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Letter of the Chairman

Dear Shareholders,

On January 10, 2002, I followed an old friend and Gemplus founder, Dr. Marc Lassus, as chairman of the board of Gemplus International SA. The Board of Directors gave me a clear mandate limited to a maximum of nine months by the statute of age limitation set forth in the By-Laws of the corporation.

That mandate is as follows:

- provide leadership, stability, and guidance in a transition year to the management team headed by Ron Mackintosh,
- complement the management team by promotions from within and by hiring outstanding managers from the outside,
- support the innovative spirit and the drive for market penetration that have been the landmarks of Gemplus since its inception,
- strengthen the sense of being one company serving many markets in the world with a broad spectrum of products and services without losing sight of the "we are one company" concept.

As some of you know, I was associated with Gemplus from 1993 until 1999. When I came back from retirement in January 2002, I was again intrigued by what had attracted me to Gemplus in 1993: the drive for innovation, the huge reservoir of know-how and intellectual property, the orientation towards solutions for the customer, and the proven ability to make difficult things happen.

While the 2001 results are disappointing, I am convinced of the inherent strengths of Gemplus and its management team.

As the CEO Ron Mackintosh points out in his report, the steps necessary to restructure the company and to improve operating results have been commenced. A rigorous regime is in place to realize planned cost savings.

The Board is closely monitoring progress according to the restructuring plan. But rest assured that the research and development efforts, the basis of Gemplus' success in the past, will be adequately funded to secure growth initiatives for new products and services.

The Board regrets the decisions of Bill Lloyd, Phil Faraci and Steven Gomo to leave to pursue other career opportunities in the US. The Board thanks them for their contributions in significantly strengthening the base of Gemplus for the future and wishes them all the best in their new endeavors.

The Board of Directors would also like to express their sincere appreciation for the efforts and contributions of the Gemplus employees during this past year. Despite the issues the company has faced, the employees around the world have continued to meet the challenges of their assignments. We are very proud of the dedication and devotion that they have demonstrated.

In line with the By-Laws of the corporation, I will hand over the task of the chairmanship to my successor later this year. A committee of the Board is in detailed discussions with several eminent and experienced executives who have expressed a deep interest in taking over my task. I am confident that my successor will find a company that is benefiting from the restructuring phase with new enthusiasm and poised for growth in the years to come.

Sincerely,



Hasso von Falkenhausen

Chief Executive Review

After over a decade of very rapid, profitable growth and after Gemplus' successful IPO in December 2000, last year was an extremely poor one for Gemplus.

We maintained all our high standards of customer service, research, development and product innovation. We introduced important new products and services in both our telecoms and financial services divisions and we expended all efforts to maintain our global standing in the smart card industry. Because of the sharp and unexpected world-wide slow-down in the telecoms marketplace, however, and because Gemplus entered last year with an increased and rising cost base, and with inventory commitments based on continued growth, we moved from substantial profit to equally substantial loss.

We have now initiated action to correct this. By the end of this year, Gemplus should be profitable once again and should have a strategy in place for sustainable long-term growth and profitability.

I want to review the causes of our losses last year, the action we have taken and the reasons I feel optimistic for Gemplus' future.

Financial Results

During 2000, we expanded substantially. In planning for 2001, we consulted with our customers. They were planning for continued growth, and we therefore entered last year with an increased and growing cost base, with expanding capital investment and with substantial commitments to buy silicon chips. To the surprise of almost everyone, including industry analysts and forecasters, last year the mobile telecoms market suffered a dramatic down-turn.

As a result of this and the sale of our SkiData and Tag businesses, Gemplus' revenues fell by 15% to just over €1 billion. Adjusting for these disposals, our revenues fell 12%.

Gross margin for 2001 declined from 37.7% in 2000 to 30.1% reflecting the impact of fixed cost capacity variances resulting from volume shortfalls, pricing pressures – particularly in the second half of the year, and shipment of high cost inventory that was purchased or committed to in the year 2000.

The result of this, together with our enlarged operating cost base and a number of one-off charges was to produce operating losses of € 154 million. These one-off charges totalled € 72 million (€ 28 million in restructuring charges, € 18 million in litigation expenses associated with the Humetrix lawsuit and € 26 million for management severance expenses). Excluding these exceptional charges, operating loss for the year was € 81 million compared to an operating profit of € 127 million in 2000. Net Other Income was € 46 million and included a € 68 million gain on the divestiture of the SkiData and Tag businesses. The overall result was a net loss for 2001 of € 100 million compared to a net profit of € 99 million for the year 2000.

Gemplus was far from being alone in facing adverse conditions. The mobile telecoms down-turn, however, hit Gemplus particularly hard, since we faced

falling demand and pressure on prices on the one hand, and increased costs with no ability to benefit from falling chip prices on the other hand.

As soon as we recognised the changed market conditions, we took action – and that action is producing its planned results. But last year's action has not been enough either to fully address the issues or to produce a satisfactory financial performance.

Further action is necessary. We intend to implement substantial further cost reductions, re-organize our production and sourcing and are undertaking a strategic review.

The Action Taken

The first key priority for Gemplus is to restore our position as a cost competitive producer.

Last year, we implemented a restructuring initiative, which is now delivering € 40 million a year of cost savings. In addition, we have been reducing our inventory of silicon chips. By the beginning of April, the start of our second quarter, these should be in balance with revenue demand and we shall benefit from buying new chips at today's market prices – which are roughly one third lower than the prices we have been paying.

This February, we announced plans to save a further € 60 million a year in expenses and to cut production costs by € 40 million a year through rationalising some of our production lines and examining our sourcing options.

We are in consultation with our unions and staff associations on these plans; but we are confident the savings should start flowing from the second half of this year, with the full effect being felt next year. When their effects fully flow through, we are looking for them to have a large favorable impact on Gemplus results. If we can achieve this, it would restore the company to solid profitability.

The second key priority is to accelerate Gemplus' move into the higher value, higher margin products and applications, where the market potential is greatest.

Gemplus is continuing to focus on the production and revenues of our multi-function and more powerful smart cards, especially our leading Java cards. These meet the market demand for an open operating system and greater functionality. They are improving our revenue mix and helping offset pricing pressures in the market.

Beyond this, we have also commenced a strategic review to identify how best further to re-organise Gemplus' business processes and to reinforce our position in high value products and services. This review is designed to ensure Gemplus is in the best position to take advantage of the opportunities in the changing mobile telecoms, financial services and other sectors of the smart card and smart card applications industry.

The Impact for 2002

2002 will be a tale of two halves.

In the first half of this year, we expect to see the normal seasonal drop in revenues following the Christmas period; we plan to take an estimated € 65 million one-off restructuring charge; and our focus will be to implement the operating and production cost savings. While we expect to benefit from some lower chip costs and some lower operating costs than last year, we are projecting a loss.

In the second half of the year, we should gain the full benefit of lower chip costs, and cost savings resulting from the restructuring initiative we announced this year. By the end of this year, our cost base should be running at a substantially lower level than last year and we hope to be back to operating profitability in the final quarter.

Throughout all this change, we are supported by the financial strength of Gemplus. Cash and cash equivalents are very strong at € 491 million with very little debt. Accounts receivable Days Sales Outstanding (DSO) finished the year at 57 days, the lowest it has been in over a year. Inventory levels declined dramatically during the second half of the year as material purchases were tightly managed. We expect our inventory levels to be roughly in balance with current shipment demand by April. Gross capital spending slowed to € 17 million in the fourth quarter, the lowest level in the year, as several new building projects have been completed or are nearing completion. This strong balance sheet performance provides the foundation to finance our restructuring, drive our business and invest in our future.

The Future

Despite the difficult period we are experiencing, Gemplus has powerful strengths, and these strengths can play to the way our markets are growing.

During the last year, we successfully introduced our new Java open operating system on 32k and 64k card products. These are widely recognised as providing the best implementation of interoperable Java and hold a leading position in the market. Furthermore, our Network Systems business grew 64% last year, excluding the SkiData business which we sold. This growth was driven by Financial Services and the introduction of our multi-application cards.

Gemplus has a strong market position, not just in Europe, but globally.

We have an excellent customer base, with strong relationships with all the major mobile network operators and card based financial services organisations. We have exceptional talent and experience in our people. And we have a very strong balance sheet.

As I look ahead, I also see several market trends benefiting Gemplus.

The mobile industry, particularly in Europe, has swung from a focus on market penetration to a focus on retaining customers and building average revenue per user.

The network operators' strategy to achieve this is based on exploiting 2.5G and then 3G technologies and creating a whole range of new customer services.

Over the course of the next few years, virtually all the existing installed SIM cards are going to need to be replaced in order to handle the new generations of mobile technology and services.

In Europe, new 3G entrants such as Hutchinson Telecoms are going to add further stimulus.

In North America, where infrastructure development has lagged to date, the move to advanced 2.5G networks is likely to stimulate penetration growth as well as the final shift from analogue to digital and the delivery of new services.

All this describes a large growth of applications that require smarter SIM cards.

There are parallel trends in financial services, where concerns over security and the growth of e-commerce and e-banking may be creating the conditions of a similar future growth in demand for smart cards.

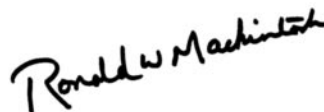
There is also reason to be optimistic about total demand levels, particularly from the second half of this year, as GPRS becomes established and 3G services are soft-trialled.

It is clear that operators need more powerful SIM cards and should replace old SIM cards.

In this Gemplus is strongly positioned with high end cards providing both data applications and services.

Our product mix is improving and we will improve it further.

The issues Gemplus faces are well understood. The necessary actions are in hand. The markets in which we operate are dynamic, and Gemplus is well able to prosper in them. There needs to be patience, but I believe Gemplus is going to be a winner again.



Ron Mackintosh
Chief Executive Officer

February 26, 2002

Management Discussion and Analysis of Financial Condition and Results of Operations

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

The year 2001 was disappointing for our company, as we generated significantly lower revenues than in 2000 and recorded a net loss for the year. This contrasts sharply with our financial results in 2000 when we experienced strong growth and recorded a net profit.

Our revenues decreased by 15% in 2001, from € 1,204.6 million in net sales in 2000 to € 1,023 million in 2001. Revenues declined primarily due to decreased demand for wireless products, reflecting the abrupt downturn in the global telecommunications industry starting in early 2001. In contrast, our financial services business within our network systems segment achieved strong growth, primarily due to increased sales of chip cards in the retail and banking sector in the United States. The combination of these two factors resulted in our telecommunications sales representing a significantly lower percentage of our overall sales in 2001 than in 2000, although telecommunications remained our largest segment.

Our operating income declined as well in 2001, as we recorded an operating loss of € 153.6 million in 2001 after recording operating income of € 127.4 million in 2000. Both operational and non-recurring factors impacted our operating loss in 2001. The operational factors were primarily:

- variances resulting from volume shortfalls,
- pricing pressures, particularly in the second half of the year, and
- shipment of high cost inventory that was purchased or committed to in the year 2000 during the chip shortage period.

The principal non-recurring factors that contributed to our operating loss in 2001 were the following:

- costs associated with the restructuring of our operations that we began in the second quarter of 2001 (€ 28.5 million);
- severance costs in connection with changes in management (€ 25.7 million);
- charges relating to the loss of a significant litigation matter (€ 18.1 million).

These non-recurring factors were only partially offset by a one-time favorable adjustment of € 10.6 million resulting from the partial reversal of a provision for a patent claim that was settled in 2001.

We had two significant divestitures of non-core businesses in 2001. In August 2001, we sold our SkiData unit, which provides electronic access-control solutions and formerly constituted part of our network systems segment. In addition, we sold our Tag subsidiary, a provider of electronic smart labels solutions included in our other activities segment, in July 2001.

Although these divestitures resulted in a significant capital gain and reduced our net loss, this gain is not reflected in our operating income but in our other income, unlike the other non-recurring items discussed above.

Our operations generated negative cash flow in 2001, reflecting primarily the impact of our net loss and our use of cash to pay amounts owed to suppliers. Our capital expenditures were approximately the same as in 2000, driven in 2001 by facility expansion, while we realized a significant cash inflow from the divestitures of our SkiData and Tag businesses. As of December 31, 2001, we had a net cash position of approximately € 449.5 million, equal to our cash and cash equivalents less financial debt, short-term overdrafts and capital lease obligations, as compared to € 568.9 million as of December 31, 2000.

Impact of Exchange Rates

We report our financial statements in euros. Because we earn a significant portion of revenues 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 2001, we earned 17% of our revenues in China, 13% 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 British pound, the Chinese renminbi, the US dollar and the Singapore dollar since January 1, 1999, calculated based on the daily exchange rates published by Natexis Banques Populaires.

(in euros, per unit of foreign currency)

December 31	2001	2000	1999
British Pound	1.60836	1.64133	1.51841
Chinese Renminbi	0.13502	0.13116	0.11338
US Dollar	1.11735	1.08742	0.93858
Singapore Dollar	0.62351	0.62903	0.55391

Seasonality

We have typically recorded the greatest share of our revenues in the fourth quarter of each year, principally because wireless communications operators conduct promotions for the Christmas season, and because our sales force often is motivated to accelerate sales at the end of the year to meet targets on which their bonuses are determined. In 1999 and 2000, 34% and 32%, respectively, of our net sales were recorded in the fourth quarter. Due to a market that declined substantially over the course of the year, and especially after the first three months, we generated only 25% of our net sales in the fourth quarter in 2001.

RESULTS OF OPERATIONS

Year ended December 31, 2001 compared to year ended December 31, 2000

Net Sales

Net sales for the year ended December 31, 2001 amounted to € 1,023.0 million, a 15% decrease compared with net sales of € 1,204.6 million for the year ended December 31, 2000.

Excluding SkiData and Tag activities, net sales decreased 12%, from € 1,117 million in 2000 to € 978.7 million in 2001.

The following table shows the breakdown of our net sales in 2001 and 2000 by market segment:

(in millions of euros)			
Years ended December 31	2001	2000	% change
Telecommunications	681.9	883.7	(23%)
Network systems			
Continuing businesses	188.7	115.3	64%
SkiData	40.6	81.1	(50%)
Total	229.3	196.4	17%
Other			
Continuing businesses	108.1	118.0	(8%)
Tag	3.7	6.5	(43%)
Total	111.8	124.5	(10%)
TOTAL	1,023.0	1,204.6	(15%)

Net sales in our telecommunications segment declined 23%, from € 883.7 million in 2000 to € 681.9 million in 2001, primarily due to a 30% decline in sales of wireless products, from € 698.5 million in 2000 to € 491.7 million in 2001, including sales of our next generation network products for € 9.5 million and € 32 million, in 2000 and 2001, respectively. The decrease in net sales in 2001 resulted primarily from the decrease in wireless product sales and declining sales prices, both of which were the result of a dramatic drop in mobile telephone sales and high levels of SIM card inventories accumulated by mobile telecommunications operators in 2000. While there was a shift to high-end wireless products in 2001, the impact was not sufficient to overcome the overall condition of the market. Phone card sales remained stable in 2001 compared to 2000, although we experienced a shift between regions, as growth in Latin America offset weaker demand in Asia. Excluding SkiData and Tag activities, the telecommunications segment represented 70% of our revenues in 2001 as compared to 79% in 2000.

Net sales in our network systems segment grew by 17%, from € 196.4 million in 2000 to € 229.3 million in 2001, or by 64% excluding sales from SkiData. Growth in our network systems segment resulted mainly from a significant increase in sales of chip cards to the banking sector in the United States and Germany and to retailers in the United States. As a result of strong sales in our network systems segment and decreased sales in our telecommunications segment, our network systems segment

generated 19% of our revenues in 2001, as compared to 10% in 2000, in each case excluding SkiData and Tag activities.

Net sales in our other segment decreased 10% in 2001 from 2000, reflecting weaker demand for magnetic stripe cards and a shift in our pay-television chip card activities, where in 2001 we embedded chips in cards that were consigned to us by some of our customers, rather than producing and selling the cards to them. Net sales in this segment represented 11% of our revenues in 2001, as compared to 10% in 2000, in each case excluding sales from our Tag and SkiData units.

Our revenue decline was most pronounced in Europe and Asia, where the dominant mobile telephone systems incorporate our SIM card technology to a much greater degree than in the Americas. Our sales increased in the Americas in 2001 due to the network systems segment.

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

(in millions of euros)			
Years ended December 31	2001	2000	% change
Europe, Middle-East and Africa	518.3	701.3	(26%)
Asia	273.1	317.9	(14%)
Americas	231.6	185.4	25%
Total	1,023.0	1,204.6	(15%)

The decline in net sales in the Europe, Middle-East and Africa region, which represented 51% of our revenues in 2001, resulted primarily from the slowdown in the wireless industry and the sale of SkiData, which were only partially offset by growth in financial services smart card sales in Central and Eastern Europe. In Asia, decreased sales primarily reflected a decline in wireless product sales and a deterioration of pricing conditions throughout the region, as Asian wireless network operators, particularly those in China, reduce their SIM card inventories to better match lower demand for wireless products. An increase in sales in the network systems segment in Asia partially offset decreased sales in our telecommunications segment. The increase in net sales in the Americas region resulted primarily from the significant growth in our financial services chip card sales to US banks and retailers and from increased sales of phone cards in Latin America.

Gross profit

Gross profit decreased 32%, from € 453.9 million in 2000 to € 307.5 million in 2001. Our gross margin decreased from 37.7% in 2000 to 30.1% in 2001, resulting both from declining gross margins in our telecommunications segment and the shift in our business mix between our telecommunications and network systems segments. Because network systems gross margins remain lower than gross margins of wireless products and services, decreased sales in our telecommunications segment adversely affected our gross margins. Excluding a one-time favorable adjustment of a € 10.6 million royalty expense resulting from the partial reversal of a provision for a patent claim that was settled in 2001, our gross margin would have been 29% in 2001.

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

Years ended December 31	2001		2000		% change in gross profit
	(in millions of euros)	(% of sales)	(in millions of euros)	(% of sales)	
Telecommunications	228.8	33.6%	378.9	42.9%	(40%)
Network systems					
Continuing businesses	50.5	26.7%	31.5	27.3%	60%
SkiData	16.6	40.9%	30.5	37.6%	(45%)
Total	67.1	29.3%	62.0	31.6%	8%
Other					
Continuing businesses	12.2	11.3%	12.2	10.3%	0%
Tag	(0.6)	n.s.	0.8	12.3%	n.s.
Total	11.6	10.4%	13.0	10.4%	(11%)
TOTAL	307.5	30.1%	453.9	37.7%	(32%)

The gross margin of our telecommunications segment decreased from 42.9% in 2000 to 33.6% in 2001. This decrease resulted primarily from unfavorable manufacturing variances reflecting overcapacity, primarily in our European-based factories, overcapacity of high cost inventory that we purchased or ordered in 2000 and declining prices of wireless products due to the downturn in the telecommunications market. This decrease was only partially offset by the favorable impact of the one-time royalty expense adjustment described above.

The decrease in our network systems gross margin, from 31.6% in 2000 to 29.3% in 2001, resulted primarily from the disposal of our SkiData unit, where we typically generated higher margins. Excluding SkiData, the gross margin of the network systems segment remained stable, representing 26.7% in 2001, as compared to 27.3% in 2000.

In our other activities segment, gross margins remained essentially stable from 2000 to 2001.

Operating income (loss)

We recorded an operating loss of € 153.6 million in 2001 compared to operating income of € 127.4 million in 2000. The 2001 operating loss resulted from declining gross margins in our telecommunications segment and from several non-recurring charges, described below, which were only partially offset by the € 10.6 million one-time royalty expense adjustment described above. Excluding these one-time factors, our operating loss was € 91.9 million in 2001. Our operating income in 2000 benefited from a one-time recognition of a € 12.5 million credit corresponding to French research tax credits from previous years.

Our operating loss resulted from a combination of our lower sales and gross margins, as well as the expansion of our operating structure during the second half of 2000 in anticipation of continued growth. The costs associated with our operating structure were reduced in the second half of 2001 after we began to implement our restructuring plan. For the year as a whole, research and development expenses grew by 24%, from

€ 90.8 million in 2000 (excluding the impact of the research tax credit) to € 112.9 million in 2001, while general and administrative expenses increased by 23%, from € 89.7 million in 2000 to € 110.7 million in 2001 excluding one-time charges described below. Selling and marketing expenses also grew, but more modestly on a percentage basis.

Our operating loss reflected the impact of four non-recurring factors. First, we implemented a major restructuring program in 2001. Second, we incurred costs in connection with a change in our management at the end of 2001. Third, we recorded costs in connection with the loss of a significant litigation matter. We also recorded a € 10.6 million one-time favorable royalty expense adjustment, which only partially offset these three unfavorable factors, impacting our gross margin, as described above.

Restructuring expenses

In 2001, we responded to the rapidly changing telecommunications market by implementing a program to control costs and restructure our activities. The program, announced on May 2, 2001, involved the closure of a manufacturing facility, the downsizing of a research and development facility, a reduction of our workforce following the combination of our financial services and internet security activities, and the rationalization of office operations on a worldwide basis. We recorded a restructuring charge of € 28.5 million in the second quarter of 2001 as a result of the restructuring plan. The goal of the program was to achieve € 40 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.

Management severance expenses

On December 19, 2001, we announced changes in our management, as our Chief Executive Officer, Mr. Perez, and our Chairman of the Board, Dr. Lassus, ceased their functions and our current management was appointed. In connection with these changes, we recorded a € 25.7 million

charge in the fourth quarter of 2001. The charge reflected several factors. First, we recorded a charge of € 6.8 million in connection with the cancellation of a portion of certain loans made to Mr. Perez by one of our indirect subsidiaries to permit Mr. Perez to exercise stock options and pay taxes relating to his receipt of a grant of free shares in 2000. The charge reflects the difference between the loan balance at the time Mr. Perez resigned and the fair market value of the shares that Mr. Perez transferred to the Company. Those shares were transferred to the indirect finance subsidiary pursuant to two agreements, the first signed in October and the second at the time of Mr. Perez's resignation in December. Second, we recorded a charge of € 6.5 million in respect of a payment to Mr. Perez to compensate for the tax consequences of the loan forgiveness. Third, we recorded a € 1.2 million charge with respect to a severance payment due to Mr. Perez. Fourth, we recorded a charge of € 11.2 million with respect to Dr. Lassus, representing the fulfillment of an agreement signed in 2000 that required us to make such payment upon the replacement of Dr. Lassus as our board chairman.

Litigation Expense

In October 2001, the United States Court of Appeals for the Ninth Circuit affirmed a district court judgment against us in favor of Humetrix Inc. based on a claim by Humetrix that we had breached an agreement to jointly market several products in the US health care sector. The judgment was in the amount of US \$ 15 million plus interest. Our petition seeking a rehearing was denied in November 2001. As a result of this decision, we recorded a charge of € 18.1 million in 2001. No further action is possible with respect to this litigation.

Net interest income and expense

We recorded net interest income of € 20.7 million in 2001 compared to € 12.6 million in 2000. The increase reflected principally interest earned on the proceeds of the initial public offering of our ordinary shares in December 2000 and other capital contributions from the exercise of warrants and stock options by our shareholders and employees, as well as substantial equity investments by the Texas Pacific Group in February and May 2000.

Other income and expense, net

We recorded net other income of € 45.7 million in 2001 compared to net other expense of € 28 thousand in 2000. This increase resulted primarily from a one-time € 68.3 million gain generated from our SkiData and Tag divestitures, which was only partially offset by foreign exchange losses and minority interests. Net other expense in 2000 was primarily attributable to minority interests and gains on investments.

Income tax

We recorded an income tax credit of € 14.2 million in 2001, reflecting an effective tax rate of 16.3%. In 2000, we recorded an income tax

expense of € 29.6 million, which reflected an effective tax rate of 21.2%. Our effective tax rate in 2001 declined mainly due to the management severance expenses which created losses in certain countries with low effective tax rates.

Goodwill amortization

Goodwill amortization amounted to € 27.2 million in 2001, compared to € 11.2 million in 2000, as a result of acquisitions in 2000, particularly the acquisitions of Celocom Limited and SLP InfoWare SA, which were completed during the last quarter of 2000. In addition, 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 income (loss)

We recorded a net loss of € 100.2 million in 2001, or € 0.16 per share, as compared to net income of € 99.1 million in 2000, or € 0.18 per diluted share. The net loss primarily reflected the decline in our operating income, which was only partially offset by the one-time gain from the SkiData and Tag divestitures.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position remained strong in 2001. Cash and cash equivalents were € 490.7 million at December 31, 2001 as compared to € 636.3 million at December 31, 2000. During 2001, we used cash to fund payments of accounts payable and made capital expenditures at a level approximately equal to 2000.

Operating activities used € 23.3 million of cash in 2001, compared to € 69.2 million of cash generated by operating activities during 2000. Cash from operating activities declined in 2001 due to the decrease in our operating income and increased working capital needs, primarily resulting from payments on accounts payable, which were approximately € 27 million more than payments received in respect of accounts receivables. Accounts receivable in days of sales outstanding improved by 4 days, representing 57 days as at December 31, 2001. During 2001, we used € 15.5 million to fund our restructuring plan implemented in the second quarter of 2001. As of December 31, 2001, inventory levels declined by € 34.3 million as compared to December 31, 2000, € 27 million of which was associated with the SkiData and Tag transactions, and the remainder of which was due to our efforts to manage purchases more tightly in light of market conditions.

Net cash used in investing activities in 2001 was € 65.3 million compared to € 266.3 million in 2000. The decrease in cash used in investing activities primarily resulted from the divestiture of our SkiData and Tag businesses, which provided a cash inflow of € 109 million net of fees. Investments included a € 13 million cash disbursement for the purchase of the 20% minority interest in SkiData in anticipation of the sale of SkiData, and investments made by GemVentures, our wholly-owned venture capital subsidiary, primarily in two technology companies in the wireless communications market. In addition, in March 2001, we extended a € 14 million loan to Mr. Perez to fund tax liabilities relating to his receipt of a grant of free shares in 2000. Capital expenditures during 2001 were made primarily to acquire property, plant and equipment to expand our facilities, principally in Asia and in Europe. Capital expenditures amounted to € 102.6 million in 2001, as compared to € 102.5 million in 2000. In addition, the change in non-trade accounts payable and other current assets resulted in the use of € 10 million, including primarily cash paid to non-trade suppliers.

Financing activities used € 34.7 million of cash during 2001, compared to € 817.9 million of positive cash flow generated by our financing activities in 2000. The 2000 cash flow figure primarily reflects an investment in our ordinary shares of € 531.8 million, most of which was made by Texas Pacific Group in February and May 2000, proceeds of € 210 million from the exercise of warrants and stock options, and proceeds of € 82.6 million from the sale of ordinary shares to the public in connection with the initial public offering in December 2000. 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. Cash flow used for financing activities in 2001 also included a € 5.7 million cash inflow with respect to the proceeds from a sale-leaseback transaction relating to a research and development and office building located in La Ciotat, France, and was favorably impacted by proceeds of € 7.8 million from the exercise of stock options and by the increase in bank overdrafts for € 4.5 million.

We entered into a € 150 million revolving credit facility in 1999 with a syndicate of international banking institutions that bears interest at a floating rate. In July 2000, € 52.5 million of loan commitments under the revolving credit facility expired without being used. Out of the remaining € 97.5 million, € 24.4 million expires in July 2002, € 24.4 million in July 2003 and € 48.7 million in July 2004. As of December 31, 2001, we had not drawn any amounts under the revolving credit facility.

We believe that our existing cash resources, our anticipated cash flow from operations and amounts available for drawdowns under our working capital facility are sufficient to provide for our foreseeable near term and medium term liquidity needs. At December 31, 2001, cash and cash equivalents amounted to € 490.7 million. Our off balance sheet commitments at December 31, 2001 were not significant.

OUTLOOK

We anticipate that 2002 will be a transition year, as we implement a strategy to restore profitable growth. We believe that there are signs of increasing demand for higher margin, high-end chip cards and value-added applications. SIM card inventory levels at mobile telecommunications operators decreased during 2001, and we believe that a significant part of the existing SIM card base will require replacement in the near future. Coupled with encouraging trends in the financial services business of our network systems segment, we believe there is room for optimism in the medium term, although we have no reason to believe that the market will recover until at least the end of 2002 at the earliest.

We have taken considerable steps to adapt our company to the new market environment. The initial step was the restructuring program that was put into place in the second quarter of 2001. In February 2002, we announced that we also intend to implement a further restructuring and rationalization program with an objective of generating € 100 million in annual savings, in addition to the € 40 million that we are looking to achieve with the initial 2001 program. The new program will involve a planned reduction of our workforce by approximately 1,000 employees, and include rationalization of our production and sourcing strategy. We have had productive discussions with our employees and their representatives regarding the social implications of the restructuring. While we cannot be sure that we will achieve our cost savings targets, we believe that our program will allow us to correct our business economics and accelerate our move towards value added products and services.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies that we believe are the most critical to aid 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 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 the last few 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 will be 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. The new plan which has been announced in February 2002 has thus not been provided for in the 2001 financial statements.

Special Purpose Entities

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

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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, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, 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, 2001, and the determination of shareholders' equity at December 31, 2001, 2000 and 1999 to the extent summarized in Note 32 to the consolidated financial statements.

PricewaterhouseCoopers

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, cursive script.

Luxembourg, Grand Duchy of Luxembourg

Paris, France

February 27, 2002

Consolidated Financial Statements

for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Income

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

Years ended December 31	Notes	2001	2000	1999
Net sales		1,022,986	1,204,600	766,604
Cost of sales		(715,516)	(750,714)	(486,805)
Gross profit		307,470	453,886	279,799
Research and development expenses	(10)	(112,885)	(90,778)	(62,248)
Reversal of research credit allowance	(10)	-	12,486	-
Selling and marketing expenses		(165,276)	(158,545)	(97,155)
General and administrative expenses		(110,657)	(89,666)	(63,677)
Litigation expenses	(26)	(18,120)	-	-
Management severance expenses	(31)	(25,691)	-	-
Restructuring expenses	(19)	(28,466)	-	-
Operating income (loss)		(153,625)	127,383	56,719
Interest income		28,234	21,427	287
Interest expense		(7,532)	(8,869)	(4,798)
Other income (expense), net	(17)	45,681	(28)	(458)
Income (loss) before taxes and goodwill amortization		(87,242)	139,913	51,750
Income taxes benefit (provision)	(18)	14,184	(29,631)	(12,071)
Net income (loss) before goodwill amortization		(73,058)	110,282	39,679
Goodwill amortization	(8)	(27,162)	(11,204)	(71,812)
NET INCOME (LOSS)		(100,220)	99,078	(32,133)
Net income (loss) per share	(21)			
• Basic		(0.16)	0.20	(0.10)
• Diluted		(0.16)	0.18	(0.10)
Shares used in net income (loss) per share calculation	(21)			
• Basic		636,992,392	497,523,946	313,120,400
• Diluted		636,992,392	539,256,206	313,120,400

The accompanying notes are an integral part of the consolidated financial statements.
 Amounts reported in French francs (FF) in 1999 have been restated and are now reported in euro (€) using the irrevocable fixed conversion rate of FF 6.55957 = 1 € that became effective on January 1, 1999.

Consolidated Balance Sheets

(in thousands of euros)

December 31	Notes	2001	2000	1999
ASSETS				
Current assets:				
Cash and cash equivalents		490,652	636,284	27,106
Trade accounts receivable, net	(4)	188,635	311,276	200,955
Inventory, net	(5)	139,794	174,101	95,821
Other current assets	(6)	103,733	97,377	45,631
Total current assets		922,814	1,219,038	369,513
Non-current assets:				
Property, plant and equipment, net	(7)	268,784	249,916	191,019
Goodwill, net	(8)	116,580	155,809	63,979
Other non-current assets	(9)	150,472	234,043	23,196
Deferred development costs, net	(10)	28,470	26,349	7,698
Deferred tax assets	(18)	22,148	7,120	8,034
Investments	(11)	21,424	16,734	3,799
Total non-current assets		607,878	689,971	297,725
TOTAL ASSETS		1,530,692	1,909,009	667,238
LIABILITIES				
Current liabilities:				
Accounts payable	(12)	109,661	261,047	145,436
Salaries, wages and related items		55,967	70,738	42,592
Other current liabilities	(13)	86,411	54,867	48,655
Accrued taxes		26,527	31,005	33,129
Current portion of long-term debt	(14)	-	1,867	3,256
Current obligations under capital leases	(15)	3,734	3,414	3,049
Total current liabilities		282,300	422,938	276,117
Non-current liabilities:				
Long-term obligations under capital leases	(15)	32,581	31,885	35,444
Long-term debt, less current portion	(14)	14	5,865	8,103
Deferred tax liabilities	(18)	-	2,296	5,834
Other non-current liabilities	(16)	30,859	43,717	38,359
Total non-current liabilities		63,454	83,763	87,740
Minority interest		17,176	17,313	9,228
Shareholders' equity:				
Ordinary shares no legal par value, 2,000,000,000 shares authorized, 641,396,497, 636,256,258, and 334,135,600 shares issued at December 31, 2001, 2000 and 1999, respectively	(20)	127,056	124,263	10,188
Additional paid-in capital		1,027,850	1,026,063	145,825
Retained earnings		125,016	235,972	137,090
Other comprehensive income	(22)	(3,968)	376	2,814
Less, cost of treasury shares		(108,192)	(1,679)	(1,764)
Total shareholders' equity		1,167,762	1,384,995	294,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,530,692	1,909,009	667,238

The accompanying notes are an integral part of the consolidated financial statements.
Amounts reported in French francs (FF) in 1999 have been restated and are now reported in euro (€) using the irrevocable fixed conversion rate of FF 6.55957 = 1 € that became effective on January 1, 1999.

Consolidated Statements of Cash Flows

(in thousands of euros)

Years ended December 31	2001	2000	1999
Cash flow from operating activities:			
Net income (loss)	(100,220)	99,078	(32,133)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
• Depreciation and amortization	120,409	79,080	118,671
• Changes in other non-current liabilities	(3,387)	(10,244)	3,621
• Provision for deferred income taxes	(15,976)	1,045	(632)
• Gain on assets sold	(65,996)	(9,311)	(7,612)
• Other, net	1,594	4,886	(3,936)
Changes in operating assets and liabilities:			
• Trade accounts receivable and related current liabilities	100,063	(88,840)	(35,571)
• Trade accounts payable and related current assets	(126,920)	92,596	47,141
• Inventories	11,509	(76,140)	(35,160)
• Value-added and income taxes	(9,232)	(20,374)	11,270
• Other, net	14,850	(2,557)	9,561
• Restructuring reserve payable	6,177	-	-
• Litigation expenses payable	18,120	-	-
• Management severance expenses, non cash portion and payable	25,691	-	-
Net cash (used for) from operating activities	(23,318)	69,219	75,220
Cash flows from investing activities:			
Sale / Purchase of activities net of cash disposed / acquired	108,731	(99,040)	(8,888)
Absorption of Gemplus Associates net of cash acquired	-	-	704
Other investments	(42,035)	(51,021)	10,282
Purchase of property, plant and equipment	(102,555)	(102,453)	(68,604)
Purchase of other assets	(19,623)	(17,630)	(3,532)
Change in non-trade accounts payable and other current assets	(9,843)	3,810	(3,852)
Net cash used for investing activities	(65,325)	(266,334)	(73,890)
Cash flows from financing activities:			
Proceeds from conversion of debentures and exercise of warrants	-	191,753	-
Price adjustment on shares issued pursuant to conversion of debentures	-	-	(1,348)
Proceeds from shareholders contribution	-	613,267	-
Proceeds from exercise of share options	7,762	18,237	2,116
Purchase of Gemplus SA shares	(14,544)	-	-
Proceeds from long-term borrowings	-	-	1,597
Payments on long-term borrowings	(2,301)	(3,589)	(3,485)
Proceeds from sales-leaseback operations	5,711	-	28,270
Principal payments on obligations under capital leases	(3,373)	(3,195)	(2,413)
Increase (decrease) in bank overdrafts	4,462	832	5,390
Dividends paid by subsidiaries to minority shareholders	(4,256)	(3,826)	-
Change in treasury shares	(15,117)	85	(981)
Interests receivable on loans to senior management	(4,877)	(3,139)	-
Change in non-trade accounts payable on financing activities	(8,114)	7,495	-
Net cash (used for) from financing activities	(34,647)	817,920	29,146
Effect of exchange rate changes on cash	(22,342)	(11,627)	(21,626)
Net increase (decrease) in cash and cash equivalents	(123,290)	620,805	30,476
Cash and cash equivalents, beginning of year	636,284	27,106	18,256
Cash and cash equivalents, end of period	490,652	636,284	27,106

The accompanying notes are an integral part of the consolidated financial statements.
Amounts reported in French francs (FF) in 1999 have been restated and are now reported in euro (€)
using the irrevocable fixed conversion rate of FF 6.55957 = 1 € that became effective on January 1, 1999.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of euros, except number of shares)

	Number of shares	Share value	Additional paid-in capital	Retained earnings	Net income (loss)	Other compre- hensive income	Treasury shares	Total
Balance at December 31, 1998	311,666,500	9,502	145,037	79,349	24,473	2,456	(782)	260,035
Allocation of prior year earnings	-	-	-	24,473	(24,473)	-	-	-
Net income (loss)	-	-	-	-	(32,133)	-	-	(32,133)
Price adjustment on conversion of debentures	-	-	(1,348)	-	-	-	-	(1,348)
Absorption of Gemplus Associates	20,625,000	630	76	65,401	-	-	-	66,107
Shares issued pursuant to share options exercised	1,844,100	56	2,060	-	-	-	-	2,116
Sale of 792,500 shares of treasury shares	-	-	-	-	-	-	604	604
Purchase of 693,800 shares of treasury shares	-	-	-	-	-	-	(1,586)	(1,586)
Change in other comprehensive income	-	-	-	-	-	358	-	358
Balance at December 31, 1999	334,135,600	10,188	145,825	169,223	(32,133)	2,814	(1,764)	294,153
Allocation of prior year earnings	-	-	-	(32,133)	32,133	-	-	-
Net income	-	-	-	-	99,078	-	-	99,078
Contribution of Gemplus SA shares to Gemplus International SA	-	56,323	(67,728)	-	-	-	-	(11,405)
Gemplus SA shares to be contributed	-	-	11,405	-	-	-	-	11,405
Shares issued by Gemplus SA pursuant to share options exercised to be contributed	13,360,000	-	18,237	-	-	-	-	18,237
Shares issued pursuant to capital contribution, net of issuance costs € 14,747	155,873,300	31,174	500,616	-	-	-	-	531,790
Options and free shares issued, net of issuance costs € 1,102	61,487,358	12,298	130,317	-	-	-	-	142,615
Shares issued following exercise of warrants, net of issuance cost € 6,002	56,400,000	11,280	180,473	-	-	-	-	191,753
Shares issued following Gemplus IPO, net of issuance costs € 7,410	15,000,000	3,000	79,590	-	-	-	-	82,590
Shares to be issued following acquisitions of Celocom Ltd and SLP InfoWare SA	-	-	27,328	-	-	-	-	27,328
Purchase of 149,550 shares of treasury shares	-	-	-	-	-	-	(425)	(425)
Sale of 378,550 shares of treasury shares	-	-	-	(196)	-	-	510	314
Change in other comprehensive income	-	-	-	-	-	(2,438)	-	(2,438)
Balance at December 31, 2000	636,256,258	124,263	1,026,063	136,894	99,078	376	(1,679)	1,384,995

The accompanying notes are an integral part of the consolidated financial statements.
Amounts reported in French francs (FF) in 1999 and 1998 have been restated and are now reported in euro (€)
using the irrevocable fixed conversion rate of FF 6.55957 = 1 € that became effective on January 1, 1999.

Consolidated Statements of Changes in Shareholders' Equity (continued)

(in thousands of euros, except number of shares)

	Number of shares	Share value	Additional paid-in capital	Retained earnings	Net income (loss)	Other compre- hensive income	Treasury shares	Total
Balance at December 31, 2000	636,256,258	124,263	1,026,063	136,894	99,078	376	(1,679)	1,384,995
Allocation of prior year earnings	-	-	-	99,078	(99,078)	-	-	-
Net income (loss)	-	-	-	-	(100,220)	-	-	(100,220)
Effect of adopting IAS 39	-	-	-	(5,003)	-	9,093	-	4,090
Shares issued following acquisitions of Celocom Ltd and SLP InfoWare SA	4,554,639	911	(911)	-	-	-	-	-
Contribution of Gemplus SA shares to Gemplus International SA	-	1,460	(1,460)	-	-	-	-	-
Shares issued by Gemplus SA pursuant to share options exercised to be contributed	2,498,100	-	4,167	-	-	-	-	4,167
Purchase of Gemplus SA shares by Gemplus International	(4,029,350)	-	(9,450)	(5,094)	-	-	-	(14,544)
Shares issued by Gemplus International SA pursuant to share options exercised	2,116,850	422	3,311	-	-	-	-	3,733
Treasury shares held following transfer of shares by senior management	-	-	6,130	-	-	-	(92,756)	(86,626)
Purchase of 4,900,534 shares of treasury shares	-	-	-	-	-	-	(15,522)	(15,522)
Sale of 636,527 shares of treasury shares	-	-	-	(639)	-	-	1,765	1,126
Change in other comprehensive income	-	-	-	-	-	(13,437)	-	(13,437)
Balance at December 31, 2001	641,396,497	127,056	1,027,850	225,236	(100,220)	(3,968)	(108,192)	1,167,762

The accompanying notes are an integral part of the consolidated financial statements.
Amounts reported in French francs (FF) in 1999 and 1998 have been restated and are now reported in euro (€)
using the irrevocable fixed conversion rate of FF 6.55957 = 1 € that became effective on January 1, 1999.

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1. THE COMPANY

Gemplus International SA including its consolidated subsidiaries (the "Company") is a leading provider of enabling technology products and services for secure wireless communications and transactions.

The Company designs, develops, manufactures and markets microprocessor solutions and non-chip-based products for customers in the telecommunications, network systems and other service industries. The Company is incorporated in the Grand Duchy of Luxembourg.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The annual consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS). As of January 1, 2001, the Company has adopted the new standard applicable for the first time to financial statements for periods beginning after January 1, 2001, relating to Financial Instruments (IAS 39). The IAS financial statements are in compliance with French GAAP and in accordance with Luxembourg Regulation, to the exception of IAS 39 implementation impact. A reconciliation of net income and shareholders' equity between IAS and the accounting principles generally accepted in the United States (US GAAP) is included in Note 32.

Principles of consolidation

The consolidated financial statements include the accounts of Gemplus International SA and its majority owned subsidiaries. Investments in associated undertakings are accounted for under the equity method of accounting. These are undertakings in which the Company has between 20% and 50% of the voting rights, and in which the Company exercises significant influence, but which it does not control. All intercompany balances and transactions are eliminated.

Non-marketable equity investments in which the Company has less than 20% of the investee's outstanding voting stock are accounted for under the cost method, because the Company does not have the ability to significantly influence the operating and financial policies of the investee. Gains or losses recognized on sale of equity securities are recorded in the income statement. Any loss resulting from impairment in the value of investments which represents an other than temporary decline is recorded in the period in which the loss occurs.

Euro conversion

Historically, the consolidated financial statements of the Company were prepared using the French franc as the reporting currency. From January 1, 2000, the Company's consolidated financial statements are reported in euros. The 1999 presented financial statements denominated in French francs have been translated into euros using the irrevocably

fixed conversion rate applicable since January 1, 1999 (1 euro = 6.55957 French francs). Accordingly, the consolidated financial statements depict the same trends that would have been presented had they been presented in French francs. However, because the financial statements were originally prepared in French francs, they are not necessarily comparable to financial statements of a company which originally prepared its financial statements in a currency other than the French franc and converted them to euros.

Foreign currency

Substantially all of the Company's international subsidiaries use their local currency as their functional currency. For those subsidiaries using their non-euro local currency as their functional currency, assets and liabilities are translated into euro at exchange rates in effect at the balance sheet date, and income and expense accounts at average exchange rates during the year. Translation adjustments arising upon the consolidation of such subsidiary financial statements are not included in determining net income for the period, but are included in shareholders' equity as other comprehensive income. For all transactions involving a currency other than the functional currency, the Company's subsidiaries record the resulting transaction gains and losses directly to the Statement of Income.

Change in accounting policies

As at January 1, 2001, the Company adopted IAS 39 "Financial Instruments: Recognition and Measurement".

IAS 39 establishes principles for recognizing, measuring and disclosing information about financial assets and financial liabilities. IAS 39 defines several categories of financial assets and liabilities. It requires the Company to measure at fair value financial assets and liabilities qualified as trading or available-for-sale. It requires also that changes in fair value of trading assets and liabilities be recognized through income, while changes in fair value of available-for-sale assets are recorded either in equity or through income.

IAS 39 requires the Company to recognize all derivative instruments on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets and liabilities through earnings or recognized directly in equity until the hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value will be immediately recognized in earnings and any derivatives that do not qualify as hedges will be adjusted to fair value through income.

Adoption of this new standard resulted in a cumulative after tax increase of shareholders' equity as of January 1, 2001 of € 4,090 thousand. The impact on shareholders' equity at January 1, 2001 of the adoption of IAS 39 is presented in Note 25 "Financial instruments and market

related exposures". In accordance with IAS 39, the comparative financial statements for the year ended December 31, 2000 were not restated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the accounting of doubtful accounts, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Actual results could differ from these estimates.

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. The Company records deferred revenue for sales invoiced which are delayed at the buyer's request where transfer of title and risk of loss has not occurred.

The Company has recently begun to provide systems design and integration services. Revenues are recognized when delivery has occurred, contractual obligations have been met, collection is probable and the fee is fixed or determinable.

Inventory

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. Allowances for obsolescence, scrap and slow-moving inventory are provided based upon the Company's periodic review of inventory.

Property, plant and equipment

Property, plant and equipment are carried at cost. Major renewals and improvements are capitalized while repairs and maintenance are expensed as incurred. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the life of the improvement or the remaining lease term.

The estimated useful lives are as follows:

Buildings	20 years
Equipment and machinery	5 years
Furniture and fixtures	5-10 years
Leasehold improvements	8-12 years

When the Company leases assets under the terms of a long-term contract or other arrangement that transfers substantially all the benefits and risks

of ownership to the Company, the fair market value of the leased property is capitalized and depreciated (as described above) and the corresponding obligation is recorded as a liability.

Goodwill

The excess of the purchase price over the fair market value of net assets acquired is recorded as goodwill. The Company's rationale behind its acquisitions generally relates to (i) acquiring market share or (ii) acquiring conventional technology or (iii) acquiring technology in the Company's core business.

Goodwill amounts are amortized over a maximum period of twenty years on a straight-line basis (20 years, 10 years, and 5 years, respectively, for acquisitions of type (i), (ii) and (iii)). At the balance sheet date, the Company evaluates the realizability of goodwill based on expectations of discounted cash flows. Based on its most recent analysis, the Company believes that no material impairment of goodwill exists at December 31, 2001.

Patents

Patents and patent rights are stated at cost and are amortized using the straight-line method over their economic useful life, which does not exceed the shorter of 3 years or the legal life.

Impairment of long-lived assets

The Company assesses at each balance sheet date whether events or changes in circumstances that would indicate that the carrying amount of long-lived assets such as property, plant and equipment, licenses, goodwill and research and development have been impaired. If the total of the expected discounted cash flows or sales price, whichever is higher, is less than the carrying amount of the asset, a loss is recognized for the difference between the greater of the value in use or sales price and the carrying value of the asset.

Research and Development

Costs associated with developing software to be sold are recognized as an expense as incurred, except for development costs incurred from the time technological feasibility is established until the software to be sold is ready to provide service to customers which are capitalized. The capitalized costs related to software are included in deferred development costs and are amortized based on the greater of (a) the ratio of current gross revenues for that product to the total of current and estimated gross revenues for that product, or (b) the straight-line basis over their estimated useful life, which normally does not exceed three years.

Certain direct development costs associated with internal-use software including external direct costs of material and services and payroll costs for employees devoting time to the software products are included in other non current assets and are amortized over a period not to exceed 3 years

beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

Research and development costs other than software are expensed as incurred, except for development cost where it is expected that the product under development will be produced and will be profitable, and technical feasibility has been demonstrated. Costs are capitalized and amortized on a straight-line basis over the period of expected future benefit. The period of amortization normally does not exceed three years.

Development costs of a project are written down to the extent that the unamortized balance is no longer capable of being recovered from the expected future economic benefits and when the criteria for recognition of the development costs as an asset ceases to be met. The write-down or write-off is recognized as an expense in the period in which such determination is made.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents.

During 2000, the Company increased its capital through various capital infusions. The cash received has been invested during 2000 and 2001 in money market fixed term deposits and mutual funds, all of which are liquid investments.

Income taxes

The Company accounts for income taxes using the liability method, which requires the recognition of deferred tax assets and liabilities based on differences between financial reporting and tax basis of assets and liabilities, and measures these differences using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to amounts expected to be realized and are reviewed and adjusted accordingly when there is a change in circumstances that causes a change in judgement about the realizability of the related deferred tax asset.

Research credit

Research credits are provided by the French government to give incentives for companies to perform technical and scientific research. Companies that have qualifying expenses can receive such grants in the form of a tax credit irrespective of taxes ever paid or ever to be paid, therefore these research credits are presented as a reduction of research and development expenses. The Company records the benefit of this grant only when all qualifying research has been performed and the Company has obtained sufficient evidence from the relevant French government authority that the credit will be granted.

Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding plus dilutive potential ordinary shares outstanding, i.e., additional share equivalents, using the treasury stock method assuming the exercise of warrants and share options. Dilutive potential ordinary shares are additional ordinary shares to be issued. The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per share. When net losses are reported, the dilutive potential ordinary shares outstanding are excluded from the net loss per share calculation.

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 recorded at cost and reported as a reduction of shareholders' equity.

Derivative financial instruments

Foreign currency risk

The Company operates both its selling and manufacturing activities on a worldwide basis. In most cases, the Company's sales are denominated in the domestic currency of customers. As manufacturing sites are located in different countries, parts of their costs are also denominated in various currencies. Therefore, the Company is exposed to foreign exchange risk on its operating transactions, whether anticipated or firm.

The policy of the Company is to hedge its foreign currency exposure on most of its firm and anticipated purchases and sales commitments denominated in currencies other than its subsidiaries functional currencies for periods commensurate with its known or forecasted transactions. The contracts generally mature within twelve months. In order to achieve this objective, the Company uses foreign currency derivative instruments, entering into foreign exchange forward contracts and purchasing or selling foreign exchange option contracts. Written options are only used as part of combination strategies. The derivative instruments are traded "over the counter" with major financial institutions. The Company does not enter into any derivative contracts for purposes other than hedging.

The Company uses foreign exchange swaps to monitor its cash-flows, mainly to finance its affiliates in their functional currency, through inter-company current accounts. The foreign exchange swaps are combinations of spot purchase and forward sales in the same currency and traded at the same time.

The Company has written risk management policies and guidelines which set out its tolerance for risk, its general risk management philosophy and has established processes to determine the group exposure to foreign exchange risk, to monitor and control hedging transactions in a timely and accurate manner. Such written policies are approved by the Audit Committee and reviewed annually.

All hedging instruments are allocated to underlying transactions.

Derivative financial instruments used to hedge the Company foreign exchange exposure qualify as cash flow hedges as they reduce variability in cash flows attributable to a forecasted transaction. For those hedges associated with forecasted transactions which meet special hedge accounting criteria, the portion of their change in fair value that is determined to be an effective hedge is recognized directly in equity through the Statement of Changes in Equity and the ineffective portion is recognized in the net profit and loss in the foreign exchange gains and losses. The gains or losses which are recognized in equity are transferred to the net profit and loss in the same period in which the hedged forecasted transaction affects the foreign exchange gains and losses (e.g., when the forecasted purchase actually occurs), as part of the cost of sales.

For hedges that do not qualify for special hedge accounting such as foreign exchange swaps, any gains or losses arising from changes in the fair value of the hedged item and the hedging instrument are recorded as foreign exchange gains and losses for the period, except for gains and losses generated by swaps used to finance the group affiliates which are recorded as an adjustment of the interest expense.

Conventional way purchases and sales of financial assets are accounted for at trade date.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the net profit and loss for the period. Such transactions had no significant impact on the 2001 foreign exchange result.

Interest rate exposure

Following the 2000 capital increases, the Company has reached a low level of indebtedness. As a result, the Company is not significantly exposed to interest rate risk fluctuations. Consequently, it has not entered into any derivative contracts to hedge interest rate risk.

Financial counterparty risk

Derivatives and all significant cash deposits are undertaken with major financial institutions having an investment grade rating. Regarding cash

deposits, a few exceptions exist in certain countries for operational reasons when individual amounts are not significant.

Fair value of derivatives

Derivatives financial instruments' fair value is calculated at inception and over the life of the derivative.

Forward exchange contracts' fair value at inception is zero.

Valuation during and at expiration of the forward contract term is calculated according to the following parameters communicated by the Company's banks counterparts:

- spot foreign exchange rate when valuation is performed,
- interest rate differential between the two foreign countries,
- time to expiration,
- notional amount of the contract.

Fair value is then obtained by discounting, for the remaining maturity, the difference between the contract rate and the market forward rate multiplied by the nominal amount.

Option contracts' value, at origination, is the initial premium paid or received.

Over the life of the option and at expiration, fair value is determined using standard option pricing methodology (Black & Scholes model), based on market parameters obtained from official information providers or indicative central banks fixings, and using the following basic variables:

- market value of the underlying,
- option strike,
- volatility "at the money forward", communicated by the Company's banks counterparts,
- risk-free interest rate,
- expiration date of the option.

Concentration of credit risk

Financial instruments that could potentially subject the Company to concentrations of credit risk are limited due to its broad geographic and customer distribution. The Company maintains adequate allowances for potential credit losses and performs ongoing credit evaluations. As of December 31, 2001 the Company did not have any significant concentration of business transacted with a particular customer or lender that could, if suddenly eliminated, severely impact our operations. Cash and cash equivalents are invested with several major financial institutions.

Advertising and promotional costs

The Company expenses the costs of advertising and promotional costs when such costs are incurred. Advertising and promotional expense was € 6,995 thousand, € 9,331 thousand and € 4,758 thousand, for the years ended December 31, 2001, 2000 and 1999, respectively.

3. PUBLIC OFFERING, COMMON CONTROL TRANSACTIONS, TREASURY SHARES, REORGANIZATION, ACQUIRED AND DISPOSED OPERATIONS

Public offering

On December 8, 2000 the Company completed a public offering of 15,000,000 new ordinary shares. These shares were sold in a single global offering totaling 81,401,445 shares of which 15,000,000 new ordinary shares were offered by the Company and 66,401,445 shares were offered by certain existing shareholders of the Company. Total proceeds from the global offering, before underwriting discounts, commissions and fees of € 37,068 thousand, were € 488,409 thousand which resulted in an allocation of proceeds of € 90,000 thousand to the Company and € 398,409 thousand to selling shareholders. The Company's net proceeds from the offering, after underwriting discounts, commissions and fees of € 7,410 thousand, were € 82,590 thousand.

Common control transactions

In February 2000, 95.1% of the shareholdings of Gemplus SA, a French corporation and former holding company of the Group, exchanged their shares of Gemplus SA for shares in Gemplus International SA, a newly formed Luxembourg corporation on a one for one basis. This transaction has been accounted for using historical cost basis accounting.

As at December 31, 2001, certain shares held by employees or former employees had not yet been contributed. Shares still to be contributed correspond to the equivalent of 6,114,200 Gemplus International SA shares representing 0.95% of the shareholdings of Gemplus International SA, which in total was represented by 641,396,497 shares outstanding as at December 31, 2001. Since the shares of Gemplus SA are not available for sale to the general public but can be converted into shares of Gemplus International SA upon request, it has been considered certain that the shares will be converted. They have thus been included in both the basic and diluted earnings per share calculations. As of December 31, 2001, certain options held by employees under the Gemplus SA share option plans had not been exercised. Following exercise of these options, the corresponding Gemplus SA shares will be contributed by their holders to Gemplus International SA.

Treasury shares

During the third quarter of 2001, the Company started the implementation of its share repurchase program, as approved by the Annual General Meeting held on April 18, 2001 and authorized by the Commission des Opérations de Bourse on May 4, 2001. During 2001, the Company repurchased 4,900,534 shares of its outstanding common stock, at an average price of € 3.17 per share. In addition, as described in Note 31, the Company's former Chief Executive Officer, Mr. Perez, returned all

of the 30,743,679 Gemplus International SA shares that he had received in August and September 2000 to an indirect subsidiary of the Company, in reimbursement of the loans that such indirect subsidiary had made to him in 2000 and in 2001. As at December 31, 2001, the Company held 35,705,936 shares of its outstanding common stock. Treasury shares variation is as follows:

	Number of treasury shares
As at December 31, 2000	698,250
Purchase of shares pursuant to the Company's share repurchase program	4,900,534
Shares held by the Company's indirect subsidiary following transfer of shares by senior management	30,743,679
Sale of treasury shares	(636,527)
As at December 31, 2001	35,705,936

Legal Reorganization

In December 1999, Gemplus SCA, a French limited partnership and Gemplus SA's predecessor, issued 412,500 shares (equivalent to 20,625,000 shares of Gemplus International SA after the 50 for 1 stock split) to the owners of Gemplus Associates, the general partner of Gemplus SCA as a result of the merger between the two companies. Following the transaction, Gemplus SCA was legally reorganized into Gemplus SA, a French corporation. The consideration of shares issued, net of € 700 thousand of cash held by Gemplus Associates, totaled € 65.4 million. The Company treated the transaction consistent with its form as a business combination and recorded goodwill for the difference between the fair value of the shares issued and the cash acquired. This transaction was entered into to enable the Company to terminate Gemplus Associates' general partner status and management contract. The goodwill of € 65.4 million that resulted from this legal reorganization was immediately written off and included as part of amortization expense in 1999.

Acquired operations

In November 2000, the Company completed its acquisition of Celocom Limited ("Celo"), an electronic transaction security business. The total purchase consideration of € 55,725 thousand was comprised of cash of € 30,574 thousand and 4,191,776 ordinary shares amounting to € 25,151 thousand. The acquisition was recorded under the purchase method of accounting, and accordingly, the assets acquired and liabilities assumed were recorded at estimated fair values. Incremental fair value adjustments included € 3,387 thousand for developed software. Such intangible asset is being amortized using the straight-line method over its estimated useful lives of 3 years. The excess of the purchase price over the fair market value of net assets acquired generated goodwill of € 54,385 thousand. Such goodwill is being amortized using the straight-line method over five years.

In October 2000, the Company completed its acquisition of SLP InfoWare SA ("SLP"), a software developer in the wireless services business. The total purchase price paid for SLP was € 51,177 thousand, comprised of cash of € 49,000 thousand and 362,863 in ordinary shares amounting to € 2,177 thousand. The acquisition was recorded under the purchase method of accounting, and accordingly, the assets acquired and liabilities assumed were recorded at estimated fair values. Incremental fair value adjustments included € 8,400 thousand for developed software and € 1,700 thousand for patents. Developed software and patents are being amortized using the straight-line method over their estimated useful lives of 3 years. The excess of the purchase price over the fair market value of net assets acquired generated goodwill of € 37,153 thousand. Such goodwill is being amortized over five years.

On a pro-forma basis, as if Celso and SLP had been acquired at the beginning of fiscal 2000 and 1999, respectively, revenue and expenses with the exception of goodwill amortization would not differ materially from the amounts reported in the Company's accompanying consolidated financial statements for each of the years ended December 31, 2000 and 1999. On a pro-forma basis, amortization of related goodwill would have reduced

net income by € 15,586 thousand and € 18,308 thousand in 2000 and 1999, respectively. On a pro-forma basis, basic earnings per share and diluted earnings per share would have been reduced by 0.03 and 0.03, respectively, for the year ended December 31, 2000 (0.06 and 0.06, respectively, for the year ended December 31, 1999).

In April 2000, the Company completed its acquisition of ODS (Oldenbourg Daten System), a German manufacturer of memory chip phone and bank cards as well as microprocessor pay-TV cards. The final purchase consideration was € 21,713 thousand. The excess of the purchase price over the fair market value of net assets acquired generated goodwill of € 8,138 thousand.

During 2001, 2000 and 1999, the Company acquired various other companies, mainly with activities in the field of research and development. The impact of these acquisitions on the consolidated financial statements was not material.

In 2000, purchase of activities net of cash acquired and corresponding goodwill can be analyzed as follows:

	(in thousands of euros)			
	Celso	SLP	ODS and others	Total
Cash payments	30,574	49,000	19,801	99,375
Cash acquired	(325)	(10)	-	(335)
Purchase of activities net of cash acquired	30,249	48,990	19,801	99,040
Advance payments made during 1999	-	-	3,990	3,990
Consideration paid in shares	25,151	2,177	-	27,328
Acquisition costs net of cash acquired	55,400	51,167	23,791	130,358
Developed software	3,387	8,400	-	11,787
Patents	-	1,700	-	1,700
Property, plant and equipment	466	144	11,344	11,954
Accounts receivable and other current assets	965	5,549	9,470	15,984
Deferred tax assets (liabilities) net	(102)	1,165	2,795	3,858
Bank overdrafts	(3,173)	(135)	-	(3,308)
Accounts payable and other current liabilities	(528)	(2,809)	(9,680)	(13,017)
Fair value of net assets acquired	1,015	14,014	13,929	28,958
Goodwill	54,385	37,153	9,862	101,400

Disposed operations

On August 23, 2001, the Company completed the sale of its subsidiary SkiData AG ("SkiData"), the Company's electronic access-control solutions business unit, to Kudelski SA, for € 117,500 thousand, of which € 33,500 thousand was received in cash and € 84,000 thousand was received in shares, which the Company immediately resold for € 84,000 thousand to a designee of Kudelski. As a result of the transaction, the Company's 2001 Consolidated Statement of Income only includes SkiData's operational results up to August 23, 2001.

In connection with the agreement that was reached between the Company and Kudelski SA to sell SkiData, the Company entered into an agreement with Meridiana-Werzalit BV ("Meridiana") to purchase the remaining shares of SkiData held by Meridiana, a minority shareholder. Pursuant to this agreement signed on June 23, 2001, the Company purchased 700,000 shares of SkiData, representing 20% of SkiData's issued share capital, for a total purchase consideration of € 13,081 thousand. This consideration was negotiated on the basis of an amendment to the purchase agreement

dated March 1997 pursuant to which the Company had purchased the first 80% of SkiData's shares.

In addition, on June 23, 2001, the Company entered into an agreement with Meridiana, pursuant to which Meridiana transferred to Gemplus in exchange for a payment of € 1 all of its rights concerning a loan of € 3,634 thousand granted to SkiData. This loan had been granted to SkiData in 1996 by Constantia, an Austrian corporation, subsidiary of Meridiana and former principal shareholder of SkiData, and was repayable under specific conditions, none of which had been met as at June 23, 2001. This transaction was recorded by the Company as a reduction of the € 13,081 thousand consideration paid to Meridiana to acquire the remaining 20% of SkiData's shares.

The acquisition of the remaining 20% of SkiData's shares was recorded under the purchase method of accounting. The excess of the net purchase price of € 9,446 thousand over the fair market value of the shares acquired generated a goodwill of € 7,530 thousand.

On July 31, 2001, the Company completed the sale of its Tag electronic smart labels solutions business to Axa Private Equity, for € 3,007 thousand. As a result of the transaction, the Company's 2001 Consolidated Statement of Income only includes Tag activities' operational results up to July 31, 2001.

In 2001, disposal of activities net of cash disposed can be analyzed as follows:

(in thousands of euros)	
	SkiData and Tag
Consideration received in cash	36,507
Consideration received in shares immediately resold	84,000
Proceeds from sale of activities	120,507
Cash disposed	(3,506)
Proceeds from sale of activities, net of cash disposed	117,001
Fees	(8,270)
Proceeds from sale of activities, net of fees	108,731
Intangible assets	1,010
Property, plant and equipment	5,972
Financial assets	2,335
Accounts receivable and other current assets	60,485
Bank overdrafts	(25,538)
Accounts payable and other current liabilities	(26,504)
Long-term liabilities	(895)
Currency translation adjustment	577
Net assets sold	17,442
Goodwill disposed	22,975
Net gain on disposal of activities	68,314

4. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consist of the following:

(in thousands of euros)			
December 31	2001	2000	1999
Trade accounts receivable, gross	201,481	323,987	210,390
Less, allowances for doubtful accounts	(12,846)	(12,711)	(9,435)
Trade accounts receivable, net	188,635	311,276	200,955

5. INVENTORY

Inventory consists of the following:

(in thousands of euros)			
December 31	2001	2000	1999
Raw materials and supplies	63,621	60,540	35,304
Work-in-process	79,394	79,103	42,133
Finished goods	14,738	45,586	29,960
Inventory, gross	157,753	185,229	107,397
Less, inventory allowance	(17,959)	(11,128)	(11,576)
Inventory, net	139,794	174,101	95,821

6. OTHER CURRENT ASSETS

Other current assets include the following:

(in thousands of euros)			
December 31	2001	2000	1999
Value added tax receivable	36,209	36,205	18,371
Other taxes receivable	13,870	596	591
Foreign currency hedges	-	23,284	-
Advance facility to supplier	21,539	10,747	-
Advance payments to non-trade suppliers	7,816	7,328	8,407
Prepaid expenses	9,646	9,293	10,743
Advance payments to trade suppliers	4,572	2,049	2,091
Prepaid pension cost	982	1,032	626
Equity investee loans	-	-	440
Other current assets	9,099	6,843	4,362
Total other current assets	103,733	97,377	45,631

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 for € 37.6 million. The advance facility matures over a period of three years and earns rebates at a rate of 7.5% per annum, such rebate being deemed to include interest receivable on the loan. Following the economic downturn in the wireless market, the Company has reduced its purchases of microprocessor chips and therefore could not earn enough rebates to cover the interest receivable on the loan. As a result, the advance facility was remeasured at amortized cost, resulting in a € 2,022 thousand financial expense in the 2001 consolidated statement of income. As of December 31, 2001, no repayment has yet occurred and the outstanding balance of the advance facility was € 37,694 thousand, of which € 21,539 thousand is recorded under other current assets and € 16,154 under other non current assets.

Fair values of hedging instruments on foreign currency contracts are recorded in other current assets or liabilities. The corresponding changes in fair value are recognized in earnings or in equity.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

(in thousands of euros)			
December 31	2001	2000	1999
Land	7,169	5,204	4,174
Buildings	136,570	104,023	89,077
Machinery and equipment	346,267	334,620	240,396
Construction in progress	36,807	18,187	10,418
Property, plant and equipment, gross amount	526,813	462,034	344,065
Buildings, accumulated depreciation	(44,606)	(35,072)	(24,791)
Machinery and equipment, accumulated depreciation	(213,423)	(177,046)	(128,255)
Property, plant and equipment, accumulated depreciation	(258,029)	(212,118)	(153,046)
Property, plant and equipment, net	268,784	249,916	191,019

Interest is capitalized during the new construction or upgrade of qualifying assets. No interest was capitalized in 2001, 2000 and 1999, due to the low level of the Company's borrowings.

Property, plant and equipment variation analysis is as follows:

(in thousands of euros)		
	Gross amount	Amortization
Opening December 31, 2000	462,034	(212,118)
Additions and amortization expense	102,555	(84,160)
Disposals and retirements	(26,770)	26,498
Effect of change for acquisitions / dispositions	(19,071)	13,099
Exchange rate differences	8,065	(1,348)
Closing December 31, 2001	526,813	(258,029)

Included below are amounts related to assets subject to capital leases, which have been included in the balance of property, plant and equipment.

(in thousands of euros)			
December 31	2001	2000	1999
Land	3,459	2,756	2,970
Buildings	42,672	45,937	46,913
Construction in progress	5,711	-	-
Property, plant and equipment under capital lease, gross	51,842	48,693	49,883
Less, accumulated depreciation	(15,887)	(14,779)	(11,789)
Property, plant and equipment under capital lease, net	35,955	33,914	38,094

8. GOODWILL

Goodwill consists of the following:

(in thousands of euros)			
December 31	2001	2000	1999
Goodwill	163,402	186,080	83,838
Goodwill, accumulated amortization	(46,822)	(30,271)	(19,859)
Goodwill, net	116,580	155,809	63,979

Goodwill variation analysis is as follows:

(in thousands of euros)		
	Gross amount	Amortization
Opening December 31, 2000	186,080	(30,271)
Additions and amortization expense	10,824	(27,162)
Effect of change for acquisitions / dispositions	(33,631)	10,656
Other disposals and retirements	(1,330)	250
Exchange rate differences	1,459	(295)
Closing December 31, 2001	163,402	(46,822)

Goodwill is being amortized on a straight-line basis over periods of 5 to 20 years. The Company reviews the carrying value of goodwill for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

9. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(in thousands of euros)			
December 31	2001	2000	1999
Loans receivable from senior management	75,317	150,324	-
Software, net of accumulated amortization (12,381 in 2001, 12,549 in 2000 and 8,630 in 1999)	31,347	21,961	11,424
Long-term portion of advance facility to supplier (note 6)	16,154	26,867	-
Research tax credits	12,144	18,877	4,732
Patents and patent rights, net of accumulated amortization (4,865 in 2001, 5,046 in 2000 and 3,628 in 1999)	6,150	5,798	2,344
Rental deposits	1,622	1,978	1,319
Employee loans and other related loans	850	1,778	1,726
Other loans and assets	6,888	6,460	1,651
Total other non-current assets	150,472	234,043	23,196

As described in Note 31, loans were granted in 2000 to Mr. Perez and to Dr. Lassus pursuant to the terms of their employment. During 2001, Mr. Perez partially reimbursed the loans that were granted to him and the unreimbursed portion of the loans was charged to the Company's Consolidated Statement of Income. As at December 31, 2001, the outstanding balance of these loans was € 75,317 thousand, including accrued interest in the amount of € 3,459 thousand, and concerned exclusively Dr. Lassus.

Capitalized software includes software developed and acquired for internal corporate use, primarily in enterprise resource planning and customer relationship management.

10. RESEARCH AND DEVELOPMENT COSTS

Deferred development costs can be analyzed as follows:

(in thousands of euros)			
December 31	2001	2000	1999
Gross amount at beginning of year	34,846	9,074	8,104
Accumulated amortization at beginning of year	(8,497)	(1,376)	(4,426)
Balance of beginning of year	26,349	7,698	3,678
Deferred during the year	6,511	13,984	7,507
Less, allowances	(4,390)	(7,120)	(3,487)
Impact for the year on income before tax	2,121	6,864	4,020
Software development arising from acquisition	-	11,787	-
Balance at end of year	28,470	26,349	7,698
Gross amount at end of year	41,357	34,846	15,611
Accumulated amortization	(12,887)	(8,497)	(7,913)
Balance at end of year	28,470	26,349	7,698

Capitalized development costs comprise software to be sold including software development arising from acquisitions (see Note 3).

Research and development expenses incurred during the year consist of the following:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Research and development expenditures	124,567	104,344	67,383
Deferred development costs, net	(2,121)	(6,864)	(4,020)
Grants received including research credit	(9,561)	(6,702)	(1,115)
Total research and development	112,885	90,778	62,248

Due to the special tax status of the Company until 1999, the Company's eligibility for certain research tax credits was legally uncertain. For this reason, the Company recorded an allowance against certain research tax credits arising between 1993 and 1999 that were included as a component of other non-current assets. In 2000, the Company obtained formal confirmation that these research tax credits will be received and reversed the allowance accordingly. The reversal amounting to € 12,486 thousand has been included as a separate line item of operating income in 2000.

11. INVESTMENTS

Investments consist of the following:

	(in thousands of euros)		
December 31	2001	2000	1999
Equity affiliates	4,358	5,551	2,509
Investments in non-marketable equity securities (net of valuation allowance of 14,107 in 2001, 11,684 in 2000 and 11,395 in 1999)	17,066	11,183	1,290
Investments	21,424	16,734	3,799

As at December 31, 2000, investments in equity securities included one public company, SCM, listed on the Nasdaq, which has a reasonable sized public float. Such shares were sold during 2001.

The Company has minority shareholdings in numerous non-public start-up companies. These shareholdings are recorded at cost. 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/or that the business plan is not met.

12. ACCOUNTS PAYABLE

Accounts payable consist of the following:

	(in thousands of euros)		
December 31	2001	2000	1999
Trade accounts payable	102,566	235,982	135,759
Non-trade accounts payable	7,095	25,065	9,677
Total accounts payable	109,661	261,047	145,436

13. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	(in thousands of euros)		
December 31	2001	2000	1999
Management severance liability	21,113	-	-
Litigation expenses	19,411	-	-
Customer deposits	8,897	10,344	5,650
Restructuring - provision for reduction of workforce and other cash outlays	6,177	-	-
Allowances for customer claims	5,848	2,821	3,526
Deferred revenue	5,662	9,688	7,262
Foreign currency hedges	5,178	-	5,876
Short-term debt	4,840	24,307	23,160
Tax reimbursement liability on interest forgiven on loans to senior management	3,585	-	-
Provision for employee terminations	-	338	495
Other purchase acquisition liability	-	2,755	-
Other accrued liabilities	5,700	4,614	2,686
Total other current liabilities	86,411	54,867	48,655

As at December 31, 2001, the liability relating to management severance expenses described in Note 31 amounted to € 21,113 thousand. This liability was analyzed between a tax payable on the portion of the loan that has been forgiven for € 6,502 thousand and termination benefits payable in cash for € 14,611 thousand.

As described in note 26, the Company recorded a charge of € 18,120 thousand in its 2001 Consolidated Statement of Income with respect to the judgment on appeal rendered in October 2001 concerning the Humetrix litigation. This charge resulted in a total current liability (including a previously existing provision) of € 19,411 thousand in the balance sheet as at December 31, 2001.

Pursuant to the terms of the loans granted to Messrs. Perez and Lassus in 2000, one of the Company's indirect subsidiaries has agreed to arrange for the interest on these loans to be forgiven starting July 1, 2001, and to assume any income tax resulting from this forgiveness. Interest related to the loans were accrued in the Consolidated Statement of income, totaling € 3,139 thousand in 2000 and € 4,877 thousand in 2001. Income tax resulting from the forgiveness of interest starting July 1, 2001 was accrued in the 2001 Consolidated Statement of Income, resulting in a compensation expense of € 3,585 thousand reflected under general and administrative expenses.

Fair values of hedging instruments on foreign currency contracts are recorded in other current assets or liabilities. The corresponding changes in fair value are recognized in earnings or in equity.

Short-term debt consists of overdrafts that either result from the daily usage of cash in some of the Company's foreign locations or from subsidiaries that are not wholly-owned and that do not benefit from the Company's treasury management.

14. LONG-TERM DEBT

Long-term debt consists of the following:

	(in thousands of euros)		
December 31	2001	2000	1999
Long-term debt	-	3,688	3,634
Use of medium and long-term credit lines	14	4,044	7,725
Total long-term debt	14	7,732	11,359
Less, current portion	-	(1,867)	(3,256)
Total long-term debt, less current portion	14	5,865	8,103

As at December 31, 2000, long-term debt included a loan of € 3,634 thousand, granted in 1996 to SkiData by the former shareholder of SkiData, Meridiana. As described in Note 3, in connection with the sale of its SkiData subsidiary, the Company entered in June 2001 into an agreement with Meridiana, pursuant to which Meridiana transferred to Gemplus in exchange for a payment of € 1 all of its rights concerning this loan.

The Company maintains confirmed credit facilities with a number of lending institutions, amounting to € 107,500 thousand at December 31, 2001, almost entirely unused as at December 31, 2001. These € 107,500 thousand included € 97,500 thousand corresponding to a revolving credit facility entered into 1999, as described below. Borrowing rates on these credit facilities if used range from Euribor/Libor +0.325% to Euribor/Libor +0.400%, if unused cost ranges from 0.100% to 0.175%. Marginal costs range from Euribor/Libor +0.175% to Euribor/Libor +0.300%. In 2001, 2000, and 1999 the average Euribor/Libor rate were 4.329%, 4.237%, and 2.862%, respectively.

The Company entered into a € 150,000 thousand revolving credit facility in 1999 with a syndicate of international banking institutions that bears interest at a floating rate. In July 2000, € 52,500 thousand of loan commitments under the revolving credit facility expired without being used. Out of the remaining € 97,500 thousand, € 24,400 thousand expires in July 2002, € 24,400 thousand in July 2003 and € 48,700 thousand in July 2004. As of December 31, 2001, the Company had not drawn any amounts under the revolving credit facility.

Convertible debentures

In 1993, the Company issued convertible debentures bearing interest annually at 6% with a face value of € 7,623 thousand. In December 1997, each debenture was converted into one share of the Company's ordinary shares at a conversion price of € 1.94. The € 25,310 thousand capital increase was carried out in part through the conversion of convertible debentures with a nominal value of € 7,623 thousand and in part for cash in an amount of € 17,687 thousand. In 1999, the shareholders of the Company adjusted the conversion price of the convertible debt. As a result of such adjustment, a payment of € 1,348 thousand has been remitted to former holders of the convertible debentures. Since the payment corresponded to a reduction in the price of the shares, it was charged against the paid-in capital recorded in connection with the original conversion transaction.

15. CAPITAL LEASES

Capital leases obligations outstanding as at December 31, 2001 are analyzed as follows:

	(in thousands of euros)
2002	6,039
2003	7,537
2004	5,498
2005	5,390
2006	4,767
Thereafter	15,177
Total minimum lease payments	44,408
Less, amount representing interest	(8,093)
Present value of minimum obligations under capital leases	36,315
Less, current portion of obligations under capital leases	(3,734)
Long-term obligations under capital leases	32,581

In 1999, the Company entered into a sale-leaseback transaction with two major financial institutions for a duration of 11 years ending on December 31, 2010. The proceeds received amounted to € 28,270 thousand and relate to land and an industrial and office building located in Gémenos, France. This sale-leaseback transaction resulted in no gain or loss in the Consolidated Statement of Income.

In 2001, the Company entered into a sale-leaseback transaction with a major financial institution related to land and a research and development and office building located in La Ciotat, France, under construction as at December 31, 2001. The capital lease will have a duration of 12 years after the completion of the building. The proceeds received in 2001 amounted to € 5,711 thousand. This sale-leaseback transaction resulted in no gain or loss in the Consolidated Statement of Income.

16. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

	(in thousands of euros)		
December 31	2001	2000	1999
Non-current liabilities	29,989	42,184	37,406
Equity investments commitments	870	1,533	953
Total other non-current liabilities	30,859	43,717	38,359

Long-term liabilities variation analysis is as follows:

	(in thousands of euros)						
	December 31, 2000	Effect of exchange rate changes	Increase in long-term liabilities	Effect of change for acquisitions / dispositions	Amounts unused during the period	Amounts used during the period	December 31, 2001
Provision for patents claims	19,564	-	1,601	-	(10,600)	(1,565)	9,000
Provision for tax claims	13,010	(1)	3,579	-	(2,832)	(29)	13,727
Provision for litigation claims	2,502	-	2,300	(1,282)	-	(1,220)	2,300
Provision for pension costs	1,584	10	552	-	(266)	(27)	1,853
Other provisions	3,655	42	1,449	-	(1,160)	(1,274)	2,712
Government loans received	1,869	15	-	-	(1,100)	(387)	397
Total	42,184	66	9,481	(1,282)	(15,958)	(4,502)	29,989

The Company pays royalties for the use of certain patents. In certain cases, due to the nature of the technology involved, the portion covered and the timing during which royalties are paid under the patent agreements may be questioned. Based on past experience and known facts and circumstances as of the balance sheet date, the Company records a provision for potential claims. The Company partially reversed in 2001 a provision for a patent claim, resulting in a favorable € 10,600 thousand royalty expense adjustment recorded in cost of sales. This provision had been recorded following allegations by a claimant that the Company was infringing one or more patents owned by such claimant. In June 2001, the Company reached an agreement with such claimant and the risk of loss and outflow of resources was no longer probable.

In the ordinary course of business, the Company and its subsidiaries are occasionally challenged by local tax authorities. The Company records a provision for these tax risks based on its most available information on the tax claim in each tax jurisdiction and past experience in settling these claims. Based on certain confirmations and a ruling obtained from the tax authorities in 2001, provisions for tax claims amounting to € 2,832 thousand have been reversed to net income.

Certain entities of the group are eligible to receive government loans. These loans are only repayable when financed projects are commercially successful. For unsuccessful projects, the funds received do not have to be repaid and as appropriate the Company reverses the recorded liability.

17. OTHER INCOME (EXPENSE) NET

Other income (expense) net consists of the following:

	(in thousands of euros)		
Years ended December 31	2001	2000	1999
Gain (loss) on investments	66,425	14,035	5,829
Gain (loss) on equity investments	(3,505)	(4,542)	(961)
Foreign exchange gain (loss)	(12,618)	(889)	(1,208)
Gain (loss) on sale and disposal of fixed assets	(189)	169	447
Minority interests	(4,432)	(8,801)	(4,565)
Total other income (expense) net	45,681	(28)	(458)

As indicated in Note 11, the Company may hold minority shareholdings in various related high technology companies. In 1999, the sale of shares of SCM generated a profit of € 3,708 thousand and the sale of Verisign shares generated a profit of € 5,032 thousand. In 2000, the sale of Intercall shares generated a profit of € 11,765 thousand. Prior to these sales of shares, the Company owned approximately 6% in both Intercall and SCM and less than 2% in Verisign. Subsequent to these share sales the Company owned less than 2% interest in each of these respective companies. As at December 31, 2001, the Company had no more interests in these companies.

The € 66,425 thousand net gain on investments recorded in 2001 primarily included a € 68,314 thousand one-time gain generated from our SkiData and Tag divestitures (see Note 3).

18. INCOME TAXES

Gemplus SA and certain of its French subsidiaries operate in a tax exempt enterprise zone and accordingly the income related to their manufacturing activities in such a zone are exempt from income taxes for a ten-year period expiring between the fiscal years 1999 to 2002. The tax-free status for some of the major French entities expired during 1999. The Company has benefited from new temporary tax exemptions in 2000 and 2001 in Asian countries.

The contribution of shares of Gemplus SA to Gemplus International SA, a Luxembourg company, has no effect on deferred tax assets and liabilities previously recognized.

The components of income taxes benefit (provision) are as follows:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Current taxes	(4,074)	(28,044)	(13,016)
Deferred taxes	18,258	(1,587)	945
Total taxes benefit (provision)	14,184	(29,631)	(12,071)

A reconciliation between the reported income tax expense and the theoretical amount that would arise using a standard tax rate is as follows:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Income before taxes	(114,404)	128,709	(20,062)
Income tax calculated at corporate tax rate (*)	42,845	(48,202)	8,024
Effect of tax exemption	15,144	12,496	(2,395)
Effect of different tax rates	(916)	17,180	1,493
Effect of release of valuation allowance	4,154	-	-
Effect of unrecognized tax assets	(40,533)	(9,367)	6,842
Effect of expenses non deductible and revenues non taxable	353	2,458	2,690
Effect of goodwill amortization resulting from mergers and acquisitions (Note 3)	(6,863)	(4,196)	(28,725)
Income tax expense for the year	14,184	(29,631)	(12,071)

(*) Luxembourg tax rate of 37.45% in 2001 and 2000, respectively, France tax rate of 40% in 1999.

The components of the net deferred tax asset recorded at December 31, 2001, 2000 and 1999 are:

(in thousands of euros)			
December 31	2001	2000	1999
ASSETS			
Loss carryforward	82,978	39,806	25,726
Excess book over tax depreciation and amortization	2,646	2,957	5,665
Other temporary differences	32,674	21,961	19,427
Valuation allowance	(82,048)	(48,358)	(42,784)
LIABILITIES			
Excess tax over book depreciation and amortization	(4,349)	(2,296)	(2,706)
Other temporary differences	(9,753)	(9,246)	(3,128)
Net deferred tax asset	22,148	4,824	2,200
Deferred tax asset	22,148	7,120	8,034
Deferred tax liability	-	(2,296)	(5,834)
Net deferred tax asset	22,148	4,824	2,200

At December 31, 2001, the Company had net operating loss carryforwards totaling € 223,485 thousand of which € 29,628 thousand, € 7,381 thousand, € 10,633 thousand and € 74,489 thousand is limited to five years, ten years, fifteen years and twenty years, respectively, and € 101,354 thousand may be used indefinitely. In those situations where tax loss carryforwards and other net deferred tax assets have been generated by start-up companies or by companies without a recent history of profitable operations, management has provided a valuation allowance to reduce net deferred tax asset to the estimated realizable value.

The valuation allowance has been partially released in 2001 following favorable outcomes on certain tax investigations by tax authorities.

Deferred income taxes on the undistributed earnings of the Company's foreign subsidiaries are not provided for as it is intended that the vast majority of these earnings will be indefinitely reinvested in these entities.

19. RESTRUCTURING

Pursuant to the Company's announcement on May 2, 2001 of a plan to restructure its operations worldwide, the Company recorded a pre-tax restructuring charge of € 28,466 thousand in the statement of income during the second quarter of 2001. This restructuring charge was in connection with the closure of a manufacturing facility, the downsizing of a research and development and services center in Canada, a reduction of the workforce following the combination of the Company's financial services and e-business activities, and the rationalization of office facilities on a worldwide basis.

The € 28,466 thousand charge consisted of € 15,386 thousand for headcount reductions, € 11,977 thousand for consolidation of facilities and related fixed assets and € 1,103 thousand for inventory write-offs.

The restructuring actions were taken to reduce manufacturing capacity, and, from a business standpoint, to better integrate resources, leverage technology trends, and minimize overlapping market requirements and partnerships in the financial services and e-business sectors.

The plan included the termination benefits of 497 employees representing 7% of the Company's global workforce. Employee reductions occurred in the following areas: manufacturing organization 200 employees, research and development 123 employees, selling and marketing organizations 100 employees, system integration and consulting services 34 employees, and support functions 40 employees.

The majority of employee terminations were located in Germany (214 persons), due principally to the closure of the Seebach manufacturing facility (198 persons), and Canada (167 persons), due to the downsizing of the research and development and services center in Montreal.

The remaining 116 terminations of employment were located in different countries of the world.

Total cash outlays for the restructuring program are expected to amount to € 22,022 thousand, including € 15,386 thousand for termination of employment, and € 6,636 thousand for other related exit costs. Non-cash related actions, primarily consisting of assets and inventory write-offs, amounted to € 6,444 thousand.

Restructuring activity for the year ended December 31, 2001 was as follows:

(in thousands of euros)

	Reduction of workforce and other cash outflows	Non-cash write-offs of assets	Total
2001 restructuring charge	22,022	6,444	28,466
Amounts utilized in 2001	(15,466)		
Exchange rate differences	(379)		
Restructuring reserve as at December 31, 2001	6,177		

20. ORDINARY SHARES

Gemplus International SA is a corporation incorporated in the Grand Duchy of Luxembourg. The authorized share capital of the Company is currently four hundred million euro consisting of two billion shares with no legal par value.

On February 18, 2000, the Company issued 94,000,000 shares to Texas Pacific Group at € 3.51 per ordinary share, the fair value determined by the Board of Directors on February 2, 2000. Net proceeds from the issuance were € 319,704 thousand. In connection with this capital increase, the Company entered into a warrant agreement with Texas Pacific Group, a Company shareholder, and Dr. Lassus, the Company's former chairman of the Board of Directors. Under this agreement, the Company granted the right to purchase another 56,400,000 shares at € 3.51 per share. These warrants were exercised on September 28, 2000, resulting in net additional proceeds of € 191,753 thousand (see Note 24).

In connection with the February 18, 2000 capital increase, the Company entered into an agreement, granting Texas Pacific Group, a Company shareholder, and Dr. Lassus the right to acquire additional shares at € 3.51 per share. On May 29 and 31, 2000, pursuant to this agreement, the Company increased its capital by issuing 61,873,300 new shares, which generated net proceeds of € 212,088 thousand.

On June 21, 2000, a general meeting of shareholders approved a fifty-for-one stock split of the Company's ordinary shares held by shareholders of record as of the close of business on June 20, 2000. All references to the number of common shares and per share amounts elsewhere in the consolidated financial statements and related footnotes

have been restated as appropriate to reflect the effect of the split for all periods presented.

On August 25, 2000 and September 28, 2000, the Company issued 61,487,358 shares pursuant to employment arrangements with Mr. Perez and with Dr. Lassus (see Note 31). These shares included 20,495,786 free shares and 40,991,572 shares resulting from the exercise of stock options at an exercise price of € 3.51 per share. The corresponding capital increase net of issuance costs was € 142,615.

On December 8, 2000 the Company completed a public offering resulting in the issuance of 15,000,000 new ordinary shares. The Company's net proceeds from the offering were € 82,590 thousand (see Note 3).

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. Pursuant to the acquisition agreement, the shares issued have been transferred to a financial institution and put in escrow with such institution until release of such shares in accordance with the terms of the agreement. As at December 31, 2001, 1,173,181 shares had not been released and were still in escrow.

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.

During 2001, the Company issued 7,296,500 shares following the contribution of 145,930 shares of Gemplus SA held mainly by employees. For accounting purposes, these shares were already assumed to be a component of the shareholder's equity.

During 2001, the Company issued 2,116,850 shares following the exercise of Gemplus International SA stock options held by employees.

In addition, in 2001, the Company purchased at fair market value 80,587 shares of Gemplus SA, equivalent to 4,029,350 shares of Gemplus International SA, held by two former executive officers of the Company, thus reducing the Company's shareholders' equity.

During the third quarter of 2001, the Company started the implementation of its share repurchase program, as approved by the Annual General Meeting held on April 18, 2001 and authorized by the Commission des Opérations de Bourse on May 4, 2001. During 2001, the Company repurchased 4,900,534 shares of its outstanding common stock, at an average price of € 3.17 per share. In addition, as described in Note 32, the Company's former Chief Executive Officer, Mr. Perez, returned all of the 30,743,679 Gemplus International SA shares that he had received

in August and September 2000 to an indirect subsidiary of the Company, in reimbursement of the loans that such indirect subsidiary made to him in 2000 and in 2001. As described in Note 3, as at December 31, 2001, the Company held 35,705,936 shares of its outstanding common stock.

As mentioned in Note 3, the total amount of shares to be issued by Gemplus International SA upon the contribution of Gemplus SA shares amounted to 6,114,200 shares, representing 0.95% of the shareholdings of Gemplus International SA, which in total was represented by 641,396,497 shares outstanding as at December 31, 2001.

The number of shares as of December 31, 2001 can be analyzed as follows:

Number of shares outstanding	635,282,297
Gemplus SA shares to be contributed	6,114,200
Number of shares outstanding including shares to be contributed	641,396,497
Treasury shares (including 30,743,679 shares held by an indirect subsidiary)	(35,705,936)
Options outstanding	94,460,108
Warrants outstanding	2,561,973
Number of shares on a fully diluted basis	702,712,642

The number of shares on a fully diluted basis is not representative of the number of shares used in computing net income per share. Net income per share is calculated using the weighted average number of shares and dilutive equivalent shares from stock options and warrants using the treasury stock method (see Note 21).

As at December 31, 2001, 51,790,242 shares are reserved for shares issuable under the different share options plans (see Note 24).

21. NET INCOME (LOSS) PER SHARE CALCULATION

A reconciliation of the numerator and denominator of basic and diluted net income per share is provided as follows. As net losses have been reported in 2001 and in 1999, the dilutive effects of stock options, warrants and shares to be issued following acquisitions in 2000 of Celocom Limited and SLP InfoWare SA were excluded of net loss per share calculation in these periods.

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

Years ended December 31	2001	2000	1999
Net income / (loss) (numerator)	(100,220)	99,078	(32,133)
Shares used in basic net income per share calculation (denominator):			
Weighted average number of common shares outstanding	636,992,392	497,523,946	313,120,400
Dilutive effect of stock options	24,661,319	33,981,118	16,861,650
Dilutive effect of warrants	1,006,546	7,672,160	-
Dilutive effect of shares to be issued following acquisitions of Celo and SLP	167,936	78,982	-
Weighted average diluted number of shares outstanding	662,828,193	539,256,206	329,982,050
Shares used in diluted net income per share (denominator)	636,992,392	539,256,206	313,120,400

22. COMPREHENSIVE INCOME

Certain items defined as other comprehensive income, such as foreign currency translation adjustments, are reported separately from retained earnings and additional paid-in capital in the shareholders' equity section of the balance sheets.

The components of cumulative other comprehensive income in the shareholders' equity section of the balance sheets as at December 31, 2001, 2000 and 1999, respectively, were as follows:

	(in thousands of euros)		
December 31	2001	2000	1999
Cumulative translation adjustment	(3,567)	376	2,814
Net unrealized loss on hedging instruments qualifying as effective	(401)	-	-
Cumulative other comprehensive income	(3,968)	376	2,814

The components of comprehensive income for the year ended December 31, 2001, 2000 and 1999, respectively, were as follows:

	(in thousands of euros)		
Years ended December 31	2001	2000	1999
Net income (loss)	(100,220)	99,078	(32,133)
Change in cumulative translation adjustment	(3,943)	(2,438)	358
Effect of adopting IAS 39 as at January 1, 2001	9,093	-	-
Change in fair value of available-for-sale financial assets	(286)	-	-
Change in fair value of derivatives qualifying as effective hedging instruments	(9,208)	-	-
Change in cumulative other comprehensive income	(4,344)	(2,438)	358
Comprehensive net income (loss)	(104,564)	96,640	(31,775)

23. PENSION PLANS

Pensions

In France, the Company contributes to the national pension system and its obligations to employees in terms of pensions are restricted to a lump-sum length of service award payable at the date that the employee reaches retirement age, such award being determined for each individual based upon years of service provided and projected final salary. The current evaluation of the future length of service award liability is recorded as a long-term liability in the balance sheet, together with pension liabilities. The pension obligation in France amounts to € 1,295 thousand, € 1,079 thousand and € 891 thousand at December 31, 2001, 2000 and 1999, respectively.

The Company operates pension plans in other countries. The Company's principal plan is a contributory defined benefit plan open to all employees in the United Kingdom. The Company also offers an Employee Investment Plan (EIP) to all United States employees under section 401 (k) of the United States Internal Revenue Code. Company contributions to the EIP plan amounted to approximately € 1,903 thousand, € 1,749 thousand and € 1,259 thousand in 2001, 2000 and 1999, respectively.

Net periodic pension costs for the principal defined benefit plan for the years ended December 31, 2001, 2000 and 1999, comprise the following elements:

	(in thousands of euros)		
December 31	2001	2000	1999
Current year service cost	1,640	1,088	788
Interest accrued on pension obligations	1,275	1,109	1,029
Actual loss (return) on plan assets	2,621	477	(2,022)
Net deferral	(4,261)	(1,974)	782
Total pension costs	1,275	700	577

The following table sets forth the funded status of pension plans:

	(in thousands of euros)		
December 31	2001	2000	1999
Accumulated benefit obligation	23,880	20,683	18,153
Projected benefit obligation	25,287	21,873	18,715
Plan assets at fair value	18,110	19,043	18,327
Projected benefit obligation in excess of plan assets	(7,177)	(2,830)	(388)
Unrecognized net loss	8,138	3,846	1,014
Net prepaid pension cost	961	1,016	626

The following weighted average rates were used in the calculation of projected benefit obligation:

December 31	2001	2000	1999
Discount rate	6%	6%	6%
Expected rate of return on plan assets	8%	8%	8%
Assumed rate of compensation increase	4%	4%	4%

Post-retirement benefits other than pensions

Substantially all of the Company's employees are covered under Government-sponsored post-retirement health and life insurance benefit plans. Accordingly, the Company has no significant liability to its employees in terms of post-retirement benefits other than pensions and therefore no provision is made.

24. SHARE OPTION PLANS

The Company may grant, under various employee share option plans (the "Plans"), options to purchase or subscribe ordinary 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 ordinary

common 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.

Share option activity was as follows:

	Number of options authorized not yet granted	Number of options outstanding	Price per share	Average price per share
Balances, December 31, 1998	3,636,350	28,201,900	€ 0.37 - € 1.71	€ 1.47
Options exercised	-	(1,933,200)	€ 0.37 - € 1.71	€ 0.93
Options granted	(21,355,250)	21,355,250	€ 1.35 - € 2.29	€ 2.17
Options authorized	27,500,000	-	-	-
Balances, December 31, 1999	9,781,100	47,623,950	€ 0.47 - € 2.29	€ 1.80
Options exercised	-	(54,730,122)	€ 0.47 - € 3.51	€ 2.99
Options granted	(115,636,673)	115,636,673	€ 2.29 - € 6.00	€ 4.26
Options authorized	150,991,572	-	-	-
Balances, December 31, 2000	45,135,999	108,530,501	€ 0.77 - € 6.00	€ 3.82
Options exercised	-	(5,114,850)	€ 0.77 - € 3.51	€ 1.62
Options granted	(2,554,590)	2,554,590	€ 2.80 - € 7.96	€ 2.97
Option terminated unexercised	9,208,833	(11,510,133)	€ 0.77 - € 7.96	€ 4.66
Options authorized	-	-	-	-
Balances, December 31, 2001	51,790,242	94,460,108	€ 0.77 - € 7.96	€ 3.82

The following table summarizes information with respect to share options outstanding and exercisable at December 31, 2001:

Exercise prices (in euros)	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.83	1,101,750	2.0	1,101,750
1.35	986,900	3.0	986,900
1.52	500,250	3.6	500,250
1.71	7,746,900	6.0	4,076,050
2.29	21,110,700	7.3	11,371,450
2.80	84,000	9.6	-
2.87	139,380	9.8	-
2.90	855,900	9.7	-
3.17	110,000	9.9	-
3.18	50,000	9.9	-
3.51	25,429,375	8.5	6,890,775
3.79	1,515,261	9.5	-
4.14	253,400	9.5	-
4.80	9,500,000	8.9	2,375,000
6.00	24,813,008	8.9	6,099,363
7.96	263,284	9.1	-
	94,460,108	6.8	33,401,538

**Weighted average
exercise price (in euros) 3.82**

3.24

Warrants

In connection with the issuance of ordinary shares on February 18, 2000 (see Note 20), the Company issued 1,880,000 warrants. The warrants were granted at a value of € 3.51 on the date of issuance, resulting in an underlying per share value of € 3.20 using the Black & Scholes option pricing model with the following assumptions: dividend yield of 0%, expected volatility of 45%, risk free interest rate of 4.09% and an expected life of 10 months. Each warrant provides the holder the right to purchase 300 ordinary shares in exchange for 10 warrants. The warrants were exercised in full on September 28, 2000 resulting in the issue of 56,400,000 shares.

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 using the Black & Scholes option pricing model with the following assumptions: dividend yield of 0%, expected volatility of 45%, risk free interest rate of 4% and an expected life of 12 months. The warrants are exercisable at any time for seven years after the grant date. As at December 31, 2001, no warrant had been exercised.

25. FINANCIAL INSTRUMENTS AND MARKET RELATED EXPOSURES

Adoption of IAS 39

As indicated in Note 2, the Company adopted IAS 39 "Financial Instruments: Recognition and Measurement".

The adoption of IAS 39 resulted in a cumulative after tax increase of shareholders' equity as of January 1, 2001 of € 4,090 thousand. The impact on shareholders' equity at January 1, 2001 of the adoption of IAS 39 is shown below. In accordance with IAS 39, the comparative financial statements for the year ended December 31, 2000 were not restated.

Summary of impact of adopting IAS 39 at January 1, 2001:

	(in thousands of euros)		
	Retained earnings	Other comprehensive income	Total
Hedges not qualifying as effective	(5,003)	-	(5,003)
Hedges qualifying as effective	-	8,807	8,807
Unrealized gains and losses on available-for-sale financial assets	-	286	286
Impact as at January 1, 2001 on shareholders' equity, net of deferred income taxes	(5,003)	9,093	4,090

In accordance with the transitional requirements of IAS 39, the Company recorded a net loss of € 5,003 thousand in retained earnings to recognize at fair value all derivatives not qualifying as effective hedging instruments. The Company also recorded a net gain of € 8,807 thousand in other comprehensive income to recognize at fair value all derivatives qualifying as effective hedging instruments. These amounts were net of deferred income taxes. The Company also recorded a net gain of € 286 thousand in other comprehensive income to recognize at fair value its available-for-sale financial assets. Consequently, comprehensive income was impacted by € 9,093 thousand as at January 1, 2001. This amount was recorded in foreign exchange result during 2001.

Foreign exchange exposure

As indicated in Note 2, the Company uses financial instruments to manage its foreign currency exposure incurred in the normal course of business.

The policy of the Company is to hedge its currency risk exposure. In order to achieve this objective, the Company uses foreign currency derivative instruments, entering into foreign exchange forward contracts and purchasing or selling foreign exchange option contracts. Written options are only used as part of combination strategies. The derivative instruments are traded "over the counter" with major financial institutions. The Company does not enter into any derivative contracts for purposes other than hedging.

All derivative instruments that the Company uses to manage its foreign exchange risk exposure qualify as cash flow hedges under IAS 39. However foreign exchange swaps entered into by the Company to meet the Group affiliates financing requirements do not qualify for special hedge accounting as they are monitored on a global basis.

Outstanding forward contracts described below are at closing dates. As at December 31, 2001, such contracts are broken down into two categories: (i) those meeting hedging qualification criteria under IAS 39 and (ii) others that do not meet hedge accounting criteria:

(in thousands of euros)

December 31	2001		2000		1999	
	Purchased items	Sold items	Purchased items	Sold items	Purchased items	Sold items
Hedging transactions						
GBP	-	8,017	36,774	35,418	11,865	23,839
SGD	2,450	-	123,121	122,414	8,793	49,713
USD	-	45,404	40,034	328,420	9,918	152,368
ZAR	-	6,364	-	4,713	-	3,722
Other	309	1,429	15,368	25,021	11,327	18,116
Other transactions						
GBP	2,787	11,309	-	-	-	-
SGD	73,952	61,241	-	-	-	-
USD	59,051	292,951	-	-	-	-
ZAR	588	1,838	-	-	-	-
Other	20,528	29,937	-	-	-	-
Total forwards	159,665	458,490	215,297	515,986	41,903	247,758

Forward contracts are valued at forward rate.

Outstanding optional contracts at closing date are as follows.

As at December 31, 2001, all these contracts meet hedge accounting criteria:

(in thousands of euros)

December 31	2001		2000		1999	
	Purchased items	Sold items	Purchased items	Sold items	Purchased items	Sold items
GBP	-	3,205	37,076	8,330	20,926	-
USD	6,794	49,615	164,563	22,606	95,947	4,804
SGD	9,259	-	74,060	20,182	-	-
Other	1,371	-	8,185	2,817	-	-
Total options	17,424	52,820	283,884	53,935	116,873	4,804

All option contracts are valued at the strike rate and hedge long exposure (currency put, euro call). In some cases, purchased and sold options are used as combinations (strategies).

All the foreign derivatives financial instruments outstanding as of December 31, 2001 have been entered into as a hedge of highly probable cash flows denominated in various currencies as described above, and according to the identified forecasted commercial transactions data collection. Derivatives allow the Company to sell or purchase at a predetermined rate with settlement date that range from one month up to one year, according to the hedging relationship allocation performed by year and by quarter. The euro value of derivatives are presented in the following table with a valuation at the contract' strike.

(in thousands of euros)

	GBP sales	SGD purchases	USD sales	Other sales
Hedging transactions				
Classification by allocation				
Three-month period ending March 31, 2002	3,154	11,709	47,428	5,436
Three-month period ending June 30, 2002	4,815	-	11,251	677
Three-month period ending September 30, 2002	1,628	-	16,859	-
Three-month period ending December 31, 2002	1,625	-	12,687	-
Other transactions				
Classification by allocation				
Three-month period ending March 31, 2002	8,522	12,711	205,652	10,659
Three-month period ending June 30, 2002	-	-	-	-
Three-month period ending September 30, 2002	-	-	-	-
Three-month period ending December 31, 2002	-	-	28,248	-
Total	19,744	24,420	322,125	16,772

Net unrealized loss on hedging instruments qualifying as effective

As of December 31, 2001, unrealized losses of € 401 thousand net of taxes were recognized in equity, under comprehensive income, as being the effective portion of hedging instruments fair value changes associated with forecasted transactions (see Note 22).

Interest rate exposure

As the Company is not significantly exposed to risk associated with interest rates fluctuations, it has not entered into any derivative contracts to hedge interest rate risk.

Financial counterparty risk

Derivatives and all significant cash deposits are undertaken with major financial institutions having an investment grade rating. Regarding cash deposits, a few exceptions exist in certain countries for operational reasons when individual amounts are not significant.

Fair value of financial instruments

The following table provides information about the carrying amounts and estimated fair values of certain of the Company's financial instruments, excluding cash and cash equivalents, cash deposits, accounts receivable, accounts payable and accrued expenses.

Following the adoption of IAS 39 in January 2001, the Company measures at fair value assets and liabilities qualified as trading or available-for-sale. Therefore, there is no difference between the carrying amounts and the estimated fair values of these assets and liabilities as at December 31, 2001.

The fair value of investments in equity securities is determined based on quoted market prices if companies are publicly listed. If the companies are not publicly listed, the fair value of investments in equity securities is determined by valuation techniques appropriate for the nature of the security. The fair market value of loans, deposits and other non-current assets is determined by discounting the nominal amount using appropriate interest rates.

The fair value of the Company's fixed rate long-term debt, including capital leases, is determined by discounting estimated future cash flows using borrowing rates prevailing at year-end for similar maturities and contracts. The book values of the Company's long-term floating-rate borrowings approximate fair value.

The fair value of forward exchange contracts and of currency options contracts is determined as described in Note 2 "Summary of significant accounting policies".

(in thousands of euros)

December 31	2001		2000		1999	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
BALANCE SHEET						
Assets						
Investments in equity securities	17,066	17,066	11,183	11,626	1,290	10,909
Loan, deposits and other non-current assets	99,701	99,701	187,405	186,898	4,696	4,486
Total assets	116,767	116,767	198,588	198,524	5,986	15,395
Liabilities						
(Long-term debt including current portion and capital lease)						
Fixed rates	-	-	18,100	18,000	18,722	20,770
Floating rates	36,329	36,329	24,931	24,900	31,130	31,130
Total liabilities	36,329	36,329	43,031	42,900	49,852	51,900
Hedging instruments on foreign currency contracts (in other current assets or other current liabilities)	5,178	5,178	(23,284)	(25,340)	5,876	4,220
Options contracts (in cash and cash equivalent)	(2,187)	(2,187)	(8,909)	(10,943)	(5,133)	(6,789)
Total (off-balance sheet ⁽¹⁾ in 2000 and 1999)	2,991	2,991	(32,193)	(36,283)	743	(2,569)

(1) The net book value and fair value of forward foreign exchange contracts and currency option contracts include unrealized gains and losses relating to hedges of firm and anticipated commitments, which have been deferred. Unrealized gains are recorded in the line item "Other current liabilities" and unrealized losses in the line item "Other current assets."

26. COMMITMENTS AND CONTINGENCIES

Guarantees

As of December 31, 2001, the amount of guarantees delivered by the Company reached € 12,857 thousand.

Purchase agreements

As of December 31, 2001, the Company had purchase commitments for microprocessor chips with various suppliers aggregating approximately € 25 million.

Legal proceedings

In February 1996, Humetrix Inc. brought an action against the Company, among others, in the United States District Court in San Diego, California, relating to an alleged agreement to jointly market several products in the US health care market. The complaint alleged that the Company had breached the alleged agreement and had intentionally interfered with third party contractual relations. In February 1999, the District Court rendered a decision in favor of Humetrix and ordered the Company to pay US\$ 15 million (€ 17 million) and another individual defendant to pay US\$ 2.5 million (€ 2.8 million). The decision against the individual defendant was later vacated and further proceedings were ordered by the court. The Company appealed the judgment. In March 2000, the District Court dismissed the claim against the individual defendant with prejudice. Oral arguments in the appeal were heard on March 6, 2001 before the

United States Court of Appeals for the Ninth Circuit. On October 4, 2001, the Court of Appeals rendered its decision, affirming the judgment of the District Court against the Company in the amount of US\$ 15 million, with interest to be determined. As a result of this judgment, the Company recorded a charge of € 18.1 million, adversely impacting its 2001 operating result and resulting in a total current liability (including a previously existing provision) of € 19.4 million in the balance sheet as at December 31, 2001. The Company's petition seeking a rehearing before the Court of Appeals was denied on November 20, 2001 and therefore the judgement is final.

As described in Note 16, the Company partially reversed in 2001 a provision for a patent claim, resulting in a favorable € 10,600 thousand royalty expense adjustment recorded in cost of sales.

In addition to the litigation mentioned above, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Lease commitments

The Company leases some of its manufacturing and office space under non-cancelable operating leases. These leases contain various expiration dates and renewal options.

Future minimum annual lease payments under all non-cancelable operating leases as of December 31, 2001 are as follows:

(in thousands of euros)	
December 31	
2002	10,737
2003	7,994
2004	7,166
2005	5,948
2006	4,218
Thereafter	6,910

Total rental expenses for all operating leases except those with terms of one month that were not renewed were € 12,499 thousand, € 14,242 thousand, € 3,372 thousand for the years ended December 31, 2001, 2000 and 1999, respectively.

27. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest and income taxes were as follows:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Cash paid for:			
• Interest	2,928	3,061	1,089
• Income taxes	14,338	22,308	3,087

During 1999 and 2001, as mentioned in Note 15, the Company refinanced property, plant and equipment under sale-leaseback agreements for a total of € 28,270 thousand and € 5,711 thousand, in 1999 and 2001 respectively.

28. WAGES, BENEFITS AND NUMBER OF EMPLOYEES (UNAUDITED)

Wages and benefits including social security taxes amounted to approximately € 339 million, € 291 million, and € 216 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Headcount was 6,721, 7,870 and 5,947 as of December 31, 2001, 2000 and 1999, respectively.

29. RELATED PARTY TRANSACTIONS

During 2000, the Company entered into loan agreements with certain senior executives of the Company. These loans were partially reimbursed in 2001, as discussed further below in Note 31. In December 2001, the Company recorded severance expenses in the amount of € 25,691 thousand due to Mr. Perez and to Dr. Lassus in connection with their resignation as Chief Executive Officer of the Company and cessation as Chairman of the Board of Directors, respectively, as described further below in Note 31.

Pursuant to the terms of the loans granted to Messrs. Perez and Lassus in 2000, one of the Company's indirect subsidiaries agreed in 2001 to arrange for the interest on these loans to be forgiven starting July 1, 2001, and to assume any income tax resulting from this forgiveness. As described in Note 13, the Company recorded in 2001 a compensation expense of € 3,585 thousand corresponding to the income tax resulting from the forgiveness of interest.

During the years 2001, 2000 and 1999, the Company had a financial consulting agreement with a firm that included an individual who served on the Company's Board of Directors. The consulting services primarily related to investment and business opportunity advice for the Company. The Company recognized € 20,785 thousand in the year 2000 for such advice (€ 308 thousand in the year 1999). Effective in September 2000, this consultant no longer serves on the Board. During 2001, the Company recognized € 319 thousand according to this consulting agreement, which was terminated December 31, 2001.

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. This 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 remedial action. The total cost recorded in the Company's Consolidated Statement of Income in 2001 for this arrangement amounted to € 906 thousand.

During 2001, the Company reimbursed its former Chairman of the Board of Directors, Dr. Lassus, funds that he had advanced in a project involving a number of consultants who provided smart card and related business services, including services linked to card operating systems and card management systems. The funds, in the amount of € 160 thousand (GBP 100 thousand), were reimbursed to Dr. Lassus in November 2001.

30. SEGMENT INFORMATION

The Company operates in primarily two operating segments which are based on the Company's customer base and for which separate financial information is available and that is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and gross margins. The Company does not identify or allocate assets to the operating or geographic segments nor does the CODM evaluate the segments on this criterion on a regular basis.

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies as discussed in Note 2.

Telecommunications

The telecommunications segment includes the Company's wireless solutions, as well as prepaid telephone cards and other products.

Network systems

The network systems segment includes systems and services based on chip card technology in areas such as financial services, access control, identification, health care and corporate loyalty programs. The Company's e-business security activities, which are new, are also included in this segment. The access control systems activities of our former subsidiary SkiData are reported under the network systems segment and have been identified separately, as the Company has completed the sale of this activity in August 2001 (see Note 3 - Disposed operations).

Other operating segments

Other operating segments include applications such as magnetic stripe plastic cards for banks, card-based transportation access and inventory tracking products. Following the sale of our Tag activities in July 2001, the Tag electronic smart labels solutions activities are reported under the other operating segment and have been identified separately (see Note 3 - Disposed operations).

The following tables present selected data for the years ended December 31, 2001, 2000 and 1999:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Net sales			
Telecommunications	681,933	883,695	482,249
Network systems	229,318	196,369	160,450
SkiData	40,566	81,155	72,669
Other operating segments	111,735	124,536	123,905
Tag	3,712	6,533	6,250
Net sales	1,022,986	1,204,600	766,604
Gross profit			
Telecommunications	228,814	378,874	207,067
Network systems	67,124	62,015	51,182
SkiData	16,635	30,495	28,123
Other operating segments	11,532	12,997	21,550
Tag	(573)	881	1,067
Gross profit	307,470	453,886	279,799
Research and development expenses	(112,885)	(90,778)	(62,248)
Reversal of research credit allowance	-	12,486	-
Selling and marketing expenses	(165,276)	(158,545)	(97,155)
General and administrative expenses	(110,657)	(89,666)	(63,677)
Litigation expenses	(18,120)	-	-
Management severance expenses	(25,691)	-	-
Restructuring expenses	(28,466)	-	-
Operating income (loss)	(153,625)	127,383	56,719

The following is a summary of sales to external customers by geographic area for the years ended 2001, 2000 and 1999:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Americas	231,606	185,400	117,844
Europe, Middle-East, Africa	518,274	701,300	505,990
Asia	273,106	317,900	142,770
Net sales	1,022,986	1,204,600	766,604

Revenues from external customers are based on the customers' billing location. Accordingly, there are no sales transactions between operating segments. The Company does not allocate long-lived assets by location for each geographic area. The Company's country of domicile is Luxembourg in which sales to customers are insignificant.

No single customer accounted for more than 10% of the Company's sales during the years ended December 31, 2001, 2000, and 1999.

31. MANAGEMENT SEVERANCE EXPENSES

During 2000, the Company entered into an employment agreement with Mr. Perez, its former CEO, whereby he was granted 10,247,893 free shares, 10,247,893 service options and 10,247,893 performance options. The stock options had an exercise price of € 3.51 per share. In addition, one of the Company's indirect finance subsidiaries made loans to Mr. Perez between September 2000 and March 2001 in an aggregate amount of € 88.9 million. Each loan bore interest at the rate provided in Section 1274 (b) (2) (b) of the US Internal Revenue Code of 1986, which is based on the US Federal short-term rate. Therefore interest rates ranged from 5.58% to 6.4% per annum. These loans were made to allow Mr. Perez to exercise the stock options and pay the exercise price (for an aggregate amount of € 71.9 million) and taxes related to the free shares (for an aggregate amount of € 17 million) and were secured by the shares purchased by Mr. Perez upon exercise of the options.

Concurrently with the issuance of free shares and options to Mr. Perez, the Company issued 10,247,893 free shares and 20,495,786 shares to Dr. Lassus, the founder of the Company and former Chairman of the Board of Directors. The stock options had an exercise price of € 3.51 per share. In addition, one of the Company's indirect finance subsidiaries has made loans to Dr. Lassus in an aggregate amount of € 71.9 million on the same terms as the loans to Mr. Perez. Dr. Lassus used the loan proceeds to exercise the stock options that were granted to him at the same time as the stock options granted to Mr. Perez.

On November 2, 2001, the Company announced that its Chief Executive Officer, Mr. Perez, had signed an agreement with one of its indirect subsidiaries pursuant to which he committed to return all of the Gemplus International SA shares that he received in August and September 2000 to such indirect subsidiary of the Company, in reimbursement of the loans that such indirect subsidiary made to him in 2000 and in 2001.

Mr. Perez transferred these shares pursuant to two agreements. The first agreement was signed on October 20, 2001. Mr. Perez transferred 18,574,306 shares to the Company's indirect subsidiary, at a price of € 2.79 per share, representing € 51,822 thousand that were recorded in reimbursement of a portion of the loans in the same amount. The difference between the value of the shares pursuant to the agreement (€ 2.79 per share) and the market closing price of the Company's shares at the time of the effective transfer of the shares (€ 3.12 per share) was reflected in the stockholders' equity, resulting in an increase of € 6,130 thousand of the caption "paid-in capital".

The second agreement was signed on December 19, 2001, at the time Mr. Perez resigned his position as President and Chief Executive Officer of the Company. Mr. Perez transferred 12,169,373 shares to the Company's indirect subsidiary, at a price of € 2.86 per share, representing the market closing price of the Company's shares as at December 19, 2001, totaling

€ 34,804 thousand. The difference between the fair value of the shares and the remaining loan outstanding was recorded in the Company's Consolidated Statement of Income, resulting in a charge of € 6,838 thousand.

Mr. Perez was also entitled to a tax reimbursement on the portion of the loan that has been forgiven. Such reimbursement was accrued in the 2001 Company's Consolidated Statement of Income and represented an amount of € 6,502 thousand. In addition, Mr. Perez is entitled, pursuant to his employment agreement, to receive a severance payment, that was recorded in the 2001 Company's Consolidated Statement of Income in the amount of € 1,161 thousand. Consequently, the total charges associated with Mr. Perez resignation amounted to € 14,501 thousand.

On December 19, 2001, the Company's Board of Directors accepted the cessation of Dr. 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 requires the Company to make a payment to Dr. Lassus in the amount of US dollars 12 million (€ 13,450 thousand), such payment representing partly a severance payment (€ 11,190 thousand) and partly the cost of the pledge of Dr. Lassus' 20,495,786 option shares in guarantee of the loans (€ 2,260 thousand). The cost of the pledge was deferred in the balance sheet as at December 31, 2001, and will be recorded in the Company's Consolidated Statement of Income on a prorata basis over the loan period (ending no later than December 31, 2003 pursuant to the agreement signed on December 19, 2001 with Dr. Lassus). An amount of € 1,130 thousand corresponding to the cost of the pledge relating to fiscal year 2002 was recorded as prepaid expenses in "Other current assets" and the cost of the pledge relating to fiscal year 2003, representing € 1,130 thousand, was recorded in "other non-current assets". Consequently, the total charges for the fiscal year ended December 31, 2001 associated with Dr. Lassus' cessation as Chairman amounted to € 11,190 thousand.

Consequently, the Company recorded a total € 25,691 thousand charge in its 2001 Consolidated Statement of Income with respect to the changes in its management decided at its Board meeting of December 19, 2001.

32. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared in accordance with IAS, which differ in certain respects from generally accepted accounting principles in the United States (US GAAP).

The principal differences between IAS and US GAAP are presented below together with explanations of certain adjustments that affect consolidated net income and total shareholders' equity:

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

Years ended December 31	2001	2000	1999
Net income (loss) in accordance with IAS	(100,220)	99,078	(32,133)
Capitalized development costs	(3,227)	(2,291)	3,678
Hedge accounting	-	8,030	(3,252)
Share options accounting	69,262	(229,724)	(10,596)
Other differences	564	1,256	396
Deferred tax effect of US GAAP adjustments	1,057	408	-
Total differences between US GAAP and IAS	67,656	(222,321)	(9,774)
Net income (loss) per US GAAP before change in accounting principle	(32,564)	(123,243)	(41,907)
Changes in accounting principles:			
Start-up costs	-	-	(2,526)
Hedge accounting	(8,807)	-	-
Net income (loss) per US GAAP	(41,371)	(123,243)	(44,433)
Change in cumulative other comprehensive adjustment in accordance with IAS	(4,344)	(2,438)	358
Change in effect of IAS/US GAAP adjustments on other comprehensive income	(5,054)	(9,476)	363
Other comprehensive income (loss), net of tax	(9,398)	(11,914)	721
Comprehensive income (loss)	(50,769)	(135,157)	(43,712)
Net income (loss) per share before changes in accounting principles:			
• Basic	(0.05)	(0.25)	(0.13)
• Diluted	(0.05)	(0.25)	(0.13)
Changes in accounting principles:			
• Basic	(0.01)	-	(0.01)
• Diluted	(0.01)	-	(0.01)
Net income (loss) per share:			
• Basic	(0.06)	(0.25)	(0.14)
• Diluted	(0.06)	(0.25)	(0.14)
Number of shares:			
• Basic	636,992,392	497,523,946	313,120,400
• Diluted	636,992,392	497,523,946	313,120,400

(in thousands of euros)

December 31	2001	2000	1999
Shareholders' equity in accordance with IAS	1,167,762	1,384,995	294,153
Capitalized development costs	(5,518)	(2,291)	-
Hedge accounting	-	4,090	(3,940)
Non-recourse loans	(71,856)	(143,712)	-
Effect of IAS/US GAAP adjustments on other comprehensive income	(4,911)	143	9,619
Other differences	(310)	(874)	(2,129)
Deferred tax effect of US GAAP adjustments	1,224	408	-
Total difference between US GAAP and IAS	(81,371)	(142,236)	3,550
Shareholders' equity in accordance with US GAAP	1,086,391	1,242,759	297,703

Capitalized development costs

The Company capitalizes certain research and development costs other than for software development where it is expected that the product under development will be produced and will be profitable. Such capitalized research and development costs are amortized over a period no longer than three years. Under US GAAP, research and development costs other than for software development are expensed as incurred.

Hedge accounting and financial instruments

Until the adoption of IAS 39, the Company allocated certain instruments designed as hedge to the underlying transactions and therefore the gains and losses arising from the performance of the instruments on forecasted transactions were deferred to future periods. Hedge accounting on forecasted transactions was not allowed by US accounting standards and contracts were marked to market under US GAAP with changes in fair value recorded in the Statement of Income in the current period.

Commencing January 1, 2001 new standards are effective for the Company under both IAS and US GAAP with respect to accounting policies of financial instruments; IAS 39 "Accounting for Financial Instruments and SFAS No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138.

After implementation of IAS 39, there is no reconciling items between IAS and US GAAP related to hedge accounting when reporting net income.

Share options accounting

Certain of the Company's share option plans (Note 24) are treated as compensatory plans under US GAAP.

For the purpose of this reconciliation, the Company has adopted Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employees share options.

Under APB 25, unearned compensation is recognized as a reduction in shareholders' equity when the exercise price of share options is below the fair value of the underlying shares on the grant date. Unearned compensation is amortized to compensation expense over the vesting period of the applicable options. From 1989 to December 31, 2001, the Company granted share options to employees, which generally vest over four years, with exercise prices at or below the fair value of the underlying shares.

For purposes of financial reporting under US GAAP, the Company is required to follow the disclosure provisions of Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based

Compensation", which requires that the Company disclose pro forma net income and earnings per share as if the Company's compensation expense had been calculated using the fair value method prescribed by FAS 123.

Had compensation expense for the Plans been determined based upon the estimated grant date fair value using the fair value method as provided by FAS 123, the Company's net income and earnings per share for the years ended December 31, 2001, 2000 and 1999, would have been as follows:

(in thousands of euros, except for net income per share)

Years ended December 31	2001	2000	1999
Net income per US GAAP:			
• As reported	(41,371)	(123,243)	(44,433)
• Pro forma	(131,596)	(134,770)	(48,358)
Net income per share per US GAAP - Proforma:			
• Basic	(0.21)	(0.27)	(0.15)
• Diluted	(0.21)	(0.27)	(0.15)

The fair value of each option grant is estimated on the date of grant using the Black & Scholes option pricing model, with the following assumptions for grants made during 2001, 2000 and 1999: dividend yields of 0% for all periods; annual risk-free interest rate of 4.1%, 5% and 4% for 2001, 2000 and 1999, respectively; expected volatility of 79%, 30% and 0% for 2001, 2000 and 1999, respectively; and the expected option vesting period of 4 years for all periods.

In 2000, the Company entered into employment arrangements with Mr. Perez and Dr. Lassus, whereby each was granted a certain number of free shares and a certain number of service and performance options (see Note 31). Each of the option agreements included loan provisions whereby the two individuals could obtain loans representing 100% of the option exercise price. The loan agreements included certain prepayment features and, as a result, the related amount of interest to be paid on the loans was uncertain and, therefore, the ultimate option price was uncertain. Under U.S. GAAP, when the number of shares and the option price are unknown, variable plan accounting must be followed. Under variable plan accounting, compensation cost is re-measured each period based on the difference between the exercise price and the fair market value of the stock. This re-measurement occurs up until there is a measurement date (i.e. the date at which both the number of shares and the option or award prices are known). Both the service option and performance options granted to these individuals are accounted for under variable plan accounting when determining employee compensation expense under US GAAP. A compensation expense of € 94,080 thousand was recorded in 2000 with respect to the service option and performance options granted to these individuals, which was reversed in 2001 when the fair market value of the stock went below the exercise price of the options. Under US GAAP, pursuant to EITF 95-16 "Accounting for Stock Compensation Arrangements

with Loan Features”, the loans are presented as a reduction to shareholders’ equity, and the interests on the loans are presented as a reduction of compensation expense. The Company recorded interest with respect to these loans in the amount of € 4,877 thousand. They were reflected in the Consolidated Statement of Income in interest income under IAS and in general and administrative expenses under US GAAP.

Other comprehensive income

For the purpose of this reconciliation, the Company has adopted the accounting treatment prescribed by SFAS No. 130, “Reporting Comprehensive Income” (FAS 130). FAS 130 establishes standards for reporting comprehensive income (loss) and its components in financial statements. Comprehensive income (loss), which includes all changes in equity during a period from non-owner sources, is composed primarily of the unrealized gains and losses on marketable equity investments, net of tax, and foreign currency translation adjustments, not recorded in the consolidated statements of income. After implementation of IAS 39, there are no reconciling items between IAS and US GAAP related to other comprehensive income, except for the accounting for pension (€ 4,712 thousand in 2001) and for the foreign currency translation adjustment effect of US GAAP adjustments (€ 199 thousand in 2001).

FASB Statement No. 87, “Employers’ Accounting for Pension”, requires the Company to recognize a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligations exceeds the fair value of plan’s assets, i.e. the unfunded amount. This liability is recorded, net of tax, within other comprehensive income.

33. OTHER REQUIRED US GAAP DISCLOSURES

Revenue Recognition

In December 1999, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (SAB 101) and has amended it in March 2000. The Company has assessed that its revenue recognition as described in Note 2 complies with the principles identified in SAB 101.

The Company has considered SOP 97-2, “Software Revenue Recognition”. As at December 31, 2001, the Company has assessed that its revenue recognition related to licensing, selling, leasing, or otherwise marketing computer software complies with the principles identified in SOP 97-2 and SOP 98-9, “Modification of SOP 97.2 Software Revenue Recognition with Respect to Certain Transactions”.

New accounting pronouncements under US GAAP

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement No. 141, “Business Combinations”, and Statement No. 142, “Goodwill and Other Intangible Assets”. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that must be met in order for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but will instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of”.

The Company is required to adopt the provisions of Statement 141 immediately and Statement 142 effective January 1, 2002 for the presentation of its consolidated net income and total shareholders’ equity under US GAAP.

Amortization expense related to goodwill was € 11.2 million and € 27.2 million for the years ended December 31, 2000 and December 31, 2001, respectively.

The Company estimates that the adoption of SFAS 142 will decrease amortization expense in 2002 by approximately € 24 million net of taxes as a result of no longer amortizing goodwill. In accordance with SFAS 142, the Company has six months from the date of adoption to complete its initial impairment testing. In the event an impairment loss is determined in the initial phase, the Company has until December 31, 2002 to finalize the calculation or effectively until June 30, 2003, the date 20-F is due (six months after year-end).

However, the Company does not expect material changes to the carrying value of goodwill as a result of the adoption of SFAS 142.

On October 3, 2001, the FASB issued SFAS No. 144 (SFAS 144), Accounting for the impairment or disposal of long-lived assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes SFAS No. 121, “Accounting for the impairment of long-lived assets and for long-lived assets to be disposed of”, it retains many of the fundamental provisions of that statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB 30, Reporting the results of operations-

Discontinued events and extraordinary, unusual and infrequently occurring events and transactions, to broaden the definition of what constitutes a discontinued operation and it amends ARB 51, Consolidated financial statements to eliminate the exception to consolidation for a temporarily controlled subsidiary. SFAS 144 is effective for fiscal years beginning after December 31, 2001. The Company does not expect any material impact on its consolidated net income and total shareholders' equity under US GAAP resulting from the implementation of SFAS 144.

Income taxes

The components of income (loss) before income tax are as follows:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Domestic (*)	(1,436)	(51,630)	(57,591)
Foreign	(112,968)	180,339	37,529
Income before tax	(114,404)	128,709	(20,062)

(*) Luxembourg in 2001 and 2000, France in 1999.

Presentation of the Consolidated Statement of Income

Under US GAAP, the consolidated statements of income should be restated to present goodwill amortization above operating income (loss).

Under IAS, the Company treated the transaction between Gemplus SCA and Gemplus Associates (see Note 3) consistent with its form as a business combination and recorded goodwill for the difference between the fair value of the shares issued and the cash acquired. This transaction was entered into to enable the Company to terminate Gemplus Associates' general partner status and management contract. The goodwill of € 65.4 million

that resulted was immediately written off and included as part of amortization expense in 1999. Under US GAAP, this transaction to terminate the general partner status and management contract should be recognized as a legal reorganization expense within operating income.

The operating income would have been as follows under US GAAP:

(in thousands of euros)			
Years ended December 31	2001	2000	1999
Operating income (loss) per IAS	(153,625)	127,383	56,719
Goodwill amortization	(27,162)	(11,204)	(6,411)
Legal reorganization expense	-	-	(65,401)
Operating income (loss) - US presentation	(180,787)	116,179	(15,093)
Capitalized development costs	(3,227)	(2,291)	3,678
Share options accounting	69,262	(229,724)	(10,596)
Interests accrued on loans related to share options	4,877	3,139	-
Other differences	564	1,256	396
Operating income per US GAAP	(109,311)	(111,441)	(21,615)

34. SUBSEQUENT EVENTS

On February 6, 2002, the Company announced a further restructuring and rationalization plan. This new program involves a planned reduction of its workforce by approximately 1,000 employees and includes rationalization of its production and sourcing strategy. As required by International Accounting Standards, no provision was recorded in the 2001 financial statements with respect to this restructuring plan, as the plan was not established with sufficient details nor communicated at the closing date.

Board of Directors and Management Team

Board of Directors of Gemplus International SA

Dr. -Ing. Hasso Freiherr von Falkenhausen

Chairman
of the Board of Directors
of Gemplus International SA

David Bonderman

Vice-Chairman
of the Board of Directors
of Gemplus International SA,
Managing Director
of Texas Pacific Group

Dr. Marc Lassus

Director
of Gemplus International SA

William S. Price, III

Director
of Gemplus International SA,
Managing Director
of Texas Pacific Group

Abel G. Halpern

Director
of Gemplus International SA,
Managing Director
of Texas Pacific Group

Lee Kheng Nam

Director
of Gemplus International SA,
Chairman
of Vertex Investments International

Randy L. Christofferson

Director
of Gemplus International SA,
Managing Director
of MIOGA Ventures, LLC

Executive Officers of Gemplus International SA

Ron Mackintosh

Chief Executive Officer

Philippe Vallée

Executive Vice President,
President and General Manager
Telecom Business Unit

Gilles Michel

Executive Vice President,
President and General Manager
Financial Services
and Security Business Unit

Steven Gomo

Executive Vice President,
Chief Financial Officer

Didier Lachaud

Executive Vice President,
Human Resources

Stephen Juge

Executive Vice President,
General Counsel

Jacques Villières

Executive Vice President,
Corporate Manufacturing

Tony Endberg

Executive Vice President,
Chief Technology Officer

Jacques Sénéca

Executive Vice President,
General Manager
GemVentures Services Unit

Committees of Gemplus International SA

Audit Committee

William S. Price, III
Randy Christofferson
Lee Kheng Nam

Compensation Committee

**Dr. -Ing. Hasso Freiherr
von Falkenhausen**
David Bonderman
Lee Kheng Nam

Stock Administration Committee

Ron Mackintosh
Steven Gomo
Stephen Juge
Didier Lachaud

SHAREHOLDER INFORMATION

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Annual General Meeting:

April 17, 2002 - 11:00 am
Hôtel Royal, 12 boulevard Royal, 2449 Luxembourg, Luxembourg

Stock Exchanges:

The shares of Gemplus International SA are quoted on the following exchanges:

Exchange	Symbol	Currency
Euronext Paris SA	GEM 5768	EUR
The Nasdaq Stock Market	GEMP 36866Y102	USD

Depository for American Depositary Shares:

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Information via the Internet:

Internet World Wide Web users can access Gemplus' annual reports, financial information and press releases through
<http://investor.gemplus.com>