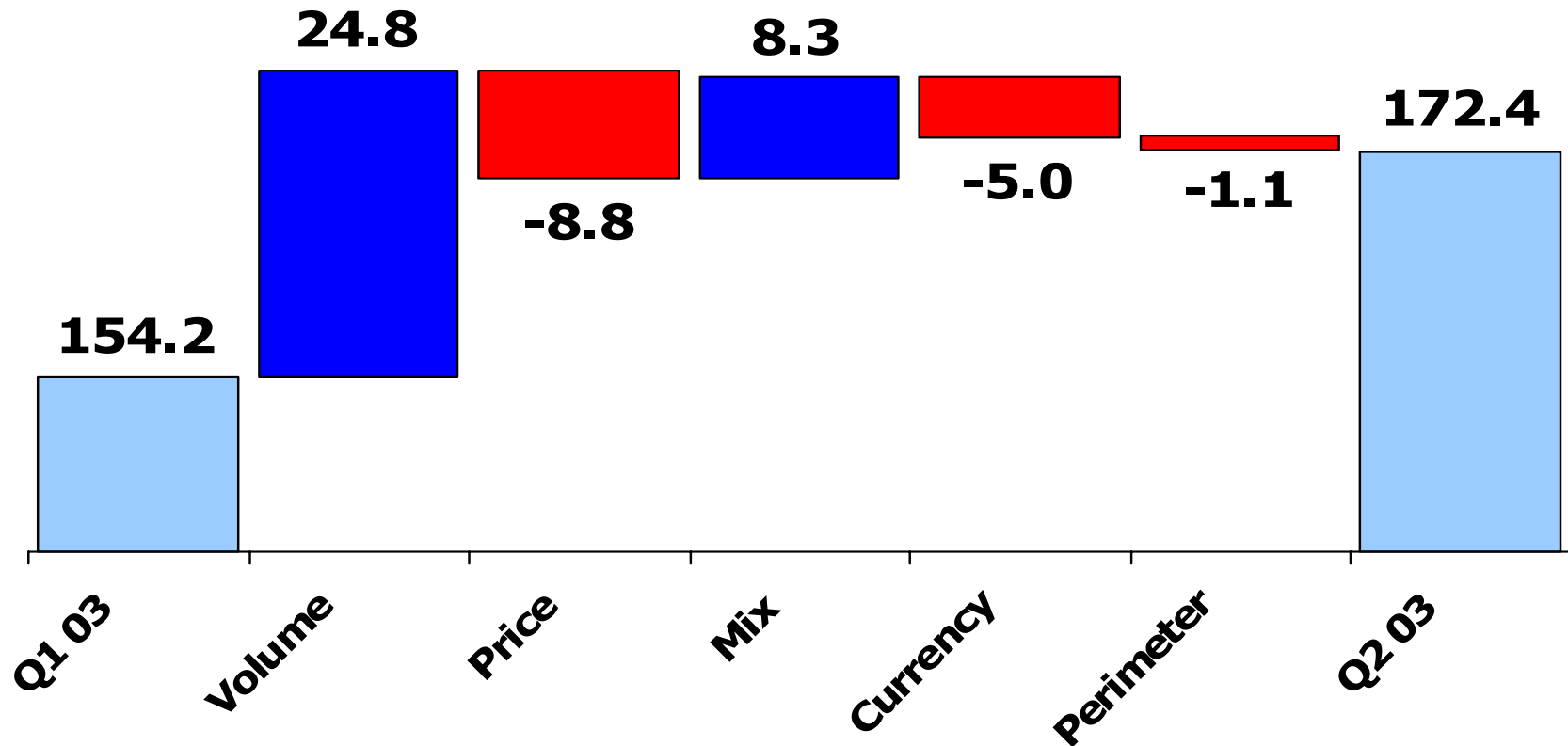


- **Revenue reflects impact of currency fluctuations**
- **Year-on-year change\*** : Group revenue down 8.1 %
  - Telecom down 1.1 % (vs. -1.8 % in Q1 03), **Wireless cards up 8.6 %** (vs. 4.8 % in Q1 03)
  - FSS down 22.6 %
- **Quarter-on-quarter change\*** : Group revenue up 16.0 %, **reflecting volume increase**
  - Telecom up 17.9 %,
  - FSS up 11.4 %

\* After adjusting for currency fluctuations, discontinued operations and acquisitions

# Q2 2003 vs. Q1 2003 Revenue

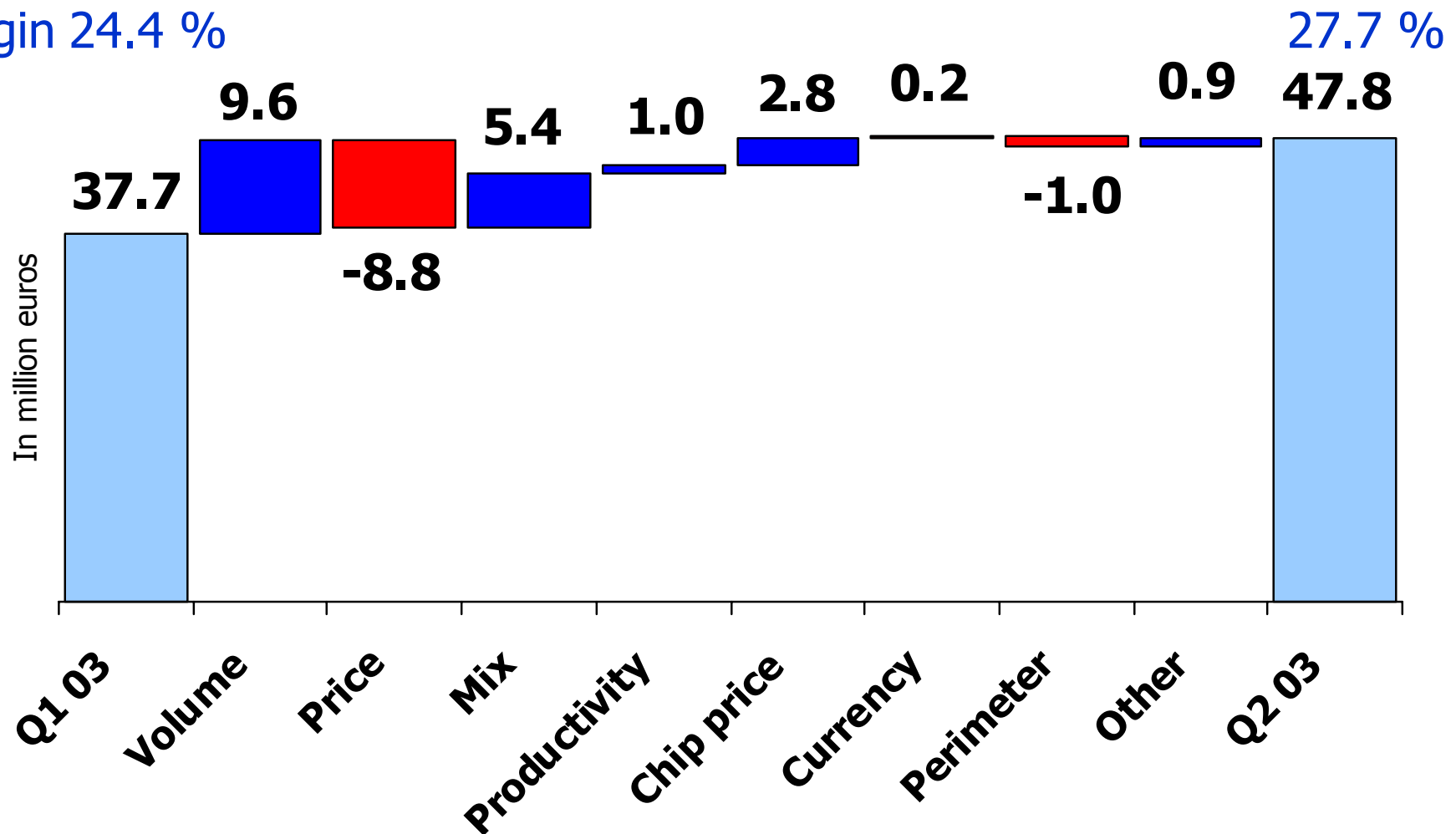
In million euros



- **Volume growth mainly in Wireless cards**, solid improvement in EMV, underpinned by favorable seasonality for GeldKarte
- **Wireless mix improvement fully compensated selling price pressure**
- Negative currency impact

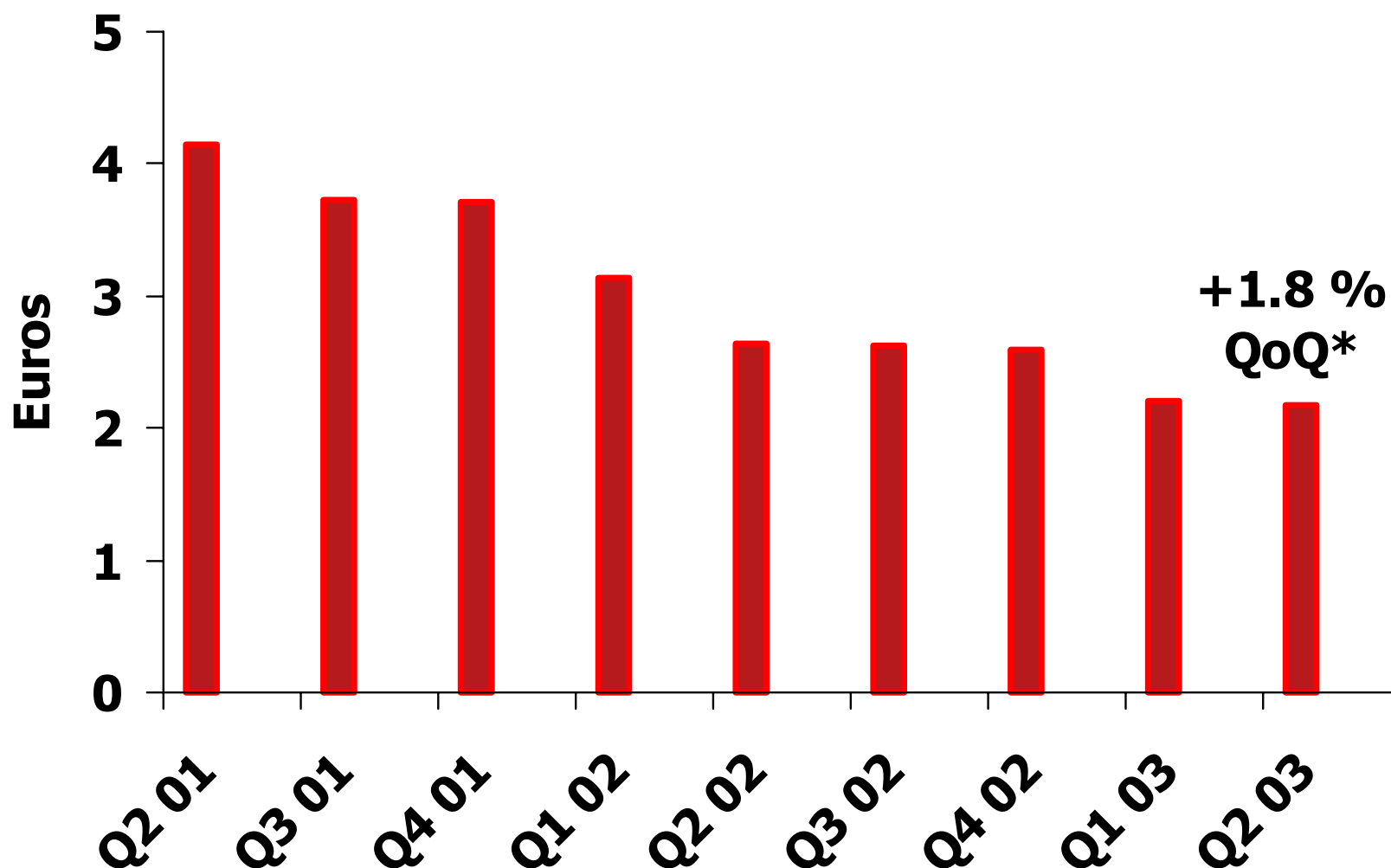
# Q2 2003 vs. Q1 2003 Gross Profit

Margin 24.4 %



- **Strong volume impact, driven by North America**
- Wireless mix improvement in particular **helped compensate for pricing pressure**
- Manufacturing productivity partially affected by a strike in France
- Hedging neutralizing currency impact

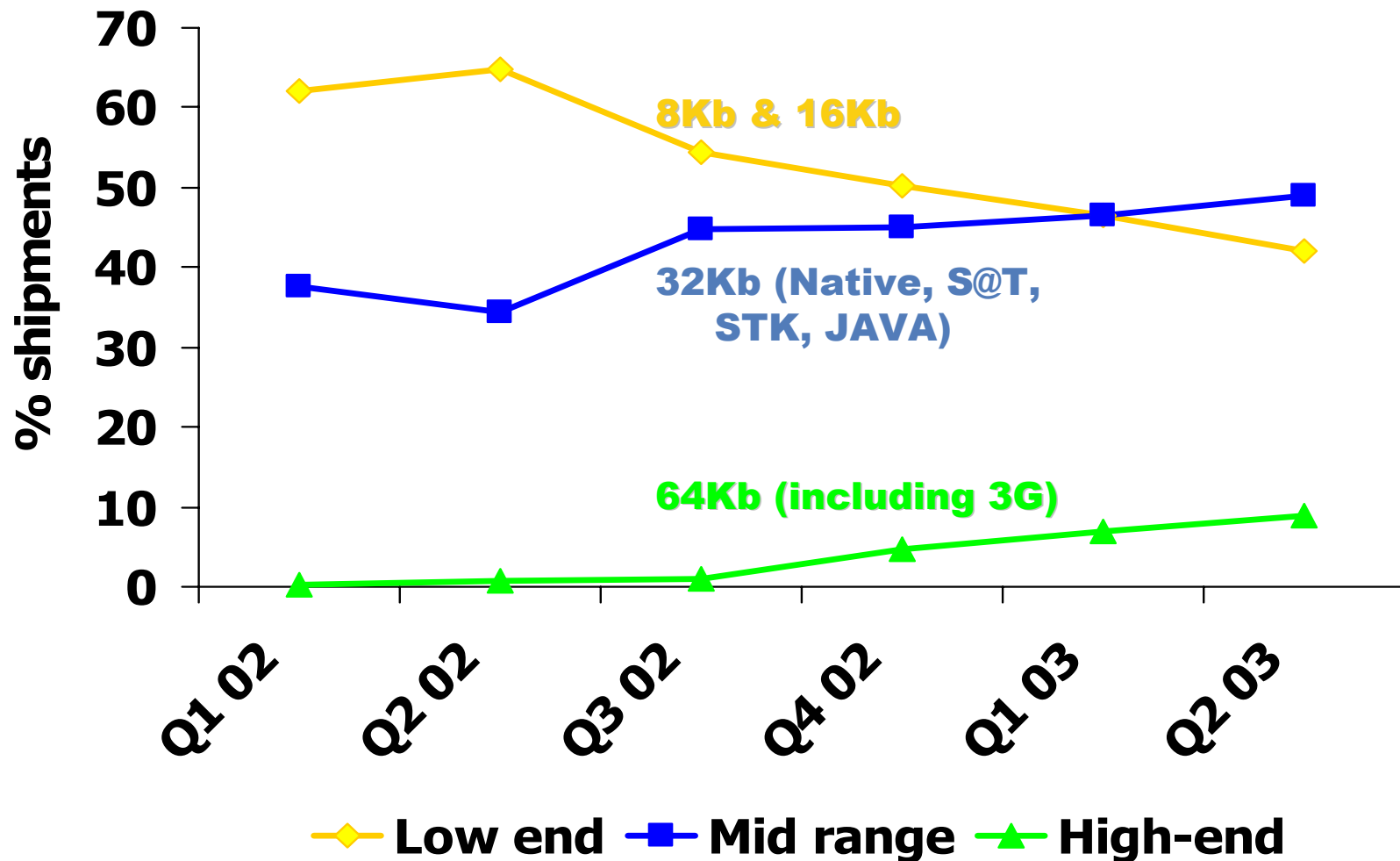
# Wireless Cards ASP: price pressure compensated by improved mix



- **ASP up 1.8 % currency adjusted**, down 1.8 % at current exchange rate
- Favorable regional and product mix improvement **offset selling price pressure**

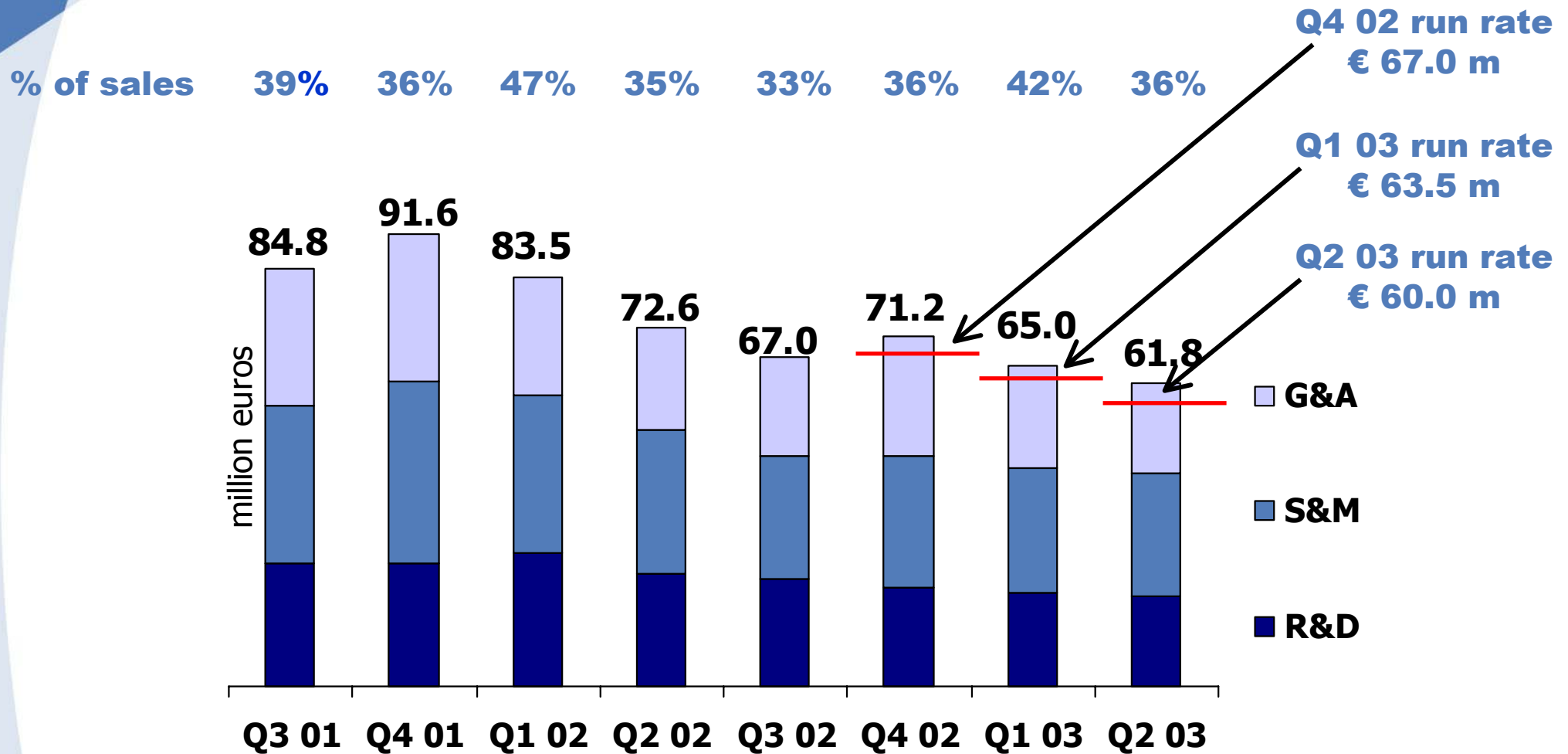
\* After adjusting for currency fluctuations

# Steady Migration to High-End Products



- High-end products (64Kb) accounted for 9.0 % of the shipments in Q2 03 (6.7 % in Q1 03)
- 3G is ramping up
- JAVA cards represents 9.6 % of Q2 03 shipments

# Reduction in Operating Expenses\*



- Q2 Operating expenses **down 5.0 %** quarter-on-quarter
- Operating expenses run rate **lowered further** : down 5.5 % sequentially

\* Restated for disposals of Tag & Ski Data, litigation and management severance expenses

# Restructuring and Cost Cutting Initiatives Update

In million euros	Provision	Cash Costs	Headcount reduction target	Annualized Savings	
				Initial Target	Update Q2 03
<b><u>2002 Plan</u></b>					
• Restructuring	81	67	1,140	60	65
• Cost cutting Initiative	-	-	-	40	45
<b><u>2003 Plan</u></b>					
• Restructuring	82	68	1,094	52	-
• Cost cutting Initiative	-	-	-	48	-

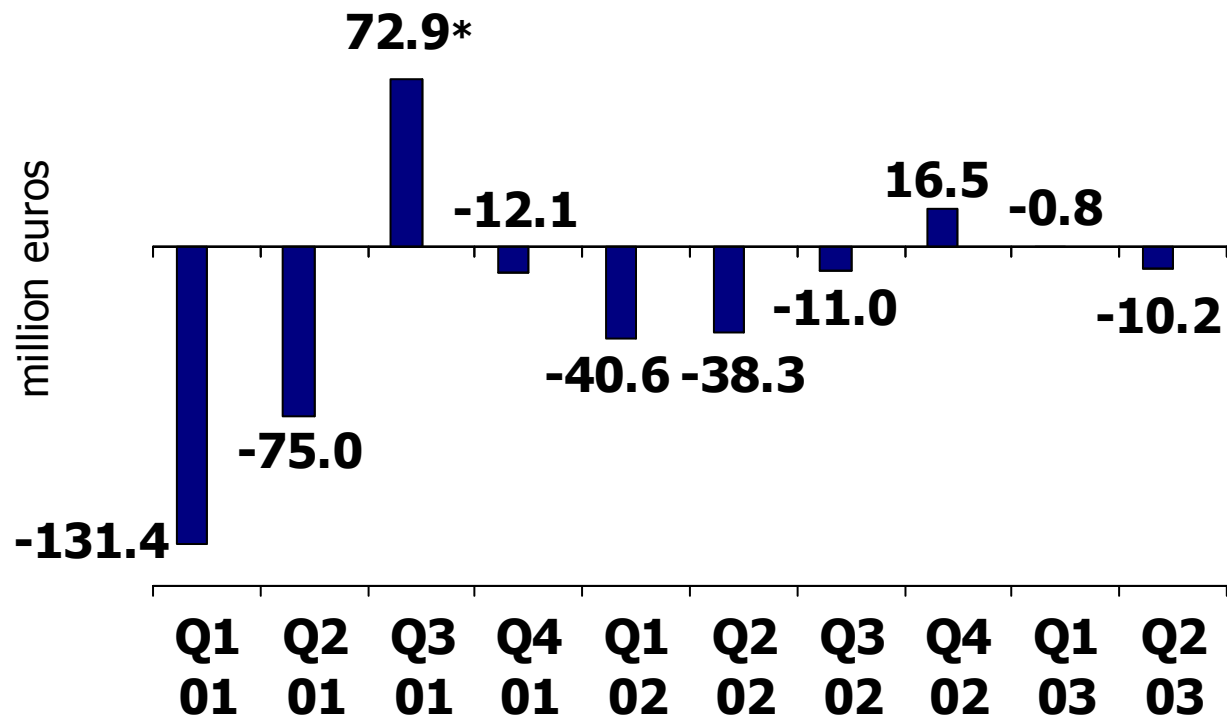
- **2002 Plan** and cost cutting initiative is **completed** :
  - **1,161** job cuts completed at the end of Q2 03 (1,156 at the end of Q1 03)
- **2003 Plan** on target to **lower breakeven** point to € 180 m revenue per quarter, by the end of H1 2004
  - In Q2, implementation of legal process in European countries
  - Majority of job cuts should take place in Q3 and Q4 03

# Statement of Income: Other Items

Million euros	<b>Q2 03</b>	Q1 03	Q2 02
<b>Revenue</b>	<b>172.4</b>	154.2	209.8
<b>Operating result</b>	<b>(13.9)</b>	(27.3)	(24.2)
Non recurring items	<b>(65.7)</b>	(3.2)	(110.1)
Interests, net	<b>2.8</b>	2.5	4.7
Other income net	<b>0.2</b>	(3.6)	(4.4)
Income tax	<b>(1.7)</b>	(1.1)	18.1
Goodwill amortization	<b>(4.1)</b>	(5.1)	(7.2)
<b>Net Income (loss)</b>	<b>(82.4)</b>	(37.9)	(123.1)

- Non recurring items ( € 65.7 m of which 39 % is non-cash) include:
  - € 42.3 m of restructuring expense
  - € 19.9 m goodwill write down following impairment test
  - € 3.5 m equity investments write down

# Net cash flow

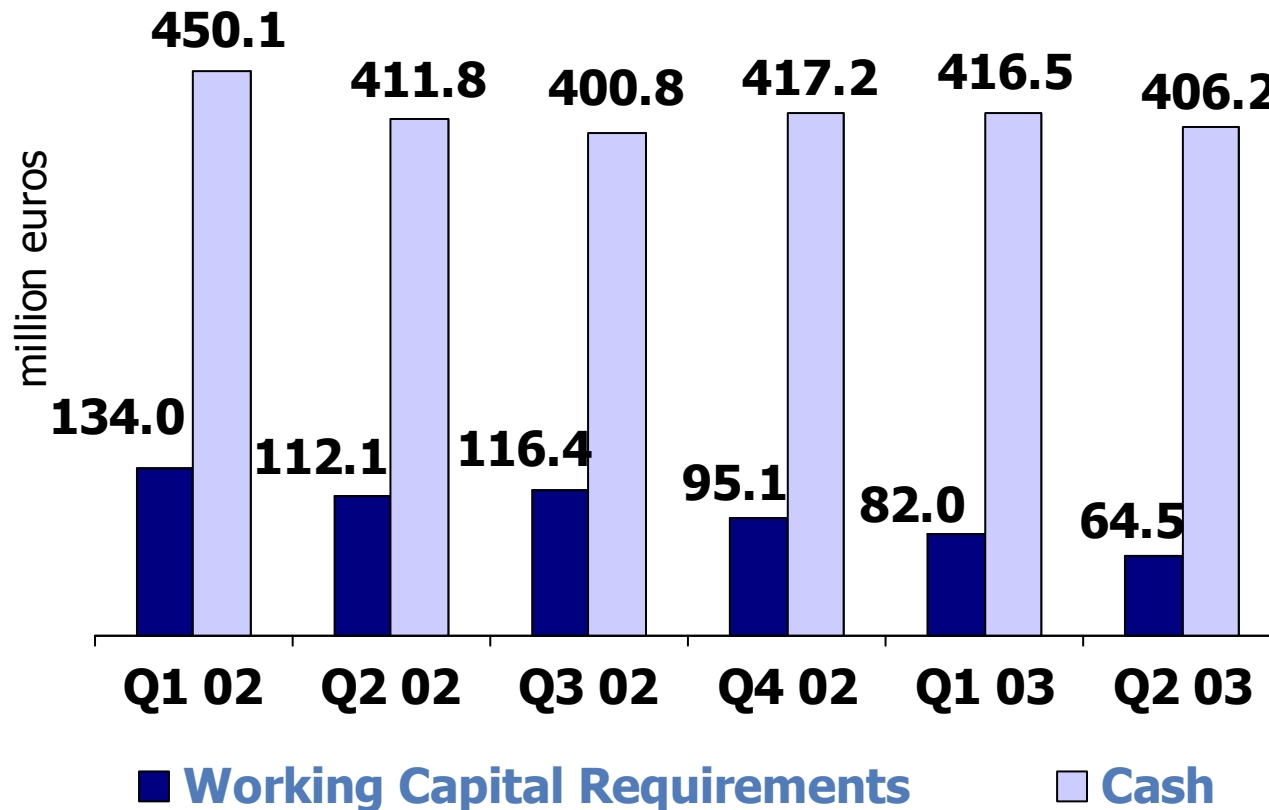


- Net cash flow reflects € 12.3 m cash outlay related to restructuring
- WCR increase (excluding restructuring) contained at € 7.3 m despite revenue growth

\* Including proceeds from disposal of Tag and Skidata (€ 118.5m)

# Strong balance sheet

**WCR as % of revenue**    18.9%    13.4%    14.1%    12.2%    13.3%    9.3%

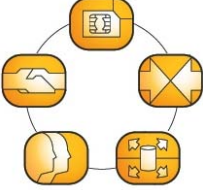


- **Cash has been fairly stable for four quarters in a row**
- Working Capital Requirement continues to show good trend in particular DSO remains very satisfactory (54 days vs. 58 days in Q1 03 and 53 days in Q2 02)

# Revenue and Gross Profit by Business Unit

million euros	Q2 2003	Q1 2003	Quarter- on-quarter Change	Q2 2002	Year-on- year Change
<b>Telecom</b>					
Sales	<b>124.2</b>	109.7	<i>+13.2 %</i>	141.8	<i>-12.4 %</i>
Gross Profit	<b>38.6</b>	30.9	<i>+25.2 %</i>	34.6	<i>+11.6 %</i>
Gross Margin	<b>31.1 %</b>	28.1 %	-	24.4 %	-
<b>Financial Services &amp; Security</b>					
Sales	<b>48.2</b>	44.5	<i>+8.2 %</i>	68.0	<i>-29.2 %</i>
Gross Profit	<b>9.2</b>	6.8	<i>+36.3 %</i>	13.8	<i>-33.0 %</i>
Gross Margin	<b>19.2 %</b>	15.2 %	-	20.3 %	-

# Q2 2003: Telecom Update



- **Market environment**

- Market volume growth is sustained
- Chinese market very strong, but growing inventory concerns remain
- Encouraging signs of migration to SIM in the U.S.
- Operators' procurement strategies dominated by need to improve internal performance, manage debt and generate cash

- **Gemplus**

- Q2 wireless cards revenue up (8.6 %) year-on-year, after adjusting for currency fluctuations
- Leading position in the rapidly growing U.S. SIM card market: Gemplus key supplier to 3 out of 4 major mobile operators migrating to SIM-based technology
- Shipments to Japan up 361 % quarter-on-quarter, boosted by 3G sales to NTT DoCoMo.
- Product mix improving: high-end products (64Kb) now account for 9 % of sales and Java continues to ramp up

# Q2 2003: Financial Services & Security Update

- **Market environment**

- EMV roll-out ramped up in Q2; greater momentum expected in H2 2003
- Corporate security and government ID market worldwide showing attractive long term potential

- **Gemplus**

- Top line sequential growth driven by GeldKarte favourable seasonality
- EMV shipments nearly doubled quarter on quarter
- Banking / Retail micro cards and contactless shipments up 54 % sequentially
- Government ID and corporate security: delivery of Oman contract is progressing; UAE contract signed

# Q2 2003 Highlights : Summary

- Strong increase in volumes
- Recovery in Telecom :
  - Wireless card revenue up 8.6 % year-on-year\*
  - Breakthrough in the U.S. (shipments up 180 % sequentially)
  - Improving mix driven by Europe and Americas
  - 3G emerging
- EMV migration accelerating
- Cost reduction on track
- Strong balance sheet

\* After adjusting for currency fluctuations, discontinued operations and acquisitions

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- Introduction
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- **2003 Outlook**

# FY 2003 Outlook: Continued progress toward turnaround planned objectives

- Telecom:
  - Further improvement outlook in Wireless market
  - Chinese market is very strong, but inventory build-up is a growing concern; sustained U.S. wireless demand
  - Proportion of higher value products continues to increase
- Financial Services & Security prospects mixed
  - Slow EMV migration, although UK gathering pace
  - Corporate security and government ID present long term opportunities
- Weak US Dollar remains likely to continue to impact revenue

# Appendix

# Free Cash Flow

Millions of euros	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
Net income (loss)	6,6	-59,9	-62,5	-123,1	-38,6	-96,8	-37,9	-82,4
Depreciation & Amortization	28,2	27,1	25,8	26,6	40,9	40,1	20,4	39,6
Other adjustments to reconcile net income (loss) to net cash from operating activities	-55,1	-5,1	-15,8	-11,8	0,7	2,0	-0,9	7,4
Reduction of workforce and other exit costs, provision	0,0	0,0	18,1	39,1	6,3	5,7	3,2	39,8
Provision for other non-recurring items	18,1	25,7	0,0	66,9	0,0	42,0	0,0	0,0
<b>Gross cash flow excluding non-recurring items</b>	<b>-2,2</b>	<b>-12,3</b>	<b>-34,4</b>	<b>-2,3</b>	<b>9,3</b>	<b>-7,0</b>	<b>-15,3</b>	<b>4,4</b>
Change in working capital requirement	-17,3	71,8	39,2	-29,3	-0,5	24,1	30,7	-7,3
<b>Net cash used in operating activities excluding non-recurring items</b>	<b>-19,5</b>	<b>59,5</b>	<b>4,8</b>	<b>-31,5</b>	<b>8,8</b>	<b>17,1</b>	<b>15,4</b>	<b>-2,8</b>
Purchase of property, plant and equipment	-22,7	-8,3	-12,2	-10,1	-9,7	-1,4	-2,7	-2,6
Other changes in investing activities related to the operating cycle	-5,3	-8,8	5,8	-4,4	-0,1	-1,8	-1,2	-0,1
<b>Free cash flow excluding non-recurring items</b>	<b>-47,6</b>	<b>42,5</b>	<b>-1,6</b>	<b>-46,0</b>	<b>-0,9</b>	<b>13,9</b>	<b>11,5</b>	<b>-5,5</b>
Reduction of workforce and other exit costs, cash outflow	-7,4	-6,8	-8,5	-6,8	-7,3	-10,5	-16,2	-12,3
Other non-recurring expenses	0,0	0,0	-28,6	-0,1	0,0	0,0	0,0	0,0
<b>Free cash flow</b>	<b>-55,0</b>	<b>35,7</b>	<b>-38,8</b>	<b>-53,0</b>	<b>-8,2</b>	<b>3,4</b>	<b>-4,7</b>	<b>-17,9</b>
Sale of property, plant and equipment	0,0	0,0	0,0	0,0	0,0	1,4	0,0	0,0
Acquisitions	118,5	-15,9	-1,1	-11,1	-1,7	-0,8	-0,7	0,0
Net cash provided by (used in) financing activities	-7,2	-20,5	2,1	0,5	1,5	-0,3	0,2	-1,5
Effect of exchange rate changes on cash	16,6	-11,5	-2,8	25,3	-2,6	12,8	4,4	9,2
<b>Net cash flow</b>	<b>72,9</b>	<b>-12,1</b>	<b>-40,6</b>	<b>-38,3</b>	<b>-11,0</b>	<b>16,5</b>	<b>-0,8</b>	<b>-10,2</b>
Cash at the beginning of the period	429,9	502,8	490,7	450,1	411,8	400,8	417,2	416,5
<b>Cash at the end of the period</b>	<b>502,8</b>	<b>490,7</b>	<b>450,1</b>	<b>411,8</b>	<b>400,8</b>	<b>417,2</b>	<b>416,5</b>	<b>406,2</b>