



# Gemplus

## 1<sup>st</sup> Quarter 2004

### Results Presentation

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# Agenda

- **Overview**
- Q1 2004 Financials
- Business Highlights
- Gemplus Operational Strategy Update
- FY 2004 Outlook

# Q1 2004: Introduction

- **Improved quarterly performances quarter-on-quarter, despite seasonality effect:**

Operating profit before restructuring : €4.8 M

Net profit break-even

- **Significant turnaround year-on-year**

Revenue up 27.9%

Operating profit before restructuring up €32 M

- **Further positive evidence of progress made in competing on costs and differentiating on value while achieving initial savings from the turnaround plan announced in December 2002**

# Agenda

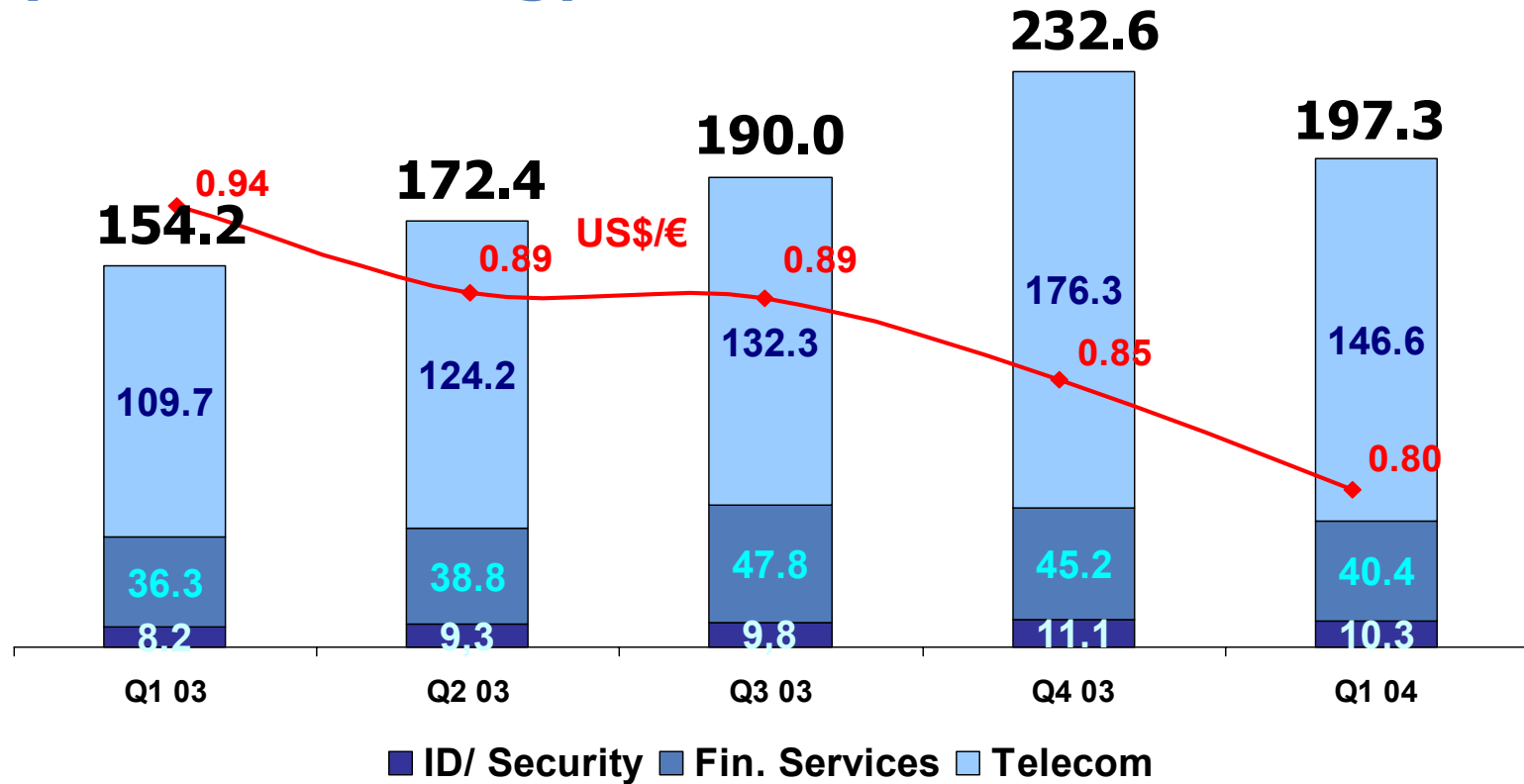
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# 1<sup>st</sup> Quarter 2004 Highlights

- **Group revenue up 38.8 %\*** year-on-year to € 197.3 m, reflecting:
  - Less seasonality impact on sales, only down 12.1 % quarter-on-quarter
  - Record sales growth for Wireless, up 70.8 %\* year-on-year
  - Sustained growth in EMV Program with record deliveries
- Gross margin **up 2.0 pts** quarter-on-quarter to **31.0 %**
- Operating expenses down **14 %** quarter-on-quarter
- Operating profit before restructuring at **€ 4.8 m**
- Net profit: **€ 0.3 m**
- **Stable cash, at € 384.6 m**

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

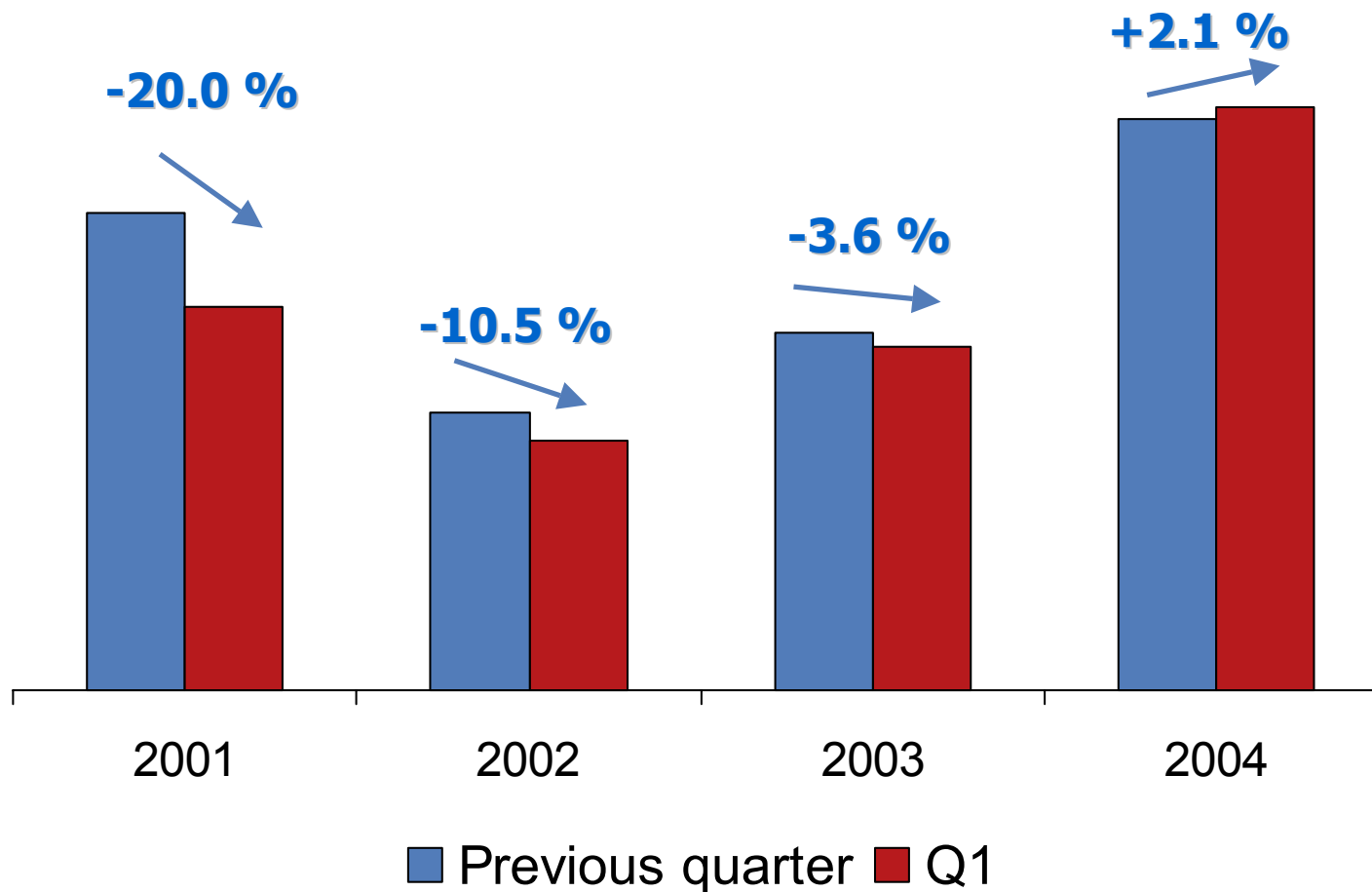
# Revenue by Business Unit (1 Year Rolling)



- **Year-on-year change\*** : Group revenue up 38.8 %
  - Telecom up 45.5 % (vs. 34.4 % in Q4 03), of which **Wireless cards up 70.8 %** (vs. 59.9 % in Q4 03)
  - Fin. Services up 18.7 %, ID Security up 36.3 %
- **Quarter-on-quarter change\*** : Group revenue down 12.1 %
  - Telecom down 13.5 %, due to wireless seasonality impact
  - Fin. Services down 9.0 %, driven by lower magnetic stripes cards sales, ID Security down - 4.1 %

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

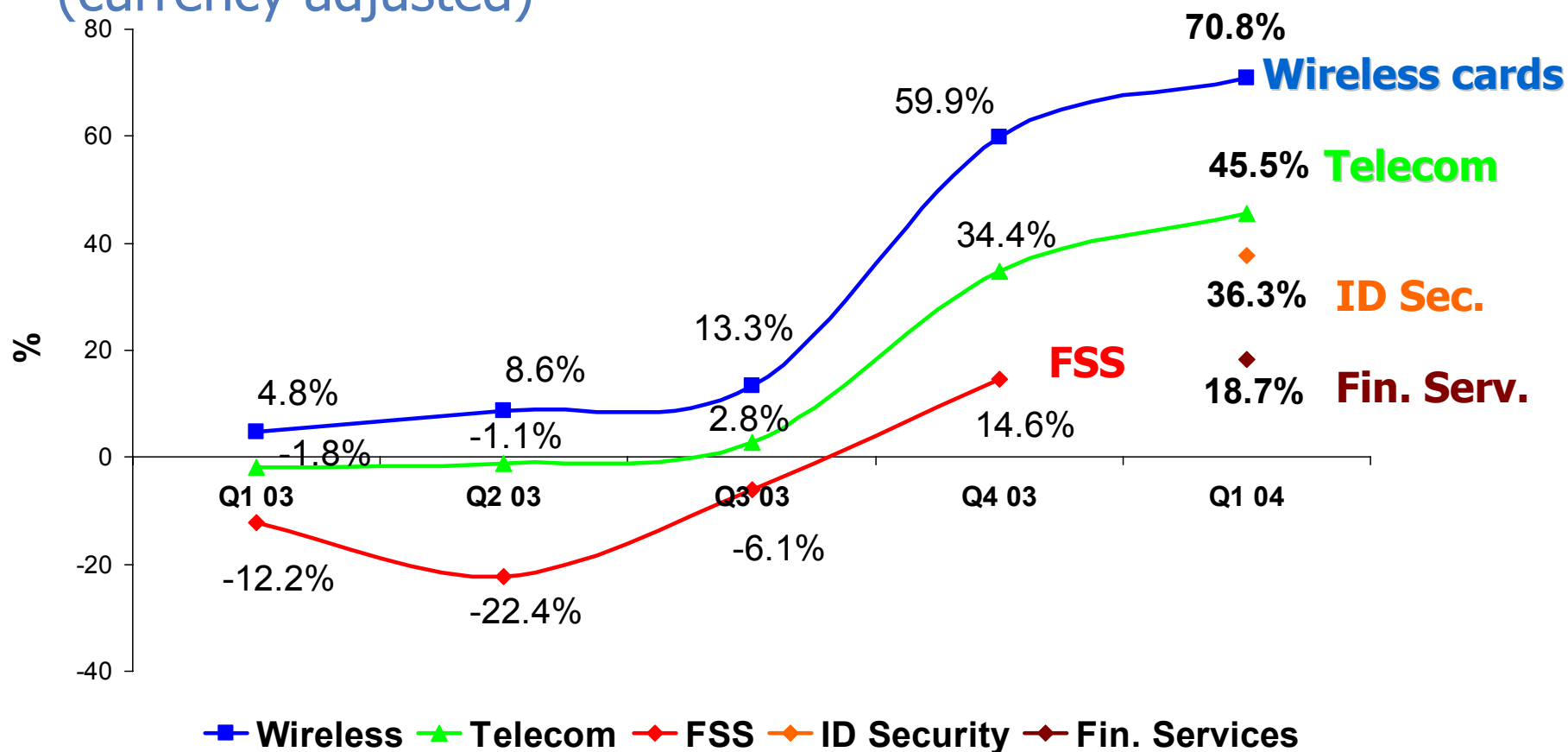
# Less Seasonality in wireless shipments



- Less seasonality in Q1 2004 wireless shipments, compared with previous years

# Year-on-Year Revenue Growth Rate

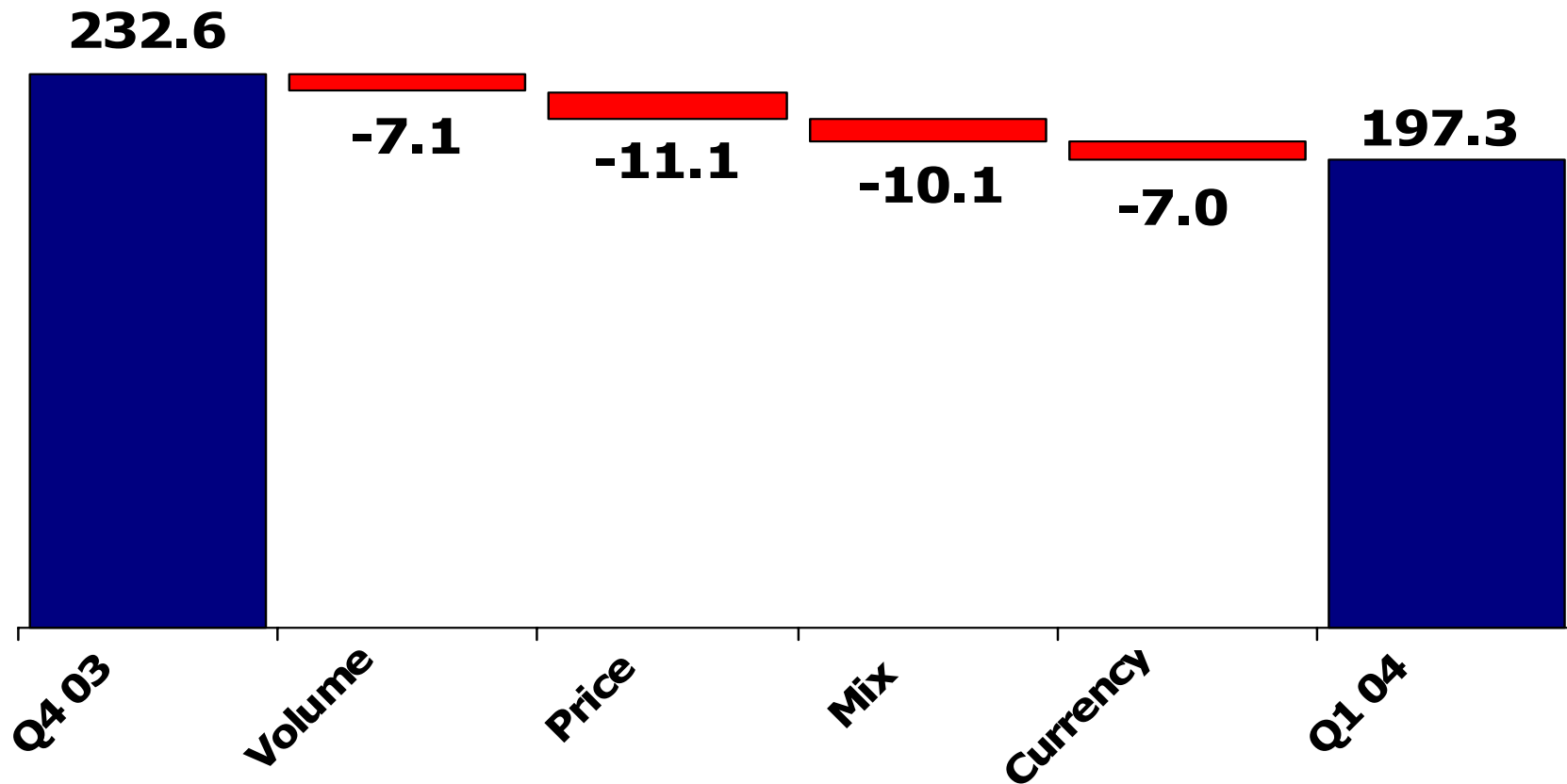
(currency adjusted)



- Favorable momentum in all business units
- Telecom revenue driven by a very strong growth in wireless, still hampered by declining low-end activities

# Q1 2004 vs. Q4 2003 Revenue

In million euros

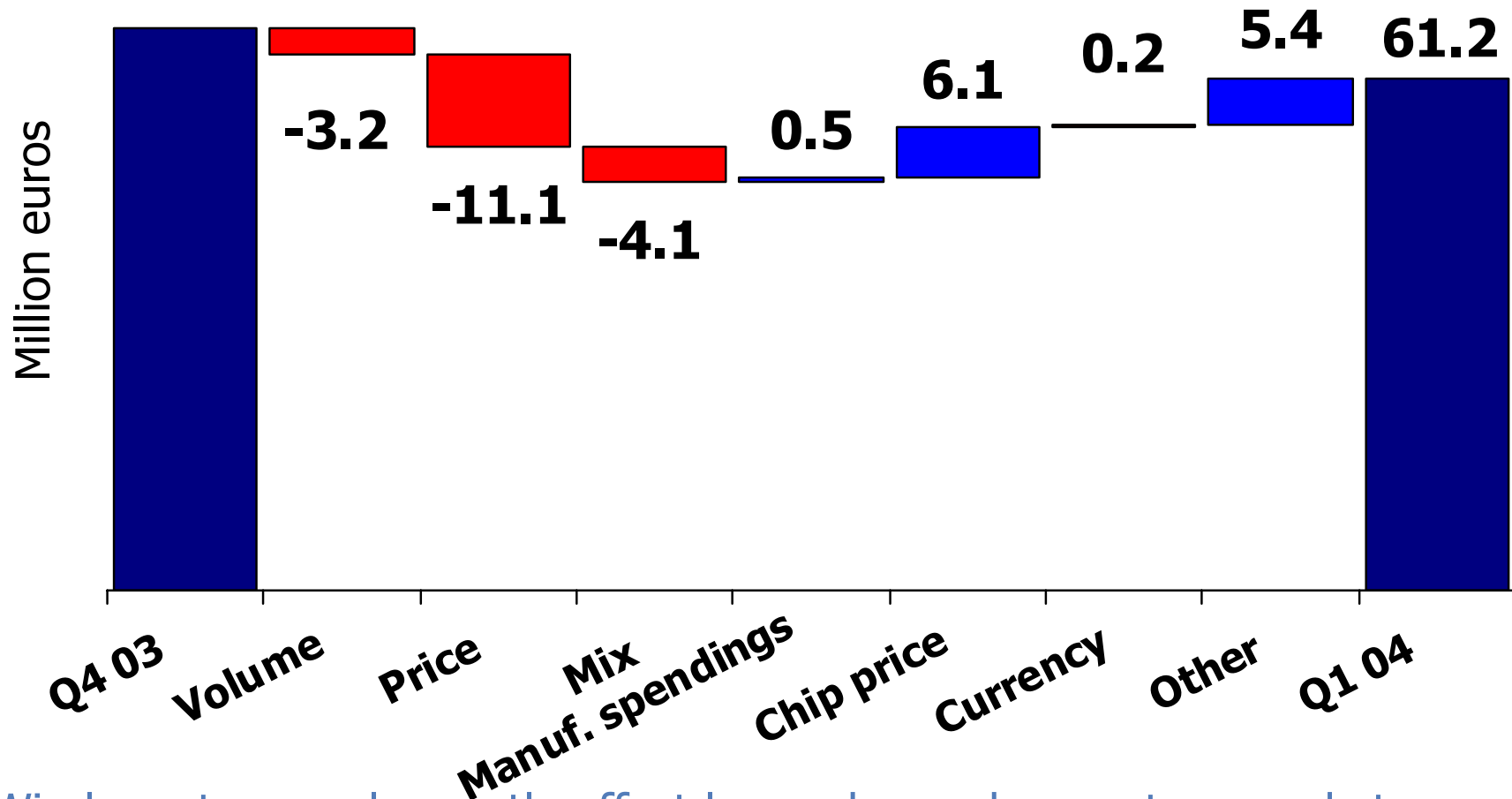


- Volume: wireless and EMV strong sales partly compensate for lower demand on application & services, magnetic stripe banking cards and phone & scratch cards
- Price pressure is the result of a challenging competitive environment
- Unfavorable regional mix reflecting seasonality, limited by product mix improvement

# Q1 2004 vs. Q4 2003 Gross Profit

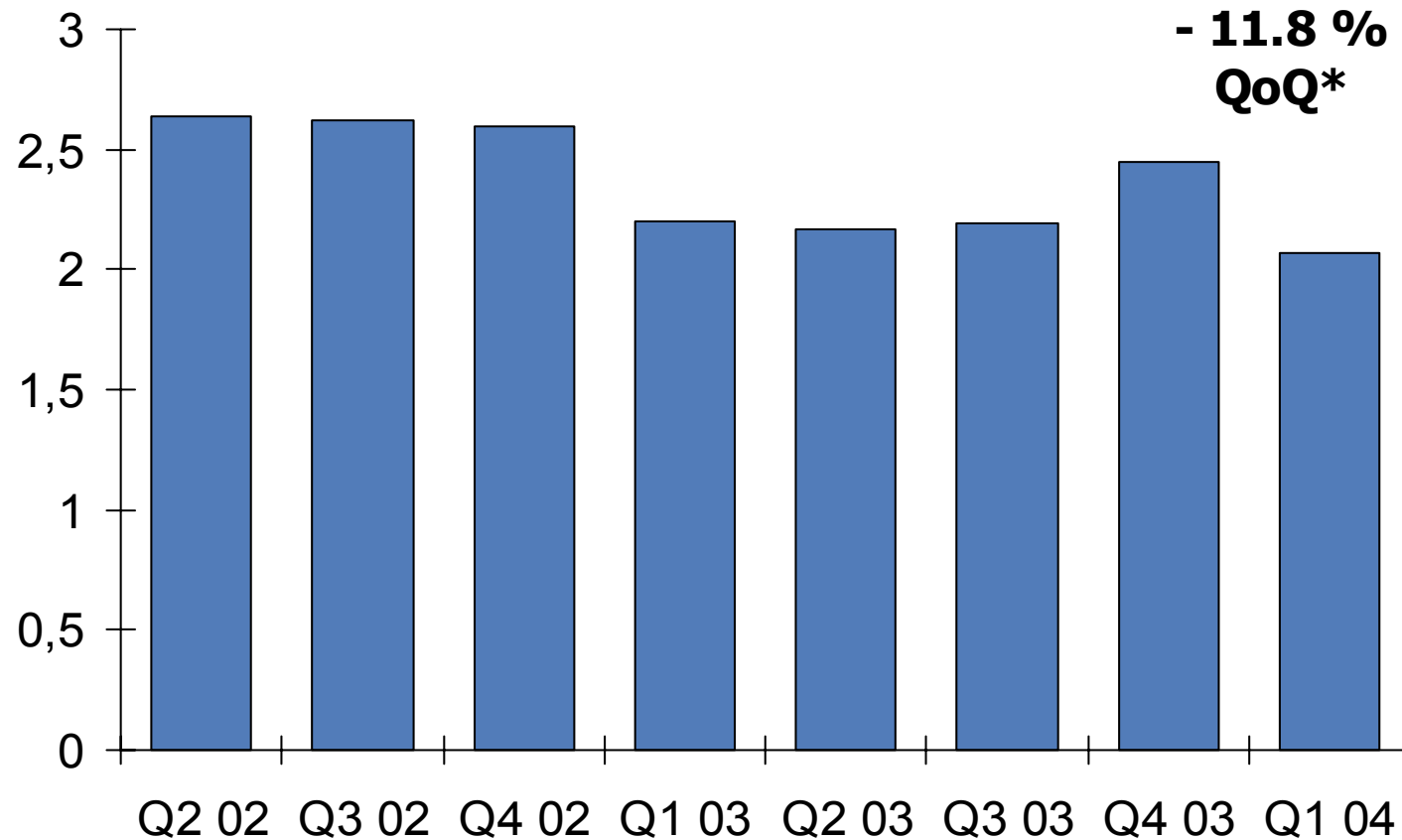
Margin **29.0 %**  
**67.4**

**31.0 %**



- Wireless strong sales partly offset lower demand on mature markets
- Manufacturing spending improvement, due to better fixed cost absorption and industrial efficiency
- Due to improved inventories turnover, chip price renegotiation was more rapidly reflected in Q1 04 accounts
- Global efficiency of our processes, absence of non recurring items

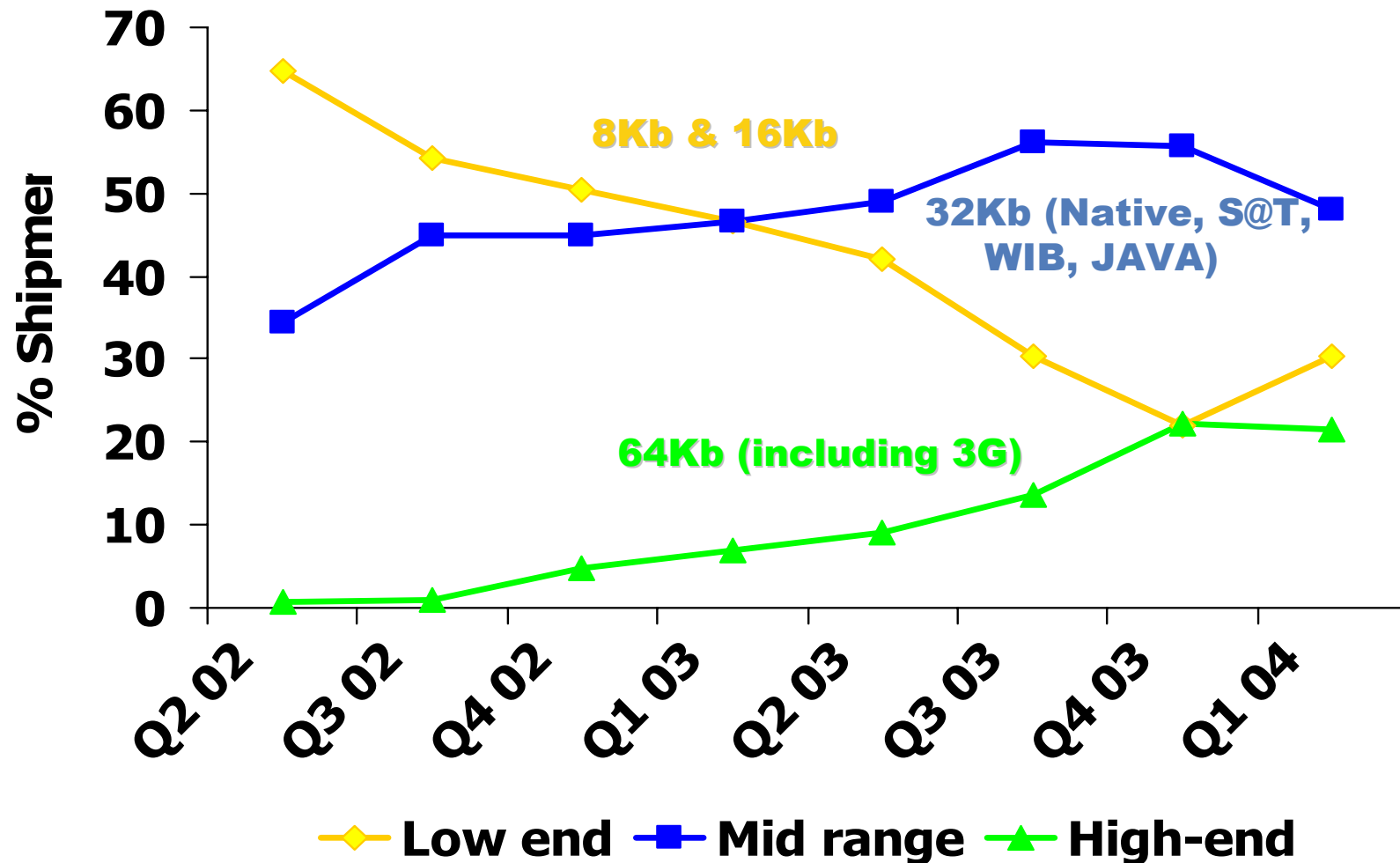
# Wireless Cards ASP: price pressure partly offset by improved mix



- ASP down 11.8 %, quarter-on-quarter, currency adjusted, due to unfavorable regional mix, reflecting seasonal pattern
- ASP up 2.7% year-on-year, currency adjusted, led by product and regional mix improvement over the last 12 months

\* After adjusting for currency fluctuations

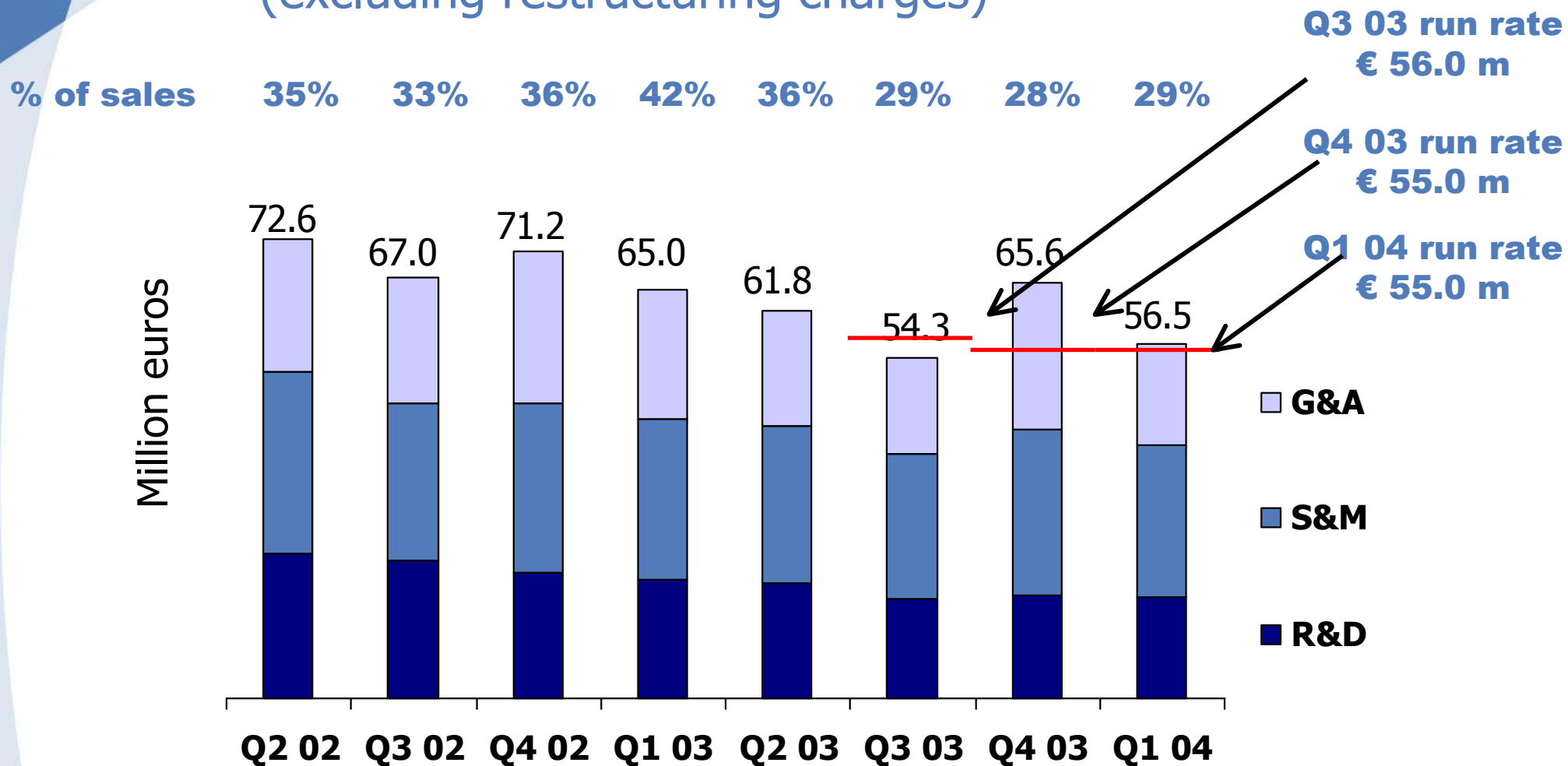
# Migration to High-End Products



- High-end cards weight improved in several regions
- Strong 16Kb sales in China (Chinese New Year)
- High-end segment weight almost stable (21.5 % of the shipments in Q1 04), due to unfavorable regional mix

# Operating Expenses

(excluding restructuring charges)



- Operating expense down 14.0% quarter on quarter

# 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 Q1 04 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: 813 at the end of Q1
- 36 redundancies implemented in Q1

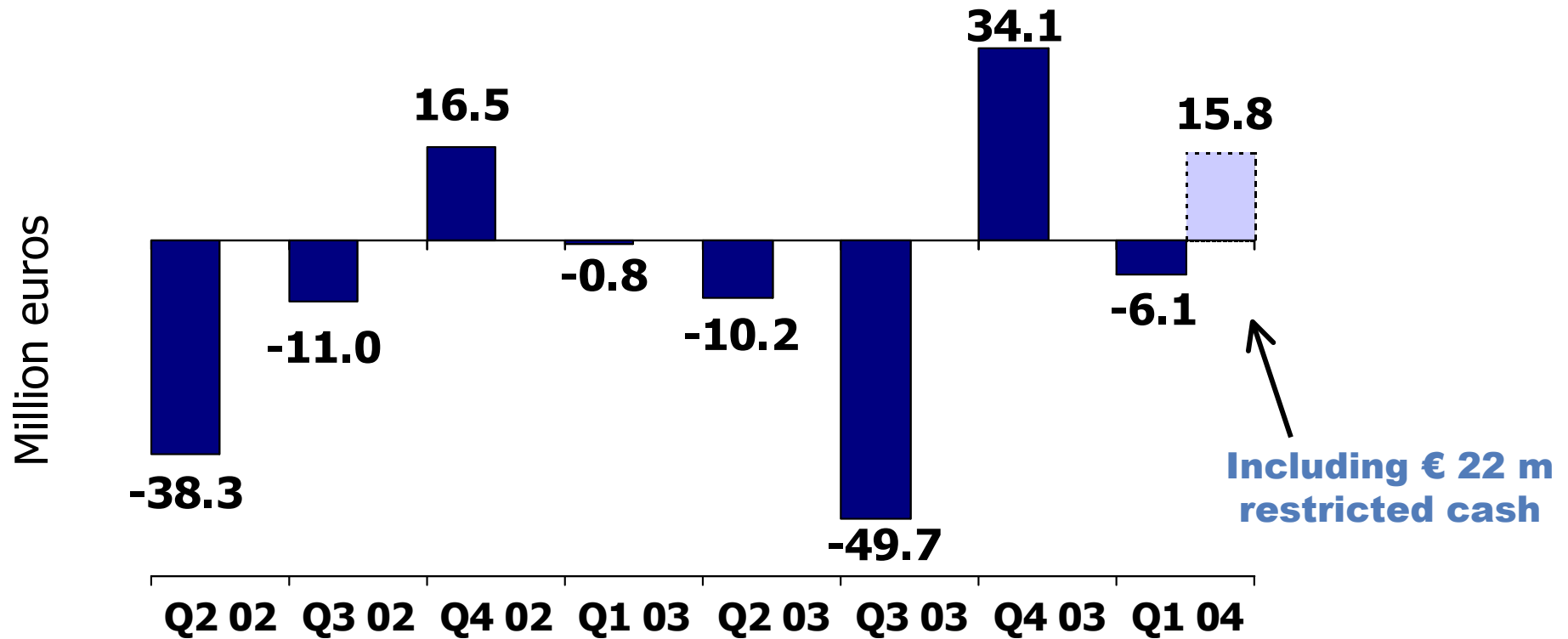
# Statement of Income: Other Items

Million euros	Q1 04	Q4 03	Q1 03
<b>Revenue</b>	<b>197.3</b>	232.6	154.2
<b>Operating income before restructuring</b>	<b>4.8</b>	1.8	(27.3)
Non recurring items	<b>0.2</b>	(17.9)	(3.2)
Interests, net	<b>1.3</b>	1.2	2.5
Other result net	<b>(2.6)</b>	(8.6)	(3.6)
Income tax*	<b>(1.5)</b>	(2.4)	(1.1)
Goodwill amortization*	<b>(1.9)</b>	(1.9)	(5.1)
<b>Net Income (Loss)</b>	<b>0.3</b>	(27.8)	(37.9)

- Net Income at € 0.3 m, reflecting the absence of non-recurring items

\* Adjusted for non recurring items

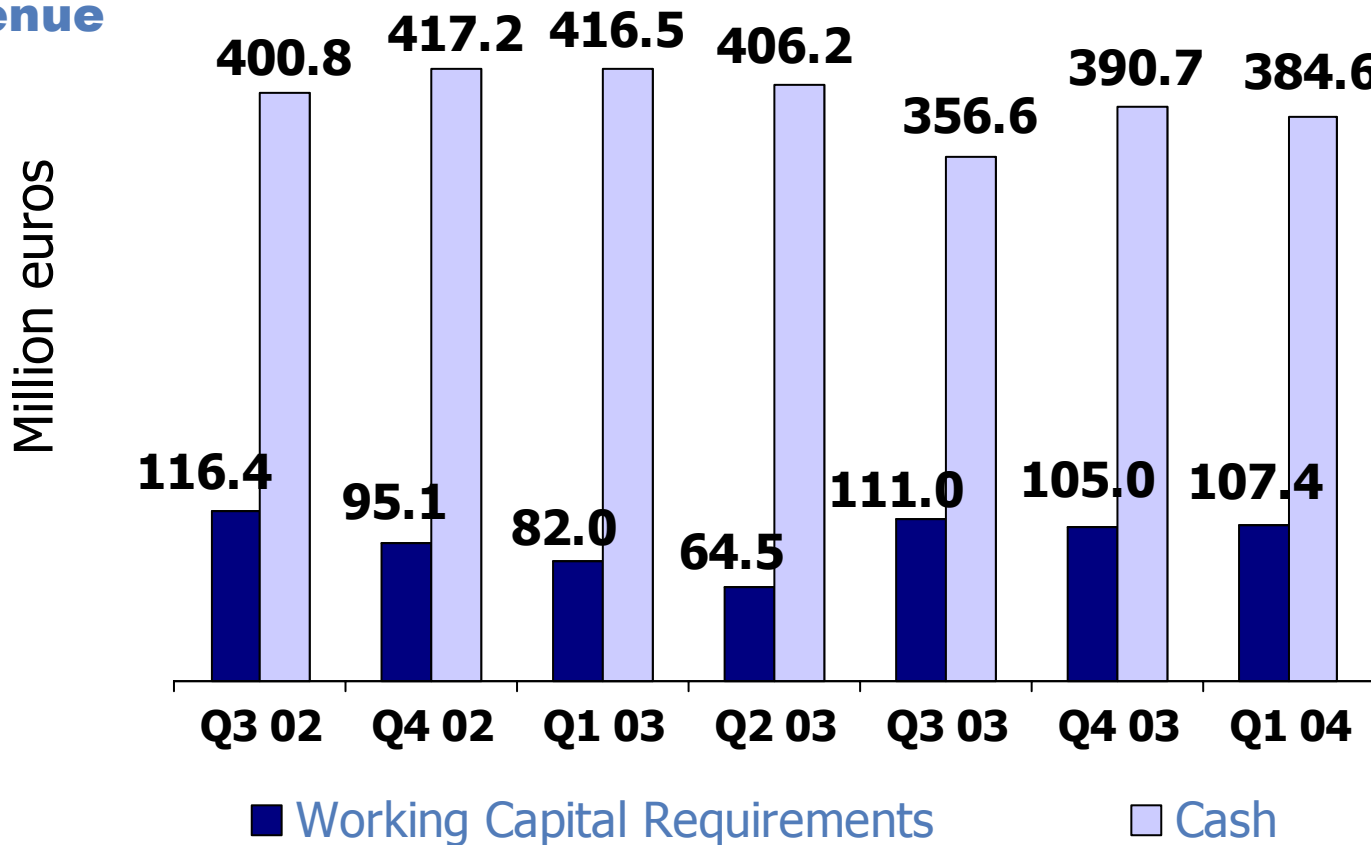
# Net cash flow change



- Net cash flow reflects the following changes :
  - Profitability improvement
  - Inflow of € 18.9 m related to working capital requirement
  - € 4.0 m capital expenditures
  - € 12.8 m cash outlay related to restructuring
  - € 22.0 m of LT restricted cash (temporary change awaiting escrow account deposit)

# Strong balance sheet

**WCR as % of revenue**    14.1%   12.2%   13.3%   9.3%   14.6%   11.3%   13.6%



- Stable WCR\* : the improvement seen in the cash flow statement is compensated by the reclassification of 22.0 M€ of cash as other non-current assets
- DSO at **50 days in Q1 04** (47 days in Q4 03 and 58 days in Q1 03)

\*including cash outflow related to restructuring

# Revenue and Gross Profit by Business Unit

million euros	Q1 2004	Q4 2003	Quarter-on- quarter change	Q1 2003	Year-on- year change
<b>Telecom</b>					
Sales	<b>146.6</b>	176.3	<i>-16.8 %</i>	109.7	<i>+33.6 %</i>
Gross Profit	<b>49.7</b>	57.6	<i>-13.7 %</i>	30.9	<i>+61.0 %</i>
Gross Margin	<b>33.9 %</b>	32.7%	-	28.1%	-
<b>Financial Services</b>					
Sales	<b>40.4</b>	45.2	<i>-10.9 %</i>	36.3	<i>+11.3 %</i>
Gross Profit	<b>9.1</b>	7.2	<i>+27.2 %</i>	5.3	<i>+72.7 %</i>
Gross Margin	<b>22.7 %</b>	15.9 %	-	14.6 %	-
<b>ID Security</b>					
Sales	<b>10.3</b>	11.1	<i>- 7.0 %</i>	8.2	<i>+25.3 %</i>
Gross Profit	<b>2.4</b>	2.6	<i>-7.3 %</i>	1.5	<i>+61.5 %</i>
Gross Margin	<b>23.2 %</b>	23.3 %	-	18.0 %	-

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# Q1 2004: ID Services & Security Update



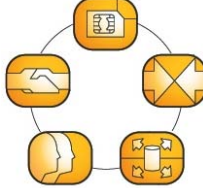
- **Market environment**

- Corporate security and government ID segments are addressing numerous and emerging businesses
- Market potential tend to be confirmed by the increasing volume of tender offers in Q1 2004

- **Gemplus**

- Contracts deployed in Oman and United Arab Emirates are still the largest contributors, in subsystems and cards
- Seasonal setback on the readers explain lower sales vs. Q4 03
- Gemplus is particularly active in contributing and promoting new solutions: Microsoft partnership, related to smart-card based solutions for network security (under Windows 2003 environment)

# Q1 2004 - Telecom Update



- **Market environment**

- Sustained momentum in the wireless cards segment
- Chinese market seasonal pattern confirmed: strong demand, but remains heavily weighted toward low-end cards
- Favorable environment due to the SIM upgrade created by new generation of handsets and enhanced SIM-based services

- **Gemplus**

- Record shipments in Q1 04: 59.7 million units, up 2.1% quarter-on-quarter despite a very strong Q4 2003, reconfirming Gemplus leadership
- Strong demand for high-end cards in developed economies
- Lower ASP, led by continuous price pressure and unfavourable regional mix, the latter reflecting seasonality
- Gross margin up 1.2 pts led by productivity gains
- Deployment of value-added services in Asia and China:
  - Location-based services in Singapore with SingTel Mobile
  - Range of targeted end-user services, based on the SIM, by China Mobile
  - Mobile proximity payment with SK Telecom: multi-application cards (3G, Visa)

# Q1 2004: Financial Services Update

- **Market environment**

- EMV roll-out continues to provide a good market dynamic in the UK, but also continental Europe, South-East Asia and South America
- Where EMV migration is taking place, customers generally order less magnetic stripe cards

- **Gemplus**

- Quarter-on-quarter, revenue was affected mainly by seasonality, but less than last year
- Gross margin improved, driven by strong growth in EMV shipments and Pay TV, helped by excellent execution
- UK market is still the largest contributor; further progress this quarter in other countries implementing EMV migration (France, Turkey, Malaysia, ...)

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# 2003 targets were achieved

- In 2003 we re-engineered our Operational Organization to achieve 4 key targets:
  - Focus on customer needs
  - Accelerate Product Life Cycle
  - Align organization to gain efficiency
  - Restructure to implement the operational strategy
- Main milestones:
  - Development of flexible & consistent industrial tool
  - Implementation of standardized worldwide processes
  - Achieve restructuring and reorganization plans

# Compete on cost

- Seamless and interoperable capacities
- Low cost plant usage strategy
- Assets usage optimization plan
- Plants optimization scheme up & running
- Strong make or buy prior analysis

# Differentiate on value

- 2 key targets to differentiate on value:
  - Promote supply chain excellence
  - Continue to develop customer care
- It has been achieved focusing our operational efforts on 3 major tasks:
  - Time to market has been decreased
  - Order lead time has been decreased
  - New offers have been developed

# First step is achieved

- Our Operational organization is:
  - Flexible
  - Lean
  - Customer focused
  - Cost effective
  - Innovative
- Manufacturing assets are better used
- Manufacturing expenses are well monitored and decreasing even with higher volumes
- Our customer are better served and satisfied

# Next steps

- Further enhancement and optimization of the operational strategy under deployment
- Continue to implement lean manufacturing
- Continuously match our operational organization to new market challenges
- Develop innovative operational and industrial ways to grow within the value chain

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# 2004 Outlook

- Gemplus is performing consistent with the turnaround plan outlined in December 2002
- For the remainder of the year, the Company's financial performance should continue to benefit from favorable market trends notwithstanding continuous selling price pressure
- Gemplus expects continued improvement in operating profit before restructuring going forward, as mentioned in the last quarterly earnings announcement. Considering first quarter results and given the current outlook for exchange rates, the Company confirms an **operating profit target of 25 million euros before restructuring for 2004 and sees potential upside to this number**

# Appendix

# Cash Flow Statement

Millions of euros	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Net income (loss)	-123,1	-38,6	-96,8	-37,9	-82,4	-13,1	-27,8	0,3
Depreciation & Amortization	26,6	40,9	40,1	20,4	39,6	16,6	18,5	15,2
Other adjustments to reconcile net income (loss) to net cash from operating activities	-11,8	0,7	2,0	-0,9	7,4	3,2	18,5	1,3
Reduction of workforce and other exit costs, provision	39,1	6,3	5,7	3,2	39,8	4,7	7,3	-0,4
Provision for other non-recurring items	66,9	0,0	42,0	0,0	0,0	0,0	8,6	0,0
Change in working capital requirement	-29,3	-0,5	24,1	30,7	-7,3	-29,0	26,5	18,9
<b>Net cash flow from operating activities excluding non-recurring items</b>	<b>-31,5</b>	<b>8,8</b>	<b>17,1</b>	<b>15,4</b>	<b>-2,8</b>	<b>-17,5</b>	<b>51,7</b>	<b>35,2</b>
Purchase of property, plant and equipment	-10,1	-9,7	-1,4	-2,7	-2,6	-4,1	-5,9	-4,0
Other elements of investing activities related to the operating cycle	-4,4	-0,1	-1,8	-1,2	-0,1	-0,6	1,4	-1,6
<b>Free cash flow excluding non-recurring items</b>	<b>-46,0</b>	<b>-0,9</b>	<b>13,9</b>	<b>11,5</b>	<b>-5,5</b>	<b>-22,2</b>	<b>47,2</b>	<b>29,6</b>
Reduction of workforce and other exit costs, cash outflow	-6,8	-7,3	-10,5	-16,2	-12,3	-17,2	-11,2	-12,8
Other non-recurring expenses	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	-22,0
<b>Free cash flow</b>	<b>-53,0</b>	<b>-8,2</b>	<b>3,4</b>	<b>-4,7</b>	<b>-17,9</b>	<b>-39,4</b>	<b>36,0</b>	<b>-5,1</b>
Sale of property, plant and equipment	0,0	0,0	1,4	0,0	0,0	0,0	0,0	0,0
Acquisitions	-11,1	-1,7	-0,8	-0,7	0,0	0,0	-0,1	-1,7
Net cash provided by (used in) financing activities	0,5	1,5	-0,3	0,2	-1,5	-2,0	-3,1	0,7
Effect of exchange rate changes on cash	25,3	-2,6	12,8	4,4	9,2	-8,3	1,3	0,0
<b>Net cash flow</b>	<b>-38,3</b>	<b>-11,0</b>	<b>16,5</b>	<b>-0,8</b>	<b>-10,2</b>	<b>-49,7</b>	<b>34,1</b>	<b>-6,1</b>
Cash at the beginning of the period	450,1	411,8	400,8	417,2	416,5	406,2	356,6	390,7
<b>Cash at the end of the period</b>	<b>411,8</b>	<b>400,8</b>	<b>417,2</b>	<b>416,5</b>	<b>406,2</b>	<b>356,6</b>	<b>390,7</b>	<b>384,6</b>