



Second quarter 2005 revenue up 15%

- Revenue of \$261 million
- Excellent performance in mobile communications: +20%
- Strong growth in financial cards: +14%
- Over 110 million microprocessor cards delivered

Amsterdam, July 28, 2005 - Axalto (Euronext NL0000400653 - AXL) today reported second quarter 2005 revenue of \$260.9 million, a 15% increase compared with \$226.9 million second quarter 2004 revenue. For the first six months of 2005 Axalto posted revenue of \$498.2 million, a 16% growth over the \$430.3 million revenue recorded in the first half of 2004.

Commenting on these results Olivier Piou, Axalto's Chief Executive Officer said: "Axalto delivers another impressive performance, in highly competitive conditions. Revenue in mobile communications posted further very solid growth, with lower activity in China completely offset by remarkable successes in the Americas, Eastern Europe and Africa. Banking cards sales expanded in all regions. The public sector and access product line revenue was essentially stable, not yet benefiting from the national programs aimed at improving citizens and homeland security. Axalto performance during the first half of the year demonstrated once again the effectiveness of its balanced growth model. We can confidently expect very significant progress in our first-half earnings."

Second quarter 2005						
Axalto	2005	2004	Change	% of the Quarter's Total Revenue	Change at constant exchange rates	
	<i>(US\$ million)</i>					
Cards						
Mobile Communications	160.4	134.0	20%	61%	17%	
Financial Cards	54.6	48.0	14%	21%	9%	
Public Sector, Access and Others	17.6	18.1	(3%)	7%	(5%)	
Prepaid (memory) Phone Cards	10.5	10.1	4%	4%	1%	
Total Cards	243.1	210.2	16%	93%	13%	
Point-of-sale Terminals	17.7	16.7	6%	7%	1%	
Total Revenue	260.9	226.9	15%	100%	12%	

Further strong growth in the Cards segment

Revenue in the Cards segment came to \$243.1 million, up 16% compared with the second quarter of last year. During the period Axalto delivered over 110 million microprocessor cards, a 36% volume growth. The Americas region took over as the second-largest revenue contributor.

Strong increase in microprocessor cards revenue

Mobile Communications

The Mobile Communications product line revenue exceeded \$160 million in the quarter. It posted revenue growth of 20% during the second quarter of 2005, a considerable achievement in light of the very strong comparative base of 2004's second quarter.

This performance was driven primarily by the increase in volumes of SIM cards sold, which topped 84 million units over the quarter, up 47%, and by further improvement in the product mix: the share of high-end SIM cards grew 35% compared with the same period of last year. These gains did largely offset the SIM cards average sales price reduction, which averaged 19% compared with the second quarter of 2004 due to competitive pressure.

Growth in the Europe, Middle East and Africa region came to +15% in the quarter, with very strong sales in Eastern Europe and Africa. Activity in Asia dipped 22% compared with the second quarter of 2004 due primarily to a sizeable decline in revenue recorded in China as a result of the leading local telecommunications operators reorganisations and stronger pricing pressures.

The Americas posted impressive growth, with revenue up 107% compared with the second quarter of the previous year. This remarkable success was driven by a strong increase in the volume of microprocessor cards delivered, and by the considerable improvement in the region's product mix, which now comprises primarily high-end cards.

Financial Cards

Axalto again posted solid expansion in this product line during the second quarter. Revenue was up 14%, at close to \$55 million, with all regions progressing.

The volumes of microprocessor cards delivered posted a steep rise of 17%, with over 20 million cards sold in the quarter, while the average selling price of microprocessor cards for banking was essentially stable, up 2%.

Public Sector, Access and Other

Second-quarter 2005 revenue inched down 3% to \$17.6 million. The public sector and transport product lines recorded healthy growth despite delays in some national programs to deploy electronic passports and ID cards, and to modernise public administration systems. These gains did almost entirely offset significantly lower sales in the pay TV business, which faced heavy price declines that prompted Axalto to not renew certain contracts.

Memory cards (without a microprocessor) sales

Prepaid Phonecards

The product line's revenue increased by 4% owing in particular to a major contract with a longstanding customer.

Point-of-sale Terminals segment

Revenue in the point-of-sale terminals segment advanced by 6%, to \$17.7 million. This performance was driven by market share gains in Europe and India and must be appreciated in the light of the very high comparison basis of 2004's second quarter.

Geographical break-down of revenue

Second quarter 2005	Europe, Middle East, Africa		Asia		Americas	
Segments	Revenue (\$ million)	Change %	Revenue (\$ million)	Change %	Revenue (\$ million)	Change %
Cards	125.8	+14%	47.0	(20)%	70.3	+71%
Point-of-sale Terminals	14.4	+6%	2.8	+28%	0.5	(46)%
Total	140.2	+13%	49.8	(18)%	70.9	+69%
% Region	54%		19%		27%	

First-time adoption of IFRS

Axalto published its financial statements for the previous periods in accordance with the Generally Accepted Accounting Principles in the United States of America, the US GAAP standards.

In accordance with European regulation 1606/2002, Axalto adopted the International Financial Reporting Standards, IFRS, effective for the first time on January 1, 2005.

Adoption of IFRS has no impact on Axalto revenue, neither for the year 2004 nor for the year 2005.

To provide you with comprehensive information, Axalto includes in appendix a memorandum describing the effects of the first-time adoption of IFRS on the Group's shareholders' equity and its opening and closing balance sheets for 2004 — the so-called "transition year" — as well as the interim and annual statements of operations, and the statement of cash flow for the same year, 2004. The memorandum also includes an estimate of the differences between US GAAP and IFRS on the statement of operations of Axalto for the first half of 2005. We also provide for the opening and closing balance sheets for 2004 and the interim and annual statements of operations detailed reconciliation statements showing the impact of the adoption of IFRS on the accounts and on the key accounting aggregates that were originally prepared in accordance with US GAAP.

Axalto will publish on 8 September its financial statements for the first half of 2005 in accordance with IFRS.

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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

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

Axalto

Information note on the first time adoption of the International Financial Reporting Standards (IFRS)

**Information disclosed in sections 1 and 2 below have been subject to the auditing
procedures stipulated in the standard issued by CNCC on December 9, 2004
(Avis CNCC du 9 décembre 2004)**

First time adoption of the International Financial Reporting Standards (IFRS)

1 Basis of transition to IFRS

1.1 Application of IFRS 1

The Axalto Group has prepared its financial statements for the years ended December 31, 2001, 2002, 2003 and 2004 in accordance with the accounting principles generally accepted in the United States (US GAAP).

The Group's financial statements for the year ended December 31, 2005 will be the first annual financial statements established in accordance with IFRS.

Axalto's date of transition to IFRS is January 1, 2004. The Group prepared its opening IFRS balance sheet as of that date.

The Group's IFRS adoption date is January 1, 2005.

The reporting date of the first interim condensed consolidated financial statements will be June 30, 2005. Consequently, the interim condensed consolidated financial statements for the period ended June 30, 2005, will be prepared in accordance with IFRS. The Group will apply IFRS 1 (First-time adoption of International Financial Reporting Standards) for the preparation of these interim condensed consolidated financial statements.

In accordance with IFRS 1, the Group has applied certain of the optional exemptions from full retrospective application of IFRS.

1.2 Exemptions from full retrospective application elected by the Group

Axalto has elected to apply the following optional exemptions from full retrospective application.

(a) Business combination

Axalto has applied the business combination exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2004 transition date.

(b) Fair value as deemed cost

Axalto has elected not to measure certain items of property, plant and equipment at fair value as of January 1, 2004.

(c) Employee benefits

Axalto has elected to recognize against equity all cumulative actuarial gains and losses as at January 1, 2004.

(d) Restatement of comparatives for IAS 32 and IAS 39.

The Group has elected to apply this exemption. It applies previous US GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information.

As there is no difference for Axalto between previously applied US GAAP and IFRS (IAS 39) regarding financial instruments, no reconciliation between previously applied US GAAP and IFRS is presented as at January 1, 2005.

(e) *Share-based payment transaction*

The Group has elected to apply the share-based payment exemption: it has therefore applied IFRS 2 from January 1, 2004 to stock option and employee stock purchase plans (SOP and ESPP, respectively) that were issued after November 7, 2002.

2. Reconciliations between US GAAP and IFRS

All amounts are in thousands of US dollars unless otherwise stated.

2.1. Summary of equity

	January 1, 2004	December 31, 2004	Note in 2.7 below
<u>Total Stockholders' equity – US GAAP</u>	541,213	705,027	
Restatement of "Land & Building" to take into account the component approach and residual value	636	1,617	(a)
Recognition of actuarial gains and losses on post-employment benefits	(3,625)	(3,600)	(b)
Impact on deferred taxes of transition to IAS 12	(131)	(254)	(c) & (d2)
Deferred tax on IFRS adjustments	(225)	(570)	(d1)
	<u>537,868</u>	<u>702,220</u>	
<i>Capital and reserves attributable to the company's equity holders – IFRS</i>			
Minority interest	9,876	7,059	
<u>Total Equity under IFRS</u>	<u>547,744</u>	<u>709,279</u>	

2.2. Reconciliation of equity as of January 1, 2004

	Note in 2.7 below	US GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non current assets				
Property, plant and equipment	(a)	105,410	636	106,046
Goodwill		287,621		287,621
Intangible assets	(b)	33,197	(977)	32,220
Investments in associates		4,910		4,910
Deferred income tax assets	(c)	21,350	(93)	21,257
Available for sale financial assets		1,886		1,886
Total non-current assets		454,374	(434)	453,940
Current assets				
Inventories		103,827		103,827
Trade & other receivable		235,571		235,571
Derivative financial instruments		2,456		2,456
Cash & cash equivalents		50,154		50,154
Total -current assets		392,008		392,008
Total assets		846,382	(434)	845,948
EQUITY				
Capital & reserves attributable to the company's equity holders				
Common stock				
Share premium				
Treasury shares				
Fair value and other reserves				
Cumulative translation adjustment				
Retained earnings				
		541,213	(3,345)	537,868
Minority interest		9,876		9,876
Total equity		551,089	(3,345)	547,744
LIABILITIES				
Non-current liabilities				
Borrowings		2,287		2,287
Deferred income tax liabilities	(d)	5,047	263	5,310
Retirement benefit obligation	(b)	11,175	2,648	13,823
Provision and other liabilities		25,443		25,443
Total non-current liabilities		43,952	2,911	46,863
Current liabilities				
Trade & other payable		218,690		218,690
Current income tax liabilities		11,036		11,036
Borrowings		21,615		21,615
Provisions & other liabilities				
Total current liabilities		251,341		251,341
Total liabilities		295,293	2,911	298,204
Total equity and liabilities		846,382	(434)	845,948

2.3. Reconciliation of equity as of December 31, 2004

	Note in 2.7 below	US GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non current assets				
Property, plant and equipment	(a)	108,899	1,617	110,516
Goodwill		311,310		311,310
Intangible assets	(b)	27,801	(1,244)	26,557
Investments in associates		5,220		5,220
Deferred income tax assets	(c)	54,027	(213)	53,814
Available for sale financial assets		1,553		1,553
Total non-current assets		508,810	160	508,970
Current assets				
Inventories		122,492		122,492
Trade & other receivable		251,611		251,611
Derivative financial instruments		7,105		7,105
Cash & cash equivalents		223,820		223,820
Total -current assets		605,027		605,027
Total assets		1,113,838	160	1,113,998
EQUITY				
Capital & reserves attributable to the company's equity holder				
Common stock		50,604		50,604
Share premium	(f)	550,312	1,214	551,526
Treasury shares				
Fair value and other reserves	(e)	4,522	2,336	6,858
Cumulative translation adjustment		40,490		40,490
Retained earnings		59,099	(6,357)	52,742
		705,027	(2,807)	702,220
Minority interest		7,059		7,059
Total equity		712,086	(2,807)	709,279
LIABILITIES				
Non-current liabilities				
Borrowings		30,249		30,249
Deferred income tax liabilities	(d)	6,427	611	7,038
Retirement benefit obligation	(b)	15,013	2,356	17,369
Provision and other liabilities		19,404		19,404
Total non-current liabilities		71,093	2,967	74,060
Current liabilities				
Trade & other payable		296,099		296,099
Current income tax liabilities		20,548		20,548
Borrowings		8,592		8,592
Provisions & other liabilities		5,420		5,420
Total current liabilities		330,659		330,659
Total liabilities		401,752	2,967	404,719
Total equity and liabilities		1,113,838	160	1,113,998

2.4 Reconciliation of net income for the six month period ended June 30, 2004

	Note in 2.7 below	US GAAP	Effect of transition to IFRS	IFRS
Revenue		430,334		430,334
Cost of revenue	(a),(b),(e),(f)	(294,259)	(226)	(294,485)
Gross profit		136,075	(226)	135,849
Operating expenses				
Research and engineering	(b),(e),(f)	(29,348)	(151)	(29,499)
Sales and marketing	(b),(e),(f)	(53,171)	(427)	(53,598)
General and administrative	(b),(e),(f)	(25,683)	(324)	(26,007)
Other income (loss), net	(g)		2,300	2,300
Operating income		27,873	1,172	29,045
Finance costs, net	(b)	(496)	(298)	(794)
Share of profit of associates	(g)	229		229
Other income (loss), net	(g)	2,300	(2,300)	
Income (loss) before taxes		29,906	(1,426)	28,480
Tax benefit (expense)	(c), (d)	(8,911)	(94)	(9,005)
Income for the period before minority interest		20,995	(1,520)	19,475
Attributable to				
Equity holders of the company		20,547	(1,520)	19,027
Minority interest		448		448

2.5 Reconciliation of net income for the year ended December 31, 2004

	Note in 2.7 below	US GAAP	Effect of transition to IFRS	IFRS
Revenue		960,427		960,427
Cost of revenue	(a),(b),(e),(f)	(645,027)	392	(644,635)
Gross profit		315,400	392	315,792
Operating expenses				
Research and engineering	(b),(e),(f)	(63,962)	(146)	(64,108)
Sales and marketing	(b),(e),(f)	(109,842)	(981)	(110,823)
General and administrative	(b),(e),(f)	(55,216)	(1,041)	(56,257)
Other income (loss), net	(g)		4,035	4,035
Operating income		86,380	2,259	88,639
Finance costs, net	(b)	(5,424)	(620)	(6,044)
Share of profit of associates	(g)	262		262
Other income (loss), net	(g)	4,035	(4,035)	
Income (loss) before taxes		85,253	(2,396)	82,857
Tax benefit (expense)	(c), (d)	(25,466)	(412)	(25,878)
Income for the period before minority interest		59,787	(2,808)	56,979
Attributable to				
Equity holders of the company		59,099	(2,808)	56,291
Minority interest		688		688

2.6 Reconciliation of cash flow for the year ended December 31, 2004

	Note in 2.7 below	US GAAP	Effect of transition to IFRS	IFRS
Cash flows from operating activities				
Cash generated from operations	2.8.	182,498	(3,550)	178,948
Interest paid		(1,910)		(1,910)
Interest received	(*)	2,202	(2,202)	
Income tax paid		(10,383)		(10,383)
Net cash (used in) provided by operating activities		172,407	(5,752)	166,655
Cash flows from (used in) investing activities				
Purchase of property, plant & equipment		(36,783)		(36,783)
Proceeds from sale of property, plant & equipment		408		408
Purchase of intangible assets		(2,547)		(2,547)
Interest received	(*)		2,202	2,202
Dividends received		159		159
Net cash (used in) provided by investing activities		(38,763)	2,202	(36,561)
Cash flows from (used in) financing activities				
Invested equity	(e), (f)	25,214	3,550	28,764
Proceeds from borrowings		26,340		26,340
Repayments of borrowings		(15,380)		(15,380)
Net cash provided by (used in) financing activities		36,174	3,550	39,724
Net increase (decrease) in cash and bank overdrafts		169,817		169,817
Cash and bank overdrafts, beginning of period		50,154		50,154
Exchange gains (losses) on cash and bank overdrafts		3,849		3,849
Cash and bank overdrafts, end of period		223,820		223,820

(*) Change imposed by the application of the IFRS referential to the cash flow presentation.

Reclassifications have been made to the 2004 US GAAP cash flow presentation. In particular, \$5,997 related to "Derivative financial instruments" were shown as a decrease to the cash generated from operating activities in the initial presentation and their counterpart in "Fair value and other reserves" as an increase in cash from financing activities. Both effects have been neutralized in the current presentation.

2.7 Description of the effects of the transition to IFRS

The sign convention in the tables below is (+) for debit adjustments and (-) for credit adjustments to the opening and closing balance sheets items and consequently (+) for credit adjustments and (-) for debit adjustments to the statement of operations.

The following notes describe the adjustments to the 2004 opening and closing balance sheets and the 2004 statement of operations, originally established in accordance with US GAAP, necessary to effect the adoption of IFRS.

(a) *Property, plant and equipment (IAS 16)*

	Impact on the Jan. 1, 2004 Balance Sheet	Impact on the 2004 Statement of Operations	Impact on the Dec. 31, 2004 Balance Sheet
Application of a component approach to buildings	(1,431)	13	(1,418)
Consideration of a residual value to determine the depreciable value of buildings	2,067	194	2,261
Partial reversal of the write-down of one of our industrial sites recognized in 2004 (see Note 7 to the Financial Statements in the 2004 "Document de Référence")		623	623
Translation adjustment			151
Total	<u>636</u>	<u>830</u>	<u>1,617</u>

The value of each component has been determined on the basis of information provided by a real estate expert, and corresponding to industry averages for the type of buildings under review.

The residual values are the values of the buildings at the end of their useful life, and were determined by an independent real estate expert.

In the 2004 US GAAP statement of operations, the depreciation charge included a \$2.8 million write-down expense related to an industrial site located in an area subject to development restrictions likely to affect the realizable value of the asset. As a result of the application of a component approach and the consideration of a residual value under IFRS, the net book value of this asset in the opening balance sheet under IFRS was decreased. This also resulted in the reverse of a portion of the write-down expense booked in 2004 so that the net book value of this asset as of December 31, 2004 under IFRS is equal to the realizable value reported under previously applied US GAAP.

(b) *Retirement benefit obligation (IAS 19)*

	Impact on the Jan. 1, 2004 Balance Sheet	Impact on the 2004 Statement of Operations	Other Impact on the Dec. 31, 2004 Balance Sheet	Impact on the Dec. 31, 2004 Balance Sheet
<u>Intangible assets</u>				
Write-off of an intangible asset recognized in relation with the recognition of a minimum liability under US GAAP	(977)		(175)	(1,152)
Translation adjustment				(92)
Total	<u>(977)</u>		<u>(175)</u>	<u>(1,244)</u>
<u>Retirement benefit obligation</u>				
Recognition of actuarial gains and losses at the date of transition	(2,648)	325	175	(2,148)
Translation adjustment				(208)
Total	<u>(2,648)</u>	<u>325</u>	<u>175</u>	<u>(2,356)</u>
Grand total	<u>(3,625)</u>			<u>(3,600)</u>

Axalto has elected to apply the employee benefit exemption to the liabilities representing the lump sum payments made to French employees upon retirement, as described in Note 14 to the 2004 consolidated financial statements. These lump sum payments are regarded as defined-benefits under IAS 19. Therefore, as authorized by IFRS1, the Group has decided to recognize in equity all cumulative actuarial gains and losses at the date of transition to IFRS and applied the corridor method to subsequent actuarial gains and losses. All actuarial gains and losses not previously recognized pursuant to the corridor method in the statement of operations in US GAAP financial statements have been recognized in equity at the date of transition. Therefore, in the 2004 IFRS statement of operations, the actuarial gains and losses previously recognized in the US GAAP statement of operations had to be reversed: \$117 in cost of revenue, \$78 in research and engineering expenses, \$104 in sales and marketing expenses and \$26 in general and administrative expenses.

Also, the interest cost component of the pension expense was reclassified from an element of operating income to a finance cost in the 2004 IFRS statement of operations, for the sake of better comparability going forward.

(c) *Deferred income tax asset (IAS 12)*

	Jan. 1, 2004	2004 P&L	Dec. 31, 2004
Impact of change of method in recognizing deferred tax on elimination of profit in intra-group inventory	(93)	(120)	(213)
Total	<u>(93)</u>	<u>(120)</u>	<u>(213)</u>

Under previously applied US GAAP, deferred income tax on the elimination of intra-group profit on inventory sales was recognized at seller's rate while IAS 12 requires that deferred income tax must be computed at buyer's rate.

(d) *Deferred income tax liabilities (IAS 12)*

		Jan 1, 2004	2004 P&L	Dec 31, 2004
(d1)	Deferred tax on IFRS adjustments	(225)	(292)	(517)
(d2)	Deferred tax in connection with the treatment of undistributed profits in certain subsidiaries	(38)		(38)
	Translation adjustment			<u>(56)</u>
	Total	<u>(263)</u>	<u>(292)</u>	<u>(611)</u>

(d1) A deferred tax charge was computed on the IFRS adjustment related to plant, property and equipment (see a. above).

(d2) In the subsidiaries where Axalto does not control the dividend distribution process, which has been considered to be the case in all entities where Axalto is not a majority shareholder, a deferred tax liability corresponding to the income tax charge to be recognized upon distribution of this profit is recognized under IAS 12 on all undistributed profit, unlike under previously applied US GAAP.

(e) *Recognition of a compensation charge on stock based payments (IFRS 2)*

A compensation charge was recognized in the 2004 IFRS statement of operations in relation to the stock options granted to Axalto employees on May 18, 2004. The compensation charge was computed as being the fair value of the option at the time of the grant under the Black & Scholes model, amortized over the expected lifetime of the options. The compensation charge has been recorded on the appropriate line of the statement of operations, depending on the position held by the employees who received options. In the 2004 IFRS statement of operations, the compensation expense of \$2,336, corresponding to the amortization of the fair value of the option for the period between the grant date and the end of the year, was recorded for \$ 361 in cost of revenue, \$142 in research and engineering expenses, \$888 in sales and marketing expenses and \$945 in general and administrative expenses.

Had Axalto not elected to apply the share-based payment exemption (see 1.2. e. above), an additional expense of \$1.3 million would have been recorded in the statement of operations of the periods ended June 30, 2004 and December 31, 2004.

(f) *Effect of the change in the treatment of the Employee Stock Purchase Plan (IFRS 2)*

In the period from May 4, 2004 to May 14, 2004, Axalto employees were offered the opportunity to buy Axalto shares at a price 15% below the future initial listing price of the company. 445,668 ordinary shares of Axalto were subscribed by employees at 12.58 Euros per share. The \$1,214 discount thus granted to employees under that program was recorded in US GAAP as a debit to equity in the share premium account.

Under IFRS 2, this discount must be recognized as a compensation expense on the appropriate line of the statement of operations, depending on the position held by the employees who elected to participate in the plan. Accordingly, \$417 were recorded in cost of revenue, \$231 in research and engineering expenses, \$395 in sales and marketing expenses and \$171 in general and administrative expenses.

(g) *Reclassification of the "Other income, net" line of the statement of operations*

Under IFRS, the share of profit in associates was reclassified from the "other income, net" line of the statement of operations, where it is recorded under US GAAP, to a dedicated line named "share of profit in associates".

All other items reported under the US GAAP "other income, net" line of the statement of operations are now reported on a line with the same name, part of the operating income under IFRS.

2.8 Cash generated from operations

	Note in 2.7. below	US GAAP	Effect of transition to IFRS	IFRS
Income for the period before minority interest	2.5.	59,787	(2,808)	56,979
Adjustments for:				
- tax	(c) & (d)	25,466	412	25,878
- depreciation	(a)	35,311	(830)	34,481
- amortization		9,604		9,604
- gains and losses on sale of fixed assets and write offs		3,988		3,988
- net movement in provisions for liabilities and charges		(1,921)		(1,921)
- interest income		(2,202)		(2,202)
- interest expense	(b)	1,910	620	2,530
- share of loss (profit) from associates		(262)		(262)
- inventories		(10,750)		(10,750)
- trade & other receivables		3,831		3,831
- retirement benefit obligations		1,735		1,735
- derivative financial instruments		1,348		1,348
- trade & other payable	(b)	54,653	(944)	53,709
Cash generated from operations		182,498	(3,550)	178,948

3. Estimated differences between US GAAP and IFRS on the first half 2005 statement of operations

(a) The application of IFRS 2 (see 2.7 (e) and (f) above) in the preparation of the first half 2005 statement of operations will result in the recognition as compensation charges of the amortization of the fair value of the stock options granted to Axalto employees in 2004 and of the discount granted to employees under the 2005 employee stock purchase plan.

The semestrial charges related to the 2004 stock option plan and the charge related to the 2005 employee stock purchase plan are estimated \$2.2 million and \$0.4 million, respectively, and the allocation of the total charge of \$2.6 million is estimated as follows:

- cost of revenue:	\$0.4 million
- research & engineering expenses:	\$0.2 million
- sales & marketing expenses:	\$0.8 million
- general & administrative expenses:	\$1.2 million

It must be noted that had the company continued to prepare its financial statements in accordance with US GAAP, it would have applied SFAS 123 for the preparation of its 2005 financial statements and would have therefore recognized the same charges for the period.

(b) Other differences

If Axalto had continued to apply US GAAP, no other significant difference would have appeared in its first half 2005 statement of operations compared with the statement of operations it will publish prepared in accordance with IFRS in September 2005.

**Axalto 2004 Interim and Annual Statements of Operations
restated in accordance with IFRS**

	First Half 2004	Second Half 2004	Full Year 2004
<i>(all amounts in USD million)</i>			
Revenue			
Cards	401 919	481 163	883 082
Point of Sales Terminals	28 415	48 930	77 345
Total revenue	<u>430 334</u>	<u>530 093</u>	<u>960 427</u>
Cost of Revenue			
Cards	(269 265)	(316 106)	(585 371)
Point of Sales Terminals	(22 205)	(37 059)	(59 264)
Total cost of revenue	<u>(291 470)</u>	<u>(353 165)</u>	<u>(644 635)</u>
Gross Profit			
Cards	132 654	165 057	297 711
Point of Sales Terminals	6 210	11 871	18 081
Total gross profit	(1) <u>138 864</u>	(1) <u>176 928</u>	<u>315 792</u>
Research and Engineering	(30 575)	(33 533)	(64 108)
Sales and Marketing	(54 365)	(56 458)	(110 823)
General and Administrative	(27 179)	(29 078)	(56 257)
Total Operating Expenses	(1) <u>(112 119)</u>	(1) <u>(119 069)</u>	<u>(231 188)</u>
Other income, Net	2 300	1 735	4 035
Operating income (loss)	<u>29 045</u>	<u>59 594</u>	<u>88 639</u>
Finance costs, net	(794)	(5 250)	(6 044)
Share of profit of associates	229	33	262
Income before tax	<u>28 480</u>	<u>54 377</u>	<u>82 857</u>
Provision for Income tax	(9 005)	(16 873)	(25 878)
Net Income/Loss	<u>19 475</u>	<u>37 504</u>	<u>56 979</u>
Attributable to			
Equity holders of Axalto	19 027	37 264	56 291
Minority Interest	448	240	688

(1) Certain central IT cost worth \$3,015 charged to Cost of revenue in the statement of operations of the first half 2004 published in September 2004 were reclassified as operating expenses in the statement of operations of the second half, as indicated when the 2004 annual results were published on March 3, 2005. This reclassification had no impact on the operating income of the two periods. For the sake of correct comparability with the same periods in the future, the statement of operations of first and second half 2004 are presented above after giving effect to this reclassification in the proper period.

Axalto 2004 and first half 2005 revenue and gross profit (IFRS) by period, segment and product lines

<i>(in USD million, prepared in accordance with IFRS)</i>	Q1 2004	Q2 2004	H1 2004	Q3 2004	Q4 2004	H2 2004	Q1 2005	Q2 2005	H1 2005
Cards segment Revenue									
Mobile Communications	105,8	134,0	239,8	137,3	171,7	309,0	135,1	160,4	295,5
Financial Cards	49,4	48,0	97,4	47,1	51,7	98,8	44,5	54,6	99,1
Public Sector, Access and Other	25,2	18,1	43,3	18,2	36,9	55,1	25,8	17,6	43,4
Prepaid Phonecards	11,3	10,1	21,4	9,6	8,7	18,3	11,1	10,5	21,6
Total Cards Revenue	191,7	210,2	401,9	212,1	269,0	481,2	216,5	243,1	459,6
Point-of-Sale Terminals segment Revenue	11,7	16,7	28,4	26,5	22,4	48,9	20,8	17,7	38,6
Axalto Revenue	203,4	226,9	430,3	238,6	291,5	530,1	237,3	260,9	498,2
Cards segment Gross Profit									
Mobile Communications			89,0			125,5			
			<i>Gross margin (%)</i>			<i>40,6%</i>			
Financial Cards			24,0			18,3			
			<i>Gross margin (%)</i>			<i>18,5%</i>			
Public Sector, Access and Other			17,2			20,7			
			<i>Gross margin (%)</i>			<i>37,6%</i>			
Prepaid Phonecards			2,5			0,6			
			<i>Gross margin (%)</i>			<i>3,1%</i>			
Total Cards Gross Profit			132,7			165,1			
			<i>Gross margin (%)</i>			<i>34,3%</i>			
Point-of-Sale Terminals segment Gross Profit			6,2			11,9			
			<i>Gross margin (%)</i>			<i>24,3%</i>			
Axalto Gross Profit (IFRS)			138,9			176,9			
			<i>Gross margin (%)</i>			<i>33,4%</i>			

Axalto 2004 Consolidated Statement of Operations
US GAAP to IFRS reconciliation

All amounts in thousands of US dollars

FULL YEAR 2004										
	Year ended December 31, 2004	IAS 16	IAS 19	IAS 12 margin elim.	IAS 12 investmts.	IFRS 2 SOP	IFRS 2 ESPP	Presentation Reclass.	Total IFRS restatmt. effect	Year ended December 31, 2004 IFRS
	US GAAP Audited									2.5.
<i>Reference in the Note on the IFRS adoption</i>										
Revenue	\$ 960 427								0	960 427
Cost of revenue	645 027	(830)	(340)			361	417		(392)	644 635
Gross profit	315 400	830	340	0	0	(361)	(417)	0	392	315 792
Operating expenses										
Research and engineering	63 962		(227)			142	231		146	64 108
Sales and marketing	109 842		(302)			888	395		981	110 823
General and administrative	55 216		(75)			945	171		1 041	56 257
Total operating expenses	229 020	0	(604)	0	0	1 975	797	0	2 168	231 188
Other income, net								4 035	4 035	4 035
Operating income (loss)	86 380	830	944	0	0	(2 336)	(1 214)	4 035	2 259	88 639
Finance costs, net	(5 424)		(620)						(620)	(6 044)
Other income, net	4 297							(4 297)	(4 297)	0
Share of profit of associates								262	262	262
Income (loss) before taxes	85 253	830	324	0	0	(2 336)	(1 214)	0	(2 396)	82 857
Tax benefit (expense)	(25 466)	(292)		(120)					(412)	(25 878)
Income (loss) for the period	59 787	538	324	(120)	0	(2 336)	(1 214)	0	(2 808)	56 979
Attributable to :										
Equity holders of the company	\$ 59 099	538	324	(120)	0	(2 336)	(1 214)	0	(2 808)	56 291
Minority interests	688	0	0	0	0	0	0	0	0	688

First half 2004											
	Period Ended June 30, 2004	IAS 16	IAS 19	IAS 12 margin elim.	IAS 12 investmts.	IFRS 2 SOP	IFRS 2 ESPP	Presentation Reclass.	First half IFRS restatmts.	Period Ended June 30, 2004 IFRS	Period Ended June 30, 2004 IFRS after reclass. of Central IT cost*
	US GAAP Published										
<i>Reference in the Note on the IFRS adoption</i>											
Revenue	\$ 430 334								0	430 334	430 334
Cost of revenue	294 259	(99)	(164)			72	417		226	294 485	291 470
Gross profit	136 075	99	164	0	0	(72)	(417)	0	(226)	135 849	138 864
Operating expenses											
Research and engineering	29 348		(108)			28	231		151	29 499	30 575
Sales and marketing	53 171		(146)			178	395		427	53 598	54 365
General and administrative	25 683		(36)			189	171		324	26 007	27 179
Total operating expenses	108 202	0	(290)	0	0	395	797	0	902	109 104	112 119
Other income, net								2 300	2 300	2 300	2 300
Operating income (loss)	27 873	99	454	0	0	(467)	(1 214)	2 300	1 172	29 045	29 045
Finance costs, net	(496)		(298)						(298)	(794)	(794)
Other income, net	2 529							(2 529)	(2 529)	0	0
Share of profit of associates								229	229	229	229
Income (loss) before taxes	29 906	99	156	0	0	(467)	(1 214)	0	(1 426)	28 480	28 480
Tax benefit (expense)	(8 911)	(34)		(60)					(94)	(9 005)	(9 005)
Income (loss) for the period	20 995	65	156	(60)	0	(467)	(1 214)	0	(1 520)	19 475	19 475
Attributable to :											
Equity holders of the company	20 547	65	156	(60)	0	(467)	(1 214)	0	(1 520)	19 027	19 027
Minority interests	448	0	0	0	0	0	0	0	0	448	448

Second half 2004											
	Second Half 2004	IAS 16	IAS 19	IAS 12 margin elim.	IAS 12 investmts.	IFRS 2 SOP	IFRS 2 ESPP	Presentation Reclass.	Second half IFRS restatmts.	Second Half 2004 IFRS	Second Half 2004 IFRS after reclass. of Central IT cost*
	US GAAP										
<i>Reference in the Note on the IFRS adoption</i>											
Revenue	\$ 530 093								0	530 093	530 093
Cost of revenue	350 768	(731)	(176)			289			(618)	350 150	353 165
Gross profit	179 325	731	176	0	0	(289)	0	0	618	179 943	176 928
Operating expenses											
Research and engineering	34 614		(119)			114			(5)	34 609	33 533
Sales and marketing	56 671		(156)			710			554	57 225	56 458
General and administrative	29 533		(39)			756			717	30 250	29 078
Total operating expenses	120 818	0	(314)	0	0	1 580	0	0	1 266	122 084	119 069
Other income, net	0							1 735	1 735	1 735	1 735
Operating income (loss)	58 507	731	490	0	0	(1 869)	0	1 735	1 087	59 594	59 594
Finance costs, net	(4 928)		(322)						(322)	(5 250)	(5 250)
Other income, net	1 768							(1 768)	(1 768)	0	0
Share of profit of associates	0							33	33	33	33
Income (loss) before taxes	55 347	731	168	0	0	(1 869)	0	0	(970)	54 377	54 377
Tax benefit (expense)	(16 555)	(258)		(60)					(318)	(16 873)	(16 873)
Income (loss) for the period	38 792	473	168	(60)	0	(1 869)	0	0	(1 288)	37 504	37 504
Attributable to :											
Equity holders of the company	38 552	473	168	(60)	0	(1 869)	0	0	(1 288)	37 264	37 264
Minority interests	240	0	0	0	0	0	0	0	0	240	240

* Certain central IT cost worth \$3,015 charged to Cost of revenue in the statement of operations of the first half 2004 published in September 2004 were reclassified as operating expenses in the statement of operations of the second half, as indicated when the 2004 annual results were published on March 3, 2005. This reclassification had no impact on the operating income of the two periods. For the sake of correct comparability with the same periods in the future, the statements of operations of first and second halves 2004 are presented here after giving effect to this reclassification in the proper period.

**Axalto 2004 Consolidated Opening Balance Sheet
US GAAP to IFRS reconciliation**

All amounts in thousands of US dollars

Balance Sheet presented in accordance with IFRS	Jan. 1, 2004 US GAAP Audited	IAS 16	IAS 19	IAS 12 margin elim.	IAS 12 investmts.	Total IFRS restatement effect	Jan. 1, 2004 IFRS
<i>Reference in the Note on the IFRS adoption</i>		2.7.(a)	2.7.(b)	2.7.©	2.7.(d)		
ASSETS							
Non current assets							
Property, plant and equipment	\$ 105 410	636				636	106 046
Goodwill	287 621					0	287 621
Intangible assets	33 197		(977)			(977)	32 220
Investments in associates	4 910					0	4 910
Deferred income tax assets	21 350			(93)		(93)	21 257
Available for sale financial assets	1 886					0	1 886
Total non-current assets	454 374	636	(977)	(93)	0	(434)	453 940
Current assets							
Inventories	103 827					0	103 827
Trade & other receivable	238 027					0	238 027
Derivative financial instruments						0	0
Cash & cash equivalents	50 154					0	50 154
Total current assets	392 008	0	0	0	0	0	392 008
Total assets	\$ 846 382	636	(977)	(93)	0	(434)	845 948
EQUITY							
Capital & reserves attributable to the company's equity holders							
Common stock	\$ 0					0	
Share premium						0	
Treasury shares						0	
Fair value and other reserves						0	
Cumulative translation adjustment						0	
Retained earnings	541 213	411	(3 625)	(93)	(38)	(3 345)	537 868
	541 213	411	(3 625)	(93)	(38)	(3 345)	537 868
Minority interest	9 876					0	9 876
Total equity	551 089	411	(3 625)	(93)	(38)	(3 345)	547 744
LIABILITIES							
Non-current liabilities							
Borrowings	2 287					0	2 287
Deferred income tax liabilities	5 047	225			38	263	5 310
Retirement benefit obligation	11 175		2 648			2 648	13 823
Provision and other liabilities	25 443					0	25 443
Total non-current liabilities	43 952	225	2 648	0	38	2 911	46 863
Current liabilities							
Trade & other payable	218 690					0	218 690
Current income tax liabilities	11 036					0	11 036
Borrowings	21 615					0	21 615
Provisions & other liabilities						0	0
Total current liabilities	251 341	0	0	0	0	0	251 341
Total liabilities	295 293	225	2 648	0	38	2 911	298 204
Total equity and liabilities	\$ 846 382	636	(977)	(93)	0	(434)	845 948

**Axalto 2004 Consolidated Closing Balance Sheet
US GAAP to IFRS reconciliation**

All amounts in thousands of US dollars

Balance Sheet presented in accordance with IFRS	Dec. 31, 2004 US GAAP Audited	IAS 16 2.7.(a)	IAS 19 2.7.(b)	IAS 12 margin elim. 2.7.(c)	IAS 12 investmts 2.7.(d)	IFRS 2 SOP 2.7.(e)	IFRS 2 ESPP 2.7.(f)	Total IFRS restatement effect	Dec. 31, 2004 IFRS
<i>Reference in the Note on the IFRS adoption</i>									
ASSETS									
Non current assets									
Property, plant and equipment	\$ 108 899	1 617						1 617	110 516
Goodwill	311 310							0	311 310
Intangible assets	27 801		(1 244)					(1 244)	26 557
Investments in associates	5 220							0	5 220
Deferred income tax asset	54 027			(213)				(213)	53 814
Available for sale financial assets	1 553							0	1 553
Total non-current assets	508 810	1 617	(1 244)	(213)	0	0	0	160	508 970
Current assets									
Inventories	122 492							0	122 492
Trade & other receivable	251 611							0	251 611
Derivative financial instruments	7 105							0	7 105
Cash & cash equivalents	223 820							0	223 820
Total current assets	605 028	0	0	0	0	0	0	0	605 028
Total assets	\$ 1 113 838	1 617	(1 244)	(213)	0	0	0	160	1 113 998
EQUITY									
Capital & reserves attributable to the company's equity holders									
Common stock	\$ 50 604							0	50 604
Share premium	550 312						1 214	1 214	551 526
Treasury shares								0	0
Fair value and other reserves	4 522					2 336		2 336	6 858
Cumulative translation adjustment	40 490							0	40 490
Retained earnings	59 099	1 047	(3 600)	(213)	(41)	(2 336)	(1 214)	(6 357)	52 742
Minority interest	7 059							0	7 059
Total equity	712 086	1 047	(3 600)	(213)	(41)	0	0	(2 807)	709 279
LIABILITIES									
Non-current liabilities									
Borrowings	30 249							0	30 249
Deferred income tax liabilities	6 427	570			41			611	7 038
Retirement benefit obligation	15 013		2 356					2 356	17 369
Provision and other liabilities	19 404							0	19 404
Total non-current liabilities	71 093	570	2 356	0	41	0	0	2 967	74 060
Current liabilities									
Trade & other payable	296 099							0	296 099
Current income tax liabilities	20 548							0	20 548
Borrowings	8 592							0	8 592
Provisions & other liabilities	5 420							0	5 420
Total current liabilities	330 659	0	0	0	0	0	0	0	330 659
Total liabilities	401 752	570	2 356	0	41	0	0	2 967	404 719
Total equity and liabilities	\$ 1 113 838	1 617	(1 244)	(213)	0	0	0	160	1 113 998