

# Gemplus 3<sup>rd</sup> Quarter 2004 Results Presentation

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# Agenda

- ▶ • **Overview**
- Q3 2004 Financials
- Business Highlights
- IFRS Update
- FY 2004 Outlook

# Q3 2004: Overview

- **Continued revenue growth**

- Revenue up 13.0 % year-on-year; up 20.5 % year-to-date, up 25.6 % currency adjusted
- Good volume development in Financial Services (EMV\*) and Telecom
- Strong volumes in Wireless: 61.2 Mu delivered in Q3 04, up 28.7 % year-on-year

- **Improved operating profit**

- Operating profit further increase to € 10.5 m (before restructuring and goodwill amortization)
- Operating profit € 23.8 m year to date, up € 65.0 m compared to last year (before restructuring and goodwill amortization)

\* EMV: Europay Mastercard Visa

# Agenda

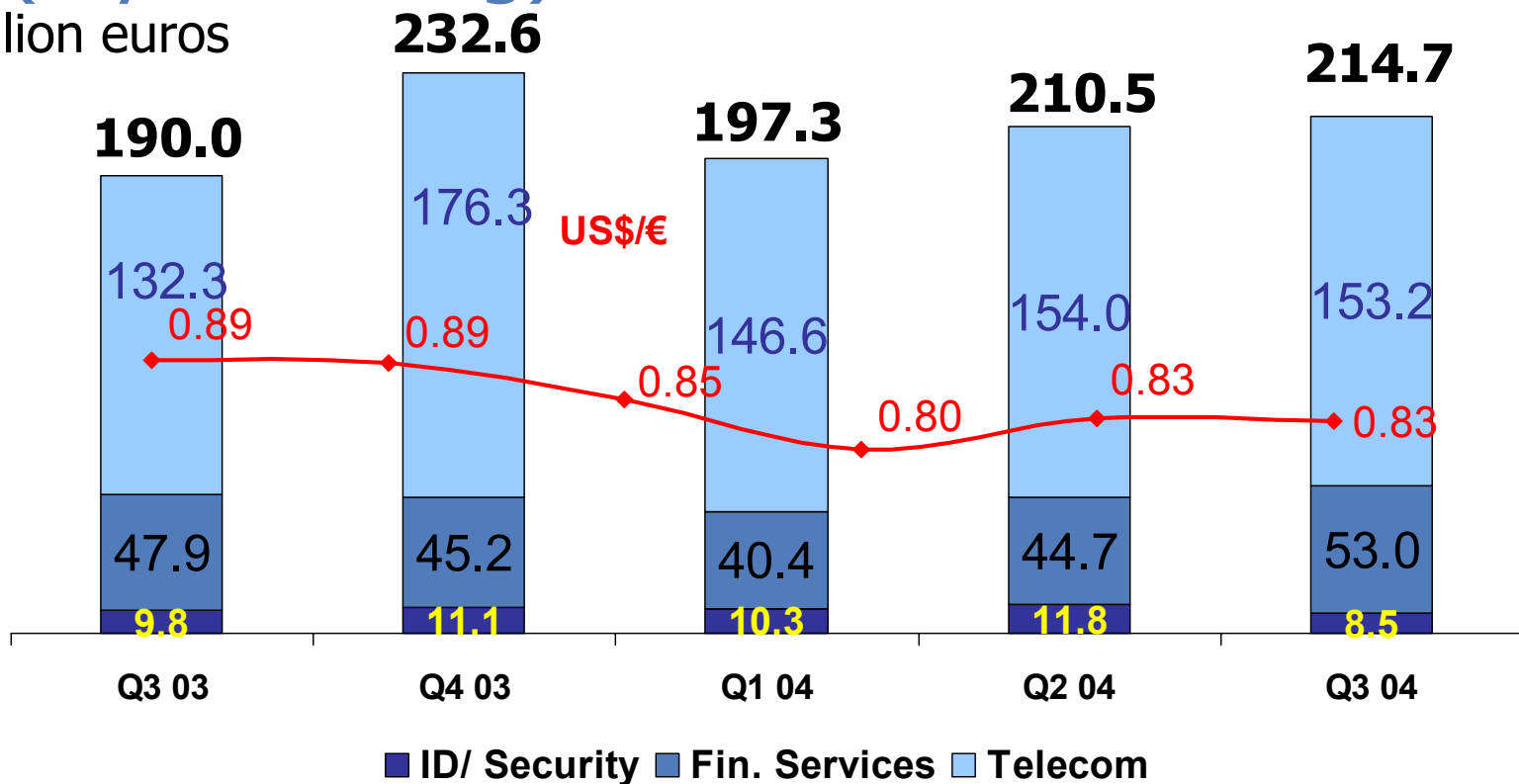
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# 3<sup>rd</sup> quarter 2004 highlights

- **Group revenue up 13.0 %** year-on-year to **€ 214.7 m**, reflecting:
  - Strong sales growth for Wireless, volumes up 28.7 % year-on-year
  - EMV roll out gained momentum, favourable seasonality of Geldkarte
  - In Identity & Security, lower activity due to project cycle
- **Gross margin at 29.8 % up 1.2 ppts year-on-year**
- Operating expenses **down 10.1%** quarter-on-quarter to € 53.5 m
- Operating profit, **€ 10.5 m** before restructuring and goodwill amortization
- Net loss: **€ 8.5 m including € 8.6 m restructuring expenses**
- **Cash up € 6.0 m to € 389.2 m**

# Revenue by business segment (1 year rolling)

In million euros



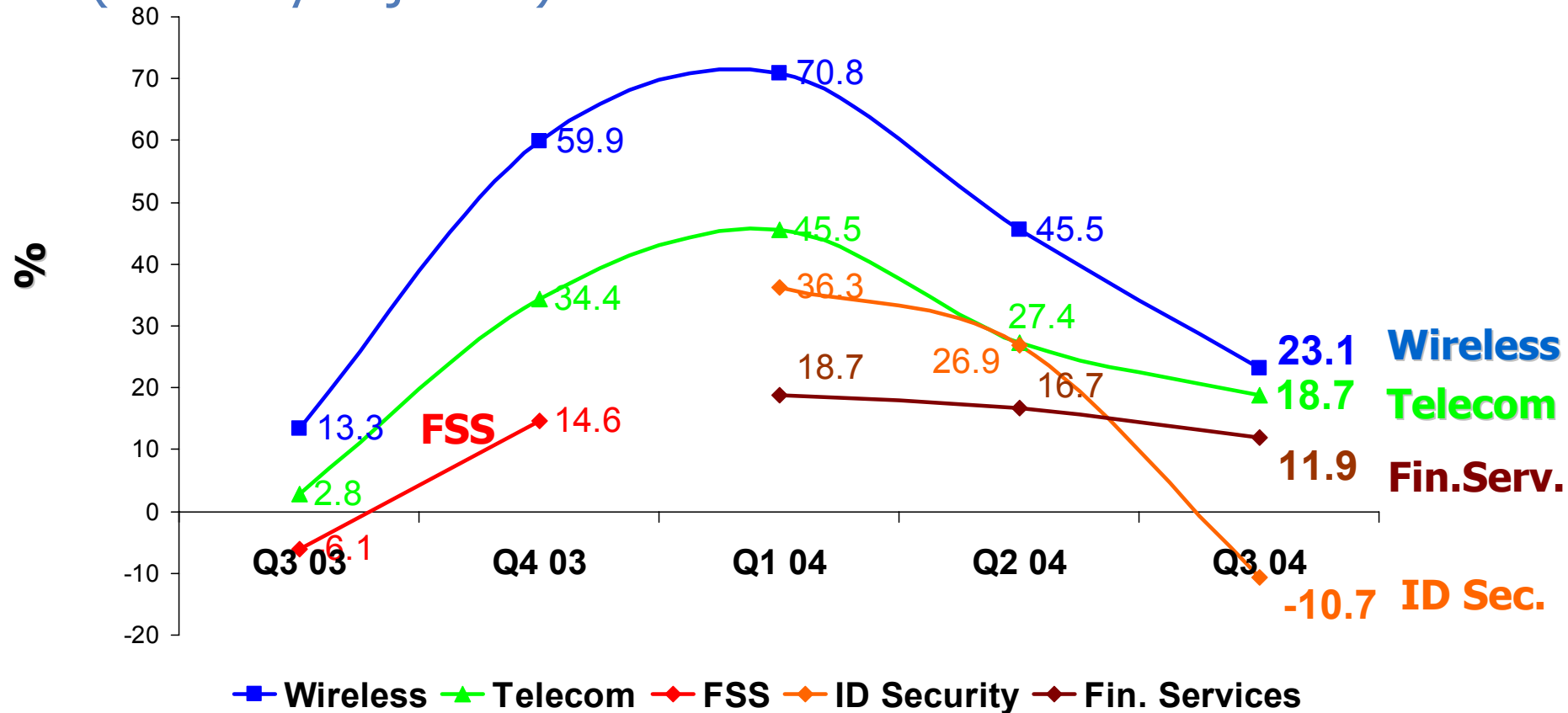
- **Year-on-year change\*** : Group revenue up 15.5 %
  - Telecom up 18.7 %, of which **Wireless up 23.1 %**
  - Financial Services up 11.9 %
  - Identity & Security down 10.7 %
- **Quarter-on-quarter change\*** : Group revenue up 2.2 %
  - Telecom stable (-0.3 %)
  - Financial Services up 18.8 %
  - Identity & Security down 28.2 %

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



Q3 2004 Financial Results

# Year-on-year revenue growth rate\* (currency adjusted)

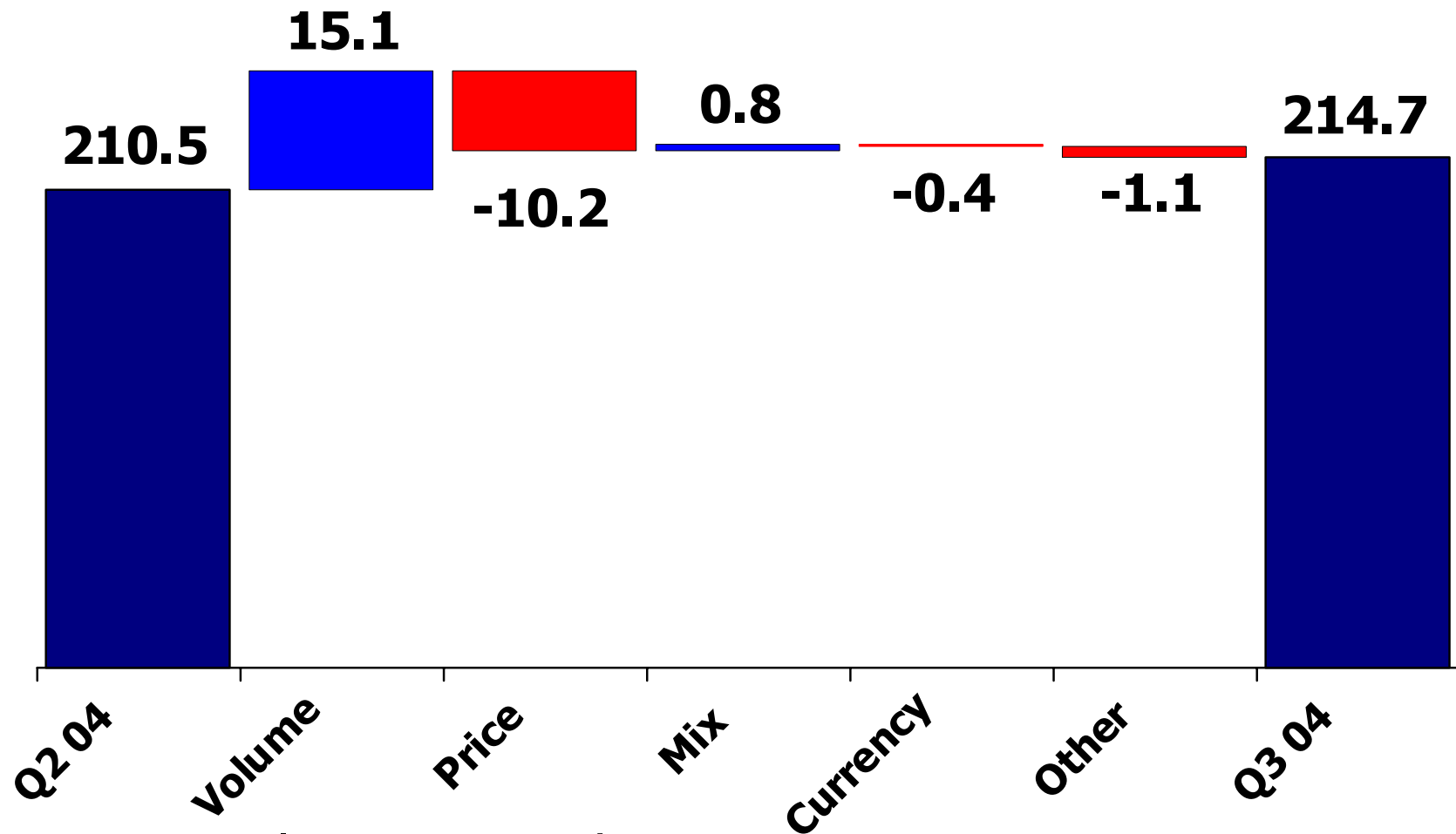


- Strong growth rate in Wireless: up 23.1 %\* year-on-year, up 44.1 % year to date

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

# Q3 2004 vs. Q2 2004 revenue

In million euros

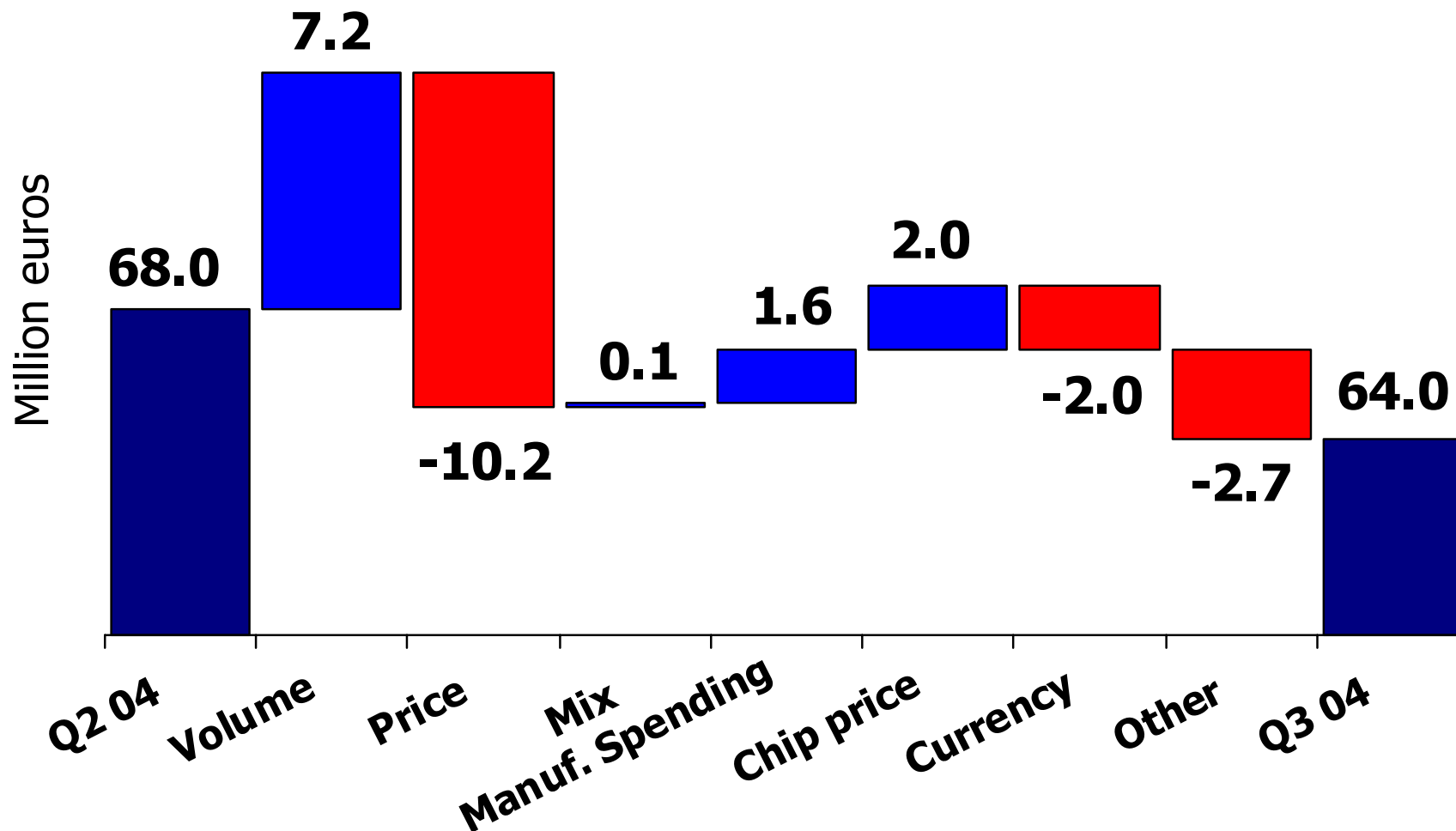


- Stronger volume, more than compensating price pressure
- Financial services BU substantially contributing to volume increase

# Q3 2004 vs. Q2 2004 gross profit

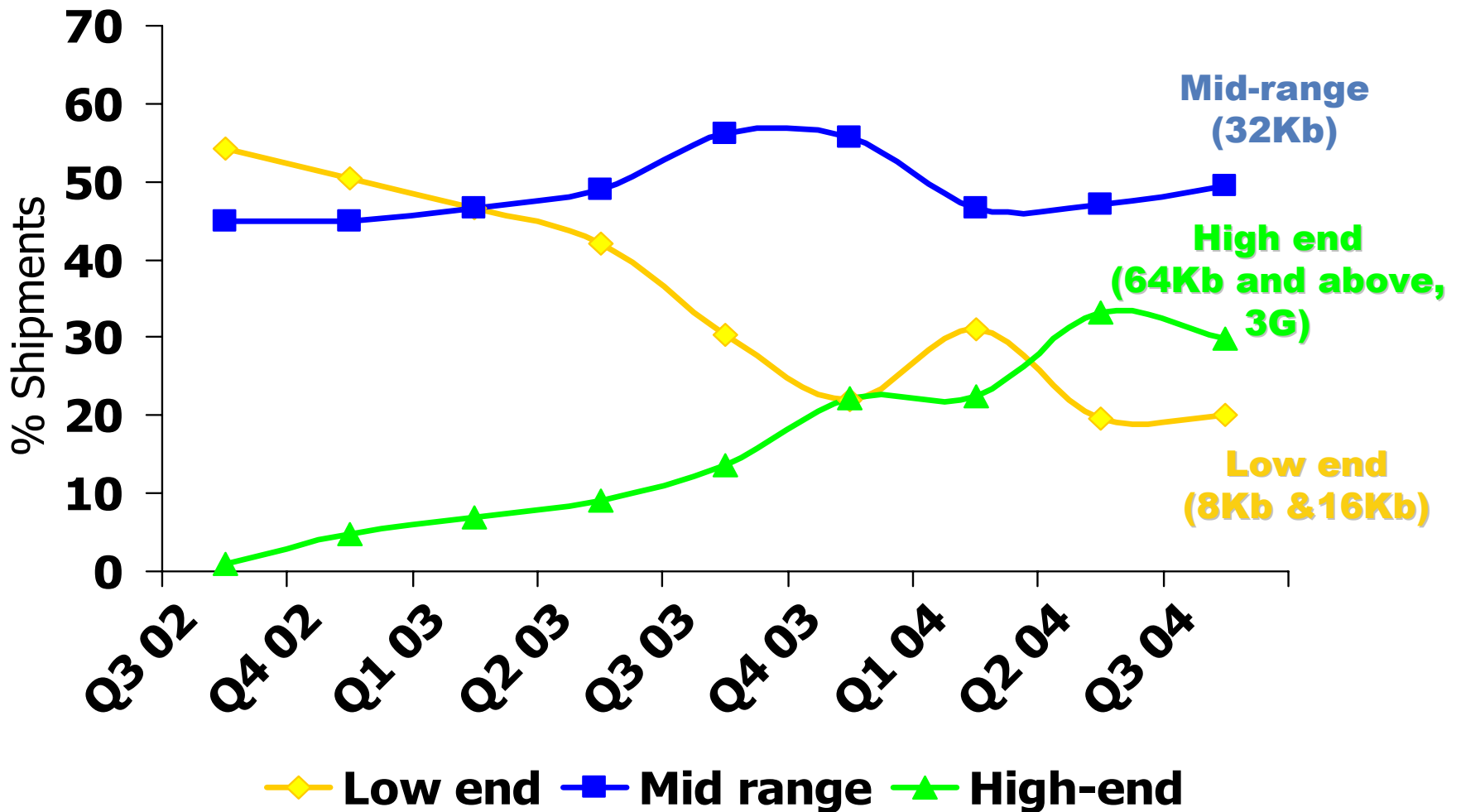
Margin **32.3 %**

**29.8 %**



- Pricing pressure this quarter not fully compensated by product mix and chip price improvement
- Manufacturing spending improvement
- Negative currency impact

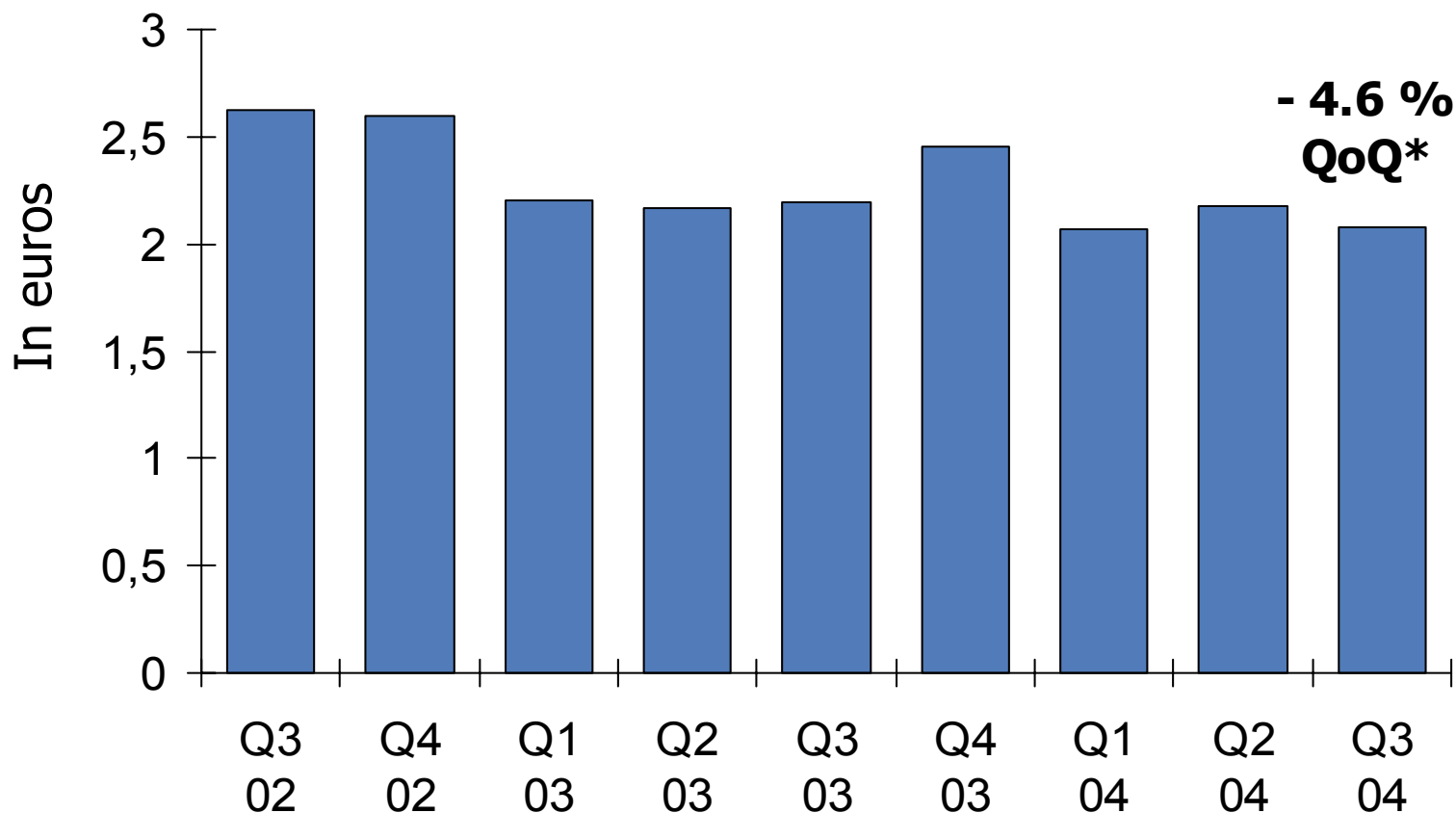
# Wireless mix trend



- Strong growth in 32Kb, some order postponement in 64Kb
- High-end cards (64Kb and above, 3G) account for 30 % of total shipments

# Wireless cards ASPs

(Average Sales Price)



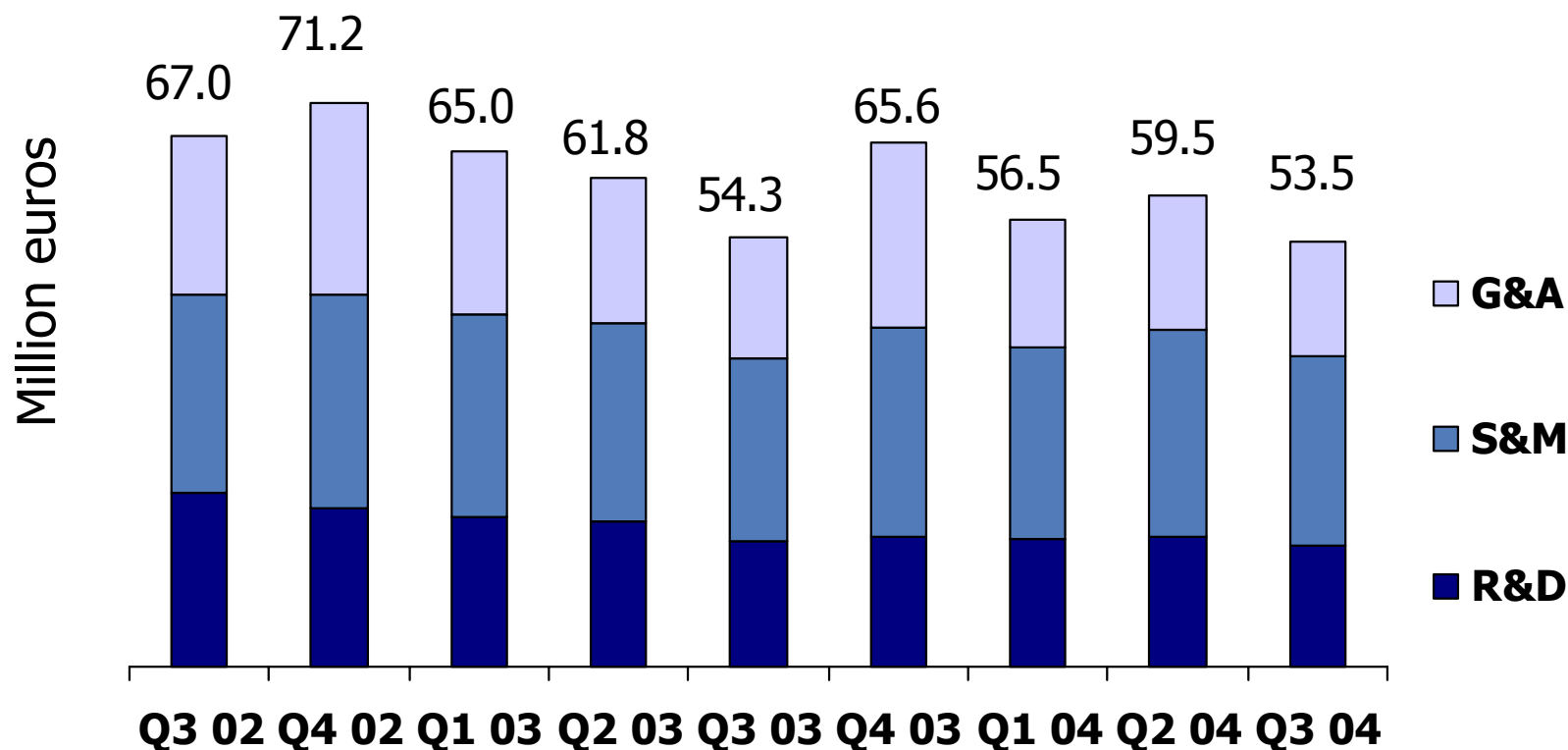
- ASP down 2.7 % year-on-year and 4.6 % quarter-on-quarter, currency adjusted, due to pricing pressure, not fully compensated this quarter by product mix improvement

\* After adjusting for currency fluctuations

# Operating expenses

(excluding goodwill and restructuring charges)

% of sales    **33%**   **36%**   **42%**   **36%**   **29%**   **28%**   **29%**   **28%**   **25%**



- Down 10.1 % quarter-on-quarter reflecting seasonal pattern and one-time items in Q2
- Down 1.6 % year-on-year despite 13.0 % revenue growth

# Restructuring and cost cutting initiatives update

<b><u>In million euros</u></b> <b><u>2003 Plan Q3 04</u></b> <b><u>actualization</u></b>	<b>Provision</b>	<b>Cash Costs</b>	<b>Headcount reduction target</b>	<b>Annualized savings target</b>
<b>Restructuring</b>	85	70	943	51
<b>Cost cutting initiative</b>				49 (completed)

- Restructuring plan in final stage:
  - Herne (German manufacturing facility) closing on track
- Headcount reduction: 839 at the end of Q3
- Majority of the remaining redundancies will be implemented in Q4 04 & Q1 05

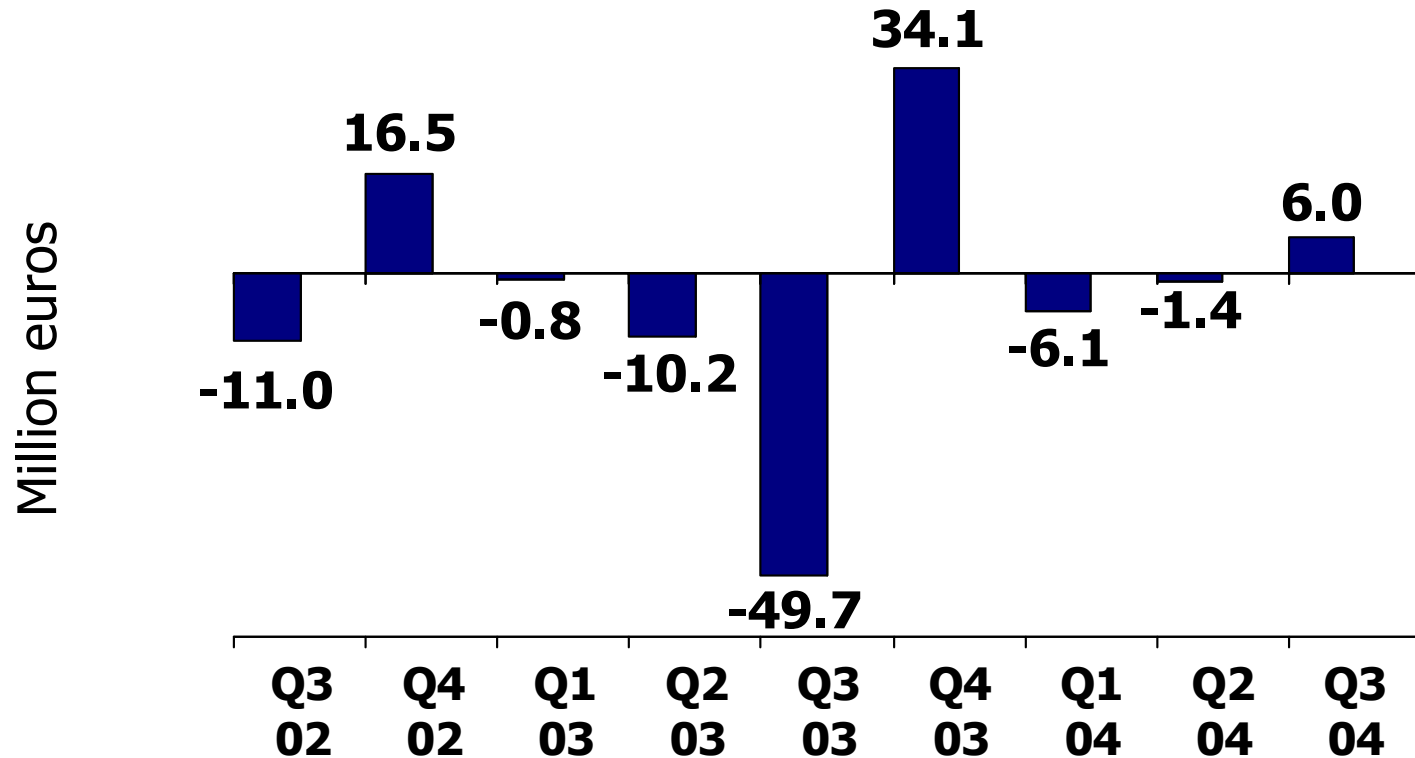
# Summarized statement of income

Million euros	Q3 04	Q2 04	Q3 03
<b>Net sales</b>	<b>214.7</b>	210.5	190.0
<b>Operating income (loss) before restructuring and goodwill</b>	<b>10.5</b>	8.5	0.0
Goodwill amortization	<b>(1.9)</b>	(1.9)	(2.0)
Restructuring	<b>(8.6)</b>	(0.2)	(7.2)
Interests, net	<b>1.5</b>	1.5	1.6
Other result net	<b>(3.4)</b>	(4.6)	(4.6)
Income tax*	<b>(6.6)</b>	(2.1)	(0.9)
<b>Net income (loss)</b>	<b>(8.5)</b>	1.1	(13.1)

- Restructuring includes:
  - € 14.3 m related to Herne closure
  - Net reversal of provisions for € 5.7 m
- Income tax includes € 5.1 m one-time mostly non-cash items

\* including non-recurring items

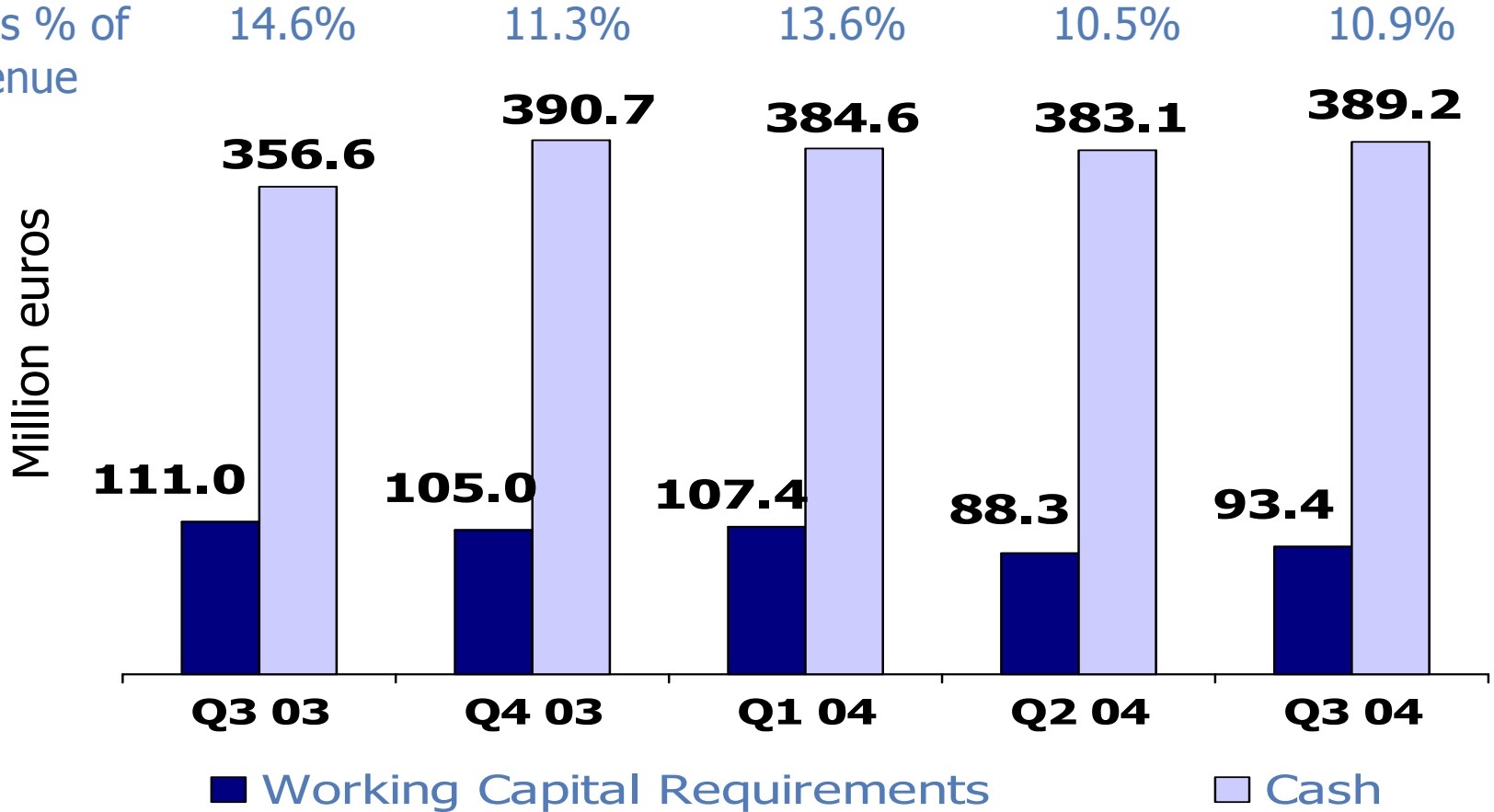
# Net cash flow



- Free cash flow of € 12.2 m before restructuring reflecting :
  - Outflow of € 3.8 m related to working capital requirement
  - € 5.6 m of capital expenditures
- Net cash flow also includes € 2.7 m of restructuring cash outflow

# Strong balance sheet

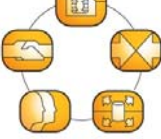
WCR as % of revenue



- WCR almost stable at 10.9 % of revenue
- DSO at **53 days in Q3 04** (51 days in Q2 04, 52 days in Q3 03)

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# Q3 2004: Telecom Business Highlights

million euros	<b>Q3 2004</b>	Q2 2004	Q-on-Q change	Q3 2003	Year-on-year change
Net Sales	<b>153.2</b>	154.0	-0.5 %	132.3	+15.8 %
Gross Profit	<b>51.7</b>	55.1	-6.3 %	39.7	+30.1 %
Gross Margin	<b>33.7 %</b>	35.8 %	-2.1 <i>ppts</i>	30.0 %	+3.7 <i>ppts</i>

- Market Environment:
  - Market growing in developing countries in all regions
  - Some order postponements to Q4 by large telecom operators
- Gemplus
  - Strong SIM card shipments recorded in Q3 2004: 61.2 MU, up 28.7 % year-on-year and stable quarter-on-quarter
  - Price pressure not fully compensated by improvement in product mix
  - Strong growth in 128K cards

# Q3 2004: Financial Services Update

million euros	<b>Q3 2004</b>	Q2 2004	Q-on-Q change	Q3 2003	Year-on-year change
Net Sales	<b>53.0</b>	44.7	<i>+18.5 %</i>	47.9	<i>+10.7 %</i>
Gross Profit	<b>10.1</b>	8.8	<i>+14.2 %</i>	12.6	<i>-20.5 %</i>
Gross Margin	<b>19.0 %</b>	19.7 %	<i>-0.7 ppt</i>	26.4 %	<i>-7.4 ppts</i>

- Market environment
  - EMV\* migration accelerating in Continental Europe and Asia
  - EMV migration starting in smaller countries
  
- Gemplus
  - Continuing good performance in EMV migration:
    - Peak sales in the U.K.
    - Strong growth in France, Turkey, Malaysia and Singapore
  - Favorable seasonality in Germany (Geldkarte)

\* EMV: Europay Mastercard Visa

# Q3 2004: ID & Security Update

million euros	<b>Q3 2004</b>	Q2 2004	Q-on-Q change	Q3 2003	Year-on-year change
Net Sales	<b>8.5</b>	11.8	-28.2%	9.8	-13.9 %
Gross Profit	<b>2.2</b>	4.1	-45.4 %	2.0	+11.2 %
Gross Margin	<b>26.6 %</b>	34.9 %	-8.3 <i>ppts</i>	20.6 %	+6.0 <i>ppts</i>

- Market environment
  - Corporate security and government ID segments addressing numerous and emerging businesses
  - Large number of long-term market opportunities
- Gemplus
  - Project cycles influencing non-linear revenue trend

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# Stock options compensation accounting – IFRS2

- **Effective date** for Gemplus : January 1<sup>st</sup>, 2005
- **Scope:** all stock option plans granted after Nov 7, 2002 and not yet vested
- **What does it change for Gemplus?**  
Stock-based compensation will now be expensed as compensation in cost of sales & operating expenses:
  - Measurement at grant date
  - Compensation measurement based on the fair market value (FMV) of the option (using either Black & Scholes, or binominal-like models)
  - Compensation is then recognized over the vesting period of the options

# Goodwill impairment – Revised IAS 36

- **Effective date** for Gemplus : January 1<sup>st</sup>, 2005.
- **What does it change for Gemplus?**  
Goodwill will not be amortized anymore but tested for impairment
- **Potential 2005 and beyond impact:** elimination of goodwill amortization

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# Outlook

- 2004
  - Strong momentum in core markets
  - Company in strong position to realize those opportunities
  - Strongest balance sheet in our industry
  - Profitable growth strategy supported by emphasis on R&D investment
  - Considering 3<sup>rd</sup> quarter results and given the current outlook for exchange rates, Gemplus **revises upward its operating income guidance from € 30 m to € 35 m for 2004**, before restructuring and goodwill
- 2005
  - For 2005, the Group continues to see strong momentum in its core markets, and will pursue its focus on cost efficiency
  - Gemplus therefore expects a further improvement in operating profit (before restructuring and goodwill)

# Appendix

# Cash Flow Statement

Millions of euros	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
Net income (loss)	-96.8	-37.9	-82.4	-13.1	-27.8	0.3	1.1	-8.5
Depreciation & Amortization	40.1	20.4	39.6	16.6	18.5	15.2	13.7	15.0
Other adjustments to reconcile net income (loss) to net cash from operating activities	2.0	-0.9	7.4	3.2	18.5	1.3	4.0	3.9
Reduction of workforce and other exit costs, provision	5.7	3.2	39.8	4.7	7.3	-0.4	0.0	8.1
Provision for other non-recurring items	42.0	0.0	0.0	0.0	8.6	0.0	0.0	0.0
Change in working capital requirement	24.1	30.7	-7.3	-29.0	26.5	18.9	-7.8	-3.8
<b>Net cash flow from operating activities excluding non-recurring items</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>	<b>11.0</b>	<b>14.7</b>
Purchase of property, plant and equipment	-1.4	-2.7	-2.6	-4.1	-5.9	-4.0	-5.7	-5.6
Other elements of investing activities related to the operating cycle	-1.8	-1.2	-0.1	-0.6	1.4	-1.6	0.4	3.1
<b>Free cash flow excluding non-recurring items</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>	<b>5.7</b>	<b>12.2</b>
Reduction of workforce and other exit costs, cash outflow	-10.5	-16.2	-12.3	-17.2	-11.2	-12.8	-6.2	-2.7
Other non-recurring expenses	0.0	0.0	0.0	0.0	0.0	-22.0	0.0	0.0
<b>Free cash flow</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>	<b>-0.6</b>	<b>9.5</b>
Sale of property, plant and equipment	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	-0.8	-0.7	0.0	0.0	-0.1	-1.7	0.8	-2.8
Net cash provided by (used in) financing activities	-0.3	0.2	-1.5	-2.0	-3.1	0.7	-1.7	-1.9
Effect of exchange rate changes on cash	12.8	4.4	9.2	-8.3	1.3	0.0	0.0	1.2
<b>Net cash flow</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>	<b>-1.4</b>	<b>6.0</b>
Cash at the beginning of the period	400.8	417.2	416.5	406.2	356.6	390.7	356.6	383.1
<b>Cash at the end of the period</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>	<b>383.1</b>	<b>389.2</b>