

# Gemplus Q1 2005 Results Presentation

## **Presenters:**

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# Agenda

- ▶ • **Overview**
- Q1 2005 Financials
- Business Highlights
- Setec acquisition
- FY 2005 Outlook

# Q1 2005: Overview

- **Q1 2005: Again strong income improvement**
  - Revenue comparison less favorable: extraordinary Q1 04
  - Operating income and net income substantially improved
  - Promising business development:
    - Gemplus driving innovation in SIM technology notably with multi-MegaByte SIM cards
    - Major win in ID & Security with Singapore e-passport
- **Important strategic move**
  - Setec: a specialist in e-passport and secure printing
  - Acquisition should support ID & Security business development

# Agenda

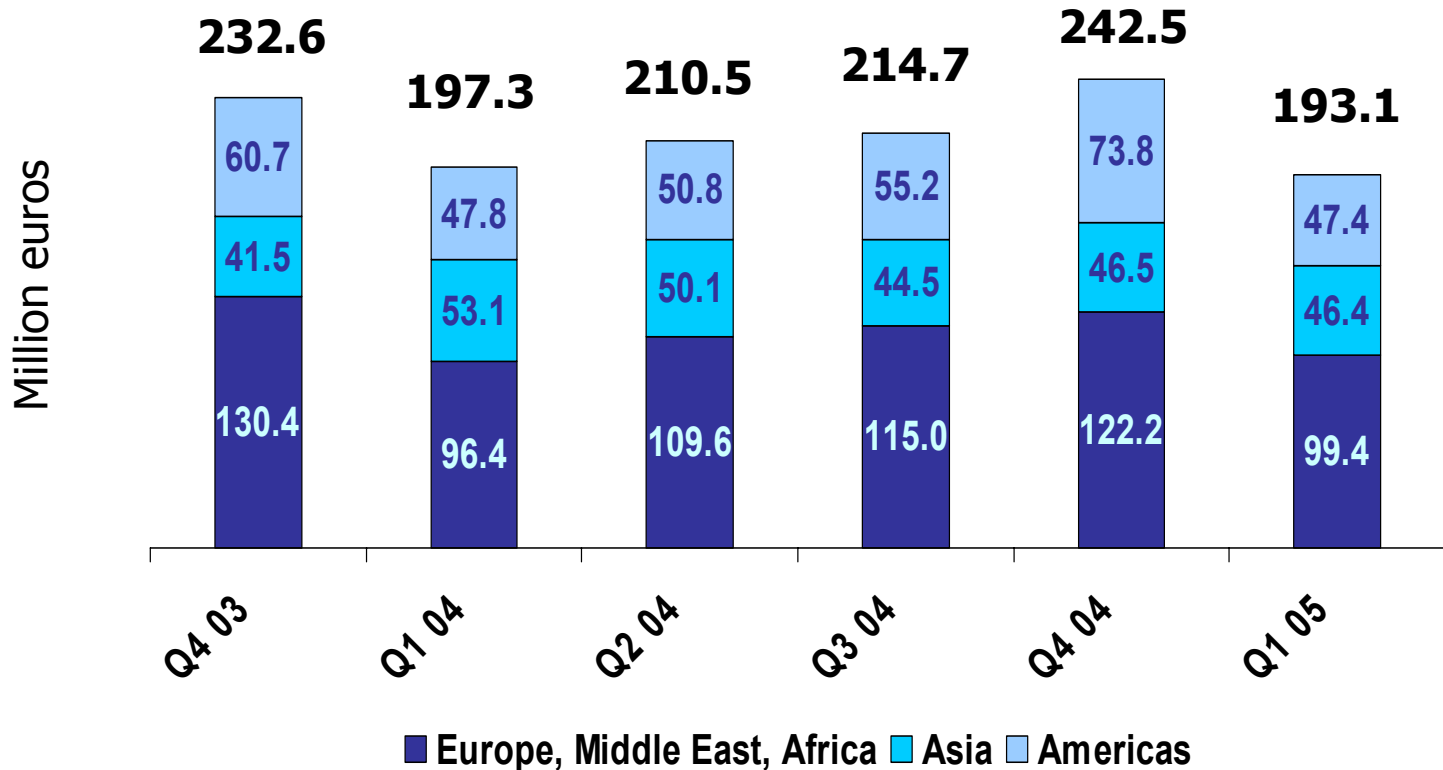
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# 1<sup>st</sup> quarter 2005 highlights

- Group revenue slightly down 2.1% (2.6 % adjusted\*) year-on-year at **€ 193.1 m**, reflecting:
  - Growth in all core businesses
  - Offset by decrease in mature and peripheral activities
  - Q1 04 exceptional, with 39 % year-on-year revenue growth (currency adj.)
- **Gross margin at 32.1 %, up 1.1 ppt year-on-year**
- Operating expenses down **5.7 %** year-on-year at € 54.4 m
- Operating income at **€ 7.5 m**, more than doubled compared to last year, resulting in a **3.9 %** operating margin
- Strong improvement in net income at **€ 7.2 m**

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

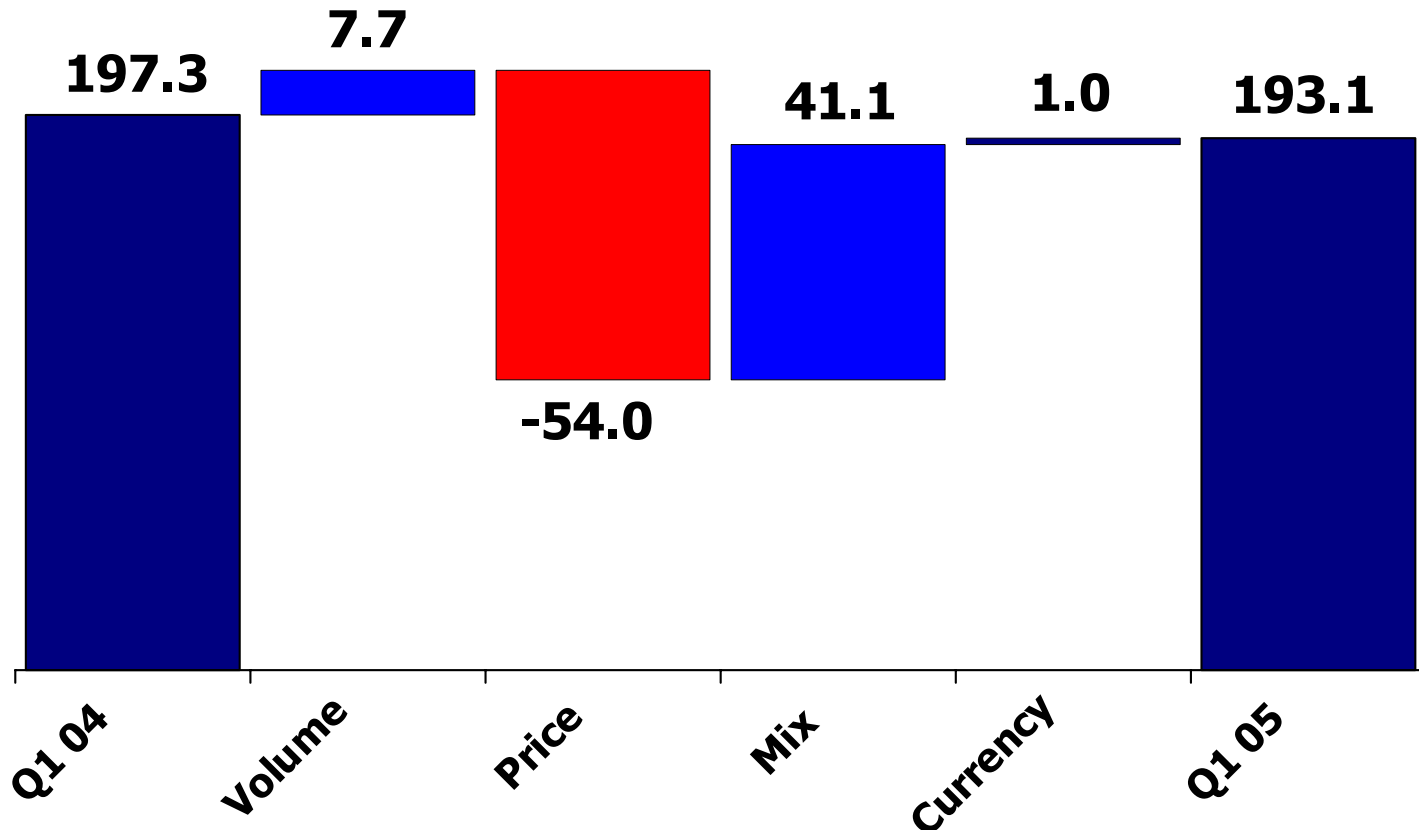
# Revenue by Region



- Higher revenue in EMEA and Americas (currency adjusted)
- Asia decrease due to lower wireless shipments in China

# Q1 2005 vs. Q1 2004 revenue

Million euros



- Wireless volume increase partly offset by prepaid phone cards decrease
- Mix reflects a continuous shift to higher end products
- Price pressure remains strong

# Operating expenses\*

(NB: include restructuring & goodwill)

% of sales

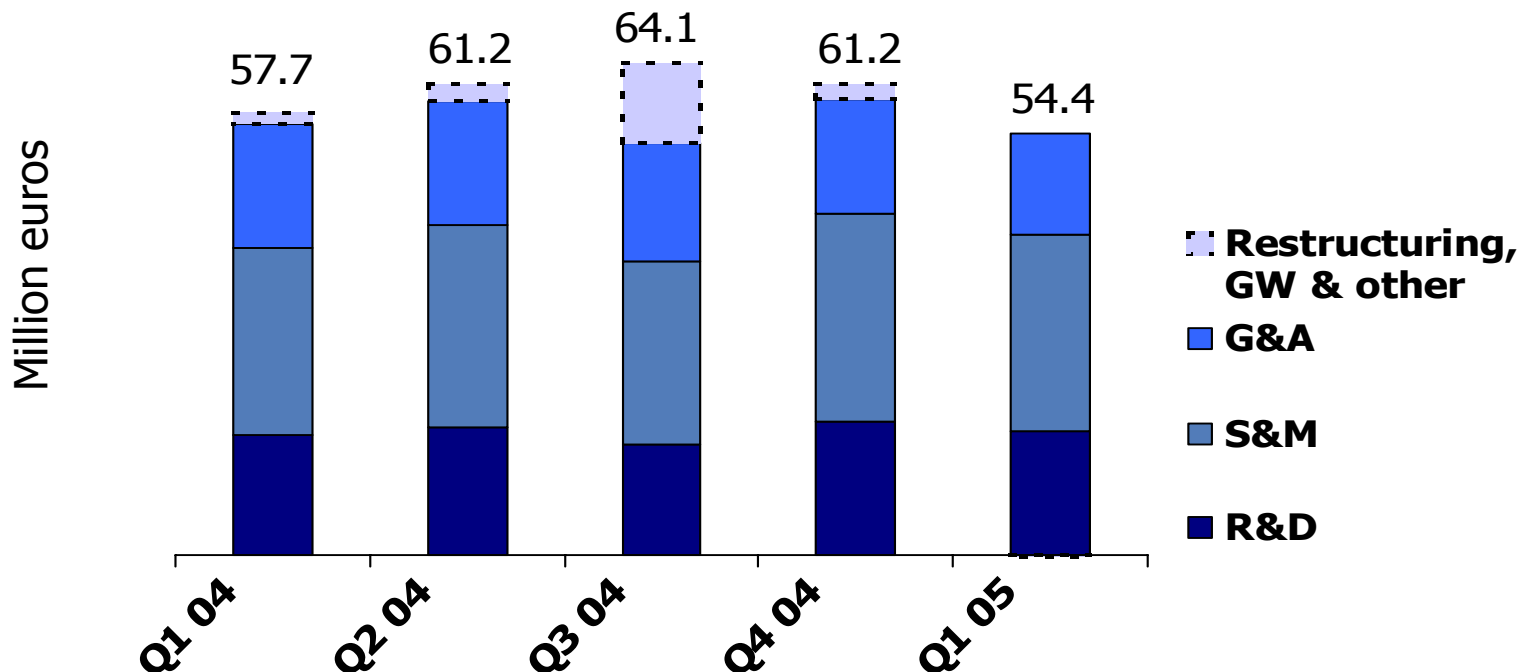
29%

29%

30%

25%

28%



- 5.7 % decrease year-on-year
- From Q1 05, includes cost of stock-options

\* Due to adoption of IAS1 (revised 2003), presentation of financial statements, the Company has modified its Consolidated Statement of Income

# Key Figures\*

Million euros	<b>Q1 05</b>	Q1 04
<b>Net sales</b>	<b>193.1</b>	197.3
<b>Gross profit</b>	<b>61.9</b>	61.2
Gross margin	<b>32.1 %</b>	31.0 %
Operating expenses	<b>54.4</b>	57.7
Operating income	<b>7.5</b>	3.5**
Operating margin	<b>3.9 %</b>	1.8 %

- Gross margin improved 1.1 ppt despite price pressure
- Operating income more than doubled

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\*\*Including € 1.7 m of restructuring and goodwill in Q1 2004

# Statement of income\*

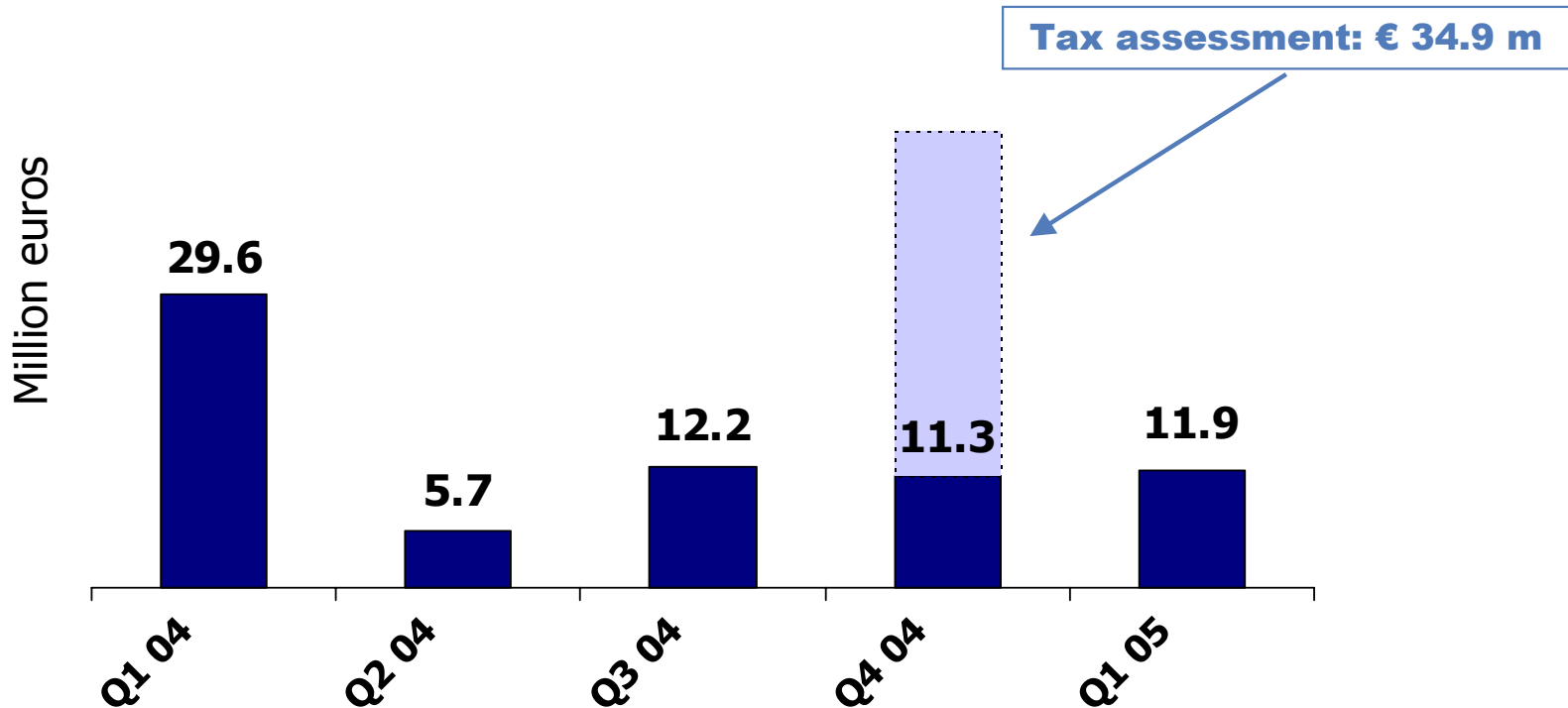
Million euros	<b>Q1 05</b>	Q1 04
<b>Net sales</b>	<b>193.1</b>	197.3
<b>Operating income</b>	<b>7.5</b>	3.5**
Interests, net	<b>1.8</b>	1.3
Share of associates	<b>(0.8)</b>	(2.8)
Other results, net	<b>0.4</b>	0.3
Income tax	<b>(1.7)</b>	(1.5)
<b>Net income (loss)</b>	<b>7.1</b>	0.9
<b>Net income (loss) Group share</b>	<b>7.2</b>	0.3

- Strong improvement in net income due to higher operating income, and better results at equity investments

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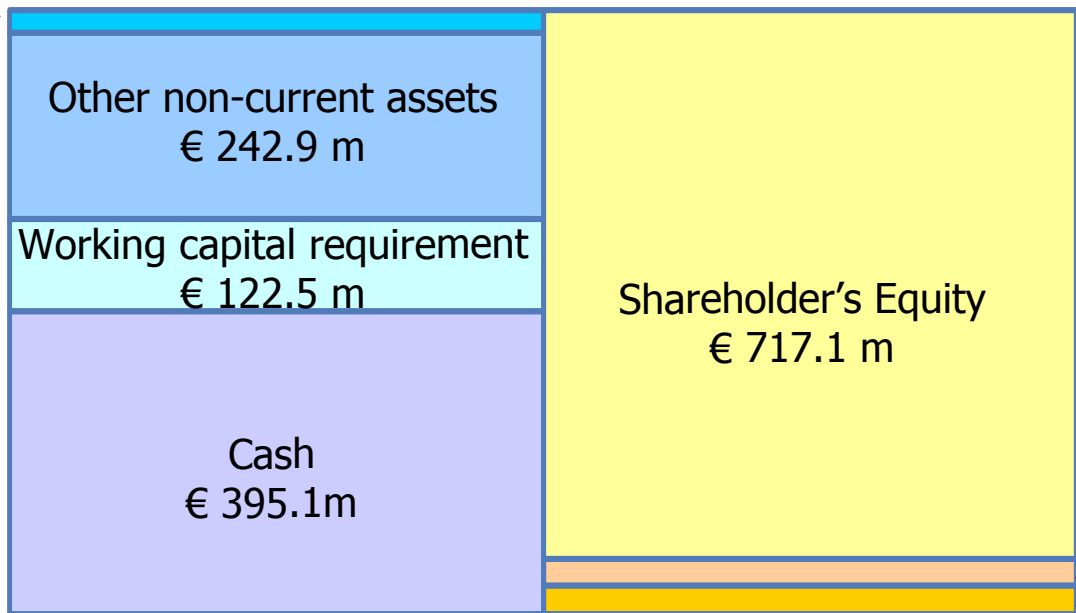
# Free cash flow excluding non recurring items



- Quarterly net cash flow at € 6.7 m
- Positive free cash flow of € 11.9 m (before non-recurring items)

# Strong balance sheet (March 31, 2005)

Goodwill  
€ 28.8 m



Non-current  
liabilities and  
provisions  
€ 35.6 m

Finance  
lease and  
bank  
overdraft  
€ 36.6 m

- Cash up € 6.7 m
- WCR at 16 % of revenue

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# Q1 2005: Telecom Business update

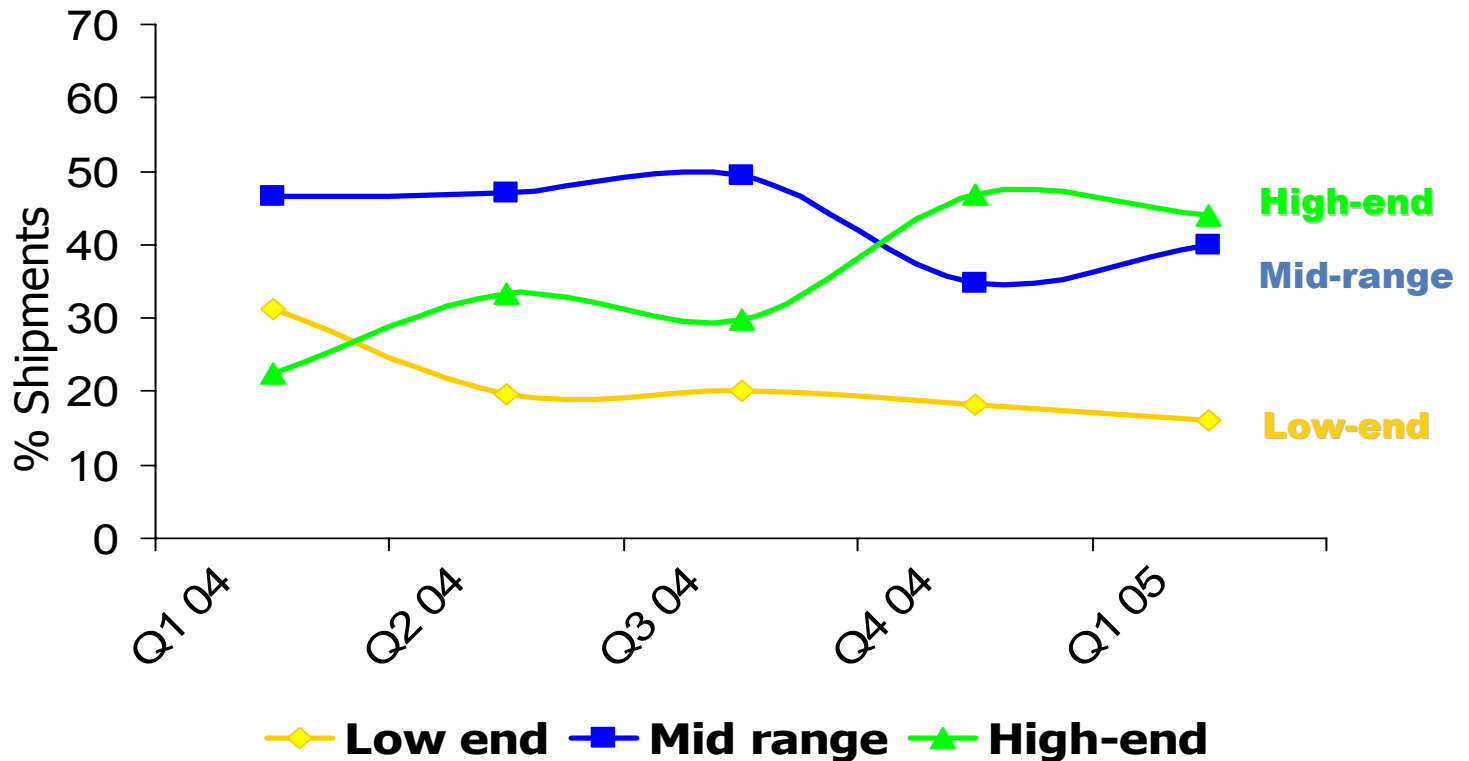


Million euros	Q1 2005	Q1 2004	% change
Net Sales	<b>144.3</b>	146.6	- 1.6 %
Gross Profit	<b>52.3</b>	49.7	+ 5.2 %
Gross Margin	<b>36.3%</b>	33.9 %	+ 2.4 pts
Operating expenses	<b>35.8</b>	37.8	- 5.2 %
Operating income	<b>16.5</b>	11.9	+ 38.5 %

- Telecom market environment:
  - Favorable momentum in emerging markets
  - 3G ramping up in developed countries
  - Continued decrease in prepaid phone cards revenue
  - Opportunities around high-end SIM cards with extended storage capacity
- Gemplus
  - Wireless revenue increase offset by decline in prepaid phone cards
  - Strong improvement in gross margin, driven by better business mix
  - Continuous focus on controlling operating expenses

**Strong operating income improvement**

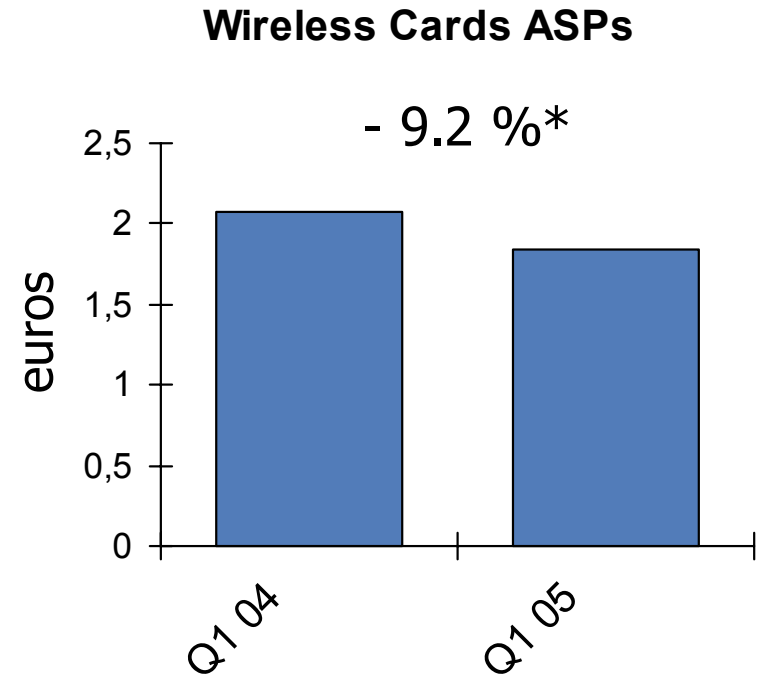
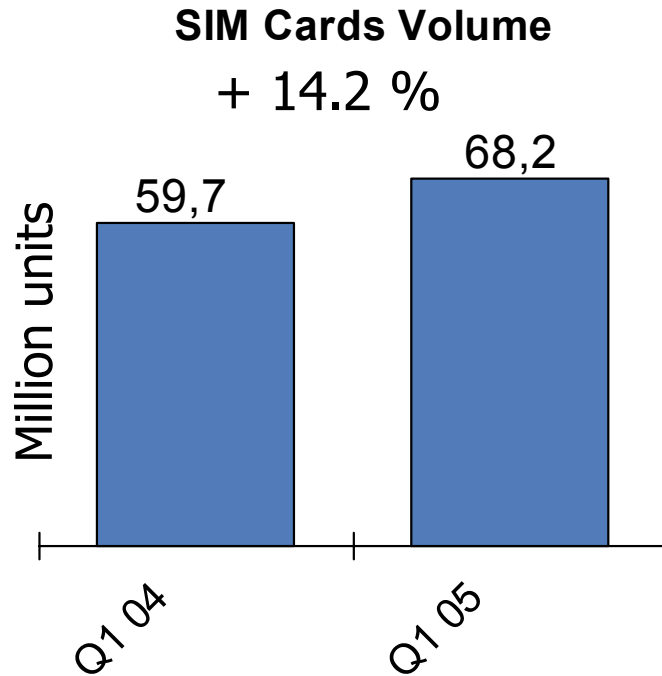
# Improving wireless mix



- 3G represents already close to 10 % of shipments
- At 44 %, share of high-end doubled year-on-year



# Q1 2005: Wireless drivers



- Volume growth driven by EMEA and Latin America
- Lower shipments in China
- Improved product mix not totally compensating for strong price pressure

\* After adjusting for currency fluctuations

# Q1 2005: Wireless



Million €	Q1 2005	Q1 2004	% change
Net Sales	<b>132.7</b>	127.1	+ 4.4 %
Gross Profit	<b>51.1</b>	48.8	+ 4.7 %
Gross Margin	<b>38.5 %</b>	38.4 %	+ 0.1 pts

- Business highlights

- Launch of GemXplore Generation driving innovation around extended memory SIM
- Easy handset access to mobile Internet-based services: live demonstration with Orange World

- Financials

- Higher sales despite strong Q1 04 comparison basis
- Stable gross margin, due to lower chip prices and improved manufacturing efficiency, fully offsetting price pressure

# Q1 2005: Financial Services Update



million euros	Q1 2005	Q1 2004	% change
Net Sales	<b>37.9</b>	40.4	- 6.0 %
Gross Profit	<b>5.8</b>	9.1	- 36.4 %
Gross Margin	<b>15.3 %</b>	22.7 %	- 7.4 pts
Operating expenses	<b>10.3</b>	11.9	- 12.6 %
Operating income	<b>- 4.6</b>	- 2.8	NM

- Market environment

- Trends in EMV\* deployment continue:
  - Roll-out and initiatives in new countries
  - Cannibalization of other banking cards

- Gemplus

- Strong growth in payment microprocessor cards driven by EMV:
  - Shipments up 20.0 % at Mu 12.8
  - Revenue up by 14.9 %
- Lower revenue in conventional cards, Pay-TV and Metering
- Gross margin influenced by one-time costs for reorganization of European manufacturing operations

\* EMV: Europay Mastercard Visa

# Q1 2005: ID & Security Update



million euros	Q1 2005	Q1 2004	% change
Net Sales	<b>10.9</b>	10.3	+ 5.8 %
Gross Profit	<b>3.8</b>	2.4	+ 57.6 %
<i>Gross Margin</i>	<b>34.6 %</b>	23.2 %	+ 11.4 ppts
Operating expenses	<b>8.2</b>	8.0	+ 2.2 %
Operating income	<b>- 4.4</b>	-5.6	NM

- Market environment
  - e-passport tenders now in an active phase
  - Growing e-government initiatives (car registration, ID cards)
- Gemplus
  - Broadened customer base
  - Moderate revenue growth, highlighted by good progress in Enterprise Security projects
  - Strong gross margin, due to substantial mix improvement



# Q1 2005: ID & Security Business Highlights

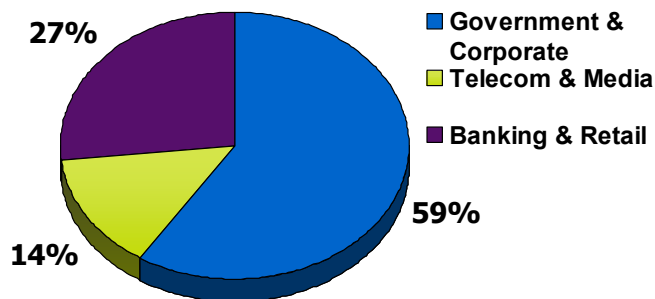
- **Singapore's new biometric passport:**
  - Passport based on GemBorder, Gemplus' contactless e-passport solution
  - Gemplus to supply chip personalization and integration service bricks
- **India's vehicle registration and drivers licence program:**
  - More than 100,000 GemSCOSTA optical smart cards delivered over program's first phase
  - World's largest program of its kind: market potential of 100 million cards over next five years, to be supplied by several vendors

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# Setec: A specialist in e-passport & secure printing

## Key Figures for 2004\*



Revenue € 58.5 m

EBIT € 4.5 m

Net Income € 4.0 m

Employees 353

- **Originally the security printing department of the Bank of Finland**
- **Based in Finland**
  - Most activities in Nordic Countries
  - R&D centers in Finland and Thailand
- **95 % of revenue in Europe**
- **Major wins in passport business**
  - Sweden
  - Denmark
  - Singapore
  - Norway

\* Local GAAP

# Setec: Acquisition

- 100% of the shares to be acquired
- Acquisition Price
  - € 30 m in cash
  - 19 m shares
  - Additional purchase price:
    - Maximum € 30 m
    - Immediately put on an escrow account
    - Depending on a defined order backlog at the end of 2005
- Closing expected end of May, subject to usual standard closing conditions including regulatory approvals.

# Setec/Gemplus combination

**Conventional ID and electronic document markets are just starting their convergence**

- Setec brings to Gemplus
  - *Technological synergies:* Polycarbonate, passport secure printing and manufacturing
  - *Geographies:* Direct presence in Nordic countries in ID&S and in the banking segment
  - *Business:* new ID & passport contracts
- Combining Setec and Gemplus skills in the ID&S field should:
  - Leverage Setec business relationship as a conventional ID document supplier
  - Expand and strengthen Gemplus subsystem strategy with a broaden offer

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# Outlook

- The Group continues to see strong momentum in its core markets. Notwithstanding the apparent slow start in the first quarter, Gemplus expects to increase revenue, excluding acquisitions, by around 10% in 2005, despite continuous selling price pressure
- The Company continues to focus on cost efficiency and is confident of being able to show a very strong improvement of operating income in 2005
- The Group also expects the Financial Services and ID & Security business units to become profitable in 2006
- With all of this, the Group is well on track to realize its mid-term objective of a 10% operating margin in 2007

# Appendix

# Cash Flow Statement

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
Net income (loss)	0,9	1,8	(8,1)	11,7	7,1
Depreciation, Amortization and Impairment	15,2	13,7	15,0	12,8	9,3
Other adjustments to reconcile net income (loss) to net cash from operating activities	0,7	3,2	3,5	(30,9)	(0,8)
Reduction of workforce and other exit costs, provision	(0,4)	0,0	8,1	(0,7)	(0,6)
Provision for other non-recurring items	-	-	-	-	-
Change in working capital requirement	18,9	(7,8)	(3,8)	26,6	0,5
<b>Net cash generated (used) in operating activities excluding non-recurring items</b>	<b>35,2</b>	<b>11,0</b>	<b>14,7</b>	<b>19,5</b>	<b>15,6</b>
Purchase of property, plant and equipment	(4,0)	(5,7)	(5,6)	(7,6)	(4,4)
Other elements in investing activities related to the operating cycle	(1,6)	0,4	3,1	(0,5)	0,6
<b>Free cash flow excluding non-recurring items</b>	<b>29,6</b>	<b>5,7</b>	<b>12,2</b>	<b>11,3</b>	<b>11,9</b>
Reduction of workforce and other exit costs, cash outflow	(12,8)	(6,2)	(2,7)	(3,6)	(3,1)
Other non-recurring expenses	(22,0)	-	-	(6,1)	-
<b>Free cash flow</b>	<b>(5,1)</b>	<b>(0,6)</b>	<b>9,5</b>	<b>1,7</b>	<b>8,8</b>
Sales of Property, Plant and Equipment	-	-	-	1,3	-
Acquisitions	(1,7)	0,8	(2,7)	(2,3)	-
Net cash provided by (used in) financing activities	0,7	(1,7)	(1,9)	(0,4)	(2,2)
Effect of exchange rates on cash and cash equivalents	0,0	0,0	1,2	(1,0)	0,1
<b>Net cash flow</b>	<b>(6,1)</b>	<b>(1,4)</b>	<b>6,0</b>	<b>(0,8)</b>	<b>6,7</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>390,7</b>	<b>384,6</b>	<b>383,1</b>	<b>389,2</b>	<b>388,4</b>
<b>Cash and cash equivalents, end of the period</b>	<b>384,6</b>	<b>383,1</b>	<b>389,2</b>	<b>388,4</b>	<b>395,1</b>