REPORT BY THE CHIEF EXECUTIVE OFFICER
ON INTERNAL CONTROL PROCEDURES
IMPLEMENTED BY GEMPLUS INTERNATIONAL S.A. IN 2005

For the purposes of this report Gemplus International S.A., together with the entities over which Gemplus International S.A. has the power to govern directly or indirectly the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights (a “Subsidiary”), is referred to as the “Company”. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The internal control procedures of the Company apply to all Subsidiaries.

1. Internal Control Objectives

The internal control processes of the Company are comprised of various policies and procedures designed to provide reasonable assurance as to the realization of the following objectives:

- realization of operations of the Company, consistent with the policies defined by the board of directors and the management of the Company;
- reliability and accuracy of financial, accounting and management information used within the Company or disclosed within the Company or to third parties; and
- compliance of the Company’s operations with applicable laws and regulations.

Organizational rules, policies, evaluations and control procedures contribute to the application of the Company’s internal controls.

One of the internal control objectives includes the prevention and control of risks in terms of corporate activity, and with respect to error and fraud, especially in accounting and finance. As with any control system, it cannot provide absolute assurance as to the complete elimination of such risks.
A description of the major risks related to the business and the industry of the Company is detailed in the annual report under Form 20-F filed by the Company on a yearly basis with the Securities and Exchange Commission ("SEC") and in the Document de Référence filed with the Autorité des Marchés Financiers ("AMF").

2. Internal Control Reference Documents

The Company has processes regarding internal controls and disclosure controls and procedures. These processes are designed to treat the following matters: (i) the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) the recording of transactions as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; (iii) that receipts and expenditures of the Company are being made in accordance with authorizations of management of the Company; and (iv) the prevention or timely detection of potential unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on financial reporting.

The control environment of the Company includes various documents that serve as a reference for the application of the internal control procedures implemented by the Company. These documents include:

- A Code of Ethics, providing, among other things, for: (i) honest and ethical conduct, including regarding any conflicts of interest between professional and personal relationships, (ii) full and accurate disclosures and reports to the public and regulatory authorities such as the Autorité des Marchés Financiers and the Securities and Exchange Commission, and (iii) compliance with all applicable laws, rules and regulations;
- Corporate Governance Guidelines, adopted and review annually thereafter, that describe the independence criteria of Gemplus International’s board members and provide rules for conducting the activities of the board and its committees;
- The Gemplus Management Manual, providing information and advice on the organization of the Company’s activities and management;
- The Gemplus Business Management Manuals, which explain other internal processes among the different Company functions; and
- Other more specific policies, depending on the functioning of the Company’s departments and entities, including, but not limited to, accounting and financial department policies, legal department policies, purchasing department policies, management information system policies and policies of the communication and human resources departments.

The above policies are made available to employees on the Company’s Intranet site.

3. Actors of the Control & Control Environment

3.1 Company board of directors and its committees

Board of directors

In 2005, the board of directors of Gemplus International S.A. has continued to focus on strengthening its role in terms of accountability and overview.

Our board of directors has four committees: an Audit Committee, a Governance and Nominating Committee, a Compensation Committee and a M&A and Strategy Committee.
The Governance and Nominating Committee and the M&A and Strategy Committee were created by a resolution of the board of directors on July 26, 2005.

Audit Committee

In 2005, the members of the Audit Committee were Mr. John Ormerod (Chairman), Mr. Werner Koepf, and Mr. Johannes Fritz, and Mr. Bill Price who resigned from the Audit Committee on April 13, 2005, and it was agreed that the Committee would not propose replacement of this position.

The Audit Committee held eight meetings in 2005. At seven of these Audit Committee meetings, all members were in attendance (physically or by telephone). At one Audit Committee meeting, there were three members out of four in attendance.

The activities of the committee are governed by a specific committee charter. Among other things, this committee reviews the financial statements of the Company, the evolution of the material litigation and claims and potential conflicts of interests with a director or any other related party and all other activities as required by law and securities exchange rules. During 2005, the Audit Committee reviewed, among other items, the Consolidated Financial Statements for 2004, the quarterly statements for 2005, the quarterly accounting judgments and material comments made by the auditors and reports on related party transactions presented to it, as well as reports on the implementation of regulations arising under the Sarbanes-Oxley Act. Main off-balance sheet liabilities (and particularly guarantees and foreign exchange operation) are regularly reviewed by the Audit Committee and the Chief Financial Officer.

The Audit Committee has the sole authority with respect to the recommendation, compensation, retention and oversight of the work of the independent auditors of the Company. Luxembourg law requires our auditors to be appointed by our shareholders; therefore, the shareholders of the Company appoint the auditors upon recommendation of the Audit Committee after review of the auditors’ performance and fulfilment of certain specific criteria. The Audit Committee has not established any pre-approval procedures for permissible non-audit services proposed to be performed by our independent auditors, and requires each engagement for non-audit services to be approved in advance by the Audit Committee (except for delegation to the Chairman of the Committee of the authority to approve in advance all audit and non-audit services to be provided by the auditors if presented to the Audit Committee at the next regularly scheduled meeting).

Governance and Nominating Committee

As from its creation in July 26, 2005, the members of the Governance and Nominating Committee are Mr. Dominique Vignon (Chairman), Mr. David Bonderman, Mr. Johannes Fritz and Mr. Kurt Hellström.

Our Governance and Nominating Committee held one meeting in 2005. At this meeting, all members were in attendance (physically or by telephone).

The activities of the committee are governed by a specific committee charter. Among other things, this committee formulates, recommends to the board and oversees the implementation and administration of the Company’s corporate governance structure and framework; monitors and reviews any issues regarding the “independence” of directors or involving potential conflicts of interest; reviews the Company’s Corporate Governance Guidelines at least annually and recommends changes, as necessary, to the board; reviews and reports on additional corporate governance matters as necessary or appropriate or as directed by the Chairman or the board of directors; leads the search for, screen, evaluates and recommends to the board of directors qualified candidates or nominees for election or appointment as directors, Chairman and Chief
Executive Officer; recommends board committee assignments and committee chairs for consideration, including where relevant, on the determination of director independence; periodically administers and reviews with the board an evaluation of the processes, structure and performance of the board in order to identify areas of concern or potential issues relating to board and committee processes, performance and effectiveness and to assess and evaluate the overall effectiveness of individual directors; assesses and recommends to the board potential candidates for succession to the position of Chief Executive Officer; and recommends to the board the initial compensation of the Chief Executive Officer.

During 2005, the Governance and Nominating Committee reviewed the board composition and concluded that no changes were needed in the near future. It also discussed several assumptions related to succession plans for key executives of the Company, and reported to the Board accordingly.

Compensation Committee

As of the beginning of 2005, the members of our Compensation Committee were Dominique Vignon (Chairman), Mr. Geoffrey Fink and Mr. Werner Koepf. On July 26, 2005, Mr. Kurt Hellström was appointed as member of this committee. On October 21, 2005, Mr. Geoffrey Fink replaced Mr. Dominique Vignon as Chairman of the Committee.

The Compensation Committee held in 2005 four meetings and passed three unanimous written consents without a meeting. At two of these meetings, all members were in attendance (physically or by telephone). At two of these meetings, there were three members out of four in attendance.

The activities of the committee are governed by a specific committee charter. Among other things, this committee reviews our Chief Executive Officer compensation and makes recommendations on the compensation of our executive officers and directors. The Compensation Committee follows guidelines that generally call for the adjustable portion of executive compensation to vary between 50% and 100% of the applicable salary, depending on the executive’s position. Generally, half of this compensation depends on the achievement of overall objectives of the Company, and the other half depends on achievement of individual objectives related to the executive’s performance.

In 2005, the Stock Administration Committee, acting as a subcommittee to the Compensation Committee, consisted of Mr. Alex Mandl, Mr. Philippe Duranton, Mr. Frans Spaargaren, and Mr. Stephen Juge. As of January 1, 2006, Mr. Xavier Molinié replaced Mr. Philippe Duranton as member of the Stock Administration Committee. The activity of this committee is governed by a specific committee charter. The Stock Administration Committee’s role is to advise the Compensation Committee concerning stock option issuances and related matters and to grant stock options to employees who are not members of the management executive committee. Stock options are generally granted to executives and certain other personnel when they are hired, and potential additional grants are subject to annual review based on individual and collective company achievement criteria.

M&A and Strategy Committee

On July 26, 2005 the Strategy Committee, which consisted of Mr. Dominique Vignon (Chairman), Dr. Peter Kraljic, Mr. Daniel Le Gal, Mr. Alex Mandl and Mr. William S. Price III, was replaced with the M&A and Strategy Committee. Pursuant to such change, Mr. Alex Mandl (Chairman), Mr. Geoffrey Fink and Mr. Johannes Fritz, and Dr. Peter Kraljic were appointed as the succeeding members of the M&A and Strategy Committee.

The M&A and Strategy Committee held six meetings during 2005 with all members in attendance.
The activities of the committee are governed by a specific committee charter. The committee’s role is to advise the board of directors concerning the Company’s overall strategy and long-term planning and M&A transactions, for which (pursuant to decisions of the board of directors) the committee has authority to approve relevant matters up to € 30 million and has subdelegated authority to the CEO for relevant matters up to € 10 million.

3.2 Management Committees

The responsibilities and mission of each Company management committee are set forth in the Gemplus Management Manual. Starting January 1st, 2006 the Gemplus organization was modified: Regions have evolved into full Profit & Loss entities, with three separate Regions – Americas, Asia and Europe Middle East Africa (EMEA) – and the Business Units have been regrouped into the Product development and Marketing center headed by a Chief Technology Officer. All other support functions, HR, Legal, Finance, Strategy, Communications have remained unchanged. This new organization was fully operational as of January 1, 2006 following a transition during the fourth quarter of 2005.

General Management Committee

In 2005, the General Management Committee (“GemCom”) was composed of (i) the CEO, (ii) the Executive Vice-Presidents in charge of each Business Unit (Telecommunications, Financial Services, Identity and Security), and the Executive Vice-Presidents of the Business Development Group (including Research and Development), Operations, Finance, Human Resources and Legal, and (iii) the Asia and Noram Presidents.

This committee, among other things: (i) shares the global responsibility for Company strategy and operations; (ii) reviews and validates the financial forecast for the coming quarters, yearly budget and objectives, as well as the strategy and three-year plan; (iii) discusses and shares on a collective basis key general management decisions for the Company; and (iv) prepares reports to the board of directors of the Company concerning Company activities. The GemCom meets once per week by conference call or in person, has a full day of management review once a month and has a financial forecast review, as well as a strategic plan review once per quarter. Twice a year, the CEO, the CFO as well as the Executive Vice-Presidents in charge of each Business Unit and of Operations and the Senior Vice-President of Strategy perform a regional business review in each region for Noram, Asia, EMEA and Latin America (Latam).

Gemplus Management Forum

The participants include direct reports of each member of the GemCom, and any manager designated by the GemCom or the CEO. The role of the Gemplus Management Forum is to be informed of the strategy, priorities and business targets of the Company, work on key topics and make action plan proposals for the Company and share and capitalize at Company level on key experiences. This forum works to implement consistency and alignment of all Company management by “cascading” priorities and objectives through the global organization. This forum meets twice a year: once in the first or second week of January for objectives cascading and once at the beginning of September.

3.3 Specific functions

Operational and internal audit functions

Since 2003, the Company had worked to establish an operational audit function to improve sustainable performance of the Company by supporting management to better understand and mitigate the risks of the business. This operational audit and process excellence function has implemented a continuous improvement process through the identification of risks, the conduct of
operational audits on identified potential risks and the follow-up of related action plans. A yearly operational audit program is defined on main critical risks identified and other topics that may be decided upon during the year.

Pursuant to the implementation of the SOX Project a decision was made to create an internal audit function which includes the operational audit function. This internal audit function is operational since January 1st, 2006.

Control Quality & Environment – Corporate Social Responsibility

We deploy standardized processes worldwide, enhancing their performance through continuous improvement programs, periodic review and corrective or preventive methodologies. These measures contribute to the success of our Quality Management System certified according to applicable standards such as ISO 9001 v 2000, CQM and CMMi.

Our Security policies and procedures are periodically reassessed to maintain the most effective levels of security. All sites conform to applicable security requirements both for logical and physical security and are certified by the main regulatory bodies such as Visa MasterCard and GSM Association as appropriate.

Certification programs such as ISO 14001 or OHSAS 18001 provide for a degree of control on Environment, Health and Safety (EHS) related matters. In 2005, the total number of our facilities ISO 14001 certified reached 90% of our manufacturing facilities. Our Singapore plant is certified OHSAS 18001 and our US facility is certified by the Pennsylvania Safety Awards Scheme. In other facilities, Health and Safety management system are implemented based notably on compliance with legal requirements, prevention of accidents through job safety analysis, and Health and Safety committees including notably management and personnel representatives.

In anticipation of the European directive on Reduction of Hazardous Substances, the Company has initiated specific projects and procedures to provide for compliance for its smart cards and range of reader products. As a result, the Company is currently in a position to provide RoHS compliant products: according to external analysis, our smart cards respect applicable limits, and for our readers, a migration program has been initiated since 2004, and will allow compliance prior to July 1st, 2006.

Purchasing

The purchasing department of the Company has policies containing instructions which form the guidance for personnel who participate in the actions and decisions relating to the purchases of goods and services by the Company. The Company purchasing policy applies to certain goods and services whether purchased, leased, subcontracted or outsourced. The basic purchasing processes are sourcing, supplier selection process (“SSP”), supplier contract management and supplier relationship management (“SRM”) as described in the “Purchasing Business Management Manual” of the Company. Internal controls have been reinforced in the Purchase to Pay transactional process in order to better control and challenge expenditure of the Company.

Communication department and Company financial communication (internal communication and public disclosure)

The Communication department of the Company has implemented rules to be followed for public disclosure of material information concerning the Company. Such policies provide that any disclosure of material financial information to external parties is limited to the following people: the CEO, the CFO and the Director of Investor Relations. It also contains the mandatory procedure
for the issuance of any press release, with notably the express approval of the CFO, the General Counsel and other relevant head of Business Line and/or Region.

In addition to this, the Company is committed to release financial information regarding the Company and its strategy externally in compliance with Luxembourg, French and U.S. securities laws and with a goal of broad and fair dissemination of information to the market. The Company has an investor relations and financial communications department, reporting to the Company CFO that works closely with the Communication department.

*Legal department & Insurance/risk management section*

The legal department provides executive management and the Audit Committee with a regular report of the Company’s main legal proceedings and related risks, and provides advice and assistance regarding conformity of the Company’s operations with applicable laws and regulations. The legal department also manages risk through preparation and negotiation of legal documentation. In addition, the legal department is also treating insurance and related risk management, which conducts a global analysis of our risks in order to determine appropriate insurance coverage for the Company.

### 3.4 Risk Assessment

The supervision of the control procedures and its periodic reviews by management are included in the Company’s ongoing activities.

The Company reviews on an on-going-basis its internal control processes, and mainly those pertaining to financial reporting and financial communication, in connection with its annual filings with securities regulators. In connection with the annual filings with securities regulators this practice involves representatives of the Company’s finance and legal departments holding a series of meetings in which the Company’s internal controls over financial reporting and related matters are analysed and the framework for a specific review of such controls with the Company’s CEO and CFO is developed, including the identification of any specific internal control issues, particularly those that may pose a risk to financial reporting.

### 3.5 Control Activities

The control activities can be defined as the application of the rules and procedures which contribute to the implementation of the directions defined by GemCom.

The control activities of the Company include policies, procedures and best practices established to treat: (i) the accuracy and reliability of accounting and operational data; (ii) compliance with the policies of the organization and applicable law; (iii) protection of Company resources against waste, fraud, and inefficiency; and (iv) evaluation of the level of performance in all organizational units of the Company.

The Company’s management personnel carry out Company management directives and there are regular reviews of performance against defined objectives at all management levels. In addition, the management of the Company includes reviews of each Business Unit, ongoing informal contacts with the managers in charge of the Business Units in connection with performance reviews (budgets, results), and on occasion as appropriate participation in meetings of the GemCom.

### 3.6 Fraud detection

The Company continues to implement its internal control process aiming at reinforcing the transparency in the Company by allowing any employee to report confidentially any information
that, according to this employee’s judgment, may be a threat to the Company’s activities; any such disclosed information is then analyzed by the Audit Committee or the General Counsel or other management of the Company.

4. Company Financial And Reporting Management

The financial management of the Company is comprised of a finance department lead by a CFO, with several functions reporting directly to him: (i) centralized functional divisions (Corporate Controller, Corporate Treasury, Corporate Tax, Investor Relation, Strategic Financial Projects and Finance Excellence Program); and (ii) financial divisions related to operational units (Telecommunication, Financial Services, Identity and Security, Business Development Group and Operations). It should be noted that as of January 1st, 2006 and further to the reorganization of the Company, the financial divisions related to operational units have changed into the following: Americas, Asia, Europe Middle East Africa, Product and Marketing and Operations Coordination.

The finance department of the Company is comprised of various divisions, including personnel dedicated to supporting the Company as a whole. Among other things, the finance department (including its Treasury division) analyzes main financial risks of the Company, including interest rates, foreign currencies and counterparty risks, and develops and implements mitigation strategies. The finance department coordinates the budget and forecast process and sets the major financial parameters and assumptions underlying forecasts. The finance department also works to provide for the reliability of accounting and management data, including by determining the nature, scope, format and frequency of financial reporting relevant to the management of the Company and all its divisions. In addition, the finance department sets the financial reporting standards for the Company and all its divisions, including the accounting standards and procedures, performance indicators, variance analyses and consolidation processes. The Tax division of the finance department develops and coordinates strategies to limit risk and optimize the management of direct and indirect taxes, tax planning and filings.

4.1 Consolidation process

The Company has processes for the centralization and validation of its consolidated data. The data are centralized through a specific consolidation software. Business Units (BU) controllers, Regional controllers, the Corporate controller and the Consolidation manager share inputs and define action owners for open items to be cleared before the end of the relevant quarter. Then, all financial results submitted by Regions are reviewed and validated by both Corporate analysts and BU controllers. Consolidation analyses are reviewed and approved by a consolidation manager before recording. At the end of the closing, BU controllers, Regional controllers and Corporate analysts validate the final results. The Corporate controller also reviews the final results prior to presentation to the CFO, and later communication to the board of directors and the Audit Committee.

In addition to closing process control, (i) at least once a year selected entities fully consolidated (and also entities under equity investments method starting 2005) are reviewed locally by Corporate finance (Balance sheet review; see section 4.5 below) and (ii) on a regular basis Accounting Steering Committee (“ASC”) meetings are scheduled to establish and communicate new accounting policies.

4.2 Financial reporting

Each month, a status of the Company’s profit and loss, balance sheet and cash flows is provided to the Company’s CFO and GemCom members. Such individuals are also provided with forecasted financial statements on a quarterly basis.
4.3 Treasury reporting

A report including key treasury figures of the Company is provided to the CEO, the CFO and the Corporate Controller on a monthly basis.

In addition, the Audit Committee receives each quarter an executive summary of the above-mentioned report including a summary of the key treasury information and a detailed report on counterparty risks related to deposits and hedging. In addition, the CFO and the Corporate Controller receive on a monthly basis a report on the counterparty risks related to our clients, their impact on the Profit and Loss and working capital needs. Details of the Company’s working capital needs are also provided on a monthly basis to the members of the GemCom, and the foreign exchange hedging policy is reviewed each year by the Audit Committee.

4.4 Accounting, Information and Communication Systems

The Company’s accounting, information and communication systems identify, capture and exchange information in a form and time frame intended to enable Company personnel to carry out their responsibilities.

Accounting systems include methods and records intended to identify, assemble, analyze, classify, record and report transactions by the Company and its Subsidiaries. In addition, the Company has communication systems intended to provide information throughout the Company and to external third parties such as regulators, examiners, shareholders and customers.

With respect to computer information systems, the Company has implemented certain information technologies to enable the creation and maintenance of accurate records of its transactions and dispositions of Company’s assets, and to permit preparation of financial statements and assist in giving reasonable assurance regarding prevention or timely detection of fraud and other unauthorized activities. These systems include enterprise software that covers elements of manufacturing, finance and logistics functions, implemented at all the major sites of the Company. The Company also has information systems specifically relating to its manufacturing activities, which help personnel to analyze, share information in multiple remote locations and create, schedule and view manufacturing reports. In addition, the Company has several other information systems for data processing. The Company has also implemented enterprise software for financial consolidation and accounting to streamline collection, consolidation and reporting of financial results.

4.5 Accounting and finance Policies

The Company’s management regularly reviews the quality of its financial information and reporting. These procedures include, *inter alia*, the following:

*Balance Sheet Reviews*

Throughout the year, members of the corporate finance division visit selected entities fully consolidated (and also legal entities under equity investments method starting 2005) and analyze such entities’ financial statements prepared in view of the Company consolidation. These reviews include: (i) assessing compliance with the Company and local accounting policies and generally accepted accounting principles (including the fair representation of balance sheet items); (ii) providing management with information relevant to the financial position and internal control process of the Company or entities under review; (iii) corrective action plans where necessary; and (iv) a follow up process to ensure resolution of any issues.
**Off Balance Sheet Transactions**

The Company consistently seeks to fairly include all liabilities of the Business Units, regions or entities as applicable in its financial reporting. The Company does not have a practice of moving liabilities or gain or loss contingencies into special purpose entities or the like.

**Segregation of Expenses**

The Company works to provide that the costs of sales, research and development expenses, selling and marketing expenses and general and administrative expenses are properly segregated. This is mainly reviewed through the Management Reporting Steering Committee where all finance departments are represented, and which has the responsibility to develop, update and implement the rules applicable to our internal reporting and profit and loss presentation.

**Impairment of Long-Lived Assets**

At each balance sheet date, the corporate finance division, together with the financial divisions related to operational units, evaluate whether events or changes in circumstances indicate that the carrying amount of significant long-lived assets such as property, plant and equipment, goodwill, and research and development has been impaired. Losses or write-downs are then booked in accordance with Company policies.

**Capital Expenditure Review Policy**

The Company has regular processes and rules to approve capital expenditures, including board approval above specified amounts. During reviews of items with the board of directors, there are presentations of a description of the project, reasons for the investment, planning of the project/investment, identified risks, consequences, opportunities plus business plan analysis.

5. **Self-Assessment And Monitoring**

Self-assessment and monitoring provide oversights of the Company’s control system performance. It is a fundamental expectation of all management to monitor controls to consider whether they are operating as intended and that they are appropriately modified when conditions change. In significant part, this aspect is monitored throughout the Company as part of the performance appraisal process driven by the human resources department in which management quality and objectives (which necessarily include control functions wherever applicable) are evaluated. The policies of the Company’s human resources department provide that each employee of the Company must be evaluated in writing at least annually. Each manager is in charge of returning these evaluations, failing which they are not eligible for a potential salary increase.

6. **Sarbanes-Oxley Act**

In connection with the Annual Report on Form 20-F filed with the US Securities and Exchange Commission, and pursuant to the regulations introduced by the U.S. Sarbanes-Oxley Act of 2002, the CEO and the CFO have evaluated, as of June 30th, 2005, the effectiveness of the controls and procedures, related to the information, published or to be published (disclosure controls and procedures).

In connection with the provisions introduced by Section 404 of the Sarbanes-Oxley Act, the Company is in the process of completing an evaluation of its internal control processes related to financial information of the Company.
Therefore, the Company has deployed a Sarbanes-Oxley analysis program (the “SOX Project”). The program began in October 2004. The Company’s CEO and CFO are the two sponsors of the SOX Project and supervise an executive steering committee composed of three executives and three other senior managers of the Company. On a day-to-day basis, the program is driven by a fully dedicated person, and in addition to the efforts requested of a number of the Company’s employees, the Company has retained the services of an independent consulting company to provide support in the implementation of the program.

Alex Mandl
Chief Executive Officer