Gemplus
2nd Quarter 2004
Results Presentation

Presenters: Alex Mandl
Frans Spaargaren
Jacques Seneca

President & CEO
Executive Vice-President CFO
Executive Vice-President
R&D, ID & Security Services
Disclaimer

Some of the statements contained in this presentation constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activities, performance, or achievements expressed or implied by such forward-looking statements. Actual events or results may differ materially. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this presentation include, but are not limited to: trends in wireless communication and mobile commerce markets; our ability to develop new technology, and the effects of competing technologies developed and expected intense competition generally in our main markets; profitability of our expansion strategy; challenges to or loss of our intellectual property rights; our ability to establish and maintain strategic relationships in our major businesses; our ability to develop and take advantage of new software and services; and the effect of future acquisitions and investments on our share price. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such forward-looking statements. The forward-looking statements contained in this presentation speak only as of this presentation. We are under no duty to update any of the forward-looking statements after this date to conform such statements to actual results or to reflect the occurrence of anticipated results.
Agenda

- Overview
  - Q2 2004 Financials
  - Business Highlights
  - R&D Strategy
  - FY 2004 Outlook
Q2 2004: Overview

• A further quarter of solid growth
  • Revenue up 22.1 % year-on-year
  • Sustained development across all business segments
  • Leadership position confirmed

• Confirmation of margin recovery
  • Operating profit: € 8.5 m, before restructuring and goodwill amortization

• Highlight on R & D strategy
Agenda

• Overview

► • Q2 2004 Financials
  • Business Highlights
  • R&D Strategy
  • FY 2004 Outlook
2nd quarter 2004 highlights

• **Group revenue up 22.1 %** year-on-year to €210.5 m, reflecting:
  - Very strong sales growth for Wireless, up 42.0 % year-on-year
  - Sustained growth in EMV Program
  - In Identity & Security, successful implementation of the strategy focused on subsystem

• **Highest gross margin in 3 years : 32.3%** (up 1.3 ppt QoQ)

• Operating expenses up **5.4 %** quarter-on-quarter

• Operating profit: **€8.5 m** before restructuring and goodwill amortization

• Net income: **€1.1 m**

• **Stable cash, at €383.1 m**
Revenue by business segment (1 year rolling)

In million euros

<table>
<thead>
<tr>
<th></th>
<th>Q2 03</th>
<th>Q3 03</th>
<th>Q4 03</th>
<th>Q1 04</th>
<th>Q2 04</th>
</tr>
</thead>
<tbody>
<tr>
<td>ID/ Security</td>
<td>38.8</td>
<td>47.8</td>
<td>45.2</td>
<td>40.4</td>
<td>44.7</td>
</tr>
<tr>
<td>Fin. Services</td>
<td>124.2</td>
<td>132.3</td>
<td>176.3</td>
<td>146.6</td>
<td>154.0</td>
</tr>
<tr>
<td>Telecom</td>
<td>9.4</td>
<td>9.8</td>
<td>11.1</td>
<td>10.3</td>
<td>11.8</td>
</tr>
</tbody>
</table>

- **Year-on-year change**: Group revenue up 25.0 %
  - Telecom up 27.4 %, of which **Wireless up 45.5 %**
  - Financial Services up 16.7 %
  - Identity & Security up 26.9 %

- **Quarter-on-quarter change**: Group revenue up 4.3 %
  - Telecom up 2.6 %
  - Financial Services up 8.6 %
  - Identity & Security up 12.1 %

* After adjusting for currency fluctuations, discontinued operations and acquisitions
Year-on-year revenue growth rate (currency adjusted)

- Favorable development in all business segments
- Telecom revenue driven by very strong growth in Wireless

* After adjusting for currency fluctuations, discontinued operations and acquisitions
Product mix improvement more than offsets continuous pricing pressure

Volume improvement mainly related to Geldkarte, and Telecom software & services sales
Strong product mix improvement, offsetting price pressure

Manufacturing spending improvement, due to productivity improvement
Wireless cards ASPs
(Average Sales Price)

- ASP up 4.8 %, quarter-on-quarter, currency adjusted, due to more favorable product mix, more than compensating pricing pressure
- ASP up 4.1 % year-on-year, currency adjusted, driven by product mix improvement over the last 12 months

* After adjusting for currency fluctuations
Migration to high-end products

- Ongoing migration towards higher-end cards
- High-end cards (64Kb and above, 3G) account now for 33.4% of total shipments (vs. 22.4% in Q1 04)
Operating expenses
(excluding goodwill and restructuring charges)

% of sales  35%  33%  36%  42%  36%  29%  28%  29%  28%

- 5.4 % operating expenses increase quarter-on-quarter mainly related to sales & marketing
Restructuring and cost cutting initiatives update

<table>
<thead>
<tr>
<th>In million euros</th>
<th>Provision</th>
<th>Cash Costs</th>
<th>Headcount reduction target</th>
<th>Annualized Savings Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2003 Plan Q2 04 actualization</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring</td>
<td>85</td>
<td>70</td>
<td>951</td>
<td>49</td>
</tr>
<tr>
<td>Cost cutting initiative</td>
<td></td>
<td></td>
<td></td>
<td>49</td>
</tr>
</tbody>
</table>

- Restructuring plan in final stage:
  - Operating with one specialist PVC site in Europe (Havant in the UK)
  - Concentrating activities (mainly personalization) for Germany on one site in Filderstadt
  - Closing other German manufacturing facility in Herne

- Costs related are expected to be booked during Q3 04
- Headcount reduction: 827 at the end of Q2
- 14 redundancies implemented in Q2
## Statement of income

<table>
<thead>
<tr>
<th>Million euros</th>
<th>Q2 04</th>
<th>Q1 04</th>
<th>Q2 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>210.5</td>
<td>197.3</td>
<td>172.4</td>
</tr>
<tr>
<td>Operating income (loss) before restructuring and goodwill</td>
<td>8.5</td>
<td>4.8</td>
<td>(13.9)</td>
</tr>
<tr>
<td>Goodwill amortization*</td>
<td>(1.9)</td>
<td>(1.9)</td>
<td>(4.1)</td>
</tr>
<tr>
<td>Non recurring items</td>
<td>(0.7)</td>
<td>0.2</td>
<td>(65.7)</td>
</tr>
<tr>
<td>Interests, net</td>
<td>1.5</td>
<td>1.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Other result net*</td>
<td>(4.6)</td>
<td>(2.6)</td>
<td>0.2</td>
</tr>
<tr>
<td>Income tax*</td>
<td>(1.7)</td>
<td>(1.5)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>1.1</td>
<td>0.3</td>
<td>(82.4)</td>
</tr>
</tbody>
</table>

- Improvement in operating income
- Q2 04 “Other result” mainly includes the cost of hedging

* Adjusted for non recurring items
**Net cash flow change**

- Free cash flow of €5.7 m before restructuring reflecting:
  - Profitability improvement
  - Outflow of €7.8 m related to working capital requirement, reflecting growth of the business
  - €5.7 m of capital expenditures
- Net cash flow also includes €6.2 m of restructuring expenses

*Including -€22 m restricted cash related to a litigation*
Strong balance sheet

WCR as % of revenue

<table>
<thead>
<tr>
<th></th>
<th>Q2 03</th>
<th>Q3 03</th>
<th>Q4 03</th>
<th>Q1 04</th>
<th>Q2 04</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCR as % of revenue</td>
<td>9.3%</td>
<td>14.6%</td>
<td>11.3%</td>
<td>13.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Million euros</td>
<td>406.2</td>
<td>356.6</td>
<td>390.7</td>
<td>384.6</td>
<td>383.1</td>
</tr>
<tr>
<td>Cash</td>
<td>64.5</td>
<td>111.0</td>
<td>105.0</td>
<td>107.4</td>
<td>88.3</td>
</tr>
</tbody>
</table>

- Working Capital Requirements
- Cash

- WCR down 17.8% led by:
  - The reclassification of €34 m of long-term liability to short-term, related to the tax assessment in France previously disclosed
  - Tax assessment payment of €34 m before December 31, 2004 of which approx. €23 m is expected to be temporary (through the use of carry backs)

- DSO almost stable at **51 days in Q2 04**
  (50 days in Q1 04, 54 days in Q2 03)
## Revenue and gross profit by business segment

<table>
<thead>
<tr>
<th>million euros</th>
<th>Q2 2004</th>
<th>Q1 2004</th>
<th>Quarter-on-quarter change</th>
<th>Q2 2003</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecom</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>154.0</td>
<td>146.6</td>
<td>+5.1 %</td>
<td>124.2</td>
<td>+24.0 %</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>55.1</td>
<td>49.7</td>
<td>+10.9 %</td>
<td>38.6</td>
<td>+42.8 %</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>35.8 %</td>
<td>33.9%</td>
<td>-</td>
<td>31.1 %</td>
<td>-</td>
</tr>
<tr>
<td><strong>Financial Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>44.7</td>
<td>40.4</td>
<td>+10.7 %</td>
<td>38.8</td>
<td>+15.1 %</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>8.8</td>
<td>9.1</td>
<td>-3.8 %</td>
<td>6.8</td>
<td>+29.3 %</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>19.7 %</td>
<td>22.7%</td>
<td>-</td>
<td>17.5 %</td>
<td>-</td>
</tr>
<tr>
<td><strong>Identity &amp; Security</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>11.8</td>
<td>10.3</td>
<td>+14.3 %</td>
<td>9.4</td>
<td>+26.5 %</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>4.1</td>
<td>2.4</td>
<td>+71.9 %</td>
<td>2.4</td>
<td>+68.7 %</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>34.9 %</td>
<td>23.2 %</td>
<td>-</td>
<td>26.2 %</td>
<td>-</td>
</tr>
</tbody>
</table>
Agenda

- Overview
- Q2 2004 Financials

➤ Business Highlights
- R&D Strategy
- FY 2004 Outlook
Q2 2004: Telecom Business Highlights

• Market Environment:
  ▪ Further quarter of sustained development of Wireless all over the world
  ▪ Leading European operators relying increasingly on the SIM for operator and end-user centric services such as for phonebook and service provisioning

• Gemplus
  ▪ Strong SIM card shipments recorded in Q2 2004: 59.6 MU, up 40.4% year-on-year and stable quarter-on-quarter
  ▪ Product mix is improving, offsetting price pressure
  ▪ 128K cards already delivered to “3” UK and Globe Telecom (Philippines)
Q2 2004: Financial Services Update

- Market environment
  - EMV roll-out gaining momentum beyond the UK
  - Frost & Sullivan Competitive Strategy Award recognizes gain of substantial market share by Gemplus

- Gemplus
  - Continuing good performance in EMV migration:
    - Progress in Malaysia and South America
    - Additional contribution from France and Scandinavia
    - New contracts signed in emerging markets
  - Reduction of magnetic stripe cards revenue
  - Strong sales in Pay-TV and contactless cards for transportation

* EMV: Eurocard Mastercard Visa
Q2 2004: ID & Security Update

**Market environment**
- Corporate security and government ID segments are addressing numerous and emerging businesses
- Strong market growth potential
- Business managed in a project mode

**Gemplus**
- Successful implementation of strategy focused on subsystems based on software components, value-added services and high-end cards
- Conjunction of several new projects in Europe and United States leading to substantial gross margin improvement
- Year-on-year growth also driven by the UAE project, which offsets the completion of the successful delivery of ID solutions to the Royal Oman Police
Agenda

• Overview
• Q2 2004 Financials
• Business Highlights

➤ • R&D Strategy
• FY 2004 Outlook
Gemplus positioning

• Gemplus is a pure player dedicated to the “smartcard world”

• BUT, Gemplus is not a pure smartcard “manufacturer”:

• We cover all smartcard related technologies for the benefit of our customers
  ▪ Cards
  ▪ Smartcard readers
  ▪ Middleware
  ▪ OTA server software
  ▪ Personalization software
  ▪ Implementation and integration services
  ▪ ...

• R&D is organized to build solutions for all these activities, to protect long term Gemplus value and grant profitability and sustainability versus smartcard manufacturers
R&D Strategic Highlights

Gemplus’ R&D investment supports its leadership strategy:

- Differentiation: high-end solution & services, and global offering
- Low cost cards for commodity market
- Active promotion of smart card adoption in new areas
- Continuous improvement efforts to lead state-of-the-art in terms of products functionalities and quality
Differentiation

• R&D investment supports leadership strategy:

• Differentiation: high-end solution and services, global offering:
  • Wireless:
    ▪ 3G card efficiency,
    ▪ Over The Air high performance platforms for remote card management
    ▪ Card issuing and card management flexibility
  
• Financial Services
  ▪ Multi-applications cards: loyalty
  ▪ High end personalization solutions

• ID: subsystems approach
  ▪ Combi and contactless cards: security and flexibility (Java based),
  ▪ Issuing solutions
  ▪ Cards management system partnerships

• IT: cards and environment
  ▪ High end cards (Pki based, contact/contactless)
  ▪ Cards Applets
  ▪ Readers & middleware
Low cost products development

• Development of low cost cards for commodity markets:
  • Financial Services
  • Low end part of the Wireless Market

• Chip multisourcing policy
  • Fast porting capabilities
  • High level of expertise in silicon technology: qualification of new sources

• Low costs development centers

• Product rationalization:
  • Value analysis
  • Design to cost
Active promotion of smart card adoption in new markets

Thanks to a Technology Incubator

- **Wifi:**
  - seamless network authentication

- **TPM:**
  - Active participation to the Trusted Computing Group Initiative.
  - Promote complementarities of the smartcard with TPM

- **Handsets applets security:**
  - promote role of the card to secure handset Java applets
  - Protect content delivery (DRM)

- **S-MMC:**
  - Protect content delivery
Leading product development process

Using Software Quality Management Method:

• Capability Maturity Model (CMM)

• At a time when:
  ▪ more and more small actors propose tentative smartcard OS implementation
  ▪ OS are getting more and more complex

• CMM methodology increasingly used to grant software quality level
  ▪ More and more advanced customers are asking for CMM strategy information from their vendors

• Gemplus is leading the way towards CMM adoption in the smartcard arena
  ▪ All software development teams in France and Singapore are CMM level 2 certified
R&D highlights

• More than 630 R&D engineers in the world

• 4 Research & Development centers
  ▪ Organization based on expertise centers:
    • Research & Security
    • Operating systems Platform
    • Product Development Center
  ▪ With cost optimized structure
  ▪ And proximity to customers combining R&D and Integration Services resources
    • Europe, Asia-Pacific, China, USA

• Significant patent portfolio:
  ▪ more than 2400 patents filled

• An extra 300 technical consultants throughout the world for integration and customer support
R&D supporting our development of sales

• Wireless:
  ▪ 100% of 3G network supplied already in 2003
  ▪ Strong product mix evolution

• ID/ Security:
  ▪ Corporate Security market penetration: Boeing, Pfizer
  ▪ ID: complex project “subsystems” leadership: OMAN and UAE

Conclusion:
R&D strategy of differentiation is enabling Gemplus to strengthen its relation of partnership with our customers and to maintain our long lasting leadership
Agenda

• Overview
• Q2 2004 Financials
• Business Highlights
• R&D Strategy

▶ • FY 2004 Outlook
2004 Outlook

• Further evidence of Gemplus strong assets to capture markets opportunities:
  ▪ Leading position in the industry
  ▪ Innovation R&D strength
  ▪ Global footprint
  ▪ Seamless manufacturing capacity
  ▪ Strong balance sheet

• Considering second quarter results and given the current outlook for exchange rates, the Company revises upward its operating income guidance in the range of € 30 m for 2004, before restructuring and goodwill
Appendix
## Cash Flow Statement

### Millions of euros

<table>
<thead>
<tr>
<th>Description</th>
<th>Q3 2002</th>
<th>Q4 2002</th>
<th>Q1 2003</th>
<th>Q2 2003</th>
<th>Q3 2003</th>
<th>Q4 2003</th>
<th>Q1 2004</th>
<th>Q2 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>-38,6</td>
<td>-96,8</td>
<td>-37,9</td>
<td>-82,4</td>
<td>-13,1</td>
<td>-27,8</td>
<td>0,3</td>
<td>1,1</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>40,9</td>
<td>40,1</td>
<td>20,4</td>
<td>39,6</td>
<td>16,6</td>
<td>18,5</td>
<td>15,2</td>
<td>13,7</td>
</tr>
<tr>
<td>Other adjustments to reconcile net income (loss) to net cash from operating activities</td>
<td>0,7</td>
<td>2,0</td>
<td>-0,9</td>
<td>7,4</td>
<td>3,2</td>
<td>18,5</td>
<td>1,3</td>
<td>4,0</td>
</tr>
<tr>
<td>Reduction of workforce and other exit costs, provision</td>
<td>6,3</td>
<td>5,7</td>
<td>3,2</td>
<td>39,8</td>
<td>4,7</td>
<td>7,3</td>
<td>-0,4</td>
<td>0,0</td>
</tr>
<tr>
<td>Provision for other non-recurring items</td>
<td>0,0</td>
<td>42,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>8,6</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td>Change in working capital requirement</td>
<td>-0,5</td>
<td>24,1</td>
<td>30,7</td>
<td>-7,3</td>
<td>-29,0</td>
<td>26,5</td>
<td>18,9</td>
<td>-7,8</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities excluding non-recurring items</strong></td>
<td>8,8</td>
<td>17,1</td>
<td>15,4</td>
<td>-2,8</td>
<td>-17,5</td>
<td>51,7</td>
<td>35,2</td>
<td>11,0</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>-9,7</td>
<td>-1,4</td>
<td>-2,7</td>
<td>-2,6</td>
<td>-4,1</td>
<td>-5,9</td>
<td>-4,0</td>
<td>-5,7</td>
</tr>
<tr>
<td>Other elements of investing activities related to the operating cycle</td>
<td>-0,1</td>
<td>-1,8</td>
<td>-1,2</td>
<td>-0,1</td>
<td>-0,6</td>
<td>1,4</td>
<td>-1,6</td>
<td>0,4</td>
</tr>
<tr>
<td><strong>Free cash flow excluding non-recurring items</strong></td>
<td>-0,9</td>
<td>13,9</td>
<td>11,5</td>
<td>-5,5</td>
<td>-22,2</td>
<td>47,2</td>
<td>29,6</td>
<td>5,7</td>
</tr>
<tr>
<td>Reduction of workforce and other exit costs, cash outflow</td>
<td>-7,3</td>
<td>-10,5</td>
<td>-16,2</td>
<td>-12,3</td>
<td>-17,2</td>
<td>-11,2</td>
<td>-12,8</td>
<td>-6,2</td>
</tr>
<tr>
<td>Other non-recurring expenses</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>-22,0</td>
<td>0,0</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>-8,2</td>
<td>3,4</td>
<td>-4,7</td>
<td>-17,9</td>
<td>-39,4</td>
<td>36,0</td>
<td>-5,1</td>
<td>-0,6</td>
</tr>
<tr>
<td>Sale of property, plant and equipment</td>
<td>0,0</td>
<td>1,4</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-1,7</td>
<td>-0,8</td>
<td>-0,7</td>
<td>0,0</td>
<td>0,0</td>
<td>-0,1</td>
<td>-1,7</td>
<td>0,8</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>1,5</td>
<td>-0,3</td>
<td>0,2</td>
<td>-1,5</td>
<td>-2,0</td>
<td>-3,1</td>
<td>0,7</td>
<td>-1,7</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash</td>
<td>-2,6</td>
<td>12,8</td>
<td>4,4</td>
<td>9,2</td>
<td>-8,3</td>
<td>1,3</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>-11,0</td>
<td>16,5</td>
<td>-0,8</td>
<td>-10,2</td>
<td>-49,7</td>
<td>34,1</td>
<td>-6,1</td>
<td>-1,4</td>
</tr>
</tbody>
</table>

### Cash at the beginning of the period

<table>
<thead>
<tr>
<th>Q2 2004 Financial Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Q2 2004</td>
</tr>
<tr>
<td>411,8</td>
</tr>
<tr>
<td>400,8</td>
</tr>
<tr>
<td>417,2</td>
</tr>
<tr>
<td>416,5</td>
</tr>
<tr>
<td>406,2</td>
</tr>
<tr>
<td>356,6</td>
</tr>
<tr>
<td>390,7</td>
</tr>
<tr>
<td>384,6</td>
</tr>
<tr>
<td>383,1</td>
</tr>
</tbody>
</table>