

3 March 2005



axalto 2004 results



Olivier Piou
Chief Executive Officer
Charles Desmartis
Chief Financial Officer



Our determination to create value

A unique profile...

- World leader in microprocessor cards
- Balanced product mix, global presence and top-level customers
- Recognised expertise in innovation and production
- A highly experienced management team
- Solid financial performance and a large free float

... enabling us to benefit fully from market growth

- Strong growth in the main segments, spreading to new regions
- Recognised interest in high-end products and solutions
- Wide range of new applications for microprocessor cards
- High demand for security in an increasingly 'digitalised' world

Profitability

Growth

An attractive investment opportunity



axalto

Key points

- **Axalto: an independent international group**
 - Successful IPO on May 18, 2004
 - Free float of 100%
- **Strong growth in full-year earnings and a solid balance sheet**
 - Revenue: \$960 million, up 25%
 - Gross margin: 32.8% versus 31.0% in 2003
 - Operating margin: 9.0% versus 6.2% in 2003
 - Net income: \$59 million or \$1.47 per share
 - Free cash flow: \$128 million
 - Net cash: \$185 million
- **An excellent performance**
 - In all market segments
 - In all regions

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I**Strong revenue growth**

II

Significant increase in profitability

III

Outlook and conclusion



Leading position confirmed

● Excellent sales split by segment with leading market positions

- World No 1 in microprocessor cards
- World No 1 in SIM cards
- World No 1 in microprocessor bank cards
- Leader* in new applications: Public Sector, Access, Pay-TV, Transport



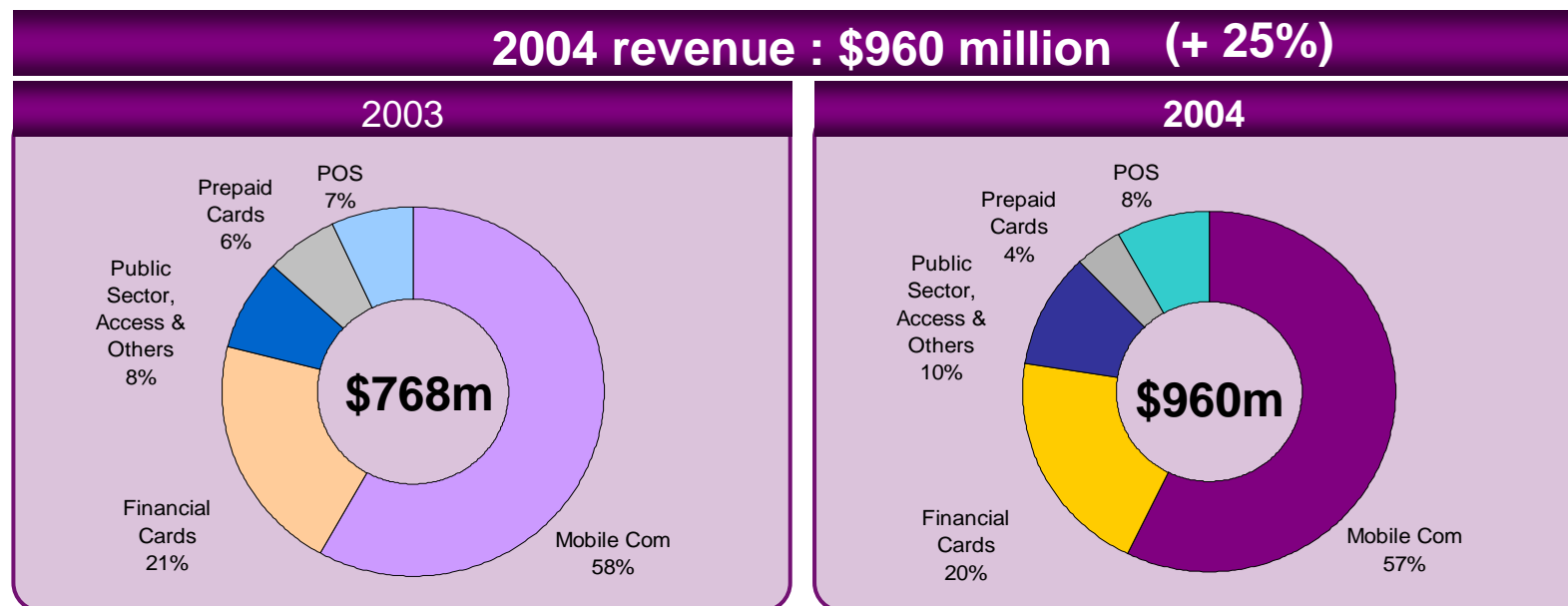
● Excellent geographical coverage

- Local presence in all key markets
- Recognised ability to identify and seize growth opportunities

* No independent sources available

Axalto 2004: a record year

- 2004 revenue growth of 25% to \$960 million
- Over 350 million microprocessor cards sold: +37%
 - 257 million SIM cards: +38%
 - 72 million bank cards: +25%
 - Public Sector, Access and other cards: +68%

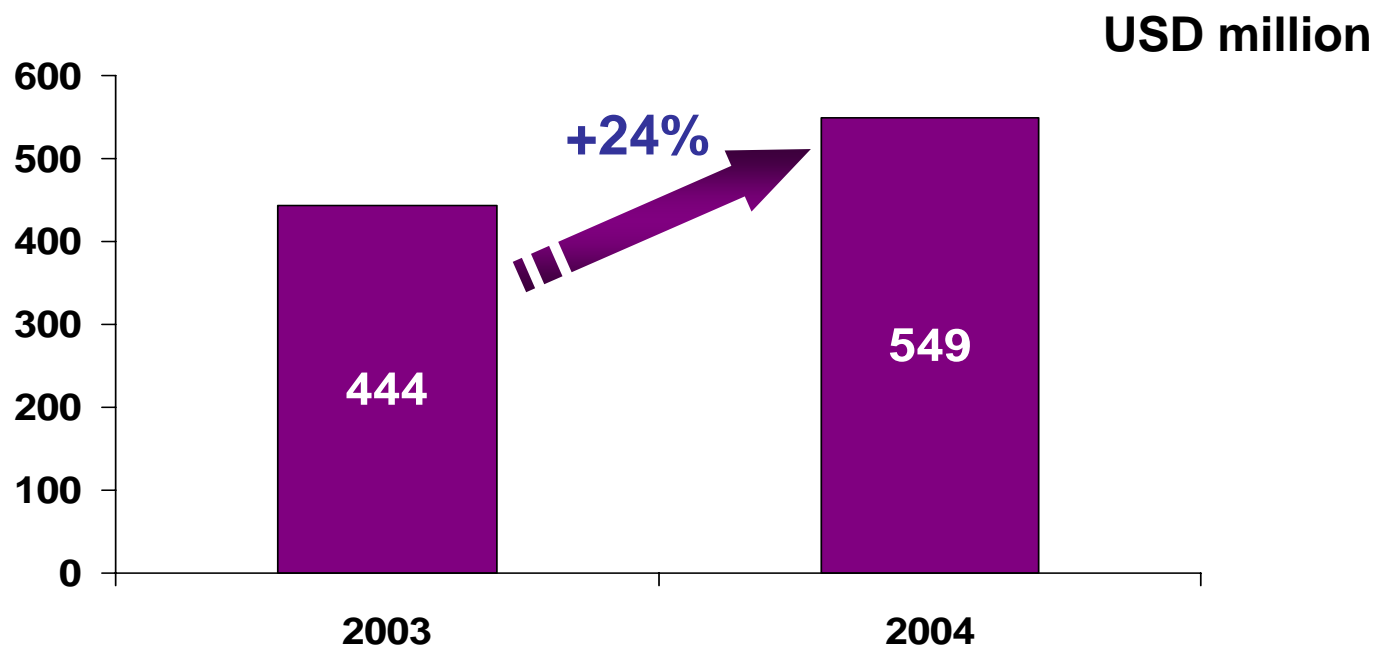


**A well balanced business mix,
reflecting strong growth in all main product lines**



Revenue growth

Mobile Communication

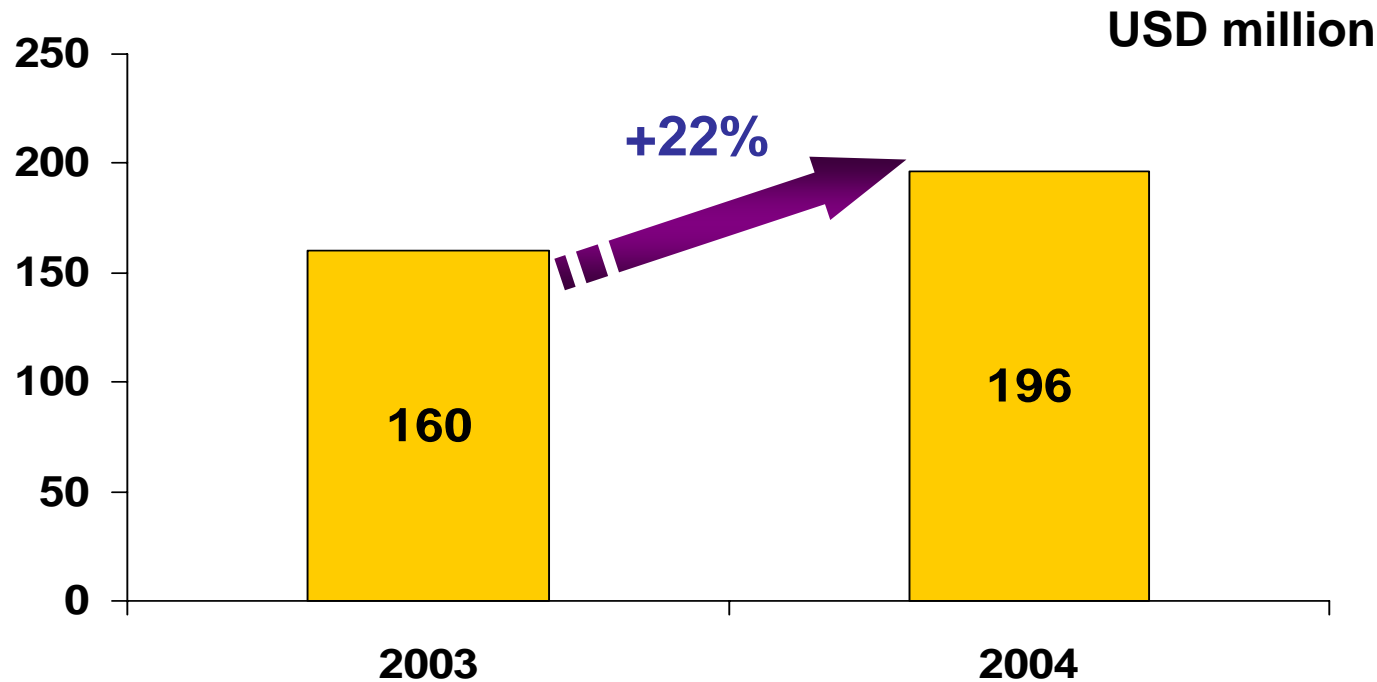


● Robust growth in Mobile Communication: +24%

- 257 million SIM cards sold in 2004 (versus 186 million in 2003)
- Better product mix in all regions
- Impact of migration from TDMA to GSM in the Americas
- Strong growth in sales volumes in Southern Asia

Revenue growth

Financial Cards

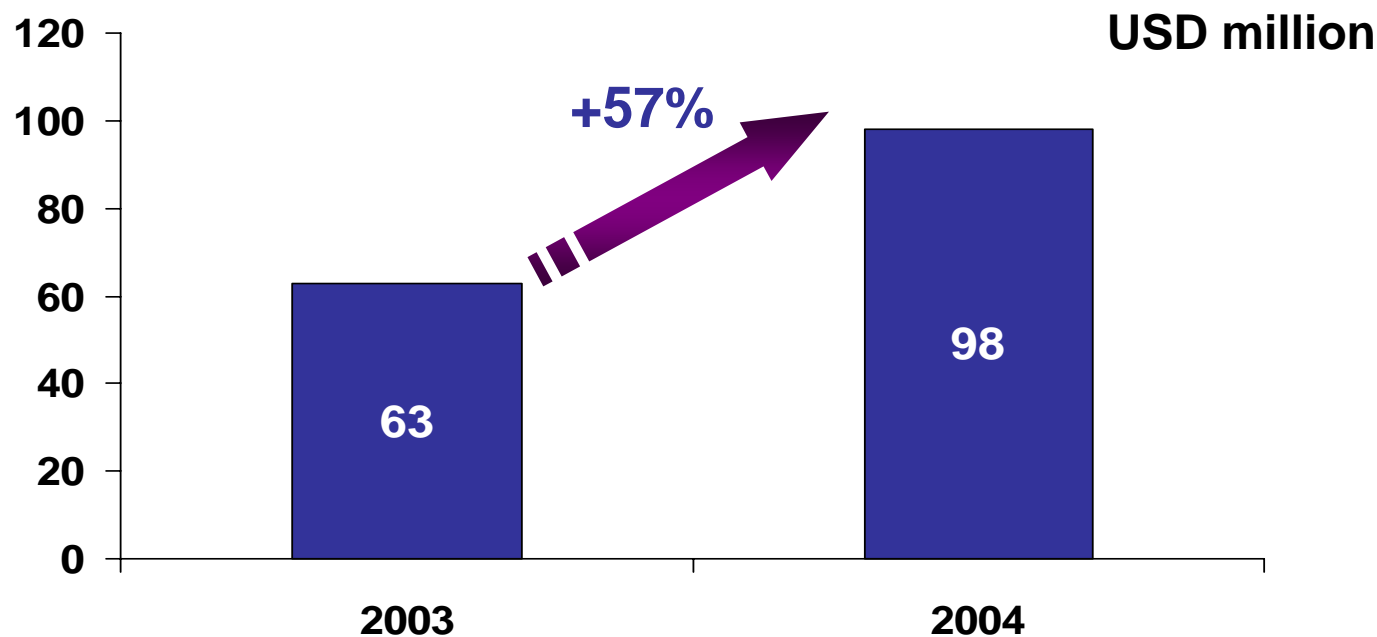


● **Segment boosted by start of EMV migration, revenue up +22%**

- 72 million microprocessor bank cards sold in 2004 (versus 57 million in 2003)
- Extremely robust growth in Europe in 2004, mainly due to EMV migration in the UK
- Migration to this new standard has now begun in the main European countries and in Asia

Revenue growth

Public Sector, Access and other



● Rapid growth: +57%

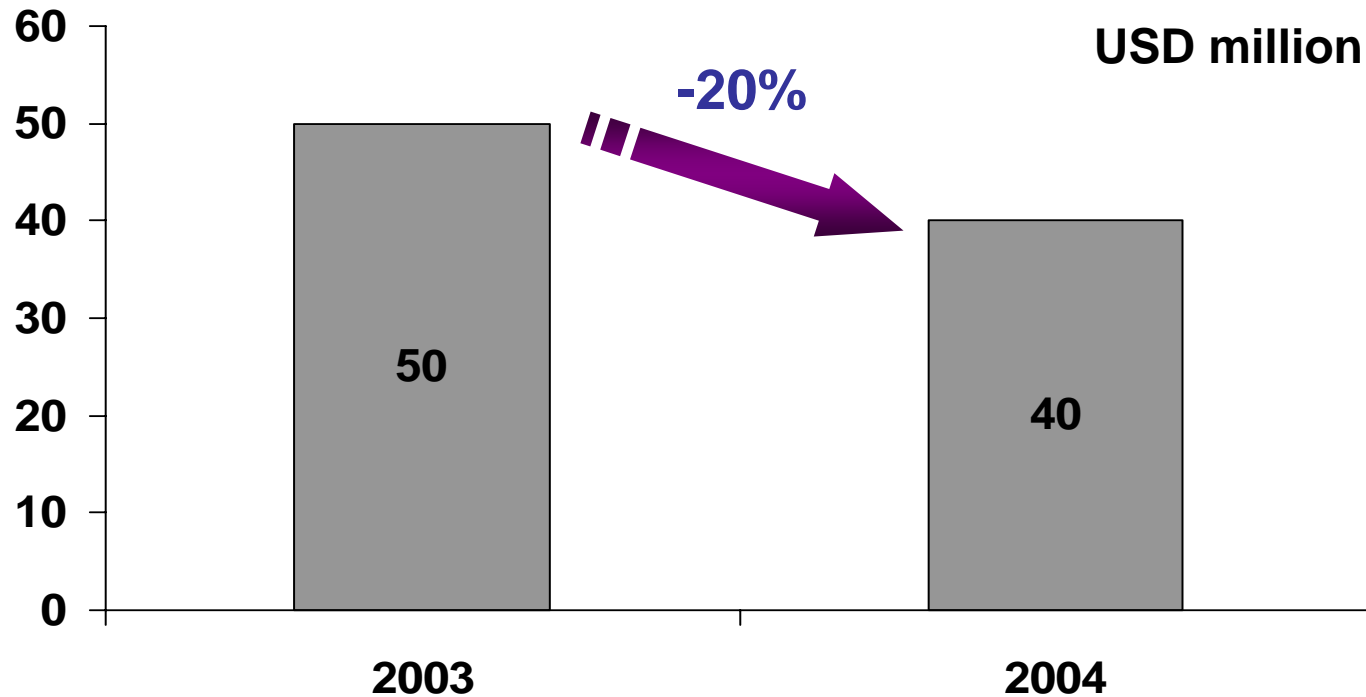
- Significant increase in the contribution of revenue derived from patent licensing
- Strong performance in Access to networks in the US, in Public Sector in the Americas and Asia, as well as in Transport and in Pay-TV



Revenue

Prepaid Phone Cards

10

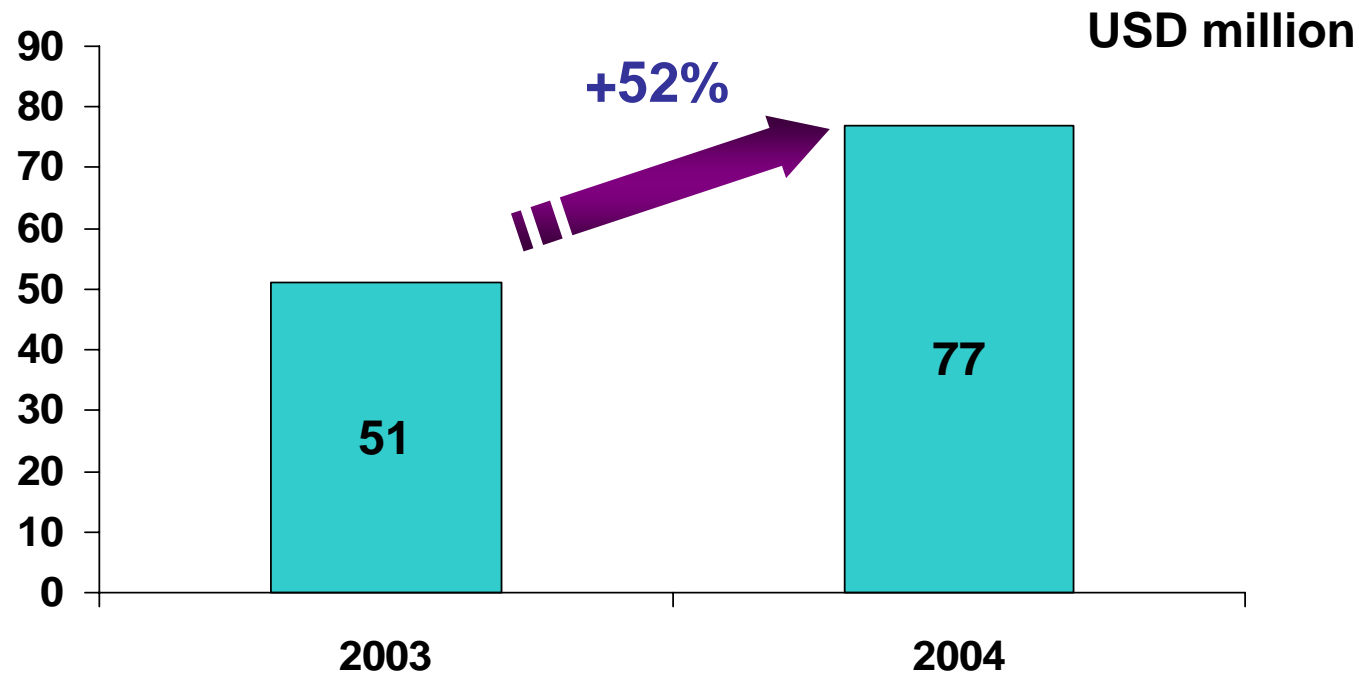


● Decline in revenue in 2004: -20%

- This evolution is in line with Axalto's strategy:
 - Selective withdrawal
 - Opportunistic approach
 - Focus on strategic customers
- In a declining global memory card market

Revenue growth

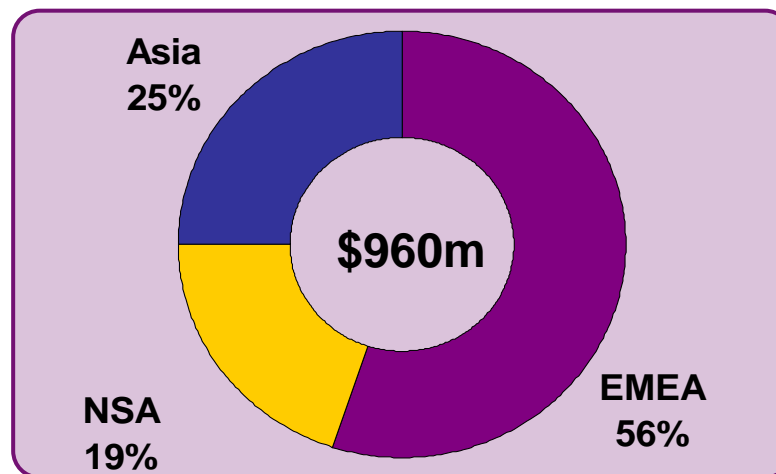
Point-of-Sale Terminals



● **Very strong growth in 2004 : +52%**

- Acceleration in growth in H2 2004
- Refocusing on markets engaged in EMV migration

Revenue by region



- **EMEA: Growth of 33% and 21% at constant exchange rates to \$536 million versus \$403 million in 2003**
- **NSA: Growth of 29% to \$187 million in 2004 versus \$145 million in 2003**
- **Asia: Revenue up 8% to \$237 million versus \$220 million in 2003**

**Axalto's revenue remains well balanced,
presenting strong growth
Its strong international presence has enabled Axalto
to seize all opportunities rapidly**



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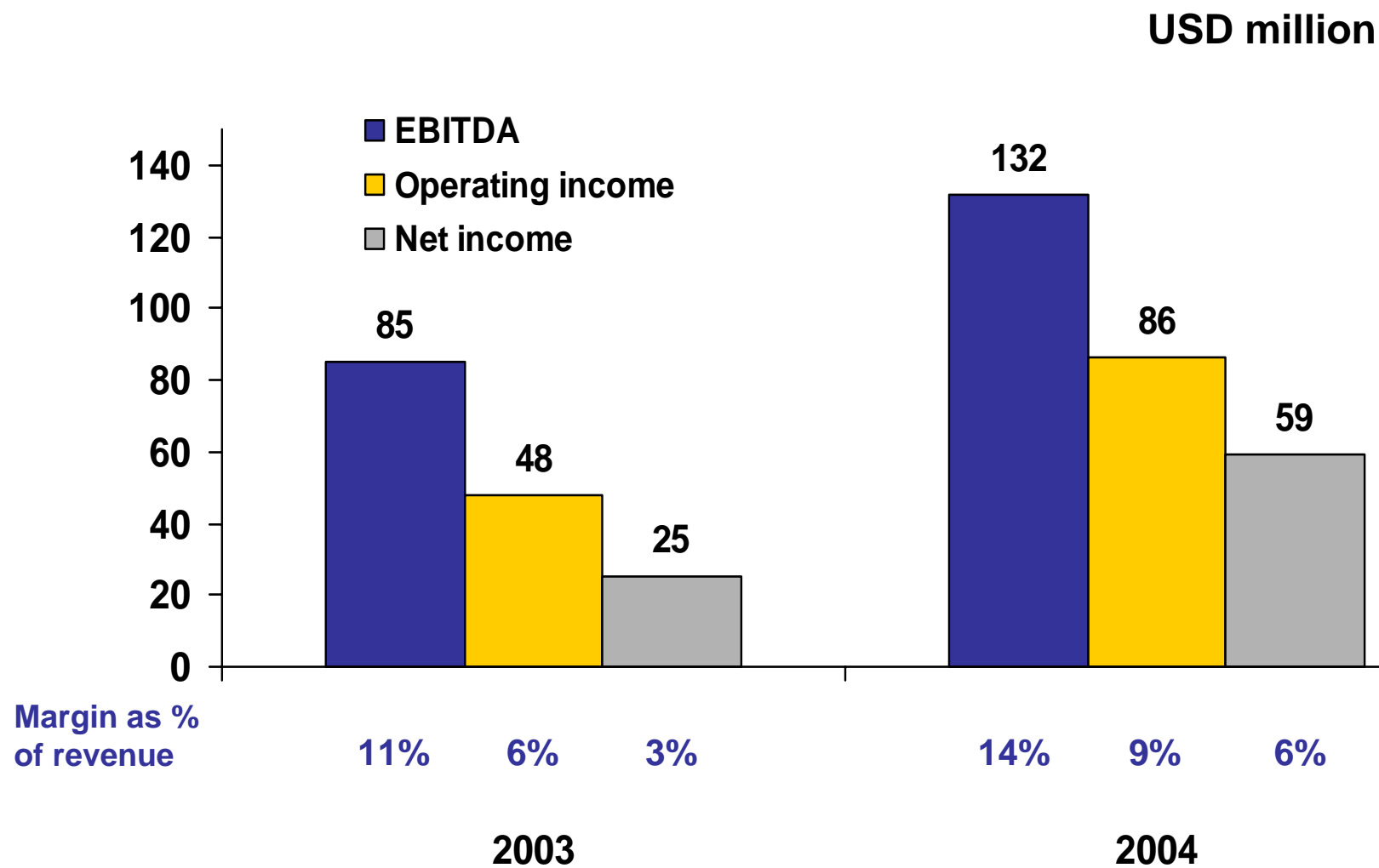
I Strong revenue growth

II Significant increase in profitability

III Outlook and conclusion



Significant improvement in profitability



Income statement highlights

(at historical exchange rates)

USD million	2003	2004	Growth
Revenue	767.7	960.4	+ 25%
Gross profit *	238.2	315.4	+ 32%
<i>Gross margin (%)</i>	31.0%	32.8%	
EBITDA	85.2	132.0	+ 54%
<i>EBITDA margin (%)</i>	11.1%	13.6%	
Operating income*	47.9	86.4	+ 80%
<i>Operating margin (%)</i>	6.2%	9.0%	
Income before taxes	34.3	85.3	+ 148%
<i>% of revenue</i>	4.5%	8.9%	
Net income	25.0	59.1	x 2.4
<i>Net margin (%)</i>	3.3%	6.2%	
Earnings per share		1.47	

*After an impairment charge relating to technologies acquired from Bull, a depreciation charge relating to a production plant and expenses relating to the continuous operating performance improvement plan

Cost of sales

1.3

6.3

Operating expenses

0

2.8

Strong leverage of revenue growth



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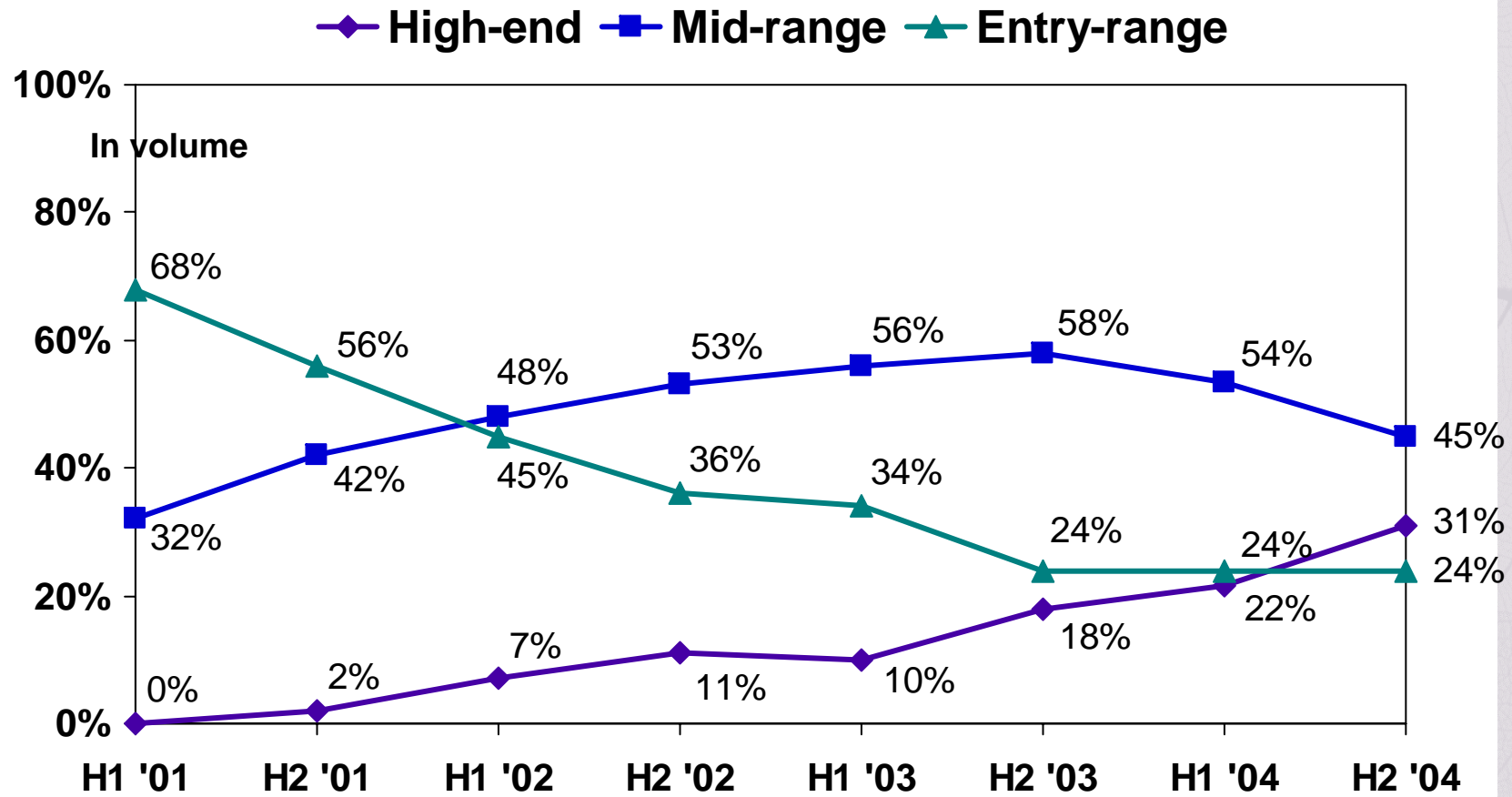
Cards division: revenue variation factors by market segment

USD million

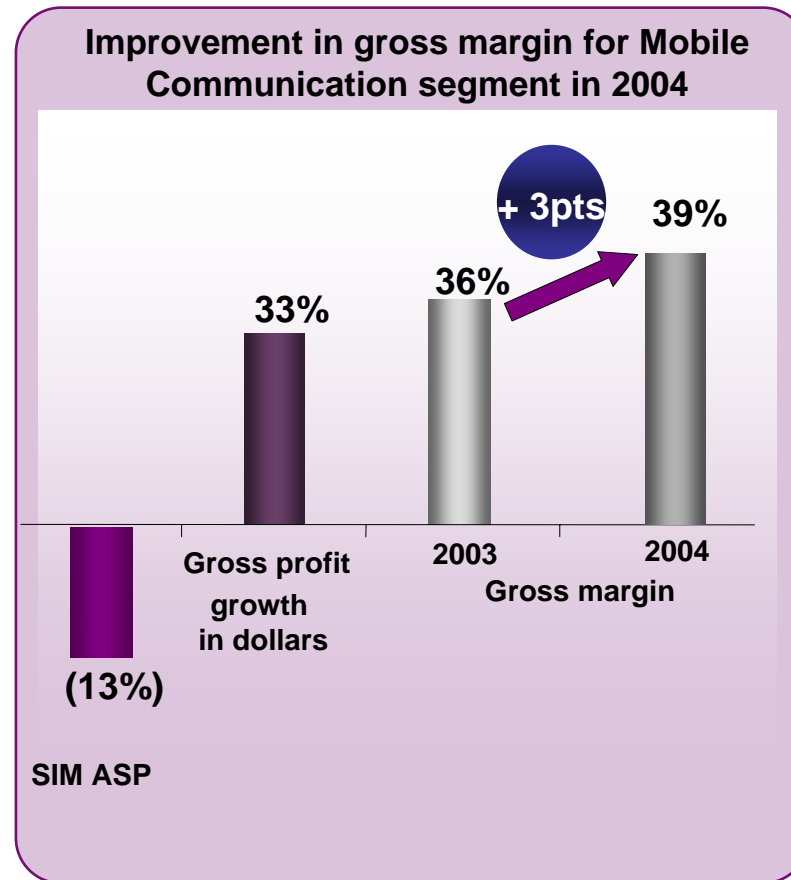
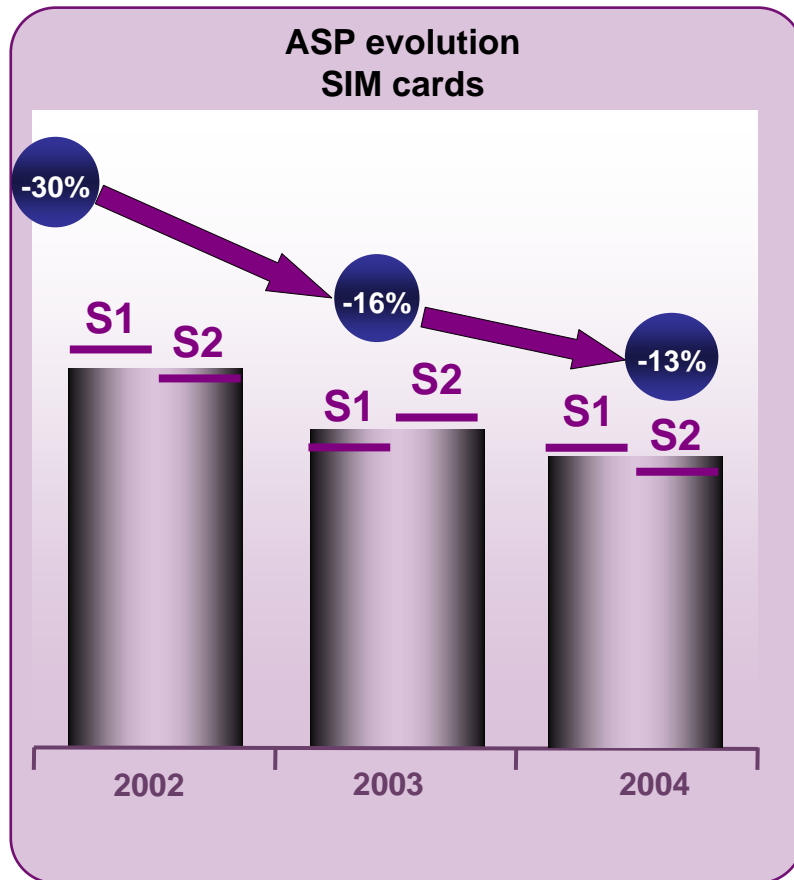
	2003	Currency effect	Volume effect	Mix effect	Prix effect	Other	2004
Mobile Communication	444	16	167	92	-172	2	549
Financial Cards	160	14	31	-7	2	-4	196
Public Sector, Access and Other	63	3	20	-8		20	98
Prepaid Phone Cards	50	2	-3	-8		-1	40
Total	717	35	215	85	-186	17	883

Improved product mix

Example: Mobile Communication

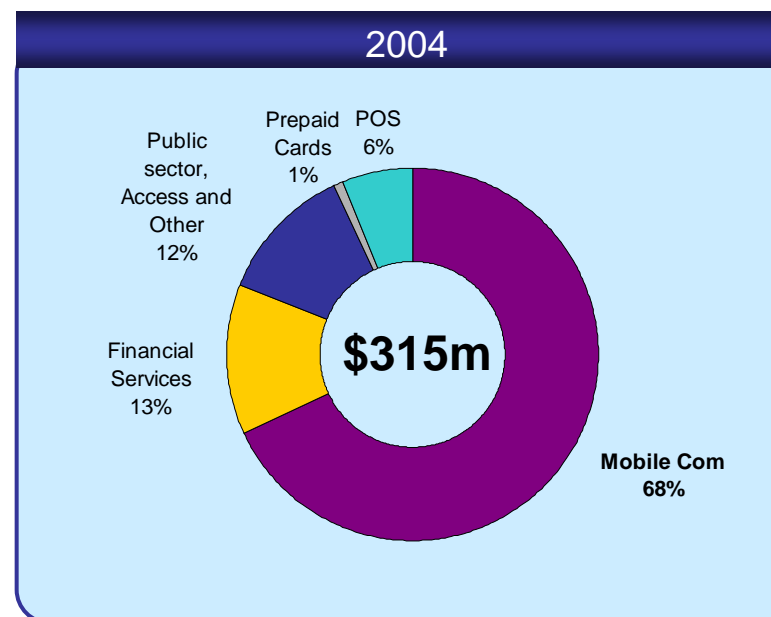
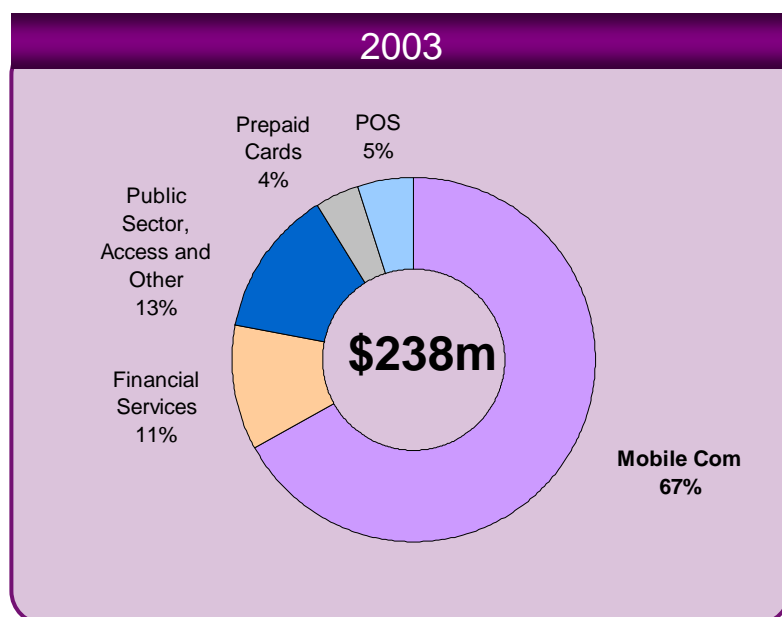


SIM card average selling price (ASP) and profitability



- Slowdown in the ASP erosion rate over the past three years
- Gross margin improvement

Breakdown of gross profit by segment



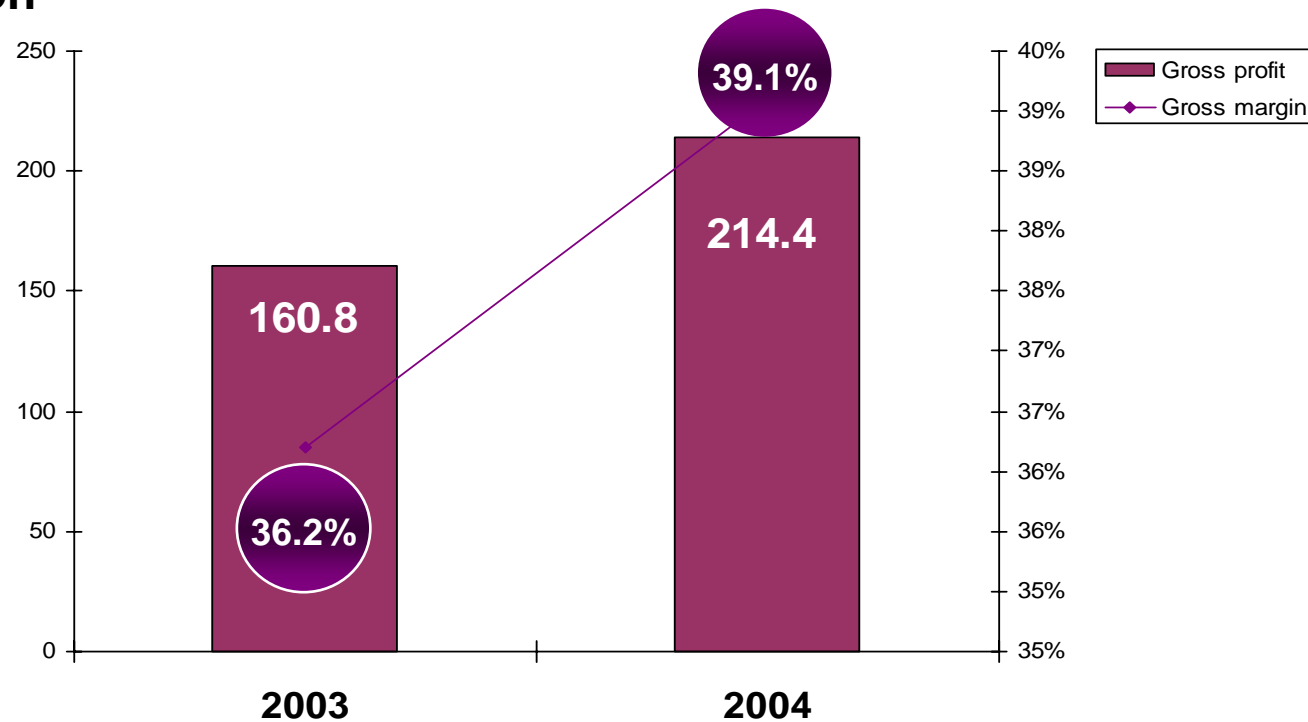
- **Gross profit rose strongly by 32% to \$315 million**
- **Sharp improvement in gross margin: +1.8 point to 32.8%**
- **This improvement is the result of:**
 - Higher volumes of microprocessor cards sold
 - Better product mix in the Mobile Communication segment and in all regions
 - Higher revenue from patent activities
 - Confirmed success of the diversified component sourcing strategy
 - Improved productivity and control of fixed costs

Gross margin

Mobile Communication

20

USD million



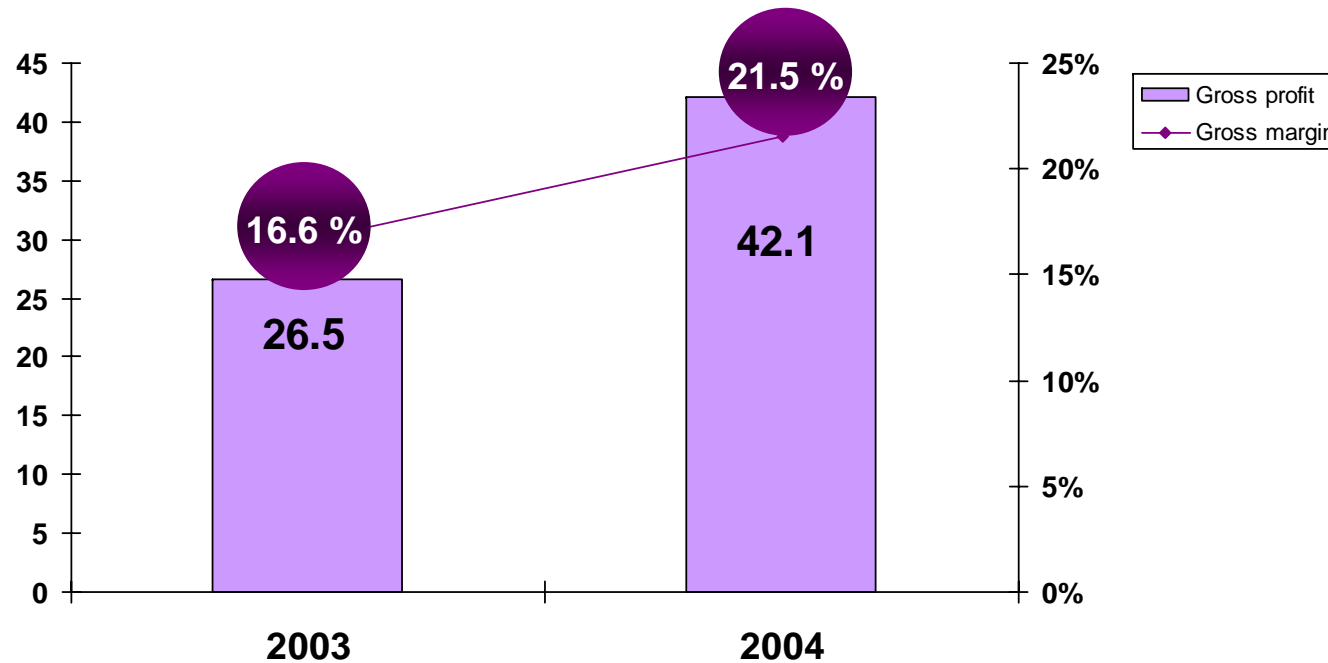
● **Gross profit in the Mobile Communication segment rose 33% versus 2003**

- Strong volume growth
- Better product mix
- Special attention to profitability on entry range products

Gross margin

Financial Cards

USD million



● **Gross profit in the Financial Cards segment rose 59% versus 2003**

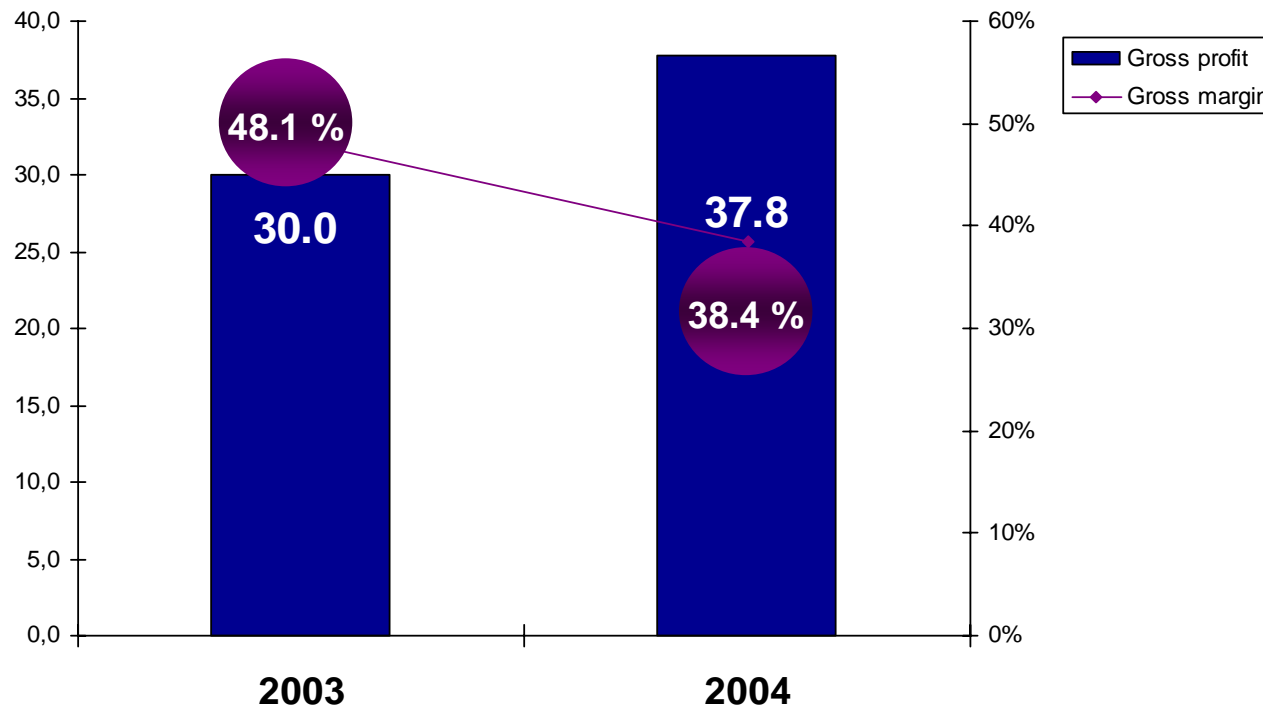
- Higher volumes of microprocessor cards sold
- Improved productivity

Gross margin

Public Sector, Access and Other

22

USD million



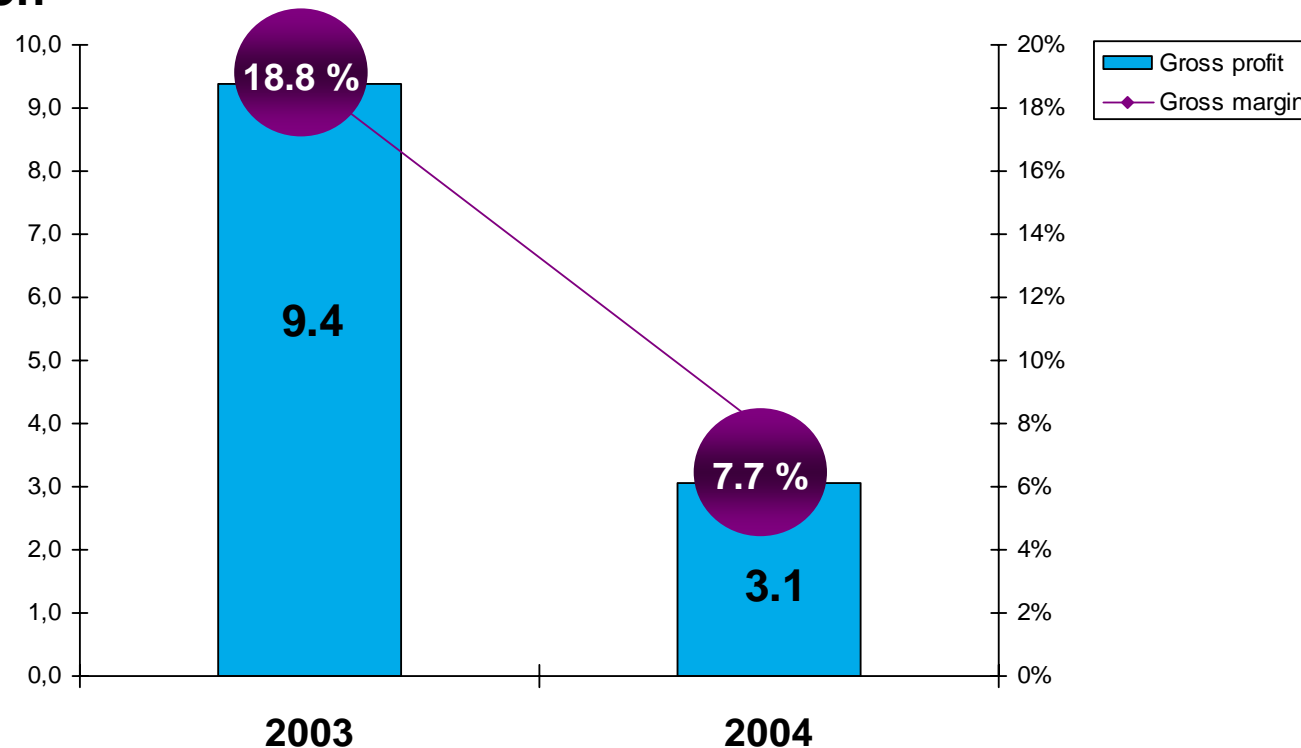
● Increase of **26%** in gross profit in this segment versus 2003

- Higher proportion of revenue generated from patent licences
- Less favourable sales mix of microprocessor cards
- Diverse applications with differing margin profiles

Gross margin

Prepaid Phone Cards

USD million



● Gross margin fell sharply versus 2003: -11 points

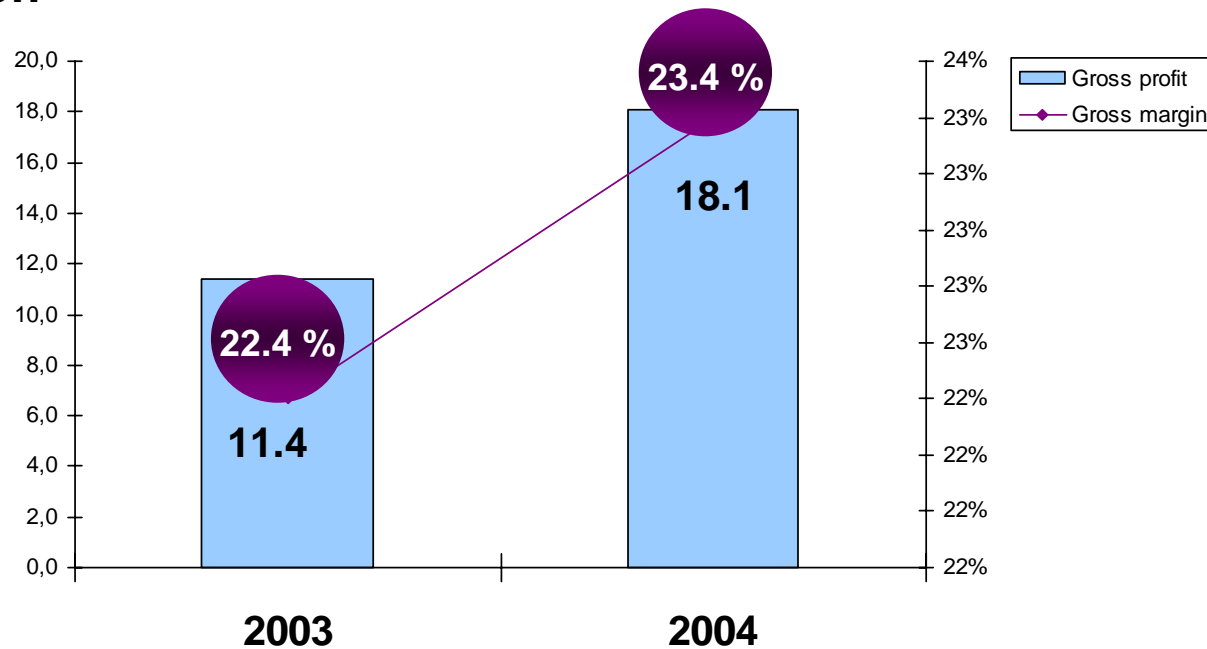
- Decline in the number of cards sold and pricing pressure
- In line with the Group's progressive withdrawal strategy based on selective approach to the market

Gross margin

Point-of-Sale Terminals

24

USD million



● **Gross profit in this segment increased by 58% versus 2003**

● Significant improvement in gross margin after a difficult start to the year

Significant reduction in operating expenses as a percentage of revenue

	Combined figures (USD million)	Consolidated figures (USD million)
	2003	2004
Research and development	49.0	64.0
<i>As a % of revenue</i>	<i>6.4%</i>	<i>6.7%</i>
Sales and marketing	91.9	109.8
<i>As a % of revenue</i>	<i>12.0%</i>	<i>11.4%</i>
General and administrative expenses	49.4	55.2
<i>As a % of revenue</i>	<i>6.4%</i>	<i>5.7%</i>
Total operating expenses	190.3	229.0
<i>As a % of revenue</i>	<i>24.8%</i>	<i>23.8%</i>

- **While revenue rose 25%, operating expenses increased by 20% or 13% at constant exchange rates**
 - Increase in R&D expenses
 - Increase in sales, marketing and technical support costs in the field to bolster the year's strong growth
 - Increase in general expenses relating to the Group's new status, in line with estimates
- **Operating expenses decreased as a percentage of revenue, which confirms:**
 - The effectiveness of Axalto's tight cost controls

Strong surge in net income

	Combined figures (USD million)	Consolidated figures (USD million)
	2003	2004
EBITDA	85.2	132,0
<i>EBITDA margin</i>	<i>11.1%</i>	<i>13.7%</i>
Operating income	47.9	86.4
<i>Operating margin</i>	<i>6.2%</i>	<i>9.0%</i>
Exchange gains/losses and net interest	(15.2)	(5.4)
Other income	1.7	4.3
Net income	25.0	59.1
<i>Net margin</i>	<i>3.3%</i>	<i>6.2%</i>

- **Operating income increased by 80% versus 2003**
 - Reflects the strong momentum in all of Axalto's markets and the company's firm grip on operating expenses
- **Operating margin of 9.0% of revenue versus 6.2% in 2003**
- **Exchange losses reduced from USD 9.9 million to 5.7 million**
- **Tax rate of 29.9%**
 - Reflects the stronger contribution of Europe and of NSA
- **Net margin of 6.2%**



Income statement

Sensitivity to exchange rate fluctuations

USD million

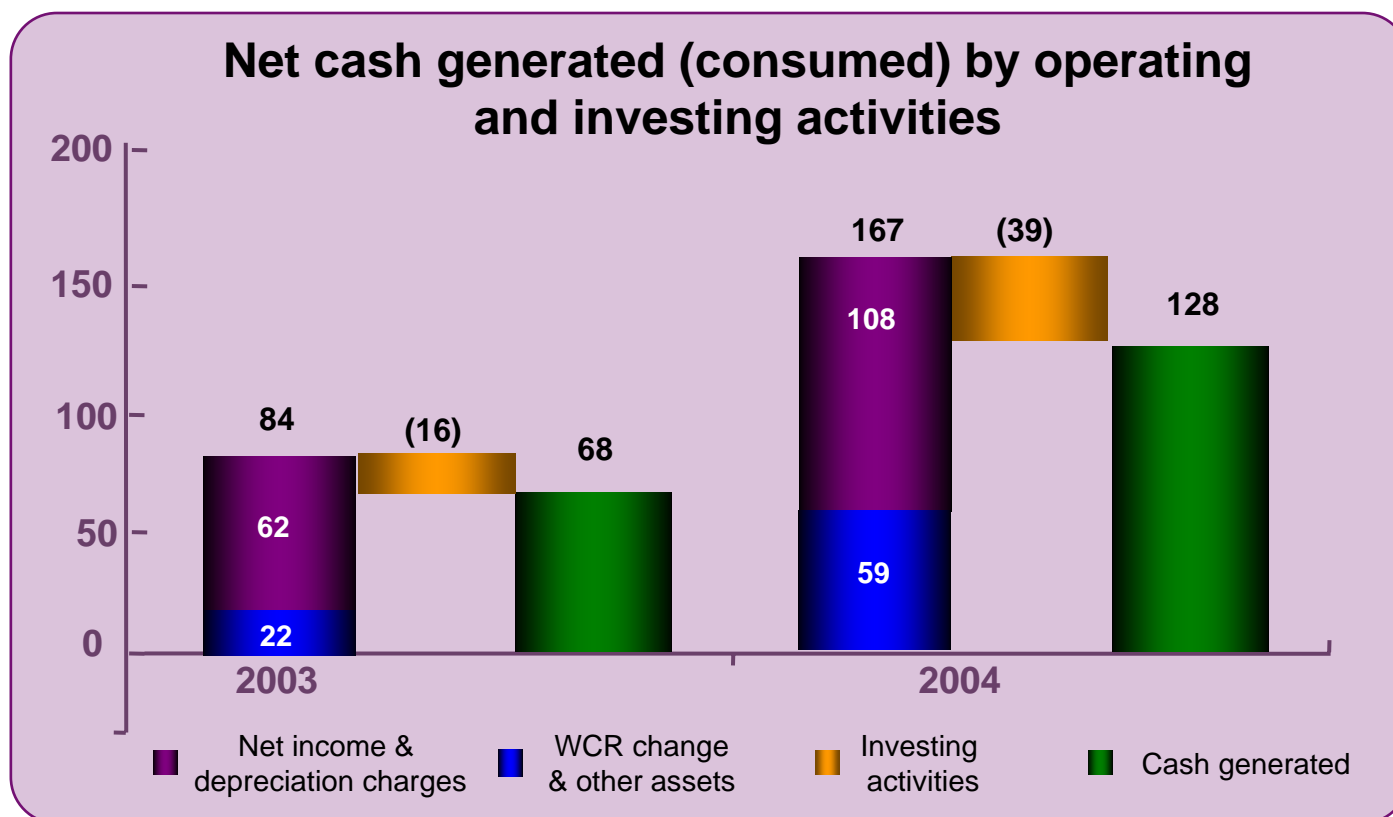
Impact of a 1% fall in the dollar versus
the euro and sterling

	2003 at historical exchange rates	2004 at historical exchange rates		2003 at 2004 exchange rates
EUR 1 = USD	1.12	1.24	↓	1.24
GBP 1 = USD	1.63	1.82		USD
Revenue	768	960	0.5%	806
Gross profit	238	315	0.0%	238
Gross margin	31.0%	32.8%		29.5%
R&D	(49)	(64)	0.9%	(53)
Sales and Marketing	(92)	(110)	0.7%	(98)
General and Admin. expenses	(49)	(55)	0.6%	(52)
Total operating expenses	(190)	(229)	0.7%	(203)
As % of revenue	24.8%	23.8%		25.2%
Operating income	48	86		35
Operating margin	6.2%	9.0%		4.3%



Strong cash generation

USD million



- **Strong free cash flow generation:**

- Sharp increase in net income
- Significant reduction in WCR

- **Capital expenditure: \$39 million, equal to 4% of revenue**



A solid balance sheet

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EUR 1 = USD
GBP 1 = USD

1.25
1.78

1.36
1.92

Assets	2003	Pro forma Adjst.	Pro forma	2004
Current assets:				
Short-term investments and cash	50	17	67	224
Receivables	203		203	204
Inventory	104		104	122
Other current assets and deferred taxes on income	46		46	66
Total current assets	403	17	420	616
Property, plant and equipment (net)	102		102	109
Deferred taxes on income	15	29	44	43
Goodwill	288		288	311
Identifiable intangible and other long-term assets	40		40	35
Total assets	846	46	892	1,114
Liabilities, minority interests and total invested equity				
Current liabilities:				
Short-term debts	22	(22)	-	9
Trade payables	105		105	127
Employees, other payables and accrued liabilities	130		130	188
Other current liabilities	11		11	21
Total current liabilities	268	(22)	246	344
Long-term debt	2	20	22	30
Pensions, other employee and long-term liabilities	11		11	15
Other long-term liabilities	14		14	13
Total liabilities	295	(2)	293	402
Minority interest in subsidiaries	10		10	7
Total invested equity	541	47	589	705
Total liabilities, minority interests and total invested equity	846	46	892	1,114
Working capital requirement	102		102	57
<i>As % of Q4 revenue, annualised</i>	11%		11%	5%
Capital employed (yearly average)	500			517

Net cash 2003
\$26m

Net cash 2004
\$185m

Key figures

USD million	2003	2004
EUR 1 = USD	1.12	1.24
Revenue	768	960
Gross profit	238	315
Gross margin (%)	31.0%	32.8%
EBITDA (*)	85	132
EBITDA margin (%)	11.1%	13.7%
Operating income	48	86
Operating margin (%)	6.2%	9.0%
Operating income after tax (**)	33	61
Operating margin after tax (%)	5.0%	6.3%
Net income	25	59
Net margin (%)	3.3%	6.2%
Capital Employed (yearly average)	500	517
Return on Capital Employed (ROCE)		
Operating income after tax (NOPAT) / Capital employed	7.4%	11.7%
Net income / Capital employed	4.9%	11.4%
Return on Equity	4.9%	9.5%
EPS (basic) average number of shares		\$ 1.47
EPS (diluted)		\$ 1.45
Cash flow from operating and investing activities	68	128
Net cash position at year end	26	185

(*) EBITDA = Operating income + depreciation of tangible and intangible assets

(**) Operating income after application of effective global tax rate

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2004: an excellent year

- **Business model validated**
- **Axalto has been able to seize and make the most of growth opportunities in all market segments and regions**
- **Major business successes**
 - With 3G mobile phone operators in Europe and GSM operators in NSA
 - With financial institutions, particularly in the UK
 - With the US administration
 - With new IP licensees
- **Excellent operating performance**
 - Improvement in productivity
 - Creation of a cash culture
- **Healthy balance sheet further reinforced**
 - Significant improvement in profitability
 - Excellent cash generation
 - Strong positive net cash position



Outlook

● Growth should remain strong...

● Mobile Communication

- Further volume growth
 - Number of subscribers should increase substantially in 2005
 - Migration to 3G should accelerate in Europe and Asia
 - Continuation of migration to GSM in the NSA region
 - Churn rates should increase with the arrival of virtual operators
- Product mix should continue to improve gradually

● Financial Cards

- Continuation of EMV migration
 - Continuing migration in the UK
 - Start of migration in other countries: France, Germany, Italy, Spain, Turkey, Korea, Japan, South Asia, Mexico, Brazil

● Public Sector, Transport, Access & Other

- Electronic passports
- First trials of ID cards and visas in Europe



Axalto: a leader with confirmed growth potential

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- **Growth should remain strong...**
- **Axalto intends to leverage its leading position and specific strengths...**
 - A business model based on profitability with a strong leverage on growth
 - A well balanced portfolio of activities
 - A global presence
 - A low-investment 'soft-industrial' structure
 - And a strong innovation capacity, supported by the large portfolio of Intellectual Property rights
- **... and remains more determined than ever !**

**We are confident in our ability
to deliver lasting profitable growth**

Thank you for your attention



axalto