



axalto

First Half 2005 Earnings Release

Profit from Growth: Operating Margin Increases to 9.4%

- Revenue rises to USD 498 million, up 16%
- Gross margin increases by 1.5 percentage point, to 33.8%
- Operating margin grows from 6.7% to 9.4%
- Operating income improves by 62% to USD 47 million
- Net income up 71% at USD 33 million
- Net earnings attributable to equity holders of USD 79 cents per share
- Free cash flow generated during the period: USD 42 million.

Amsterdam, 8 September 2005 – Axalto (Euronext: NL0000400653 - AXL) reports today its results for the six-month period ended June 30, 2005. These interim 2005 consolidated condensed financial statements have been prepared in accordance with the IFRS accounting principles.

Commenting on these results, Axalto Chief Executive Officer, Olivier Piou, said: “Axalto’s performance over the first six months of the year is just remarkable. In a very competitive environment our teams have recorded tremendous commercial gains in all lines of business. Axalto’s worldwide presence was once again decisive, enabling us to take advantage of the rapidly changing geography of growth. The substantial increase in volume was further leveraged by continuous improvements in operational excellence. The market continues to be characterized by strong price pressures. Looking to the year-end we’ll bear in mind that last year’s comparative basis was particularly high and that the seasonal pattern, which traditionally favors the second-half, will be less marked. For the full year, we are determined to remain the most profitable player in our industry.”

Axalto <i>All amounts in USD million</i>	First Half 2004	First Half 2005	Variation	Variation at constant exchange rates
Revenue	430.3	498.2	+ 16%	+12%
Gross Profit	138.9	168.2	+ 21%	+20%
<i>Gross Margin (%)</i>	32.3 %	33.8 %		
Operating Income	29.0	47.1	+62%	
<i>Operating Margin (%)</i>	6.7 %	9.4 %		
Income Before Taxes	28.5	47.3	+66%	
<i>As a percentage of Revenue (%)</i>	6.6%	9.5 %		
Net Income	19.5	33.3	+71%	
<i>Net margin (%)</i>	4.5%	6.7 %		
Net Income attributable to equity holders	19.0	31.9	+68%	
Average number of shares outstanding	40.1 million	40.4 million		
Earnings Per Share attributable to equity holders (basic)	USD 47 cents	USD 79 cents	+66%	
<i>Earnings Per Share attributable to equity holders (fully diluted)</i>	<i>USD 47 cents</i>	<i>USD 77 cents</i>	+62%	

An excellent performance: all indicators improve relative to the first-half of 2004

During the first-half of the year 2005, Axalto recorded strong growth in its level of activity and a sharp improvement in its profitability.

Over the period, the company posted a 16% increase in revenue to USD 498.2 million, a 62% progression in operating income to USD 47.1 million and a 71% rise in net income, which reached USD 33.3 million.

Based on an average number of shares in circulation of 40.4 million over the period, Axalto's basic earnings per share attributable to equity holders was USD 79 cents, a 66% improvement on the interim earnings of 2004.

This excellent performance contributed to strong cash generation from operating activities of USD 55.4 million during the period. Axalto's net cash position at the end of June 2005 improved to USD 220.3 million.

Revenue grows 16%

Over the first-half, all of Axalto's businesses contributed to the company's top line growth. In particular, the Mobile Communication product line grew by 23%, to USD 295.5 million. During the period, this product line accounted for 59% of Axalto revenue, up 3 percentage points relative to the first-half of 2004.

In regional terms, the Europe Middle East Africa area posted solid growth of 14% compared with the first half of 2004, reaching USD 275 million.

The Americas recorded the fastest revenue increase, both in absolute terms, adding USD 40.2 million, and in percentage terms with a +52% jump in sales, to USD 118 million.

During the period, this region became the second largest contributor to Axalto's revenue, accounting for 24% of the global figure while Asia's share decreased almost symmetrically to 21% due to the contraction in the Chinese market for mobile communication products.

Axalto shipped close to 204 million microprocessor cards during the first six months of 2005, a 32% increase in volume when compared with 2004's first half. Volume growth was most marked in Mobile Communication: Axalto sold 157 million SIM cards to mobile network operators, a 48% increase on last year's comparable figure.

Operating margin increases strongly, from 6.7% to 9.4%

During the period, Axalto's increase in operating profit was driven by

- the Group's strong first-half revenue
- the larger share of revenue derived from Mobile Communication and the favorable sales mix in this product line. High-end cards accounted for 34% of SIM card deliveries versus 22% for the same period of last year.
- pointed improvements in the gross margins of the Mobile Communication and the Public sector, access and other product lines as well as in the Point-of-Sales terminals segment. As a result Axalto's gross margin rose by 1.5 percentage point to 33.8% during the first-half, and gross profit increased 21% on the year-earlier period to USD 168.2 million,
- strict discipline in operating expenses which grew at a much slower pace than sales. Posting an increase of +9.8%, and +5.6% at constant rates, to USD 123 million, these expenses represented 24.7% of Axalto's first half revenue, down 1.4 percentage point compared with the same period of last year.

Activity generates USD 42 million in free cash flow

Strong net income as well as continued tight control over both working capital requirements and capital expenditure contributed to the solid cash flow generation performance.

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. With a 25-year experience in smart card innovation, the company 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.

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Supplementary information

During this six-month period ended June 30, 2005, Axalto revenue came in at USD 498.2 million, a 16% growth compared with the same period last year, when recorded revenue was USD 430.3 million. At constant exchange rates, revenue grew 12%.

The Americas (NSA) region grew 52% compared with the same period last year and became the second largest contributing region to Axalto's revenue, accounting for close to a quarter (24%) of Axalto total revenue, at USD 118 million.

The Europe Middle East Africa (EMEA) area grew by 14%, and 8% at constant exchange rates, compared with first half of 2004, recording revenue of USD 275 million, corresponding to slightly more than half (55%) of Axalto's revenue for the period.

Asia inched down 5% to USD 105 million compared with the same period of 2004 and represented slightly more than a fifth (21%) of Axalto total revenue.

Gross profit came in at USD 168.2 million, an increase of 21% on the year-earlier period, where gross profit was USD 138.9 million.

At constant exchange rates, gross profit increased 20%.

Gross margin rose by 1.5 percentage point, from 32.3% to 33.8%.

Operating expenses, excluding other income net, rose by 9.8% to USD 123.1 million, and by 5.6% at constant exchange rates, compared with USD 112.1 million in the first half of 2004.

These represented 24.7% of revenue, down 1.4 percentage point compared to the first half of 2004's ratio of 26.1%.

As a consequence of higher revenue, improved gross margin and tight control over operating expenses, operating income, at USD 47.1 million, grew by 62% over the year-earlier period.

Operating margin increased by 270 basis points, from 6.7% to 9.4%.

Axalto generated net income attributable to the equity holders of the company of USD 31.9 million in the first half of 2005, a 68% improvement on 2004's comparable first-half figure of USD 19.0 million.

Axalto also generated USD 42.1 million of free cash flow during the period. Despite the strong growth recorded in the first half 2005, working capital requirements were maintained at the very low level achieved at end 2004.

Variations of assets and liabilities, including working capital, generated USD 3.5 million of cash flow during the period. Capital expenditure amounted to USD 13.3 million, 2.7% of revenue, versus USD 11 million in the same period last year.

Axalto available cash and short-term investment at the end of June 2005 amounted to USD 227.8 million, and its net cash position was USD 220.3 million at the same date, versus respectively USD 223.8 million and USD 185.0 million on December 31st, 2004.

Product line Information

Cards segment

Million USD	Six months ended June 30,		Variation
	2004	2005	
Revenue			%
Mobile Communication	239.8	295.5	+23.2%
Financial Cards	97.4	99.1	+1.7%
Public sector, Access and Other (1)	43.3	43.4	+0.2%
Prepaid Phone Cards	21.4	21.6	+1.1%
Total Cards	401.9	459.6	+14.4%
Gross profit			
Mobile Communication	89.0	111.9	+25.8%
Financial Cards	24.0	24.3	+1.3%
Public sector, Access and Other (1)	17.2	20.7	+20.9%
Prepaid Phone Cards	2.5	1.5	(39.9%)
Total Cards	132.6	158.5	+19.5%
Gross margin	33.0%	34.5%	
Operating expenses (2)	101.9	113.9	+11.8%
Operating Income	30.7	44.5	+44.9%
Operating margin	7.6%	9.7%	

(1) Includes the revenue from the licensing of Intellectual Property.

(2) Including "Other income net", in accordance with IFRS

Revenue in the Cards segment rose by 14% when compared with the first half of 2004, and by 11% at constant exchange rates.

Growth was strongest in absolute (+ USD 43.0 million) and relative terms (+58%) in the Americas (NSA) region, due to strong demand for SIM cards resulting from the growing GSM standard adoption by existing American mobile networks, a simultaneous increase in subscribers to these networks and a considerable product mix improvement.

The region accounted for USD 117.1 million in revenue or a quarter (25%) of the Cards' segment revenue.

EMEA posted solid growth of 10% (and +5% at constant rates) and accounted for USD 243.1 million in revenue or 53% of the Cards' segment revenue during the first half. The increase stemmed from strong sales performances of Mobile Communication products in Eastern Europe and Africa.

Asia's Cards revenue decreased by 7% to USD 99.4 million over the first six months of 2005. The inflection was in large part due to the marked contraction in the Chinese mobile communications' market which is currently in the process of being reorganized by the Chinese government.

Axalto's microprocessor cards shipments rose by 32% in volume in the first half of 2005.

SIM cards deliveries to mobile operators grew by 48% to 157 million. Deliveries of microprocessor cards to financial institutions were essentially stable, at 36 million.

In the Public sector, access and other product line, shipments of microprocessor cards were down 11% on last year's comparable figure, mainly due to lower deliveries in the Pay TV business.

Gross margin in the Cards segment increased by 1.5 percentage points to 34.5%. In dollar terms, gross profit rose by 19.5%, and by 19% at constant exchange rates to reach USD 158.5 million.

Operating expenses, excluding Other income net, rose at a much slower pace than revenue: +10.3%, and by 6% at constant exchange rates.

The increase in sales, marketing and technical support costs to support revenue growth was 4.6%.

General and administrative expenses grew, as anticipated, by 15.4%. The rise resulted from higher, forecasted administrative costs, related to Axalto's status as an independent and publicly-listed company, which fully impacted the first-half 2005, whereas the Group had been supported at lower cost by Schlumberger's shared financial and administrative structures during most of the first-half 2004, until its IPO on 18 May 2004.

Operating income came in at USD 44.5 million, a 44.9% increase on the level recorded in the first half of 2004. Resulting operating margin for the Cards segment was 9.7%, a 2.1 percentage points increase on last year's comparable figure.

Mobile Communication

	First Half 2004	First Half 2005	Variation	Variation at constant exchange rates
USD million			%	%
Revenue	239.8	295.5	+23%	+21%
Gross profit	89.0	111.9	+26%	+26%
Gross margin (%)	37.1%	37.9%		

Revenue in the Mobile Communication product line grew by more than 23% to \$295.5 million in the first half of 2005.

This strong growth was mainly driven by a sharp rise in sales volumes.

SIM card volumes grew by 48% to 157.3 million units, with all three regions contributing to this growth.

Compared with the first half of 2004, the average SIM card selling price contracted by 16.6%, and 18.4% at constant exchange rates, reflecting continued competitive pressure.

Once again, this downtrend was entirely offset by volume growth while the improvement in the product mix, due to higher sales of high-end cards, accounted for the positive growth in revenue.

Growth in the Europe, Middle East and Africa region (EMEA) came to +23% in the first half, on the back of very strong sales in Eastern Europe and Africa.

Activity in Asia decreased by 11% compared with the first half of 2004 due primarily to the decline in revenue recorded in China.

The Americas (NSA) region posted impressive growth, with revenue up 94% compared with the first-half 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, almost entirely comprised of high-end cards.

On a worldwide basis during the first-half, the share of high-end SIM cards in overall SIM card volumes shipped settled at 34%, a significant progress on last year's comparable figure of 22%.

This greater proportion of high-end products in the sales mix, together with the sharp rise in volumes, was instrumental to the strong growth in the product line's gross profit, which rose by 25.8% with respect to the first half of 2004.

Gross margin increased to 37.9% from 37.1% a year ago.

The Mobile Communication product line accounted for 67% of Axalto's gross profit during the first half, versus 64% a year ago.

Financial Cards

	First Half 2004	First Half 2005	Variation	Variation at constant exchange rates
USD million			%	%
Revenue	97.4	99.1	+2%	(3%)
Gross profit	24.0	24.3	+1%	(1%)
Gross margin (%)	24.6%	24.5%		

Revenue in the Financial Cards product line came in at USD 99.1 million, an increase of 2% compared with the first half of 2004. At constant exchange rates, revenue decreased by 3%.

This stable half-year picture is the result of contrasting performances during each quarter. The slower pace of revenue growth during the first quarter of 2005 was due to a particularly strong first quarter 2004 comparative basis. However, Axalto posted solid expansion in this product line during the second quarter.

Overall microprocessor cards sales volumes were stable at 36 million units. Migration to EMV standards continues to spread throughout continental Europe, while Asia and the Americas are beginning to adopt them as well. EMEA remains the main market for this product line. Asia recorded an excellent performance, posting revenue growth of 64%.

Average sales price grew 6.2% at historical exchange rates over the period, and 1.6% at constant exchange rates, reflecting improvement in the geographical sales mix within the EMEA region.

Gross profit in the Financial Cards product line increased slightly at USD 24.3 million and gross margin was stable at 25%. The Financial Cards product line accounted for 14% of Axalto's gross profit during the first half, versus 17% a year ago.

Public Sector, Access and Other

	First Half 2004	First Half 2005	Variation	Variation at constant exchange rates
USD million			%	%
Revenue	43.3	43.4	+0.2%	(3%)
Gross profit	17.2	20.7	+21%	+20%
Gross margin (%)	39.6%	47.8%		

Revenue in this product line was stable at a high level, coming in at USD 43.4 million, up very slightly on the first half of 2004, and inched down 3% at constant exchange rates.

The public sector and transport product lines recorded healthy growth despite delays in many large national programs to deploy electronic passports and ID cards. Access applications revenue increased in Asia and NSA.

These gains almost entirely offset significantly lower sales in the pay TV business, which faced heavy price declines that prompted Axalto to not renew certain contracts during the second quarter and focus its offering on the higher margin products.

Gross profit in the Public Sector, Access and other product line rose by 21% to USD 20.7 million and accounted for a 12% share of Axalto's gross profit, a similar share as last year.

The 8 percentage points increase in gross margin, which settled at 48%, reflects a marked improvement in the product mix with high-end cards shipped to North America and Asia in both the Public sector and Access businesses.

Prepaid Phonecards

	First Half 2004	First Half 2005	Variation	Variation at constant exchange rates
USD million			%	%
Revenue	21.4	21.6	+1%	(2%)
Gross profit	2.5	1.5	(40%)	(30%)
Gross margin (%)	11.8%	7.0%		

Revenue in the Prepaid Phonecards product line came in at \$21.6 million in the first half of 2005, a 1% increase, and a 2% decrease at constant exchange rates.

This increase in revenue was mainly due to large deliveries of cards over the period to a long-standing customer.

The Prepaid Phonecards product line accounted for 4% of Axalto's total revenue, versus 5% in the first half of 2004. This decrease illustrates the downward trend in sales that results from Axalto's strategic focus on microprocessor cards.

Gross profit decreased to USD 1.5 million. The product line's gross margin fell by almost 5 percentage points, as a result of the strong decrease in average selling prices.

Point-of-Sale Terminals segment

USD million	First Half 2004	First Half 2005	Variation %	Variation at constant exchange rates %
Revenue	28.4	38.6	+36%	+29%
Gross profit	6.2	9.7	+56%	+47%
Gross margin (%)	21.9%	25.2%		
Operating expenses (1)	7.9	7.2	(9%)	
Operating income	(1.7)	2.5	NA	NA
Operating margin	(5.9%)	+6.6%	NA	NA

(1) Including "Other income net", in accordance with IFRS

Revenue reported in the Point-of-Sale Terminals segment rose by 36% to USD 38.6 million. However, activity in the first-half of 2004 had been impacted by revenue deferrals related to shipments made to large financial institutions.

In the first-half 2005, Axalto's now geographically repositioned POS activities leveraged the expanding EMV migration in EMEA and Asia, extending their customer base beyond the large European financial institutions that drove growth in 2004.

Gross profit which had also been impacted by the revenue deferrals described above, grew by 56% relative to the figure reported in first-half 2004. Gross margin rose by 3 percentage points to 25%, reflecting the success of Axalto's products and of its production outsourcing strategy.

POS operating expenses, excluding Other income net, increased slightly by 3% to USD 8.2 million from USD 8.0 million, and decreased by 2% at constant exchange rates.

This segment reported operating income of USD 2.5 million, a marked improvement on last year's loss of USD 1.7 million.

Revenue by Region

Area	Segment	First Half 2004 (USD m)	First Half 2005 (USD m)	Variation (%)	Variation at constant exchange rate (%)
Asia	Cards	107.3	99.4	(7%)	(7%)
	POS	3.4	5.8	72%	71%
	Total	110.7	105.2	(5%)	(5%)
EMEA	Cards	220.4	243.1	10%	5%
	POS	21.4	31.9	49%	40%
	Total	241.8	275.0	14%	8%
NSA	Cards	74.2	117.1	58%	58%
	POS	3.7	0.9	(76%)	(77%)
	Total	77.9	118.0	52%	51%
	Total Cards	401.9	459.6	14%	11%
	Total POS	28.4	38.6	36%	29%
	Total AXALTO	430.3	498.2	16%	12%

Consolidated balance sheet highlights at 30 June 2005

USD million	From audited, consolidated balance sheet as at December 31, 2004	From unaudited, consolidated balance sheet as at June 30, 2005	Variation %
Equity	709.3	674.7	(5%)
Cash and short-term investments	223.8	227.8	+2%
Net Cash	185.0	220.3	+19%

Cash flow statement

Free cash flow generated by Axalto in the first half 2005 was USD 42.1 million. It stems from:

- strong generation of cash by operations, USD 55.4 million, produced by:
 - o USD 33.3 million of net income
 - o USD 18.7 million of depreciation and amortization add-backs
 - o USD 3.5 million of change in working capital and other assets and liabilities, whose aggregate amount net of currency fluctuations remained essentially stable overall at the very low level achieved at the end of 2004, as a result of a continued, company-wide effort.
- and capital expenditure of USD 13.3 million for the period, mainly related to capacity increases for the Cards segment.

The free cash flow generated in the first half was mainly affected to the reimbursement of the short- and long-term debt, the total amount of which decreased to USD 7.6 million, from USD 38.8 million at 31 December, 2004.

Axalto

Condensed interim consolidated financial statements as of June 30, 2005

The consolidated financial statements and notes as of June 30, 2005 presented below are unaudited; they have been subject to a review by our external auditors, PricewaterhouseCoopers.

Consolidated balance sheets (unaudited)

In thousands of US \$

	<u>Consolidated balance sheet as at December 31, 2004</u>	<u>Consolidated balance sheet as at June 30, 2005</u>
ASSETS		
Non current assets		
Property, plant and equipment (Note 5)	110,516	99,459
Goodwill	311,310	280,567
Intangible assets	26,557	22,728
Investments in associates	5,220	5,116
Deferred income tax assets	53,814	48,715
Available for sale financial assets	1,553	735
Total non-current assets	<u>508,970</u>	<u>457,320</u>
Current assets		
Inventories (Note 8)	122,492	98,650
Trade & other receivables (Note 7)	251,611	229,263
Derivative financial instruments (Note 6)	7,105	235
Cash & cash equivalents	223,820	227,847
Total current assets	<u>605,028</u>	<u>555,995</u>
Total assets	<u><u>1,113,998</u></u>	<u><u>1,013,315</u></u>
EQUITY		
Capital & reserves attributable to the company's equity holders		
Common stock	50,604	50,604
Share premium	551,526	560,244
Treasury shares	-	(5,485)
Fair value and other reserves	6,858	(8,437)
Cumulative translation adjustment	40,490	(9,625)
Retained earnings	52,742	85,466
	<u>702,220</u>	<u>672,767</u>
Minority interest	7,059	1,949
Total equity	<u><u>709,279</u></u>	<u><u>674,716</u></u>
LIABILITIES		
Non-current liabilities		
Borrowings	30,249	7,299
Deferred income tax liabilities	7,038	7,116
Retirement benefit obligation	17,369	15,928
Provision and other liabilities	20,477	18,310
Total non-current liabilities	<u>75,133</u>	<u>48,653</u>
Current liabilities		
Trade & other payables (Note 9)	295,026	250,887
Current income tax liabilities	20,548	24,656
Borrowings	8,592	252
Derivative financial instruments (Note 6)	-	8,835
Provisions & other liabilities	5,420	5,316
Total current liabilities	<u>329,586</u>	<u>289,946</u>
Total liabilities	<u>404,719</u>	<u>338,599</u>
Total equity and liabilities	<u><u>1,113,998</u></u>	<u><u>1,013,315</u></u>

The accompanying notes are an integral part of these financial statements.

Consolidated statement of operations (unaudited)

<i>In thousands of US\$</i>	Six months ended June 30,		Year ended
	2004	2005	December 31,
			2004
Revenue	430,334	498,200	960,427
Cost of revenue	(291,470)	(329,995)	(644,635)
Gross profit	138,864	168,205	315,792
Operating expenses			
Research and engineering	(30,575)	(35,432)	(64,108)
Sales and marketing	(54,365)	(56,554)	(110,823)
General and administrative	(27,179)	(31,070)	(56,257)
Other income, net	2,300	1,914	4,035
Operating income	29,045	47,063	88,639
Finance income (expenses), net (Note 11)	(794)	401	(6,044)
Share of profit (loss) of associates	229	(196)	262
Profit before income tax	28,480	47,268	82,857
Income tax expense (Note 12)	(9,005)	(14,018)	(25,878)
Profit for the period	19,475	33,250	56,979
Attributable to			
Equity holders of the company	19,027	31,914	56,291
Minority interest	448	1,336	688
Basic earnings per share (Note 13) (in US dollars)	0.475	0.789	1.397
Diluted earnings per share (Note 13) (in US dollars)	0.473	0.768	1.383
In thousands			
Average number of shares outstanding (Note 13)	40,099	40,440	40,295
Average number of shares outstanding assuming dilution (Note 13)	40,247	41,558	40,697

The accompanying notes are an integral part of these financial statements.

Consolidated interim statement of changes in shareholders' equity (unaudited)

<i>In thousands of US\$</i>	Attributable to equity holders of the company								Minority interest	Total equity
	Common stocks	Share capital	Share premium	Treasury shares	Shareholders' invested equity	Fair value & other reserves	Cumulative translation adjustments	Retained earnings		
COMBINED ACCOUNTS										
Invested equity as of December 31, 2003		-	-	-	412,020	129,193	-	(3,345)	9,876	547,744
CONSOLIDATED ACCOUNTS										
Stockholders' equity as of December 31, 2003	18,000	23	1,610	-	-	-	-	-	-	1,633
Contribution from Schlumberger					51,191					51,191
Recapitalization and issuance of common stock, net capital contribution by Schlumberger	40,027,000	50,034	542,370		(463,211)	(129,193)				-
Capital increase reserved to employees	445,668	547	7,546							8,093
Profit for the period								56,291	688	56,979
Movements in fair value & other reserves										
- Currency translation adjustments							40,490	(204)		40,286
- Employee share option scheme:										
- value of services provided						2,336				2,336
- Fair value gains (losses), net of tax:										
- financial assets available for sale						(1,476)				(1,476)
- cash flow hedges						5,998				5,998
Equity of the Phones business of the HSTE JV (*)									1,784	1,784
Dividend									(5,289)	(5,289)
Balance as of December 31, 2004	40,490,668	50,604	551,526	-	-	6,858	40,490	52,742	7,059	709,279
Profit for the period								31,914	1,336	33,250
Contribution from Schlumberger			8,718							8,718
Purchase of Treasury shares (178,275 shares)				(5,485)						(5,485)
Movements in fair value & other reserves										
- Currency translation adjustments							(50,115)			(50,115)
- Employee share option scheme:										
- value of services provided						1,873				1,873
- Fair value gains (losses), net of tax:										
- financial assets available for sale						(805)				(805)
- cash flow hedges						(16,363)				(16,363)
Acquisition of the minority interests in the HSTE JV (*)								810	(275)	535
Dividend									(6,171)	(6,171)
Balance as of June 30, 2005	40,490,668	50,604	560,244	(5,485)	-	(8,437)	(9,625)	85,466	1,949	674,716

(*) On March 11, 2005, Axalto purchased the 49% minority interests in H.S.T.E., a company located in China of which Axalto has owned 49% until then. A portion of H.S.T.E.'s business includes Schlumberger's public phones equipment business in China, which is not in the scope of Axalto's operations. Pursuant to the Master Separation Agreement signed on March 19, 2004 between Schlumberger and Axalto, Schlumberger has agreed to assume all the risks and rewards of past and future operations of the public phone equipment business in H.S.T.E. As a result, it was not considered appropriate to include the results of operations of the public phones equipment business in the statement of operations of Axalto.

The accompanying notes are an integral part of these financial statements.

Consolidated statements of cash flows (unaudited)

In thousands of US\$

	Year ended December 31, 2004	Six months ended June 30, 2005
Cash flows from operating activities		
Cash generated from operations (see Note 14 below)	178,948	64,896
Interest paid	(1,910)	(629)
Income tax paid	(10,383)	(8,840)
Net cash provided by operating activities	166,655	55,427
 Cash flows from (used in) investing activities		
Purchase of property, plant & equipment	(36,783)	(11,060)
Proceeds from sale of property, plant & equipment	408	435
Purchase of intangible assets	(2,547)	(2,177)
Purchase of investments in other companies	-	(3,138)
Interest received	2,202	2,651
Dividends received	159	-
Net cash used in investing activities	(36,561)	(13,289)
 Cash flows from (used in) financing activities		
Invested equity	28,764	10,930
Purchase of shares held in Treasury (net)	-	(5,824)
Proceeds from borrowings	26,340	-
Repayments of borrowings	(15,380)	(30,807)
Dividends paid to minority interests	-	(10,128)
Net cash provided by (used in) financing activities	39,724	(35,829)
 Net increase in cash and bank overdrafts	169,818	6,309
Cash and bank overdrafts, beginning of period	50,154	223,820
Exchange gains (losses) on cash and bank overdrafts	3,848	(2,282)
Cash and bank overdrafts, end of period	223,820	227,847

The accompanying notes are an integral part of these financial statements.

Notes to the condensed interim consolidated financial statements

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

Note 1 General information

Axalto Holding N.V. (« the Company ») and its subsidiaries (together « Axalto » or « the Group ») manufacture and sell Smart Cards (“Cards”) and Point of Sale Terminals (“POS”). Cards includes microprocessor, magnetic stripe, memory and other cards and related services for mobile communications, financial cards, public sector and access applications including licensing of intellectual property rights, and prepaid phone cards. POS includes point of sales terminals, systems and related services. The Group has manufacturing plants and sells around the world.

The company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Koningsgracht Gebouw 1, Joop Geesingweg 541-542, Amstel Business Park, Amsterdam, Netherlands.

The company was first listed on Euronext Paris on May 18, 2004.

These condensed interim consolidated financial statements for the six-month period ended June 30, 2005 have been approved for issue by the Board of Directors of the Company on September 2, 2005.

Note 2 Summary of significant accounting policies

Basis of preparation

These condensed interim consolidated financial statements of Axalto are for the six-month period ended June 30, 2005. They have been prepared in accordance with the AMF recommendations (CRC 99-01) applicable to interim financial statements for companies quoted on Euronext Paris. They are covered by IFRS 1 (“First-time adoption of IFRS”), because they relate to the first half of the year ended December 31, 2005, which is the Group’s first year reported under IFRS. These interim financial statements have been prepared in accordance with the standards and interpretations issued by the *International Accounting Standard Board* (“IASB”) applicable as from December 31, 2005 and as published as of June 30, 2005.

The Group has made use of the exemption available under IFRS 1 not to apply IAS 34 (“Interim Financial Reporting”) to its first interim condensed consolidated financial statements under IFRS. The Group has also made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from January 1, 2005.

As the 2005 annual consolidated financial statements and the comparative information for 2004 included therein will be prepared on the basis of the accounting principles applicable as of December 31, 2005, the data for December 30, 2004 and June 30, 2005 presented in this report may be subject to modification in line with any changes in IFRS and the related interpretations, as endorsed by the European Union.

The accompanying notes are an integral part of these financial statements.

The Group's financial statements were prepared in accordance with generally accepted accounting principles (US GAAP) in the United States of America for all periods until December 31, 2004. US GAAP differ in some areas from IFRS. In preparing Axalto's 2005 consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the US GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

Reconciliations and the description of the effect of the transition from US GAAP to IFRS on the Group's equity, net income and cash flows are provided in Note 3.

Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying the shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of operations, and its share of post-acquisition movements in retained earnings is recognized in retained earnings. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Revenue recognition

Products and services revenue

Axalto's products and services are generally sold based upon contracts or purchase orders with the customer that include fixed and determinable prices and that do not include right of return, other similar provisions or other significant post delivery obligations. Revenue is recognized for products upon delivery when title and risk pass, the price is fixed and determinable and collectibility is reasonably assured. Revenue for services is recognized over the

period when services are rendered and collectibility is reasonably assured. Revenue for royalties is recognized when income is earned and collectibility is reasonably assured.

Certain revenues are recognized using the percentage of completion method as services are provided. These services include installation and integration services. Under the percentage of completion method, the extent of progress towards completion is measured based on actual costs incurred to total estimated costs. Losses on contracts are recognized during the period in which the loss first becomes probable and can be reasonably estimated.

Multiple element arrangements

Revenue from contracts with multiple elements, such as those including services, is recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements.

Collectibility

As part of the revenue recognition process, Axalto determines whether trade receivables and notes receivable are reasonably assured of collection based on various factors, including the ability to sell those receivables and whether there has been deterioration in the credit quality of customers that could result in the inability to sell those receivables. Axalto defers revenue and related costs when it is uncertain as to whether receivables will be collectible. Axalto defers revenue but recognizes related costs when it determines that the collection of receivables is unlikely.

Deferred and unbilled revenue

Deferred revenue includes amounts that have been billed per contractual terms but have not been recognized as income. Revenue in excess of amounts invoiced on long-term contracts is recorded as work in progress and included in inventory.

Concentration of credit risk

Axalto's financial instruments, which potentially subject Axalto to concentration of credit risk, consist primarily of accounts receivables. Axalto maintains an allowance for uncollectible accounts receivables based on expected collectibility. Axalto performs ongoing credit evaluations of its customers' financial condition.

Foreign currency accounting

Axalto's functional currencies are primarily local currencies.

All assets and liabilities recorded in functional currencies other than US dollars are translated at current exchange rates as of the balance sheet date. The resulting adjustments are charged or credited directly to the equity section of the consolidated balance sheet.

Revenue and expenses are translated at the weighted-average exchange rates for the period.

Realized and unrealized transaction gains and losses are recorded on the consolidated statement of operations in the period in which they occur. They reflect the cumulative impact of the change in values due to currency fluctuations between the booking and settlement dates of assets and liabilities denominated in currencies other than the functional currency in each of the Axalto entities.

Research and engineering

All research costs are expensed as incurred.

Axalto capitalizes eligible development costs when they meet the six criteria described in IAS 38. Based on Axalto's development process mostly focused on software development, one of the criteria of emphasis is the technological feasibility, generally established upon completion of a working model. Amortization of capitalized software development costs begins when the products are available for general release over their estimated useful life, which usually varies between 3 and 6 years. Unamortized capitalized software development costs determined to be in excess of the net realizable value of the product are expensed immediately.

Inventories

Inventories are stated at lower of cost or market. Axalto provides inventory allowances for excess and obsolete inventories.

Property, plant and equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20-30 years
Leasehold improvements	5-10 years
Machinery and equipment	3-10 years

Leasehold improvements are amortized on a straight-line basis over their estimated useful lives, which cannot exceed the lease term. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from their separate accounts, and any gain or loss on such sale is reflected in operations. Maintenance and repair costs are expensed as incurred. Expenditures that substantially increase an asset's useful life are capitalized. As requested by IFRS, a component approach is applied to buildings and equipment, and a residual value is considered for the determination of the depreciable value of the buildings.

Impairment of long-lived assets

On an annual basis, Axalto reviews the carrying value of its long-lived assets. In addition, whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be appropriate, a review is performed. Axalto assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including the proceeds from its eventual sale. If the sum of future discounted net

cash flows is less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. The fair value is based on projected cash flows discounted using the weighted average cost of capital used by the Group. The last impairment tests were carried out in the fourth quarter 2004. The weighted average cost of capital was estimated at 10,5% on the day on which the tests were applied.

Taxes on income

The provision for income taxes presented in these condensed consolidated financial statements was computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned. All tax assets and liabilities belonging to Axalto entities are shown in the consolidated balance sheets for the periods presented.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the condensed consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is recognized on undistributed profit from investment in subsidiaries, except when the parent is able to control the distribution and if it is probable that the temporary difference will not reverse in a foreseeable future.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses is not materially different from their carrying value as reported as of December 31, 2004 and June 30, 2005 because of their short maturities.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that do not have original maturities in excess of three months. The short-term investments are stated at cost plus accrued interest, which approximates market value. These investments are mainly comprised of bank deposits and marketable securities with major banks.

Goodwill

In accordance with previously applied US GAAP, Axalto stopped amortizing goodwill on January 1, 2002. In accordance with IAS 36, Axalto will continue to carry out annual impairment tests on goodwill.

All other intangible assets (i.e. those with a definite useful life) must be amortized over their estimated useful lives, and are subject to tests if an impairment event occurs which indicates that the asset may be impaired.

Product warranties

Axalto provides for future warranty obligations upon product delivery. The warranties are generally for 12 to 18 months from the date of sale depending on local legislation and contractual terms. Axalto's liability under these warranties is to provide a replacement product or issue a credit to the customer. Factors that affect Axalto's warranty liability provision include the number of units delivered, historical experience and Axalto's judgment regarding anticipated rates of warranty claims and cost per claim. Axalto assesses the adequacy of its recorded warranty liability provision at each period end and makes adjustments to the provision if necessary.

Currency risk management contracts

For the two periods presented, Axalto hedged a portion of the impact on forecast cash flows of foreign currency movements through forward and option contracts.

Axalto formally documents all relationships between these hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions.

Axalto characterizes the financial instruments as hedges of forecasted transactions. When the forecasted transactions being hedged are no longer expected to occur, Axalto recognizes the gain or loss on the designated hedging financial instruments in the consolidated statement of operations.

Forward and option contracts are recorded in the balance sheet at their fair market value as "Derivative financial instruments". Unrealized gains and losses on hedging contracts are recorded in the Stockholders' Equity under "Fair value and other reserves". Realized gains and losses from hedging instruments are recognized in the consolidated statement of operations consistently with the underlying transactions being hedged.

Note 3 First time adoption of the International Financial Reporting Standards (IFRS)

3.1 Basis of transition to IFRS

3.1.1 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).

As indicated in Note 2 above, 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 was June 30, 2005. Consequently, the interim condensed consolidated financial statements for the period ended June 30, 2005, were prepared in accordance with IFRS. The Group applied 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.

3.1.2 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 to generally maintain property, plant and equipment at their historical net book value as of January 1, 2004.

(c) Employee benefits

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

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

The Group has elected to apply this exemption. It applied 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 of 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.

3.2. Reconciliations between US GAAP and IFRS

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

3.2.1. Summary of equity

	January 1, 2004	December 31, 2004	Note in 3.2.7 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)
	<hr/>	<hr/>	
<i>Capital and reserves attributable to the company's equity holders – IFRS</i>	537,868	702,220	
Minority interest	9,876	7,059	
	<hr/>	<hr/>	
<u>Total Equity - IFRS</u>	<u>547,744</u>	<u>709,279</u>	

The accompanying notes are an integral part of these financial statements.

3.2.2. Reconciliation of equity as of January 1, 2004

	Note in 3.2.7 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 receivables		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 payables		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

The accompanying notes are an integral part of these financial statements.

3.2.3. Reconciliation of equity as of December 31, 2004

	Note in 3.2.7 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 receivables		251,611		251,611
Derivative financial instruments		7,105		7,105
Cash & cash equivalents		223,820		223,820
Total current assets		605,028		605,028
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
Total equity		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		20,477		20,477
Total non-current liabilities		72,166	2,967	75,133
Current liabilities				
Trade & other payables		295,026		295,026
Current income tax liabilities		20,548		20,548
Borrowings		8,592		8,592
Provisions & other liabilities		5,420		5,420
Total current liabilities		329,586		329,586
Total liabilities		401,752	2,967	404,719
Total equity and liabilities		1,113,838	160	1,113,998

The accompanying notes are an integral part of these financial statements.

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

	Note in 3.2.7. below	US GAAP	Effect of transition to IFRS	Central IT reclass (*)	IFRS
Revenue		430,334			430,334
Cost of revenue	(a),(b),(e),(f)	(294,259)	(226)	3,015	(291,470)
Gross profit		136,075	(226)	3,015	138,864
Operating expenses					
Research and engineering	(b),(e),(f)	(29,348)	(151)	(1,076)	(30,575)
Sales and marketing	(b),(e),(f)	(53,171)	(427)	(767)	(54,365)
General and administrative	(b),(e),(f)	(25,683)	(324)	(1,172)	(27,179)
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

(*) 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. The reclassification has 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 the first half 2004 is presented here after giving effect to this reclassification in the period.

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

	Note in 3.2.7 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

The accompanying notes are an integral part of these financial statements.

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

	Note in 3.2.7 below	US GAAP	Effect of transition to IFRS	IFRS
Cash flows from operating activities				
Cash generated from operations	3.2.8.	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		<u>172,407</u>	<u>(5,752)</u>	<u>166,655</u>
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		<u>(38,763)</u>	<u>2,202</u>	<u>(36,561)</u>
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		<u>36,174</u>	<u>3,550</u>	<u>39,724</u>
Net increase (decrease) in cash and bank overdrafts		169,818		169,818
Cash and bank overdrafts, beginning of period		50,154		50,154
Exchange gains (losses) on cash and bank overdrafts		3,848		3,848
Cash and bank overdrafts, end of period		<u>223,820</u>		<u>223,820</u>

(*) 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.

3.2.7 Description of the effects of the transition to IFRS

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

(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 Group's 2004 US GAAP consolidated 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 2004 consolidated opening balance sheet under IFRS was decreased. A portion of the write-down expense booked in 2004 was therefore reversed 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 retirement benefit 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>

The accompanying notes are an integral part of these financial statements.

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			(56)
	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, a 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) *Recognition of a compensation charge on employee stock purchase plans (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.

3.2.8 Cash generated from operations

	Note in 3.2.7. above 3.2.5.	US GAAP	Effect of transition to IFRS	IFRS
Income for the period before minority interest		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 payables	(b)	54,653	(944)	53,709
Cash generated from operations		<u>182,498</u>	<u>(3,550)</u>	<u>178,948</u>

Note 4 Segment information

Axalto's operations are organized into two business segments: Cards and Point of Sales Terminals (POS). The Cards business is organized into four product lines: Mobile Communications, Financial Cards, Public Sector, Access and Other, and Prepaid Phone Cards.

Revenue	Six months ended June 30,		Year ended
	2004	2005	December 31, 2004
Mobile Communications	239,810	295,535	548,799
Financial Cards	97,424	99,116	196,195
Public sector, Access and Other (1)	43,323	43,396	98,425
Prepaid Phone Cards	21,362	21,598	39,663
Total Cards	<u>401,919</u>	<u>459,645</u>	<u>883,082</u>
Point-of-Sales Terminals	28,415	38,555	77,345
Total	<u>430,334</u>	<u>498,200</u>	<u>960,427</u>

(1) Includes the revenue from the licensing of Intellectual Property.

The accompanying notes are an integral part of these financial statements.

Gross profit	Six months ended June 30,		Year ended
	2004	2005	December 31,
			2004
Mobile Communication	88,968	111,926	214,461
Financial Cards	23,991	24,300	42,279
Public sector, Access and Other (1)	17,159	20,738	37,850
Prepaid Phone Cards	2,526	1,517	3,099
Total Cards	132,644	158,481	297,689
Point-of-Sales Terminals	6,220	9,724	18,103
Total	138,864	168,205	315,792

(1) Includes the gross profit from the licensing of Intellectual Property.

Operating expenses	Six months ended June 30,		Year ended
	2004	2005	December 31,
			2004
Cards	101,913	113,945	210,753
Point-of-Sales Terminals	7,906	7,197	16,400
Total	109,819	121,142	227,153

Cards operating expenses include \$2,253, \$947 and \$4,037 positive Other Income respectively, for six-month periods ended June 2004 and June 2005 and the year ended December 31, 2004 respectively; Point-of-Sale Terminals operating expenses include \$47, \$967 and (\$2) positive Other Income respectively, for six-month periods ended June 2004 and June 2005 and the year ended December 31, 2004 respectively.

Income (loss) before Taxes	Six months ended June 30,		Year ended
	2004	2005	December 31,
			2004
Cards	30,536	45,111	82,437
Point-of-Sales Terminals	(2,056)	2,157	420
Total	28,480	47,268	82,857

Geographic Information

The table below shows revenue attributed to geographic areas, on the basis of the location of the customer.

Revenue	Six months ended June 30,		Year ended
	2004	2005	December 31,
			2004
North and South America	77,849	118,016	187,238
Europe, Middle East and Africa	241,794	274,963	535,885
Asia Pacific	110,691	105,221	237,304
Total	430,334	498,200	960,427

The accompanying notes are an integral part of these financial statements.

Significant Customers (as a percentage of revenue)

For the six-month period ended June 30, 2005, no customer accounted for 10% or more of the total revenue.

Note 5 Property, plant and equipment, net

Property, plant and equipment (net) consist of the following:

	<u>December 31, 2004</u>	<u>June 30, 2005</u>
Land	1,937	1,774
Buildings and improvements	76,942	75,871
Machinery and equipment	247,202	226,463
Total cost	<u>326,081</u>	<u>304,108</u>
Less: Accumulated depreciation	<u>(215,565)</u>	<u>(204,649)</u>
Total	<u>110,516</u>	<u>99,459</u>

Depreciation expense amounted to \$15,062 for the six-month period ended June 30, 2004 and to \$15,675 for the six-month period ended June 30, 2005. Capital expenditures amounted to \$10,470 for the six-month period ended June 30, 2004 and to \$11,060 for the six-month period ended June 30, 2005.

Note 6 Financial instruments

Axalto transacts business globally and is subject to the effects of fluctuations in foreign exchange rates. Axalto's objective is to reduce earnings and cash flow fluctuations caused by foreign exchange rate fluctuations.

Cash Flow Hedges

Axalto enters into various option and forward contracts to protect the value of a certain percentage of its forecasted, but not firmly committed, foreign currency costs for periods generally not exceeding eighteen months. The gains and losses on these contracts offset currency gains or losses on the related forecasted transactions. These hedges mainly relate to Euro denominated costs.

Gains and losses on these contracts are initially recorded under "Fair value and other reserves" in stockholders' equity, and reclassified to current earnings under cost of revenue when related cost of revenue (for sales to third parties) are recognized, offsetting changes in the value of the foreign currency costs.

As of June 30, 2005, Axalto had pre-tax net unrealized losses of \$8.8 million recorded under "Fair value and other reserves", which the company would, at constant market conditions, reclassify as a debit to the cost of revenue over the next 18 months.

The result of cash flow hedging activities on the statement of operations for the six-month period ended June 30, 2005, was a net gain of \$3.4 million, booked as a credit to cost of revenue, and a charge of \$1 million booked as a debit to finance costs.

Fair Value of Financial Instruments

As of June 30, 2005, Axalto's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings, and foreign exchange risk management contracts.

As of June 30, 2005, the fair values of cash and cash equivalents, receivables, accounts payable, accrued expenses, investments and borrowings approximated the carrying values because of the short-term nature of these instruments.

The estimated fair values of other financial instruments determined based on quoted market prices for the same or similar instruments, and the related carrying amounts are as follows:

<u>Risk management contracts</u>	June 30, 2005	
	<u>Carrying amount</u>	<u>Fair value</u>
Foreign exchange forwards (*)	(8,835)	(8,835)
Foreign exchange options (*)	235	235
Total	<u>(8,600)</u>	<u>(8,600)</u>

(*) Recorded under « derivative financial instruments» in current assets or liabilities.

Fair Value Hedges

Axalto also evaluates and hedges against the impact of foreign exchange fluctuations on its assets and liabilities, denominated in currencies other than the functional currency of its individual units. As of June 30, 2005, the net result of the gains and losses due to foreign exchange fluctuations of Axalto's assets and liabilities and of the related hedging operations was a net loss of \$0.3 million, to compare with a net gain of \$0.6 million for the six-month period ended June 30, 2004.

Note 7 Trade & other receivables

Trade and other receivables consist of the following:

	<u>December 31, 2004</u>	<u>June 30, 2005</u>
Trade receivables, net	204,055	185,705
Prepaid expenses	6,981	9,012
VAT recoverable and tax receivable	15,258	13,481
Advances to suppliers and related	5,351	2,976
Unbilled customers	10,740	3,912
Other	9,226	14,177
Total	<u>251,611</u>	<u>229,263</u>

The account "Trade receivables, net" is presented net of an allowance for doubtful accounts of \$14,295 and \$17,996 as of June 30, 2005 and December 31, 2004, respectively.

Note 8 Inventory

Inventory consists of the following:

	December 31, 2004	June 30, 2005
Gross book value		
Raw materials and spares	83,755	74,225
Work in progress	26,762	19,087
Finished goods	30,545	22,640
Total	141,062	115,952
Obsolescence reserve		
Raw materials and spares	(11,959)	(10,345)
Work in progress	(3,937)	(3,496)
Finished goods	(2,674)	(3,461)
Total	(18,570)	(17,302)
Net book value	122,492	98,650

Note 9 Trade & other payables

Trade and other payables consist of the following:

	December 31, 2004	June 30, 2005
Trade payables	126,791	109,803
Payroll, vacation and employee benefits	70,405	57,304
Accrued expenses	45,279	42,316
Accrued VAT	11,112	9,587
Deferred revenue	33,812	28,931
Other	7,627	2,946
Total	295,026	250,887

Note 10 Stock compensation plan

Axalto has established a *Global Equity Incentive Plan* (« GEIP ») for its employees, approved by the general meetings of shareholders held on March 18, 2004 and April 21, 2004.

Stock option plans

The GEIP authorizes the company to grant to employees over the duration of the plan (ending on April 21, 2014) the right to acquire total of 7 million ordinary shares of Axalto Holding NV. The Board of Directors of Axalto Holding NV, in its meeting of April 2, 2004, approved the main terms and conditions of the 2004 option grant under the GEIP and authorized to grant options to buy or subscribe for 3,300,000 ordinary shares with an exercise price equal to the initial listing price, i.e. 14.80 Euros per share. 3,211,000 stock options were granted during 2004. The vesting schedule differs, depending of the country of employment of the optionee, and varies from a 25% vesting per year over 4 years to a cliff vesting at the end of the 4 year period.

The fair value of each grant is estimated on the date of grant using the multiple option Black-Scholes option-pricing model. For the stock options granted in 2004, the following assumptions were used: no dividend, expected volatility of 25%, risk-free interest rate of 2.9%, and expected option life of 4.09 years. In the statement of operations for the six-month period ended June 30, 2004, a compensation expense of \$467 corresponding to the amortization of the fair value of the options granted between the grant date (May 18, 2004) and June 30, 2004, was recorded for \$72 in cost of revenue, \$28 in research & engineering expenses, \$178 in sales and marketing expenses and \$189 in general and administrative expenses.

In the statement of operations for the six-month period ended June 30, 2005, a compensation expense of \$2,212 corresponding to the amortization of the fair value for the first half of 2005, was recorded for \$286 in cost of revenue, \$112 in research & engineering expenses, \$699 in sales and marketing expenses and \$1,115 in general and administrative expenses.

Employee Stock Purchase plan

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 initial listing price. 445,668 ordinary shares were subscribed by the employees at 12.58 Euros per share. The amount of \$1,214 equal to the total discount granted to employees under that program was recorded as a compensation expense in the 2004 IFRS statement of operations: \$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.

In the period from June 20, 2005 to July 1, 2005, Axalto employees were offered the opportunity to buy Axalto shares at a price 15% below the lowest of the closing price for the Axalto stock on June 20, 2005 or July 1, 2005. 87,767 ordinary shares were subscribed by the employees at 20.98 Euros per share. The compensation expense corresponding to the discount granted to employees under that program of \$390.8 was recorded as a compensation expense in the 2005 statement of operations: \$80.6 were recorded in cost of revenue, \$109.5 in research and engineering expenses, \$125.4 in sales and marketing expenses and \$75.3 in general and administrative expenses.

Note 11 Finance income (costs), net

	<u>Six months ended June 30,</u>		<u>Year ended</u>
	<u>2004</u>	<u>2005</u>	<u>December 31, 2004</u>
Interest cost related to the French IFC obligation (*)	(298)	(305)	(620)
Interest expense	(1,407)	(629)	(1,910)
Interest income	1,675	2,651	2,201
<u>Foreign exchange transaction gains/(losses)</u>			
- Foreign exchange gains/(losses), net of fair value hedges	641	(288)	(1,609)
- cash flow hedges	(1,405)	(1,028)	(4,106)
Finance income (expenses), net	<u>(794)</u>	<u>401</u>	<u>(6,044)</u>

(*) IFC ("Indemnités de fin de carrière") are lump sum payments made to French employees upon their retirement.

The result of cash flow hedging activities on the statement of operations for the six-month period ended June 30, 2005, was a net gain of \$3.4 million, booked as a credit to cost of revenue, and a charge of \$1 million booked as a debit to finance costs.

The accompanying notes are an integral part of these financial statements.

Note 12 Taxes on Income

	<u>Six months ended June 30,</u>		<u>Year ended</u>
	<u>2004</u>	<u>2005</u>	<u>December 31,</u>
			<u>2004</u>
Current tax benefit (expense)	(8,303)	(13,574)	(19,488)
Deferred tax benefit (expense)	(702)	(444)	(6,390)
Income tax expense booked to the statement of operations	<u>(9,005)</u>	<u>(14,018)</u>	<u>(25,878)</u>

Note 13 Earnings per share

	<u>Net income</u>	<u>Average shares</u> <u>outstanding</u>	<u>Earnings per</u> <u>share</u>
<u>Six-month period ended June 30, 2005</u>			
Basic	<u>31,914</u>	<u>40,440</u>	<u>0.789</u>
Dilutive effect of stock options		1,118	
Diluted	<u>31,914</u>	<u>41,558</u>	<u>0.768</u>
<u>Six-month period ended June 30, 2004</u>			
Basic	<u>19,027</u>	<u>40,099</u>	<u>0.475</u>
Dilutive effect of stock options		148	
Diluted	<u>19,027</u>	<u>40,247</u>	<u>0.473</u>
<u>Twelve month period ended December 31, 2004</u>			
Basic	<u>56,291</u>	<u>40,295</u>	<u>1.397</u>
Dilutive effect of stock options		402	
Diluted	<u>56,291</u>	<u>40,697</u>	<u>1.383</u>

The company presents both basic and diluted earnings per share (EPS) amounts.

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated according to the Treasury Stock method by dividing net income by the average number of common shares outstanding assuming dilution. Dilution is determined assuming that all stock options, which are in the money, are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period.

Note 14 Cash generated from operations

	<u>Year ended December 31, 2004</u>	<u>Six months ended June 30, 2005</u>
Income for the period before minority interest	56,979	33,250
Adjustments for:		
- tax	25,878	14,018
- depreciation	34,481	15,675
- amortization	9,604	2,999
- gains and losses on sale of fixed assets and write offs	3,988	353
- net movement in provisions for liabilities and charges	(1,921)	1,181
- interest income	(2,202)	(2,651)
- interest expense	2,530	934
- share of loss (profit) from associates	(262)	197
Changes in current assets and liabilities (excluding the effects of acquisitions and exchange differences in consolidation)		
- inventories	(10,750)	16,509
- trade & other receivables	3,831	1,326
- retirement benefit obligation	1,735	328
- derivative financial instruments	1,348	(658)
- trade & other payables	53,709	(18,565)
Cash generated from operations	<u>178,948</u>	<u>64,896</u>

Note 15 Commitments and contingencies

Pursuant to the terms of the Master Separation Agreement signed on March 19, 2004, Schlumberger and Axalto have agreed to carry out the complete transfer of the Schlumberger Group's Cards and POS businesses to Axalto or one of its subsidiaries.

These undertakings remain in effect so long as there are contracts, assets or liabilities falling within the scope of Axalto's business that have not been transferred at the time of the Separation. This also applies to contracts, assets or liabilities falling within the scope of Schlumberger's business that have not been transferred at that same time.

Until the date of transfer of the such contracts, assets or liabilities to Axalto or to Schlumberger, as the case may be, or in the event that they cannot be transferred or shall not be transferred as agreed by the parties, Schlumberger and Axalto have agreed to cooperate and execute the contracts or manage the assets and liabilities in the name of and for the account of the other party, pursuant to the instructions of such party, who will receive all profits and bear all losses (including all taxes normally due, other than those due as a result of a tax reassessment, and which are covered by tax indemnification provisions) resulting from these contracts, assets and liabilities.

Therefore, the activities, assets and liabilities pertaining to Schlumberger activities falling under the provisions of the Separation Agreement are not disclosed in the accompanying financial statements of Axalto.

As of June 30, 2005, the balance of the assets and liabilities belonging to Schlumberger was a net asset of \$14.7 million.

Note 16 Post closing events

On July 29, 2005, Axalto signed a twelve year lease for 20,000 m² of office space located in Meudon near Paris that will allow Axalto to regroup the employees of its Montrouge and Louveciennes sites in one single location. The transfers into the new location are scheduled between April and December 2006. One-off costs related to the Montrouge and Louveciennes lease terminations, to the new lease and set up of the Meudon site will be booked as incurred over 2005 and 2006. The project will also require capital expenditure in building improvements and equipment.

On August 24, 2005 Axalto entered into a new loan syndication contract with major commercial banks. Under this contract and other existing banking facilities, Axalto Holding N.V. has issued guarantees against the risk of default of payment of its borrowing subsidiaries. These guarantees are continuing securities and will be valid until final payment in full of all amounts owed. The aggregate amount recoverable from Axalto Holding N.V. shall not exceed USD 310 million, which includes the syndicated facility referred to above.

To management's knowledge, there is no significant event that occurred since June 30, 2005, which would materially impact the interim condensed financial statements, as presented in this document.