

## Gemplus reports earnings for the third quarter 2006

### *Third quarter 2006 highlights:*

- Gemalto combination ongoing: tender offer reopened after the successful first round.
- Gemalto integration process well on-track.
- Net sales down 11.5% mainly due to strong price pressure in wireless.
- Gross margin at 26.7%, with lower margins in all business segments.
- Operating loss at 2.7 million euros, including 4.3 million euros of combination related costs.

Luxembourg, October 26, 2006 – Gemplus International S.A. (Euronext: LU0121706294 – GEM and NASDAQ: GEMP), a world leading provider of secure card solutions, today reported results for the third quarter ended September 30, 2006.

In millions of euros	Q3 2006	Q3 2005	Year-on-year change
Net sales	219.3	247.9	-11.5%
Adjusted for currency fluctuations, disposals and acquisitions			-8.9%
Gross profit	58.5	82.8	-29.4%
<i>Gross margin</i>	<i>26.7%</i>	<i>33.4%</i>	<i>- 6.7 pts</i>
Operating expenses	61.2	61.5	-0.5%
Operating income (loss)	-2.7	21.3	NM
<i>Operating margin</i>	<i>-1.2%</i>	<i>8.6%</i>	<i>-9.8 pts</i>
Attributable net income (loss) <sup>1</sup>	-8.0	20.9	NM
Free cash flow <sup>2</sup>	28.0	-20.1	NM
Cash and cash equivalents	234.6	400.8	-41.5%
Per share data (in euros)			
Earnings per share (fully diluted)	-0.01	0.03	NM

The combination creating Gemalto, a world leader in digital security, is progressing well: Gemalto owns 94.56% of the share capital of Gemplus (and 94.68% of the voting rights) since the close of the first round of the public exchange tender offer filed by Gemalto for the securities issued by Gemplus. Following this success, the exchange offer was reopened at the same exchange ratio. It remains open to allow for an independent expert to assess the evaluation methodology and price of the sell-out procedure<sup>3</sup>. Gemalto has also indicated its intention to reserve its right to conduct a squeeze-out, either after the close of the reopened offer or during the sell-out period which follows the close of the reopened offer, assuming that more than 95% of the voting rights of Gemplus are held by Gemalto.

<sup>1</sup> Net income (loss) attributable to equity holders

<sup>2</sup> Free cash flow is defined as net cash flow from operating activities less the purchase of property, plant and equipment and other investments related to the operating cycle (excluding acquisitions and financial investments).

<sup>3</sup> Right of then remaining Gemplus shareholders to sell their Gemplus shares to Gemalto for three months after the end of the current re-opened exchange offer period.

## Third quarter 2006 financial review

### • Income statement

Third quarter 2006 highlights:

- Net sales down 11.5% (-8.9% currency adjusted) mainly due to Telecom.
- Gross margin at 26.7%, with lower margins in all business segments.
- Operating loss at 2.7 million euros, including 4.3 million euros of combination related costs.
- Attributable net loss at 8.0 million euros.

Revenue in all regions was strongly impacted by the overall weak performance in Telecom. However, in Asia, strong growth in ID & Security and Financial Services drove a 5.6% year-on-year adjusted<sup>4</sup> revenue growth, even with some decrease in Telecom. In EMEA<sup>5</sup>, adjusted<sup>4</sup> net sales were down 10.8% year-on-year, due to lower sales in Financial Services and in Telecom. In the Americas, adjusted<sup>4</sup> net sales were down 13.3% year-on-year, notwithstanding good growth in Financial Services.

#### Revenue by region

In millions of euros	Q3 2006	Q3 2005	% change	Adjusted <sup>4</sup> change (%)
EMEA	118.5	133.3	-11.1%	-10.8%
Asia	39.8	39.2	+1.4%	+5.6%
Americas	61.0	75.4	-19.1%	-13.3%
Total	219.3	247.9	-11.5%	-8.9%

As a result, Asia accounted for 18.1% of Group revenue compared with 15.8% for the third quarter 2005, despite adverse currency fluctuations. Conversely, the share of the Americas decreased to 27.8%, compared with 30.4%, a year ago.

Despite 3.6 million euros of combination related costs, operating expenses were flat.

Operating loss was 2.7 million euros, due to lower sales and low gross margin, in spite of good control of operating expenses.

Each quarter, the Company reassesses the recognition of its deferred tax assets, which led to an additional income tax charge of 3.2 million euros this quarter.

### • Balance sheet and cash flow statement

Third quarter 2006 highlights:

- Free cash flow of 28.0 million euros.

The Group's cash position remains strong at 234.6 million euros, up 26.3 million euros compared to June 30, 2006. Free cash flow of 28.0 million euros mainly reflects an improvement in working capital requirement.

Compared to December 31, 2005, cash is down 183.8 million euros, largely due to a 164.4 million euros outflow related to the distribution in June 2006 of reserves (share premium) to shareholders.

<sup>4</sup> After adjusting for currency fluctuations, acquisitions and disposals.

<sup>5</sup> Europe, Middle East, Africa

## Segment analysis

### • Telecom

Third quarter 2006 highlights:

- Continued strong demand in wireless: shipments up 32% year-on-year, to 116 million units, driven by emerging markets.
- Wireless ASP down 35% year-on-year, currency adjusted, reflecting heavy price pressure.

In millions of euros	Q3 2006	Q3 2005	% change	Adjusted <sup>4</sup> change (%)
Wireless products & services net sales	128.6	154.0	-16.5%	-13.8%
Wireless gross profit	42.7	62.3	-31.4%	
<i>Wireless gross margin</i>	<i>33.2%</i>	<i>40.4%</i>	<i>-7.2 pts</i>	
Prepaid phone cards & scratchcards net sales	11.4	13.5	-16.8%	
Prepaid phone cards & scratchcards gross profit	1.4	0.9	+53.0%	
<i>Prepaid phone cards &amp; scratchcards gross margin</i>	<i>12.3%</i>	<i>6.7%</i>	<i>+5.6 pts</i>	
Telecom net sales	139.9	167.5	-16.5%	-13.6%
Telecom gross profit	44.1	63.2	-30.2%	
<i>Telecom gross margin</i>	<i>31.5%</i>	<i>37.7%</i>	<i>-6.2 pts</i>	
Telecom operating expenses	37.0	37.9	-2.4%	
<i>As a % of sales</i>	<i>26.4%</i>	<i>22.6%</i>	<i>+3.8 pts</i>	
Telecom operating income	7.1	25.3	NM	
<i>Operating margin</i>	<i>5.1%</i>	<i>15.1%</i>	<i>-10.0 pts</i>	

Wireless revenue:

- Wireless products & services revenue<sup>6</sup> was down 16.5% year-on-year (down 13.8%, currency adjusted), to 128.6 million euros.
- Wireless shipments grew 32% year-on-year, to 116 million units, largely driven by emerging countries. Volumes were below the Group expectations due to weaker demand in developed economies.
- High-end card shipments (3G and above) grew 108%. They accounted for 13% of the third quarter total, compared to 8% a year ago, despite delays in migration to high-end products at several customers.
- Wireless average selling price (ASP) was down 10% quarter-on-quarter and 35% year-on-year, both currency adjusted, due to heavy price pressure and delays in product mix improvement, as well as a shift in the regional mix.

The decline in Wireless gross margin mainly reflects strong price pressure and delays in product mix improvement.

<sup>6</sup> Wireless products & services revenue comprises wireless microprocessor cards and related applications (embedded software and Over The Air platforms) and services (system integration and operated services).

- **Financial Services**

Third quarter 2006 highlights:

- This quarter shows a pause in EMV<sup>7</sup> deliveries.

In millions of euros	Q3 2006	Q3 2005	% change	Adjusted <sup>4</sup> change (%)
Net sales	52.2	58.9	-11.3%	-9.6%
Gross profit	8.6	13.7	-37.2%	
<i>Gross margin as a % of sales</i>	<i>16.5%</i>	<i>23.3%</i>	<i>-6.8 pts</i>	
Operating expenses	12.7	13.1	-2.7%	
<i>As a % of sales</i>	<i>24.4%</i>	<i>22.2%</i>	<i>+2.2 pts</i>	
Operating income (loss)	-4.1	0.6	NM	
<i>Operating margin as a % of sales</i>	<i>-7.9%</i>	<i>1.1%</i>	<i>-9.0 pts</i>	

EMV deliveries show a pause despite accelerating rollouts in Latin America and in Asia. In total, Gemplus shipped 20.8 million units of payment microprocessor cards during the third quarter, down 6% year-on-year, reflecting maturity of certain markets (UK, France, Turkey) and delays in EMV rollout in Southern Europe and in some emerging countries. However, shipments are up 24% year-to-date at 63.9 million units.

Payment microprocessor card revenue was down 17% year-on-year and up 8% year-to-date. Revenue for the third quarter reflects price pressure in mature markets and a greater share of modules in emerging countries.

Gross margin was down 6.8 percentage points mainly due to lower volumes and an unfavourable regional mix in smart payment.

- **Identity and Security**

Third quarter 2006 highlights:

- Strong growth led by deployment of e-passports.

In millions of euros	Q3 2006	Q3 2005	% change	Adjusted <sup>4</sup> change (%)
Net sales	27.2	21.5	+26.4%	+29.0%
Gross profit	5.8	5.9	-1.9%	
<i>Gross margin as a % of sales</i>	<i>21.3%</i>	<i>27.4%</i>	<i>-6.1 pts</i>	
Operating expenses	11.4	10.5	+8.5%	
<i>As a % of sales</i>	<i>41.9%</i>	<i>48.8%</i>	<i>-6.9 pts</i>	
Operating income (loss)	-5.6	-4.6	NM	
<i>Operating margin as a % of sales</i>	<i>-20.6%</i>	<i>-21.3%</i>	<i>+0.7 pt</i>	

<sup>7</sup> EMV is a jointly defined set of specifications adopted by Europay, MasterCard and Visa for the migration of bank cards to smart card technology.

Growth was driven by Government ID projects, notably the ongoing deployment of e-passports, including the first deliveries in Poland. However, revenue does not meet the Group expectations due to Government ID and Corporate Security projects which did not materialize as quickly as expected.

Gross margin was down 6.1 percentage points reflecting industrialization ramp-up and some start-up quality issues.

### Year-to-date 2006 financial review (9-months period)

- Net sales up 2.9%, driven by strong growth in ID and Security.
- Gross margin at 29.8% reflecting strong price pressure in wireless.
- Operating margin at 3.1%.

In millions of euros	YTD 2006	YTD 2005	% change	Adjusted <sup>4</sup> change (%)
Net sales	696.9	677.2	+2.9%	-2.2%
Of which Telecom	450.5	474.9	-5.2%	-6.4%
Of which Financial Services	163.7	147.1	+11.3%	+4.5%
Of which ID & Security	82.8	55.2	+50.0%	+16.0%
Gross profit	207.7	224.7	-7.6%	NA
<i>Gross margin</i>	<i>29.8%</i>	<i>33.2%</i>	<i>-3.4 pts</i>	<i>NA</i>
Operating expenses	186.2	173.5	+7.3%	NA
<i>As a % of sales</i>	<i>26.7%</i>	<i>25.6%</i>	<i>+1.1 pt</i>	<i>NA</i>
Operating income	21.5	51.1	-58.0%	
<i>Operating margin</i>	<i>3.1%</i>	<i>7.6%</i>	<i>-4.5 pts</i>	<i>NA</i>
Attributable net income	13.4	49.9	-73.1%	

Sales in the first nine months 2006 was down 2.2% adjusted<sup>4</sup>, due to Telecom, despite strong growth in ID and Security and sustained demand in Financial Services.

On a geographical basis, ID and Security and Financial Services drove a 4.6% adjusted<sup>4</sup> revenue growth in the Americas. Adjusted<sup>4</sup> revenue was down 4.3% in Asia, and 5.2% in EMEA, due to Telecom.

Gross margin decrease was due to strong price pressure in wireless, a shift in the business mix, and Setec purchase accounting, in spite of the reversal of a provision for a patent claim for a total amount of 9 million euros.

Operating expenses were stable excluding the 3.6 million euros combination related costs booked this year, the reversal of a 5.2 million euros litigation provision booked last year, and the impact of the Setec acquisition.

Due to the lower gross margin and notwithstanding good control of operating expenses, operating margin was 3.1%.

## Creation of Gemalto

On June 2, 2006, Axalto and Gemplus announced a major step of their combination project to create Gemalto. The contribution in kind, by Texas Pacific Group and the Quandt family entities, of their interests in Gemplus International S.A. (in aggregate 43.6% of Gemplus share capital) to Axalto Holding N.V. was completed on the basis of 2 Axalto shares for every 25 Gemplus shares. On the same day, Axalto Holding N.V., renamed Gemalto N.V., filed a public exchange tender offer for the remaining shares and warrants issued by Gemplus. Prior to the contribution in kind, Gemplus had initiated the distribution of reserves (share premium) of €0.26 per share to all of its shareholders on record upon market close of the same day.

On July 6, 2006, the offering document filed by Gemalto received the visa n° 06-252 from the "Autorité des Marchés Financiers" (AMF) in Paris, the French stock market authority.

Gemalto owns 94.56% of the share capital and 94.68% of the voting rights of Gemplus since the close of the first round of the public exchange tender offer initiated by Gemalto for the shares and warrants issued by Gemplus.

The exchange offer was reopened on September 12, 2006, at the same exchange ratio of 2 Gemalto shares for every 25 Gemplus shares. It remains open to allow for an independent expert to assess the evaluation methodology and price of the sell-out procedure. Such sell-out price will be communicated to the market immediately after completion of the independent expert's assessment.

Gemalto has also indicated its intention to reserve its right to conduct a squeeze-out, either after the close of the reopened offer or during the sell-out period which follows the close of the reopened offer, assuming that Gemalto holds more than 95% of the voting rights of Gemplus.

More information is available at: [www.gemalto.com](http://www.gemalto.com).

This communication does not constitute an offer to purchase or exchange or the solicitation of an offer to sell or exchange any securities of Gemalto or an offer to sell or exchange or the solicitation of an offer to buy or exchange any securities of Gemplus.

The exchange offer described above will not be made, directly or indirectly, in or into the United Kingdom, Italy, Netherlands, Canada, Australia, or Japan or in or into any other jurisdiction in which such offer, solicitation, sale or exchange would be unlawful prior to the registration or qualification under the laws of such jurisdiction. Accordingly, persons who come into possession of this communication should inform themselves of and observe these restrictions.

You are strongly advised to read the offering circular relating to the exchange offer and related exchange offer materials regarding the transaction, as well as any amendments and supplements to those documents because they will contain important information. The prospectus/offer to exchange and the other documents are available from the Internet websites of the AMF ([www.amf-france.org](http://www.amf-france.org)), of Gemalto N.V. ([www.gemalto.com](http://www.gemalto.com)) and of Gemplus International S.A. ([www.gemplus.com](http://www.gemplus.com)). You can obtain a free paper copy of the prospectus/offer to exchange and other related documents filed by Gemalto (ex-Axalto) upon request to the following:

- Gemalto N.V.: Koningsgracht Gebouw 1, Joop Geesinkweg 541-542, 1096 AX Amsterdam, the Netherlands.
- Axalto International S.A.S: 6 rue de la Verrerie, 92190, Meudon, France.
- Deutsche Bank: 3 avenue de Friedland, 75008, Paris, France.
- Gemplus International S.A.: 46A, avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg.

US investors can obtain a copy of the US prospectus/offer to exchange and related offer materials from Mellon Investors Services LLC by telephoning to: +1 866 768 4951 (Call Toll Free) or: +1 201 680 6590 (Call Collect).

### ***Notice to US investors***

Any solicitation of offers to buy any Gemplus shares in the United States in the exchange offer will only be made pursuant to a prospectus/offer to exchange and related offer materials that Gemalto will make available to holders of Gemplus securities. Investors and security holders are strongly advised to read the prospectus/offer to exchange and related exchange offer materials, as well as any amendments and supplements to those documents because they will contain important information.

The Gemalto securities referred to herein that will be issued in connection with the exchange offer have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Gemalto securities are intended to be made available within the United States in connection with the exchange offer pursuant to an exemption from the registration requirements of the Securities Act.

The exchange offer will relate to the securities of a non-U.S. company and will be subject to disclosure requirements of a foreign country that are different from those of the United States. Financial statements included in the prospectus/offer to exchange will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under U.S. federal securities laws, since Gemalto and Gemplus have their corporate headquarters outside of the United States, and some or all of their officers and directors may be residents of foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

### **Earnings calendar**

Fourth quarter 2006 revenues are scheduled to be reported on February 1<sup>st</sup>, 2007, before the opening of Euronext Paris.

The schedule for the announcement of fourth quarter 2006 results will be communicated on February 1<sup>st</sup>, 2007.

## About Gemplus

Gemplus International S.A. (Euronext: LU0121706294 - GEM and NASDAQ: GEMP) is a world leading player in the secure card industry in both revenue and total shipments (source: Gartner-Dataquest, Frost & Sullivan, Datamonitor).

Gemplus delivers a wide range of portable, personalized solutions in areas including Identity, Mobile Telecommunications, Public Telephony, Banking, Retail, Transport, Healthcare, WiFi, Pay-TV, e-government, and access control.

Gemplus's revenue in 2005 was 939 million euros.

In June 2006, Gemplus and Axalto initiated their combination to form Gemalto, a leader in digital security. Gemalto owns 94.56% of the share capital of Gemplus (and 94.68% of the voting rights) since close of the first round of the public exchange tender offer filed by Gemalto for the securities issued by Gemplus.

[www.gemplus.com](http://www.gemplus.com)      [www.gemalto.com](http://www.gemalto.com)

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Some of the statements contained in this release constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activities, performance, or achievements expressed or implied by such forward-looking statements. Actual events or results may differ materially. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this release include, but are not limited to: trends in wireless communication and mobile commerce sectors; our ability to develop new technology, and the effects of competing technologies developed and expected intense competition generally in our main segments; profitability of our expansion strategy; challenges to or loss of our intellectual property rights; our ability to establish and maintain strategic relationships in our major businesses; our ability to develop and take advantage of new software and services; changes in our operations and the market for our products arising from our business combination with Gemalto N.V.; and the effect of future acquisitions and investments on our share price. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such forward-looking statements. The forward-looking statements contained in this release speak only as of this release. We are under no duty to update any of the forward-looking statements after this date to conform such statements to actual results or to reflect the occurrence of anticipated results.

**Gemplus International SA**

**Press Release – Financial statements**

**For the quarterly period ended September 30, 2006**

Consolidated Statements of Income

	(in thousands of euros, except shares and per share amounts)			
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Net sales	219,321	247,912	696,919	677,172
Cost of sales	(160,853)	(165,153)	(489,219)	(452,492)
<b>Gross Profit</b>	<b>58,468</b>	<b>82,759</b>	<b>207,700</b>	<b>224,680</b>
Research and development expenses	(16,440)	(14,984)	(48,584)	(44,387)
Selling and marketing expenses*	(27,756)	(30,455)	(90,048)	(84,377)
General and administrative expenses*	(17,119)	(16,943)	(49,505)	(45,860)
Restructuring expenses	3	606	474	1522
Other operating income (expense), net	123	279	1450	(439)
Goodwill amortization and impairment	-	-	-	-
<b>Operating income</b>	<b>(2,721)</b>	<b>21,262</b>	<b>21,487</b>	<b>51,139</b>
Financial income (expense), net	1,057	1,894	5,608	5,370
Share of profit (loss) of associates	425	(360)	488	(1193)
Other non-operating income (expense), net	(1,280)	(27)	(1,427)	71
<b>Income before taxes</b>	<b>(2,519)</b>	<b>22,769</b>	<b>26,156</b>	<b>55,387</b>
Income tax expense	(5,240)	(1,457)	(11,978)	(4,403)
<b>NET INCOME</b>	<b>(7,759)</b>	<b>21,312</b>	<b>14,178</b>	<b>50,984</b>
<b>Attributable to:</b>				
Equity holders of the Company	(7,970)	20,873	13,375	49,876
Minority interest	211	439	803	1108
<b>Net income per share attributable to equity holders of the Company (in euros)</b>				
Basic	(0.01)	0.03	0.03	0.08
Diluted	(0.01)	0.03	0.03	0.08
<b>Shares used in net income per share calculation:</b>				
Basic	632,708,693	627,085,562	631,391,381	615,046,595
Diluted	632,708,693	645,019,286	647,447,922	630,519,467

Due to the adoption of IAS 1 (revised 2003) Presentation of Financial Statements, the Company has modified its Consolidated Balance Sheet and its Consolidated Statement of Income. Please refer to Note 2.23 "Comparatives" of our 2005 Annual Report for further details.

\* Provisions for bad debt have been reclassified from general & administrative expenses to selling & marketing expenses as of January 1, 2006

The 2005 operating expenses displayed in the table above have been restated in order to be fully comparable to those of 2006.

This restatement does not change the operating income

**Consolidated Balance Sheets**

	(in thousands of euros)	
	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	234,572	418,365
Trade accounts receivable, net	179,946	183,022
Inventory, net	126,985	107,673
Derivative financial instruments	4,202	4,187
Other current receivables	47,587	82,128
<b>Total current assets</b>	<b>593,292</b>	<b>795,375</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	165,843	158,284
Goodwill, net	92,079	90,826
Deferred development costs, net	21,419	21,227
Other intangible assets, net	16,178	23,600
Deferred income tax assets	22,578	32,788
Investments in associates	14,008	16,309
Available-for-sale financial assets, net	2,273	2,469
Other non-current receivables, net	45,196	40,846
<b>Total non-current assets</b>	<b>379,574</b>	<b>386,349</b>
<b>TOTAL ASSETS</b>	<b>972,866</b>	<b>1,181,724</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	110,433	106,085
Derivative financial instruments	-	2,592
Salaries, wages and related items	46,635	62,641
Current portion of provisions and other liabilities	44,713	73,434
Current income tax liabilities	3,544	5,228
Other current tax liabilities	19,968	20,821
Current obligations under finance leases	5,416	5,539
<b>Total current liabilities</b>	<b>230,709</b>	<b>276,340</b>
<b>Non-current liabilities:</b>		
Non-current obligations under finance leases	22,333	26,425
Non-current portion of provisions	15,859	23,482
Other non-current liabilities	12,133	13,417
Deferred income tax liabilities	1,986	4,354
<b>Total non-current liabilities</b>	<b>52,311</b>	<b>67,678</b>
<b>Shareholders' equity:</b>		
Ordinary shares	134,181	133,466
Additional paid-in capital	904,185	1,063,145
Retained earnings	(349,816)	(365,940)
Other comprehensive income	(9,796)	(4,407)
Less, cost of treasury shares	(1,395)	(1,395)
<b>Equity attributable to equity holders of the Company</b>	<b>677,359</b>	<b>824,869</b>
<b>Minority interest</b>	<b>12,487</b>	<b>12,837</b>
<b>Total shareholders' equity</b>	<b>689,846</b>	<b>837,706</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>972,866</b>	<b>1,181,724</b>

Due to the adoption of IAS 1 (revised 2003) Presentation of Financial Statements, the Company has modified its Consolidated Balance Sheet and its Consolidated Statement of Income. Please refer to Note 2.23 "Comparatives" of our 2005 Annual Report for further details.

**Consolidated Statements of Cash Flows**

	(in thousands of euros)	
	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
	(unaudited)	
<b>Cash flows from operating activities:</b>		
Net income	14,178	50,984
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and impairment	31,514	30,035
Changes in non-current portion of provisions and other liabilities, excluding restructuring	(7,499)	(292)
Deferred income taxes	6,947	(1,559)
(Gain) / loss on sale and disposal of assets	-	(3,648)
Share of (profit) loss of associates	(195)	,877
Share-based compensation	2,750	2,498
Other, net	(220)	(4,516)
Changes in operating assets and liabilities:		
Trade accounts receivable and related current liabilities	(2,413)	(2,626)
Trade accounts payable and related current assets	(2,282)	8,619
Inventories	(21,177)	9,390
Value-added and income taxes	(845)	145
Salaries, wages and other	(9,968)	(9,335)
Restricted cash	5,775	23,277
Restructuring reserve payable	(2,606)	(12,206)
Litigation expense payable		
Management severance expense		
Provision for a loan to a former director and executive		
<b>Net cash (used for) from operating activities</b>	<b>13,959</b>	<b>91,643</b>
<b>Cash flows from investing activities:</b>		
Sale / (Purchase) of activities net of cash disposed / acquired	4,632	(63,401)
Other investments	(2,570)	(1,463)
Purchase of property, plant and equipment	(34,068)	(17,754)
Purchase of other assets	(1,257)	(1,125)
Proceeds from sale of non-current assets	-	4,803
Change in non-trade accounts payable and other	1,238	3,299
<b>Net cash used for investing activities</b>	<b>(32,025)</b>	<b>(75,641)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of share options	6,152	1,817
Payments on long-term borrowings	(90)	(176)
Proceeds from sales-leaseback operations	-	
Principal payments on obligations under finance leases	(4,215)	(4,441)
Increase (decrease) in bank overdrafts	(979)	(551)
Dividends paid by subsidiaries to minority shareholders	(1,881)	(1,307)
Changes in non-trade accounts payables on financing activities	286	347
Change in treasury shares	-	
Interests receivable on loans to senior management	-	
Cash paid to Shareholders	(164,396)	
<b>Net cash (used for) from financing activities</b>	<b>(165,123)</b>	<b>(4,311)</b>
Effect of exchange rate changes on cash	(604)	705
Net increase (decrease) in cash and cash equivalents	(183,189)	11,691
Cash and cash equivalents, beginning of the period	418,365	388,430
<b>Cash and cash equivalents, end of the period</b>	<b>234,572</b>	<b>400,826</b>

## 1) Accounting principles:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

## 2) Segment information

### 2.1) Third Quarter 2006 compared with Third Quarter 2005

#### 2.1.1) Operating Segments

Three months ended (in millions of euros)

Net sales	September 30, 2006	September 30, 2005	% change	Adjusted change (%) (*)
Telecommunications	139.9	167.5	-16%	-14%
Financial Services	52.2	58.9	-11%	-10%
Identity and Security	27.2	21.5	26%	29%
<b>Total</b>	<b>219.3</b>	<b>247.9</b>	<b>-12%</b>	<b>-9%</b>

(in millions of euros)

Gross profit	September 30, 2006	(% of net sales)	September 30, 2005	(% of net sales)	% change
Telecommunications	44.1	32%	63.2	38%	-30%
Financial Services	8.6	16%	13.7	23%	-37%
Identity and Security	5.8	21%	5.9	27%	-2%
<b>Total</b>	<b>58.5</b>	<b>27%</b>	<b>82.8</b>	<b>33%</b>	<b>-29%</b>

(in millions of euros)

Operating expenses	September 30, 2006	(% of net sales)	September 30, 2005	(% of net sales)	% change
Telecommunications	(37.0)	26%	(37.9)	23%	-2%
Financial Services	(12.7)	24%	(13.1)	22%	-3%
Identity and Security	(11.4)	42%	(10.5)	49%	8%
<b>Total</b>	<b>(61.2)</b>	<b>28%</b>	<b>(61.5)</b>	<b>25%</b>	<b>0%</b>

(in millions of euros)

Operating income (loss)	September 30, 2006	September 30, 2005	Change in Operating income (loss)
Telecommunications	7.1	25.3	(18.2)
Financial Services	(4.1)	0.6	(4.7)
Identity and Security	(5.6)	(4.6)	(1.0)
<b>Total</b>	<b>-2.7</b>	<b>21.3</b>	<b>-23.9</b>

(\*) Adjusted for currency fluctuations, disposals & acquisitions

#### 2.1.2) Geographical Segments

Three months ended (in millions of euros)

Net sales	September 30, 2006	September 30, 2005	% change	Adjusted change (%) (*)
Europe, Middle East and Africa	118.5	133.3	-11%	-11%
Asia	39.8	39.2	1%	6%
Americas	61.0	75.4	-19%	-13%
<b>Total</b>	<b>219.3</b>	<b>247.9</b>	<b>-12%</b>	<b>-9%</b>

## 2.2) Nine months 2006 compared with nine months 2005

### 2.2.1) Operating Segments

9 months ended (in millions of euros)

Net sales	September 30, 2006	September 30, 2005	% change	Adjusted change (%) (*)
Telecommunications	450.5	474.9	-5%	-6%
Financial Services	163.7	147.1	11%	5%
Identity and Security	82.8	55.2	50%	16%
<b>Total</b>	<b>696.9</b>	<b>677.2</b>	<b>3%</b>	<b>-2%</b>

(in millions of euros)

Gross profit	September 30, 2006	(% of net sales)	September 30, 2005	(% of net sales)	% change
Telecommunications	155.1	34%	176.9	37%	-12%
Financial Services	31.1	19%	29.7	20%	5%
Identity and Security	21.5	26%	18.1	33%	19%
<b>Total</b>	<b>207.7</b>	<b>30%</b>	<b>224.7</b>	<b>33%</b>	<b>-8%</b>

(in millions of euros)

Operating expenses	September 30, 2006	(% of net sales)	September 30, 2005	(% of net sales)	% change
Telecommunications	(113.9)	25%	(114.1)	24%	0%
Financial Services	(36.4)	22%	(30.7)	21%	19%
Identity and Security	(35.8)	43%	(28.7)	52%	25%
<b>Total</b>	<b>(186.2)</b>	<b>27%</b>	<b>(173.5)</b>	<b>26%</b>	<b>7%</b>

(in millions of euros)

Operating income (loss)	September 30, 2006	September 30, 2005	Change in Operating income (loss)
Telecommunications	41.2	62.8	(21.6)
Financial Services	(5.3)	(1.1)	(4.2)
Identity and Security	(14.3)	(10.6)	(3.7)
<b>Total</b>	<b>21.5</b>	<b>51.1</b>	<b>-29.5</b>

(\*) Adjusted for currency fluctuations, disposals & acquisitions

### 2.2.2) Geographical Segments

9 months ended (in millions of euros)

Net sales	September 30, 2006	September 30, 2005	% change	Adjusted change (%) (*)
Europe, Middle East and Africa	363.2	353.6	3%	-5%
Asia	124.0	127.2	-2%	-4%
Americas	209.7	196.4	7%	5%
<b>Total</b>	<b>696.9</b>	<b>677.2</b>	<b>3%</b>	<b>-2%</b>