GEMPLUS INTERNATIONAL SA
Form 6-K
September 17, 2004

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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

For the month of September 2004

GEMPLUS INTERNATIONAL S.A.
(Exact name of registrant as specified in its charter)

GEMPLUS INTERNATIONAL S.A.
(Translation of registrant s name in English)

46A, Avenue J.F. Kennedy
L-1855 Luxembourg
Grand Duchy of Luxembourg
(Address of Principal Executive Offices)

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

Form 20-F __X__ Form 40-F _____

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

Yes _____ No __X__

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Item 1. Financial Statements

Condensed Consolidated Statements of Income

	(In thousands of euros, except share and per share data)			
	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	210,538	172,386	407,827	326,620
Cost of sales	(142,512)	(124,549)	(278,553)	(241,129)
Gross Profit	**68,026**	**47,837**	**129,274**	**85,491**
Research and development expenses	(16,341)	(18,182)	(32,446)	(37,129)
Selling and marketing expenses	(26,152)	(24,965)	(50,382)	(50,462)
General and administrative expenses	(17,020)	(18,608)	(33,161)	(39,147)
Restructuring expenses	(161)	(42,261)	27	(45,459)
Operating income (loss) before goodwill amortization and impairment	**8,352**	**(56,179)**	**13,312**	**(86,706)**
Goodwill amortization and impairment	(1,919)	(24,037)	(3,822)	(29,166)
Operating income (loss)	**6,433**	**(80,216)**	**9,490**	**(115,872)**
Financial income (expense), net	1,474	2,849	2,807	5,335
Other income (expense), net	(4,583)	(3,333)	(7,168)	(6,986)
Income (loss) before taxes	**3,324**	**(80,700)**	**5,129**	**(117,523)**
Income taxes (provision) benefit	(2,251)	(1,667)	(3,726)	(2,767)
Net income (loss)	**1,073**	**(82,367)**	**1,403**	**(120,290)**
Net income (loss) per share				
Basic	0.00	(0.14)	0.00	(0.20)
Diluted	0.00	(0.14)	0.00	(0.20)
Shares used in net income (loss) per share calculation				
Basic	606,862,474	605,614,830	606,435,835	605,657,926
Diluted	619,719,484	605,614,830	621,135,793	605,657,926

The accompanying notes are an integral part of these condensed financial statements.

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Condensed Consolidated Balance Sheets

	(in thousands of euros)	
	June 30, 2003	**December 31, 2003**
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	383,137	390,684
Trade accounts receivable, net	153,444	154,727
Inventory, net	126,881	98,673
Other current assets	75,581	82,675
Total current assets	**739,043**	**726,759**
Non-current assets:		
Property, plant and equipment, net	163,381	175,706
Goodwill, net	33,954	37,727
Other non-current assets	125,929	113,047
Total non-current assets	**323,264**	**326,480**
Total assets	**1,062,307**	**1,053,239**
Liabilities		
Current liabilities:		
Accounts payable	102,347	95,582
Accrued liabilities and other	165,248	135,505
Current obligations under capital leases	5,939	5,928
Total current liabilities	**273,534**	**237,015**
Non-current liabilities:		
Long-term obligations under capital leases	36,981	38,893
Other non-current liabilities	44,119	70,246
Total non-current liabilities	**81,100**	**109,139**
Minority interest	**12,384**	**12,073**
Shareholders equity		
Ordinary shares	128,545	127,889
Paid in capital	1,030,980	1,028,849
Retained earnings	(462,831)	(464,221)
Other comprehensive income	580	4,570
Less, cost of treasury shares	(1,985)	(2,075)

Total shareholders equity	**695,289**	**695,012**
Total liabilities and shareholders equity	**1,062,307**	**1,053,239**

The accompanying notes are an integral part of these condensed financial statements.

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Condensed Consolidated Statements of Cash Flows

	(in thousands of euros)	
	Six months ended June, 30	
	2004	2003
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	1,403	(120,290)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	28,914	59,955
Change in other non-current liabilities	(144)	(715)
Gain on assets sold	787	454
Provision for income taxes	1,670	188
Other, net	2,951	6,613
Changes in operating assets and liabilities:		
Trade accounts receivable and related current liabilities	4,485	9,821
Trade accounts payable and related current assets	16,125	17,234
Inventories	(24,609)	(13,476)
Value-added and taxes	11,764	4,188
Other, net	3,286	5,685
Restructuring reserve	(19,410)	14,438
Restricted cash on litigation	(21,952)	
Net cash from (used in) operating activities	**5,270**	**(15,905)**
Cash flows from investing activities:		
Sale/(Purchase) of activities net of cash disposed/(acquired)		114
Other investments	(901)	(832)
Purchase of property, plant and equipment	(9,677)	(5,258)
Purchase of other assets	(970)	(853)
Change in non-trade accounts payable and other current assets	(288)	(508)
Net cash used in investing activities	**(11,836)**	**(7,337)**
Cash flows from financing activities:		
Proceeds from exercise of share options	1,288	
Proceeds from sale-leaseback operations	957	
Principal payments on obligations under capital leases	(2,857)	(1,277)
Increase (decrease) in bank overdrafts	831	1,055
Dividends paid by subsidiaries to minority shareholders	(1,214)	(1,097)

Net cash used in financing activities	**(995)**	**(1,319)**
Effect of exchange rate changes on cash	15	13,565
Net increase (decrease) in cash and cash equivalents	(7,562)	(24,561)
Cash and cash equivalents, beginning of period	390,684	417,226
Cash and cash equivalents, end of period	**383,137**	**406,230**

The accompanying notes are an integral part of these condensed financial statements.

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Consolidated Statement 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 comprehensive income	Treasury shares	Total
Balance at December 31, 2003	**607,312,796**	**127,889**	**1,028,849**	**(303,114)**	**(161,107)**	**4,570**	**(2,075)**	**695,012**
Allocation of prior year loss				(161,107)	161,107			
Net income					1,403			1,403
Contribution of Gemplus SA shares to Gemplus International SA		634	(634)					
Shares issued by Gemplus SA pursuant to share options exercised to be contributed	901,250		1,151					1,151
Shares issued by Gemplus International SA pursuant to share options exercised to be contributed	105,425	22	115					137
Minority shareholders contribution not resulting in a change of subsidiary ownership			1,499					1,499
Sale of 28,764 of treasury shares				(13)			90	77
Change in other comprehensive income						(3,990)		(3,990)

Balance at June 30, 2004 (unaudited)	**608,319,471**	**128,545**	**1,030,980**	**(464,234)**	**1,403**	**580**	**(1,985)**	**695,289**

The accompanying notes are an integral part of these condensed financial statements.

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Notes to the Condensed Consolidated Financial Statements

1/ Basis of presentation and accounting policies

These unaudited interim financial statements prepared in accordance with International Financial Reporting Standards (IFRS), reflect all normal recurring adjustments which are, in the opinion of management, necessary to present fairly, in all material respects, the financial position of Gemplus International S.A. (the Company) and its subsidiaries as of June 30, 2004, and the results of operations for the three-month and six-month periods ended June 30, 2004 and 2003. All material intercompany balances have been eliminated. Because all of the disclosures required by IFRS are not included, these interim statements should be read in conjunction with the audited financial statements and accompanying notes in the Company s annual report for the year ended December 31, 2003. The year-end condensed balance sheet data was derived from the audited financial statements and does not include all of the disclosures required by generally accepted accounting principles. The statements of operations for the periods presented are not necessarily indicative of results to be expected for any future period, nor for the entire year.

2/ Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined principally on the weighted average cost basis.

Inventory consists of the following:

	(in thousands of euros)	
	June 30, 2004	**December 31, 2003**
	(unaudited)	
Raw materials and supplies	33,863	27,456
Work-in-process	84,119	67,066
Finished goods	15,723	10,158
Inventory, gross	**133,705**	**104,680**
Inventory allowance	(6,824)	(6,007)
Inventory, net	**126,881**	**98,673**

3/ Common control transactions

As at June 30, 2004, certain shares of Gemplus S.A. held mainly by employees have not yet been contributed to Gemplus International S.A. The total amount of shares to be issued by Gemplus International S.A. upon the contribution of Gemplus S.A. shares amounted to 1,198,950 shares, representing 0.20 % of the shareholdings of Gemplus International S.A., which in total was represented by 608,319,471 shares outstanding as at June 30, 2004.

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4/ Net income (loss) per share

A reconciliation of the numerator and denominator of basic and diluted net income per share is provided in the following table:

	(in thousands of euros, except shares data)			
	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)			
Basic and diluted net income (loss) numerator	1,073	(82,367)	1,403	(120,290)
Shares used in basic net income (loss) per share calculation:				
Weighted average number of common shares outstanding	608,319,471	607,115,409	607,900,023	619,925,275
Weighted average number of treasury shares	(1,456,997)	(1,500,579)	(1,464,188)	(14,267,349)
Weighted average number of common shares outstanding	606,862,474	605,614,830	606,435,835	605,657,926
Dilutive effect of stock options	12,857,010	2,032,670	14,699,958	1,370,191
Weighted average diluted number of shares outstanding	619,719,484	607,647,500	621,135,793	607,028,117
Shares used in diluted net income (loss) per share	619,719,484	605,614,830	621,135,793	605,657,926
Basic net income (loss) per share	0.00	(0.14)	0.00	(0.20)
Diluted net income (loss) per share	0.00	(0.14)	0.00	(0.20)

5/ Segment reporting

In 2004, the Company realigned its reporting segment in three operating segments: (i) Telecommunications segment, (ii) Financial Services segment, and (iii) Identity and Security segment, according to its new operating structure.

The *Telecommunications* segment remains unchanged and includes the wireless products and services, comprising wireless microprocessor cards and related applications (embedded software and Over The Air platforms) and services (system integration and operated services), prepaid phone cards and scratchcards.

The former Financial Services and Security segment has been divided into:

the *Financial Services* segment, comprising systems and services based on chip card technology for applications such as financial services, retail, transport, pay-TV, as well as magnetic stripe plastic cards for all applications;

the *Identity and Security* segment, comprising systems and services based on chip card technology for applications such as national ID, healthcare, driver s license, car registration, passport & visa, e-government secured services, physical and logical access control as well as smart card readers and interfacing technologies.

These three segments have a different customer base, and each of them has separate financial information available. The management evaluates these segments regularly, decides how to allocate resources and assesses performance. The Company s management 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 management evaluate the segments on this criterion on a regular basis.

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The following tables present selected data for the three-month and six-month periods ended June 30, 2004 and 2003:

	(in thousands of euros)			
	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Net sales				
Telecommunications	154,044	124,228	300,637	233,948
Financial Services	44,699	38,835	85,071	75,109
Identity and Security	11,795	9,323	22,119	17,563
Net sales	**210,538**	**172,386**	**407,827**	**326,620**
Gross profit				
Telecommunications	55,106	38,590	104,807	69,460
Financial Services	8,803	6,807	17,954	12,107
Identity and Security	4,117	2,440	6,513	3,924
Gross profit	**68,026**	**47,837**	**129,274**	**85,491**
Research and development expenses	(16,341)	(18,182)	(32,446)	(37,129)
Selling and marketing expenses	(26,152)	(24,965)	(50,382)	(50,462)
General and administrative expenses	(17,020)	(18,608)	(33,161)	(39,147)
Restructuring expenses	(161)	(42,261)	27	(45,459)
Goodwill amortization and impairment	(1,919)	(24,037)	(3,822)	(29,166)
Operating income (loss)	**6,433**	**(80,216)**	**9,490**	**(115,872)**

The following is a summary of sales by geographic area for the three-month and six-month periods ended June 30, 2004 and 2003:

(in thousands of euros)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Europe, Middle East and Africa	109,591	93,061	205,961	179,345
Asia	50,127	40,936	103,247	79,474
Americas	50,820	38,389	98,619	67,801
Net sales	**210,538**	**172,386**	**407,827**	**326,620**

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6/ Ordinary shares

As mentioned in Note 3, as at June 30, 2004, the total amount of shares to be issued by Gemplus International S.A. upon the contribution of Gemplus S.A. shares amounted to 1,198,950 shares, representing 0.20 % of the shareholdings of Gemplus International S.A., which in total was represented by 608,319,471 shares outstanding as at June 30, 2004.

7/ Restructuring

Following the restructuring program that was implemented in the second quarter of 2001 (the first restructuring program), the Company announced two additional restructuring and rationalization programs in 2002, one on February 6 (the second restructuring program), and the other on December 9 (the third restructuring program).

During the second quarter 2004, the Company recorded a total pre-tax restructuring net charge of 161 thousand in the quarterly Consolidated Statement of Income, mainly related to the third restructuring program.

First restructuring program *(announced on May 2, 2001)*

During the second quarter 2004, the Company did not record any restructuring charge with respect to the first restructuring program. The remaining reserve of 819 thousand is a provision for ongoing rents for closed sites, mainly in the United States of America and Germany.

Second restructuring program *(announced on February 6, 2002)*

During the second quarter 2004, the Company recorded a net restructuring reverse of 91 thousand with respect to the second restructuring program mainly due to adjustment for closed sites. As a part of the second restructuring program, the employment of 1,318 employees was terminated. The total net charge of the second restructuring program amounts 80,405 thousand and represents:

14,055 thousand of fixed assets write down without any cash impact,

66,350 thousand with cash impact linked to worldwide rationalization of manufacturing plants and sales offices, reduction of the workforce and legal and professional fees.

The remaining reserve of 8,465 thousand is a provision for ongoing rents for closed sites and for payment obligations for employee terminations.

Third restructuring program *(announced on December 9, 2002)*

During the second quarter 2004, linked to the worldwide rationalization of manufacturing plants and sales offices, the Company recorded a 252 thousand restructuring net charge with respect to the third restructuring program. Since December 2002, the total of the third restructuring program amounts to 69,941 thousand and represents:

48,584 thousand with cash impact in respect of payment obligations for employee termination,

14,051 thousand for write-down of intangible and fixed assets without any cash impact, 4,460 thousand with cash impact in respect of rationalization of manufacturing plants and sales offices,

2,846 thousand with cash impact in respect of legal and professional fees and the transfer of contracts to partners.

The employment of 827 employees was terminated as a part of the third restructuring program including 777 people who left the company in 2003 and 50 during the first half of the year 2004. 124 remaining people are expected to leave the company in 2004 and early 2005.

The remaining reserve of 10,387 thousand is a provision for ongoing rents for closed sites and for payment obligations for employee termination.

The Company anticipates that approximately 15 million in additional expenses will be required to complete this restructuring program. These expenses are expected to be recognized during the third quarter 2004, once the detailed formal plan is completed and agreed with all parties.

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Restructuring activity at the end of June 2004 was as follows:

	(in thousands of euros)		
FIRST restructuring program	**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**		
2002 restructuring charge	**1,514**		**1,514**
Amounts utilized in 2002	(5,492)		
Exchange rate differences	(141)		
Restructuring reserve as at December 31, 2002	**2,058**		
2003 restructuring charge	**89**		**89**
Amounts utilized in 2003	(881)		
Exchange rate differences	(263)		
Restructuring reserve as at December 31, 2003	**1,003**		
First quarter 2004 restructuring charge			
Amounts utilized in first quarter 2004	(121)		
Exchange rate differences	16		
Restructuring reserve as at March 31, 2004	**898**		
Second quarter 2004 restructuring charge			
Amounts utilized in second quarter 2004	(77)		
Exchange rate differences	(2)		
Restructuring reserve as at June 30, 2004	**819**		

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	(in thousands of euros)		
SECOND restructuring program	**Reduction of workforce and other cash outflows**	**Non-cash write-offs of assets**	**Total**
2002 restructuring charge	**66,919**	**13,889**	**80,808**
Amounts utilized in 2002	(27,446)		
Exchange rate differences	(868)		
Restructuring reserve as at December 31, 2002	**38,605**		
2003 restructuring charge	**246**	**60**	**306**
Release of unused provision	**(170)**		**(170)**
Amounts utilized in 2003	(27,247)		
Exchange rate differences	(817)		
Restructuring reserve as at December 31, 2003	**10,617**		
First quarter 2004 restructuring charge		**106**	**106**
Release of unused provision	**(554)**		**(554)**
Amounts utilized in first quarter 2004	(857)		
Exchange rate differences	72		
Restructuring reserve as at March 31, 2004	**9,278**		
Second quarter 2004 restructuring charge		**100**	**100**
Release of unused provision	**(191)**		**(191)**
Amounts utilized in second quarter 2004	(619)		
Exchange rate differences	(3)		
Restructuring reserve as at June 30, 2004	**8,465**		

	(in thousands of euros)	
	Reduction of workforce	**Non-cash**

THIRD restructuring program	and other cash outflows	write-offs of asset	Total
2002 restructuring charge	**755**	**6,926**	**7,681**
Amounts utilized in 2002	(443)		
Restructuring reserve as at December 31, 2002	**312**		
2003 restructuring charge	**54,848**	**9,455**	**64,303**
Release of unused provision		**(2,555)**	**(2,555)**
Amounts utilized in 2003	(27,791)		
Exchange rate differences	(50)		
Restructuring reserve as at December 31, 2003	**27,319**		
First quarter 2004 restructuring charge	**83**	**177**	**260**
Release of unused provision			
Amounts utilized in first quarter 2004	(11,782)		
Exchange rate differences	39		
Restructuring reserve as at March 31, 2004	**15,659**		
Second quarter 2004 restructuring charge	**494**	**200**	**694**
Release of unused provision	**(262)**	**(180)**	**(442)**
Amounts utilized in second quarter 2004	(5,511)		
Exchange rate differences	7		
Restructuring reserve as at June 30, 2004	**10,387**		

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TOTAL restructuring activity	Reduction of workforce and other cash outflows (in thousands of euros)	Non-cash write-offs of assets	Total
Total restructuring charge (credit) first quarter 2004	(471)	283	(188)
Total restructuring charge second quarter 2004	41	120	161
Total 2003 restructuring charge	55,013	6,960	61,973
Total 2002 restructuring charge	69,188	20,815	90,003
Total 2001 restructuring charge	22,022	6,444	28,466
Total Restructuring reserve as at June 30, 2004	19,671		

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8/ 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 June 30, 2004 and December 31, 2003, respectively, were as follows:

	(in thousands of euros)	
	June 30, 2004	December 31, 2003
	(unaudited)	
Cumulative translation adjustment	(4,437)	(6,460)
Net unrealized gain on hedging instruments qualifying as effective	5,017	11,030
Cumulative other comprehensive income	580	4,570

The components of comprehensive income for the three-month and six-month periods ended June 30, 2004 and 2003, respectively, were as follows:

	(in thousands of euros)			
	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Net income (loss)	1,073	(82,367)	1,403	(120,290)
Change in cumulative translation adjustment	(1,150)	3,691	2,023	5,129
Change in fair value of derivatives qualifying as effective hedging instruments	762	(3,371)	(6,013)	(2,597)
Change in cumulative other comprehensive income	(388)	320	(3,990)	2,532

Comprehensive net income (loss)	685	(82,047)	(2,587)	(117,758)

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9/ Differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles

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

The principal differences between IFRS and US GAAP are presented below:

	(in thousands of euros, except share and per share data)			
	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Net income (loss) in accordance with IFRS	**1,073**	**(82,367)**	**1,403**	**(120,290)**
Capitalized development costs		4,180		4,180
Reversal of restoration of impairment losses on long-lived assets		(2,555)		(2,555)
Share options accounting	1,127	(4,465)	11,534	1,668
Purchase consideration				(837)
Goodwill amortization and impairment	2,720	26,223	5,398	32,116
Other differences				(10)
Total differences between US GAAP and IFRS	**3,847**	**23,383**	**16,932**	**34,562**
Net income (loss) per US GAAP	**4,920**	**(58,984)**	**18,335**	**(85,728)**
Change in cumulative other comprehensive income in accordance with IFRS	(388)	320	(3,990)	2,532
Change in effect of IFRS/US GAAP adjustments on other comprehensive income	112	69	155	150
Other comprehensive income (loss), net of taxes	**(276)**	**389**	**(3,835)**	**2,682**

Comprehensive income (loss) per US GAAP	**4,644**	**(58,595)**	**14,500**	**(83,046)**
Net income (loss) per share per US GAAP				
Basic	0.01	(0.10)	0.03	(0.14)
Diluted	0.01	(0.10)	0.03	(0.14)
Number of shares				
Basic	606,862,474	605,614,830	606,435,835	605,657,926
Diluted	619,719,484	605,614,830	621,135,793	605,657,926

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	(in thousands of euros)	
	June 30, 2004	**December 31, 2003**
	(unaudited)	
Shareholders equity in accordance with IFRS	**695,289**	**695,012**
Reversal of restoration of impairment losses on long-lived assets	(2,555)	(2,555)
Non-recourse loans	(4,276)	(4,276)
Purchase consideration	(11,292)	(11,292)
Goodwill amortization and impairment	36,053	30,655
Effect of IFRS/US GAAP adjustments on other comprehensive income	(7,791)	(7,904)
Other differences	76	76
Deferred tax effect of US GAAP adjustments	363	363
Total difference between US GAAP and IFRS	**10,578**	**5,067**
Shareholders equity in accordance with US GAAP	**705,867**	**700,079**

10/ Presentation of the consolidated statement of income

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

	(in thousands of euros)			
	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2003**	**2004**	**2003**
	(unaudited)		**(unaudited)**	
Operating income (loss) per IFRS	**6,433**	**(80,216)**	**9,490**	**(115,872)**
Goodwill amortization and impairment on consolidated subsidiaries	1,919	24,037	3,822	29,166
Reversal of restoration of impairment losses on long-lived		(2,555)		(2,555)

assets				
Purchase consideration				(837)
Capitalized development costs		4,180		4,180
Share options accounting	1,127	(4,465)	11,534	1,668
Other differences				(10)
Operating income (loss) per US GAAP	**9,479**	**(59,019)**	**24,846**	**(84,260)**

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11/ New accounting pronouncements under US GAAP

For the presentation of its consolidated net income and total shareholders equity under US GAAP, the Company adopted the following new standards:

SFAS 143

In July 2001, the FASB issued FAS No. 143, Accounting for Asset Retirement Obligations (FAS 143). FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including the timing of liability recognition and initial measurement of the liability. FAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. FAS 143 is effective for fiscal years beginning after June 15, 2002 (January 1, 2003 for the Company). The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

SFAS 145

In April 2002, the FASB issued FAS No. 145, Revision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Connections (FAS 145). Among other amendments and rescissions, FAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect, unless such gains and losses meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operation Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions . FAS 145 is partially effective for transactions occurring after May 15, 2002 and partially effective for fiscal years beginning after May 15, 2002. The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

SFAS 146

In June 2002, the FASB issued SFAS No. 146 Accounting for Costs Associated with Exit or Disposal activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3 Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a restructuring) . SFAS 146 requires that a liability for a cost associated with an exit or disposal activity to be recognized when the liability is incurred. SFAS 146 states that a commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS 146 makes a clear distinction between what constitutes a one-time benefit arrangement and what constitutes an ongoing benefit arrangement. For plans that are deemed to be ongoing benefit plans, the guidance in SFAS 112 should be followed. The guidance in SFAS 112 for ongoing benefit plans will apply to situations where there are statutory requirements for providing employee benefit arrangements. Under SFAS 112, a liability will be recorded when it is probable and reasonably estimable that a liability has been incurred. For employee termination benefits provided over and above statutory minimums that are not systematic in nature, the requirements in SFAS 146 are followed and the liability would be recorded when communication is made to employees, provided all other necessary criteria are met. SFAS 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

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SFAS 148

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 . SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in the financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The Company has elected to continue accounting for employee stock-based compensation in accordance with APB 25 and related interpretations and has applied the disclosure-only provisions of SFAS 148 in Note 31 of its Consolidated Financial Statements.

SFAS 149

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

SFAS 150

In May 2003, FASB issued SFAS 150, Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity . The release establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. This statement reporting requirement shall be effective for financial instruments entered into or modified after May 31, 2003. The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

FIN 45

In November 2002, the FASB issued FASB Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires the guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. However, the initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Adoption of this standard does not currently have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

FIN 46

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support; or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. The new requirements of this Interpretation were effective immediately for new variable interest entities (VIEs) created after January 31, 2003.

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In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 FIN 46R Revised December 2003) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. The Company has performed a review of potential VIEs and has determined that it does not have any interests in VIEs as of the issuance of these financial statements. Adoption of FIN 46 in 2003 and the adoption of FIN 46R in 2004 do not currently have a material impact on the Company s consolidated net income and total Shareholders equity under US GAAP.

Others

In November 2002, the FASB issued EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables (EITF Issue No. 00-21). This guidance requires companies with deliveries that include multiple revenue generating activities to separately value the revenues related to each element of the process and provides guidance on when and how to account for such arrangements. The provisions of EITF Issue No. 00-21 applied to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of this standard does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

In May 2003, the EITF reached a consensus on EITF 01-8, Determining whether an arrangement contains a lease , relating to new requirements on identifying leases contained in contracts or other arrangements that sell or purchase products or services. The evaluation of whether or not an arrangement contains a lease within the scope of SFAS 13, Accounting for leases , should be based on the evaluation of whether an arrangement conveys the right to use property, plant and equipment. Purchaser s arrangements which previously would have been considered service or supply contracts, but are now considered leases, could affect the timing of their expense recognition and the classification of assets and liabilities on their balance sheet as well as require footnote disclosure of lease terms and future minimum lease commitments. This consensus is effective prospectively for contracts entered into or significantly modified after July 1, 2003. The adoption of this EITF does not have a material impact on the Company s consolidated net income and total shareholders equity under US GAAP.

12/ Related party transactions

On March 9, 2004, Apeera Inc. entered into a Share and Asset Purchase Agreement with Intuwave Ltd. by which the shares of Apeera France SAS, a wholly owned subsidiary of Apeera Inc., and certain assets were sold to Intuwave for a total consideration of 4,000 thousand. GemVentures 1 N.V. (a wholly owned subsidiary of the Company) and TPG Ventures, L.P., both shareholders of Apeera Inc., were parties to such agreement for the purposes of guaranteeing the obligations of Apeera Inc., in respect of the warranties and indemnities given by Apeera Inc. TPG Ventures, L.P. is managed by Texas Pacific Group, which is a shareholder of our Company. Three of our directors are respectively managing partners and a principal of the Texas Pacific Group. The initial consideration, payable on completion, was to be satisfied by the issuance of shares to Apeera Inc., which designated, according to its liquidation and dissolution plan, GemVentures 1 N.V. and TPG Ventures, L.P. to receive the shares instead on March 31, 2004.

On March 31, 2004, GemVentures 1 N.V. entered into an investment agreement with Intuwave, its investors and managers, which provides for the investment of US$ 2,000 thousand in consideration for the issuance of shares in Intuwave. Both TPG Ventures, L.P. and GemVentures 1 N.V. are represented on Apeera Inc. s board but GemVentures 1 N.V. abstained from voting with respect to the share and asset sale given its planned investment in Intuwave.

On July 30, 2004, Certplus S.A., a company in which Gemplus Trading S.A., indirectly a wholly owned subsidiary of our Company, holds 99.9% of the shares, and Infrasec, a company in the course of being registered (then registered to the Commercial register of Paris on August 11), entered into a contribution agreement. As a result of this agreement Certplus has contributed to Infrasec its certification services operator business division. In return, Certplus S.A. received 19.1% of the shares of Infrasec. Dassault Multimedia SAS has become shareholder of Infrasec with 1.2% of the share capital of Infrasec, and Mr. Thierry Dasault, who was one of the Company s director, has become President of the board of Directors of Infrasec.

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13/ Litigation

In September 2000, one of our indirect subsidiaries made a loan to Dr. Lassus to assist Dr. Lassus to exercise stock options, pursuant to his then current terms of employment. Pursuant to an agreement dated December 19, 2001, as of January 10, 2002 Dr. Lassus resigned as Chairman of our board of directors and resigned from all other positions that he held with our Company and any of our Company s affiliates, except for his position as a non-executive director of our Company. As of January 10, 2002, Dr. Lassus was no longer an employee of our Company or any of its affiliates. We have not yet received the guarantees of reimbursement (including a pledge of Dr. Lassus s option shares) that Dr. Lassus was required to provide, inter alia, as confirmed in a letter agreement dated December 19, 2001. Although we recorded an expense of 67.6 million effective June 30, 2002, following the write-down of the loan, we have not forgiven the loan. A special committee of our board of directors recommended that our indirect subsidiary initiate legal action to seek security for the loan and its repayment. Our board of directors agreed with the special committee s recommendations, also based on the opinion of special independent legal counsel, and an ad hoc arbitration proceeding was commenced by our Company and its indirect subsidiary against Dr. Lassus in London, England, in January 2003. In April 2004, the tribunal issued a final award in favor of the Company and its indirect subsidiary. The arbitrators held that they had no doubt that there was a loan based upon abundant evidence and no contrary evidence of a gift or reward, and found Dr. Lassus in breach of his obligations. In its final award, the tribunal ordered Dr. Lassus to make repayment in full of the loan in the amount of 71.9 million, plus interest of approximately 7.0 million to date, attorneys fees and costs as well as the costs of the arbitration, all in a total amount of approximately 80.9 million as of today. Since the second quarter of 2002, the Company has maintained a provision for the entire principal of the loan plus accrued interest (less the severance liability), since the potential for any repayment of the loan would depend on the financial strength of Dr. Lassus, which is uncertain.

Certain subsidiaries of the Company are currently under tax audit, in Germany and Singapore. The Singapore affiliate has received a tax reassessment relating to the deductibility of financial expenses and this reassessment has been contested. The Company increased its tax provisions by 1,925 thousand, at December 31st, 2003. Pursuant to an agreement with the UK Inland Revenue at the end of the first quarter 2004, the tax audit in the UK was closed with a tax reassessment of 218 thousand. The closing of this UK tax audit had a positive effect on group income in the first quarter 2004, resulting from a recapture of 200 thousand of the tax provision.

In July 2004, Gemplus finalized an agreement with the French tax authority on its tax assessment in France. As previously disclosed, three French subsidiaries of the group received a tax assessment in 2002 relating primarily to the fiscal years 1998 through 2000. This agreement did not have any material impact on the income tax expense of the first and second quarters of 2004, and generated an additional operating expense of 0.8 million related to VAT and other tax liabilities in the second quarter 2004. Under the terms of this agreement, Gemplus will pay, most likely before the end of 2004, 34 million of taxes related to corporate income tax and 2.6 million of VAT and other tax liabilities. Those payments will allow Gemplus to ask for tax-loss carry-backs in an amount of 22.8 million, which Gemplus should recover before the end of 2007. As a result, as at June 30, 2004, 34 million of long-term liabilities have been reclassified as short-term liabilities.

In December 1997, Mr. Alain Nicolaï brought a legal action before the Marseille Commercial Court against Gemplus S.A., our main French subsidiary, and other parties alleging a breach of contract relating to the promotion of a smart card reading system and device in the area of casino slot machines. In June 2000, the Court found Gemplus S.A. liable for breach, ordered Gemplus S.A. to make a provisional payment of 137 thousand as an advance on damages, and appointed an expert to make an analysis and provide a report on estimated actual damages. Gemplus S.A. appealed. In

April 2003, the expert filed a preliminary report estimating actual damages within a range of 10,975 thousand to 14,944 thousand.

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Gemplus S.A. contested the expert s preliminary report on various grounds, including absence of any substantial market for the products at issue. In August 2003, the expert transmitted to the parties his definitive report indicating that the amount estimated by him of the plaintiffs damages would be in the range of 6,792 thousand to 25,100 thousand. Gemplus S.A. maintained its position and contested the definitive report of the expert and the related estimate of damages, as well as the merits of this case, on various grounds. Gemplus S.A. maintained its positions and contested the definitive report of the expert and the related estimate of damages, as well as the merits of this case, on various grounds. Based on the expert s report, on March 18, 2004, the Marseille Commercial Court ordered Gemplus S.A. to pay 21,952 thousand to the plaintiffs. Gemplus S.A. filed an appeal on the merits. At the further request of Gemplus S.A., on April 2, 2004, the Aix-en-Provence Court of Appeal suspended the order of the Marseille Commercial Court directing Gemplus S.A. to make the payment to the plaintiffs, and instead, ordered Gemplus S.A. to make a cash deposit in the same amount into an escrow account by June 1, 2004, as security pending a decision on the appeal on the merits. On March 31, 2004, we recorded the amount of this deposit under the caption Other Non-Current Assets based on the anticipated timing of the resolution of this litigation. Although there can be no assurance of how the appellate court may rule or as to the amount of damages that could be assessed, based on the Company s analysis and advice of counsel, we recorded a provision for this litigation of 5,200 thousand in the 2003 Consolidated Statement of Income, and recorded such amount in our Consolidated Balance Sheet under the caption Other Current Liabilities . On March 31, 2004, we reclassified the amount of this provision in our Consolidated Balance Sheet to Other Non-Current Liabilities based on the anticipated timing of the resolution of this litigation.

In addition to the litigations mentioned above, the Company is involved in litigation from time to time in the ordinary course of business. The Company believes that none of the ordinary course litigation in which it is currently involved will have a material adverse effect on its results of operations, liquidity or financial condition.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements reflecting management s current expectations regarding our future financial performance. Such expectations are based on certain assumptions and involve risks and uncertainties. These uncertainties include, but are not limited to:

- trends in the wireless communication, financial services and identity and security markets,
- trends in the growth of mobile commerce, mobile banking and internet business,
- the effect of the adoption of competing technologies in our target markets,
- the profitability of our market expansion strategy,
- our ability to develop and take advantage of new software and services,
- our ability to develop and market new chip card technologies to meet market demands,
- our ability to attract and maintain qualified executives and personnel,
- our ability to manage our inventories of microprocessor chips,
- challenges to or loss of our intellectual property rights regarding our chip card technology,
- expected intense competition in our main markets,
- our ability to implement our restructuring plans effectively, and
- trade risks, legal risks, and social and economic risks, and other risks that are described in our filings with the Securities and Exchange Commission.

You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date hereof. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent that as a result of fulfilling our disclosure obligations under the U.S. securities laws and regulations, we determine that such an update is necessary.

OVERVIEW

During the second quarter 2004, sales enjoyed favorable development across all business segments and geographies. Net sales increased 22.1% to 210.5 million in the second quarter 2004, from 172.4 million in the second quarter 2003. Moreover, after adjusting for currency fluctuations, net sales were up 25.0%. As a global business, operating in numerous currencies, changes in exchange rates of the euro may result in an increase or decrease in our consolidated net sales as reported in our financial statements. We provide this information to enable investors to follow the year-to-year changes in our operations with a focus on providing such information on our underlying business. We calculate the impact of currency variances by converting the figures from the current year as reported in their local currencies using the exchange rate for the previous year. After adjusting for currency fluctuations and on a geographic basis, Americas revenue rose by 42.2%, Asia was up 27.7% and Europe, Middle East and Africa up 16.6%. In the first half 2004, sales increased 24.9% to 407.8 million, from 326.6 million in the first half 2003.

In the second quarter 2004, the gross margin increased by 4.6 percentage points to 32.3%, compared to the second quarter 2003. This was mainly driven by a strong mix improvement in all regions, which fully offset selling price declines.

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Moreover, this was helped by productivity improvements, and software and services performance. In the first half 2004, the gross margin increased by 5.5 percentage points to 31.7%, compared to the same period last year.

Quarterly operating expenses, excluding restructuring expenses and goodwill amortization and impairment, decreased by 3.6% year on year to 59.5 million. Operating expenses represented 28.3% of sales during the second quarter 2004, compared to 35.8% a year ago. In the first half 2004, operating expenses decreased by 8.5% to 116.0 million compared to the same period last year.

Cost related to the planned restructuring of operations in Germany, which was announced in May 2004, are expected to be booked during the third quarter 2004. Restructuring expenses recorded in the second quarter 2004 amounted to 0.2 million, compared to 42.3 million in the same period in 2003. Goodwill amortization and impairment amounted to 1.9 million in the second quarter of 2004, compared to 24.0 million in the second quarter 2003, which included a goodwill impairment charge of 19.9 million.

Accordingly, the quarterly operating income was up 86.6 million to 6.4 million in the second quarter 2004 compared to an operating loss of 80.2 million in the same period of 2003.

In the second quarter 2004, the net income was up 83.4 million to 1.1 million, compared to the net loss of 82.4 million incurred in the second quarter 2003. This improvement is mainly driven by revenue growth, improved gross margin, lower operating expenses, no significant expenses for restructuring and no impact from goodwill impairment testing.

The Group cash position remains strong and stable at 383.1 million, compared to 384.6 million on March 31, 2004, despite restructuring outflows of 6.2 million.

Results of Operations

Quarterly and first half periods ended respectively June 30, 2004 and 2003.

Net Sales

Net sales for the second quarter ended June 30, 2004, amounted to 210.5 million, a 22.1% increase compared with net sales of 172.4 million for the second quarter ended June 30, 2003.

The following table shows the breakdown of our net sales for the three months and six months period, ended respectively June 30, 2003 and 2004 by reporting segment.

	(in millions of euros)					
	Three months ended			Six months ended		
Net Sales	**June 30, 2004**	**June 30, 2003**	**% change**	**June 30, 2004**	**June 30, 2003**	**% change**

Telecommunications	154.4	124.2	24%	300.6	233.9	29%
Financial Services	44.7	38.8	15%	85.1	75.1	13%
Identity and Security	11.8	9.3	26%	22.1	17.6	26%
Total	210.5	172.4	22%	407.8	326.6	25%

Net sales in the Telecommunications segment increased by 24.3%, from 124.2 million in the second quarter 2003 to 154.4 million in the second quarter 2004. After adjusting for currency fluctuations, Telecommunications net sales increased by 27.4%. The Telecommunications segment revenue was primarily driven by a 42.0 % increase in wireless products and services sales, amounting to 135.0 million in the second quarter of 2004. This was mostly attributable to a stronger demand for wireless products in our Telecommunications segment as our shipments of SIM cards grew 40% year on year to 59.6 million units in the second quarter 2004, reconfirming strong market demand and Gemplus leadership. The Company continues to maintain its strong investment in research and development, bringing greater innovation to its products. This is reflected in the improved product mix observed in all

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regions in the second quarter 2004. Overall demand for high-end wireless cards (including 64 Kb and 3G) reached 33.4% of the total wireless shipments in the second quarter 2004. Price pressure continues to be a factor in the market, as a result of a very challenging competitive environment. However sales mix improvement more than compensated for selling price declines. Consequently after adjusting for currency fluctuations, quarterly wireless average selling price was up 4.1%, year on year.

In the first half 2004, net sales in the Telecommunications segment increased 28.5%, from 233.9 million in 2003 to 300.6 million in 2004. The increase of the Telecommunications segment revenue was mainly driven by higher sales in wireless products and services, sustained by higher shipments of SIM cards, which grew from 77.7 million units in the first half 2003 to 119.3 million units in the first half 2004, and improvement in the sales mix of wireless products.

Net sales in the Financial Services segment increased by 15.1%, from 38.8 million in the second quarter 2003, to 44.7 million in the second quarter 2004. After adjusting for currency fluctuations, Financial Services net sales increased by 16.7%. The revenue growth was primarily driven by the EMV[(1)] migration and to a lesser extent, by pay-TV cards. The quarterly payment microprocessor card revenue rose 36.7% year on year. The EMV shipments continue to improve driven by the United Kingdom and strong growth in Scandinavia, France and Mexico. In the second quarter 2004, the microprocessor card revenue growth was partly offset by lower sales in magnetic stripe cards, due to cannibalization by EMV cards. Revenue from pay-TV and contactless cards in the transportation sector was stronger in the second quarter 2004, compared to the same period of 2003, helped by improved execution.

In the first half 2004, net sales in the Financial Services segment increase 13.3%, from 75.1 million in 2003 to 85.1 million in 2004. The increase in the Financial Services segment is mainly driven by higher payment microprocessor card shipments, with EMV migration gaining momentum. Sales were mainly driven by the United Kingdom market, but were also supported by Continental Europe, Latin America and South East Asia.

[(1)] EMV is the major payment card association, composed of Europay International, MasterCard International and Visa International.

Net sales in the Identity and Security segment increased by 26.5%, from 9.3 million in the second quarter 2003 to 11.8 million in the second quarter 2004. After adjusting for currency fluctuations, Identity and Security net sales increased by 26.9%. Identity and Security revenue was driven by the conjunction of several projects in both the Government ID and Corporate Security markets.

In the first half 2004, net sales in Identity and Security segment increased by 25.9%, from 17.6 million in 2003 to 22.1 million in 2004. The revenue increase in our Identity and Security segment was mainly driven by the deployment of Government ID solutions in Oman and the United Arab Emirates and Corporate Security markets.

We organize our operations into three geographic regions: EMEA (Europe, Middle East and Africa), Asia and the Americas. The following table breaks down our net sales among our three regions:

	(in millions of euros)	
	Three months ended	**Six months ended**

Net Sales	**June 30, 2004**	**June 30, 2003**	**% change**	**June 30, 2004**	**June 30, 2003**	**% change**
EMEA	109.6	93.1	18%	206.0	179.3	15%
Asia	50.1	40.9	22%	103.2	79.5	30%
Americas	50.8	38.4	32%	98.6	67.8	45%
Total	210.5	172.4	22%	407.8	326.6	25%

After adjusting for currency fluctuations, Americas revenue rose 42.2%, Asia was up 27.7% and Emea up 16.6% for the three months period ended June 30, 2004, compared to the same period of 2003.

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Gross Profit

Gross profit increased 42.2% in the second quarter 2004 to 68.0 million, from 47.8 million in the second quarter 2003. The gross margin increased in the second quarter 2004 to 32.3 %, from 27.7% in the second quarter of 2003. Despite the effect of continuous price pressure, the gross margin increased by 4.6 percentage points, compared to the second quarter 2003, mainly driven by an improved business mix (i.e., weighted towards more wireless products and higher-end products) and better productivity in operations.

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

	(in millions of euros)					
	Three months ended			Six months ended		
Gross Profit	**June 30, 2004**	**June 30, 2003**	**% change**	**June 30, 2004**	**June 30, 2003**	**% change**
Telecommunications	55.1	38.6	43%	104.8	69.5	51%
Gross margin (% of sales)	*35.8%*	*31.1%*		*34.9%*	*29.7%*	
Financial Services	8.8	6.8	29%	18.0	12.1	49%
Gross margin (% of sales)	*19.7%*	*17.5%*		*21.1%*	*16.1%*	
Identity and Security	4.1	2.4	71%	6.5	3.9	67%
Gross margin (% of sales)	*34.9%*	*26.2%*		*29.4%*	*22.3%*	
Total	**68.0**	**47.8**	**42%**	**129.3**	**85.5**	**51%**
Gross margin (% of sales)	***32.3%***	***27.7%***		***31.7%***	***26.2%***	

The Telecommunications segment gross profit for the second quarter 2004 amounted to 55.1 million, an increase of 42.7% versus the second quarter 2003. The gross margin of the Telecommunications segment increased to 35.8% in the second quarter 2004, from 31.1% in the second quarter 2003. The Telecommunications segment gross profit for the six months period ended June 30, 2004 amounted to 104.8 million, an increase of 50.8% compared to the first half 2003. Telecommunications gross margin increased by 5.2 percentage points to 34.9% in the first half 2004. The gross margin increase for both periods ended June 30, 2004, resulted primarily from higher volumes of SIM cards shipped, better efficiency in the supply chain and favorable product mix within wireless. The increase was lessened by the continuous price pressure in this segment compared to the same period in 2003.

The Financial Services segment gross profit for the second quarter 2004 amounted to 8.8 million, an increase of 29.4% versus the second quarter 2003. The gross margin of the Financial Services segment increased to 19.7% in the second quarter 2004, from 17.5% in the second quarter 2003. The Financial Services gross profit for the six months period ended June 30, 2004, amounted to 18.0 million, an increase of 48.8% compared to the first half 2003. Financial Services gross margin increased by 5.0 percentage points to 21.1% in the first half 2004. The gross margin increase for both periods ended June 30, 2004, was mainly attributable to higher volumes shipped of microcontroller payment cards driven by EMV migration and the benefit of our restructuring programs.

The Identity and Security segment gross profit for the second quarter 2004 amounted to 4.1 million, an increase of 70.8% versus the second quarter 2003. The gross margin of the Identity and Security segment increase to 34.9 % in the second quarter 2004, from 26.2 % in the second quarter 2003. The Identity and Security profit for the six months period ended June 30, 2004, amounted to 6.5 million, an increase of 66.7% compared to the first half 2003. Identity and Security gross margin increased by 7.1 percentage points to 29.4% in the first half 2004. The gross margin increase for both periods ended June 30, 2004, was primarily driven by a significant shift in the sales mix, endorsing Gemplus strategy focused on selling subsystems based on software components, value-added services and high-end cards.

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Operating income (loss)

The Company recorded an operating income of 6.4 million in the second quarter 2004, compared to an operating loss of 80.2 million in the second quarter 2003. The second quarter 2004 operating income reflects the revenue growth, the gross margin improvement in all our business segments, lower operating expenses, no significant expenses for restructuring and no impact from goodwill impairment testing.

The operating expenses decreased by 3.6% (excluding restructuring expenses and goodwill amortization and impairment) to 59.5 million in the second quarter 2004, from 61.8 million in the second quarter 2003, contributing to the improvement of operating income. Excluding restructuring expenses and goodwill amortization and impairment, operating expenses represented 28.3% of sales during the second quarter 2004, compared to 35.8% a year ago. In the first half 2004, operating expenses (excluding restructuring expenses and goodwill amortization and impairment) decreased by 8.5% to 116.0 million compared to the same period in 2003.

Costs relating to the planned restructuring of operations in Germany, which was announced in May 2004, are expected to be booked during the third quarter 2004. Restructuring expenses recorded in the second quarter 2004 amounted to 0.2 million, compared to 42.3 million in the same period in 2003. Goodwill amortization and impairment amounted to 1.9 million in the second quarter of 2004, compared to 24.0 million in the same period in 2003, which included a goodwill impairment charge of 19.9 million, resulting from the revision of the business plan of the acquired activities of Celocom Limited in November 2000.

Net financial income and expense

Net financial income and expense recorded in the second quarter of 2004 amounts to a net income of 1.5 million compared to a net income of 2.8 million in the same quarter of 2003, reflecting both the decrease in interest rates and the lower cash level.

Other income and expense, net

We recorded a net other expense of 4.6 million in the second quarter of 2004 compared to an expense of 3.3 million for the same period in 2003. The net other expense in the second quarter of 2004 was primarily attributable to foreign exchange losses, minority interests and losses on investments.

Income tax

We recorded an income tax expense of 2.3 million in the second quarter of 2004 compared to 1.7 million for the same period in 2003.

Net income (loss)

We recorded a net income of 1.1 million in the second quarter of 2004, or zero euro per share, as compared to a net loss of 82.4 million in the second quarter of 2003, or 0.14 loss per share. This turnaround is due to an increase in net sales, as well as an overall improvement of our operating income.

Liquidity and Capital Resources

Our financial position remained strong during the first 6 months of 2004. Cash and cash equivalents were 383.1 million at June 30, 2004, as compared to 390.7 million at December 31, 2003.

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Operating activities generated 5.3 million of cash during the first 6 months of 2004, as compared to 15.9 million used during the same period in 2003. Accounts payable as at June 30, 2004 increased by 16.1 million as compared to December 31, 2003. Accounts receivable as at June 30, 2004 decreased by 4.5 million as compared to December 31, 2003. Inventory levels as at June 31, 2004 increased by
24.6 million as compared to December 31, 2003, but represent only 80 days of supply as compared to 82 days of supply at the end of December 2003. The first 6 months of 2004 was also impacted by 19.0 million paid in connection with our restructuring programs as compared to 28.5 million in the first 6 months of 2003.

Net cash used in investing activities during the first 6 months of 2004 was 11.8 million as compared to 7.3 million used during the same period in 2003 primarily due to higher capital expenditures which were 9.7 million in the first 6 months of 2004 as compared to 5.2 million during the same period in 2003.

Financing activities used 1.0 million of cash during the first 6 months of 2004, as compared to 1.3 million cash used during the same period in 2003.

We believe that our existing cash resources and our anticipated cash flow from operations are sufficient to provide for our foreseeable near term and medium term liquidity needs. At June 30, 2004, cash and cash equivalents amounted to 383.1 million.

Item 3. Qualitative Disclosures About Market Risk

The Company has developed risk management guidelines that set forth its tolerance for risk and its overall risk management policies. The Company has also established processes to measure its exposure to foreign exchange risk and to monitor and control hedging transactions in a timely and accurate manner. Such policies are approved by the Company s Audit Committee and reviewed annually. No market risk sensitive instruments are entered into for trading purposes. Foreign currency risk is our primary market risk exposure.

Foreign exchange risk

The Company s sales are primarily denominated in the domestic currency of our customers. As certain manufacturing sites are located in different countries, a portion of our costs are also denominated in foreign currencies. Therefore, the Company is exposed to foreign currency risk on our commercial transactions.

The policy of the Company is to hedge our foreign currency exposure on our firm and anticipated purchases and sales commitments that are denominated in currencies other than our subsidiaries functional currencies, for periods commensurate with our known or forecasted transactions.

These contracts generally mature within twelve months. In order to achieve this objective, the Company uses foreign currency derivative instruments, by entering into foreign exchange forward contracts and by purchasing or selling foreign exchange option contracts. No option is sold except where there is a corresponding option purchased by the Company. This combination strategy reduces the cost of hedging without creating any speculative positions. These derivative instruments are traded over the counter with major financial institutions. All hedging instruments are allocated to underlying transactions.

In addition, because we have subsidiaries that present their financial statements in a currency different from euro, the euro-denominated value of our consolidated equity is exposed to fluctuations in exchange rates. All exchange differences resulting from translating those financial statements into our reporting currency, the euro, are classified as translation difference in our consolidated equity. We do not hedge our equity exposure arising from net investments in foreign entities.

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Interest rate risk

The Company considers it is not significantly exposed to interest rate risk fluctuations. Consequently, we have not entered into any derivative contract to hedge interest rate risk. However, the Company is facing re-investment risk: when interest rates are increasing (decreasing), interest income is increasing (respectively decreasing). This risk remains un-hedged.

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Part II Other Information

Item 1. Legal proceedings

We are subject to legal proceedings, claims, and litigation arising in the ordinary course of business. Our management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Item 2. Changes in securities

Not applicable

Item 3. Default upon senior securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Further information can be found on the Company in the Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2004.

Item 6. Exhibits and other reports on Form 6-K

(a) Exhibits:

Not applicable

(b) Other reports on Form 6-K:

A report on Form 6-K was filed in April 2004 reporting our press release dated April 27, 2004, on our results of operations for the first quarter results for 2004.

A report on Form 6-K was filed in August 2004 reporting our press release dated July 28, 2004, on our results of operations for the second quarter results for 2004.

A report on Form 6-K was filed in August 2004 reporting our quarterly results of operations for the first quarter results for 2004.

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SIGNATURE

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

GEMPLUS INTERNATIONAL S.A.

Date: September 17, 2004

By: /s/ Frans SPAARGAREN
Name: Frans SPAARGAREN
Title: Chief Financial Officer