GEMPLUS INTERNATIONAL SA
Form 6-K
April 17, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or
15d-16 of the Securities Exchange Act of 1934

For the month of April 2003

GEMPLUS INTERNATIONAL S.A.

(Exact name of registrant as specified in its charter)

GEMPLUS INTERNATIONAL S.A.

(Translation of registrant s name in English)

Aerogolf Center
1 Hohenhof
L-2633 Senningerberg
Grand Duchy of Luxembourg
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F [X] Form 40-F [ ]

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes [ ] No [X]

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GEMPLUS INTERNATIONAL S.A.

Date: April 15, 2003

By: ______________________________

Name: Stephen Juge
Title: Executive Vice President and General Counsel

GEMPLUS INTERNATIONAL S.A.
Société Anonyme
Aerogolf Center
1, Hohenhof
L-2633 Senningerberg
R.C. Luxembourg B 73 145
(the Company)

Luxembourg, 9th April 2003

Registered letter

CONVENING NOTICE FOR THE
ANNUAL GENERAL MEETING OF SHAREHOLDERS
AND THE
EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS
OF 29th APRIL 2003

Dear Shareholders,

You are hereby convened to the

I. **Annual General Meeting of Shareholders**
of the Company

which, in accordance with the articles of incorporation of the Company, will take place on:

Tuesday, 29th April 2003 at 11.00 A.M.
at the Hotel Royal
12, Boulevard Royal, L 2449 Luxembourg

The agenda of the annual general meeting is as follows:

(1) to hear the reports of the Board of Directors;

(2) to hear the Management Report by the Board of Directors of the Company for the year ended 31st December 2002;

(3) to hear the reports by the auditors of the Company in respect of the consolidated and unconsolidated financial statements of the Company for the year ended 31st December 2002;

(4) to consider and approve the financial statements (annual accounts: balance sheet and statements of profit and loss) of the Company for the year ended 31st December 2002 in their consolidated and unconsolidated form;

(5) to allocate the results of the Company for the year ended 31st December 2002 by allocation of the annual losses to the carry forward account;

(6) to grant discharge to all directors of the Company who have been in office during the year ended 31st December 2002 in respect of the proper performance of their duties for the year ended 31st December 2002, without prejudice to the Company s rights and claims against any such director in relation to matters currently in litigation between the Company and any such director(s);

(7) to authorise the Company, or any wholly-owned subsidiary, to purchase, acquire or receive shares in the Company, from time to time over the stock exchange or in privately negotiated transactions, and in the case of acquisition for value, at a price being no less than 0.01 and no more than 20.00 and on such terms as shall be determined by the Board of Directors of the Company, provided such purchase is in conformity with Article 49-2 of the Luxembourg Company Law and with applicable laws and regulations, such authorisation being granted for purchases completed on or before 28th October 2004;

The acquisition of shares shall in addition be carried out in accordance with the following conditions:

(a) They may be made by all methods or means (including the use of derivatives and the acquisition of blocks of shares) in accordance with applicable regulations.

(b) They may be made inter alia, and by order of priority:

(i) to carry out a financial management policy for the Company comprising the possibility to cancel shares so redeemed;

(ii) to grant options to purchase or to subscribe for shares to employees or officers of the Company or its subsidiaries and to remit shares upon exercise of existing purchase options;

(iii) to remit shares in payment or exchange either in relation to external growth transactions or issues of securities giving the right to reimbursement, conversion, exchange, presentation of a warrant or by any other means to the allocation of shares of the Company;

(iv) to proceed to purchases and sales according to market conditions; and

(v) to regulate the share price by systematic intervention against the trend.

Shares redeemed may only be cancelled as set out under (i) above with the prior authorisation of a general meeting of shareholders held following the date hereof.

(c) The maximum number of shares which may be acquired pursuant to this authorisation is 60,353,740 shares representing as of the date hereof 10 % of the issued shares of the Company (provided that the accounting par value of the shares acquired, including shares previously acquired by the Company and held by it in its portfolio as well as the shares acquired by a person acting in its own name but on behalf of the Company, may not exceed 10% of the subscribed capital);

(8) to approve the principles of the compensation of board members;

(9) to reappoint the independent auditors PricewaterhouseCoopers for a one year period to end at the next annual general meeting deciding on the 2003 accounts;

(10) miscellaneous.

and the

II. **Extraordinary General Meeting of Shareholders**
of the Company

which also will take place on
Tuesday 29th April 2003
at the Hotel Royal
12, Boulevard Royal, L 2449 Luxembourg
following the Annual General Meeting

The agenda of the extraordinary general meeting is as follows:

(1) to extend the duration until 31st May 2006 of the authorisation to grant stock options within the existing authorised share capital to the beneficiaries of the Gemplus stock options plan(s) the principles of which had been approved by the general meetings of shareholders of 21st June 2000 and 10th November 2000;

(2) to amend Article 9 of the Company s Articles of Incorporation to eliminate cumulative voting for the election of directors by deleting paragraphs 3 to 7 thereof, thereby reverting to the simple majority rules for election of directors under applicable Luxembourg law.

Please find enclosed the consolidated and unconsolidated balance sheets and profit and loss accounts of the Company for the year ended 31st December 2002 together with the reports of the auditors.

Full details are available at the registered office or on the Company s site: http://investor.gemplus.com/

Participation at the meetings and the right to vote is restricted to shareholders. Shareholders must, therefore, be able to prove that they are shareholders as of the date of the meetings in order to attend.

If the shareholder s shares are registered in the register of shareholders

Each shareholder inscribed in the shareholder register (or his or her legal representative) will be able to attend the meetings or to be represented at such meetings.

If the shareholder s shares are held through a clearing system

Shareholders who hold their shares through a clearing system need to contact their bank or stockbroker in order to receive a certificate either from their bank or stockbroker or from the French correspondent of their bank or stockbroker confirming the identity of the shareholder, shareholder status, number of shares held and the blocking of such shares until after the meetings.

The certificate must further state that the relevant shares are held through Euroclear France. Shareholders should then deliver such certificate to the CCF, *Service Assemblées* GEMPLUS INTERNATIONAL S.A., Avenue Robert Schuman B.P. 2704, 51051 REIMS CEDEX France, Telephone number : + 33 3 26 09 86 26, Fax number : + 33 3 26 09 89 97 by 5 p.m. Luxembourg time on Friday 25th April 2003 in order to have an admission card which the CCF will make available for such shareholders at the meetings. Alternatively such shareholders can instruct their bank or stockbroker to have their shares transferred out of Euroclear France and be inscribed in the shareholder register in their personnel name.

Shareholders (whether registered in the register of shareholders or holding their shares through a clearing system) may also vote by proxy. A Proxy form is enclosed. In the event a shareholder wishes to vote by proxy he or she has to complete and sign the enclosed proxy form and return it (in the case the shares are held through a clearing system, together with the certificate referred to above) by fax to (+ 33 3 26 09 89 97) and by mail to Gemplus International S.A. c/o CCF, *Service Assemblées* GEMPLUS INTERNATIONAL S.A., Avenue Robert Schuman B.P. 2704, 51051 REIMS CEDEX France). In order to be included in the votes, the proxy (and as the case may be, the certificate) should be received by 5 p.m. Luxembourg time on Friday 25th April 2003. The proxy will only be valid if it includes the shareholder s or his or her legal representative s first name, surname, number of shares held and official address, and signature. Shareholders should note that the CCF may not be named as proxyholder.

The annual general meeting can be validly held whatever the number of shares present or represented at such meeting and resolutions shall be validly adopted at such annual general meeting if approved by a simple majority of the shares present or represented.

The extraordinary general meeting can be validly held if at least 50% of the shares issued and outstanding are present or represented. Resolutions at the extraordinary general meeting will be validly adopted at such extraordinary general meeting if approved by a two-thirds majority of the shares present or represented. If the quorum referred to above is not reached the extraordinary general meeting will be reconvened for a date at least one month later and no quorum will be required at such reconvened meeting for a valid deliberation.

Sincerely yours,

Gemplus International S.A.
The Board of Directors

GEMPLUS INTERNATIONAL S.A.
Société Anonyme
Aerogolf Center
1, Hohenhof
L-2633 Senningerberg
R.C. Luxembourg B 73 145
(the Company)

PROXY
for the
ANNUAL GENERAL MEETING
and the
EXTRAORDINARY GENERAL MEETING

OF GEMPLUS INTERNATIONAL S.A.

held on 29th April 2003 or at any adjournment thereof

I, THE UNDERSIGNED

____

Domiciled ____

a shareholder of ___________________________________ shares in GEMPLUS INTERNATIONAL S.A. (the Company)

[Please choose either option (1) or option (2) and only complete one of the two options. In the event both options are completed, only option (2) will be taken into account].

o **Option (1) PROXY WITHOUT VOTING INSTRUCTIONS**

hereby appoint, instruct and authorise and give an irrevocable power to:

M/Mrs (*name, first name*) ____

(address) ____

____

to represent the undersigned at (i) the above **Annual General Meeting of Shareholders** and (ii) the above **Extraordinary General Meeting of Shareholders** of the Company, each to be held on 29th April 2003 (or any reconvened meeting(s) thereof) and to participate in the undersigned s behalf in all deliberations and votes, approve, disapprove, or abstain on, any proposal (i) relating to the agenda of the annual general meeting set out below, any amendment thereto and any new resolution, and (ii) relating to the agenda of the extraordinary general meeting set out below, any amendment thereto and any new resolution.

AGENDA
of the Annual General Meeting of Shareholders

(1) to hear the reports of the Board of Directors;
(Note: no vote is required on this agenda item)

(2) to hear the Management Report by the Board of Directors of the Company for the year ended 31st December 2002;
(Note: no vote is required on this agenda item)

(3) to hear the reports by the auditors of the Company in respect of the consolidated and unconsolidated financial statements of the Company for the year ended 31st December 2002;
(Note: no vote is required on this agenda item)

(4) to consider and approve the financial statements (annual accounts: balance sheet and statements of profit and loss) of the Company for the year ended 31st December 2002 in their consolidated and unconsolidated form;

(5) to allocate the results of the Company for the year ended 31st December 2002 by allocation of the annual losses to the carry forward account;

(6) to grant discharge to all directors of the Company who have been in office during the year ended 31st December 2002 in respect of the proper performance of their duties for the year ended 31st December 2002, without prejudice to the Company s rights and claims against any such director in relation to matters currently in litigation between the Company and any such director(s);

(7) to authorise the Company, or any wholly-owned subsidiary, to purchase, acquire or receive shares in the Company, from time to time over the stock exchange or in privately negotiated transactions, and in the case of acquisition for value, at a price being no less than 0.01 and no more than 20.00 and on such terms as shall be determined by the Board of Directors of the Company, provided such purchase is in conformity with Article 49-2 of the Luxembourg Company Law and with applicable laws and regulations, such authorisation being granted for purchases completed on or before 28th October 2004;

The acquisition of shares shall in addition be carried out in accordance with the following conditions:

(a) They may be made by all methods or means (including the use of derivatives and the acquisition of blocks of shares) in accordance with applicable regulations.

(b) They may be made inter alia, and by order of priority:

(i) to carry out a financial management policy for the Company comprising the possibility to cancel shares so redeemed;

(ii) to grant options to purchase or to subscribe for shares to employees or officers of the Company or its subsidiaries and to remit shares upon exercise of existing purchase options;

(iii) to remit shares in payment or exchange either in relation to external growth transactions or issues of securities giving the right to reimbursement, conversion, exchange, presentation of a warrant or by any other means to the allocation of shares of the Company;

(iv) to proceed to purchases and sales according to market conditions; and

(v) to regulate the share price by systematic intervention against the trend.

Shares redeemed may only be cancelled as set out under (i) above with the prior authorisation of a general meeting of shareholders held following the date hereof.

(c) The maximum number of shares which may be acquired pursuant to this authorisation is 60,353,740 shares representing as of the date hereof 10% of the issued shares of the Company (provided that the accounting par value of the shares acquired, including shares previously acquired by the Company and held by it in its portfolio as well as the shares acquired by a person acting in its own name but on behalf of the Company, may not exceed 10 % of the subscribed capital);

(8) to approve the principles of the compensation of board members;

(9) to reappoint the independent auditors PricewaterhouseCoopers for a one year period to end at the next annual general meeting deciding on the 2003 accounts;

(10) miscellaneous.
and

AGENDA
of the Extraordinary General Meeting of Shareholders

(1) to extend the duration until 31st May 2006 of the authorisation to grant stock options within the existing authorised share capital to the beneficiaries of the Gemplus stock options plan(s) the principles of which had been approved by the general meetings of shareholders of 21st June 2000 and 10th November 2000;

(2) to amend the Article 9 of the Company s Articles of Incorporation to eliminate cumulative voting for the election of directors by deleting paragraphs 3 to 7 thereof, thereby reverting to the simple majority rules for election of directors under applicable Luxembourg law.

In general to do and perform any and all acts and deeds which may be necessary or useful in the accomplishment of the present proxy.

Given on ______________________________ 2003

Signed: ____

Individual shareholder:
Name: ____

Corporate or entity shareholder:
Name: ____

For and on behalf of the above shareholder by:

Name of signatory(ies): _________________________________

____

Title of signatory(ies): _________________________________

____

Note: The information contained in the proxy will be registered in a data bank. They are subject to the Luxembourg law of 2nd August 2002 on the protection of individuals with regard to the processing of personal data and to the French law L.78-17 of 6th January 1978 as amended.

o **Option (2) PROXY WITH VOTING INSTRUCTIONS**

hereby appoint, instruct and authorise and give an irrevocable power to:

M/Mrs (*name, first name*) ____
(address) ____
____

(failing whom the Chairman of the Company or the Chief Executive Officer of the Company, or the Chairman of the Annual General Meeting and/or the Extraordinary General Meeting of Shareholders of the Company , each acting alone and with full power of substitution) to represent the undersigned at, and to attend, (i) the above **Annual General Meeting of Shareholders** and (ii) the above **Extraordinary General Meeting of Shareholders** of the Company, each to be held on 29th April 2003 (or any reconvened meeting(s) thereof) and vote on the undersigned s behalf on the agendas set out below. **IN CASE NO INDICATION IS GIVEN IN THE BOXES PROVIDED BELOW, YOU MAY DEEM THE VOTES TO BE EXPRESSED FOR .**

AGENDA
of the Annual General Meeting of Shareholders

(1) to hear the reports of the Board of Directors;
(Note: no vote is required on this agenda item)

(2) to hear the Management Report by the Board of Directors of the Company for the year ended 31st December 2002;
(Note: no vote is required on this agenda item)

(3) to hear the reports by the auditors of the Company in respect of the consolidated and unconsolidated financial statements of the Company for the year ended 31st December 2002;
(Note: no vote is required on this agenda item)

(4) to consider and approve the financial statements (annual accounts: balance sheet and statements of profit and loss) of the Company for the year ended 31st December 2002 in their consolidated and unconsolidated form;

o For
o Against
o Abstention

(5) to allocate the results of the Company for the year ended 31st December 2002 by allocation of the annual losses to the carry forward account;

o For
o Against
o Abstention

(6) to grant discharge to all directors of the Company who have been in office during the year ended 31st December 2002 in respect of the proper performance of their duties for the year ended 31st December 2002, without prejudice to the Company s rights and claims against any such director in relation to matters currently in litigation between the Company and any such director(s);

o For
o Against
o Abstention

(7) to authorise the Company, or any wholly-owned subsidiary, to purchase, acquire or receive shares in the Company, from time to time over the stock exchange or in privately negotiated transactions, and in the case of acquisition for value, at a price being no less than 0.01 and no more than 20.00 and on such terms as shall be determined by the Board of Directors of the Company, provided such purchase is in conformity with Article 49-2 of the Luxembourg Company Law and with applicable laws and regulations, such authorisation being granted for purchases completed on or before 28th October 2004;

The acquisition of shares shall in addition be carried out in accordance with the following conditions:

(a) They may be made by all methods or means (including the use of derivatives and the acquisition of blocks of shares) in accordance with applicable regulations.

(b) They may be made inter alia, and by order of priority:

(i) to carry out a financial management policy for the Company comprising the possibility to cancel shares so redeemed;

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- o For
- o Against
- o Abstention

(8) to approve the principles of the compensation of board members;

- o For
- o Against
- o Abstention

(9) to reappoint the independent auditors PricewaterhouseCoopers for a one year period to end at the next annual general meeting deciding on the 2003 accounts;

- o For
- o Against
- o Abstention

(10) miscellaneous.

- o For
- o Against
- o Abstention

AGENDA
of the Extraordinary General Meeting of Shareholders

(1) to extend the duration until 31st May 2006 of the authorisation to grant stock options within the existing authorised share capital to the beneficiaries of the Gemplus stock options plan(s) the principles of which had been approved by the general meetings of shareholders of 21st June 2000 and 10th November 2000;

- o For
- o Against
- o Abstention

(2) to amend the Article 9 of the Company s Articles of Incorporation to eliminate cumulative voting for the election of directors by deleting paragraphs 3 to 7 thereof, thereby reverting to the simple majority rules for election of directors under applicable Luxembourg law.

- o For
- o Against
- o Abstention

In general to do and perform any and all acts and deeds which may be necessary or useful in the accomplishment of the present proxy.

Important:

If amendments or new resolutions were to be presented, the undersigned will abstain UNLESS the undersigned has checked the box below :

o By checking this box the undersigned gives power to the proxyholder indicated above to vote in the undersigned s name as the proxyholder deems fit on amendments and new resolutions.

Given on ______________________________ 2003

Signed: ____

Individual shareholder:
Name: ____

Corporate or entity shareholder:
Name: ____

For and on behalf of the above shareholder by:

Name of signatory(ies): _________________________________

____

Title of signatory(ies): __________________________________

____

If you do not expressly indicate how you wish your vote to be cast, your shares will be voted in accordance with the proposals of the Gemplus Board of Directors.

o Please Mark Here for Address Change or Comments **SEE REVERSE SIDE**

AGENDA ITEMS FOR THE ANNUAL GENERAL MEETING

	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
Agenda Item 4.	o	o	o	Agenda Item 7.	o	o	o
	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
Agenda Item 5.	o	o	o	Agenda Item 8.	o	o	o
	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
Agenda Item 6.	o	o	o	Agenda Item 9.	o	o	o
					FOR	AGAINST	ABSTAIN
				Agenda Item 10.	o	o	o

AGENDA ITEMS FOR THE EXTRAORDINARY GENERAL MEETING
(SEE REVERSE SIDE FOR AGENDA ITEMS)

	FOR	AGAINST	ABSTAIN
Agenda Item 1.	o	o	o
	FOR	AGAINST	ABSTAIN
Agenda Item 2.	o	o	o

Given on ______________________________ 2003

Signed: ____

Individual shareholder:
Name: ____

Corporate or entity shareholder:
Name: ____

For and on behalf of the above shareholder by:

Name of signatory(ies): ________________________________

____

Title of signatory(ies): _________________________________

____

I. ANNUAL GENERAL MEETING

(1) to hear the reports of the Board of Directors; (Note: no vote is required on this agenda item)

(2)

to hear the Management Report by the Board of Directors of the Company for the year ended 31st December 2002; (Note: no vote is required on this agenda item)

(3) to hear the reports by the auditors of the Company in respect of the consolidated and unconsolidated financial statements of the Company for the year ended 31st December 2002; (Note: no vote is required on this agenda item)

(4) to consider and approve the financial statements (annual accounts: balance sheet and statements of profit and loss) of the Company for the year ended 31st December 2002 in their consolidated and unconsolidated form;

(5) to allocate the results of the Company for the year ended 31st December 2002 by allocation of the annual losses to the carry forward account;

(6) to grant discharge to all directors of the Company who have been in office during the year ended 31st December 2002 in respect of the proper performance of their duties for the year ended 31st December 2002, without prejudice to the Company s rights and claims against any such director in relation to matters currently in litigation between the Company and any such director(s);

(7) to authorise the Company, or any wholly-owned subsidiary, to purchase, acquire or receive shares in the Company, from time to time over the stock exchange or in privately negotiated transactions, and in the case of acquisition for value, at a price being no less than Euro 0.01 and no more than Euro 20.00 and on such terms as shall be determined by the Board of Directors of the Company, provided such purchase is in conformity with Article 49-2 of the Luxembourg Company Law and with applicable laws and regulations, such authorisation being granted for purchases completed on or before 28th October 2004;

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(8) to approve the principles of the compensation of board members;

(9) to reappoint the independent auditors PricewaterhouseCoopers for a one year period to end at the next annual general meeting deciding on the 2003 accounts;

(10) miscellaneous.

SEE REVERSE SIDE FOR EXTRAORDINARY GENERAL MEETING AGENDA ITEMS

GEMPLUS INTERNATIONAL S.A.

Issues presented for consideration at the Annual General Meeting and Extraordinary General Meeting of Shareholders

April 29, 2003

Address Change/Comments (Mark the corresponding box on the reverse side)

∆ FOLD AND DETACH HERE ∆

II. EXTRAORDINARY GENERAL MEETING

(1) to extend the duration until 31st May 2006 of the authorisation to grant stock options within the existing authorised share capital to the beneficiaries of the Gemplus stock options plan(s) the principles of which had been approved by the general meetings of shareholders of 21st June 2000 and 10th November 2000;

(2) to amend the Article 9 of the Company s Articles of Incorporation to eliminate cumulative voting for the election of directors by deleting paragraphs 3 to 7 thereof, thereby reverting to the simple majority rules for election of directors under applicable Luxembourg law.

In general to do and perform any and all acts and deeds which may be necessary or useful in the accomplishment of the present proxy.

PLEASE PROVIDE YOUR VOTING INSTRUCTIONS ON REVERSE SIDE

Gemplus International S. A.

Statutory financial statements for the year ended December 31, 2002

Aerogolf Center
1, Hohenhof
L-2633 Senningerberg
RC: Luxembourg B 73 145

PricewaterhouseCoopers
Société à responsabilité limitée
Réviseur d entreprises
400, route d Esch
B.P. 1443
L-1014 Luxembourg
Téléphone +352 494848-1
Facsimile +352 494848-2900

Independent Auditor s report

To the Shareholders,

We have audited the annual accounts of Gemplus International S.A. for the year ended December 31, 2002 on pages 3 to 14. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Gemplus International S.A. as of December 31, 2002 and of the results of its operations for the year then ended.

PricewaterhouseCoopers S.à r.l.
Réviseur d entreprises
Represented by

Luxembourg, March 11, 2003

Philippe Duren

Gemplus International S. A.
Balance sheet as of December 31, 2002

(in thousands of euros)

Assets	**Notes**	**December 31, 2002**	**December 31, 2001**
Intangible assets	2, 5	4,196	3,568
Tangible assets	2	179	225
Financial assets			
shares in affiliated undertakings	2, 6	1,327,735	1,687,972
advance to suppliers long-term portion	7	14,461	17,020
Fixed assets		1,346,571	1,708,785
Debtors			
accounts receivable	8	36,618	91,623
advance to suppliers short-term portion	7	9,642	22,865
amounts owed by affiliated undertakings	8	326,081	340,920
other debtors	8	8,917	894
Treasury shares	4	1,073	14,939
Short-term deposits		47,943	16,601
Cash and cash equivalents		7,422	15,006
Current assets		437,696	502,848
Prepayments and accrued income	7	2,901	1,077
Total assets		1,787,168	2,212,710

Liabilities and shareholders' equity	**Notes**	**December 31, 2002**	**December 31, 2001**
Share capital		127,644	127,056
Additional paid-in capital		1,668,010	1,661,620
Reserve for treasury shares held		1,073	14,939
Result brought forward		(17,562)	(7,174)
Net loss for the year		(380,821)	(10,388)
Shareholders equity	**3**	1,398,344	1,786,053
Provision for liabilities and charges		1,211	151
Trade accounts payable	8	25,199	45,005
Tax and social liabilities	8	1,616	485
Amounts owed to affiliated undertakings	8	352,498	364,414
Other liabilities	8	8,300	16,602
Creditors		387,613	426,506
Total liabilities and shareholders equity		1,787,168	2,212,710

The accompanying notes form an integral part of these financial statements

Gemplus International S. A.
Income statement as of December 31, 2002

(in thousands of euros)

	Notes	December 31, 2002	December 31, 2001
Operating income			
income from the recharge of services	2	52,793	93,195
including amounts attributable to affiliated undertakings		52,793	*93,195*
Operating charges			
staff costs	16		
wages, salaries and other employee benefit costs		(171)	(170)
social security costs		(22)	(20)
other operating charges	9	(54,573)	(90,560)
Operating result		(1,973)	2,445
Interest receivable and similar income		3,425	3,159
including amounts attributable to affiliated undertakings		*2,245*	*1,760*
Value adjustment on current assets and financial assets		(384,218)	(2,913)
Other financial charges		(142,061)	(50,624)
Other financial income		148,293	50,018
Net financial result	**10**	(374,561)	(360)
Net income		(376,534)	2,085
Exceptional income			358
Exceptional expenses		(3,065)	(12,351)
Exceptional result	**11**	(3,065)	(11,993)
Result before tax		(379,599)	(9,908)
Income tax		(1,222)	(480)
Net loss for the year		(380,821)	(10,388)

The accompanying notes form an integral part of these financial statements

Gemplus International S. A.
Notes to the statutory financial statements

Notes to the annual accounts as at December 31, 2002

Note 1 General

Gemplus International S.A. (the Company) was incorporated as a société anonyme in the Grand Duchy of Luxembourg on December 6, 1999.

The object of the Company is:

to manufacture and trade in all types of electrical, electronic, or mechanical goods or equipment and in software and software services;

to purchase, manufacture and sell all products, components and materials which may be used in the context of the above-mentioned activities;

to provide all services and act as general contractor for all projects relating to or in connection with the above-mentioned activities; and

to perform research and scientific and technical studies on, to apply for, acquire, develop and license, all patents, licenses, inventions, processes, brands, and models that may have a connection with the Company s purpose.

The Company may also carry out all transactions pertaining directly or indirectly to the acquiring of participating interests in any enterprises in whatever form and the administration, management, control and development of those participating interests.

The Company is formed for an unlimited duration. It is registered with the Luxembourg Registration Office under the number B 73145.

In conformity with the law of July 11, 1988 applicable to Commercial Companies, the Company prepares consolidated financial statements. These consolidated financial statements are available at the Company s registered office.

Note 2 Accounting principles

The balance sheet information for 2001 has been restated in respect of intra-group payables and receivables. This has led to a reclassification increasing by 324,125 thousand amounts owed to affiliated undertakings and amounts owed by affiliated undertakings .

2.1 Valuation rules

The accounts are drawn up in accordance with the general valuation principles described in the Luxembourg Company Law.

2.2 Fixed assets

Intangible assets are stated at cost less accumulated amortisation.

Development costs:

The Company develops smart card technology as part of the new generation of the group s products. The development costs identified are recorded in assets and will be amortized over a period of 5 years starting on the date that they are implemented.

Gemplus International S. A.
Notes to the statutory financial statements

2.2 Fixed assets (cont.)

Tangible assets are carried at cost. They correspond to fixtures and fittings, which are depreciated over a period of 5 to 10 years, using the straight-line method.

Financial assets are recorded at acquisition cost in the balance sheet. A value adjustment is made when there is a permanent diminution in their value.

At each balance sheet date, the Company assesses whether events or changes in circumstances would indicate that the carrying amount of long-lived assets such as investments has been impaired.

2.3 Current debtors

Current debtors are valued at their nominal value. When the estimated value at year-end is lower than the nominal value, a value adjustment is recorded.

2.4 Treasury shares

From time to time the Company, with the approval of the Board of Directors, repurchases a portion of its outstanding ordinary shares. Shares repurchased by the Company could be used to fulfill its obligations under the stock option plans or are intended for cancellation. Treasury shares are presented at cost in current assets and a corresponding undistributable reserve has been recorded within the shareholders equity.

2.5 Short-term deposits

Short-term deposits have an original or remaining maturity of three months or less.

2.6 Foreign currency translation

The Company maintains its accounts in euro and both the balance sheet and profit and loss account are expressed in this currency.

Transactions in foreign currencies are recorded at the rate of exchange ruling on the transaction date. With the exception of fixed assets, all assets and liabilities denominated in foreign currencies are converted at the rate of exchange ruling at the balance sheet date. Related realised gains and losses as well as unrealised gains and losses are recognised in the profit and loss account.

2.7 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, including most notably exposures to USD and GBP. The policy of the Company is to hedge its foreign currency exposure on its assets, liabilities and transactions denominated in currencies other than the euro, which mainly relate to transactions with subsidiaries of the Company. Gains and losses on foreign exchange hedging contracts and resulting from the conversion of assets and liabilities into euros, are recorded in exchange gains or losses in net income.

Gemplus International S. A.
Notes to the statutory financial statements

2.8 Operating income

Gemplus International S.A. and certain subsidiaries can perform services on behalf of the Group. These types of services are mainly provided by Gemplus International S.A. and the subsidiaries in France, the United States, the United Kingdom and Switzerland. All corporate related costs performed by the subsidiaries are invoiced to Gemplus International S.A. with a margin of 5% covering their unallocated general and administrative costs.

Gemplus International S.A. then reinvoices all the operating subsidiaries worldwide on the basis of allocation keys such as revenue generated. However, certain costs which specifically relate to the holding company s activity, such as exchange gain and loss, interest income and expense, termination benefits of Group executives, internal audit costs, investors relations and certain legal costs remain as expenses for Gemplus International S.A.

Following the Initial Public Offering in December 2000, these costs started to represent significant amounts. A systematic identification of corporate costs is now carried out on a regular basis within the Group.

Note 3 Shareholders equity

Shareholders equity during fiscal year ended December 31, 2002 is as follows:

(in thousands of euros)	Date	Number of shares	Share capital	Paid-in capital	Reserve for treasury shares held	Results brought forward	Net income	Total
Shareholders equity as at December 31, 2001		635,282,297	127,056	1,661,620	14,939	(7,174)	(10,388)	1,786,053
Allocation of prior year earnings						(10,388)	10,388	
Net loss							(380,821)	(380,821)
Contribution of Gemplus S.A. shares	April 16, 2002	661,300	132	1,683				1,815
Issuance of shares pursuant to share options exercised	April 16, 2002	398,350	80	586				666
Contribution of Gemplus S.A. shares	July 30, 2002	1,098,250	222	2,792				3,014
Contribution of Gemplus S.A. shares	Nov. 15, 2002	765,600	154	1,946				2,100
Cancellation of treasury shares		(4,634,859)			(14,483)			(14,483)
Purchase of 656,024 treasury shares				(617)	617			
Shareholders equity as at December 31, 2002		633,570,938	127,644	1,668,010	1,073	(17,562)	(380,821)	1,398,344

The authorized share capital of the Company is currently four hundred million euro consisting of two billion shares with no legal par value, of which 633,570,938 were issued at year-end.

An agreement still exists with certain employees or former employees of our French subsidiary Gemplus S.A., whereby they can exchange their shares in Gemplus S.A. for shares of Gemplus International S.A. upon request. As at December 31, 2002, the number of shares of Gemplus S.A., which can be contributed under such an agreement, corresponds to the equivalent of 4,288,150 Gemplus International S.A. shares.

Share option plans

During the year, 398,350 share options were exercised by employees in accordance with the relevant share option plans (see Note 12).

Gemplus International S. A.
Notes to the statutory financial statements

Warrants

In July 2000, in connection with the hiring of its former CEO, Mr. Perez, the Company entered into a warrant agreement with an executive search firm. Under this agreement, the Company granted the right to purchase 2,561,973 ordinary shares at a purchase price of 2.3375 per share, resulting in an underlying per share value of 3.51. The warrants are exercisable at any time for seven years after the grant date. As at December 31, 2002, no warrant had been exercised.

Note 4 Treasury shares

In 2001, the Company started the implementation of its share repurchase program, as approved by the Annual General Meeting held on April 18, 2001. During the same period, the Company repurchased 4,900,534 shares of its outstanding common stock, at an average price of 3.17 per share.

At the Extraordinary General Meeting of shareholders held on April 17, 2002, shareholders approved the cancellation of 4,634,859 shares held directly pursuant to the Company s stock repurchase program, as well as the cancellation of the 30,743,679 shares held by an indirect subsidiary at the time such shares may be transferred to the Company. The 4,634,859 shares were cancelled without reduction of the issued share capital of the Company, but with a consequential increase of the accounting par of the shares in issue.

During the third quarter of 2002, the Company purchased 656,024 shares of its outstanding common stock from two formers Celocom Limited employees pursuant to the provisions of the 2000 Celocom Limited share purchase agreement. As at December 31, 2002, the Company held 802,072 shares of its outstanding common stock for an amount of 1,073 thousand. The 30,743,679 shares held by the Company s indirect subsidiary were distributed to the Company and cancelled on March 10, 2003.

Treasury shares activity for the years ended December 31, 2002 and 2001 is as follows:

	Number of treasury shares
Purchase of shares pursuant to the Company s share repurchase program	4,900,534
Sale of treasury shares	(119,627)
As at December 31, 2001	4,780,907
Cancellation of treasury shares	(4,634,859)
Purchase of treasury shares pursuant to the 2000 Celocom Limited share purchase agreement	656,024
As at December 31, 2002	802,072

Note 5 Intangible assets

Intangible assets mainly relate to the development costs of certain new smart card technologies for 4,180 thousand. Due to the fact that this technology has not yet been implemented, no amortization has been recognized in 2002.

Note 6 Shares in affiliated undertakings

Gemplus International S. A.
Notes to the statutory financial statements

Movements of the year are as follows:

(in thousands euros)	Acquisition cost	Valuation allowance	Carrying value
December 31, 2001	1,687,972		1,687,972
Increase	13,211	(373,448)	
Decrease			
December 31, 2002	1,701,183	(373,448)	1,327,735

The acquisitions in 2002 relate to the exchange of employees shares in Gemplus S.A. for shares of Gemplus International S.A. (see Note 3) and the acquisition in other investments, mainly in a subsidiary incorporated in People s Republic of China.

Subsidiary	Acquisition cost (in thousands euros)	Valuation allowance (in thousands euros)	Carrying value (in thousands euros)	Country of incorporation	Percentage of ownership as at December 31, 2002
GEMPLUS FINANCE S.A.	727,895		727,895	Luxembourg	100%
GEMPLUS S.A.	845,421	(280,000)	565,421	Gémenos - France	97%
GEMVENTURES S.A.	9,995	(9,995)		Zaventem - Belgium	99%
GEMPLUS Management et Trading S.A.	656		656	Geneva - Switzerland	100%
CELOCOM	57,077	(32,000)	25,077	Dublin - Irland	100%
SLP	51,213	(51,213)		Nanterre - France	100%
Other investments	8,926	(240)	8,686		
Shares in affiliated undertakings	1,701,183	(373,448)	1,327,735		

The Company has estimated the fair value of its majority shareholdings using several methods: (i) net present value of future cash flows estimated on a conservative basis (ii) contribution of the related investments to the consolidated shareholder s equity, (iii) market capitalization of the Company. Management also took into account the significant loss of 2002, reflecting mainly restructuring expenses and other non-recurring items. On this basis, a provision of 280 million has been accounted for on Gemplus SA shareholdings, this subsidiary owning all the significant operating entities of the group.

The Company and GemVentures, its wholly-owned subsidiary, have minority shareholdings in various nonpublic start-up companies. These shareholdings are recorded at their acquisition price. The acquisition price includes charges and expenses in connection with the acquisition. An allowance is recorded when there is reason to believe that an impairment in value has occurred, i. e. that the business model is questioned and that the business plan has not been met. The Company has booked a valuation allowance of 9,995 thousand on GemVentures shareholdings and of 821 thousand on the Company s current account with GemVentures to reflect its contribution to the consolidated shareholders equity.

As part of the purchase price related to the acquisition of Celocom Limited in November 2000, the Company issued on February 20, 2001, 4,191,776 shares representing a value of 25,151 thousand. Out of these 25,151 thousand recorded in paid-in capital as at December 31, 2000, an amount of 838 thousand was allocated to share capital, as the corresponding shares were issued. As at December 31, 2002, the Company booked a valuation allowance of 32,000 thousand against the value of the value of its investment in Celocom Limited, based on the contribution of Celocom Limited to the Company s consolidated shareholders equity.

Gemplus International S. A.
Notes to the statutory financial statements

Note 6 Shares in affiliated undertakings (cont.)

As part of the purchase price related to the acquisition of SLP InfoWare SA in October 2000, the Company issued on March 13, 2001, 362,863 shares representing a value of 2,177 thousand. Out of these 2,177 thousand recorded in paid-in capital as at December 31, 2000, an amount of 73 thousand was allocated to share capital, as the corresponding shares were issued. As at December 31, 2002, the Company booked a valuation allowance for the total value of its investment in SLP InfoWare SA (51,213 thousand), due to significantly declining sales of SLP software, and the Company s decision either to sell or to cease SLP operations. An additional valuation allowance was booked against the Company s current account with SLP for 8,700 thousand, together with a provision for charges of 900 thousand, in order to reflect SLP consolidated negative equity as at December 31, 2002.

Under two agreements dated July 6, 2001 and February 5, 2001 the Company lent a total of PLN 50,000 thousand (16,795 thousand) at December 31, 2001 to its Polish subsidiary. These loans bear a rate of interest of WIBOR + 1% and are repayable on December 31, 2002 and July 1, 2002, respectively. On September 30, 2002, an amendment to the loan agreements changed the repayment date to December 31, 2003.

Note 7 Advance to suppliers and prepayments

During the fourth quarter 2000, to reduce supply risk associated with obtaining microprocessor chips, the Company entered into a long-term supply agreement with a major microprocessor manufacturer. In connection with this supply agreement, the Company financed enhancements of this supplier s production capacity with an unsecured advance facility. The advance facility matures over a period of three years. As at December 31, 2001, no repayment had occurred and the outstanding face value of the advance facility was 39,885 thousand, of which 22,865 thousand was recorded under advance to suppliers short-term portion and 17,020 under advance to suppliers long-term portion. An amendment to the supply and advance facility agreement was signed in October 2002, pursuant to which loan reimbursement and interests were disconnected from volumes of purchases. Repayment was rescheduled and spread until December 2004. In 2002, repayments occurred in the amount of 9,892 thousand. As at December 31, 2002, the outstanding balance of the advance facility was 24,103 thousand, of which 9,642 thousand were recorded under advance to supplier short-term portion, and 14,461 thousand under advance to supplier long-term portion.

Prepayments mainly relate to insurance premiums and professional services.

Gemplus International S. A.
Notes to the statutory financial statements

Note 8 Maturities of assets and liabilities

Maturities of assets and liabilities are detailed as follows:

(in thousands of euros)

Assets	Gross value	Less than 1 year	More than 1 year
Accounts receivable (group)	36,618	36,618	
Advance to suppliers	24,103	9,642	14,461
Intercompany loan	16,795	16,795	
Group current accounts	309,286	309,286	
Accrued hedging gain	5,561	5,561	
Other assets	3,356	3,356	
Total assets	395,719	381,258	14,461

(in thousands of euros)

Liabilities	Gross value	Less than 1 year	More than 1 year
Trade accounts payable (group)	18,914	18,914	
Trade accounts payable (other)	6,285	6,285	
Tax and social liabilities	1,616	1,616	
Intra-group payables	352,498	352,498	
Bank overdraft	3	3	
Other liabilities (see below)	8,297	8,297	
Total liabilities	387,613	387,613	

On December 19, 2001, Mr. Antonio Perez resigned from his position as President and Chief Executive Officer of the Company. As part of his severance agreement, Mr. Perez was entitled to receive a severance payment, that was recorded in the Company s 2001 net income in the amount of 1,161 thousand.

On December 19, 2001, the Company s Board of Directors accepted the cessation of Dr. Marc Lassus as its Chairman. In accordance with an agreement signed with Dr. Lassus in 2000, the replacement of Dr. Lassus as Chairman of the Board required the Company to make a severance payment to Dr. Lassus in the amount of 11,190 thousand recorded in the Company s 2001 net income.

As at December 31, 2002, the outstanding liability amounted to 7,694 thousand.

Note 9 Other operating charges

Other operating charges mainly relate to corporate activities such as general management, business unit management, finance, information systems, treasury, and legal.

(in thousands of euros)

December 31,	2002	2001

General expenses	43,815	76,045
Fees	10,378	14,296
Director s fees	191	219
Others	189	
Other operating charges	54,573	90,560

Gemplus International S. A.
Notes to the statutory financial statements

Note 10 Net financial result

Net financial result is as follows:

(in thousands of euros)

December 31,	2002	2001
Exchange gains	(141,822)	(50,105)
Exchange losses	148,293	50,007
Other financial expenses	(239)	(519)
Value adjustment on current assets		(2,913)
Value adjustment on shareholdings	(384,218)	
Interest received from subsidiaries	2,245	1,760
Interest received on short-term deposits	1,180	1,399
Other financial income		11
Net financial result	(374,561)	(360)

Note 11 Exceptional result

The Company announced two restructuring and rationalization programs in 2002, on February 6 and on December 9. The Company recorded a total restructuring charge of 3,065 thousand, in connection with these programs.

Note 12 Share option plans

The Company may grant, under various employee share option plans (the Plans), options to purchase or subscribe for shares to its employees and officers. Under the various Plans, the exercise price of options granted may be less than the fair market value of the shares at the date of grant. The options must be exercised within seven to ten years of the date of grant and typically vest equally over a period of three to four years. The total number of options granted in all Plans is 50,660,969 options, of which 10,690,561 are exercisable at present at prices ranging from 0.83 to 7.96.

As part of the agreement with certain employees and former employees of Gemplus SA as described in Note 3, stock options granted at the level of Gemplus S.A. can ultimately be converted into 25,356,850 shares of Gemplus International S.A. for an exercise price ranging between 0.83 and 3.51.

Gemplus International S. A.
Notes to the statutory financial statements

On April 17, 2002, the Company s Board of Directors voted to approve a plan whereby the employees were offered an option to cancel stock options previously granted under plans adopted in 2000 and received reissued options at a new exercise price. This plan was launched on May 23, 2002 and 17,106,162 stock options with an average exercise price of 4.52 were cancelled on June 5, 2002. 17,034,084 new stock options were granted on December 10, 2002 at an exercise price of 1.13 corresponding to the market price of the Company s shares on the date of the grant.

Note 13 Related party transactions

During 2001, the Company entered into an agreement with a service company whose Chief Executive Officer, Mr. Mackintosh, also served on the Company s Board of Directors. Mr. Mackintosh served as our interim Chief Executive Officer from December 19, 2001 to August 31, 2002 and resigned as Chief Executive Officer of the service company effective on December 19, 2001. He remains a member of its board of directors and our board of directors. This service company was appointed to provide an independent review of the Group s management, information, organization and business systems, as well as identification and recommendation of improvements. In 2002, the Company continued to use the services of this company and the total cost recorded in its statement of income in 2002 for this arrangement amounted to 1,737 thousand.

During 2002, the Company paid an amount of USD 2,000 thousand in connection with the cessation of its former Chairman of the Boards of Directors, Dr. Lassus, on January 10, 2002.

In addition, other related party transactions involving certain subsidiaries of the Company are disclosed in the Notes to the Consolidated Financial Statements of Gemplus International S.A..

Note 14 Lease commitments

The Company leases office space under a non-cancelable operating lease. Future minimum annual lease payments under all non-cancelable operating leases as at December 31, 2002 are as follows:

	(in thousands of euros)
Year ended December 31:	
2003	352
2004	352
2005	352
2006	352
2007	352
Thereafter	704
Total	2,464

Gemplus International S. A.
Notes to the statutory financial statements

Note 15 Foreign currency derivatives contracts

As indicated in Note 2, the Company uses financial instruments to manage its foreign currency exposure incurred in the normal course of business. The derivative instruments are traded over the counter with major financial institutions. The Company does not enter into any derivative contracts for any purposes other than hedging.

Outstanding forward contracts described below are at closing rates:

	(in thousands of euros)	
December 31, 2002	**Purchase items**	**Sell items**
Hedging transactions		
AED		793
CAD	325	2,560
GBP	5,432	6,902
JPY		8,059
USD	8,991	192,314
Total forwards	14,748	210,628

Note 16 Taxation

The Company is subject to the income tax regulations that generally apply to companies incorporated in Luxembourg.

Contents

Letter from the Chairman of the Board

Dear Shareholders,

In the name of the Board of Directors of Gemplus International SA, I will start this review of 2002 by expressing our gratitude to Hasso von Falkenhausen, who was the chairman until my appointment at the end of June. A highly regarded professional with significant experience in operating technology companies and growing businesses, Dr. von Falkenhausen has made many valuable contributions to Gemplus since 1993; he chaired the Board through a difficult period and provided solid leadership.

When I was offered to succeed him, I welcomed the opportunity and the challenge to help Gemplus. I was then, and I still am, convinced that the Company has the ability to be soon again a profitable winner in the growing smart card market worldwide.

One of my first tasks is to undertake that the Board of Directors work by high standards of Corporate Governance and enjoy a calm environment for the benefit of all stakeholders. After several all too publicized matters I am confident that this is now the case. Beyond the conflict that opposed him to the Board, I would like to stress the key role that Dr. Marc Lassus played, as co-founder of Gemplus and a true entrepreneur, he established the Company as the world leader in the smart card arena, from its birth to its initial public offering.

With a renewed Board, and with our new Chief Executive Officer, Alex Mandl, whose recognized leadership and broad experience ideally positions him to lead Gemplus forward, the Company should now be back on the path toward profitable growth.

There can be no question that 2002 was a disappointing year: at 787 million, revenue was down 23% compared to 2001, affected by a high comparison basis in Financial Services and Security and strong pricing pressure in the wireless segment. Net loss was 321 million, a sharp deterioration mostly due, however, to non-recurring items including restructuring and asset write-downs.

Yet 2002 showed that Gemplus made first steps on the path to transforming itself into a more successful company. The cost cutting initiatives and restructuring plans are bearing fruit: the annualized savings they generated are on track to reach the initial target of 100 million. Reflecting these efforts, the operating loss before provision for restructuring for the second half of 2002 was some 68% below its level of the first half of 2002 and 80% below its level of the second half of 2001. The cash position remains high at 417 million, despite the cash outlays related to restructuring.

However, given the continuing price pressure, the performance of 2002 also reflects our need to further reduce costs. This is the first pillar of our three-pronged strategy cost savings, focused innovation, and customer intimacy designed by the management team lead by Alex Mandl and supported by the Board. And I believe that it should successfully guide us through challenging times.

As we anticipate 2003 to be transition year, I want to acknowledge the support of our employees, customers, and shareholders. Employees have gone through a most difficult and demanding year. Customers and all our other business partners have demonstrated that they believe in Gemplus unmatched assets: cutting edge technology, talented people and sound financial structure. And finally, many shareholders, in spite of frustrating results, recognize the underlying strengths of our Group and believe in it. We are determined to strive to meet their expectations.

Sincerely,

Dominique Vignon
Chairman of the Board of Directors

GEMPLUS INTERNATIONAL SA

Chief Executive Review

When I was appointed CEO of the Gemplus group last September, I found a Company that on the one hand was facing some significant challenges. On the other hand, it had significant fundamental strengths, which needed to be focused towards delighting customers and achieving profitable growth. In my comments, I will address both the challenges, as well as strengths, then outline the path going forward.

Starting with the challenges, by far the largest impact has been that the telecom market has experienced an unprecedented downturn during the last two and a half years. Since about two thirds of Gemplus business is related to that market, the negative impact on revenue and related margins has been severe. In addition, the shift to a new generation of mobile network technology has been delayed or in some cases terminated, which further impacts the Company negatively.

This market downturn is also compounded by the fact that there exists excess capacity in some markets while new, low cost capacity is entering other markets. An example of this is China. As a result, there has been strong pressure on prices and margins.

There have also been some internal challenges. Most significantly, the Company has experienced a succession of leadership changes, which clearly has had a negative impact on morale, efficiency and overall execution. Although some initiatives were launched in the last two years to begin to address the external challenges, in hindsight these were not sufficient. As a result, the cost structure remains at a level not consistent with the revenue base. The marketing and selling capabilities in parts of the business were less than optimal. The organization was not oriented towards maximizing efficiencies. The regional organizations needed to be more empowered to take better advantage of market opportunities and respond more quickly to customer needs.

On the other hand, the Company enjoys significant strengths, both internally and externally. These strengths have carried the business forward even during those difficult times. The market opportunities for the smart card business in general continue to be significant.

The telecom smart card business alone is forecast to grow at respectable levels. The ongoing upgrade programs of the card, which is driven by the need for more memory and functionality, will be an important driver of this growth.

The other important markets Gemplus serves include smart card solutions for the banking, security and identification markets. These markets show significant growth opportunities. The Company is well positioned to take advantage of these markets.

A good example of how Gemplus can bring its security capabilities to this fast growing market is the recent contract signed with the Sultanate of Oman for a national identity program. In the post 9/11 environment, security both in the physical, as well as in the digital domain, has become a critical concern. As a result, the market opportunities have significantly expanded in these areas. Because of Gemplus leading expertise in these securities areas, this should translate into important new revenue opportunities for the Company.

The Company has leading core competencies that allow it to exploit all of these markets. The smart card security expertise the Company has developed over the years is clearly recognized as market leading. This technological advantage should be an important leverage point for achieving market leadership in these quickly developing and growing markets.

Beyond this security expertise, the Company has a remarkable set of talented people who know the smart card business exceptionally well and know how to deliver solutions to customers around the world. As a result, today the Company is well positioned to serve all the major markets and enjoy good relations with an attractive, global customer base.

Last, and certainly critical to our future potential for success, the Company enjoys a very sound financial position. It has little debt and ample cash to have the flexibility to invest in the future of the business.

The road forward includes the reality that the year 2003 will be a year of transition and rebuilding. This will include addressing our cost structure, strengthening our customer-facing capabilities, sharpening our execution skills and translating all of that into accelerated and more profitable potential growth for the business.

These efforts are now under way. We have defined a strategy that is designed to best exploit those market opportunities. We have reorganized to position the Company for efficiency and growth. We have launched new businesses involving software and services solutions related to smart cards, and are rebuilding key processes

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to reduce cost and serve customers more effectively. We have also added more skills and strengths to the team by hiring new talented people. This all helps to foster consistent execution.

Although we are well on our way, a lot of work remains to be done. That is why we say that 2003 is the year we are building a platform for the future: a platform that should allow us to grow profitably at a reasonable growth rate.

This business enjoys strong fundamentals in the context of the market place opportunities, its leading position in the market, its leading technological capabilities, its strong global customer base and strong financial position.

No doubt, this is a turn-around situation, but one that need not depend on some hopeful market opportunity, wishful thinking for some technological breakthrough or dependence on new capital availability. Instead it should depend on consistent execution and performance.

The Gemplus team is determined and committed to leverage these strengths, to deal aggressively with the challenges and to strive to restore the Company again to profitable growth. Our mission is to be the unchallenged market leader around the globe.

We thank you in advance for your support.

Sincerely,

Alex Mandl
President & CEO

GEMPLUS INTERNATIONAL SA

Management Discussion and Analysis of Financial Condition and Results of Operations

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

The year 2002 was a difficult one, as we generated lower revenue than in 2001 and increased net loss. However, 2002 was also a transition year for our company, as we implemented a strategy designed to restore profitable growth. We have taken considerable steps to strive to adapt our Company to the current market conditions, and our results clearly show that we have made some progress on the path to restoring profitability. Given the continuing price pressure, our 2002 results also reflect our need to further significantly reduce costs.

Our revenue decreased 23%, from 1,023 million in 2001 to 787.4 million in 2002. Operational performance was affected by weak sales in our financial services and security segment and continuous pricing pressure in the telecommunications segment, particularly in the wireless segment in Asia. This unfavorable trend was partly offset by encouraging growth in software and services, primarily in the telecommunications segment.

Our operating income declined, as we recorded an operating loss of 184.7 million in 2002 as compared to an operating loss of 153.6 million in 2001. Both operational and non-recurring factors impacted our operating loss in 2002. The principal non-recurring factor was a 90 million charge associated with the implementation of our restructuring programs.

The operational factors were primarily:

- continuous pricing pressure in the wireless activity,
- weak sales in financial services and security segment,
- unfavorable currency fluctuations.

These three unfavorable operational factors were partly offset by higher wireless cards shipments, lower purchase prices for wireless microprocessor chips and significant reduction in our operating expenses following the implementation of our restructuring programs.

Our financial position remained strong in 2002. Excluding non-recurring items, which included the use of cash to finance our restructuring programs, cash outflows during 2002 were contained. Our capital expenditures were limited to approximately one third of the 2001 level, mainly driven by limited expenditure on facility expansion. Cash and cash equivalents were 417.2 million at December 31, 2002 as compared to 490.7 million at December 31, 2001.

Impact of Exchange Rates

We report our financial statements in euros. Because we earn a significant portion of revenue in countries where the euro is not the local currency, results of operations can be significantly impacted by exchange rate movements between the euro and other currencies, primarily the Chinese renminbi, the US dollar, the Singapore dollar and the British pound. In 2002, we earned 12% of our revenue in China, 10% in the United States, 10% in Asia outside China, and 6% in the United Kingdom. A substantial portion of sales to the rest of Asia, other than China, is denominated in Singapore dollars and in US dollars. The following table sets forth information relating to the average exchange rates between the euro and the main billing currencies used for recording our revenue.

	(in euros, per unit of foreign currency)		
Years ended December 31	**2002**	**2001**	**2000**
British Pound	1.58881	1.60836	1.64133
Chinese Renminbi	0.12787	0.13502	0.13116
US Dollar	1.05419	1.11735	1.08742
Singapore Dollar	0.59074	0.62351	0.62903

Seasonality

In 2002 and 2001, sales did not show the seasonal fluctuation historically observed at the end of the year. Whereas in 2000, 32% of our net sales were recorded in the fourth quarter, we generated only 25% of our net sales in the fourth quarter in 2002 and in 2001. This change was due to unfavorable market conditions primarily associated with continuous price pressure over the course of the year.

RESULTS OF OPERATIONS

Year ended December 31, 2002 compared to year ended December 31, 2001.

Net Sales

Net sales for the year ended December 31, 2002 amounted to 787.4 million, a 23% decrease compared with net sales of 1,023 million for the year ended December 31, 2001. After adjusting for currency fluctuations and discontinued operations, net sales decreased 17%.

The following table shows the breakdown of our net sales in 2002 and 2001 by market segment:

			(in millions of euros)
Years ended December 31	**2002**	**2001**	**% change**
Telecommunications	544.5	681.9	(20%)
Financial Services and Security	242.9	296.8	(18%)
Disposed Operations*		44.3	
TOTAL	787.4	1,023.0	(23%)

* Including SkiData and Tag activities, which divestitures occurred during the third quarter of 2001.

Net sales in our telecommunications segment declined 20%, from 681.9 million in 2001 to 544.5 million in 2002. After adjusting for currency fluctuations, net sales in this segment decreased by 17%. This decrease was primarily due to a 19% decline in sales of wireless products, from 491.7 million in 2001 to 400.6 million in 2002, resulting mainly from a continuous pricing pressure in this activity. While there was a shift to high-end wireless products in 2002 and stronger demand for wireless products, including software and services, this impact was not sufficient to overcome the pricing pressure. Other cards sales decrease significantly in 2002 compared to 2001, mainly driven by lower demand for phonecard products and stronger price pressure. Excluding SkiData and Tag activities, the telecommunications segment represented 69% of our revenue in 2002, as compared to 70% in 2001.

Net sales in our financial services and security segment declined 18%, from 296.8 million in 2001 to 242.9 million in 2002 (excluding SkiData and Tag activities). After adjusting for currency fluctuations, net sales in this segment decreased by 16%. The decline in our financial services and security segment resulted mainly from the fact that 2001 included significant revenue in the banking and retail sectors in the United States. The financial services and security segment represented 31% of our revenue in 2002, as compared to 30% in 2001, excluding SkiData and Tag activities.

The following table breaks down our net sales among our three regions:

Years ended December 31	2002	2001	% change
			(in millions of euros)
Europe, Middle-East and Africa	416.2	474.0	(12%)
Asia	199.5	273.1	(27%)
Americas	171.7	231.6	(26%)
Disposed Operations*		44.3	
TOTAL	787.4	1,023.0	(23%)

* Including SkiData and Tag activities, which divestitures occurred during the third quarter of 2001.

The decline in net sales in the Europe, Middle-East and Africa region, which represented 53% of our revenue in 2002, was primarily due to the poor performance of the wireless segment which was partly offset by an increase of the sales in the banking sector. In Asia, lower sales reflected a deterioration of pricing conditions in the wireless segment. In Americas, we experienced in 2002 a significant decrease in our financial services chip cards sales to United States banks and retailers.

Gross profit

Gross profit decreased 35%, from 307.5 million in 2001 to 199.7 million in 2002 (the decrease was 31%, excluding disposed operations). Our gross margin decreased from 30.1% in 2001 to 25.4% in 2002. This decrease was mainly due to pricing pressure in the telecommunications segment. In addition, in 2001, our gross profit was impacted by a 10.6 million one-time favorable adjustment resulting from the partial reversal of a provision for a patent claim that was settled in 2001. However, the decline in our gross profit was partially offset by a better regional and product mix, the depletion of expensive microprocessor chip inventories purchased during prior periods, as well as higher sales volumes and productivity gains.

The following table breaks down our gross profit and gross margin by segment:

	2002		2001		% change
Year ended December 31	(in millions of euros)	(% of sales)	(in millions of euros)	(% of sales)	in gross profit
Telecommunications	154.5	28.4%	228.8	33.6%	(32%)
Financial Services and Security	45.2	18.6%	62.6	21.1%	(28%)
Disposed Operations*			16.1	36.3%	

TOTAL	199.7	25.4%	307.5	30.1%	(35%)

* Including SkiData and Tag activities, which divestitures occurred during the third quarter of 2001.

The gross margin of our telecommunications segment decreased from 33.6% in 2001 to 28.4% in 2002. This decrease resulted primarily from the strong price pressure in the wireless segment. This decrease was only partially offset by lower purchase prices for wireless microprocessor chips, and higher sales volumes in the wireless segment, including in related software and services which generate higher margins. In addition, in 2001, our gross margin was favorably impacted by the one-time royalty expense adjustment described above.

The decrease in our financial services and security segment gross margin, from 21.1% in 2001 to 18.6% in 2002, resulted primarily from lower sales volumes, lower prices, unfavorable product mix and customer mix for smart card products. The lower purchase prices for microprocessor chips only partially offset this decrease.

Operating income (loss)

We recorded an operating loss of 184.7 million in 2002 compared to an operating loss of 153.6 million in 2001. The 2002 operating loss resulted from declining sales, declining gross margins in both our segments and higher restructuring expenses. Restructuring expenses in 2002 amounted to 90 million compared to 28.5 million in 2001. This increase was partly offset by a significant decrease of our operating expenses which represented 294.4 million in 2002 compared to 388.8 million in 2001 (excluding two one-time items incurred in 2001: the management severance expenses amounting to 25.7 million and the litigation expenses amounting to 18.1 million). The operating expenses decrease reflected the effect of the restructuring plans announced in 2001 and in 2002 combined with other cost saving programs.

For the year as a whole, research and development expenses decreased by 18%, from 112.9 million in 2001 to 92.2 million in 2002, while general and administrative expenses decreased by 19%, from 110.7 million in 2001 to 89.9 million in 2002. Selling and marketing expenses fell more aggressively by 32% from 165.3 million in 2001 to 112.2 million in 2002.

Restructuring expenses

The deteriorating economic conditions and the continuation of the turmoil in the telecommunications industry led us to announce a second restructuring plan in February 2002. As in 2001, we responded to the rapidly changing environment by implementing a program to control costs and restructure our activities. The program involved a reduction of our workforce and the rationalization of office operations on a worldwide basis. We recorded a restructuring charge of 90 million in 2002 of which 80.8 million were related to our second restructuring plan. The goal of the program was to achieve 100 million in annualized cost savings, an objective that we continue to maintain. Our ability to reach this objective will depend on a number of factors, including the actual expenses that we incur as the program is fully implemented and the impact of market conditions.

Despite progress on cost saving efforts initiated in 2001 and 2002, an additional restructuring program needed to be implemented in response to further market deterioration and price erosion beyond what could have previously been anticipated. This program was announced in December 2002 and will impact most parts of the company. This program is expected to deliver annual savings in the range of 100 million, the full benefit of which is expected to be seen in the second half of 2004. The restructuring charge of 90 million recorded in 2002 included an amount of 7.7 million relating to this plan.

Net financial income and expense

We recorded net financial expense of 51.1 million in 2002 compared to 20.7 million net income in 2001.

Net financial expense and income were impacted by the following specific factors:

Provision for a loan to the former Chairman of the Board. In 2000, one of our indirect subsidiaries granted a loan to Dr. Lassus, our former Chairman of the Board. In 2002, we recorded in financial expense a 67.6 million non-cash charge to cover the risk of possible non-reimbursement of the loan. However, the Company has not forgiven the loan and is seeking repayment by Dr. Lassus through legal proceedings (see Note 9 to our Consolidated Financial Statements).

Interest receivable on loans to senior management: net financial expense incurred in 2001 included 4.9 million of interest income on the loans granted in 2000 by one of our indirect subsidiaries to Mr. Antonio Perez, our former Chief Executive Officer, and to Dr. Lassus. During 2001, Mr. Perez partially reimbursed the loans that were granted to him and the unreimbursed portion of the loans was charged to our Consolidated Statement of Income. Net interest accrued in 2002 on the loans granted to Dr. Lassus was 1.7 million corresponding to interest accrued in the first half of 2002.

Measurement at amortized cost of an advance made to a trade supplier: net interest income incurred in 2001 included a 2 million interest expense following the measurement at amortized cost of an advance made to a trade supplier, as compared to 1.9 million of interest income following such measurement in 2002 (see Note 6 to our Consolidated Financial Statements).

Excluding these specific items, net financial income reported in 2002 amounted to 12.9 million, as compared to net financial income of 17.8 million in 2001, reflecting primarily the decrease in our cash balances and the decrease in the market interest rate.

Other income and expense, net

We recorded net other expense of 28.9 million in 2002 compared to a net other income of 45.7 million in 2001. In 2001, net other income primarily included a one-time 68.3 million gain generated from the divestiture of our SkiData and Tag activities, which was only partially offset by foreign exchange losses and minority interests. Net other expense in 2002 was primarily attributable to foreign exchange losses (15.1 million), losses on investments (6.4 million) and minority interests (4.3 million).

Income tax

We recorded an income tax expense of 9.1 million in 2002. This tax expense reflected the fact that we did not recognize additional deferred income taxes on the losses incurred in France in 2002, and that a provision for tax risks amounting to 5.9 million had been recorded following a tax audit in France. In 2001, we recorded an income tax credit of 14.2 million, reflecting an effective tax rate of 16.3%. In 2001, our effective tax rate was impacted by the management severance expenses which created losses in certain countries with low effective tax rates and by the one-time 68.3 million gain from the SkiData and Tag divestitures.

Goodwill amortization

Goodwill amortization amounted to 47.1 million in 2002, as compared to 27.2 million in 2001. In 2002, goodwill amortization included a goodwill write-down of 22.1 million following an impairment testing. This write-down concerned the goodwill generated following the acquisition of SLP InfoWare SA (SLP) in October 2000 and was due to significantly declining sales of SLP Software (see Note 8 to our Consolidated Financial Statements). Goodwill amortization recorded in 2001 included a one-time 1.1 million charge resulting from a write-off of goodwill previously recorded from the acquisition of a 21% equity interest in Softcard due to Softcard s decision to cease its operations.

Net loss

We recorded a net loss of 320.9 million in 2002, or 0.53 per share, as compared to a net loss of 100.2 million in 2001, or 0.16 per share. Net loss recorded in 2002 primarily reflected the 90 million restructuring charge, the 67.6 million non-cash write-down of a loan granted in 2000 to one of our directors and the decline in our gross margin, which were, however, significantly offset by the reduction of our operating expenses as a result of our restructuring program. Net loss recorded in 2001 primarily reflected the decrease of our operating income, the 28.5 million restructuring expense and the 18.1 million one-time charge for the Humetrix lawsuit, which were partially offset by the impact of the 68.3 million one-time gains from our SkiData and Tag divestitures.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position remained strong in 2002. Cash and cash equivalents were 417.2 million at December 31, 2002 as compared to 490.7 million at December 31, 2001. Excluding non-recurring items, primarily restructuring charges, a one-time royalty prepayment, amounts paid in connection with a litigation expense and management severance costs accrued in 2001, cash outflows during 2002 were contained. We also used limited amounts of cash to fund our purchases of property, plant and equipment and investments.

Operating activities used 62.7 million of cash in 2002, compared to 23.3 million in 2001.

Net cash used in operating activities in 2002 was impacted by four non-recurring items:

(i) 33.4 million paid in connection with our restructuring programs,

(ii) 11.2 million for a one-time royalty prepayment for the period through 2005,

(iii) 18.1 million paid with respect to the exceptional costs relating to the Humetrix litigation, and

(iv) 10.6 million paid in management severance costs accrued in 2001.

Excluding these exceptional items, 2002 operating activities generated 10.6 million, as a result of significant improvements produced by working capital management. Accounts receivable declined 43.7 million as compared to December 31, 2001, reflecting the lower revenue levels.

We reported a good performance with respect to the days of sales outstanding, at 53 days, compared to 57 days at the end of December 2001. Inventory levels declined 43.3 million in 2002 as compared to December 31, 2001, representing 111 days supply compared to 110 days at the end of December 2001.

Net cash used in investing activities in 2002 was 47.1 million compared to 65.3 million in 2001. Cash used in 2001 included a cash inflow of 108.7 million net of fees due to the divestiture of our SkiData and Tag businesses. Excluding these one-time items, net cash used in investing activities in 2001 amounted to 174 million. The decrease in cash used in investing activities in 2002 was primarily due to the decrease in capital expenditures as compared to 2001. Capital expenditures were 31.9 million in 2002 as compared to 102.6 million in 2001. In 2002, capital expenditures were made primarily in Europe, and included principally 17.7 million related to a research and development and office building located in La Ciotat, France, which was mainly financed through a sale-leaseback transaction. Cash used in investing activities also included 14.7 million in connection with investments in start-up technology companies. Cash used in investing activities in 2001 also included a 13 million cash disbursement for the purchase of 20% of SkiData s issued share capital in anticipation of the sale of this subsidiary which was completed during the third quarter of 2001 and investments made primarily in two technology companies in the wireless communications market. In addition, in March 2001, we extended a 14 million loan to Mr. Perez, our former Chief Executive Officer, to fund tax liabilities relating to his receipt of a grant of free shares in 2000. This loan was later partially reimbursed in the form of Gemplus International SA shares (see Note 31 to our Consolidated Financial Statements).

Financing activities generated 3.8 million of cash during 2002, compared to 34.7 million cash used in 2001. The 2002 figure was primarily the result of the 15.9 million proceeds generated by a sale-leaseback transaction entered into to finance land and a research and development and office building located in La Ciotat, France. Cash generated by financing activities in 2002 was also impacted by the payment of dividends to minority shareholders of one of our Asian subsidiaries in the amount of 6.2 million. Negative cash flow from financing activities in 2001 principally resulted from the initial implementation of our share repurchase program, pursuant to which we repurchased shares of our outstanding common stock for 15.1 million, the purchase at fair market value of shares of Gemplus SA held by two of our former executive officers for 14.5 million the payment of 8.1 million for expenses incurred in 2000 in connection with sales of equity securities to Texas Pacific Group and our initial public offering, and the payment of 4.3 million in dividends to minority shareholders of one of our Asian subsidiaries.

In 1999, we entered into a 150 million revolving credit facility with a syndicate of international banking institutions that bore interest at a floating rate, out of which 73.1 million was available as at December 31, 2002. We have never drawn any amount under this revolving credit facility and we decided in January 2003 to terminate it before its due date.

We believe that our existing cash resources and our anticipated cash flow from operations are sufficient to provide for our foreseeable near term and medium term liquidity needs. At December 31, 2002, cash and cash equivalents amounted to 417.2 million. Our off balance sheet commitments at December 31, 2002 were not significant.

OUTLOOK

For 2003, the visibility is still too uncertain for Gemplus to provide any guidance.

However, we believe that there are signs of a progressive recovery of the telecommunications market, showing potential single-digit volume growth and continuous price pressure. In this context, we believe that there are grounds to anticipate that the telecommunications business unit revenue should progressively stabilize, helped by product mix improvement and the increased acceptance of open standards.

Year 2003 will be a challenging one for our financial services and security segment:

- EMV* migration is slow, and the corporate security and identity business portfolio is building up.

- The two business units should also benefit from the increase of higher added value software and services activities in their revenue.

It is still necessary for the Company to further reduce its breakeven point though the following programs:

- At the end of the first quarter 2002, we announced a restructuring plan and cost cutting initiatives, which are on track to reach the initial goal of 100 million annualized cost savings.

- In December 2002, we announced the implementation of a further restructuring and rationalization program, with an objective of generating an additional 100 million annual cost savings.

Finally, further unfavorable currency fluctuation between euro and US dollar is likely to negatively affect our revenue.

Our goal is to build a strong platform for the year 2004 and beyond. Although our restructuring involves reducing some resources, we do not believe these changes will prevent our ability to effectively innovate and further develop our products or focus on satisfying customer requirements.

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* EMV is the major global credit card payment association, including Europay International, MasterCard International and Visa International.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies that we believe are the most critical to assist in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Revenues from product sales are recorded upon transfer of title and risk of loss provided that no significant obligations of the company remain and collection of the resulting receivable is probable. We record deferred revenue for sales invoiced which are delayed at the buyer s request where transfer of title and risk of loss have not occurred. Procedures exist which are regularly reviewed to ensure that the policy is consistently applied throughout our subsidiaries worldwide.

Goodwill

Goodwill is reviewed for impairment based on expectations of future cash flows, which by definition are uncertain, at each balance sheet date, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We consider significant underperformance relative to expected historical or projected future operating results, significant change in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. Under the current assumptions we believe that no further material impairment of goodwill exists.

Loans and receivables

According to International Accounting Standards, we adjust the carrying amount of the loans and receivables to their estimated recoverable amount when it is probable that we will not be able to collect all amounts due principal and interest according to the contractual terms of such loans and receivables.

Inventory

Our industry is highly competitive and characterized by rapid technological change, frequent new product development, and rapid product obsolescence. We regularly review inventory quantities on hand and record provisions for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements.

Inventories are carried at the lower of cost or market, with cost being determined principally on the weighted-average cost basis. Cost elements included in inventories are raw materials, labor and manufacturing overhead excluding the impact of low activity, if any. A significant component of the cost of production relates to the acquisition of microprocessor chips. The cost of microprocessor chips decreased significantly in recent months. Our provision for microprocessor chips inventory is determined based on the anticipated net realizable value of finished products which includes cost of production, raw materials, labor and manufacturing overheads.

Research and Development

Development costs are recognized as an expense when incurred, except for development costs incurred from the time technological feasibility is established until the product under development is produced and future profitability is demonstrated. Judgement is exercised in determining technological feasibility and future profitability, the capitalization of such costs being reviewed on a quarterly basis. In addition, we continually evaluate the recoverability of capitalized costs and make write-downs when necessary.

Restructuring

As required by International Accounting Standards, we record restructuring expenses only when, prior to the date of the financial statements, the enterprise is committed to the plan of termination, the benefits that current employees will receive upon termination are established and the benefit arrangements are communicated.

Special Purpose Entities

We have not had any transactions involving special purpose entities as an investment vehicle. We do not intend to enter into transactions which such entities.

GEMPLUS INTERNATIONAL SA

Consolidated Financial Statements

FINANCIAL STATEMENTS

Report of Independent Accountants

To the Board of Directors and Shareholders,

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders equity present fairly, in all material respects, the financial position of Gemplus International SA and its subsidiaries at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in accordance with International Accounting Standards. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

International Accounting Standards vary in certain respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended December 31, 2002, and the determination of shareholders equity at December 31, 2002, 2001 and 2000 to the extent summarized in Note 32 to the consolidated financial statements.

PricewaterhouseCoopers

Luxembourg, Grand Duchy of Luxembourg
Paris, France

March 11, 2003

GEMPLUS INTERNATIONAL SA

Consolidated Financial Statements
for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Income

(in thousands of euros, except shares and per share amounts)

Years ended December 31	Notes	2002	2001	2000
Net sales		787,434	1,022,986	1,204,600
Cost of sales		(587,722)	(715,516)	(750,714)
Gross profit		199,712	307,470	453,886
Research and development expenses	(10)	(92,240)	(112,885)	(90,778)
Reversal of research credit allowance	(10)			12,486
Selling and marketing expenses		(112,227)	(165,276)	(158,545)
General and administrative expenses		(89,896)	(110,657)	(89,666)
Restructuring expenses	(17)	(90,003)	(28,466)	
Litigation expenses	(26)		(18,120)	
Management severance expenses	(31)		(25,691)	
Operating income (loss)		(184,654)	(153,625)	127,383
Financial income		19,782	28,234	21,427
Financial expense	(29)	(70,874)	(7,532)	(8,869)
Other income (expense), net	(18)	(28,904)	45,681	(28)
Income (loss) before taxes and goodwill amortization		(264,650)	(87,242)	139,913
Income taxes benefit (provision)	(19)	(9,124)	14,184	(29,631)
Net income (loss) before goodwill amortization		(273,774)	(73,058)	110,282
Goodwill amortization	(8)	(47,117)	(27,162)	(11,204)
NET INCOME (LOSS)		(320,891)	(100,220)	99,078