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

1. Internal Control Objectives

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

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

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

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

2. Internal Control Reference Documents

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

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

- A Code of Ethics, providing, among other, for: (i) honest and ethical conduct, including regarding any conflicts of interest between professional and personal relationships, (ii) full and accurate disclosures and reports to the public and regulatory authorities such as the AMF and the SEC, and (iii) compliance with all applicable laws, rules and regulations;
- Corporate Governance Guidelines, adopted in early 2004, that describe the independence criteria of Gemplus International’s Board members and provide rules for conducting the activities of the Board and its committees;
- The Gemplus Management Manual, providing information and advice on the organization of the Company’s activities and management;
- The Gemplus Business Management Manuals, which explain other internal processes between the different Company functions; and
- Other more specific policies, depending on the functioning of the Company’s departments and entities, including, but not limited to, accounting and financial policies, legal department policies, purchasing policies, management information system policies and policies of the communication and human resources departments.

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

3. Actors of the Control & Control Environment

3.1 Company Board of Directors and its committees

Board of Directors

In 2004, the Board of Directors of Gemplus International S.A. has continued to focus on strengthening its role in terms of accountability and overview. In 2003, the Board of Directors had developed a set of Corporate Governance Guidelines, which went into force in early 2004. The Board also adopted the Company’s Code of Ethics on December 10, 2003.

Our board of directors has three committees and one subcommittee: an Audit Committee, a Compensation Committee (with a Stock Administration Committee as a subcommittee) and a Strategy Committee.
Audit committee

Among other things, the Audit Committee reviews our financial statements, the evolution of the Company’s material litigation and claims and potential conflicts of interests with a director or any other related party and other activities as required by law and securities exchange rules. During 2004, the Audit Committee reviewed, among other items, our audited consolidated financial statements for 2003 and our quarterly statements for 2004, reviewed the quarterly accounting judgments and material comments made by our auditors and analysed related party transactions presented to it, as well as the evolution of the implementation of the Sabanes-Oxley section 404 project (see section 6 hereafter).

Main off-balance sheet liabilities (and particularly guarantees and foreign exchange operations) are regularly reviewed by our Audit Committee and our Chief Financial Officer (the “CFO”).

The Audit Committee exercises all powers with respect to the recommendation, compensation, retention and oversight of the work of the company’s independent auditors. The Audit Committee has not currently opted to establish any pre-approval procedures for permissible non-audit services proposed to be performed by our independent auditors, and requires each engagement for non-audit services to be approved in advance by the Audit Committee (except for delegation to the Chairman of the Committee of the authority to approve in advance all audit and non-audit services to be provided by the auditors if presented to the Committee at the next regularly scheduled meeting).

Luxembourg law requires our auditors to be appointed by our shareholders; therefore, our shareholders appoint the auditors upon recommendation of the Audit Committee to the Board.

Compensation Committee

Among other things, the Compensation Committee reviews our Chief Executive Officer’s compensation and makes recommendations on the compensation of all our executive officers and directors. The Compensation Committee follows guidelines that generally call for the bonus portion of senior executive compensation to vary between 50% and 100% of the applicable salary, depending on the executive’s position. Generally, one-half of this bonus depends on the performance of the company, and the other half depends on achievement of individual objectives related to the executive’s performance. The committee also evaluates and recommends candidates for new board members and for the selection of our Chairman and Chief Executive Officer (“CEO”).

The Stock Administration Committee’s role is principally to grant options to employees other than officers, subject to delegated authority from the Compensation Committee of the Board. Stock options are generally granted to executives and certain other personnel when they are hired, and potential additional grants are subject to periodic review based on individual and collective company achievement criteria.

Strategy Committee

The Strategy Committee’s role is to advise the Board concerning the Company’s annual business strategy and three-year plan.
3.2 Management Committees

The responsibilities and mission of each Company management committee are set forth in the Gemplus Management Manual. In September of 2004, some changes were introduced in the Company’s organization. The current GemCom team was expanded, to include Asia and Noram Presidents, in order to have both Business Units and Regions visions, with inputs and perspective at the same management level. This decision led to the end of the Operational Committee (“Opcom”) organization and its replacement by Region Business and Strategy reviews.

**General Management Committee**

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

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

**Gemplus Management Forum**

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

A Corporate Strategy Director administers the operation of both of these committees.

3.3 Specific functions

**Operational audit function**

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

With regard to its sites, the Company continues to move forward with its banking (CQM) and ISO certification programs. All of its plants are security certified by the main bank and GSM regulatory bodies as appropriate.

Certification programs such as ISO or OHAS provide for a degree of control on Environment, Health and Safety (EHS) related matters. The Company seeks to comply with, and where possible exceed, all legal requirements regarding EHS. In 2004, the Singapore facility achieved OHSAS 18001 certification, while Montgomeryville (USA) renewed its certification under the Pennsylvania Occupational Safety Program, receiving a distinction for its safety performance. The Company’s EHS strategy seeks to minimize the impacts and risks of its activities and products throughout their life-cycle. The Company seeks to have all its plants compliant with the ISO 14001 Environmental Management Standard by 2006. During 2004, its sites in Havant (England) and Tczew (Poland), achieved this certification. Five other Company sites were already certified.

Purchasing

The purchasing department of the Company has policies containing instructions which form the guidance for personnel who participate in the actions and decisions relating to the purchasing of goods and services by the Company. The Company purchasing policy applies to certain goods and services whether purchased, leased, subcontracted, outsourced or counter-traded and to the providers of such goods and services. It covers purchasing process steps, from needs assessment and anticipation to the performance of commercial obligations. The basic processes are sourcing, selection, contract formalization and supplier management as described in the “Purchasing Business Management Manual” of the Company.

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

The Communication department of the Company has implemented rules to be followed for public disclosure of information concerning the Company. Such policies provide that disclosure of material financial information to external parties is limited to the following people: the CEO, the CFO and the Director of Investor relations. It also contains the procedure to be applied for the issuance of any press release.

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

Legal department & Insurance/risk management section

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

3.4 Risk Assessment

The supervision of the control procedures and the periodic reviews by management are included in the Company’s ongoing activities.
The Company reviews its internal control processes, and mainly those pertaining to financial reporting and financial communication, in connection with its annual filings with securities regulators. This practice involves representatives of the Company’s finance and legal departments holding a series of meetings in which the Company’s internal controls over financial reporting and related matters are analysed and the framework for a specific review of such controls with the Company’s CEO and CFO is developed, including the identification of any specific internal control issues, particularly those that may pose a risk to financial reporting.

3.5 Control Activities

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

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

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

3.6 Fraud detection

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

4. Company Financial And Reporting Management

The financial management of the Company is comprised of a finance department lead by the CFO, with several functions reporting directly to him: (i) centralized functional divisions (Corporate Controller, Corporate Treasury, Corporate Tax, Investor Relation, Strategic Financial Projects and Finance Excellence Program); and (ii) financial divisions related to operational units (Telecommunication, Financial Services, Identity and Security, Business Development Group and Operations).

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

4.1 Consolidation process

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

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

4.2 Financial reporting

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

4.3 Treasury reporting

A report including key treasury figures of the Company is provided to the Company’s Chairman of
the Board of Directors, the CEO and the CFO on a monthly basis.

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

4.4 Accounting, Information and Communication Systems

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

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

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

4.5 Accounting and finance Policies

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

**Balance Sheet Reviews**

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

**Off Balance Sheet Transactions**

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

**Segregation of Expenses**

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

**Impairment of Long-Lived Assets**

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

**Capital Expenditure Review Policy**

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

5. **Self-Assessment And Monitoring**

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

6. **Sarbanes-Oxley Act**

In connection with the Annual Report on Form 20-F as filed with the SEC, and pursuant to the regulations introduced by the U.S. Sarbanes-Oxley Act of 2002, the CEO and the CFO have evaluated, as of June 30th, 2004, the effectiveness of the controls and procedures, related to the information, published or to be published (disclosure controls and procedures).

In connection with the provisions introduced by Section 404 of the Sarbanes-Oxley Act, the Company is in the process of completing an evaluation of its internal control processes related to financial information of the Company.

Therefore, the Company has deployed a Sarbanes-Oxley analysis program (the “SOX Project”). The program began in October 2004. The Company’s CEO and CFO are the two sponsors of the SOX Project and supervise an executive steering committee composed of five executives of the Company. On a day-to-day basis, the program is driven by a fully dedicated person, and in addition to the efforts requested of a number of the Company’s employees, the Company has retained the services of an independent consulting company to provide support in the implementation of the program.

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Alex Mandl
Chief Executive Officer