



Third-quarter 2004 revenue up 15.1%

- Revenue rises to \$239 million in the third quarter of 2004
- Positive outlook on sales and earnings for the year

Amsterdam, 26 October 2004 – Axalto (Euronext NL0000400653 - AXL) today reports third-quarter revenue increase of 15.1%, at \$238.7 million versus \$207.4 million in the year-earlier period, and a 10.6% progress at constant exchange rates.

Olivier Piou, Axalto CEO, commented: “Axalto’s teams delivered another great performance this quarter. It compares favorably with a very strong same quarter last year. During the period the company continued to tightly manage its costs and strengthened its leadership position in the public sector market. Axalto products were selected for the electronic passport qualification in the US, highlighting once again the benefits of the company’s disciplined innovation process focused on growth opportunities. Encouraged by these technical and business successes, and strong of our balanced portfolio of activities, we are comforted with our ambition to deliver continued improvement in our financial performance this year.”

Axalto	Third-quarter			
	2004	2003	Change	% of total revenue
	(\$ million)	(\$ million)		in third quarter
Cards				
Mobile Communication	137.3	123.5	+ 11%	58%
Financial Cards	47.1	40.1	+ 17%	20%
Public Sector, Access, and Other	18.2	19.8	(8)%	8%
Prepaid Phonecards	9.6	14.4	(36)%	4%
Total Cards	212.1	197.8	+ 7%	89%
Point-of-Sale Terminals	26.5	9.6	+ 176%	11%
Total	238.7	207.4	+ 15%	100%

All comparisons in this document are at historical exchange rates unless otherwise specified

Continued growth in the Cards division

Revenue in the Cards division grew by 7.2% in the third quarter to \$212.1 million, relative to an already excellent third quarter 2003, despite the pursuit of our proactive production capacity reallocation off low-end products (prepaid phone cards and magnetic stripe cards) towards microprocessor cards. At constant exchange rates, the increase was 3.1%.

Growth in microprocessor card sales

Mobile Communications. Revenue in this segment increased by 11%, and 8% at constant exchange rates, to \$137 million in the third quarter of 2004.

This rise was driven by sharp volume growth, with the number of SIM cards sold reaching 66 million units over the quarter. This performance confirms the strong and steady growth in the number of SIM cards sold by Axalto since the beginning of 2004. 49 million and 57 million units had been delivered in the first and second quarters, respectively.

Compared with the third quarter of 2003, average SIM card prices fell by 17%, and 19% at constant exchange rates. This decline stems from three distinct factors:

- the natural price erosion of entry and mid-range products,
- the decrease in the average price of 128KB cards, compared with the third quarter of 2003 when this technology was launched in volume for 2G and 3G applications,
- Axalto's decision to encourage customers to migrate from prepaid scratch cards, i.e. without a chip, towards entry-range microprocessor-based SIM cards. The success of this initiative translated into increased volumes shipped, with a corresponding drop in the average sales price indicator as a side-result, and contributed positively to Axalto's operating income. Furthermore it creates the opportunity for Axalto to promote with these customers higher-end products for the future.

The EMEA region continued to post excellent performance in the third quarter, with revenue up 18%.

Growth in Asia also remained strong, with revenue rising by 13% compared with the third quarter of 2003.

The NSA area posted a small revenue decline, of 1.7%, due to a temporary slow-down of deliveries in North America following the decision of a large operator to switch to higher-end products for which deliveries will start in the fourth quarter. The migration of North and South American mobile networks to GSM standards, which generated very strong initial sales in this region during the third quarter of 2003, continues at a strong pace.

Financial Cards. In the third quarter, Axalto generated revenue of \$47 million in this segment, showing an excellent year-on-year increase of 17%, and 8% at constant exchange rates.

Microprocessor card sales volumes rose by 12% to 17 million units.

The average sales price was up 1% at constant exchange rates. This was due to an improved average selling price for most products in the EMEA and NSA regions.

Public Sector, Access and Other. Third-quarter revenue in this segment came in at \$18 million, decreasing by 8%, and by 11% at constant exchange rates.

The third quarter 2003 revenue included a large patent licensing agreement; excluding this item from the comparison basis, revenue rose by 27% relative to the same period of last year, and 25% at constant exchange rates.

Pursuit of the pro-active reduction in sales of memory cards (without microprocessor)

Prepaid Phonecards. Axalto pursued its strategy to focus on higher value-added microprocessor cards and to supply memory cards only to its strategic customers. Accordingly, revenue from this segment continued to shrink, by 33%, and 36% at constant exchange rates, due to lower selling prices overall and reduced volumes supplied in Asia.

An excellent quarter for Point-of-Sale Terminals

Revenue in the POS Terminals division rose by 176% (and 162% at constant exchange rates) to \$27 million in the third quarter of 2004.

This growth was fuelled by strong sales in the EMEA region, mainly through supply contracts signed with major European financial institutions. Revenue of \$10.7 million for deliveries made to one of these customers in the first half of 2004 but deferred until contract signature in accordance with US GAAP was recognized this quarter. The revenue from services related to products delivered under these supply contracts, \$5.5 million, is being recognized over the life of the contracts.

Revenue by geographic region

Third quarter	EMEA		Asia		NSA	
Divisions	Revenue (\$ m)	Change	Revenue (\$ m)	Change	Revenue (\$ m)	Change
Cards	112.8	+17%	55.6	(3%)	43.7	+0%
Point-of-Sale Terminals	24.3	+239%	1.8	+24%	0.4	(59%)
Total	137.1	+32%	57.5	(3%)	44.1	(1%)

About Axalto

Axalto (Euronext: NL0000400653 AXL) is the world's leading provider of microprocessor cards (Gartner Dataquest 2004) -the key to digital networks- and a major supplier of point-of-sale terminals. Its 4500 employees, from 70 nationalities, serve customers in more than 100 countries, with worldwide sales reaching 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 continuously 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.

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