



GEMPLUS INTERNATIONAL S.A.
Société Anonyme
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L-1855 Luxembourg
R.C.S. Luxembourg B 73 145
(the "Company")

**Report by the Board of Directors
to the extraordinary general meeting of shareholders
with respect to the proposed waiver of, suppression of and authorisation
to suppress or limit, preferential subscription rights by the existing shareholders**

At the extraordinary general meeting of shareholders to be held on April 25, 2006 (the "Shareholders' Meeting") it will be proposed to the shareholders of the Company to confirm the authorised share capital of the Company of an amount of 400,000,000 euros represented by 1,889,466,226 shares (the number of shares being subject to adaptation in the case of cancellation of shares or like procedure), to generally waive their pre-emptive subscription rights for the issuance of shares in the Company within the authorized capital of the Company and thus to authorize the issuance of shares in the Company in consideration of contributions in cash with or without reserving pre-emptive subscription rights to existing shareholders and, for this purpose, to extend the validity period of the authorised share capital provided for under item 5.2.1 and the authorisation to the Board of Directors to issue shares under the authorised share capital under item 5.2.1 while waiving or suppressing pre-emptive subscription rights of existing shareholders.

The Board specifies that the authorized share capital includes the subscribed and issued share capital of the Company.

The Board proposes that article 5.2 of the articles of association of the Company shall provide as follows:

Article 5.2. The authorised capital is fixed at four hundred million Euro (Euro 400,000,000) consisting of one billion eight hundred and eighty-nine million four hundred and sixty-six thousand two hundred and twenty-six (1,889,466,226) shares, of no nominal value.

Out of the authorised share capital, the board of directors is authorised to issue further shares up to the total authorised share capital in whole or in part from time to time with or without reserving any pre-emptive subscription rights for existing shareholders and as it may in its discretion determine within a period expiring (x) for issues of shares reserved pursuant to items (i) to (iv) in 5.2.1. below, on the fifth anniversary after the date of publication of the minutes of the extraordinary general meeting held on 25th April 2006, and (y) for any other issues of shares pursuant to 5.2.2. hereunder on the third anniversary after the date of publication of the minutes of the extraordinary general meeting held on 27th April 2004 (each time subject to extensions) and to determine the conditions of any such subscription (provided that part of the authorised capital is reserved as described below).

5.2.1. Out of the authorised share capital the following items (i) to (iv) shall be reserved with no pre-emption rights for:

- (i) the issue of a maximum of twenty million (20,000,000) shares in exchange at a ratio of fifty (50) new shares in the Corporation for one (1) share of classes A, B or C of Gemplus S.A., a company incorporated under the laws of the Republic of France, registered in Marseille, under the number 349711200 ;*
- (ii) the issue of a maximum of fifty-six million eight hundred forty-five thousand and seven hundred (56,845,700) shares either in exchange at a ratio of fifty (50) new shares of the Corporation for one share of Gemplus S.A. to be issued under any of the Gemplus S.A. stock option plans in existence on 1st February 2000 or before or with respect to options to be issued by the Company to subscribe for shares in the Company upon*

- terms identical to those existing for options issued under any of the Gemplus S.A. stock option plans in existence on 1st February, 2000 or before, against surrender or exchange of, or renunciation to, such latter stock options in the same amounts on an adjusted basis (subject to the applicable ratio);*
- (iii) the issue of a maximum of fifty million (50,000,000) shares with respect to the options granted to the employees or officers of the Gemplus group (including any subsidiaries or affiliates of the Corporation) in accordance with the stock option plan as from time to time determined by the board of directors subject to such further conditions as may be imposed by the general meeting of shareholders; and*
 - (iv) the issue of a total number of a maximum of up to sixty million (60,000,000) shares without nominal value to senior management, board members and/or executives throughout the Gemplus Group either (a) by way of stock options, the terms and conditions thereof and/or relating thereto to be determined by the board of directors in its sole discretion, and/or (b) except in the case of board members, by way of free shares, the Corporation transferring, upon the issue of such free shares, an amount equivalent to the accounting par of such shares from its realised profits or distributable reserves to its share capital.*

5.2.2. Notwithstanding the foregoing it is specified that any other issues of shares within the authorised share capital may be made with or without reserving to the existing shareholders a preferential subscription right as determined by the board of directors, including but without limitation for issues of shares in the cases foreseen under 5.2.1 above but for a higher number of shares.

The amendment provides for the renewal of the validity period of the authorisation under item 5.2.1, and the deletion of the previous item (v) of paragraph 5.2.1 which referred to the issue of shares for the IPO and which is thus no longer required. Finally the amendment clarifies the prior authorization to the Board of Directors to issue shares under item 5.2.2 also (but without limitation) in the circumstances as described under item 5.2.1 (i) to (iv).

The Board proposes to the Shareholders' Meeting to extend the validity period of the total authorised un-issued share capital and the authorisation to the Board of Directors in respect of the authorization to issue shares pursuant to article 5.2.1 of the articles of association for a period starting on the date of the Shareholders' Meeting and ending on the fifth anniversary of the date of publication of the deed recording the minutes of the Shareholders' Meeting.

At the extraordinary general meeting of shareholders held on June 21, 2000, the shareholders had agreed to waive their preferential subscription rights *inter alia* for the issuance of shares in the Company in particular with respect to shares issued to shareholders of Gemplus S.A. against the contribution to the Company of their shares held in Gemplus S.A.

The shareholders had further agreed to waive their preferential subscription rights with respect to the contribution of Gemplus S.A. shares to be issued under any of the Gemplus S.A. stock option plans in existence on February 1, 2000 or before (at a ratio of 1:50) and with respect to options to be issued by the Company to subscribe for shares in the Company upon terms identical to those existing for options issued under any of the Gemplus S.A. stock option plans in existence on February, 1, 2000 or before, in consideration of the surrender or exchange of, or renunciation of, such latter stock options in the same amounts on an adjusted basis (subject to the applicable ratio).

The Company has made an offer expiring on July 31, 2010 to all existing Gemplus S.A. shareholders to contribute their Gemplus S.A. shares (in existence currently and those to be issued upon exercise of the Gemplus S.A. options referred to above) in exchange for shares in the Company at a ratio 1:50. The exchange ratio has been determined in conformity with the valuation of the shares of Gemplus S.A. at the two first contribution offers. The terms of this offer were set forth in the Company's French prospectus dated December 7, 2000.

The waiver of the preferential subscription rights by the shareholders of the Company and the authorization to the Board to issue shares within the authorized share capital is required in order to provide for the issuance of shares of the Company as set out above.

The Board believes that it is in the interest of the Company, being the holding company of the Gemplus group, to become the sole shareholder of Gemplus S.A. Further, the Company has, pursuant to the offers made, an obligation to issue shares to the contributors of Gemplus S.A. shares. It is in the interest of the Company to satisfy such obligation and thus to be in a position to issue shares in the circumstances and for the prices as provided for above.

The shareholders had previously also waived their pre-emptive subscription rights and authorized the Board of Directors to issue stock options giving rights to the issuance of up to 50 million shares (and upon exercise of such options, to issue shares) while suppressing pre-emptive subscription rights of the shareholders, to employees managers and other officers of the Gemplus group pursuant to stock option plans determined by the board of directors (and as the case may be, such other conditions as determined by the shareholders).

The Company has pursuant to such authorisation issued stock options to employees, managers or officers of the Gemplus group (including any subsidiaries or affiliates of the Company) and is under an obligation to issue shares to the stock option holders upon the exercise of such stock options. Further the Board of Directors wishes to continue to be in a position to issue stock options to employees, managers or officers of the Gemplus group (including any subsidiaries or affiliates of the Company) pursuant to stock option plans approved by the Board of Directors.

The shares issued upon the exercise of existing options will be issued pursuant to the exercise price set forth in the relevant stock option plan and which has been determined to be 100% of the fair market value pursuant to the value of the shares on the relevant stock exchange on the date of grant of the options (subject to local legal, tax or regulatory requirements). The exercise price of the options to be issued is determined by the Stock Administration Committee or the Compensation Committee, as appropriate, which sets the exercise price at the fair market value on the date of grant (subject to local legal, tax or regulatory requirements).

The number of shares to be issued with respect to the existing options and the exercise price thereof is further subject to an adjustment in case the proposed distribution of part of the available share premium of the Company as resolved upon at the general meeting of February 28, 2006, occurs. The adjustment (the "Adjustment") is made as follows:

Adjustment of the exercise price of options

The following formula to adjust the exercise price of the options as a result of the distribution would apply:

$$\text{new exercise price} = \text{original exercise price} - \text{original exercise price} \times \frac{\text{€0.26}}{\text{value of GISA shares prior to distribution}^*}$$

*: in accordance with applicable legal and regulatory provisions, the value of the shares will be determined by the average of the opening stock prices of GISA during a one month period within the last two months prior to the distribution.

Adjustment of the number of Shares to be received upon exercise of options

The number of shares to be subscribed upon exercise of options would be increased pursuant to the following formula:

$$\text{new number of shares to be subscribed} = \frac{\text{original exercise price} \times \text{original number of shares to be subscribed}}{\text{new exercise price}}$$

The waiver of the preferential subscription rights by the shareholders of the Company and the authorization to the Board to issue options and shares upon the exercise thereof within the authorized share capital is required in order to provide for the issuance of shares of the Company as set out above.

The Board confirms its belief that it is in the interest of the Company to issue shares to the current option holders upon exercise of options and to satisfy its obligations towards such option holders. The Board further believes that it is in the interest of the Company to be able to issue options and shares to the employees,

managers and officers of the Gemplus group pursuant to stock option plans in order to limit the turnover of employees, managers and officers and to give an incentive to and thus retain valuable persons within the group and make them participate in the success of the Company. The issuance of options to employees, managers and officers will further be beneficial to the Company with respect to the recruitment of such persons. The extension referred to above is thus considered to be beneficial to the Company.

The shareholders of the Company had previously waived their preferential subscription rights and authorised the Board of Directors to issue, while suppression pre-emptive subscription rights of existing shareholders, a total number of a maximum of up to sixty million (60,000,000) shares value to senior management, board members and/or executives throughout the Gemplus Group either (a) by way of stock options, the terms and conditions thereof and/or relating thereto to be determined by the Board of Directors in its sole discretion, and/or (b) except in the case of board members, by way of free shares, the Company transferring, upon the issue of such free shares, an amount equivalent to the accounting par of such shares from its realised profits or distributable reserves to its share capital.

The Company has pursuant to such authorization issued stock options senior management, board members and/or executives throughout the Gemplus Group and is under an obligation to issue shares to such stock option holders upon the exercise of such stock options. Further the Board of Directors wishes to continue to be in a position to issue stock options to senior management, board members and/or executives throughout the Gemplus Group upon the terms and conditions thereof and/or relating thereto to be determined by the Board of Directors in its sole discretion, and to be in a position, except in the case of Board members, by way of free shares, the Company transferring, upon the issue of such free shares, an amount equivalent to the accounting par of such shares from its realised profits or distributable reserves to its share capital.

The number of shares to be issued with respect to the existing options and the exercise price thereof is further also subject to the Adjustment as referred to above.

The waiver of the preferential subscription rights by the shareholders of the Company and the authorisation to the Board to issue options and shares upon the exercise thereof as well as free shares as referred to above, within the authorised share capital is required in order to provide for the issuance of shares of the Company as set out above.

The Board is of the opinion that it is in the interest of the Company to be able to satisfy its obligations towards such option holders. The Board further believes that that it is in the interest of the Company, being the holding company of the Gemplus Group, to extend the period during which the Board of Directors is allowed to grant shares (or options) as proposed above to senior management, board members and executives in order to attract or retain (as the case may be) competent and valuable individuals for the benefit of the development and the success of the Gemplus Group. Indeed the Board believes that is important to continue to enable the Gemplus Group to offer an incentive to senior management, board members and executives leading the Gemplus Group and sustaining the Gemplus Group's accelerating worldwide growth.

In addition to the shares reserved to issuance of shares as described above and as referred to in item 5.2.1 (i) to (iv), shares (or options giving rights to shares) could be issued in the circumstances and at the issue prices (including free shares) set forth above within the authorized share capital under the authorisation referred to in item 5.2.2. Such issuance of shares could occur in particular but without limitation in the circumstances of the Adjustment (or any further adjustments of the number of options and shares).

In addition to the above, it is brought to the attention of the shareholders that the authorization with respect to item 5.2.2 of the articles has a validity period expiring on June 12, 2007.

Luxembourg, as at March 3, 2006

The Board of Directors