



Third quarter 2005 revenue: \$227 million

- Over 100 million microprocessor cards delivered
- Nine month revenue: \$725 million

Amsterdam, October 27, 2005 - Axalto (Euronext NL0000400653 - AXL) today reported third quarter 2005 revenue of \$227 million, almost matching the record-breaking \$228 million third quarter of 2004 revenue adjusted for Point of Sales terminals revenue deferrals.

For the first nine months of 2005 Axalto posted revenue of \$725 million, an 8.4% increase over the \$669 million revenue recorded in the first nine months of 2004.

Commenting on these results **Olivier Piou, Axalto's Chief Executive Officer** said: "Axalto delivered another strong performance, almost matching last year's highest-ever third quarter. The strength of our business in the Americas, the excellent start of financial contactless card deliveries, and commercial successes in the EMEA region fully compensated the predicted significant slowdown in Asia and delays in electronic passport projects around the world.

Axalto's balanced and distributed model, industrial flexibility and technological edge were again decisive to address the dynamic and rapidly changing market place. This quarter Axalto has demonstrated its agility and prepared its future well."

Axalto	Third quarter			Nine months	
	2005	2004	Percentage of the quarter's Total Revenue	2005	2004
Cards	(US\$ million)			(US\$ million)	
Mobile Communication	135.2	137.3	59%	430.7	377.1
Financial Cards	49.1	47.1	22%	148.2	144.5
Public Sector, Access and Other	15.2	18.2	7%	58.6	61.5
Prepaid (memory) Phone Cards	7.8	9.6	3%	29.4	31.0
Total Cards	207.2	212.1	91%	666.9	614.1
POS Terminals revenue deferrals		10.7 (1)			
Point-of-sale Terminals	19.7	15.8	9%	58.2	54.9
Total Revenue	226.9	238.6 (2)			
Total Revenue adjusted for POS revenue deferrals	226.9	228.0	100%	725.1	669.0

(1) Included in the third quarter of 2004 revenue was \$10.7 million of revenue in Point of Sales terminals related to first and second quarter of 2004 deliveries, whose recognition had to be deferred to the third quarter of that year in accordance with US GAAP and IFRS as described in Axalto previous quarterly reports.

(2) Including the \$10.7 million revenue deferred from the first and second quarter of 2004, and recognized in the third quarter of 2004.

Further strong activity in the Cards segment

Revenue in the Cards segment came to \$207 million. Nine-month growth in revenue stands at +9% at \$667 million. During the third quarter Axalto again delivered over 100 million microprocessor cards.

The Americas region consolidated its status as the second-largest revenue contributor, accounting for 30% of Axalto Cards segment revenue this quarter.

Microprocessor cards revenue continues at strong levels

Mobile Communications

The Mobile Communications product line revenue reached \$135 million in the quarter. During the first nine months of the year, this product line has accounted for \$431 million in revenue, a 14% increase on the figure of last year's comparable period.

During the quarter, Axalto recorded a 17% increase in volumes of SIM cards sold, which topped 77 million units. Almost 2 out of every 5 cards sold during the three month period were high-end cards, a 50% increase on the comparable figure of a year ago. These progresses contributed to offsetting the SIM cards sales price reduction, which averaged 18% compared with the third quarter of 2004.

Volumes continued to grow in EMEA and pricing pressure remained strong. For the first nine months of 2005, revenue growth in the EMEA region stands at +12%.

As anticipated the decline in Mobile Communications revenue recorded in Asia, where activity contracted by 28% compared with the third quarter of 2004, was very significant, due to lower demand from the leading Chinese telecommunications operators engaged in a major reorganisation in preparation for the opening of their market to international competition following China's decision to join the World Trade Organization, and to the very high comparative base of the same period of 2004 when migration from pre-paid scratch cards (without a microprocessor) to entry-range microprocessor cards had been strongest in Southern Asia. Axalto considers that this present situation in Asia will develop favourably since competition between local and international mobile communications operators active in China will intensify and result in increasing requirements for the most advanced technology. With its strong presence in the region Axalto is best positioned to seize upsurges in demand. It was awarded in the recent days a major order for 17 million cards.

The Americas once again posted excellent growth. Revenue was up by 52% compared with the third quarter 2004. It grew an impressive 77% over the first nine months of 2005.

All growth drivers contributed to the progress. Sales volumes increased strongly, reflecting buoyant demand in the region as digital wireless communication systems penetration increases in highly populated countries, and further successes in new markets. The product mix continued to improve, supported by the excellent match of our product and service offering with rapidly evolving customers needs: high end products made up 65% of volumes sold against 40% a year ago.

Financial Cards

Axalto's revenue in this product line nearly reached \$50 million this quarter. Nine-month revenue stands at \$148.2 million. During the period, Axalto delivered over 20 million microprocessor cards.

This performance results from the EMV migration in Europe, Latin America and Asia as well as from initial large-scale Paypass contactless cards deployments in North America. This new payment technology is being rapidly adopted throughout the United-States and Axalto's competitive positioning at the forefront of this emerging and high-growth market is now established. Axalto expects that its first success publicly announced with Keybank will be followed by further similar contract wins with tier-one financial institutions.

Public Sector, Access and Other

Revenue in this product line for the quarter was \$15.2 million. Nine-month revenue stands at \$58.6 million.

During the quarter, Axalto signed a new licence for its patent portfolio, with LG Electronics, of Korea.

The product line's global revenue variation was due to lower deliveries in the pay TV business as described in the previous quarter and last year's strong comparative base when initial deliveries of new large orders – in particular to the US Department of Defense and to the Puerto Rico Department of Health - began.

This product line activity remains subject to large projects timelines and decision cycles, and has not yet started to benefit from the global ramp up of national identity programs aimed at deploying electronic passports and ID cards.

Axalto remains perfectly positioned to take advantage of the long-term positive market dynamics of this activity and to leverage its potential.

Prepaid Phone Cards (memory cards, without a microprocessor)

Revenue in this long-mentioned non-strategic product line continued to decrease, and represents now only 3% of Axalto's total revenue in the quarter.

Point-of-sale Terminals segment

Point-Of Sales Terminals segment activity grew by 24% this quarter, driven by strong gains in Asia and Africa.

Including the \$10.7 million accounting effect of deferred revenue related to first and second quarter 2004 deliveries which had to be recognized in the third quarter of 2004 in accordance with US GAAP and IFRS, revenue recorded in the point-of-sale terminals segment contracted by 26% during the quarter. Over the first nine-month period of 2005, i.e. on a comparable basis, revenue Point-Of Sales Terminals segment increased by 6% over the first nine-month period of 2004.

Geographical break-down of revenue

Axalto	Europe, Middle East, Africa	Asia	Americas
Third quarter 2005	Revenue (\$ million)	Revenue (\$ million)	Revenue (\$ million)
Cards	99.8	44.5	62.9
Point-of-sale Terminals	14.3	4.3	1.1
Total	114.2	48.8	64.0
% Region	50%	22%	28%

Unless stated otherwise, all comparisons in this document are shown on a historical exchange rate basis.

Axalto

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About Axalto

Axalto (AXAL.PA - Euronext: NL0000400653 - AXL) is the world's leading provider (Gartner 2005, Frost & Sullivan 2004) of microprocessor cards - the key to digital networks - and a major supplier of point-of-sale terminals. Its 4,500 employees, from over 60 nationalities, serve customers in more than 100 countries, with worldwide sales reaching over 3 billion smart cards to date. The company has 25 years' experience in smart card innovation and leads its industry in security technology and open systems.

Axalto creates new generations of products for use in a variety of applications in the telecommunications, finance, retail, transport, entertainment, healthcare, personal identification, information technology and public sector markets. Microprocessor cards provide convenience, security and privacy to public and private services operators, their customers and end users. For more information, please visit www.axalto.com