



# Gemplus

## 4<sup>th</sup> Quarter & FY 2003

### Results Presentation

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# Agenda

- **Overview**
- Q4 & FY 2003 Financials
- Business Highlights
- FY 2004 Outlook

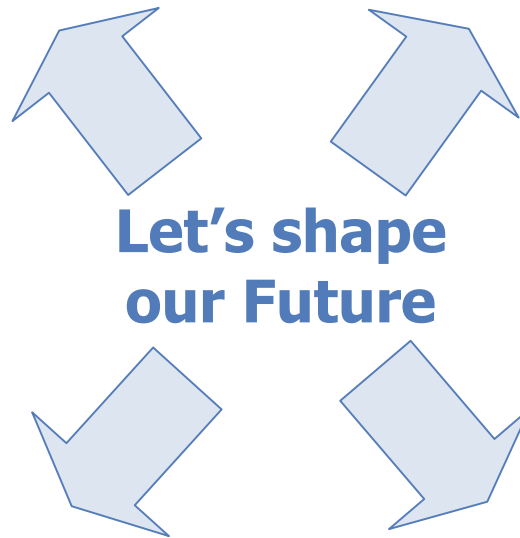
# A Reminder of the Strategy: Building for Growth

## **“Run an efficient *Commodity Business*”**

- Restore profitability
- Improve efficiency
- Gain market share

## **“Get closer to our Customers”**

- Empower regional structures
- Reengineer sales
- Develop partnership
- Improve communication



## **“Differentiate on Value”**

- Develop Operated Services
- Develop new segments
- Build value by leveraging R&D expertise
- Enable incubation of new businesses

## **“Excellence in execution”**

- Build efficient organization
- Restore accountability
- Meet or exceed our targets
- Track customers, employees and shareholders satisfaction

# 2003: a year of transition, laying the foundation for future profitable growth

- **Put company wide reorganization in place**
  - *Strengthen capabilities in the Regions*
  - *Integrate all operational parts of the business*
  - *Improve R&D productivity*
  - *Encourage the development of new initiatives in a stand-alone organizational frame work*
- **Strengthening of the senior management team**
- **Significant progress around rebuilding employees moral and strengthening their support**

# 2003: a year of transition, laying the foundation for future profitable growth

- **Development of a business strategy**

- *Strategy framework segmented into objectives and actions to drive*
- *Prioritized initiatives, investments and change requirements*

- **Implementation of a cost reduction program**

- *Consistent with objectives and time frames*
- *Residual elements will be completed during 04*

- **Renewed and strengthened customer relations at the most senior levels with a number of the Company's largest accounts**

# 2003: a year of transition, laying the foundation for future profitable growth

- **Financial results consistently improved over the last four quarters**
  - *Q4 operating profit before restructuring up to 5.2 M€*
- **Successful positioning of the SIM with key customers as a strategic tool**
  - *Deliver new services to keep interest, educate and encourage usage*
- **Sub-optimal performance in FSS has been addressed by:**
  - *Separating the business unit in two customer-focused segments (Banking, Retail, Transport & ID, Security & Smart Card interface)*
  - *Establishing new leadership teams for these two segments*

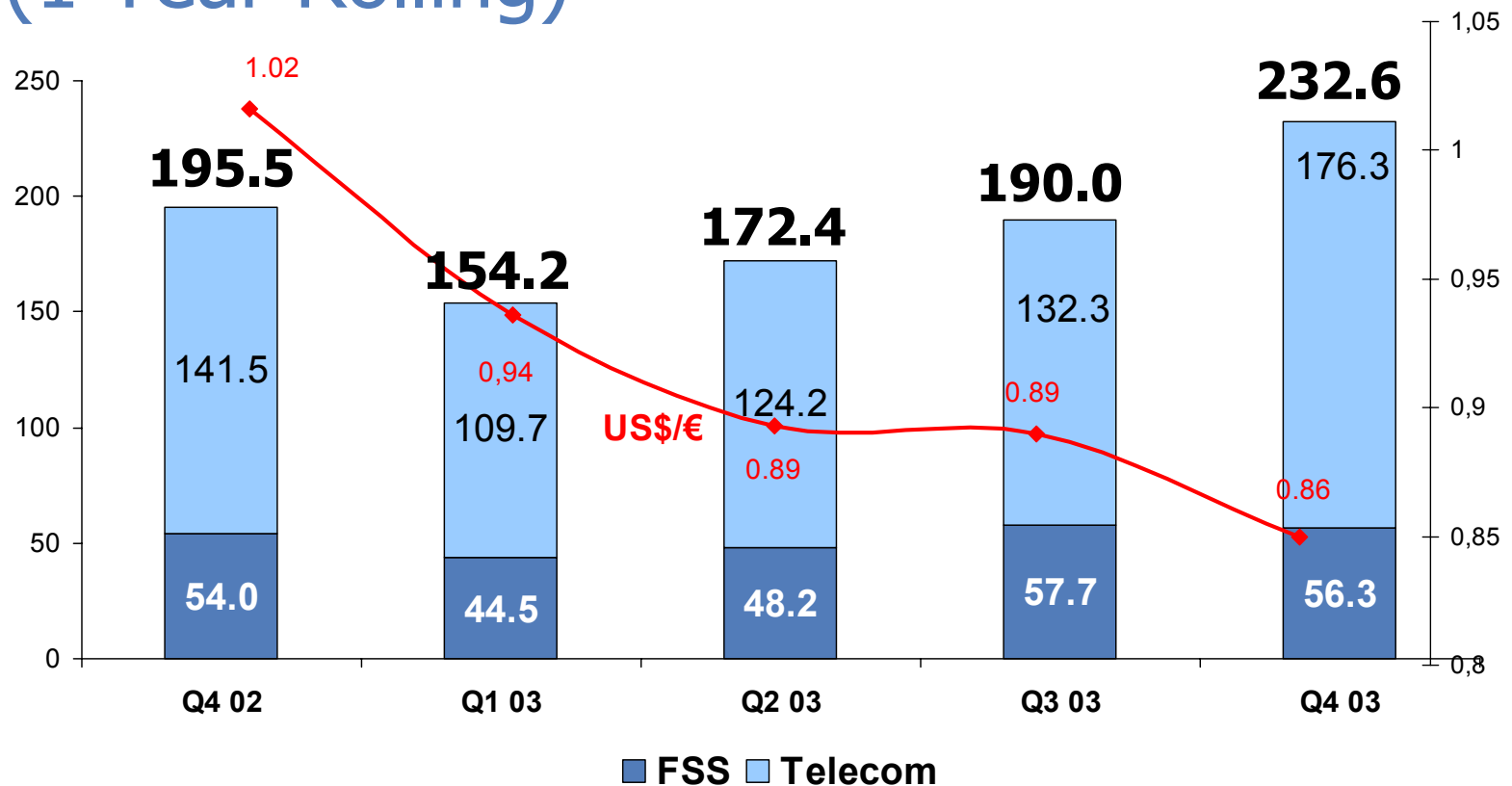
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# 4<sup>th</sup> Quarter 2003 Highlights

- **Group revenue up 22.4 %** quarter-on-quarter to € 232.6 m, reflecting:
  - Very strong growth in Wireless cards
  - EMV ramping up in the banking segment, offset by Geldkarte cycle
- **Gross margin at 29.0 %**
- Operating expenses run rate slightly down
- Operating profit before restructuring at **€ 5.2 m**
- Net loss: - € 24.4 m
- **Strong cash, up to € 390.7 m**

# Revenue by Business Unit (1 Year Rolling)

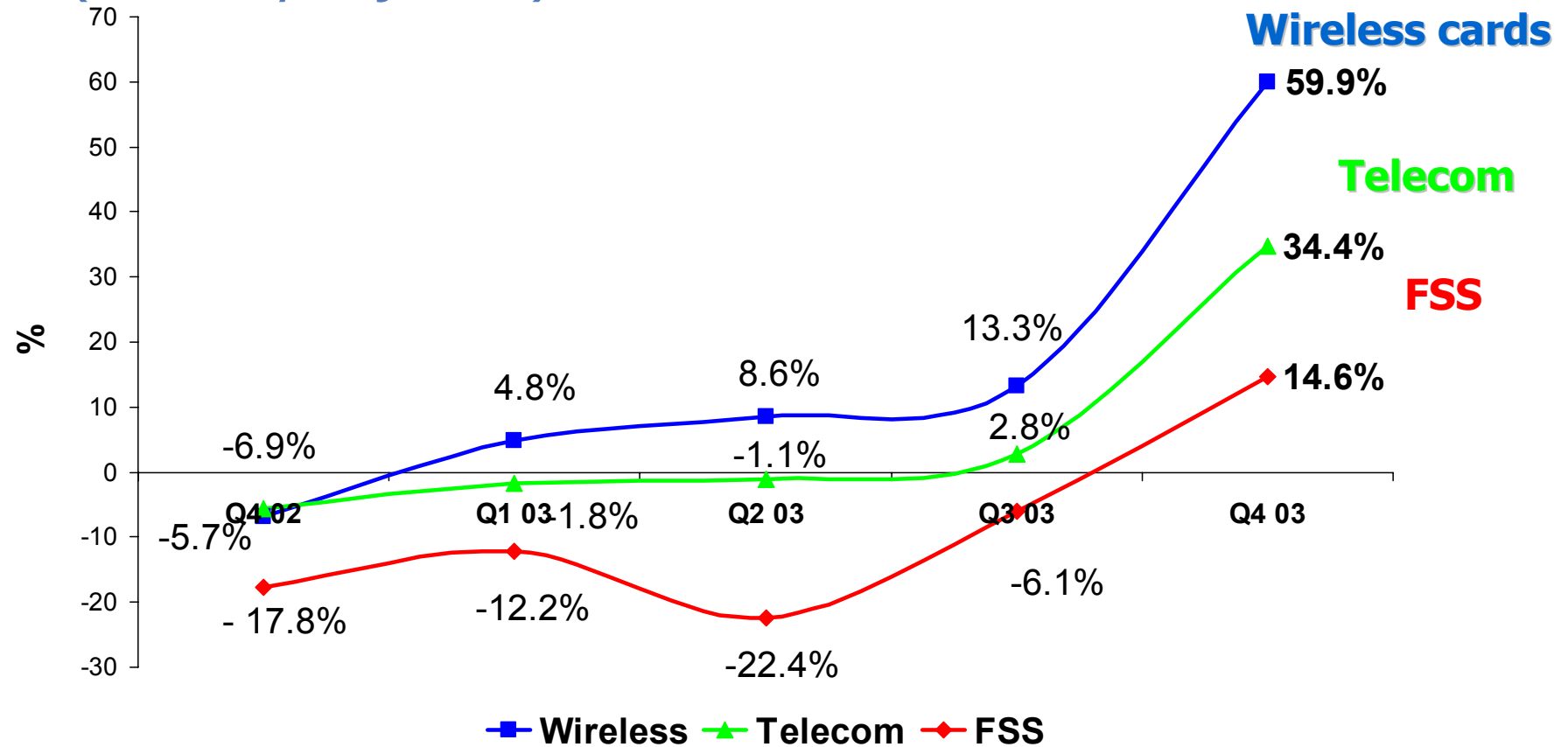


- **Quarter-on-quarter change\*** : Group revenue up 24.0 %
  - Telecom up 34.8 %, driven by wireless
  - FSS down 0.8 %, hampered by Geldkarte seasonality,
- **Year-on-year change\*** : Group revenue up 29.0 %
  - Telecom up 34.4 % (vs. 2.8 % in Q3 03), of which **Wireless cards up 59.9 %** (vs. 13.3 % in Q3 03)
  - FSS up 14.6 %, driven by EMV ramp up

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

# Year-on-Year Revenue Growth Rate

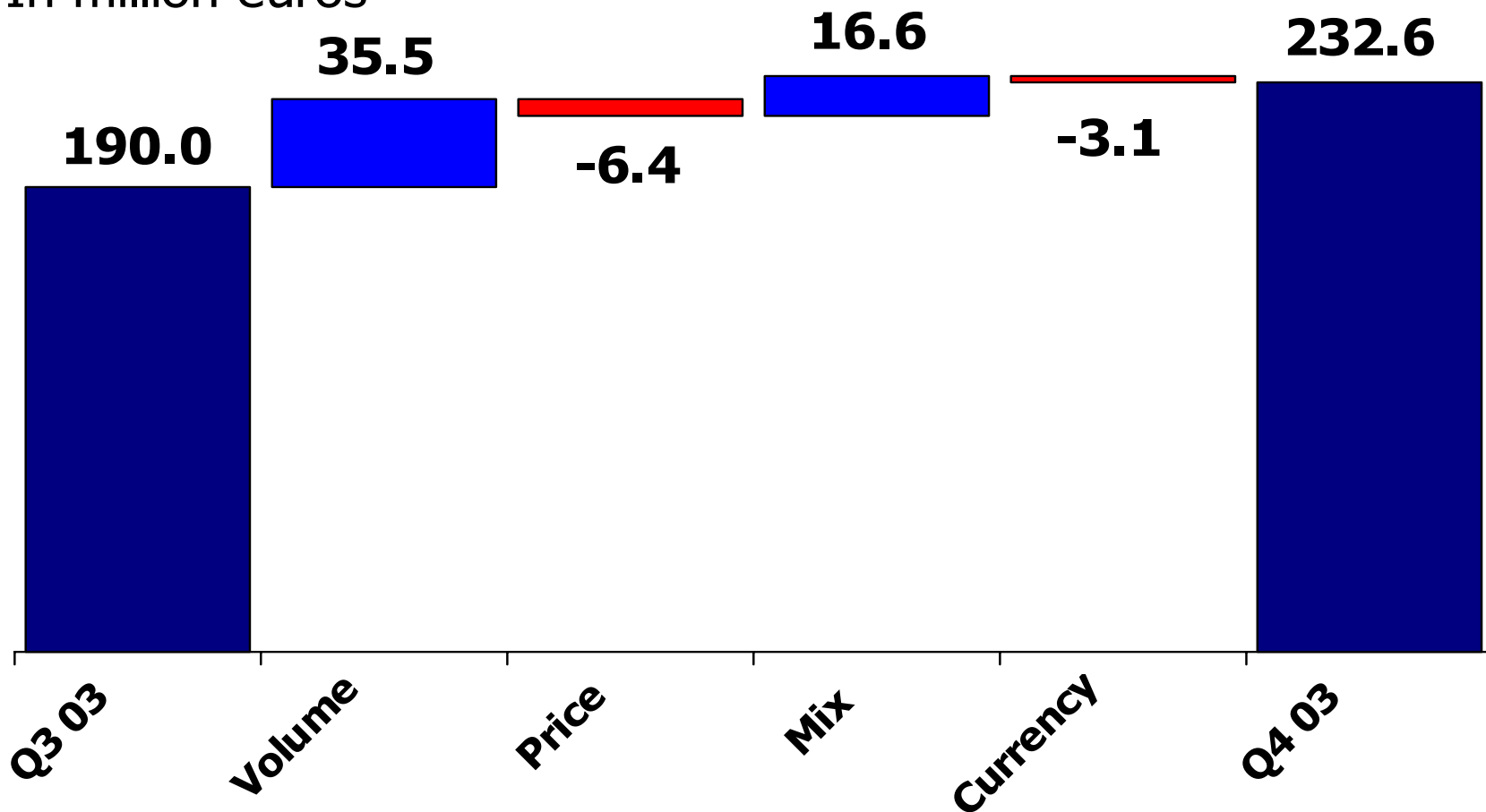
(currency adjusted)



- All businesses are recovering
- Telecom revenue growth driven by wireless, but still hampered by declining low-end activities

# Q4 2003 vs. Q3 2003 Revenue

In million euros

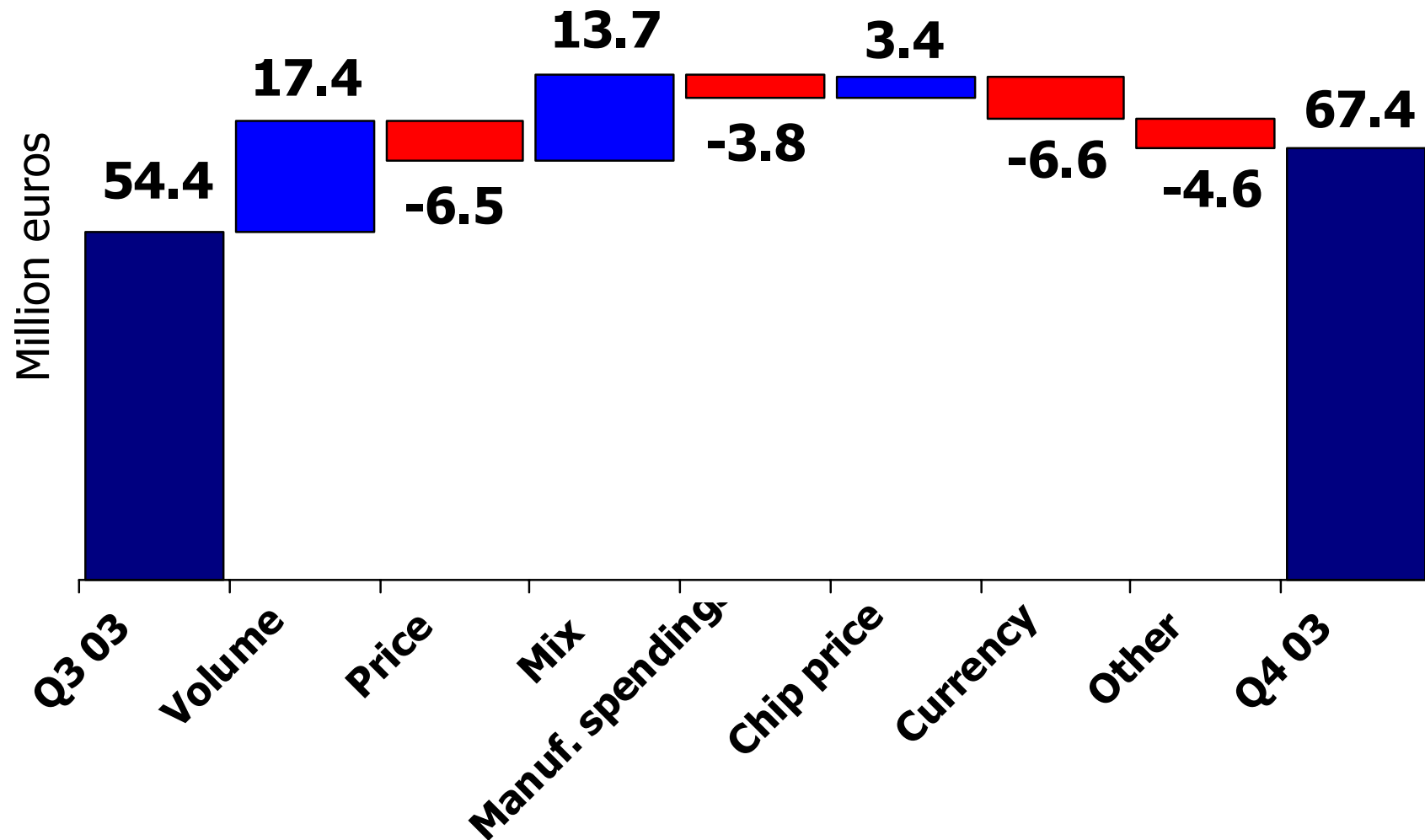


- Substantial volume growth, mainly due to improvement in wireless and EMV
- Wireless mix improvement more than compensated selling price pressure

# Q4 2003 vs. Q3 2003 Gross Profit

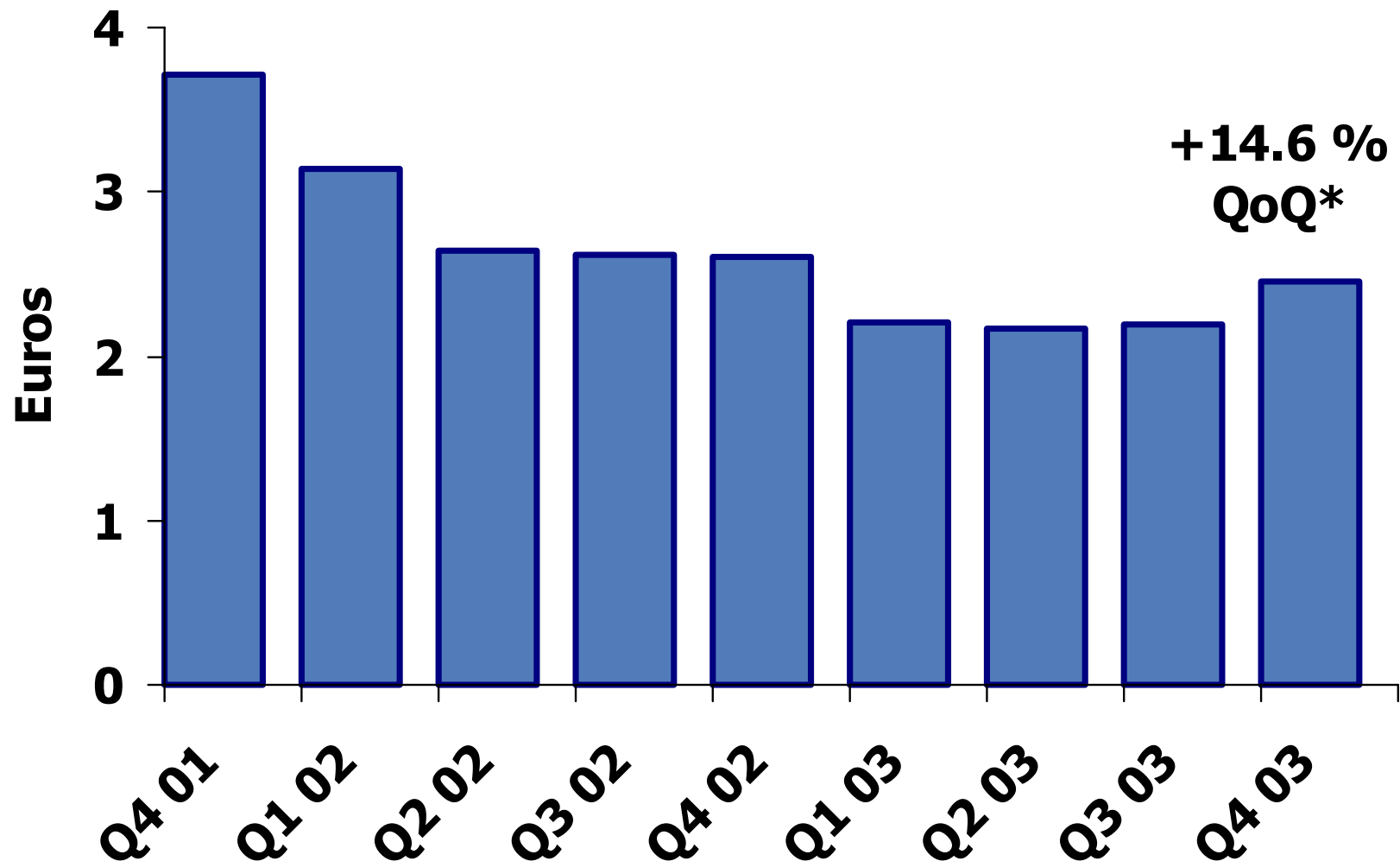
Margin **28.6 %**

**29.0 %**



- Gross profit driven by wireless volumes
- Mix improvement across the business, more than compensating selling price pressure and currency impact

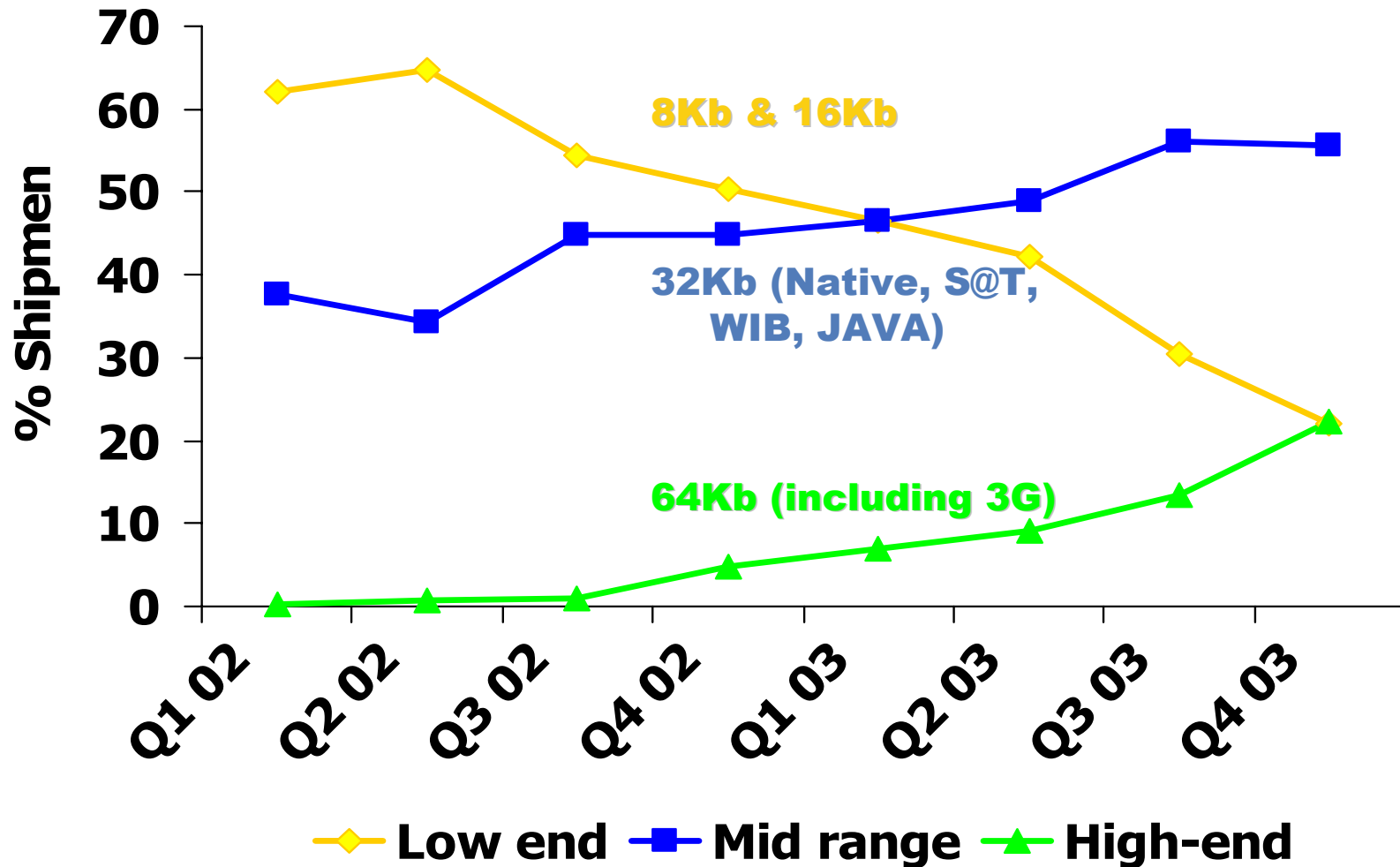
# Wireless Cards ASP: price pressure more than compensated by improved mix



- ASP up 14.6 % currency adjusted
- Favorable product and regional mix improvement more than offset selling price pressure and currency impact

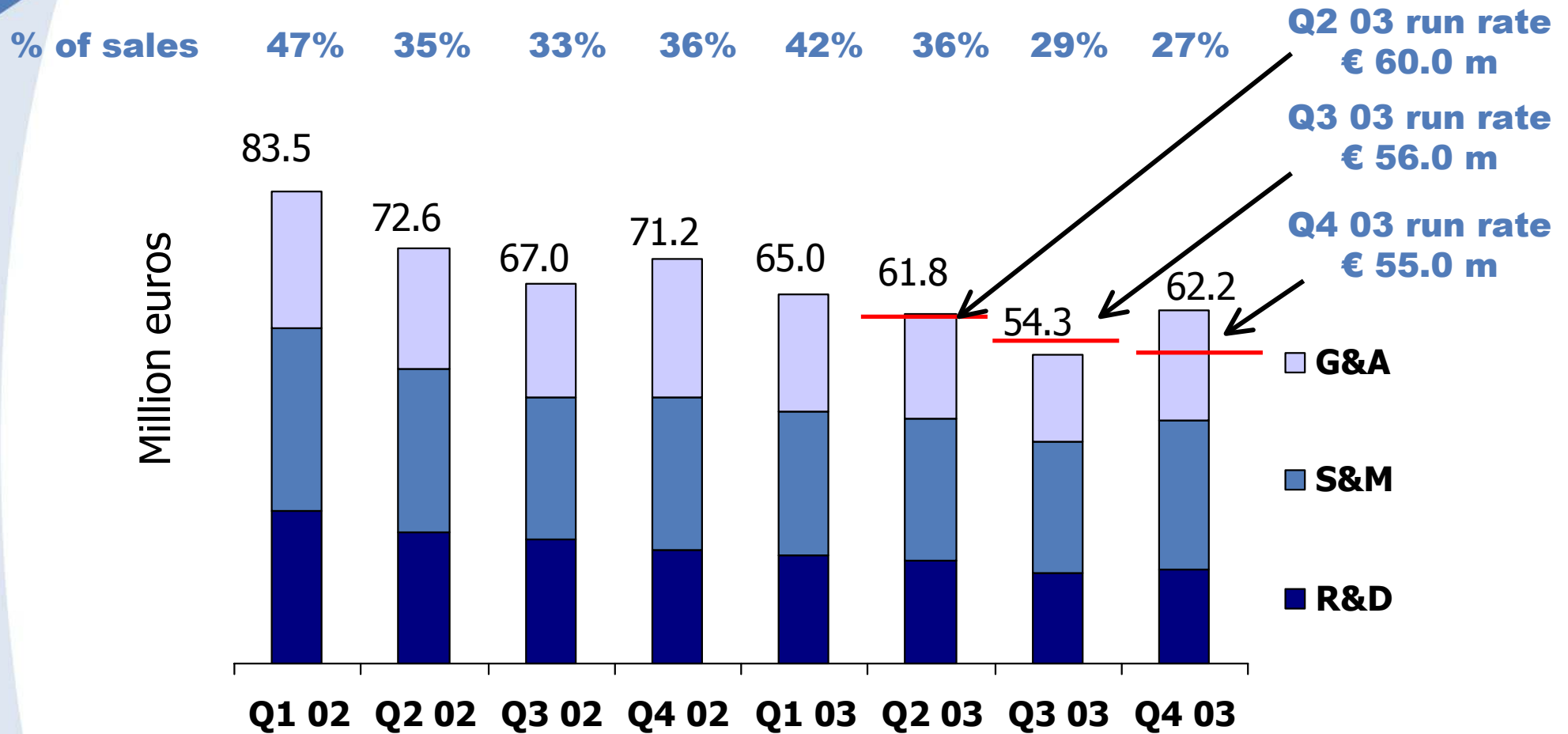
\* After adjusting for currency fluctuations

# Steady Migration to High-End Products



- High-end products (64Kb & 3G) accounted for 22.3 % of the shipments in Q4 03 (13.5 % in Q3 03)
- 3G: strong demand in Europe

# Reduction in Operating Expense Run rate (excluding restructuring charges)



- Operating expense run rate slightly declined in Q4 03 (-1,8 %)
- One-time charges reflected in operating expense, dedicated to capitalize on emerging recovery:
  - Asset write-down & information system rationalization
  - Legal & advisory fees and other items

# Reduction in Operating Expenses

(excluding restructuring charges):

## Lowering steadily

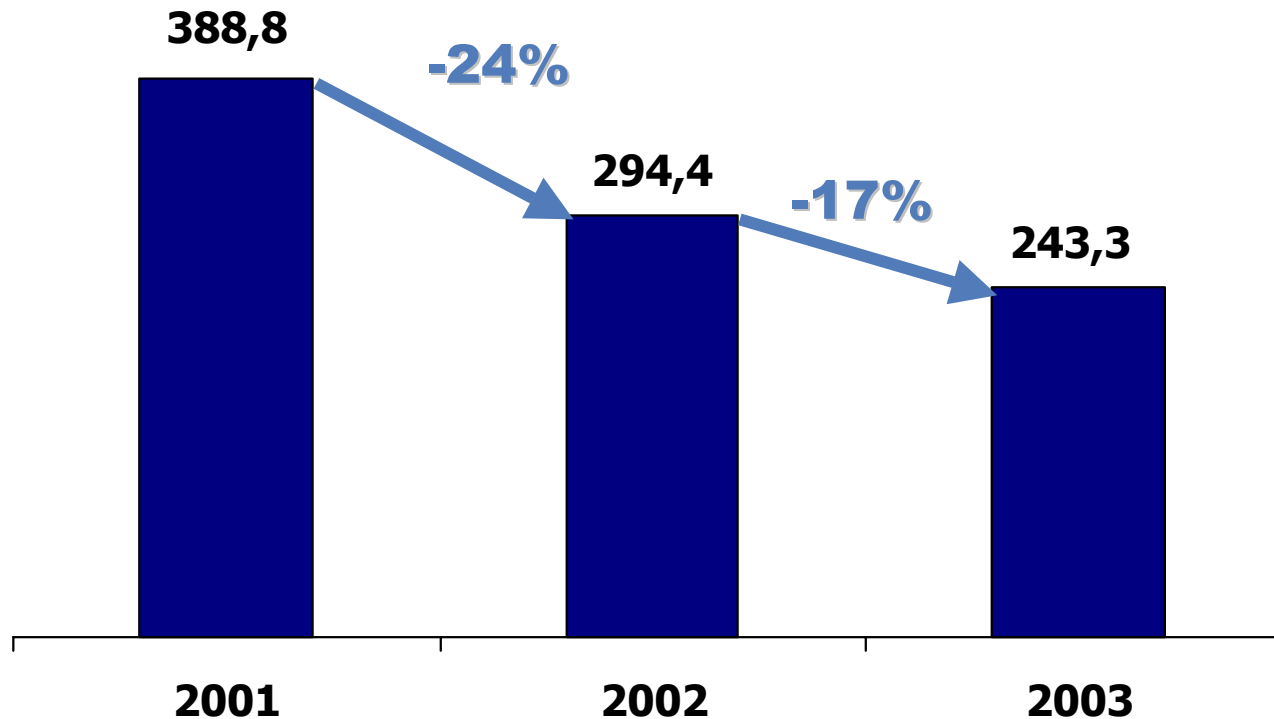
% of sales

38%

37%

32%

Million euros



- Operating expenses declined 17 % in 2003 vs. 2002, and 24 % in 2002 vs. 2001
- Operating expenses currently represents 32 % of sales

# Restructuring and Cost Cutting Initiatives Update

In million euros	Provision	Cash Costs	Headcount reduction target	Annualized Savings Target
<b><u>2003 initial plan</u></b>				
<b>Restructuring</b>	82	68	1,094	52
<b>Cost cutting initiative</b>	-	-	-	48
<b><u>2003 Plan Q4 03 update</u></b>				
<b>Restructuring</b>	86	71	941	48
<b>Cost cutting initiative</b>				49

- 2003 Plan on target to improve the Company's cost structure
- Headcount reduction: 777 at the end of Q4
- 139 redundancies implemented in Q4

# Statement of Income: Other Items

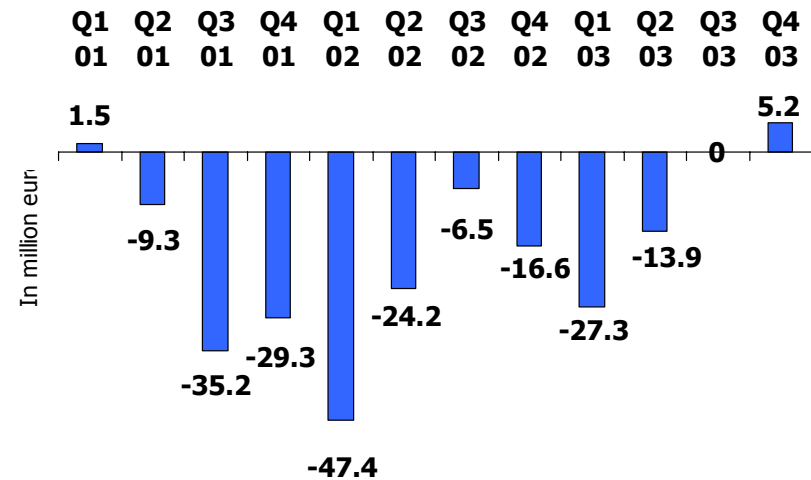
Million euros	<b>Q4 03</b>	Q3 03	Q4 02
<b>Revenue</b>	<b>232.6</b>	190.0	195.5
<b>Operating income before restructuring</b>	<b>5.2</b>	0.0	(16.6)
Non recurring items	<b>(17.9)</b>	(7.2)	(67.1)
Interests, net	<b>1.2</b>	1.6	3.9
Other loss net	<b>(8.6)</b>	(4.6)	(13.7)
Income tax*	<b>(2.4)</b>	(0.9)	1.1
Goodwill amortization*	<b>(1.9)</b>	(2.0)	(4.4)
<b>Net Income (Loss)</b>	<b>(24.4)</b>	(13.1)	(96.8)

- Q4 non-recurring items includes:
  - € 9.3 m: restructuring program implementation
  - € 8.6 m: Deferred tax assets write down
- Other income comprises € 5.2 m of foreign exchange losses

\* Adjusted for non recurring items

# Statement of Income: Other Items

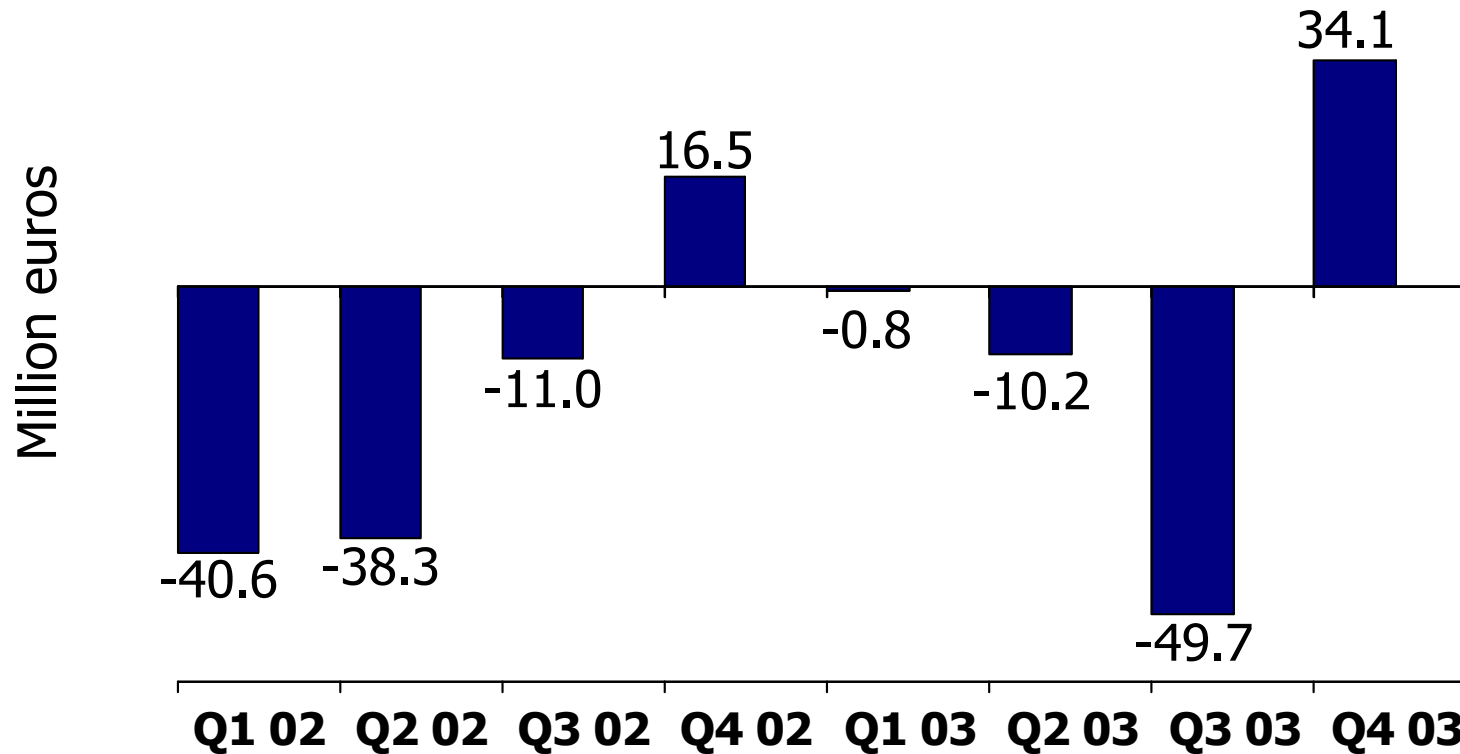
Million euros	FY 03	FY 02
<b>Revenue</b>	<b>749.2</b>	787.4
<b>Gross profit</b>	<b>207.3</b>	199.7
<b>Gross margin % rev.</b>	<b>27.7 %</b>	25.4 %
<b>Operating loss before restructuring</b>	<b>(36.1)</b>	(94.7)
Non recurring items	<b>(90.5)</b>	(187.4)
Interests, net*	<b>8.2</b>	15.9
Other loss net	<b>(20.2)</b>	(28.9)
Income tax*	<b>(6.1)</b>	(0.8)
Goodwill amortization*	<b>(13.0)</b>	(25.0)
<b>Net Income (loss)</b>	<b>(157.7)</b>	(320.9)



- FY 03 non-recurring items includes:
  - € 62.0 m: restructuring program implementation
  - € 19.9 m: goodwill write down
  - € 8.6 m: Deferred tax assets write down
- Other income comprises € 8.7 m of foreign exchange losses

\* Adjusted of non recurring items

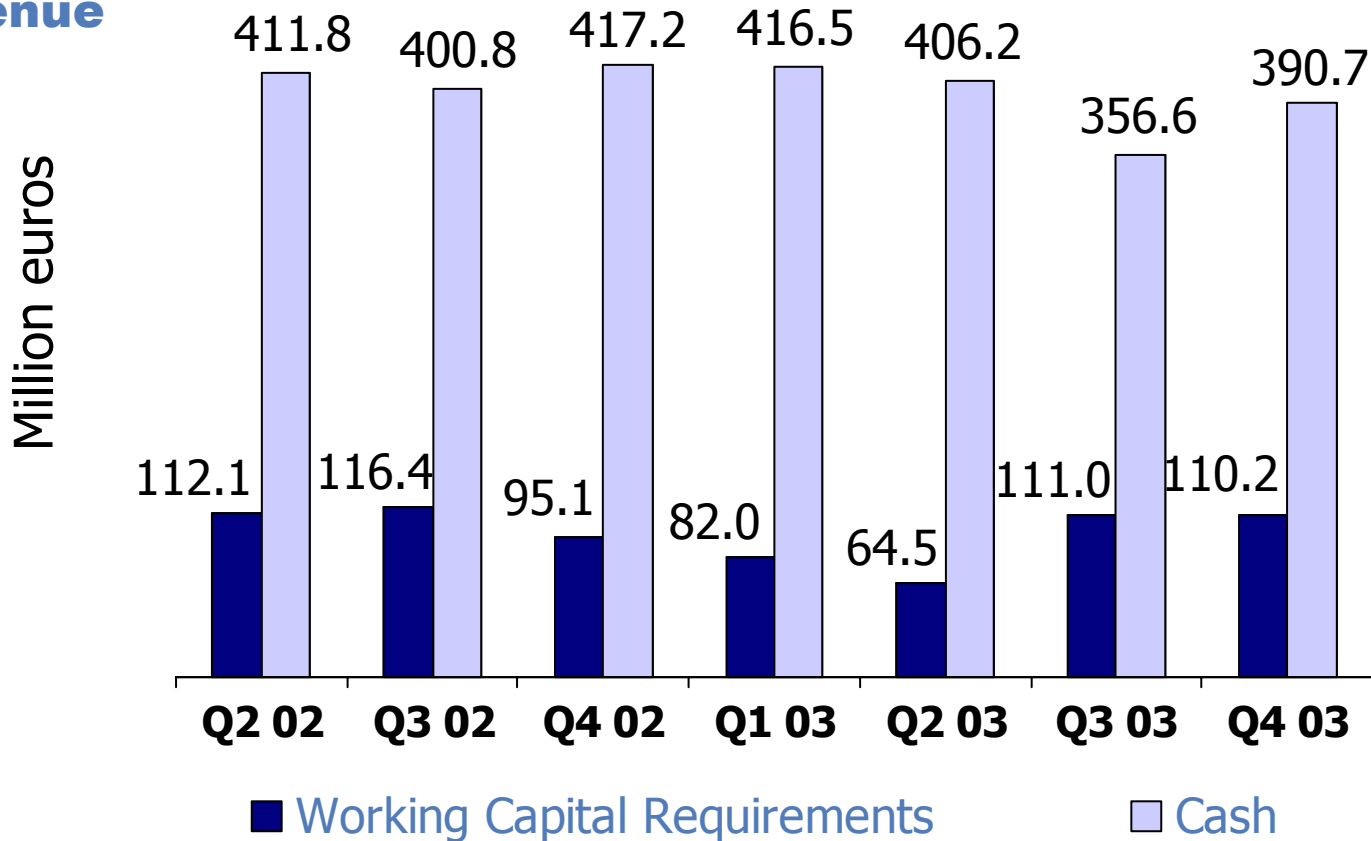
# Net cash flow change



- Net cash flow reflects following changes :
  - Gross cash flow at € 28.6 m, up from € 11.5 m in Q3 03
  - Inflow of € 23.1 m related to working capital requirement, mainly due to higher trade payables
  - € 5.8 m capital expenditures
  - € 11.2 m cash outlay related to restructuring

# Strong balance sheet

**WCR as % of revenue**    **13.4%** **14.1%** **12.2%** **13.3%** **9.3%** **14.6%** **11.9%**



- Stable working capital in a context of sustained activity
- Steady DSO improvement : **47 days in Q4** (52 days in Q3, and 53 days in Q4 02)
- Continuous decrease in inventories

# Revenue and Gross Profit by Business Unit

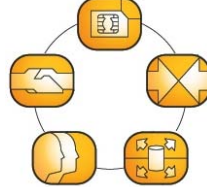
million euros	Q4 2003	Q3 2003	Quarter- on-quarter Change	Q4 2002	Year-on- year Change
<b>Telecom</b>					
Sales	<b>176.3</b>	<b>132.3</b>	<i>+33.2 %</i>	141.5	<i>+24.6 %</i>
Gross Profit	<b>57.6</b>	<b>39.7</b>	<i>+45.1 %</i>	43.0	<i>+34.1 %</i>
Gross Margin	<b>32.7%</b>	<b>30.0%</b>	-	30.4%	-
<b>Financial &amp; Security Services</b>					
Sales	<b>56.3</b>	<b>57.7</b>	<i>-2.4 %</i>	54.0	<i>+4.2 %</i>
Gross Profit	<b>9.8</b>	<b>14.7</b>	<i>-33.4 %</i>	11.7	<i>-16.4 %</i>
Gross Margin	<b>17.4%</b>	<b>25.4%</b>	-	21.7 %	-

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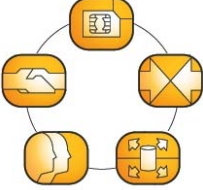
# 2003 Q4/FY - Telecom Update

## Gemplus view of the SIM market in 2003



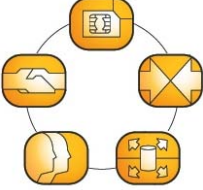
- Very large operators increasingly aware of strategic role of SIM in enhancing end-user relationships:
  - In the US, growth of SIM adoption throughout different technologies; Based on clear returns for both carriers and consumers.
  - In Europe, market is progressing; operators resumed investments in Q4 to improve their cost of operations through improved SIM renewal process
- Demand continues to shift towards higher value-added products:
  - 3G uptake gathers momentum
  - Growing number of applications empowered by placing the client side on the SIM
- SIM seen to respond to operator challenges for next generation wireless services through device management:
  - Strengthening brand awareness
  - Stimulating the adoption of mobile data services
  - Helping operators manage the growing complexity of the handset platform

# Q4 /FY 2003: Telecom Update



## Gemplus

- Telecom business unit was able to demonstrate SIM solutions for generating new revenue streams, reducing clients' operating costs and helping migration to higher value cards and new technologies
- While price pressure per SIM card category remained strong, Gemplus saw a higher overall ASP due to an improvement in product mix – strongest growth seen in Q4 2003
- New sales organisation with emphasis on Key Accounts improved value for major customers: Improved service, response to demands and time-to-market
- Significant improvement in our CDMA portfolio
- The industry's interest in developing and maximising GSM revenue has underpinned demand for our Dynamic SIM Toolkit services and OTA platforms, primarily from 2.5G operators
- Q4 saw the highest shipment of volume in a single quarter to date for Gemplus



# 2003 Key Achievements

- **#1 in United States and Japan**
  - In North America, Gemplus is now supplying all four nationwide operators that utilize smart card technology
- **#1 in OTA platforms installed worldwide**
  - 76 Gemplus platforms active
- **Gemplus #1 for 3G rollouts**
  - In Europe and Japan, demand for 3G grew strongly – over two million USIM cards delivered to 3G customers in Q4 2003 alone

# Q4 FY 2003: Financial & Security Services Update

## • Market environment - Financial Services

- EMV roll-out gains greater momentum as banks are moving towards higher security
- After UK, other countries are implementing or preparing EMV migration

## • Gemplus

- Strong EMV growth, driven by the UK market: strong contribution of very large accounts (MBNA, Lloyds TSB, ...). Major win in the UK with HBOS, worth 15 million smart cards
- South America, Plaskart (Turkey), Malaysia are starting to contribute
- Forecasted unfavourable Geldkarte market renewal cycle
- Invent new business model: industrial partnership with Topan to serve JCB of Japan, the second largest EMV market
- Excellence in execution: Sao Paulo Transporte: 1.5 million transport contactless cards delivered in 3 weeks

# Q4 FY 2003: Financial & Security Services Update



- **Market environment –**

- **Government ID & Corporate Security**

- Corporate security and government ID: an emerging market showing attractive long-term potential

- **Gemplus**

- First international company certified for India's driving licence and vehicle registration programme
  - Revenue increase led by Oman contract card and system delivery
  - Launch of Gemplus SafesITe system for corporate and B2B security

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# 2004 Outlook: Building on strong foundations

- Gemplus is in good position to capture markets opportunities and continue to enhance its competitive position around the globe
- Continued focus on cost control
- Wireless market
  - Favorable impact of the evolving strategic role of the SIM card for the telecom operators.
  - Improved wireless mix will help offset selling price pressure
  - Steady growth expected in the US market
  - 3G should play an increasingly important role
- Financial Services
  - Segment well positioned to take advantage of the positive momentum generated by the EMV migration, in particular in the UK, South America and Asia
- Government ID & Corporate Security
  - Government ID and corporate security segment could register gains as emerging markets and major economies gather pace
- Gemplus: operating profitability improvement going forward, taking into account seasonality factors during the first half of the year (average exchange rate of approximately 1.20 US\$ per euro)

# Appendix

# Cash Flow Statement

Millions of euros	Q1 2002	Q2 2002	Q3 2002	Q4 2002	FY 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	FY 2003
Net income (loss)	-62,5	-123,1	-38,6	-96,8	-320,9	-37,9	-82,4	-13,1	-24,4	-157,7
Depreciation & Amortization	25,8	26,6	40,9	40,1	133,4	20,4	39,6	16,6	18,5	95,1
Other adjustments to reconcile net income (loss) to net cash from operating activities	-15,8	-11,8	0,7	2,0	-24,9	-0,9	7,4	3,2	27,2	37,0
Reduction of workforce and other exit costs, provision	18,1	39,1	6,3	5,7	69,1	3,2	39,8	4,7	7,3	54,9
Provision for other non-recurring items	0,0	66,9	0,0	42,0	109,0	0,0	0,0	0,0	0,0	0,0
<b>Gross cash flow excluding non-recurring items</b>	<b>-34,4</b>	<b>-2,3</b>	<b>9,3</b>	<b>-7,0</b>	<b>-34,4</b>	<b>-15,3</b>	<b>4,4</b>	<b>11,5</b>	<b>28,6</b>	<b>29,3</b>
Change in working capital requirement	39,2	-29,3	-0,5	24,1	33,5	30,7	-7,3	-29,0	23,1	17,6
<b>Net cash used in operating activities excluding non-recurring items</b>	<b>4,8</b>	<b>-31,5</b>	<b>8,8</b>	<b>17,1</b>	<b>-0,9</b>	<b>15,4</b>	<b>-2,8</b>	<b>-17,5</b>	<b>51,7</b>	<b>46,8</b>
Purchase of property, plant and equipment	-12,2	-10,1	-9,7	-1,4	-33,4	-2,7	-2,6	-4,1	-5,9	-15,2
Other changes in investing activities related to the operating cycle	5,8	-4,4	-0,1	-1,8	-0,5	-1,2	-0,1	-0,6	1,4	-0,6
<b>Free cash flow excluding non-recurring items</b>	<b>-1,6</b>	<b>-46,0</b>	<b>-0,9</b>	<b>13,9</b>	<b>-34,7</b>	<b>11,5</b>	<b>-5,5</b>	<b>-22,2</b>	<b>47,2</b>	<b>31,0</b>
Reduction of workforce and other exit costs, cash outflow	-8,5	-6,8	-7,3	-10,5	-33,1	-16,2	-12,3	-17,2	-11,2	-57,0
Other non-recurring expenses	-28,6	-0,1	0,0	0,0	-28,7	0,0	0,0	0,0	0,0	0,0
<b>Free cash flow</b>	<b>-38,8</b>	<b>-53,0</b>	<b>-8,2</b>	<b>3,4</b>	<b>-96,6</b>	<b>-4,7</b>	<b>-17,9</b>	<b>-39,4</b>	<b>36,0</b>	<b>-26,0</b>
Sale of property, plant and equipment	0,0	0,0	0,0	1,4	1,4	0,0	0,0	0,0	0,0	0,0
Acquisitions	-1,1	-11,1	-1,7	-0,8	-14,7	-0,7	0,0	0,0	-0,1	-0,8
Net cash provided by (used in) financing activities	2,1	0,5	1,5	-0,3	3,8	0,2	-1,5	-2,0	-3,1	-6,3
Effect of exchange rate changes on cash	-2,8	25,3	-2,6	12,8	32,7	4,4	9,2	-8,3	1,3	6,6
<b>Net cash flow</b>	<b>-40,6</b>	<b>-38,3</b>	<b>-11,0</b>	<b>16,5</b>	<b>-73,4</b>	<b>-0,8</b>	<b>-10,2</b>	<b>-49,7</b>	<b>34,1</b>	<b>-26,5</b>
Cash at the beginning of the period	490,7	450,1	411,8	400,8	490,7	417,2	416,5	406,2	356,6	417,2
<b>Cash at the end of the period</b>	<b>450,1</b>	<b>411,8</b>	<b>400,8</b>	<b>417,2</b>	<b>417,2</b>	<b>416,5</b>	<b>406,2</b>	<b>356,6</b>	<b>390,7</b>	<b>390,7</b>

# Shareholders

