



2005 Full Year Results

9 March 2006

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Key points

- **Strong levels of activity and a reinforced financial situation**
 - Axalto was able to seize the growth opportunities, and improve its earnings
 - Well balanced business portfolio and geographical presence decisive
 - Unusual seasonal pattern between first and second semester

- **Key financial achievements**
 - Revenue: \$992 million
 - Operating margin: **8.1%**
 - Net income : \$59 million
 - Earnings per share : \$ 1.41
 - Free cash flow: **\$73 million**
 - Net cash position at year-end: **\$251 million**

- **The proposed combination with Gemplus to create a world leader in digital security, Gemalto, was strongly approved by the respective shareholders**

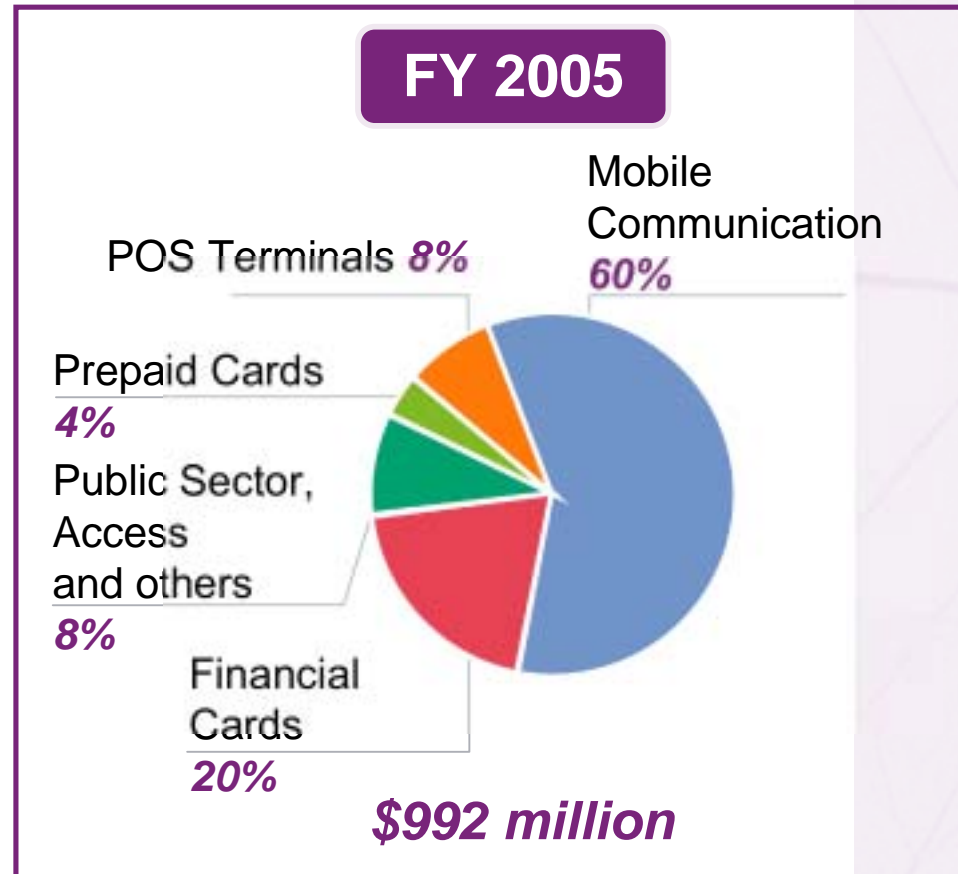
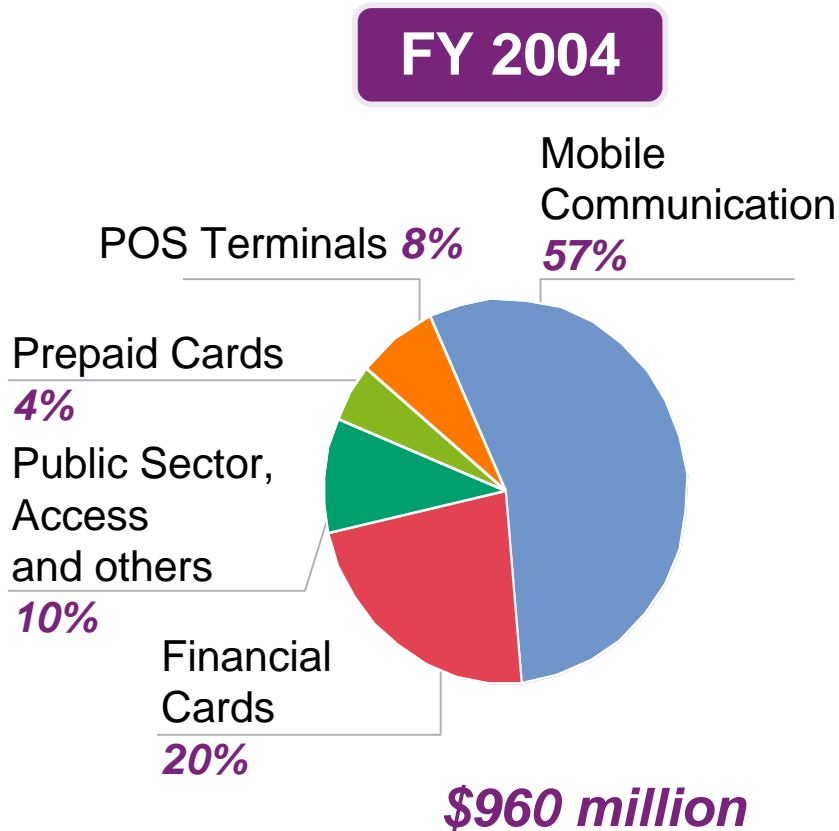


Strong levels of activity



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Breakdown of revenue in full year

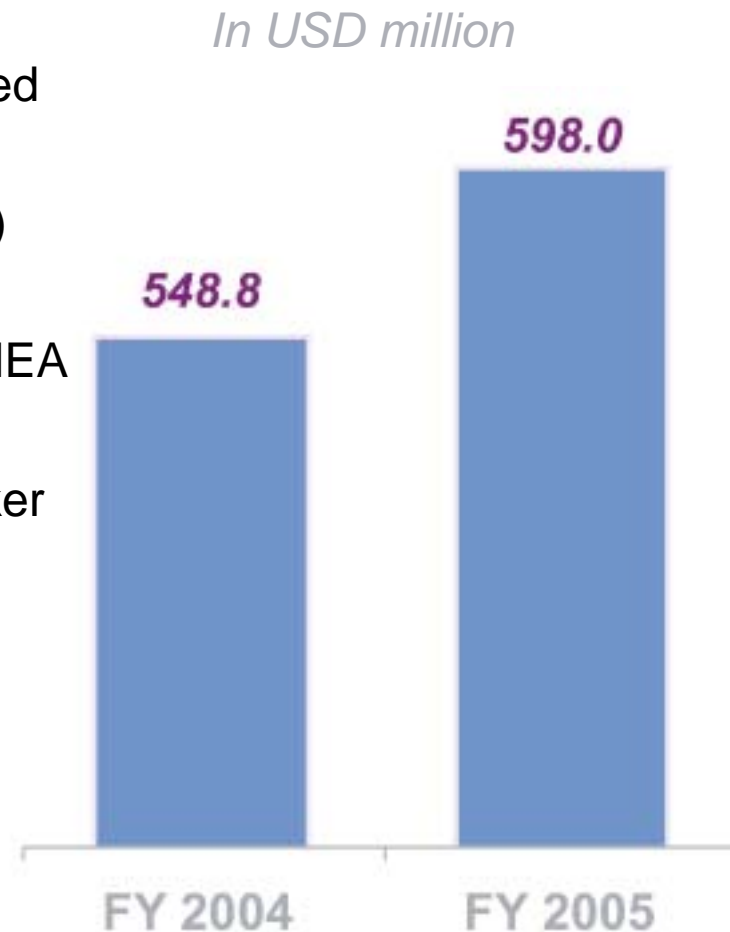


A balanced business portfolio
Mobile Communication confirmed as main product line

Full year revenue Mobile Communication

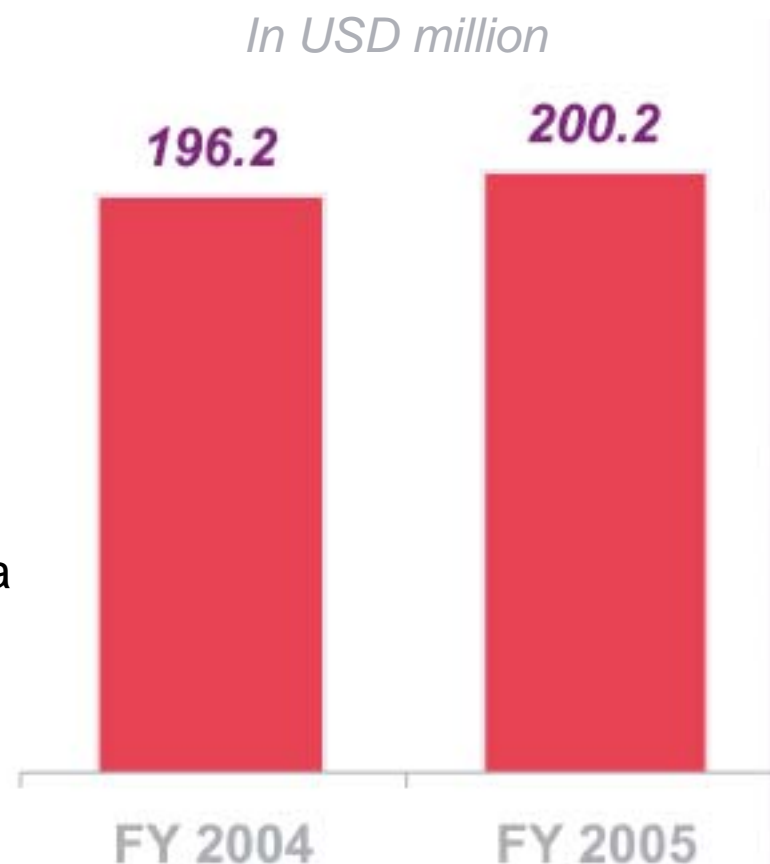
■ Further very strong growth: +9%

- Over 340 million SIM cards delivered in 2005 (+33%), a new record
- Continued pressure on ASP (-19%)
- Very strong growth in volumes of microprocessor cards sold in EMEA and NSA
- Lower revenue in Asia due to weaker demand in China and lower growth in several South Asia markets
- Continuous improvement in the product mix, generating growth in revenue



Full year revenue Financial Cards

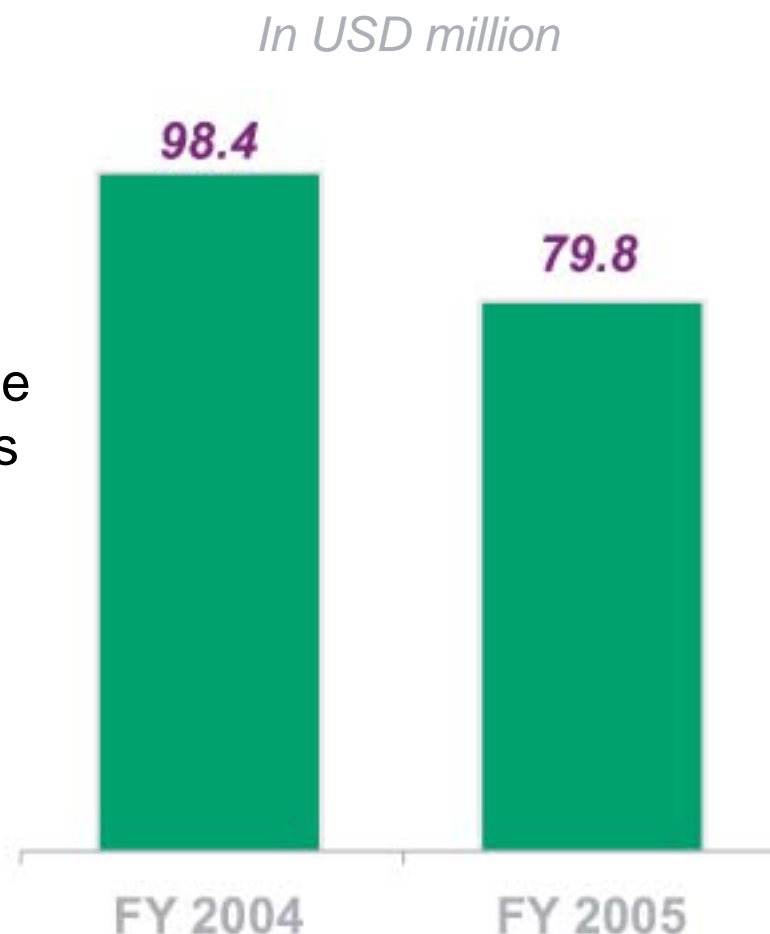
- Moderate growth: +2%
 - 78 million microprocessor cards sold in 2005, a new record
 - A more favorable geographical sales mix
 - High basis of comparison due to EMV migration in the UK in 2004
 - Migration to the EMV standard spreads to Latin America and Asia
 - 5 million Axalto contactless cards shipped in the second semester to top US banks



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Full year revenue Public Sector, Access and Other

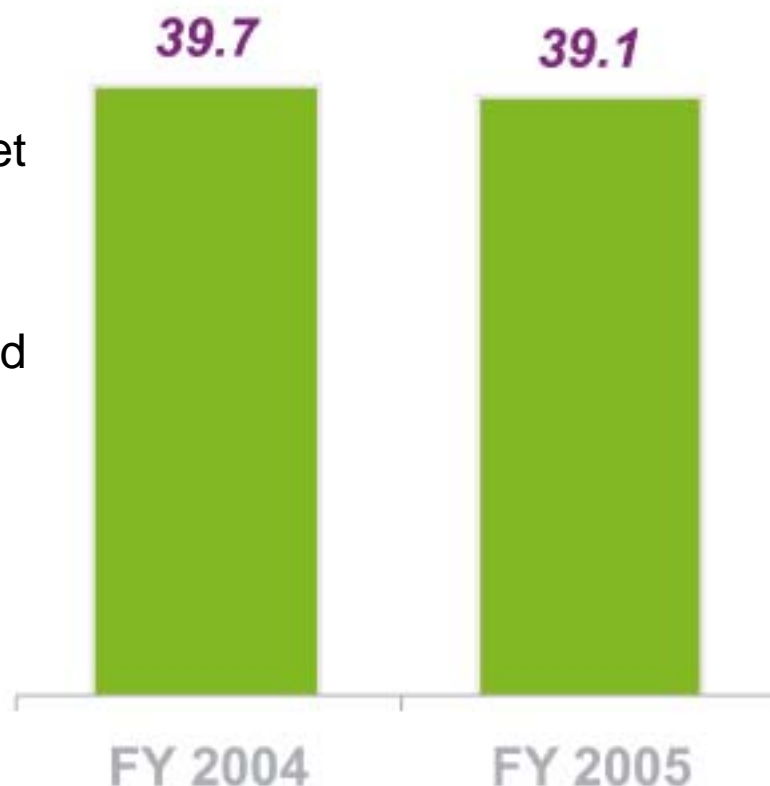
- Lower Pay TV and patent licensing, and delays in large national public electronic passport and ID projects drives revenue down 19%
- Product line still marked by the volatile nature of this business
- Improved Access business product mix in Asia and NSA



Full year revenue Prepaid Phone Cards

In USD million

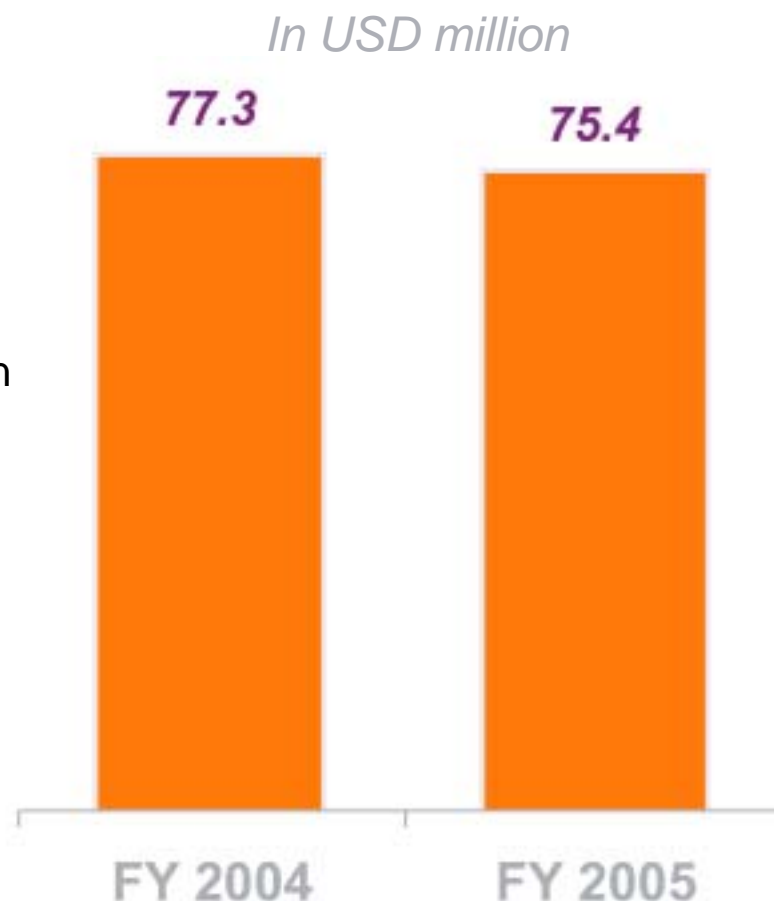
- Revenue inches down 2%
 - Axalto pursues its selective strategy in a declining market
 - Global volume and average selling price remains downwardly oriented in the end-of-life of this product line



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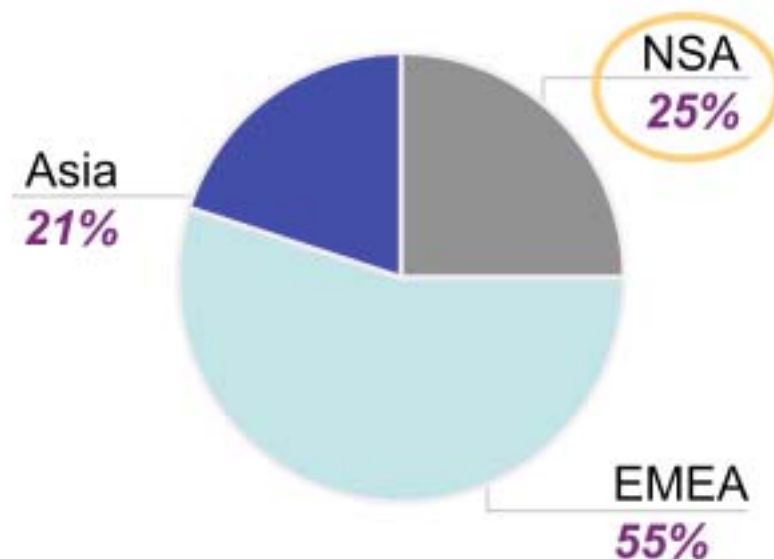
Full year revenue Point-of-Sale Terminals

- Strong geographic expansion almost fully offset tough comparison basis
 - Very high basis of comparison due to large deliveries of EMV compatible terminals in the UK in 2004 (48% revenue growth compared to 2003)
 - Robust growth recorded especially in India and EMEA as EMV migration spreads
 - A strong share of revenue now derived from services



Breakdown of revenue by area in 2005

- NSA
 - Strongest growth in revenue, in percentage +30%, and in absolute terms: +\$56 million, at \$244 million in 2005
- Asia:
 - Revenue down 13% to \$207 million mainly due to the weakness of the Chinese market and lower growth in South Asia
- EMEA:
 - Revenue of \$542 million, up 1%, marked by strong growth in Eastern Europe and Africa



NSA region becomes the second largest region in terms of revenue

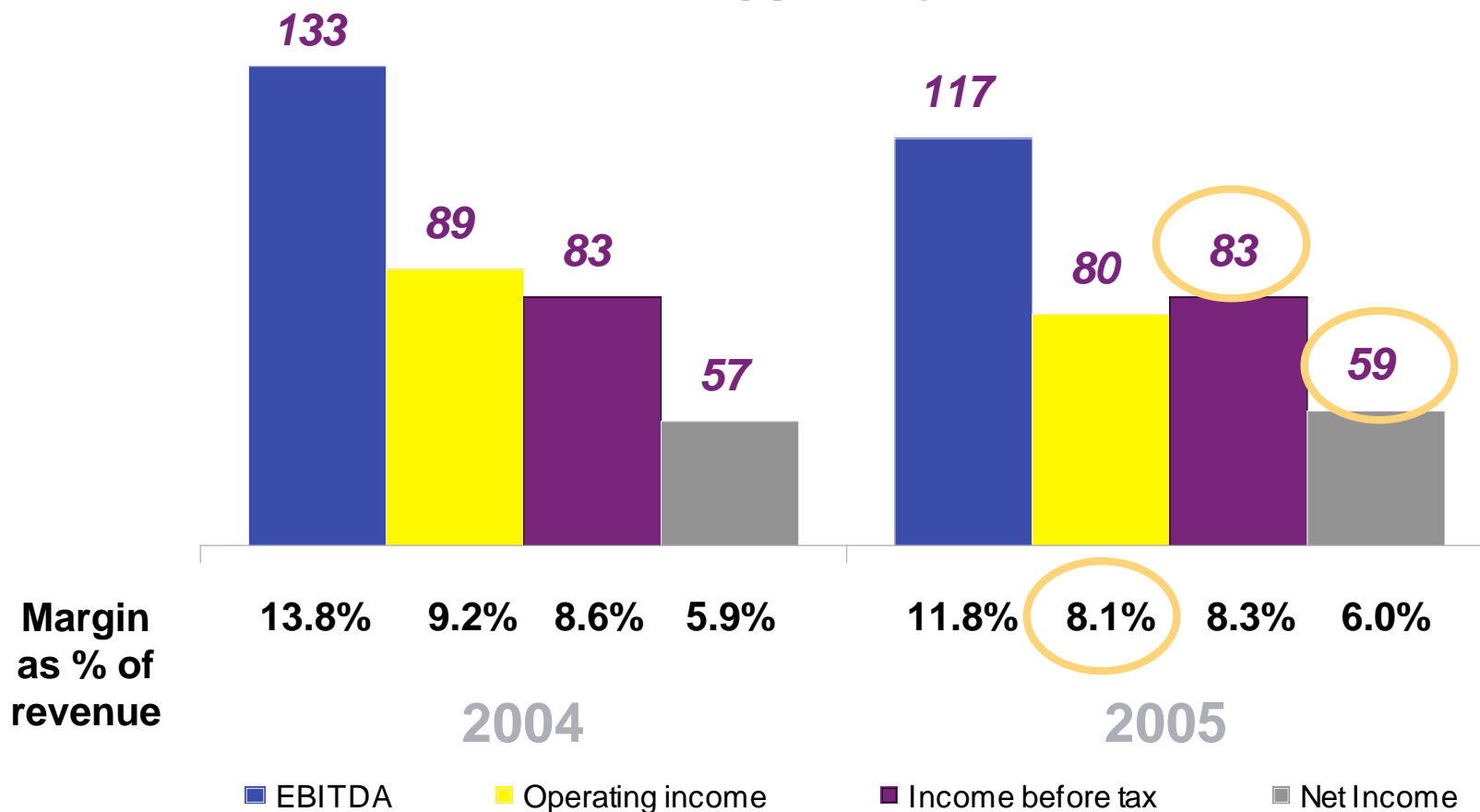
Strong performance



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Net income grows despite strongly competitive environment

In USD million



Income statement highlights:

<i>In USD million</i>	2004	2005	Evolution
Revenue	960.4	992.3	+3%
Gross profit	315.8	320.8	+2%
<i>Gross margin (%)</i>	32.9%	32.3%	
EBITDA	132.7	117.2	(12%)
<i>EBITDA margin (%)</i>	13.8%	11.8%	
Operating income	88.6	80.0	(10%)
<i>Operating margin (%)</i>	9.2%	8.1%	
Income before tax	82.9	82.5	0%
<i>As a percentage of revenue (%)</i>	8.6%	8.3%	
Net income	57.0	59.3	+4%
<i>Net margin (%)</i>	5.9%	6.0%	
Net income attributable to equity holders	56.3	57.1	+ 1.4%
Basic Earnings Per Share	1.40 USD	1.41 USD	+ 1%

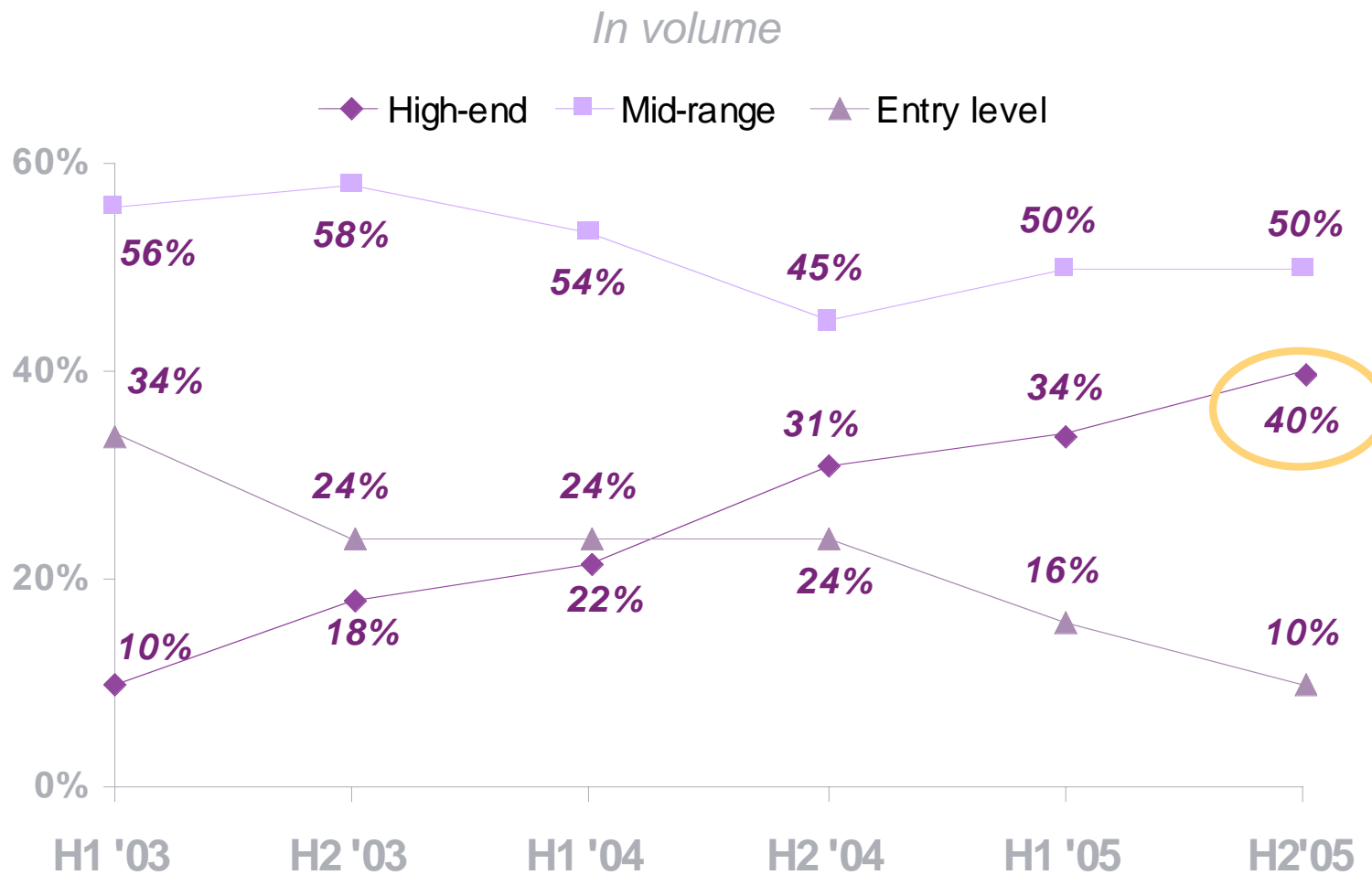
(At historical exchange rates)

Cards segment revenue evolution

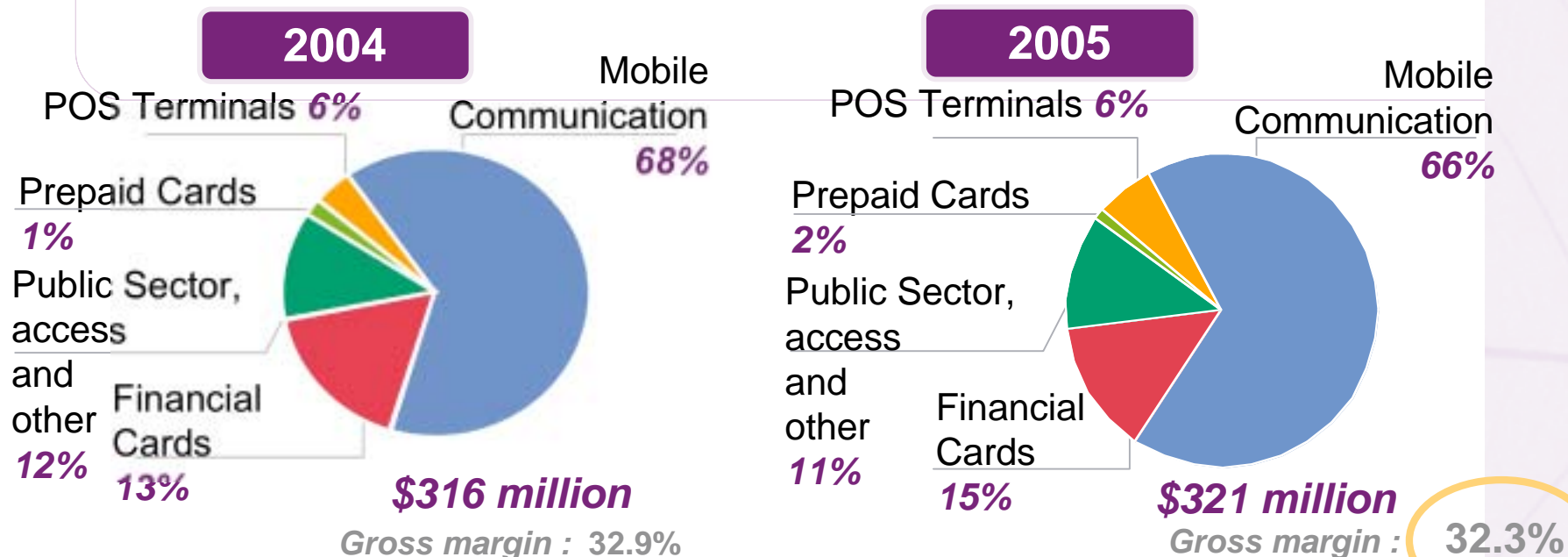
<i>In USD million</i>	FY 2004	Currency effects	Volume effect (Cards)	Mix effect (Cards)	Price effect (Cards)	Other	FY 2005
Mobile Communication	549	1	166	75	(204)	10	598
Financial Cards	196	2	13	6	(14)	(3)	200
Public Sector, Access and Other	98	0	(3)		(1)	(14)	80
Prepaid Phone Cards	40	0	5		(6)	0	39
Total	883	3	181	81	(226)	(7)	917



Improved product mix in Mobile Communication



Gross profit by product line



- Gross profit rises by 1.6%, to \$321 million
- Gross margin down slightly to 32.3% vs. 32.9%, due to:
 - Lower rate of volume growth in the second half in Mobile Communication
 - Delays in Asian demand for high-end products
 - Continued pressure on selling prices
 - Lower revenue derived from patent licensing
 offset by:
 - Improvement in Mobile Communication product mix and volume growth
 - Better regional sales mix in Financial Cards
 - Ongoing improvement in productivity and fixed costs controls
 - Successful components sourcing strategy

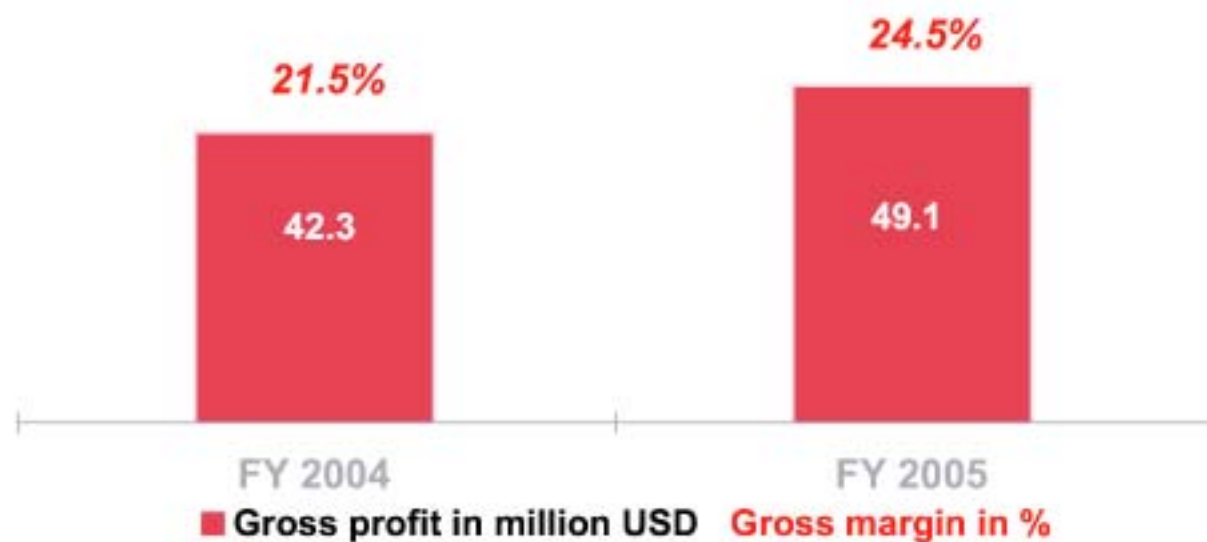
Gross profit Mobile Communication



- Gross profit down 1%
 - Strong pricing pressure partly compensated by productivity gains
 - Lower demand in China and softer growth in South Asia
 - Sharp increase in volumes driven by Latin America, Eastern Europe, Africa and the Middle East

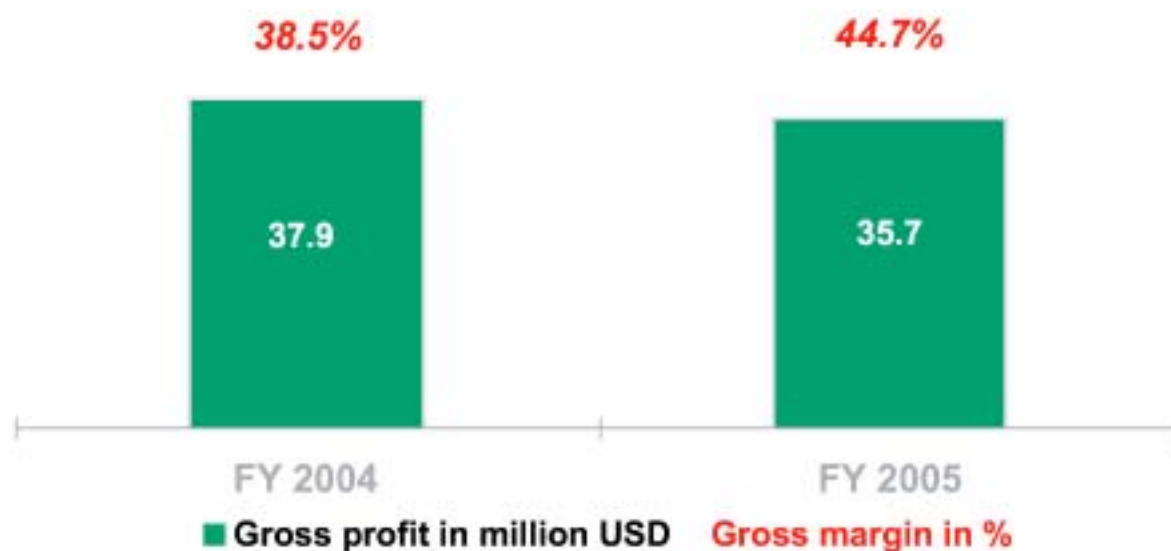
Gross profit Financial Cards

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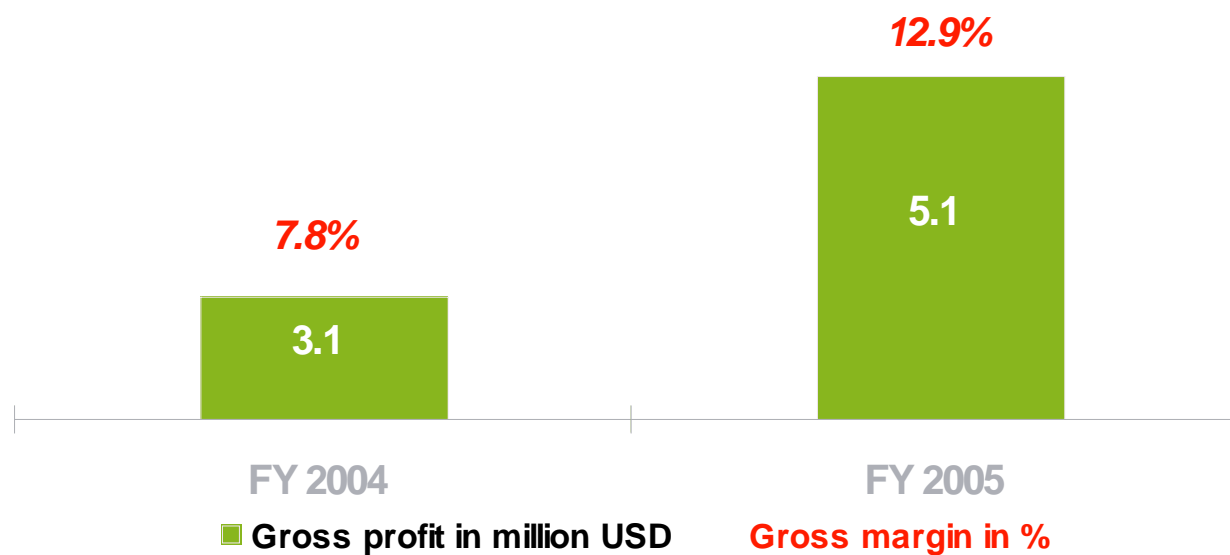
- Gross profit up 16%
 - Product mix improves through a more favorable geographical sales mix
 - Reduction in production costs

Gross profit Public Sector, Access and Other



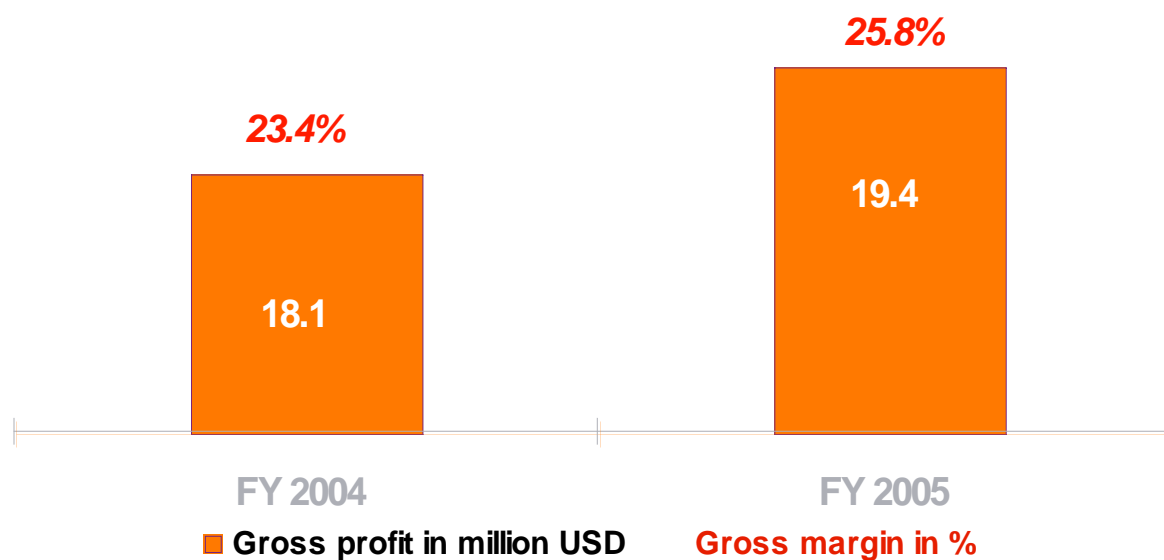
- Remarkable gross margin improvement despite lower revenue derived from patent licensing
 - New products introduction and improvement in the mix of products
 - Reduction in Pay TV businesses that carries lower gross margin

Gross profit Prepaid Phone Cards



- Selective approach and strong improvements in manufacturing efficiency enables to improve profitability

Gross profit Point-of-Sale Terminals



- **Gross margin improves 2.4 percentage points**
 - Successful geographic expansion in high growth markets
 - Benefits of locally outsourced assembly
 - Profitable deployment of support services



Operating expenses well contained

<i>In USD million</i>	2004	2005
Research and development	64.1	67.3
<i>As a % of revenue</i>	6.7%	6.8%
Sales and marketing	110.8	114.2
<i>As a % of revenue</i>	11.5%	11.5%
General and administrative expenses	56.3	59.0
<i>As a % of revenue</i>	5.9%	5.9%
Total operating expenses (excluding other income, net)	231.2	240.6
<i>As a % of revenue</i>	24.1%	24.2%

- Effectiveness of the Group's tight costs controls
- Increase in general and administrative expenses as a publicly listed company in line with IPO-time anticipations

Net Return on Sales increases to 6%

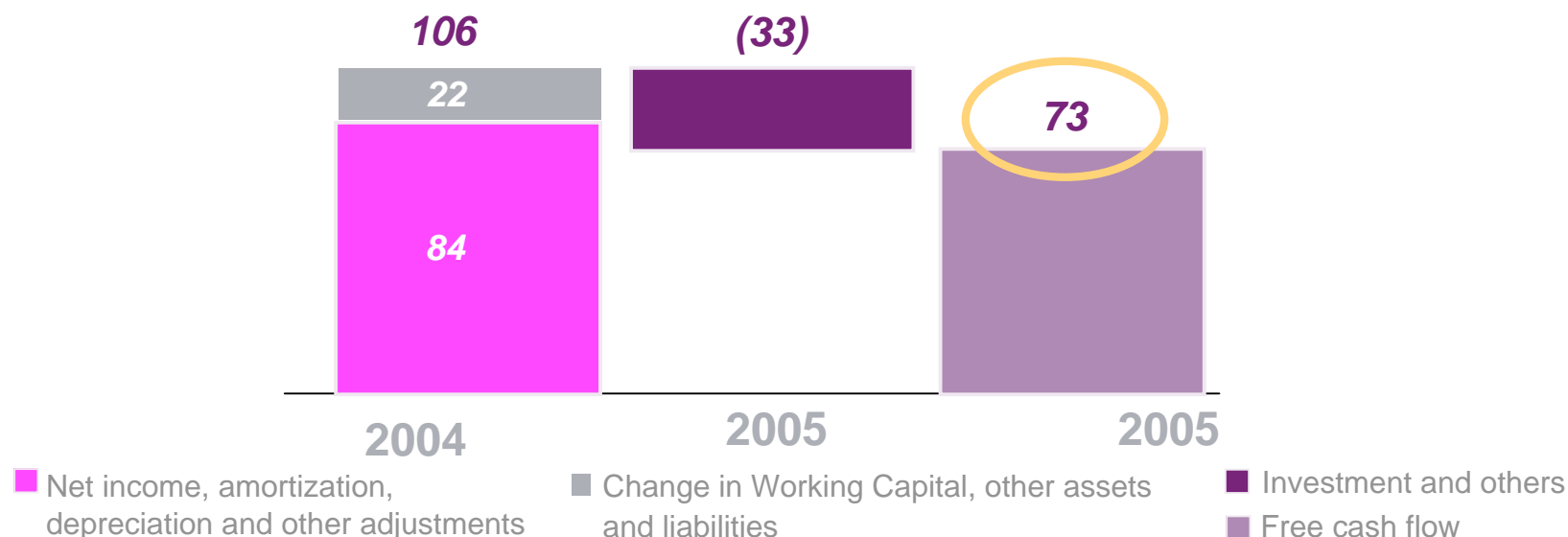
<i>In USD million</i>	2004	2005
Operating income	88.6	80.0
<i>Operating margin</i>	9.2%	8.1%
Income before taxes	82.9	82.5
Net income	57.0	59.3
<i>Net margin</i>	5.9%	6.0%
Net income attributable to equity holders	56.3	57.1

- Operating margin at 8.1%
- Strong financial result, reflecting successful currency risk management policy and strong financial income
- Tax rate : 28.2% compared to 31.2% in 2004
- Net income rises 4%
- Return On Sales increases to 6%

Strong cash generation

Net cash generated (consumed) by operating and investing activities

In USD million



- Strong free cash flow generation : \$73 million
- Further improvement in working capital management
- Cash flows from investing activities: \$36 million, i.e. 3.7% of 2005 revenue

A solid balance sheet

<i>In USD million</i>	31/12/2004	31/12/2005
Exchange rate 1 USD = Euro	0.735	0.845
Assets		
Current assets		
Cash and short-term investments	224	259
Receivables and other assets	250	231
Inventory	122	93
Financial instruments	7	-
Total current assets	604	584
Property, plant and equipment (net)	111	102
Deferred taxes	54	49
Goodwill	311	276
Net intangible assets and other non current-assets	35	32
Total assets	1,114	1,044
Liabilities, minority interests and invested capital		
Current liabilities		
Short-term debts	9	2
Trade and other payables	295	270
Other current liabilities	30	32
Total current liabilities	334	303
Long-term debts	30	7
Retirement benefit obligation	17	16
Provisions & other long-term liabilities	23	16
Total liabilities	405	342
Minorities	7	3
Total invested equity	702	699
Total liabilities, minority interests and invested capital	1,114	1,044
Working capital requirement	70	36
<i>As a % of last quarter revenue, annualized</i>	6%	3%
Capital employed (at year end)	524	451

Net Cash
Dec 2004
\$185m

Net Cash
Dec 2005

\$251m



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Key Metrics

(in million USD)

	2004	2005
USD 1 = EUR	0,809	0,798
Revenue	960,4	992,3
Gross Profit	315,8	320,8
<i>Gross Margin (in %)</i>	32,9%	32,3%
EBITDA (*)	132,7	117,2
<i>EBITDA Margin (in %)</i>	13,8%	11,8%
Operating Income	88,6	80,0
<i>Operating Margin (in %)</i>	9,2%	8,1%
Net Income (attributable to equity holders of the company)	56,3	57,1
<i>Net Return on Sales (in %)</i>	5,9%	5,8%
EPS (basic) on average number of shares	1,40	1,41
EPS (fully diluted)	1,38	1,38
Cash-flow from operating and investing activities	133,6	72,8
Net Cash position at period end	185,0	250,5
Capital Employed, net (as period average)	522,9	487,7
Return On Capital Employed (on NOPAT basis)	11,7%	12,1%

*Operating income + depreciation and amortization



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Conclusion

Axalto in 2005

- Axalto created and seized opportunities in its main businesses with winning products and services
- Unusual seasonal pattern
- Excellent performance in field operations
- A leaner and stronger balance sheet

Axalto in 2006

- A defined set of favorable growth opportunities
- Innovative products to seize them
- The local presence to service growth
- A healthy balance sheet to finance these opportunities
- Expected return to a more traditional seasonal pattern, favoring the second half
 - Preparing for the success of Gemalto

Gemalto, creating a world leader in digital security

1. Gemalto will be in a strong position to address the growth in core markets and new applications
 2. Enhanced R&D and Sales & Marketing to serve broader client base with customized products, stronger local support and more innovation deployment
 3. Strong governance, shared and strengthened management team
 4. Robust financial situation with sound balance sheet and significant identified synergies
- Combination of equals already overwhelmingly approved by both Axalto and Gemplus General Meetings of shareholders
 - Two step transaction: contribution in kind followed by a voluntary exchange offer
 - Working with competition review authorities

