A French *société anonyme* with a Management Board and a Supervisory Board
A share capital of EUR 13,640,539.20
Registered offices: rue de la Carrière de Bachasson – CS 70025 – Arteparc Bachasson – 13590 Meyreuil, France
Registered in the Trade and Companies Registry of Aix-en-Provence, France under number 399 275 395

REGISTRATION DOCUMENT

HALF-YEAR FINANCIAL REPORT

The English version of this Registration Document and Half-Year Financial Report is a free translation of the official "Document de Référence" prepared in French and filed with the *Autorité des marchés financiers* (the "AMF") on September 11, 2014 under number R.14-054. The French document may only be used in support of a financial transaction if accomplaied by a securities note (*"note d'opération")* approved by the AMF. This document has been prepared by the issuer and its signatoires are liable for its contents.

In accordance with the provisions of Article L. 621-8-1-I of the French Monetary and Financial Code, the registration of the French document was carried out after verification by the AMF that "*the document is complete and comprehensible, and the information contained therein is consistent*". It does not imply that the AMF has verified the accounting and financial information presented therein.

All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions expressed therein, the original version of the document in French shall prevail.

Hard copies of this document are available free of charge at the Company's registered office, and an electronic version may be downloaded from the Company's website (www.insidesecure.com).

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Notice

In this registration document (hereinafter red to as the "Registration Document"), the terms "INSIDE Secure" or the "Company" refer to INSIDE Secure, a French *société anonyme* (joint stock company) with a Management Board and a Supervisory Board, and the registered office located at rue de la Carrière de Bachasson – CS 70025 – Arteparc Bachasson – 13590 Meyreuil, France. The Company is registered with the Trade and Companies Registry of Aix-en-Provence, France under number 399 275 395. The term "Group" refers to the group of companies comprised of the Company and all of its consolidated subsidiaries and equity interests.

A glossary providing the definitions of the terms used in this Registration Document can be found in Chapter 26.

Disclaimer

Information pertaining to the market and competition

This Registration Document and, in particular, Chapter 6 entitled "Business Overview" contains information related to the markets in which the Group does business and its competitive market position. This information originates, in particular, from studies carried out by external sources. Publicly available information that the Company considers reliable has not been verified by an independent expert and the Company cannot guarantee that a third party using different methods to collect, analyze, or calculate the market information would obtain the same results.

Forward-looking statements

This Registration Document contains statements relating to the outlook and development of the Group. These statements are sometimes identified by the use of the future or conditional tense or terms of a forward-looking nature such as "consider", "envisage", "think", "have as an objective", "expect", "intend", "should", "aim to", "estimate", "believe", "desire", "could", or, where applicable, the negative form of these terms or any other variant or similar terminology. Such information is not historic data and should not be interpreted as a guarantee that the facts and data given will occur. Such information is based on data, assumptions and estimates that the Group considers reasonable. It is subject to change and may be modified by uncertainties, particularly those relating to the economic, financial, competitive and regulatory environment. Such information is mentioned in various sections of this Registration Document and contains data related to the intentions, estimates and objectives of the Group, particularly concerning the market in which it operates and its strategy, growth income, financial position, cash flows and forecasts. The forward-looking information mentioned in this Registration Document is provided solely as of the date of this Registration Document. The Group operates in a constantly evolving competitive environment. It therefore cannot anticipate all the risks, uncertainties or other factors that could affect its business, their potential impact on its business or the extent to which the occurrence of a risk or combination of risks could have results materially different from those mentioned in any forward-looking statements, as none of this forward-looking information constitutes a guarantee of actual results.

Risk factors

Investors are invited to carefully read the risk factors described in Chapter 4 entitled "Risk factors" of this Registration Document before making any investment decision. The materialization of some or all of these risks could potentially have a significant adverse effect on the business activities, financial position, income, or outlook of the Group. In addition, other risks – either not yet identified, or considered by the Group as immaterial as of the date of this Registration Document – could also have a significant adverse impact.

Cross-Reference Table

The cross-reference table below identifies the information in this Registration Document that constitutes the half-year financial report (Article L.451-1-2 III of the French Monetary and Financial Code and Article 222-4 of the AMF's General Regulations).

Half-year Financial Report	Registration Document
1. Full version of the financial statements for the most recent half-year	Refer to section 20.6.1 of the Registration Document
2. Half-year Business Report	Refer to sections 9.1, 9.2.3, 10.1 and 10.2.2 of the Registration Document
3. A statement from the physical persons who accept responsibility for the information contained in the Half-year Financial Report	Refer to section 1.2 of the Registration Document
4° The statutory auditors' Report based on a limited review of the aforementioned financial statements	Refer to section 20.6.2 of the Registration Document

1. PERSONS RESPONSIBLE

1.1 Person responsible for the Registration Document

Rémy de Tonnac, Chairman of the Management Board.

1.2 Statement from the person responsible for the Registration Document

After having taken all reasonable measures thereto, I hereby certify that the information contained in this Registration Document is, to my knowledge, accurate and true and that no information has been omitted that would cause a change in its scope or significance.

I further certify that the full version of the financial statements for the past half-year was, to my knowledge, prepared in accordance with applicable accounting standards and provides a true representation of the Company's assets, financial position, and income and of all the companies included in its scope of consolidation, and that the attached Half-year Business Report provides a true account of the significant events that occurred over the course of the first six months of the fiscal year, of their impact on the financial statements, of the major transactions that occurred between related parties, as well as a description of the most significant risks and main uncertainties of which to be aware during the remaining six months of the fiscal year.

I have received a completion-of-work letter (*lettre de fin de travaux*) from the statutory auditors in which they indicate that they have checked the information relating to the financial condition and financial statements included in this Registration Document and that they have read the entire document.

Signed in Meyreuil, France, on September 11, 2014

Rémy de Tonnac
Chairman of the Management Board

1.3 Person responsible for the financial information

Richard Vacher Detournière
General Manager & Chief Financial Officer
Address: rue de la Carrière de Bachasson – CS 70025 – Arteparc Bachasson – 13590 Meyreuil, France
Email: contactinvestisseurs@insidesecure.com

2. STATUTORY AUDITORS

2.1 Permanent statutory auditors

PricewaterhouseCoopers Audit SA
Represented by Philippe Willemin, Partner
PricewaterhouseCoopers Audit is a member of the *Compagnie régionale des commissaires aux comptes* (French regional association of auditors) of Versailles, France
63, rue de Villiers, 92200 Neuilly-sur-Seine, France
Date of initial appointment: June 19, 2007
Expiration date of the current appointment: following the Annual Shareholders' Meeting convened to approve the financial statements of the fiscal year ended December 31, 2018.

Antoine Olanda
38, parc du Golf, 13856 Aix-en-Provence Cedex 3, France
Date of initial appointment: May 11, 2011
Expiration date of the current appointment: following the Annual Shareholders' Meeting convened to approve the financial statements of the fiscal year ended December 31, 2016.

2.2 Alternate statutory auditors

Anik Chaumartin
63, rue de Villiers, 92200 Neuilly-sur-Seine
Date of initial appointment: June 19, 2013
Expiration date of the current appointment: following the Annual Shareholders' Meeting convened to approve the financial statements of the fiscal year ended December 31, 2018.
Member of the PricewaterhouseCoopers professional network

Christian Davoult
Le Ponant Littoral, bâtiment A, 7, avenue André Roussin, 13016 Marseille, France
Date of initial appointment: May 11, 2011
Expiration date of the current appointment: following the Annual Shareholders' Meeting convened to approve the financial statements of the fiscal year ended December 31, 2016.

3. SELECTED FINANCIAL INFORMATION

The selected financial information provided in this Chapter 3 originates from the consolidated financial statements of the Group for the fiscal years ended December 31, 2011, 2012 and 2013, presented in section 20.1 entitled "*Historical Financial Information*" of this Registration Document, as well as the consolidated financial information of the Group for the first half-year of 2014, presented in section 20.6 entitled "*Interim Financial Information*" of this Registration Document.

This financial information must be read in tandem with (i) the analysis of the Group's income and financial condition, presented in Chapter 9 of the Registration Document and (ii) the analysis of the Group's cash and equity, presented in Chapter 10 of the Registration Document.

The Group has elected the US Dollar (or "$") as presentation currency of its consolidated financial statements. The US Dollar is the functional currency of the Company, and the currency in which the majority of its transactions are denominated. It is the main currency used for the Group's transactions and within the semiconductor industry in transactions between customers and suppliers.

The exchange rates of the US Dollar against the Euro (or "€", or "EUR"), the main currency used by the Group after the US Dollar, are as follows for the fiscal years ended December 31, 2011, 2012 and 2013 and for the half-years ended June 30, 2013 and 2014:

Dollar / Euro	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2013	June 30, 2014
Closing rate	1.2939	1.3194	1.3791	1.3080	1.3658
Average rate	1.3917	1.2858	1.3282	1.3135	1.3705

(Please also refer to Note 2.1 of the Notes to the Group's consolidated financial statements presented in section 20.1 entitled "*Historical Financial Information*" of this Registration Document for further information.)

The scope of consolidation of the Group is detailed in Note 31 of the Notes to the consolidated financial statements presented in section 20.1 entitled "*Historical Financial Information*" of the Registration Document.

The Group operates in relation to two operating segments: (i) Mobile Security and (ii) Secure Payments. This organization, presented in Chapter 9 of the Registration Document, constitutes the basis for the Group's internal reporting.

Excerpts from the consolidated financial information for the fiscal years ended December 31, 2011, 2012 and 2013 and for the first half-years of 2013 and 2014 (in accordance with IFRS)

Selected financial information from the consolidated income statement:

	Year ended December 31			6-month period ended June 30	
(in thousands of US$)	**2011**	**2012**	**2013**	**2013**	**2014**
Revenue	151,468	122,047	154,623	70,765	64,247
Adjusted gross profit (1)	42,412	31,439	60,260	26,850	37,822
Adjusted gross profit as a % of revenue	*28%*	*26%*	*39%*	*38%*	*59%*
Adjusted operating income (2)	(16,052)	(30,095)	(2,952)	(6,313)	3,240
Operating income	(24,462)	(37,278)	(27,766)	(20,559)	(5,699)
Net income	(23,033)	(37,485)	(27,560)	(21,002)	(5,477)
EBITDA (3)	(12,242)	(25,123)	2,793	(3,542)	5,627
EBITDA as a % of revenue	*-8%*	*-21%*	*2%*	*-5%*	*9%*

(1) The adjusted gross profit is defined as gross profit before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payments expense, and (iv) non-recurring costs associated with business combinations and acquisitions completed by the Group.

(2) The adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payments expense and (iv) non-recurring costs associated with business combinations and acquisitions completed by the Group.

(3) EBITDA is defined as the adjusted operating income/(loss) before any amortization and impairment unrelated to business combinations.

Earnings from operating segments:

	Year ended December 31			6-month period ended June 30	
(in thousands of US$)	**2011**	**2012**	**2013**	**2013**	**2014**
Mobile Security:					
Revenue	47,961	43,828	73,797	26,473	32,750
Adjusted gross profit	10,317	12,680	36,459	13,797	28,444
Adjusted gross profit as a % of revenue	22%	0%	49%	52%	87%
Adjusted operating income	(17,258)	(30,920)	(6,676)	(9,619)	6,749
EBITDA	(16,762)	(28,985)	(5,653)	(9,101)	7,201
Secure Transactions:					
Revenue	103,507	78,219	80,826	44,292	29,984
Adjusted gross profit	34,771	20,995	26,336	14,463	7,865
Adjusted gross profit as a % of revenue	34%	27%	33%	33%	26%
Adjusted operating income	3,882	3,062	5,895	4,493	(5,504)
EBITDA	7,196	6,099	10,616	6,745	(3,570)

Selected financial information from the consolidated balance sheet:

	Year ended December 31			6-month period ended June 30	
(in thousands of US$)	**2011**	**2012**	**2013**	**2013**	**2014**
Non-current assets	34,227	86,177	83,282	83,711	93,625
Cash and cash equivalents	20,94	66,321	40,213	41,846	38,771
Other current assets	52,678	40,626	40,591	50,948	30,209
Current assets	73,618	106,947	80,804	92,794	68,980
Total assets	**107,845**	**193,124**	**164,086**	**176,505**	**162,605**
Equity	57,595	121,726	95,947	100,707	90,580
Non-current liabilities	14,708	22,729	20,012	21,243	35,278
Current liabilities	35,542	48,669	48,127	54,554	36,747
Total equity and liabilities	**107,845**	**193,124**	**164,086**	**176,505**	**162,605**

Selected financial information from the consolidated cash flows statement:

	Year ended December 31			6-month period ended June 30	
(in thousands of US$)	**2011**	**2012**	**2013**	**2013**	**2014**
Cash and cash equivalents at beginning of the year	**41,178**	**20,94**	**66,321**	**66,321**	**40,213**
Net cash generated/ (used) in operating activities	(11,011)	(12,508)	(17,082)	(15,399)	3,489
Net cash used in investing activities	(7,993)	(48,509)	(15,075)	(8,545)	(15,361)
Net cash generated by / (used) in financing activities	(965)	106,604	6,026	(477)	10,283
Effect of rate fluctuation(1)	(269)	(206)	23	(53)	147
Cash, cash equivalents at end of the year	**20,94**	**66,321**	**40,213**	**41,846**	**38,771**

(1) Element with no impact on the cash position, and resulting from the conversion into US Dollars of cash denominated in other currencies

Tables presenting reconciliations between the consolidated income statement figures in this document and the adjusted financial aggregates as defined above, for the 2011, 2012, and 2013 fiscal years, are provided in Note 6 of the Notes to the Group's Consolidated Financial Statements in section 20.1 entitled "Historical Financial Information" and, for the half-years ended June 30, 2013 and 2014, in Note 26 of the Notes to the Half-year Financial Statements in section 20.6.1 entitled "Interim Financial Information" of this Registration Document.

4. RISK FACTORS

Investors should consider all of the information contained in this Registration Document, including the risk factors described in the following chapter, before they decide to acquire or subscribe Company shares. While preparing the Registration Document, the Company conducted a review of the risks that could have a significant adverse impact on the Group, its business activities, its financial condition, income, future outlook, or its ability to achieve its objectives, and considers that the most significant risks are those described herein.

However, it is possible that other risks – either currently unknown or of which the materialization is not considered likely at the filing date of this Registration Document – could nonetheless exist and have a material adverse effect on the Group, its business activities, financial condition, income, or future outlook were they to materialize.

4.1. Risks associated with the Group's business and industry

The semiconductor industry has historically experienced significant fluctuations.

The semiconductor industry is cyclical. In addition to changes in the general economic climate, which can result in imbalances between supply and demand, it is subject to rapid technological changes, which create growth in demand for new products followed by a period of slower growth once these new products are widely adopted by the market. The slower rate of growth typically continues until the next technological development, at which point the pattern begins again.

This cyclical nature of the industry affects the Group in the following three ways:

- any decrease in demand for the products marketed by the Group has an adverse impact on its business activities, its revenues, its cash condition and, as a result, its financial condition;

- a significant portion of the Group's costs is fixed and a significant portion of its variable costs is committed through advance payments on future sales. As such, the Group may not be able to adjust its expenses rapidly enough to offset any unanticipated shortfall in revenue following a shift to a new phase in the development cycle. This would have an adverse impact on the Group's margins, operating income, cash and financial condition; and

- furthermore, the Group does not own any manufacturing capacity, resulting in a reliance on subcontractors for the manufacturing, assembly, testing and shipping of its products. During periods of high demand, competition for access to the services of these subcontractors increases. When the cycle shifts and demand slows, such subcontractors may decide to reduce the amount of their capacity to adjust for this market change. As such, the Group may experience difficulty in obtaining access to the manufacturing services it relies on to achieve its sales projections or it may be subjected to price increases imposed by its subcontractors. This would have an adverse impact on the Group's revenues, margins, operating income, cash and financial condition.

The terms of the contracts governing the relationships between the Group and its customers and subcontractors only partially allow the Group to protect itself against exposure to these risks (for further information, refer in particular to the sections entitled "The Group subcontracts the manufacturing, assembly, testing and shipping of its products to third parties and one such third party could fail to fulfill its obligations to meet deadlines and comply with specified conditions" and "The Group's customers could cancel their orders, change the quantity ordered, or delay their production"). The Group could be unable to accurately estimate the demand for its products and, as a result, either be unable to use its inventory or, conversely, be unable to satisfy the orders placed by its customers.

The Group operates in a very competitive environment and must contend with competitors that are larger than the Group. If the Group were no longer competitive vis-à-vis other market players, it could fail to increase and/or maintain its market share or the amount of revenues it generates.

Some of the Group's competitors have longer operating histories in the sector, with access to significantly greater resources, have more established reputations and a larger base of existing customers than those of the Group. Their long-established positions in these markets have enabled them to forge strong relationships with their customers, which could be an advantage for them notably due to their access to information about market trends and future demand. The significant resources available to more sizeable competitors enable them to be more reactive in competing for technology, benefit from economies of scale, expand their portfolio of products and benefit from higher credibility in front of existing and potential customers of the Group. Lastly, some competitors may offer customers bundled solutions with complementary products or have the ability to adopt a more aggressive pricing policy. This could affect the Group's ability to gain or maintain its market share.

Due to the very competitive environment of the semiconductor sector and to the high costs associated with the design and manufacturing of semiconductors, the industry demonstrates a trend toward consolidation, which heightens the risk described above. This trend toward consolidation is evidenced, in particular, by transactions involving large companies acquiring smaller ones. This trend is expected to continue in the future.

In the markets to which it targets its semiconductor, software, and intellectual property products, the Group competes with companies such as, in particular, NXP Semiconductors, Infineon Technologies, STMicroelectronics, Samsung Electronics, Discretix and Arxan. In the markets to which it targets its embedded security software, the Group competes with companies that are, as of now, smaller and lesser known. Other companies could enter into direct competition with the Group if they were to develop their own technology or enter into licensing agreements with third parties for technology, software and intellectual property.

The Group's competitiveness depends on several factors, including:

- its ability to predict market needs (particularly by identifying new ones) and to develop products to successfully meet them;
- its ability to deliver products in large volumes on a timely basis at competitive prices;
- its ability to accurately understand the price points and performance metrics of competing products in the market;
- its products' performance and cost-effectiveness relative to those of its competitors;
- its ability to maintain and develop relations with its key customers; and
- its ability to conform to industry standards while developing new and proprietary technologies to offer products and features previously not available in the payments market, in particular.

If the Group were unable to remain competitive against its current or future competitors, or if it contends with market rivals that are more successful as a result of, in particular, their larger size, this will adversely impact its market shares, revenues, financial condition and development.

The Group could be unsuccessful in developing and selling new products on a timely and cost-effective basis or in penetrating new markets.

The markets in which the Group conducts its business activities, as well as those markets it targets, are characterized by rapidly changing technologies and industry standards, technological obsolescence and frequent product introductions. They are also characterized by intense price competition, the introduction of new products being a distinguishing factor enabling companies to demand higher prices. Therefore, in order to protect its market position, the Group must be able to predict technological changes and design, develop, market and support new products and enhancements on a timely and cost-effective basis.

The development of technologies and new marketable products is complex and usually requires significant long-term investments. The Group could experience delays in completing these developments and, as a result, find itself attempting to penetrate the market with an obsolete technology or one in which a competitor is already very well established. The Group could even develop products based on a standard that is ultimately not retained by the industry. Furthermore, the Group's development costs could be excessive compared to the price at which the Group would be able to market its products. These types of risks, if they were to materialize, would have an adverse impact on the Group's business activities, revenues, financial condition and future development.

The development of the security solutions (hardware and software) of the Group depends on the overall development of the market for mobile and network security systems, on it being accepted by users, as well as on customer demand.

The market for the Group's mobile and network security solutions (hardware and software) depends on, in particular:

- the perceived ability of its products and services to address real customer problems,
- the perceived quality, price, user friendliness and interoperability of its products and services as compared to those of its competitors,
- the market's perception of how easy or difficult it is for the Group to deploy its products, especially in complex network environments,
- the continued evolution of electronic commerce as a viable means of conducting business,
- market acceptance and use of new technologies and standards,
- the public's perception of the need for secure electronic commerce and communications over both wired and mobile networks,
- the ability of the Group to effectively adapt to the pace of technological change, and
- general economic conditions, which among other things, influence how much money the customers and potential customers of the Group are willing to spend on such technology.

If the Group were unable to face such circumstances, its revenues, income, financial condition and development would be negatively affected.

The success of the Group is dependent, in particular, on an increase in demand for the supply of embedded security solutions.

The customers of the Group can postpone the purchase, stop using, or decide not to renew the use license for the Group's embedded security solutions, and some customers of the Group could also decide to terminate licensing contracts at any time. The contracts signed with the customers of the Group generally provide for basic licensing rights, access fees for technologies and/or fees established on a per unit basis, usage fees or a percentage of revenues for solutions that integrate the Group's technology, as well as service and maintenance fees. A certain number of key contracts also provide for capped fees whenever the volume of sales announced by certain customers exceeds set thresholds. Consequently, a portion of the revenues of the Group is not recurrent, which makes them harder to predict. Since the levels of expenditures rely in part on the projections of future revenues, and since expenditures are, for the most part, fixed in the short run, the Group could be unable to adjust its spending fast enough in order to offset an unexpected drop in revenues, which could have an adverse impact on its income, its financial condition and its development.

The success of the Group will depend, in particular, on the timely market introduction of new security solutions with new or improved functionalities.

The future financial performance of the Group will depend, in particular, on its ability to meet the needs and specifications of its customers by improving its mobile and network security solutions and by developing solutions with new and improved functionalities. The Group allocates significant resources to the identification of new market trends and to the development of solutions in order to anticipate the demand for security solutions. However, customers could lose interest in the solutions of the Group, which makes the Group unable to guarantee that the demand for its solutions will continue to develop as projected. The Group must develop new solutions and improve existing solutions in order to meet the rapidly evolving needs of customers. The success of new functionalities is dependent on several factors, including their timely introduction to the market and their market acceptance. The Group could be unable to improve its existing solutions or to develop new solutions, or be unable to introduce these solutions to the market in a timely fashion. The Group could face delays in the development and market introduction of its solutions, which could render them obsolete or unsellable once introduced. Customers could also postpone their purchases in order to wait for the introduction of new solutions. If the Group's solutions are not considered competitive, in particular if it is unable to improve on existing solutions or to introduce new ones in a timely fashion, the Group could no longer be perceived as a leader in its field, its reputation might be negatively impacted, the value of its brand could be diminished, and its financial performance could be adversely affected. In addition, uncertainties regarding the time frame of availability and the nature of the functionalities of new solutions could result in an increase in research and development expenses with no assurance of future revenues.

Such circumstances would have an adverse impact on the revenues of the Group and, in so doing, on its income, its financial condition and its development.

The development the Group's NFC technology-related business activities depends on the overall development of the NFC applications market and its acceptance by end-users, as well as on customer demand.

Historically, the strategy rolled out by the Group on the NFC applications market relies on the sale of semiconductors and, more recently, on the monetization of the Group's NFC technology and its portfolio of NFC patents via licensing programs, on the one hand, and on the sale of secure contactless semiconductor solutions that terminals equipped with NFC technology can read (as a mean to help fight counterfeiting, for example), on the other hand. To date, NFC technology has not been widely adopted by mobile operators, mobile handset and consumer electronics manufacturers. In addition, the infrastructure that would enable NFC technology to be used for multiple applications, including payments, has not yet been widely deployed throughout the world.

Furthermore, there are some existing and emerging alternative technologies that are also available and could be preferred to the NFC solutions offered by the Group. Solutions including short message service (SMS) and online payment websites already exist to enable payments to be made from mobile devices (telephones, tablets and laptop computers, for example). In peer-to-peer communications, existing wireless technologies such as wireless-LAN and Bluetooth can enable direct communication and data transfer between mobile devices.

Additionally, in many countries the use of contactless technology for applications such as payments or public transportation is not yet widespread.

NFC technology or the NFC applications market could fail to develop or develop more slowly than expected. Products developed by the Group and integrating NFC technology could potentially fail to meet market demands (particularly if consumers are reluctant to adopt the technology), or simply not be adopted by the Group's customers on a sufficiently large scale. Under these circumstances, significant investments in time and resources committed by the Group to this technology could be lost, in full or in part, and the development of the Group, its business activities and financial condition could be affected.

The Group could be unable to follow the North American market's migration toward the EMV standard

The North American market's adoption of the EMV standard could take longer than expected and the Group could be unable to follow this migration. The solutions developed by the Group could not be accepted by the North American market or such solutions could fail to be adopted on a wide scale. This could have an adverse impact on the Group, its business activities, financial condition, income and its development.

The Group could fail to monetize its patents portfolio.

One of the Group's areas of development focuses on monetizing its patents portfolio or other intellectual property rights, which could result in the Group's execution of licensing agreements, particularly when it holds intellectual property rights it deems significant, such as some of its patents in the NFC field.

For example, in June 2012 the Group announced the launch of an NFC patents licensing program with France Brevets (additional information can be found in Chapter 22 of this Registration Document).

However, the Group could face challenges in implementing this strategy. In particular, the Group cannot guarantee with any certainty that its strategy aimed at growing the value of its intellectual property rights will result in the execution of licensing agreements or that, if they were executed, such agreements will meet revenue forecasts, that the Group's contractual partners will not violate such agreements or that the Group will find the right solutions to such violations were they to occur. In addition, it is possible that third parties against which legal action has been taken in connection with alleged violations of these patents or intellectual property rights will dispute the legitimacy of such action, its enforceability or the validity of the rights in question. This could have an adverse impact on the Group, its business activities, financial condition, income and its development.

Historically, the average selling price of the Group's semiconductor products have tended to decrease over time. This trend could become more pronounced in the future.

The semiconductor industry is characterized by significant sales price erosion, which is particularly acute once a product has been on the market for some time and as volumes increase over time. Therefore, the average selling price for semiconductor solutions is on a downward historical trend. Although this trend is generally slowed down or even offset by the introduction of new generations of products integrating several functionalities, it could become more pronounced in the future and the Group could be unable to offset this drop in prices with an increase in volume or the development of new or enhanced semiconductor solutions on a timely and cost-effective basis, or even to reduce its costs, which would prove particularly difficult considering the Group is entirely dependent on subcontractors for the manufacturing, assembly, testing and shipping of its products. Even if the Group were able to achieve either of these goals, any resulting improvements still might not be sufficient to offset the decrease in prices.

These events, if they were to materialize, would have an adverse impact on the Group's gross margin and, therefore, on its income, financial condition and development.

The Group could face higher costs for the manufacturing of its products and be unable to pass such higher costs on to its customers.

The semiconductor business is characterized by ongoing competitive pricing pressure from customers and competitors, generating a limited capacity to pass the increase in the cost of the Group's products to its customers. Consequently, any increase in the manufacturing costs of the Group's products, whether related to adverse purchase prices, yield discrepancies or other factors, could reduce the Group's gross profit margin and operating income. The Group and its subcontractors have entered into framework supply agreements, which often provide for an annual price negotiation. Consequently, the

Group could be unable to either obtain price reductions or to predict or prevent price increases imposed by its suppliers, in particular due to the fact that the Group relies on a limited number of suppliers for the manufacturing, assembly, testing and shipping of its products.

These events, if they were to materialize, would have an adverse impact on the Group's gross margin and, therefore, on its income, financial condition and development.

Most markets in which the Group operates are characterized by large customers with significant market share and buying power who may use a number of companies to develop and provide semiconductors, which perform similar functions as the Group's products.

Several of the Group's targeted markets, particularly the security solutions market for mobile handsets, payment cards and conditional access cards for Pay TV, are characterized by the presence of sizeable customers with significant market share and buying power.

In some markets where the number of customers is limited or where customers use several suppliers, the Group's competitors could increase their volumes to the Group's detriment, which could lead the Group's customers to seek to renegotiate the financial conditions of their contracts to their advantage.

These types of events, if they were to materialize, would have an adverse impact on the Group, its business activities, financial condition, income and development.

The Group is dependent on certifications from third parties, such as Visa and MasterCard, in order to sell its solutions for integration in some applications, and could prove unable to obtain or, as the case may be, lose these certifications.

The sale of some of the Group's solutions requires compliance with standards and protocols established by third parties and, in some instances, a certification from those parties, granted for three years and based on evaluations conducted by independent laboratories. Although the Group considers, as of the date of the Registration Document, that there is a low risk that all or part of these certifications will not be renewed or be obtained, if this were to happen it could prevent the Group from selling some of its solutions insofar as they failed to secure the required certification and, as a result, would have an adverse impact on the Group, its business activities, financial condition, income and development.

The Group could experience setbacks in transitioning to more advanced wafer fabrication process technologies or in achieving higher levels of product integration in the design of its semiconductors.

In order to secure and improve its competitiveness, the Group intends to continue to invest in the development of increasingly "smaller geometries" and to achieve higher levels of design integration. These ongoing efforts require the Group to regularly change the manufacturing processes applied by its foundry partners for its semiconductor solutions. The Group could experience setbacks and delays as a result of its reliance on foundries to endorse and integrate new production processes. The Group cannot guarantee that its contracted foundries or its test and assembly subcontractors will be able to effectively manage the transition to new processes or, if they failed to do so, that it would be able to find new subcontractors able to successfully complete this transition. If the subcontractors upon which the Group relies are not able to complete this transition toward smaller geometries on a timely basis, or if the Group is not able to achieve a higher level of integration in the design of its products or fails to achieve this level of integration on a timely basis, this could have an adverse impact on the Group, its business activities, revenues, income, financial condition and development.

4.2. Risks associated with the lack of ownership of any industrial infrastructure

The Group outsources the manufacturing, assembly, testing and shipping of its products to third parties and one such third party could fail to fulfill its obligations in a timely manner and in compliance with set specifications.

The Group outsources the manufacturing, assembly, testing and shipping of its products to third parties. As such, the Group relies on its suppliers in terms of quantity, quality, yield and costs of services and products. The Group cannot maintain the same level of oversight and control over these outsourced operations as it would if these operations were carried out internally.

The Group relies on a limited number of suppliers. In addition, with respect to the manufacturing process of its products, the Group typically operates with just a single foundry, even though several foundries can be qualified per category of products. As such, the leading supplier of the Group, its top five suppliers and its top ten suppliers, represented 27%, 61% and 71% of its purchases in fiscal year 2013 respectively, and 28%, 56% and 67% of its purchases in fiscal year 2012, respectively. The supply agreements existing between the Group and its main partners are usually signed for three to five years and are, for the most part, renewable tacitly every year. If one of these partners decided to terminate its relationship with the Group, to sign an agreement with a competitor, or to change the quantities it delivers to the Group or the conditions under which the deliveries are made, this could affect the Group's ability to deliver its products to its customers in a timely manner and in sufficient volume, which would impact the Group's sales and damage its business relations.

Any one of these events would have an adverse impact on the business activities of the Group, its revenues, results, financial condition and development.

On September 28, 2010, within the context of the acquisition of the SMS business of Atmel Corp., the Company entered into a supply agreement with LFoundry Rousset SAS, modified by amendment dated March 19, 2012, under the terms of which the Company undertakes to purchase, at pre-determined prices, a minimum annual number of wafers until September 30, 2014, while the Company retains priority access to the manufacturing capabilities of LFoundry. As of December 31, 2013, all of the commitments have been met. Furthermore, in June 2013, LFoundry Rousset SAS was subject to recovery proceedings (*redressement judiciaire*) that led to court-ordered liquidation proceedings (*liquidation judiciaire*) in December 2013, and the aforementioned company ceased all business activities. During 2013, the Company found a qualified alternate supplier with which it began doing business, as a result of the difficulties LFoundry Rousset SAS was experiencing.

If the foundries the Group relies on for the manufacturing of its products fail to provide satisfactory levels of output or quality, the Group's reputation and its customer relationships could be negatively affected.

The Group does not own any industrial facilities. Its products are manufactured, assembled and tested by subcontractors, mainly by Global Foundries, TSMC and UMC. Minor deviations in the manufacturing process can result in substantial decreases in yields and in some cases, cause production to be suspended. Changes in the manufacturing process or the inadvertent use of defective materials by the Group's foundries can trigger serious manufacturing defects or result in lower than anticipated manufacturing yields or unacceptable performance.

Most of these problems are difficult to detect at an early stage of the manufacturing process and could be time consuming and expensive to correct. A foundry which provides insufficient output levels, or the existence of defects, integration problems, or other performance-related problems associated with the manufacturing of semiconductors could, in addition to its direct impact on sales and revenues, damage the Group with respect to its customer relationships, tarnish its reputation or require the Group to pay damages to its customers. If the Group's subcontractors are not able to provide acceptable products, the Group will have to find other subcontractors, which could take time and carry additional costs. These risks are increased for certain products for which the Group currently has only one supplier.

These types of events, if they were to materialize, would have an adverse impact on the Group's business activities, revenues, results, financial condition and development.

4.3. Risks associated with the Group's types of customers

The Group's customers could decide not to integrate the Group's semiconductor solutions in their products or their products could fail to be commercially successful.

The Group sells semiconductor solutions to original equipment manufacturers (or "OEMs") and to smart card manufacturers who integrate them into their products and also to original design manufacturers (or "ODMs") that integrate the Group's semiconductor solutions in the products they provide to OEMs. As such, the Group relies on OEMs and smart card manufacturers to continue to integrate its semiconductor solutions in their own lines of commercialized products.

First, the Group must invest a substantial amount of capital in the development of new semiconductor solutions, with no guarantee that customers will select them and integrate them in their products (which, if selected and integrated by customers, results in a "design win"). Achieving design wins is all the more important given that it is typically very difficult for a customer to switch suppliers of semiconductor solutions. An absence of design wins therefore would have an adverse impact on the Group's revenues, results and financial condition.

Once they are selected, the Group's semiconductor solutions are usually integrated into the customers' products at the design stage, before such products are introduced to the market. The Group has no guarantee that the products marketed by its customers will attain commercial success. In addition, if the Group's semiconductor solutions contain defects affecting their performance or their compliance with certification standards after they have been selected and integrated in the products of the Group's customers, not only would the sales of these products be directly and adversely affected, but such customers could refuse to consider the Group's semiconductor solutions when they design new products. If the Group's semiconductor solutions do not meet the expectations of its customers, or if the products marketed by the Group's customers fail to meet the expectations of their own customers or are not accepted by consumers, the revenues, results and financial condition of the Group would be harmed.

The Group generates a significant portion of its revenues through a limited number of customers. The Group could fail to retain its key customers or to expand its business relationships.

A significant portion of the Group's total revenue is attributable to a limited number of customers and the Group anticipates that this could continue to be the case. These customers may decide not to purchase the Group's semiconductor solutions at all, to purchase fewer semiconductor solutions than they did in the past or to alter the terms on which they purchase its products. Insofar as a customer represents a significant percentage of the Group's accounts receivable, the Group is exposed to the risk of insolvency or late payment from any one of them. As of the date of this report, the amount of bad debt is not significant (also see Note 14 of the Notes to the Consolidated Financial Statements of the Group for the fiscal year ended December 31, 2013).

The top customer of the Group, its top five customers, and its top ten customers represented, respectively, 29%, 54%, and 67% of its revenues for the half-year ended June 30, 2014, 23%, 49% and 64% of its revenues for fiscal year 2013, and 30%, 63% and 83% of its revenues for fiscal year 2012.

The loss of any key customer, a significant decrease in revenues, or any issue with collection of receivables from customers could impact the Group's financial condition and the operating income.

The Group's customers could cancel their orders, change the quantities ordered, or delay their production. The Group could be unable to accurately estimate the demand for its products and, as such, either be unable to sell its inventory or, conversely, be unable to satisfy customer's orders.

The Group and its customers have not signed any long-term purchase agreements for committed quantities. All sales are made on a purchase order basis, which allows its customers to cancel, amend or delay product purchase commitments with little or no notice to the Group and without penalty. Given that production lead times often exceed the amount of time required to fulfill orders, the manufacturing process often begins in advance of orders, relying on an imperfect demand forecast for every customer to project volumes and product mix. The Group's forecasts depend on the accuracy of the forecasts prepared by its customers, changes in market conditions, changes in the Group's product order mix and demand for the products marketed by its customers. Excessively optimistic forecasts, obsolete forecasts due to changes in market conditions or cancelled or delayed orders could significantly impact the Group by triggering a sudden drop in revenues while the corresponding production costs have already been incurred, or result in excessive or obsolete inventory that the Group may not be able to clear.

Conversely, in the past, customers have sometimes substantially increased the size of their orders with limited notice. If the Group were not able to accurately predict this change and, therefore, not be able to meet the demands of its customers by the set deadline, customers could cancel their orders and request damages or approach other competitors for their supply.

Any one of these events would have an adverse impact on the Group's business activities, revenues, income, cash condition and, therefore, its financial condition.

The Group provides solutions that offer its customers security features that third parties may attempt to circumvent.

The Group's core business is to provide semiconductors, software and, more generally, platforms intended to protect the integrity of the products' operating functionality, the information stored within the product and any communication within it. These solutions are central to protecting the revenues, business models and/or interests of the Group's customers. For example, such solutions include preventing fraudulent bank payment card transactions, protecting national borders, ensuring that only customers who pay for television content are allowed to receive it and maintaining the security of confidential information.

Considerable efforts can be deployed by those attempting to breach the security of systems within which the Group's solutions are integrated. Any successful breach of the security of the Group's products or of the systems within which they are integrated (whether or not due to a breach in the security of the Group's products) could cause financial or other damage to the Group's customers, which would damage the reputation and the business activities of the Group.

The high level of complexity of the Group's semiconductor solutions could lead to unforeseen delays or expenses as a result of undetected defects or faulty design.

The Group's semiconductor solutions are highly complex and could contain defects or design errors that, if significant, could impair their performance or prevent compliance with industry standards. If such a situation were to occur, the Group could be unable to correct these defects within a reasonable time. Correcting these errors could cause delays in production or generate significant costs. This risk is even more significant given that the Group outsources the manufacturing, assembly, testing and shipping of its products to third parties and, as such, cannot maintain the same level of oversight and control over these outsourced operations as it could if these operations were carried out internally.

If the design defects of the products marketed by the Group are not identified until after they are introduced to the market, additional costs could be incurred due to product recalls, repairs and replacements. In addition, the Group typically provides one to three-year warranties on its products. Therefore, the Group could be required to issue refunds on its products and might face claims for damages filed by its customers.

The occurrence of any one of these events would have an adverse impact on the Group's business activities, results, financial condition and development.

4.4. Risks associated with intellectual property

The Group relies, to a large extent, on the exclusive exploitation rights it holds in connection with its intellectual property. However, for each of these rights, the Group could be unable to secure the necessary scope of protection to guarantee a competitive advantage.

The Group relies, to a large extent, on its intellectual property rights in order to protect its products and technologies from misappropriation by others.

The Group, like other filers or requesters of intellectual property rights, could experience setbacks in obtaining patents, registering trademarks, or securing other intellectual property rights. The issuance of a patent or the registering of a trademark, even after a Patent or Trademark Office reviews the request, does not absolutely guarantee either its validity or enforceability. Indeed, the Group's competitors could, at any time, successfully dispute the issuance, validity or enforceability of the Group's patents, patents requests, registered trademarks or registered trademark requests in court or in the context of other proceedings that could, based on the ruling relative to said disputes, prevent their issuance, lead to their revocation or invalidation or reduce their scope, or make it possible for competitors to circumvent them.

In addition, to date the Group has not filed patent applications or applications for other intellectual property rights in all countries in which it conducts its business. The Group's ability to protect its intellectual property rights represents a significant expense associated with, in particular, patent application filing and patent renewal fees, compensation paid to inventors and the management of its other intellectual property rights, thereby leading the Group to study and select, on a case-by-case basis, the States in which protection is requested based on its plans for each patent.

Consequently, the rights obtained could prove insufficient to either ensure adequate protection or secure a competitive advantage. In particular, the Group cannot guarantee that:

- the Group will be able to develop patentable know-how;
- the know-how developed by the Group will be patentable;
- requesting patents, trademark registrations, or obtaining other intellectual property rights of the Group that are under review will effectively result in the issuance of certificates or that such certificates, should they be issued, will cover the same scope as that initially requested;
- the patents issued and trademarks registered in the Group's name, as well as the other intellectual property rights it has been granted, will not be disputed, invalidated, revoked or circumvented, or will not be subject to a reduction in scope;
- the protection granted under the terms of the Group's patents, trademarks and other intellectual property rights is and will remain broad enough to protect it from its competitors and from the patents or other intellectual property rights held by third parties and covering similar technologies;
- employees of the Group will not claim rights, extra compensation or a fair price for inventions or other creations in which they participated.

Situations the Group might face, which may prevent it from securing intellectual property rights for its know-how, its distinguishing features and/or its creations, or which may prevent it from peacefully taking full advantage of them, could have an adverse impact on the Group, its business activities, financial condition, income and its development.

In addition, the Group could be asked to grant licenses on its patents in connection with its participation in various standard-setting organizations.

The Group may decide to take legal action.

Third parties could use or attempt to use elements of the Group's know-how for which it holds an intellectual property right, which would be detrimental to the Group and, as a result, could lead the Group to taking legal action to enforce compliance with its rights. However, the detection of counterfeits is a difficult task and the Group cannot be absolutely certain that it will successfully avoid breaches and unauthorized uses of its know-how, in particular in foreign countries where its rights are potentially not as extensive as they are elsewhere, or even non-existent, or where a violation is not as easy to detect.

In the context of its strategy aimed at increasing the value of its patents and other intellectual property rights, the Group or its exclusive licensees (please also refer to Chapter 20.8 of this Registration Document for further information) can take legal action against third parties to enforce compliance with the Group's patents. Therefore, the Group cannot guarantee that either itself or its exclusive licensees will not attempt to take new legal or administrative action in order to enforce the monopoly granted under the terms of its intellectual property rights (particularly its patents) and that, following such actions, its intellectual property rights will not be revoked, invalidated or reduced in scope.

Any dispute could result in significant expenditures and ultimately fail to secure the desired protection or sanction, which could have an adverse impact on the Group, its business activities, financial condition, income and its development.

Legal action may be taken against the Group.

To this day, and insofar as possible, the Group continues to conduct the preliminary research it deems necessary for identifying potential pre-existing rights and, as a result, limit the risk for any disputes prior to investing in introducing its various products to the market.

However, it is possible that pre-existing third party patents or other intellectual property rights may exist that could enable their holders to file a legal claim for patent infringement against the Group, its industrial partners or its customers.

As such, the persons or legal entities to which the Group has granted licenses or provided products or services could be involved in litigation concerning the violation of patents or rights held by third parties, in connection with such licenses, products or services. Some of the Group's customers have already received notifications in writing from third parties seeking to enforce their alleged proprietary rights over certain technologies and recommending that the Group's customers obtain a license from such third parties. In accordance with the terms of the contracts it has signed with its customers and industrial partners, the Group could be required to defend and compensate its customers or industrial partners in the event that any legal action is taken against them based on an alleged violation of intellectual property rights held by third parties, in connection with the Group's patents, products or services.

Therefore, the Group cannot guarantee with any certainty that its products do not infringe upon or violate third party patents or other third party intellectual property rights, or that the industry standards implemented by the Group do not violate third party rights.

Any legal claim filed against the Group, irrespective of its ultimate resolution, could result in significant expenditures as well as tarnish the Group's reputation and negatively affect its financial condition. Indeed, if such legal actions were to be pursued to the full extent of the law, the Group could be forced to:

- stop selling or using the product(s) that depend(s) on the disputed intellectual property in a given geographic area, which could in turn reduce its revenue,
- secure a license from the holder of such intellectual property rights, which may not be granted or granted under unfavorable conditions,
- amend the design of its products or services or, for trademark infringement claims, rename its products in order to avoid violating any third party intellectual property rights.

Such disputes could also hinder the Group's business activities or those of its customers or industrial partners and, as a result, trigger a decrease in the sales of its technologies and products. This could have an adverse impact on the Group, its business activities, financial condition, income and its development.

Limitations on the protection of the Group's trade secrets and know-how.

It is also important for the Group to safeguard against the unauthorized use and disclosure of its confidential information and trade secrets.

While conducting its business activities, the Group must often grant third party access to sensitive information, which may or may not be patent protected. In such cases, the Group enters into non-disclosure agreements with these third parties in order to ensure that the latter undertake not to misappropriate this information, engage in its unauthorized use, or share this information with third parties. Indeed, these non-patented and/or non-patentable proprietary technologies, processes, know-how and data are viewed as trade secrets that the Group aims to protect via such non-disclosure agreements.

However, these non-disclosure agreements only offer limited protection and could fail to prevent a third party's unauthorized use of the Group's technologies. Therefore, the Group cannot guarantee that such third parties will comply with said agreements, that it will be informed in the event of a violation of said agreements or even that the compensation it may potentially receive will be sufficient enough to offset the loss incurred, if only due to the amount of time needed to secure such compensation.

Therefore, such access to its sensitive information puts the Group at risk of seeing third parties (i) reap the benefits from the intellectual property rights covering elements of the Group's know-how, (ii) fail to maintain the confidentiality of the Group's patentable and non-patentable know-how, (iii) disclose the Group's trade secrets to its competitors or use said trade secrets to develop rival technologies and/or (iv) violate said agreements, while leaving the Group without any adequate response to counter such violations.

Consequently, the Group's rights over its trade secrets and know-how may not provide the desired protection against its competitors and the Group cannot guarantee with any certainty:

- that its know-how and trade secrets will not be usurped, circumvented, shared without its consent or used;
- that the Group's competitors have not already developed know-how that is analogous or similar in nature or purpose to those developed by the Group; and
- that no contractual partner or third party will reap the benefits from intellectual property rights associated with the Group's inventions, knowledge or income.

The materialization of all or part of these risks could have an adverse impact on the Group, its business activities, financial condition, income and its development.

4.5. Legal Risks

To the Group's knowledge, there are no other government, legal or arbitration proceedings, including any proceedings that are either pending or threatened, that are expected to have or have had, in the past 12 months, a significant adverse effect on the Company or Group's financial condition or profitability (please also refer to Chapter 20.8 of this Registration Document for further information).

4.6. Financial Risks

4.6.1. Risks associated with currency exchange rates

A significant portion of the Group's revenues and its payments made to suppliers are expressed in U.S. dollars, while a large portion of its operating expenses and a number of its assets and liabilities are expressed in other currencies, mainly in euros.

The Company's functional currency is the U.S. Dollar, which is also the currency used to present its Consolidated Financial Statements. The Group's sales and, likewise, the payments made to its major suppliers are, for the most part, expressed in U.S. Dollars while a large portion of its operating expenses and a portion of its assets and liabilities are expressed in other currencies, mainly in euros and to a smaller extent in British sterling. Consequently, the Group's operating income and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. Dollar to Euro exchange rate. For example, in the event that the Euro/Dollar exchange rate fluctuates within a range of + 10% to – 10%, the Group estimates that the impact, in absolute terms and before any currency hedging, would have been $216 thousand on its operating income and adjusted operating income and $291 thousand on its shareholders' equity for the fiscal year ended December 31, 2013. In order to mitigate this risk, since 2009 the Group has implemented an foreign exchange rate risk hedging policy for these currencies for the purpose of maintaining its profitability and its cash condition. However, the Group cannot guarantee that this risk coverage policy will protect it efficiently from any fluctuations in exchange rates (please also refer to Note 3.1(a) entitled "Currency Exchange Risk" of the Notes to the Consolidated Financial Statements for the fiscal year ended December 31, 2013).

4.6.2. Credit risks, interest rate risks, and risks associated with cash management

As of the date of this report, the Group has not contracted any significant financial debt and, therefore, believes that it is not exposed to a significant risk associated with interest rate fluctuations. However, the Group plans to diversify its sources of financing in the future by gradually relying on bank loans, which could result in exposure to this risk in the future.

The Group uses a conservative approach in its management of available cash. Cash and cash equivalents include available cash and current financial instruments held by the Group (which, for the most part, are French monetary SICAVs (*Société d'Investissement à Capital Variable*, or open-ended collective investment schemes), and time deposits). As of December 31, 2013, available cash and investment securities held by the Group were mainly invested in financial instruments with maturities of less than 12 months.

4.6.3. Risks associated with off-balance sheet commitment

The total amount of off-balance sheet commitments of the Group as of December 31, 2013 was $5.9 million (against $28.7 million as of December 31, 2012). These off-balance sheet commitments are described in Note 33 of the Notes to the Consolidated Financial Statements for the fiscal year ended December 31, 2013 and mainly correspond to commitment associated with operating leases. The Group's main off-balance sheet commitment corresponded to a commitment to purchase a minimum number of wafers from LFoundry over an initial 48-month period as from the acquisition date. As of December 31, 2013, all commitments were met in full. In addition, LFoundry discontinued all business activities and court-ordered liquidation proceedings (*procédure de liquidation judiciaire*) were brought against it in December 2013.

4.6.4. History of operating losses – Risks associated with projected losses

The Group has a history of operating losses that could continue.

The Group has accumulated losses over time and may be unable to achieve or sustain profitability in the future.

The Group was established in 1995 and has been incurring losses since that time. Net losses rose to $37.5 million in 2012 and to $27.6 million in 2013. As of December 31, 2013, accumulated losses since June 2005, the date on which the Group carried out its share capital reduction followed by a share capital increase in the amount of €1 million, were $161.6 million.

In order to develop its products and ensure that its business expands, the Group believes significant investment will be necessary, including research and development expenses and business, marketing and administrative expenses. As a publicly traded company, the Group will also incur additional legal and accounting fees, as well as other expenses in connection with its listing on the stock exchange. Furthermore, the Group could face unforeseen setbacks, complications or shipment delays that may generate additional expenses. As a result of these additional expenses, the Group would have to achieve and maintain higher revenues in order to protect its profitability. The positive growth trend of recent years may not be sustainable. Accordingly, the Group could be unable to ensure or maintain the profitability of its business and, as such, could continue to incur significant losses in the future.

4.6.5. Risks associated with fluctuations in the Company's revenues and operating income

Fluctuations in quarterly or annual revenues and operating income, as well as difficulties in forecasting them could cause the market price of the Group's shares to fall.

Historically, the Group's revenues and operating income have fluctuated significantly and are expected to continue to do so in the future. As a result, the comparison of revenue and operating income over successive periods is not a reliable method for predicting future performance. In the future, the Group's revenues and operating income could be insufficient to meet the projections of market analysts and investors, which could cause the price of the Company's Shares to drop.

4.6.6. Risks associated with the absence of dividend distributions in the near future

The Company has never paid dividends and does not plan to do so in the near future.

To date, the Company has not paid out any dividends to its shareholders and does not intend to do so in the near future. Unless the general shareholders' meeting decides otherwise, it is expected that any potential dividends will be reinvested in the Company.

4.6.7. Liquidity risks – Future equity capital requirements and additional financing

The Group could be required to increase its share capital or to seek additional financing in order to ensure its continued development.

Since its creation, the Company has financed its development through equity, by carrying out share capital increases targeted at venture capital funds and industrial partners and, in February 2012, in the context of a public offering carried out in conjunction with the admission of its shares on the Euronext regulated stock exchange in Paris, France. The Group has never relied on any significant bank loans. Consequently, the Group believes that it is not exposed to a liquidity risk associated with accelerated repayment requirements that may be contained in certain bank loans.

The Group conducted a specific review of its liquidity risk and believes that it will be able to meet all of its upcoming payment obligations for the next twelve months.

The Group will continue to require financing in order to develop its technologies, market its products and carry out potential external growth transactions. Under these conditions, it is possible that the Group will not generate enough operating cash flow to enable it to self-finance its growth, which would require the Group to seek other sources of financing, in particular through share capital increases or, more generally, calls for tenders.

The level of financing required and its allocation over time depends on factors that the Group generally cannot control, such as:

- higher costs and slower progress than those projected for its research and development programs;
- expenses incurred in connection with preparing, filing, protecting and preserving its patents and other intellectual property rights;
- spending required to meet the technological developments in the market and to ensure the manufacturing and marketing of the Group's products; and
- new opportunities for developing new products or acquiring technologies, products or companies.

The Group may be unable to secure additional capital when it is needed and this capital may not be available under terms acceptable to the Group. If the required funds were not available, the Group could be required to:

- postpone, reduce, or cancel research programs;
- secure funds through industrial partnership agreements that may force the Group to waive the rights it holds over some of its technologies or products; or
- grant licenses or execute agreements under terms that could be less favorable to the Group than those it could have obtained in a different context.

In addition, insofar as the Group raises capital through the issuance of new shares, the equity interest of its shareholders could be subject to dilution. Debt financing, assuming it is available, could also be costly and require the Group to comply with restrictive covenants. If one or more of these risks were to materialize, it could have a significant adverse impact on the Group, its business activities, financial condition, results, development, future outlook, or on the market price of the Company's shares.

Lastly, over the course of the fourth quarter of 2011, the Group signed factoring contracts in Euros and U.S. dollars with Natixis Factor, including a guarantee fund and featuring an underlying credit insurance contract. The contract, which covered an initial two-year period, was extended a third year over the course of fiscal year 2013 and is, upon expiration, automatically renewable for an indefinite term. Since the risk associated with recovering these receivables is now transferred to Natixis Factor, the receivables sold under this factoring program are no longer accounted for in the Group's balance sheet. As of December 31, 2013, the receivables sold were financed in the amount of $4.5 million (against $12.3 million as of December 31, 2012). The termination of these contracts could have an adverse impact on the financial position of the Group.

4.6.8. Risk associated with dilution

The Group could, in the future, issue new shares or other equity-linked financial instruments in order to finance its development, or as part of its employee and management incentives policies.

As indicated above in "– Liquidity risks – Future equity capital requirements and additional financing", the Company may issue new shares or new equity-linked financial instruments in order to finance its development.

In addition, within the context of its employee and management incentive policies, the Company has consistently, throughout its history, issued or granted warrants (*bons de souscription d'actions*, or "BSA(s)"), stock options and free shares. As such, in the event that all the equity-linked financial instruments are exercised in full and that all free shares that remain subject to a vesting period are effectively acquired, 1,840,360 new shares would be issued, resulting in the dilution of approximately 5.4% of the current share capital (which represents a "fully diluted" share capital of EUR 14,376,683.20, split up into 35,941,708 shares). The Company will continue to issue or grant new equity-linked financial instruments.

The equity interest of shareholders will be diluted as a result of such transactions.

4.6.9. Tax Risks

4.6.9.1. Risks associated with the French research tax credit

In order to finance its business activities, the Company has opted for the French tax regime of the Research Tax Credit (*Crédit d'impôt recherche* or "CIR"), which consists of offering a tax credit to companies making significant investment in research and development. CIR research expenses eligible for the tax credit for research include, in particular, wages and salaries, consumables, services outsourced to certified research institutions (public or private) and expenses related to intellectual property. The CIR for the 2013, 2012, and 2011 fiscal years was equal to US$ 8.6 million, US$ 8.2 million, and US$ 7.1 million, respectively.

Even though the Group complies with the requirements regarding record-keeping and eligibility of research expenses, the tax authorities may nevertheless decide to challenge the methods of calculation used to determine the research and development expenses declared by the Company or to suspend the CIR due to a change in regulations. If this were to occur, it could have a significant adverse impact on the Group's financial condition and development.

4.6.9.2. Tax loss carryforwards

The tax loss carryforwards of the Company were equal to €153.4 million as of December 31, 2013 (against €125 million as of December 31, 2012). In principle, these tax loss carryforwards can be carried over indefinitely under the conditions of Article 209-I paragraph 3 of the French General Tax Code. However, this carryover right can be questioned in the event that the interested company were restructured or forced to change its business to such an extent that it would qualify as a "profound change" in business activities within the meaning of Article 221-5 of the French General Tax Code, as construed by the tax authorities. No deferred tax asset has been recognized as a tax loss carryforward. As of the date of this report, the Group cannot guarantee that the tax authorities will not attempt to use this provision as a basis to challenge its right to tax loss carryforwards. If such a challenge were to occur, it could have an adverse impact on the Group, its results, financial condition and development.

4.6.9.3. Risks associated with the Group's international businesses

The Group conducts its business activities in many countries, and mainly in Europe, the Asia Pacific region and in North America. As such, 90% and 86% of the Group's revenues were generated in foreign countries in fiscal years 2013 and 2012, respectively.

Due to this international presence, the Group is subject to taxation in many jurisdictions. The overall tax liability borne by the Group in such jurisdictions depends, in particular, on the legal interpretation of local tax regulations, on international tax treaties, on the fiscal policy enforced in each of these jurisdictions and on the applicable transfer pricing policy. Changes in these tax regulations could have an adverse impact on the Company's overall tax liability and its subsidiaries and, as such, on its results, financial condition and development.

The Group relies on the guidelines established by the OECD, particularly in terms of transfer pricing. In so doing, the Group undertakes to review the process of determination of these prices in an effort to ensure the security of completed transactions. However, as of the date of this report, the Group cannot guarantee that the tax authorities in the relevant jurisdictions will not seek to challenge its transfer pricing policy. Such a challenge could have a significant adverse impact on the Company's overall tax liability and that of its subsidiaries and, consequently, on its results, its financial condition and its development.

4.7. Risks associated with the Group's organizational structure

4.7.1. Risks of dependence on key employees

The Group could lose key personnel and be unable to attract new qualified employees.

The Group's future success will depend, in part, on its ability to attract, retain and motivate highly qualified management, research and development, engineering and sales and marketing personnel. The Group's employees in research and development represent a particularly significant asset as they are the source of its innovations. The Group also plans to recruit additional design and applications engineers. The Group could fail to retain or attract enough technical and engineering personnel to achieve its growth plans. Additionally, in order to expand its customer base and increase its sales to existing customers, the Group will need to hire additional qualified sales personnel. Competition in the recruitment of qualified employees is intense, given the lack of qualified people in the Group's sector and the Group could be unable to retain or attract them.

If the Group were unable to recruit and train qualified employees quickly, its growth would be affected. In addition, if the Group were unable to retain its existing employees, ensuring its future development would be difficult. This would have an adverse impact on the Group's business activities, revenues, financial condition and future outlook.

4.7.2. Risks associated with growth management

The Group could be unable to successfully integrate acquired companies and businesses.

The development of the Group relies on, in particular, the acquisition of additional companies and/or businesses. The Group is unable to guarantee the successful integration of recently acquired companies and businesses, the integration of services and staff and, lastly, the projected impact of such synergies. Although the Group conducts due diligence work and takes integration steps prior to completion of the acquisition, it could be confronted, in particular, with integration problems and difficulties establishing synergies, on both the operational and staff levels, with events challenging the liability of the Company, as a result of, in particular, a higher number of labor or intellectual property disputes, with the loss of long-term customers, with the failure to achieve the objectives set within the context of its acquisitions, and with difficulties ensuring there is no interruption in the provision of services to customers of acquired businesses.

These types of events, if they were to materialize, would have an adverse impact on the Group's business activities, results, financial condition and development.

In particular, the Group completed three acquisitions since 2010:

- *Secure Microcontroller Solutions*

On September 30, 2010, the Group completed the acquisition of the Secure Microcontroller Solutions business of Atmel Corp ("SMS").

There is a risk of impairment of the assets acquired in the context of the takeover of the SMS business that have been accounted for at fair value in the Consolidated Financial Statements (in particular, the acquired patents, masks and goodwill totaling the net amount of $9.9 million as of December 31, 2013 – please refer to Note 5 of the Notes to the Consolidated Financial Statements established as of December 31, 2013).

- *Embedded Security Solutions*

On December 1, 2012, the Group acquired Embedded Security Solutions ("ESS").

In addition to the risks associated with the integration of ESS, there is a risk of impairment of assets acquired in the context of the acquisition of the ESS business, which were accounted for at their fair value in the consolidated financial statements (particularly the intangible assets and goodwill stated therein for a total amount of $34.6 million as of December 31, 2013 – please also refer to Note 5 of the Notes to the Consolidated Financial Statements established as of December 31, 2013).

- *Metaforic*

On April 5, 2014, the Group acquired Metaforic from venture capital funds for $11.6 million, which was paid in cash on the date the transaction was completed. In 2015, the Group could pay a complementary amount of up to $4.5 million, provided it achieves certain business objectives in 2014. Based in Scotland, Metaforic also operates in the Silicon Valley in California. It is a leader in the development of software obfuscation technologies and encryption-related security software for a variety of industries, including the mobile payment and mobile banking markets.

In addition to the risks associated with Metaforic's integration, the acquired assets are also exposed to an impairment risk.

Future acquisitions of companies, businesses, assets or technologies could lead to difficulties in integrating new entities, occupy the time and attention of the management team and distract it from the Group's core business, dilute the equity holdings of existing shareholders or adversely impact the Group's financial results.

Within the framework of its external growth strategy, the Group could seek to acquire additional companies, businesses, or technologies in order to continue developing its own business activities, improve its competitiveness in its market or penetrate new markets. The Group cannot guarantee that opportunities for acquisitions will be available or that the acquisitions the Company may undertake will be profitable and/or reach their expected objectives. Furthermore, the completion of such acquisitions may generate difficulties integrating new entities, mobilize the management team and distract it from the Group's core business, dilute the equity holdings of existing shareholders or adversely impact the Group's financial results and, as such, have a significant adverse impact on the Group.

If the Group fails to successfully manage its development, it could be unable to execute its business plan and its income could be affected accordingly.

The Group's future income mainly depends on its ability to successfully manage its development and growth.

In order to remain competitive and manage its development, the Group must constantly improve its equipment and technologies and deploy significant efforts in terms of research and development, requiring not only significant investments in this area, but also investments in sales and marketing. The Group could also be forced to make such investments before some of the benefits expected from them can be attained. The return on investment could either be lower, or achieved more slowly than expected, or not materialize at all, which could negatively affect the Group's operating income.

In addition, the Group must constantly seek to adapt its management policies, its administrative, financial, and operating tools and systems, as well as its control processes. It must also adapt its structure to the changes in technologies and targeted markets and, more generally, to changes in its strategy, and recruit and train qualified staff.

If the Group is unable to efficiently manage its development, it could be unable to take advantage of market opportunities or to develop the products the market is expecting, it could fail to maintain the quality of its products, be unable to execute its business plan, and be unable to adapt itself quickly enough to its technological, competitive, and market environments. Any of these events, if they were to materialize, would have an adverse impact on the Group, its business activities, financial condition, results and development.

4.7.3. Risks associated with the restructuring of the Group

On March 6, 2013, INSIDE Secure announced the launching of a plan to reorganize its worldwide business activities. This plan must lower its operating expenses (in the context of the shift in the Group's strategic priorities for each of its markets) by reducing its administrative and sales costs, refocusing is research and development activities and improving its operating efficiency. As of December 31, 2013, INSIDE Secure finalized its staff reduction plan, which was rolled out both in France and in select foreign subsidiaries.

If the expected future savings generated from this restructuring were lower than anticipated and if the Group were unable to implement and maintain an efficient structure that were well-adapted to the strategic and business challenges it faces, its income, financial condition, and development would be adversely impacted.

4.7.4. Regulatory Risks

Because the Group provides cryptology solutions and services, its takeover, the acquisition of all or part of one of its business lines, or the crossing of a threshold of one third of its share capital could, among other things, require the prior authorization of governmental authorities.

The Group provides cryptology solutions and services. As a result, pursuant to the provisions of the French Monetary and Financial Code, a takeover of the Company (within the meaning of Article L. 233-3 of the French Commercial Code) or the direct or indirect acquisition of all or part of a business line of the Group by (i) a physical person that is not a citizen of a Member State of the European Community ("EC"), or of a State party to the agreement on the European Economic Area that has signed a *convention d'assistance administrative* (convention on mutual administrative assistance) with France, or an employee of a company with registered headquarters located in one of these States, or a physical person with French citizenship that is not a resident of such States, in accordance with Article R. 153-2 of the French Monetary and Financial Code (a "Non EC Investor") or (ii) a physical person that is a citizen of a Member State of the European Community ("EC"), or of another State party to the agreement on the European Economic Area that has signed a *convention d'assistance administrative* (convention on mutual administrative assistance) with France, or an employee of a company with registered headquarters located in one of these States, or a physical person with French citizenship that is a resident of such States, in accordance with Article R. 153-4 of the French Monetary and Financial Code (an "EC investor"), could be subject to the prior authorization of the French minister responsible for the French economy (pursuant to the terms of Article L.151-3 of the French Monetary and Financial Code). Similarly, the acquisition of more than 33.33% of the Company's share capital by a Non EC Investor could also be subject to prior authorization of the French minister responsible for the French economy. Prior authorization from the governments of other countries could also be required for similar reasons. There is no guarantee that these authorizations would be granted or that, if granted, the terms of such authorizations would not discourage any potential acquirers. The existence of such conditions precedent to an acquisition of the Company could have an adverse impact on its share price.

4.8. Risks associated with the environment

The Group's business activities are subject to certain environmental regulations regarding the use of hazardous substances and the management of its waste.

The Group's business activity is subject to the RoHS directive (*Restriction of the use of certain hazardous substances in electrical and electronic equipment*) (2002/95/EC) restricting the use of six substances harmful to human health and the environment that may be included in the chemical composition of electric or electronic equipment, namely four heavy metals (Hg, Pb, Cd and CrVI) and two flame retardants (PBB and PBDE). Although the Group does not manufacture its own products, the Group ensures, to the extent possible, that its suppliers and subcontractors comply with this directive. In this context, all of the Group's subcontractors provide their RoHS reports on the products they deliver.

REACH (*Registration, Evaluation, Authorization and restriction of Chemicals*) is a French regulation (CE No. 1907/2006) allowing for the identification through registration and gradual elimination of the most hazardous chemical substances (the substance itself, or in mixtures and products). Its mission is to develop a better understanding of the uses of chemical substances produced or imported into the European Union and to control the risks associated with their use. Under REACH, the Group imports and introduces "articles" to the market that contain certain substances not intended to be discarded under normal or reasonably predictable conditions and, conversely, does not market any "substance", or "mixture", within the meaning of the REACH regulations. The Group is therefore exempt from the applicable filing requirements. REACH regulations also require the disclosure of information to customers in the event that SVHCs (*Substances of Very High Concern*) are found in an article in concentrations higher than 0.1% of their mass. To fulfill its obligations, the Group regularly checks the SVHC candidate list updated by the European Chemicals Agency (ECHA) and takes all necessary measures to confirm the compliance of its suppliers in order to ensure that the products it introduces to the market do not contain such substances in concentrations higher than the set level. The Group also verifies the SVHC list as included in Appendix XIV of REACH in order to ensure that the Group's products are not exposed to the risk of being banned from the market.

The directive *Déchets d'équipements électriques et électroniques* (2002/96/CE) (directive on waste electrical and electronic equipment, or "WEEE") sets forth that the producers are responsible for organizing and financing the collection, treatment and valuation of their products at the end of their life cycle. In order to avoid the risk of any related pollution, a specialized third party company reprocesses all of the waste from equipment and products. In addition, whenever necessary, the Group reprocesses wafers and masks via outsourcing to a third party service provider.

Compliance with these regulations is expensive and any restrictions in addition to these regulations would generate additional costs for the Group. Furthermore, the regulations are complex and any violation by the Group could lead to payment of fines or penalties or trigger liability claims against it. These events, if they were to materialize, would have an adverse impact on the Group's financial condition and development.

4.9. Other risks

Some natural disasters, such as floods, earthquakes, tsunamis, or volcano eruptions, could cause damage to the industrial equipment of the suppliers to whom the Group outsources the manufacturing, assembly, or testing of its products and could also cause damage to the direct or indirect suppliers of these subcontractors. It could disrupt operations, cause delays in the production and delivery of its products or trigger expenses due to repair, replacement, or other needs. For example, most of the Group's semiconductors are manufactured and assembled by subcontractors located in Asia. The risk associated with earthquakes and tsunamis in this region is significant due to the geographic proximity of major seismic fault lines to the location of the plants of the Group's subcontractors and to the location of their own suppliers. Even if these plants were not directly affected, a major natural disaster would undoubtedly impact the industry's supply and distribution chains. Any disruptions resulting from these events could cause significant delays in the production or shipping of the Group's products as well as significant increases in shipping costs until the Group is able to transfer the manufacturing, assembly, testing and shipping of its products from the affected subcontractor to another one.

Such events, if they were to materialize, would have an adverse impact on the Group's business activities, results, financial condition and development.

4.10. Changes in legislation and tax and regulatory policies

The Group's business activities are subject to the risk of a change in legislation, tax policies or regulations. These changes could have a significant adverse impact on the Group, its business, financial condition, results, development and future outlook.

4.11. Insurance and risk coverage

The Group has secured insurance policies with various insurance companies in order to cover all of the significant risks it is exposed to. Most of these risks are covered by insurance policies subscribed in France. The Group also has specific and/or local coverage in order to comply with regulations applicable in certain locations.

These insurance policies are reviewed on a regular basis and adjusted, as the case may be, in order to account for a change in revenues, in business activities exercised, and in the risks the various companies of the Group are exposed to.

In addition, the Group has implemented internal preventative mechanisms aimed at maintaining operations and limiting the impact of a significant loss in the event of a major disaster. As such, several secure data backup systems have been put in place to protect source codes and all of the electronic data kept on servers and workstations at the offices of the various entities of the Group.

4.12. Insurance policies

In 2013, the Group recorded an amount of EUR 494 thousand for all of its insurance policies.

In the 2013 fiscal year, the amount of insurance policies applicable to the entire Group can be broken down in the following way per major risk category:

- All of the companies of the Group benefit from an insurance policy covering their professional civil liability and the products, representing EUR 8.5 million in aggregate guaranteed coverage.

- An insurance policy also covers the civil liability associated with the operation of the Company and of its subsidiaries, representing EUR 10 million in aggregate guaranteed coverage, and a professional multi-risk insurance policy (which covers operating losses and damages to goods) representing EUR 94 million in aggregate guaranteed coverage (sum of all ceilings set per claim).

- The Group also took out an insurance policy covering the risks associated with the liability of the directors and corporate officers of the Company and its subsidiaries, representing EUR 20 million in aggregate guaranteed coverage for 2013.

The Group also benefits from an insurance policy covering the transportation of its staff and its merchandise, as well as the IT-related risks based on the overall value of its IT equipment. The amounts borne by the Company and its subsidiaries with respect to local insurance plans that comply with legal and regulatory requirements applicable in each country must also be added to these insurance totals.

5. INFORMATION ABOUT THE COMPANY

5.1 History and Development of the Company

5.1.1 Legal and business name of the Company

The Company's legal name is "INSIDE Secure". The decision to change its name from "INSIDE Contactless" to "INSIDE Secure" was made at the Extraordinary Shareholders' Meeting dated November 15, 2010.

5.1.2 Place of registration and number

The Company is registered with the Trade and Companies Registry (*registre du commerce et des sociétés*) of Aix-en-Provence, France, under the registration number 399 275 395.

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5.1.3 Date of incorporation and term

The Company was incorporated on November 30, 1994 for a period of 99 years beginning on the day of its registration in the Trade and Companies Registry, or December 29, 1994 and, barring early liquidation or extension, ending on December 28, 2093.

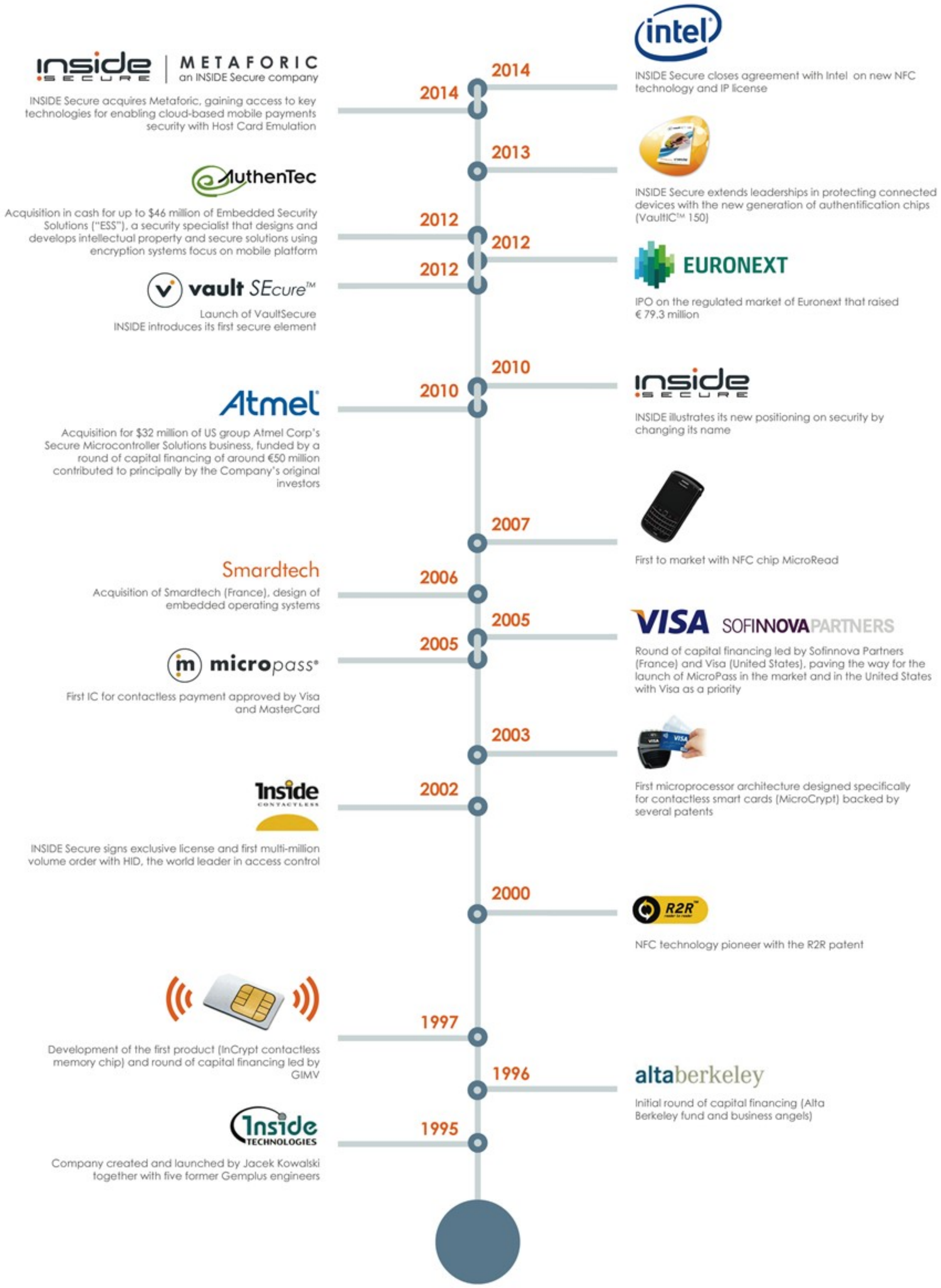
5.1.4 Registered office of the Company, legal form, and governing law

The Company is incorporated under the form of a French *société anonyme à directoire et à conseil de surveillance* (joint stock company with a Management Board and a Supervisory Board) governed by French law and operating pursuant to articles L. 225-1 *et seq.* of the French Commercial Code.

The registered office of the Company is located at Rue de la Carrière de Bachasson – CS 70025 – Arteparc Bachasson – 13590 Meyreuil, France.

The contact information for the Company is the following:
Email: info@insidefr.com
Website: www.insidesecure.com

5.1.5 Key events in the development of the Company's business activities



5.2 Investments

5.2.1 Main investments carried out in the last three fiscal years

In addition to the capital expenditures associated with research and development and the acquisition of companies or businesses, the Group's investments were mainly aimed at acquiring various tangible property, licenses, and software as well as at capitalizing some R&D expenditures.

The Group's capital expenditures (excluding acquisitions of companies and businesses) over the course of the past three fiscal years can be broken down as follows:

(in thousands of US$)	**2011**	**2012**	**2013**
Purchase of property and equipment	4,367	2,119	4,556
Purchase of intangible assets	1,029	2,718	1,101
Capitalized development costs	1,188	973	3,402
Total	6,584	5,81	9,059

Industrial investments

Since the Group does not have a manufacturing business, it does not need to invest in manufacturing and assembly.

The Group also subcontracts the testing of wafers and chips to third party partners, located mainly in Asia. Generally, the subcontractors own the product handling equipment. However, the Company is sometimes required to purchase and keep testing equipment, in particular to comply with the security processes associated with the Group's targeted markets (in particular the payment cards market).

In addition, for the purposes of its research and development and the management of industrial preproduction, the Group owns a testing center for prototypes and preproduction models on its worksite in Meyreuil. Historically, the assets associated with these investments are funded through equity financing.

Lastly, in 2013, within the context of its corporate restructuring project, the Company decided to consolidate the three operating worksites located in the Aix-en-Provence region into one single worksite. Therefore, the Company made significant non-recurring expenditures in order to prepare and equip the building, in particular investments in network and computer data storage.

Portfolio of mask sets

Part of the Group's research and development activities consist in the development of semiconductors. The tangible result of this development is a set of masks used by the third party foundries that supply the Company. During the research and development phase, expenses committed are recorded as expenses for the fiscal year, which is the same as recording the sets of masks developed before the industrialization of products.

Technology licenses

Throughout its development, in addition to its intellectual property, the Group relies on technology and intellectual property rights licensed by third parties. This is the case, in particular, for some technologies integrated into its semiconductors as well as for the systems and the design of its software. Typically, licensing agreements are non-exclusive and granted in exchange for the payment of fees calculated based on the Group's sales volumes or in exchange for a fixed amount paid for upon execution. In this latter case, the licenses are stated in the balance sheet (as intangible assets) and amortized over the term of the license or, should it be shorter, its economic life term as estimated by the Company.

Over the past three years, intangible investments represented were mainly comprised of licenses signed with ARM Limited[1] relative to microprocessor cores and with Silicon Storage Technology (or "SST", a subsidiary of Microchip Technology Inc.) relative to flash memory technology. The Group uses these technologies in order to develop new products without being responsible for designing the entire microcontroller and its embedded memory.

Acquisitions of companies and businesses

In the context of its development, the Group also acquires companies and businesses. These past three years, the Group has made the following acquisitions:

Embedded Security Solutions ("ESS")

On December 1, 2012, the Group acquired the Embedded Security Solutions ("ESS"). ESS designs and develops encryption-related security hardware intellectual property (IP) and software for a variety of industries, including the mobile and networking markets. Its revenues are generated through licenses, royalties, services and maintenance fees. In order to acquire the ESS business, INSIDE Secure paid out US$ 46.8 million, net of cash acquired. Please also refer to Note 5 of the Notes to the Consolidated Financial Statements for further information.

Metaforic

On April 5, 2014, the Group agreed to pay venture capital funds US$ 11.6 million to acquire 100% of the shares comprising the share capital of Metaforic. This amount was paid in cash upon execution of the transaction, and in 2015 the Group may pay a maximum additional amount of US$ 4.5 million based on reaching certain business targets set for 2014. Based in Scotland with additional worksites in California's Silicon Valley, Metaforic specializes in the development of software obfuscation technologies and encryption-related security software for a variety of industries and, in particular, the mobile payment and mobile banking markets.

(please also refer to section 6.1.4 entitled "Acquisitions", to Note 5 of the Notes to the Group's Consolidated Financial Statements in section 20.1 entitled "Historical financial information", and to Note 7 of the Notes to the Group's Half-year Consolidated Financial Statements in section 20.6 entitled "Interim financial information" of this Registration Document).

5.2.2 Main current investments

As of the filing date of this Registration Document, the Group has not undertaken any investment it deems either significant or outside the normal course of its business.

5.2.3 Main future investments

As of the filing date of this Registration Document, the Group's management body have made no firm commitment pertaining to significant investments or investments outside the normal course of its business.

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[1] ARM Limited is the world leader in the development of semiconductor IP blocks and, in particular, of processor cores for embedded systems (mobile telephones, in particular).

6. BUSINESS

6.1 General overview

6.1.1 Presentation and history

INSIDE Secure designs, develops and sells embedded security systems for smartphones, tablets, and other devices connected to the Internet, in order to protect transactions, content, and communications.

The Group sells:

- semiconductor hardware solutions that, in particular, integrate secure microcontrollers and electronic solutions enabling secure data storage,
- software, particularly embedded software providing the secure management and communication of data as well as cryptography algorithms, and,
- intellectual property blocks that its customers integrate into the semiconductor platforms of its customers.

These solutions rely on the Group's know-how in terms of analog and digital semiconductor design and embedded software, as well as its expertise in the software design of security and certification applications.

The Group is built around two complementary divisions, namely the Mobile Security and Secure Transactions divisions, both of which rely on a shared platform for research and development, intellectual property, industrial operations, technical support, and sales:

- the Mobile Security division, which applies all of the Group's expertise to all of the security associated with mobile communication, and offers a comprehensive range of embedded security solutions for mobile devices. This range includes software, hardware, as well as intellectual property able to meet the growing need for security solutions on all mobile platforms, thereby securing mobile payments, content protection, transfers, and data storage. This represents a potential market of US$ 1.5 billion[2], and
- the Secure Transactions division, which combines all of the Group's expertise in security with all of the transactions occurring in the universe triggered via connected machines, the Internet of things, smart cards, and identification and payment solutions. This represents a potential market of several billion U.S Dollars[3], since over 16 billion devices are currently connected to the Internet[4]. This operating division develops custom solutions relying on secure microcontrollers, secured embedded software, and related services.

Historically focused on microcontrollers development, INSIDE Secure has gradually expanded its offer to include intellectual property and software. Since 2012, this expansion has grown larger and the Group intends to continue in that direction.

As such, INSIDE Secure is the only market player simultaneously offering hardware-only-based solutions (based on secure microcontrollers), software-only-based solutions, and a combination of both hardware and software, in addition to a broad intellectual property solutions portfolio.

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[2] Source: INSIDE Secure estimates, July 2014
[3] Source : INSIDE Secure estimates, July 2014
[4] Source: IMS Research, August 2012

In 2013, the Group generated US$ 154.6 million in revenue. Over 300 million devices integrating INSIDE Secure products (hardware, software, and IP) are sold annually throughout the world.

As of July 31, 2014, the Group employed 338 persons in Europe, Asia, and the United States, and owns nearly 700 patents representing approximately 190 patent families.

With respect to the microcontrollers designed by the Group, INSIDE Secure operates according to a fabless model in which the manufacturing, assembly, and testing are subcontracted to external partners, including foundries (companies specializing in the manufacturing of semiconductors for third parties).

6.1.2 Key business strengths

INSIDE Secure has, to its knowledge, the most comprehensive security solution on the market, combining hardware, software, and IP blocks. This enables the Company to be a key partner, able to meet all of its customers' security needs for any type of mobile or connected device, and to offer state-of-the-art solutions adapted to all applications.

Mainly intended for the mobile and connected device market, its solutions and technologies are designed to meet current and future security requirements while adapting to architectural and certification challenges.

The Company is uniquely positioned to provide solutions for not only the three key mobile security market drivers, namely:

- Enterprise Secure Access,
- Digital Entertainment Content Protection, and
- Financial Services and Mobile Payment,

but also for the anti-counterfeiting and Internet of Things markets..

Due to its long-standing experience in the security market, INSIDE Secure has developed first-rate expertise in the field. The Company offers many certified products and works closely with certification authorities and bodies. It has also fostered a rich innovative tradition in microcontroller architectures and RF/analog design, while acquiring a deep understanding of both its customers' needs and security certifications, which it has relied on to shape the direction of security solutions for embedded environments. The Group's policy has been instrumental in securing its large patents portfolio, which currently includes approximately 700 patents.

6.1.3 Growth strategy

INSIDE Secure's strategy is currently focused on achieving four main areas:

- To become a key player in the mobile security industry (Mobile Security division),
- To establish a presence in the emerging Internet of Things and anti-counterfeiting markets (Secure Transactions division),
- To establish a strong market position in the United States as the country's payment industry migrates to the EMV standard (Secure Transactions division), and
- Leverage and monetize its technology and intellectual property rights, particularly those based on the NFC technology (Mobile Security division).

For each of these strategic areas, INSIDE Secures intends to systematically explore the best approach allowing it to optimize how it meets customer needs and the return on investments and on capital. As such, and as has been done in the past, the Company maintains a process of analysis aimed at selecting, for each major investment, the best approach between internal developments, partnerships and, as the case may be, targeted acquistions, or a combination of these means, while taking into consideration the fast changing ecosystem in which the Group operates.

a) To become a key player in the mobile security industry

All types of mobile devices have a need for security. INSIDE Secure offers a comprehensive range of products (hardware, software, and IP) that meet the needs of its customers and are designed to overcome upcoming architectural and certification discontinuities.

As such, the Group aims to develop its product offering in order to support the development of the three main uses its technologies have established in the mobile security market, namely:

- the secure access to companies' systems through the Bring Your Own Device or "BYOD" trend (via Virtual Private Networks or "VPN(s)", for example),

- Digital Entertainment Content Protection (via Digital Rights Management or "DRM"), and

- Financial service and mobile payment (via Host Card Emulation or "HCE").

Relying on its expertise and technology, the Group plans to contribute to the definition of future standards in mobile security, of new mobile security architectures and certification schemes. In particular, INSIDE Secure is convinced that the application processor (or host processor) will become the "heart" of mobile security and is developing a product strategy based on that assumption.

b) To establish a presence in the emerging Internet of Things and anti-counterfeiting markets

The Internet of Things and anti-counterfeiting markets are booming. The ability to connect, communicate with, authenticate, and remotely manage an innumerable number of networked, automated devices and equipment via the Internet is becoming pervasive, from the factory floor to the hospital operating room to the residential basement, and regardless of whether the connected thing is a fridge or a wine bottle. The 2 main challenges are security and privacy.

For example, according to market analysts[5], 20% of the wine sold throughout the world is counterfeit. Some statistics[6] show that this number could be as high as 50% in some Asian countries, especially for high-end French wines. In the spirits market, it is estimated that 25%[7] of European imports in some Asian countries are counterfeit, which serves as proof that refilling empty high-end bottles is now the gold standard for counterfeiters, which is especially true in China, the number one red wine consumer in the world. As such, an empty bottle of grand cru Laffitte could, on average, sell for US$ 450. In order to counter this phenomenon, INSIDE Secure and the Belgian company Selinko joined forces to develop a solution that combines an authentication mechanism with the deactivation of the tag when the bottle is opened. The chip confirms that the capsule on the bottle has not been tampered with and that the cork has not been removed.

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[5] Source: Robert Taylor, Wine Spectator, November 21, 2013
[6] Source: Jim Boyce, Matured two years: Nick Bartman's investigation of fake wine, other IPR issues in China, June 3, 2012, http://www.grapewallofchina.com/2012/06/03/matured-two-years-nick-bartmans-investigation-of-fake-wine-other-ipr-issues-in-china/ and http://french.china.org.cn/business/txt/2011-12/05/content_24079033.htm
[7] Source: Spirits Europe, http://www.spirits.eu/page.php?id=80&parent_id=30

Generally, INSIDE Secure develops and sells a range of hardware and software solutions aimed at securing and protecting the privacy of[8]:

- Communication, in order to enable information exchange between devices,
- Sensors, in order to capture and represent the physical world in the digital world
- Actuators, to perform actions in the physical world triggered in the digital world (thermostats or garage door remote controls, for example),
- Identification, to bring unique physical object identification to the digital world (as an anti-counterfeiting measure, for example),
- Storage for data collected from sensors, identification and tracking systems,
- Devices for interaction with humans in the physical world (access control, for example),
- Processing systems used in data mining and services, and
- Localization and tracking for physical world location determination and movement.

c) To establish a strong market position in the United States as the country migrates to the EMV standard

Relying on its experience in Europe, the Middle East, Asia, and Latin America, INSIDE Secure intends to position itself in the North American market as the latter migrates to the EMV standard, due to its long working history in the North American contactless payment industry.

Initiated by Visa and MasterCard, and in order to fight against soaring fraud, the payments industry in the United States has decided to migrate toward the more secure EMV (Europay MasterCard Visa) standard. As a result, a number of financial institutions began issuing EMV smartcards in the context of a specific launch of this standard on US territory. By the end of 2015, the cost of fraud resulting from transactions carried out via payment methods that do not comply with the EMV standard will be charged to the bank that failed to complete its migration (either the user's bank/card or the vendor's bank/reader). As from that date, the various players will have no other choice than to use cards that are compatible with the EMV standard.

INSIDE Secure has developed a new range of products that is specifically adapted to this standard. The products have delivered encouraging performances and, in particular, faster card personalization than its competitors.

d) Leverage and monetize its technology and intellectual property rights, particularly those based on the NFC technology

As a pioneer of the NFC technology, INSIDE Secure considers that it owns several key NFC technology patents. In June 2012, the Group announced the launch of a plan to license part of its NFC patents in partnership with France Brevets (a European investment fund specialized in patent promotion and monetization).

According to the terms of this agreement, France Brevets is in charge of all operations associated with the NFC licensing program, and liaise with manufacturers of NFC devices and, in particular, mobile devices.

The growing penetration of NFC technologies in smartphones (now a de-facto feature) and positive progress in implementing the program should generate revenues starting in 2014. In that respect, France brevets announced on August 18, 2014, it had excuted a NFC patent license agreement with the Korean mobile handset maker LG Electronics (LG), as part of the NFC license program managed by France Brevets, which includes INSIDE Secure's NFC patents.

[8] Source: Security and Privacy Challenges in the Internet of Things, Christoph P. Mayer, 2009.

In June 2014, the extension of the license INSIDE Secure had initially granted Intel, and its development into a broader and fully paid-up license upon execution, as well as the transfer of INSIDE Secure's next generation NFC modem technology to Intel, are further examples of this strategy aimed at monetizing and growing the value of the Group's NFC technology and intellectual property rights.

6.1.4 Acquisitions

In addition to its organic development strategy, INSIDE Secure has for long been committed to a targeted acquisitions policy. Since 2010, INSIDE Secure has completed three acquisitions consistent with the strategic development of its range of embedded security solutions.

- The acquisition of Atmel's SMS (Secure Microcontroller Solutions) business in September 2010 contributed complementary technologies to its secure microcontrollers operations, including in certified environments.

- The acquisition of Authentec's Embedded Security Solutions (ESS) division in December 2012 enabled INSIDE Secure to acquire further expertise while broadening its intellectual property, software and services portfolio, by relying not only on a secure element, but also by enhancing the security of the application processor (or "host processor").

- In April 2014, the acquisition of Metaforic, a company specialized in the development of software obfuscation technologies and encryption-related security software for a variety of industries, expands the portfolio of solutions of INSIDE Secure's Mobile Security division.

Due to these acquisitions, INSIDE Secure believes it owns the most comprehensive range of embedded security products in these markets. Please also refer to section 5.2 entitled "Investments", Note 5 of the Group's Notes to the Consolidated Financial Statements included in section 20.1 entitled "Historical Financial Information", and Note 7 of the Group's Notes to the Consolidated Half-year Financial Statements included in section 20.6 entitled "Interim Financial Information" of this Registration Document.

6.2 Principal markets

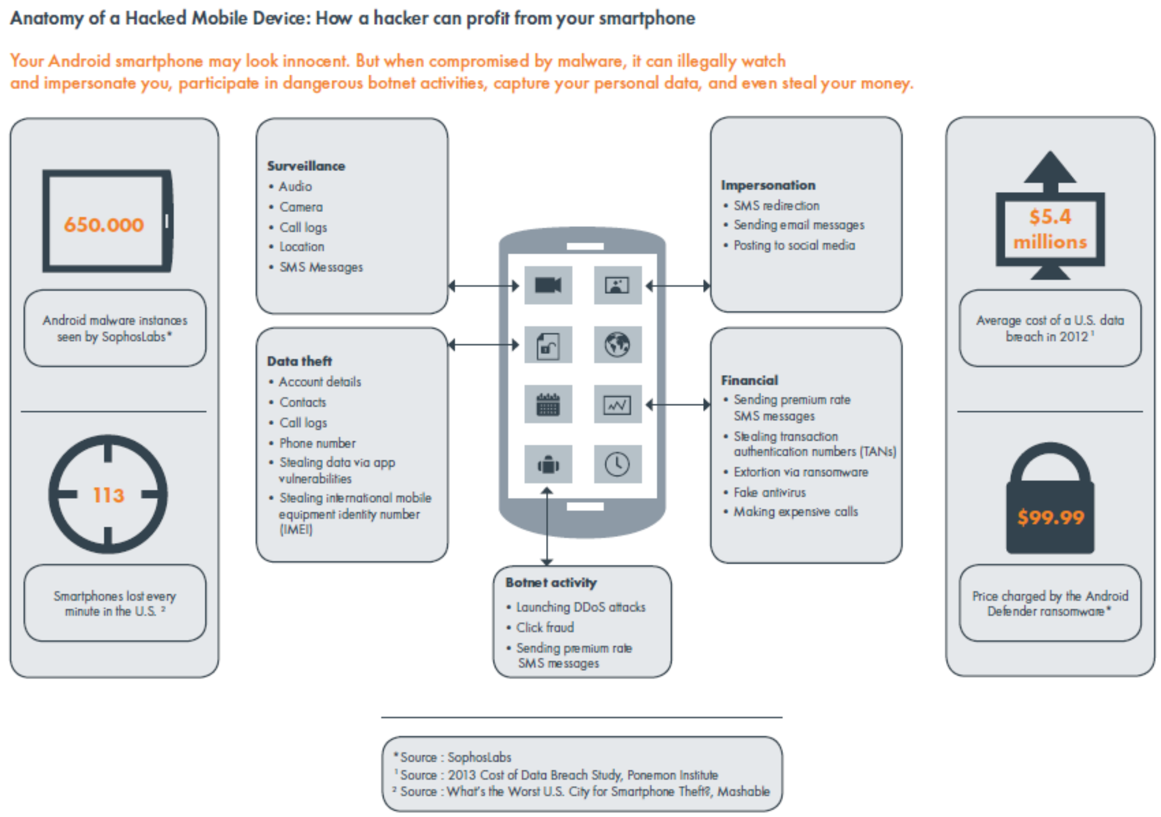
6.2.1 Overview

INSIDE Secure's embedded security solutions are built into devices early on in the electronic equipment and applications' design process in order to provide security to the transfer and exchange content, transactions, and communications.

The substantial growth observed in the global market for mobile devices, including smartphones, tablets, and handheld computing devices and their uses, creates a tremendous opportunity for INSIDE Secure. As a matter of fact, all of these products could potentially require security to protect the mobile transactions they complete and the content they host. This relates to the development of streaming technologies, which revolutionizes the way in which the consumer can access audio and video content, problems associated with the security of companies, mobile financial services, mobile payments, or the booming Internet of Things.

6.2.2 Mobile security

As presented below, security and privacy requirements are omnipresent in the use of mobile devices. Being able to implement the best security conditions possible within a mobile device requires expertise in various fields: systems and hardware, software, and IP blocks.



The Company believes that this represents a potential market of US$ 1.2 billion in 2014[9], assuming that, on the one hand, 1.2 billion connected mobile devices (Smartphone and Tablet) are sold per year[10] (a 40% increase from 2012 to 2013[11]) and that, on the other hand, an average budget of approximately one US Dollar is allocated to security for each device.

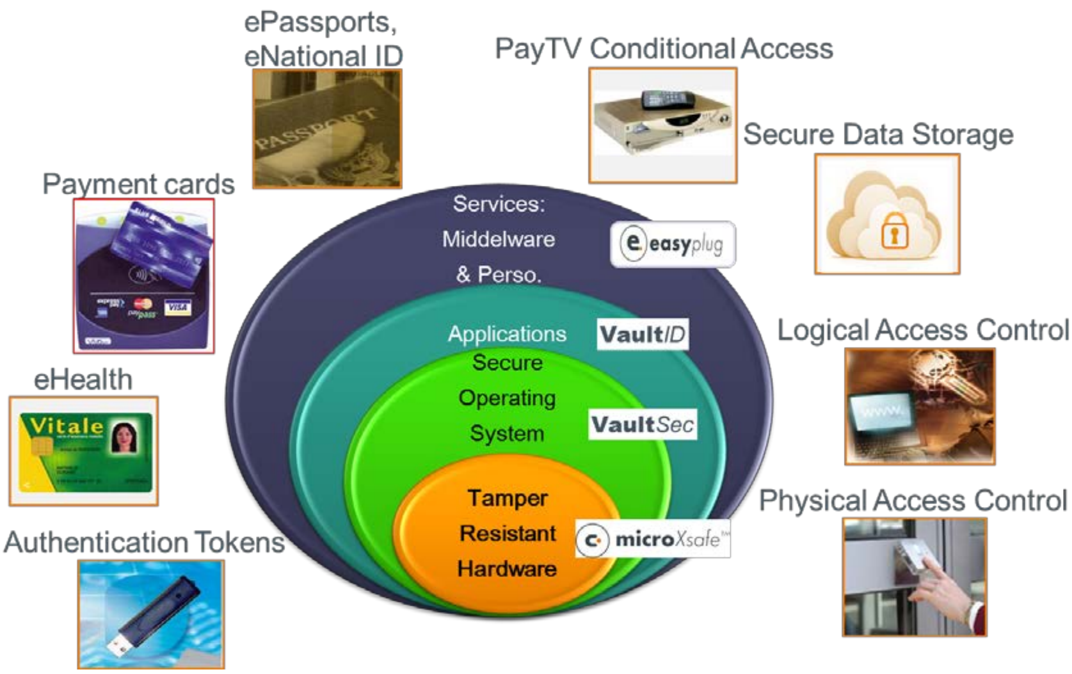
[9] Source: INSIDE Secure estimates, July 2014
[10] Source: Gartner, February 2014
[11] Source: Gartner, February 2014, *Smartphones et Tablettes 2013*

The Group has identified three business segments driving demand in this market:

- Providing security to professional access to businesses as a result of the trend toward the “Bring Your Own Device” or BYOD model),
- DRM Content Protection, and
- Security needs in the financial services industry, including mobile payment and the e-wallet.

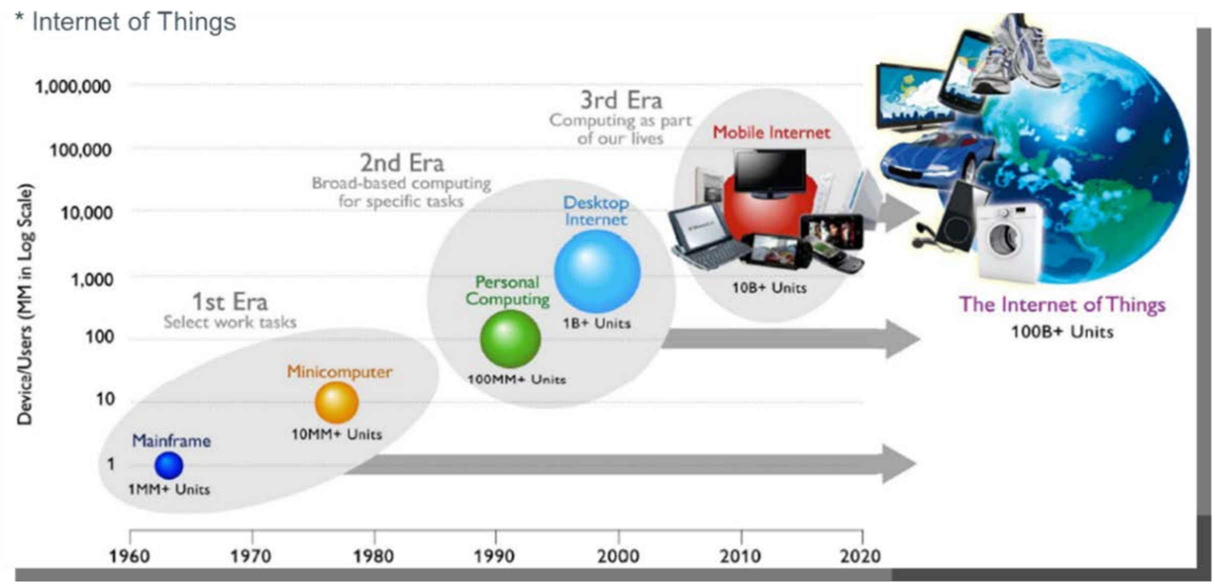
6.2.3 Secure transactions

The secure transactions market includes several different market segments and application fields, requiring a foundation of state-of-the-art knowledge on which INSIDE Secure has built its expertise. By launching a full range of secure microcontrollers, INSIDE Secure decided to focus its product offering on several of these market segments, as illustrated below:



The Company considers that this represents an aggregate annual potential market of over US$ 1 billion[12]. It also estimates that, overall, this potential market will grow by 10% per year.

6.2.3.1 Secure Internet of Things



"As from the day it was created, the Internet garnered unsuspected success and spread throughout the world. Recently, major technological breakthroughs reduce the amount of resources used and miniaturize the devices communicating on the Internet. If, until now, the Internet was reserved exclusively for interconnecting computers, telephones, or tablets, these technological advances have created a world in which one could imagine connecting any type of object to the network. This revolution has been dubbed the "Internet of Things".

There are two main types of connected devices. "Passive" devices typically use a tag (RFID chip or barcode) for identification purposes and, when scanned with a mobile reader, offer access to information via a computer application. "Active" devices embed technologies able to connect them to the Internet (a GSM module for the mobile network, Wi-Fi, Ethernet, Bluetooth, or low-energy technologies).

According to Cisco, one of the global leaders in network equipment, in 2008 the number of devices connected to the Internet exceeded the number of persons on Earth. By 2020, it projects that approximately 50 billion devices will be connected, or an average of 6 to 7 devices per person. This network equipment provider estimates the value of the Internet of Things market will total US$ 14.4 trillion from 2013 to 2022.

One of the Internet of Things' most significant challenges is security. The use of open technologies allows for interoperability while also exposing object to attack. This is why the security must be an integral part of the systems' design in order to minimize risk. Thankfully, the most sophisticated computer security mechanisms developed until now can be adapted to the Internet of Things. Like any new technology, the Internet of Things can be frightening, however the potential contributions to society cannot be underestimated."[13]

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[12] Source: INSIDE Secure estimates, July 2014

[13] Source: Yannick Iseli, Novaccess – "L'Internet des objets: la prochaine révolution numérique" (*The Internet of Things: the next digital revolution*)

This description of the security challenges associated with connected devices is well aligned and the foundation for INSIDE Secure's vision. The Group intends to rely on its technologies and know-how to benefit from the significant growth in the number of connected devices and, in so doing, become a major player in this market.

6.2.3.2 Anti-counterfeiting

Counterfeiting is a practice with which the entire world is concerned – not only does it cause an increasingly significant revenue loss within the various impacted industries, it also has a highly adverse effect on brands and their image.

Faced with this challenge, many anti-counterfeiting technologies based on optical systems have shown their limits ever since the onset of laser and 3D printing, which provide counterfeiters with new methods with which to attack brands. In order to efficiently promote anti-counterfeiting, anti-refilling, and secure traceability, electronic mechanisms offering a reliable authentication system seem to take the lead, such as solutions relying on a standard technology tested for over 20 years in the banking industry. Each chip contains a certificate encrypted on the hardware, which can be read from an NFC-equipped mobile telephone that contains a secure application developed by INSIDE Secure, thereby guaranteeing fully secured communication between the telephone and the chip. These solutions are available for various industries such as luxury goods, wines and spirits, fragrances and cosmetics, art, design, and athletic equipment.

The International Chamber of Commerce (ICC) projects that the worldwide value of counterfeit merchandise could exceed US$ 1,700 billion in 2015 and could result in the loss of 750,000 jobs per year in the United States and 250,000 in Europe[14].

As a result, significant market opportunities exist in connection with the need for security, which holds true even if based on pessimistic assumptions regarding the market penetration rate of security solutions and the average revenue per protected device.

6.2.3.3 Secure Payment

Pressured by MasterCard and VISA, the North American market is gradually adopting the EMV standard. Most developed countries have already adopted and launched this technology.

In order to position itself in the North American market, the Group relies on its technologies as well as on its ability to leverage its longstanding relationship with the various players in the secure payment industry (such as payment service providers, banks, and smartcard manufacturers).

This market is a significant one for the Group. Indeed, ABI Research estimates that 314 million pay cards were distributed in the United States in 2014[15].

6.2.3.4 Secure Access and Electronic ID Document

INSIDE-powered access control systems are deployed worldwide. INSIDE Secure helps organizations protect vital facilities, processes, and resources on corporate grounds and university campuses. INSIDE Secure's solutions enable students, staff, and employees to use a single, all-purpose device such as a smartcard or key fob to gain access to buildings and ticketing services.

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[14] http://money.cnn.com/2012/09/27/news/economy/counterfeit-goods
[15] Source : ABI Research, November 2013

In the ID card market, the significant move toward chip-based solutions is also a powerful growth driver (national ID cards, passports, driver's licenses, social security cards). IMS Research estimates that this market manufactured nearly 700 million units in 2014[16].

6.2.3.5 PayTV

Subscription television is managed via a set-top box. The key to the set-top box is the conditional access system, which uses a smartcard to decrypt the cable or satellite signal and manage the customer access.

PayTV cards are the most attacked form of smartcards due to the fact that there is a large and active community of hackers and a significant customer base interested in acquiring pirate cards.

High-tech pirates, or hackers, try to break the encryption coding by reverse engineering the smartcards, disassembling them microscopic layer by layer to reveal the hardware circuitry and crack the software coding.

The market for annual secure chips delivered for PayTV is estimated at approximately 150 million units[17].

6.2.3.6 Tokens

Smart USB tokens with built-in cryptographic processors are viewed as the most secure way to implement user authentication and digital signatures in a Public Key Infrastructure.

Digital Identification is used to reduce fraud and identity theft. It also eases citizen access to government services and documents. For example, according to Eurosmart, or the international association for the Smart Security Industry, the 2014 world market figures for smart secure devices in government applications is forecasted to reach 400 million units, with shipments up 14% from the previous year.

6.3 Technologies and products

INSIDE Secure differentiates itself from its competitors through its ability to address security challenges by developing comprehensive hardware, software, and IP solutions. In order to reach this objective, and for each market segment, the Group works directly with the leading device manufacturers and operators/service providers, while liaising with the leading platform providers.

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[16] Source: IMS Research - July 2012
[17] Source: EuroSmart, October 2013

	HARDWARE **IP**	**HARDWARE** **CHIPS** (“microcontroller”)	**SOFTWARE** **OS and/or Middleware**	**SOFTWARE** **Applications and/or Services**	**END-TO-END SOLUTION** **Software and/or Hardware**
	IP Block to be integrated in Customer Chips or reused in INSIDE Standard Chips e.g.: Crypto Cell	INSIDE Standard Hardware Chips leveraging Customer OS and Middleware e.g.: Secure Element	OS and/or Middleware running on INSIDE Standard Chips OR Device Application Processor e.g.: JavaCard OS or VPN Agent	Application or Services running on INSIDE Standard Chips OR Device Application Processor e.g.: Payment Application on Apps processor or Access Control applet on Secure Element	Client-Server solution developed as a partnership. e.g.: End-to-end Wine anti-counterfeiting solution.
Examples of Inside Secure products from the Mobile Security division	VaultIP	VaultSEcure	DRM Fusion, MatrixSSL, QuickSec, MACsec	MatrixHCE	
Examples of Inside Secure products from the Secure Transactions division		AT90SC	VaultIC1xx, VaultIC4xx, MicroPass	VaultIC Perso Services	CapSeal

6.3.1 Mobile Security Products

6.3.1.1 VaultSEcure

VaultSEcure is a state-of-the-art Secure Element solution for embedded integration, designed for mobile phones, tablets, desktop computers and M2M (Machine-to-Machine) capable devices. The Secure Element embeds JavaCard® / Global Platform® compliant operating system (OS) on a highly secure microcontroller combining low-power consumption with high-performance. It is designed to provide maximum security and interoperability with legacy and next-generation devices. VaultSEcure benefits from both INSIDE Secure’s unique expertise in chip hardware and its experience in developing secure chip operating systems, thereby enabling it to optimize the solution and its overall cost.

In a mobile telephony context, VaultSEcure has been developed to address Banking, Payment, Transit, Access Control, Content Protection, Enterprise and Healthcare applications. The solution meets relevant industry certifications and compliance levels, including EMVCo, Payment systems & Common Criteria.

6.3.1.2 Vault IP

VaultIP is a Secure Element delivered as a synthesizable Verilog RTL source code IP Block. VaultIP is an embedded security platform that operates independently as an SE and/or to fortify a TEE against software attacks.

Implemented in Hardware IP, it comprises a tightly integrated set of modules optimized for the ARM architecture. VaultIP is not only giving to INSIDE Customers a time-to-market advantage but more importantly is providing them leading edge security technologies that would take years to develop.

As a result, the VaultIP solution will be intricately integrated into the main processor of the electronic equipment (application processor), which thus becomes the security core for mobile devices.

6.3.1.3 Content Protection: DRM Fusion

To its knowledge, INSIDE Secure offers the industry's only most comprehensive security solutions, on both the client and server side, for all DRM (Digital Rights Management) standards such as Microsoft PlayReady, Windows Media DRM, or OMA DRM used for licensing, protecting, and monetizing digital entertainment content and services.

The ability to enable content access at anytime, anywhere, and from any device is a crucial success factor for any digital content service. In order to meet these consumer demands and achieve success in emerging digital markets, broadcasters, content providers, mobile operators, and service providers must be able to provide a variety of purchasing and consumption models.

Only with the adoption of industry standards-based security solutions can broadcasters, mobile operators and service providers stay in control of their DRM policies while providing consumers with device and network agnostic feature-rich content and services. The adoption of closed, proprietary DRM solutions or Conditional Access Systems (CAS) instead ties broadcasters, mobile operators and service providers to a single DRM supplier therefore limiting device and network interoperability and leaves their consumers reliant on a DRM solution that is not guaranteed for the long haul.

INSIDE Secure’s products in this field are the following: DRM Fusion Server, DRM Fusion Agent for Embedded Deployment, DRM Fusion Agent for Downloadable Deployment, Microsoft DRM-based Solutions and OMA Solutions.

6.3.1.4 Mobile Payment: MatrixHCE

MatrixHCE is targeted to allow Mobile Banking & Payment App developers to speed up their development and time-to-market by combining host card emulation (or “HCE”) as well as many security software functions.

Relying on an architecture introduced by Android 4.4 (KitKat) and recently adopted by the main suppliers of payment systems, HCE technology authorizes contactless payments (and other services, in particular loyalty programs, physical access to buildings and transportation) between the user’s banking mobile application and the vendor using the NFC standard. With HCE technology, sensitive data used during transactions are stored securely and accessible via servers in the “Cloud” and no longer in a secure element or SIM card on the mobile device.

The MatrixHCE solution benefits from INSIDE Secure’s expertise in the NFC and Payment & Mobile Security markets. In addition, the recent acquisition of Metaforic technology further solidifies INSIDE Secure’s expertise in the Mobile Security field.

Securing mobile payment apps requires more than just data encryption. Instead, developers must secure the application’s source code with its logic and processes, data, and keys. MatrixHCE makes it extremely difficult and time-consuming for attackers to understand how a payment application works in order to compromise it. The final purpose is to secure transactions.

6.3.1.5 Entreprise: QuickSec, MACsec, MatrixSSL

INSIDE Secure’s Enterprise software solutions such as QuickSec® IPsec toolkit, MACsec, MatrixSSL™ security toolkits offer mobile and networking OEMs the most advanced levels of protection, reliability, and performance. INSIDE Secure offers a wide variety of IPsec VPN Client solutions with features for Android and other mobile platforms. It provides off-the-shelf solutions for secure end-to-end communication that are easy to integrate and deploy, and poised to remain current as technology changes. Networking and telecom equipment manufacturers can increase performance while saving time and money by using INSIDE Secure's solutions.

6.3.2 Secure Transaction Products

6.3.2.1 Payment: MicroPass

MicroPass solutions were developed for the Payments market to foster the success of the payment card migration from magstripe technology toward contactless and/or contact technology while taken two essential variables into consideration: cost and interoperability.

The latest MicroPass generation offers several features:

- An optimized operating system (OS) able to fit into the smallest possible silicon space while delivering the highest security level in the industry;

- The three leading payment systems - Discover, MasterCard and VISA – are pre-installed, in order to simplify the pre-personalization or the personalization stage of the card manufacturing process;

- Optimized personalization timing in order to speed-up the personalization equipment yield and reduce costs;

- PIN and data sharing across applications using the same card, in order to avoid data loading redundancies during personalization, while supporting a user friendly experience to the cardholder (a unique PIN).

INSIDE Secure's MicroPass also comes with the "Smart Purse" application to support loyalty programs or the use of a virtual wallet in conjunction with payment applications.

6.3.2.2 Secure Access and Secure Internet of Things: VaultIC1xx, VaultIC4xx, VaultIC6xx

The VaultIC1xx, VaultIC4xx, and VaultIC6xx products are application specific standard chips designed to secure various systems against counterfeiting, cloning or identity theft. These hardware security modules can be used in many applications such as intellectual property protection, access control or hardware protection. The proven technology used in VaultICxxx security modules is already widespread and used in national ID/health cards, e-passports, bank cards (storing user Personal Identification Number, account numbers and authentication keys among others), pay-TV access control and cell phone SIM cards (allowing the storage of subscribers' unique ID and PIN code, and providing authentication of subscribers on the network), where cloning must definitely be prevented. For example, designed to keep contents secure and avoid leaking information during code execution, the VaultIC420 includes voltage, frequency and temperature detectors, illegal code execution prevention, tampering monitors and protection against side channel attacks and probing. The chips can detect tampering attempts and destroy sensitive data on such events, thus avoiding data confidentiality being compromised.

6.3.2.3 Anti-counterfeiting: CapSeal

CapSeal is a smart, patent-pending and secure system to fight counterfeiting in the wine and spirits market. This innovative solution is aimed at solving the bottle refill problem, an increasing threat to the industry. It is a solution that combines an authentication mechanism with the deactivation of the tag when the bottle is opened. The chip confirms that the capsule on the bottle has not been tampered with and that the cork has not been removed.

Producers, industry players, and even consumers can easily check the authenticity of a bottle and confirm that it was never previously opened, by using an NFC-equipped smartphone or other device and scanning the chip embedded in the tag via a mobile application platform such as the one developed by Selinko (INSIDE Secure's partner for anti-counterfeiting turnkey solutions). The chip confirms that the capsule on the bottle has not been tampered with and the cork has not been removed.

INSIDE Secure's highly secured CapSeal solution is certified against the highest worldwide certification standard (Common Criteria certification, EAL5+ level used for Electronic Passport-certification) and smart packaging solution. Combined with Selinko's innovative application platform, Capseal is providing the wine and spirits industry a unique and most secure solution to solve counterfeiting and refilling problem.

6.4 Customers

INSIDE Secure has a customer base that includes over one hundred leading brand names and serves diversified markets.

As such, the Group offers:

- Semi-conductor solutions (hardware, security microcontrollers) to Original Design Manufacturers (ODMs) and Original Equipment Manufacturers (OEMs), such as: manufacturers of mobile devices, network infrastructures, or payment cards,

- Embedded software to developers of operating systems or applications and service providers or content providers, and

- IP blocks to semiconductor platform manufacturers.

Alcatel-Lucent, AT&T, BBC, Cinemax, Cisco, Docomo, Fujitsu, Oberthur, HBO, HID, IBM, INTEL, Juniper, LG, LSI, Motorola, Samsung, NEC, Oberthur, Orange, Tilera, Sky, Safran and Texas Instruments are among the Group's customers. It should be noted that the above list is not exhaustive, as some of INSIDE Secure's customers require a high level of confidentiality regarding the nature of their contractual relationships with the Group, which plays a necessary role in their strategy to develop security solutions.

6.5 Competition

The Group operates in a fragmented competitive environment:

- In the semiconductor or "hardware" market, the Group faces a relatively limited number of competitors. However, these are large companies in the semiconductor industry, most of which only supply hardware platforms to customers that develop secure solutions based on their operating system and service platform,

- In the embedded software market, the Group competes with a greater number of companies because the barrier to entry for software security is seemingly less stringent and the market is more recent. Nonetheless, due to the fact that mobile security is a systems issue based on understanding the complex combination of hardware, software, and IP blocks, the Group believes is benefits from a competitive advantage in this market, and

- In the IP blocks market, very few companies offer IP security products with high certification levels. Relying on its expertise and technology, the Group plans to contribute to the definition of future standards in mobile security, of new mobile security architectures and of new security certification schemes.

On the markets to which it targets its semiconductor, software, and intellectual property products, the Group competes, in particular, with companies such as NXP Semiconductors, Infineon Technologies, STMicroelectronics, Samsung Electronics, Discretix, and Arxan. However, to the Company's knowledge, there is no market player able to compete with the Group in a consolidated fashion across all of these business segments.

6.6 Organizational structure

6.6.1 Research and development

Innovation has always been at the heart of INSIDE Secure's strategy, and the Group has for long implemented a policy that is starting to bear its fruits: a portfolio of approximately 700 patents broken down into nearly 190 patent families (please also refer to Chapter 11 of the Registration Document for further information).

6.6.2 Manufacturing

With respect to the microcontrollers it develops and sells, the Group operates under a fabless business model, whereby it uses third-party foundries for the production of its wafers and other subcontractors for the assembly and testing of its products. By outsourcing its manufacturing, assembly and the majority of its testing activities, the Group is able to simplify its business operations and reduce its capital requirements. Engineers work in close collaboration with partner foundries and other subcontractors in an effort to increase yields, reduce manufacturing costs and maximize product quality. Since 2007, the Group is ISO 9001 certified and its major suppliers and subcontractors are required to own quality manufacturing systems that are ISO 9000 and ISO 14000 certified, as well as appropriate environmental control programs (please also refer to section 8.2 entitled "Environmental Matters" of this Registration Document for further information).

The Group has established relationships and signed manufacturing contracts with three key foundries - Global Foundries, UMC and TSMC. Production processes are based on 350nm, 150nm, 130nm and 90nm CMOS technology. The manufacturing of some of its products, produced in very high volumes, is split up among several foundries, which provides the Group's customers with added security with respect to their supply as well as higher flexibility in the management of manufacturing.

Among others, the Group subcontracts to UTAC (United Test and Assembly Center), ASE (Advanced Semiconductor Engineering Group), and Amkor Technology for its assembly and testing needs. It also has the option of performing tests internally, in its corporate buildings in Aix-en-Provence, France, and typically chooses to do so for prototypes and preproduction units. For some smart card applications, the Group's customers can request that the semiconductors be packaged in a module or inlay (chips connected to an antenna) form factor, in which case the Group outsources to third party manufacturers such as Nedcard, Chipbond Technology, and Smartrac.

Contracts signed with partner foundries and subcontractors for the assembly and testing of products do not typically require the Group to make a firm commitment regarding volume and purchase orders are processed on the basis of order forms.

6.6.3 Sales and marketing

The Group focuses its sales efforts on winning an increasing number of projects, or "design ins" that will lead to orders, or "design wins" from manufacturers of mobile devices and network equipment, smart cards and electronic devices requiring integrated security features and electronic components integrating one of INSIDE Secure's IP blocks. Securing a design win is all the more important due to the difficulty for the customer of later switching to another semiconductor vendor for a given generation of products.

Furthermore, the Group relies on marketing initiatives in order to directly convince its customers' customers, of the relevance of its products. These companies are mobile network operators, bankcard issuers, mass transit companies, governmental organizations, digital content suppliers, or companies in the luxury goods industry to which the Group will promote the benefits of its security solutions and technology.

For example, some of the products offered in the Group's Secure Payment division are sold to manufacturers of decoders for PayTV and access control applications, or to smart card manufacturers within the national ID cards manufacturing business.

The Group's marketing strategy is defined per business segment. The marketing team defines product strategy and manages the product portfolio, new product introduction processes, product development roadmap, market demand studies and competition analysis. It is also responsible for ensuring that demand and supply planning, new product launches and marketing programs are coordinated with sales, operations (planning, logistics and quality control) and development activities.

The Group supplies its key customers through direct distribution channels and also works with partners (such as agents and distributors) in order to supply the entire value chain of its target markets.

INSIDE Secure's customer base includes a broad range of companies from start-ups to larger international groups, as well as small and medium-sized companies. In order to provide its customers with the best possible support, INSIDE Secure has developed a worldwide presence with sales forces organized regionally throughout the globe, in three main areas: Europe/South America, North America, and Asia. This sales structure also includes local technical support teams for its customers. Located near its customers, these teams are responsible for advising customers during the development, manufacturing, and launch phases of their products.

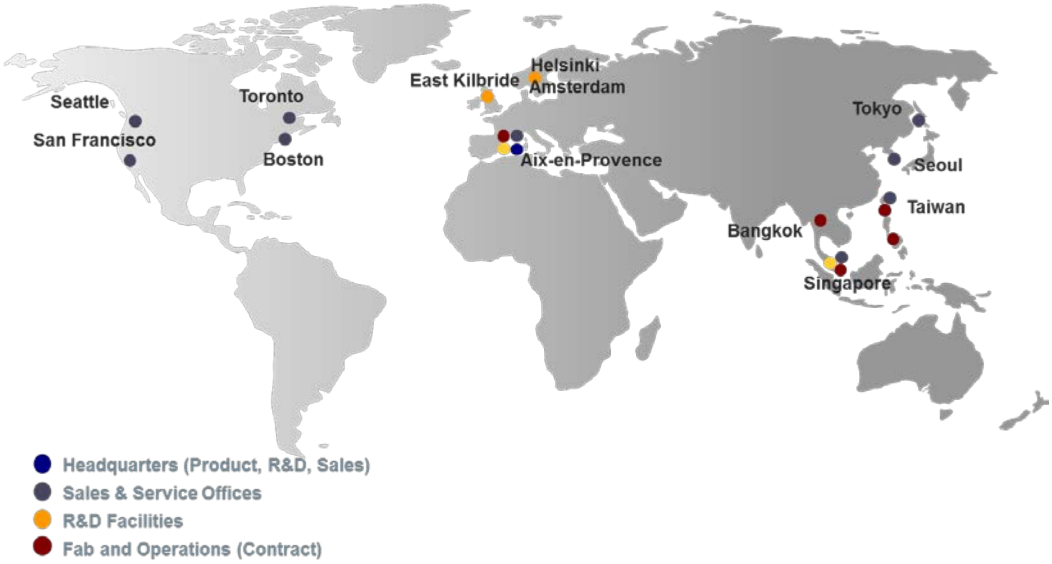
As of July 31, 2014, the Group had a direct sales team comprised of 22 people (excluding the technical support functions and marketing teams assigned to each segment).

The communications division of the Group is centralized and is responsible for all company and product-related communications. Financial communications are managed independently.

6.7 Geographic distribution

The registered offices of the Company and the main executive offices of the Group are located in Meyreuil near Aix-en-Provence in France. This location accommodates a portion of the research and development teams, as well as a significant portion of the sales and marketing, operating, financial, and administrative activities.

The Group has also established a presence in other European countries (Scotland, the Netherlands, Finland), in Asia, and in North America.



6.8 Regulations applicable to the Group's cryptology business

The Group offers cryptology solutions and services, which is a regulated business activity insofar as it is linked to national security.

Cryptology is a way of ensuring that a message cannot be understood without the right decryption key.

In France, the legal framework for cryptology is defined in articles 29 *et seq.* of French Law No. 2004-575 dated June 21, 2004 concerning confidence in digital economics. This article draws a distinction between (i) using and disseminating means of cryptology and (ii) providing cryptology services.

The use and dissemination of means of cryptology

Any piece of equipment or software designed or modified to manipulate data, including both information and signals, irrespective of whether any secret agreements apply or of whether it is used to achieve the opposite result, with or without an applicable secret agreement, is considered a means of cryptology. The main purpose of these means of cryptology is to guarantee the security of data storage and transmission, by ensuring their confidentiality, authentication, or by controlling their integrity.

In principle, the use or dissemination of means of cryptology is not restricted, but it can be subject to making a prior declaration to the Prime Minister or to obtaining his prior authorization.

The supply, the transfer from or to a Member State of the European Union or the importing and exporting of means of cryptology used exclusively for authentication or integrity control purposes are not restricted.

The supply, the transfer from a Member State of the European Union, or the importing of a means of cryptology that is not used exclusively for authentication or integrity control purposes are subject to a prior declaration to the Prime Minister. Certain categories of means of cryptology can be exempted from this prior declaration requirement.

The transfer to a Member State of the European Union and the exporting of a means of cryptology that is not used exclusively for authentication or integrity control purposes are subject to the prior authorization of the Prime Minister. Certain categories of means of cryptology can also be subject to the prior declaration requirement or exempted from any formality to give prior notice.

In accordance with French Decree No. 2007-663 dated May 2, 2007, any formalities imposing prior notice requirements are hereby waived for "personalized microprocessor cards intended for general public applications, whenever the cryptographic means are (a) designed for and limited to exclusive use in mobile radio reception equipment intended for the general public or wireless handset equipment intended for the general public or equipment used in banking or financial transactions intended for the general public and (b) cannot be accessed by the user and was specifically designed for and limited to enabling the protection of data stored within".

The use and dissemination, by the Company, of the cryptology necessary for its business are either unrestricted, or exempted from an obligation to make a prior declaration to the Prime Minister, or exempted from the requirement to obtain his prior authorization.

However, certain means of cryptology used or disseminated by the Company do not enter into the scope of application of the exception discussed above, and their use or dissemination is therefore subject to the obligation to make a prior declaration to the Prime Minister, or to the requirement to obtain his prior authorization.

In addition, given the possible differences in construing applicable regulations among European jurisdictions, the prior authorization of the Prime Minister is at times requested by the Company, as a precautionary measure, in order to export some of its cryptology means.

Lastly, the use, dissemination, or exportation of the cryptology means of the Group in accordance with the regulations applicable in countries other than France, but in which the Group conducts its business activities or sells its products, could be subject to a prior authorization.

The provision of cryptology services
According to the aforementioned law for confidence in digital economics, and barring any potential exceptions, the provision of cryptology services is also subject to the obligation of making a prior declaration to the Prime Minister or to the requirement to obtain his prior authorization. The persons exercising these duties are subject to professional secrecy. In addition, they will be considered liable in the event of a breach of the integrity, the confidentiality, or the availability of data, notwithstanding any opposing contractual clause.

Insofar as French Decree No. 2007-663 dated May 2, 2007 exempts from the prior declaration or prior authorization requirement the provision of microprocessor card type cryptology services, as defined above, the provision by the Company of cryptology services necessary for the operation of its business is therefore also not, in principle, subject to the obligation to make a prior declaration to the Prime Minister, or to the requirement to obtain his prior authorization.

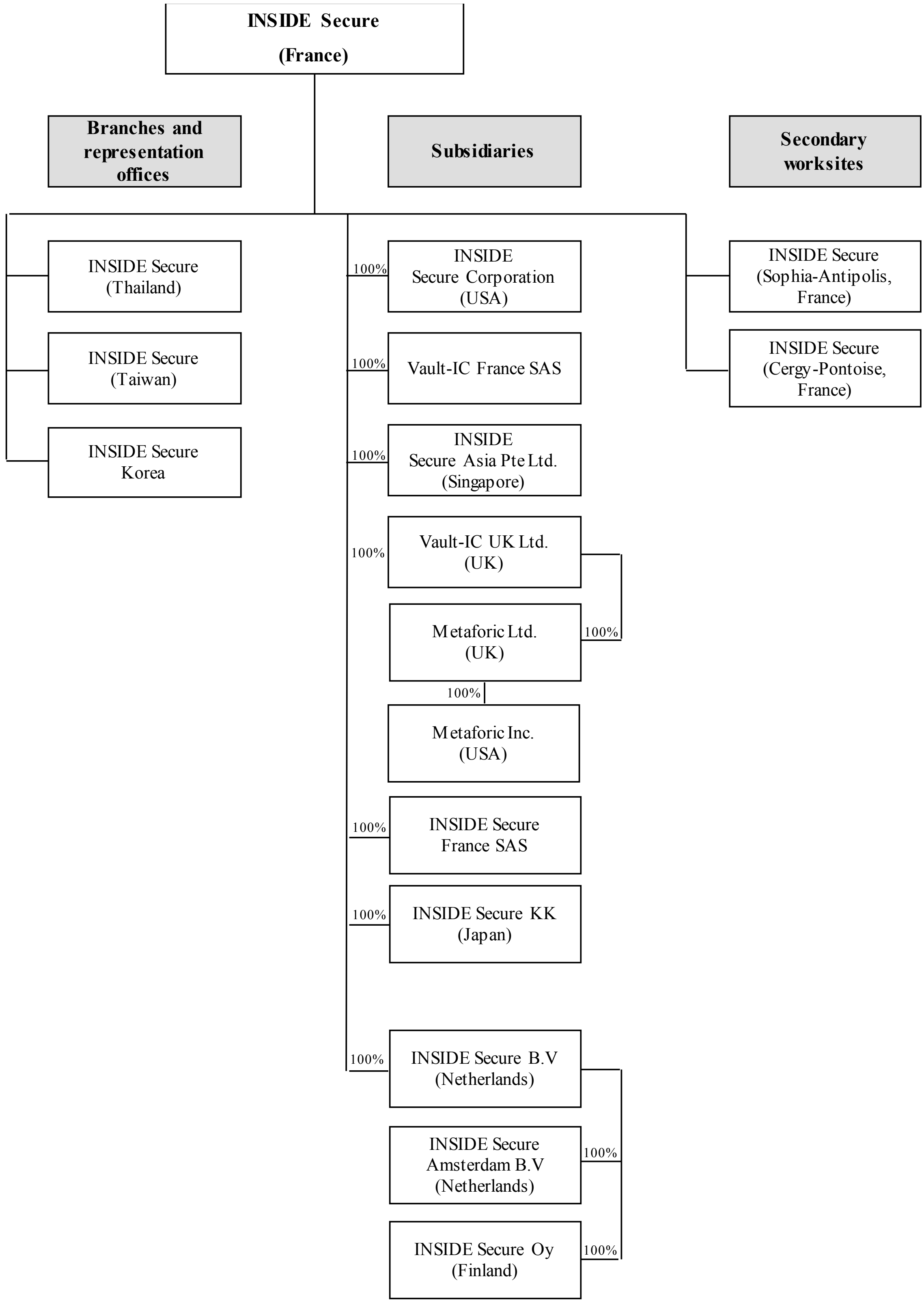
6.9 Degree of the issuer's dependence on patents or licenses, industrial, sales, or financial contracts or new manufacturing methods

In accordance with the terms of Article 6.4 of Appendix I of the European Regulations, the Group states that, consistent with its technological choices, it signed some licenses for, in particular, patents or other intellectual property rights, the most significant of which are described in section 11.2 of this Registration Document.

7. ORGANIZATIONAL CHART

7.1 Overview of the Group

As of the filing date of this Registration Document, the legal structure of the Company and its subsidiaries (jointly referred to as the "Group") can be broken down as follows:



INSIDE Secure is the parent company of the Group and its main operating company. It holds a majority of the Group's assets and manages most of the operating cash flows derived from its business activities (which includes handling practically all purchased inventories and invoicing the Group's customers).

The Group companies' main equity interests can be summarized as follows (in thousands of US Dollars and in accordance with IFRS):

As at June 30, 2014 (in thousands of US$)	Vaut-IC UK Ltd.	Vaut-IC France SAS	Subsidiaries "ESS" (*)	Subsidiaries "Metaforic" (**)	Other subsidiaries	INSIDE Secure	Total
Fixed assets	140	2,225	100	6,055	442	30,125	**39,087**
Cash and cash equivalents	226	350	511	81	95	37,509	**38,771**
Inventories	-	-	-	-	-	10,857	**10,857**
Intangible liabilities	-	-	-	-	-	9,664	**9,664**
Trade and other payables	848	2,122	1,700	224	686	22,646	**28,227**

(*) INSIDE Secure B.V., INSIDE Secure Amsterdam B.V. et INSIDE Secure Oy
(**) Metaforic Ltd et Metaforic Inc.

The Group's business activities are described in Chapter 6 entitled "Business" of this Registration Document and the Group companies' business activities are described below in section 7.2 entitled "Businesses of subsidiaries and of held companies".

7.2 Business of subsidiaries and of branches and representation offices

7.2.1 Subsidiaries

As of July 31, 2014, the Company held an equity interest in the following subsidiaries:

- INSIDE Secure Corporation (Redwood City, California, United States) is a subsidiary in which the Company holds a 100% equity stake. Its main business activity is sales development and technical support. As of July 31, 2014, this subsidiary had 27 employees on staff.
- INSIDE Secure Asia Pte Ltd. (Singapore) is a subsidiary in which the Company holds a 100% equity stake. Its main business activity is research and development. As of July 31, 2014, this subsidiary had 5 employees on staff.
- Vault-IC UK Ltd. (London, United Kingdom) is a subsidiary in which the Company holds a 100% equity stake. Its main business activities, which are carried out at its only worksite located in East Kilbride (Scotland), are research and development and product engineering. The Company acquired this subsidiary in the context of the acquisition of the SMS business of Atmel Corp. on September 30, 2010. As of July 31, 2014, this subsidiary had 34 employees on staff.
- Vault-IC France SAS (Meyreuil, France) is a subsidiary in which the Company holds a 100% equity stake. The Company acquired this subsidiary in the context of the acquisition of the SMS business of Atmel Corp. Its main business activities are research and development, product engineering, planification and marketing. As of July 31, 2014, this subsidiary had 67 employees on staff.
- INSIDE Secure B.V. (Vught, The Netherlands) is a subsidiary in which the Company holds a 100% equity stake. Its main business activities are research and development and the marketing of intellectual property blocks intended for the design of security processors. The Company acquired this subsidiary in the context of the acquisition of the ESS business on December 1, 2012. As of July 31, 2014, this subsidiary had 30 employees on staff.
- INSIDE Secure Amsterdam B.V. (Amsterdam, The Netherlands) is a subsidiary in which

INSIDE Secure B.V. holds a 100% equity stake. Its main business activities are research and development and software marketing. As of July 31, 2014, this subsidiary had 10 employees on staff.

- INSIDE Secure Oy (Helsinki, Finland) is a subsidiary in which INSIDE Secure B.V. holds a 100% equity stake. Its main business activities are research and development and software marketing. As of July 31, 2014, this subsidiary had 28 employees on staff.
- INSIDE Secure K.K (Tokyo, Japan) is a subsidiary in which the Company holds a 100% equity stake. The Company created it following its acquisition of the ESS business. Its main business activities are sales development and technical support. As of July 31, 2014, this subsidiary had 4 employees on staff.
- INSIDE Secure France SAS (Aix-en-Provence, France) is a subsidiary in which the Company holds a 100% equity stake. The Company created this subsidiary in December 2012. It carries out no commercial activity and does not have any employees on staff.
- Metaforic Ltd (Glasgow, United Kingdom) is a subsidiary in which Vault-IC UK Ltd. holds a 100% equity stake. This subsidiary was acquired on April 5, 2014. Its main business activities are research and development, marketing, and software sales. As of July 31, 2014, this subsidiary had 10 employees on staff.
- Metaforic Inc. (San Jose, California, United States) is a subsidiary in which Metaforic Ltd. holds a 100% equity stake. Its main business activities are marketing and software sales. It does not have any employees on staff.

7.2.2 Secondary worksites

- INSIDE Secure S.A. (Vallauris, France) is one of the Company's secondary worksites. Its main business activity is research and development. As of July 31, 2014, this secondary worksite had 5 employees on staff.
- INSIDE Secure S.A. (Cergy-Pontoise, France). This worksite no longer has employees and is in the process of shutting down.

7.2.3 Branches and representation offices

The Group also operates via branches and representation offices whenever the size of the teams and the business conducted locally do not justify the creation of a dedicated legal entity.

- INSIDE Secure Taiwan (Taipei, Taiwan) is a branch of the Company. Its main business activities are sales development and technical support.
- INSIDE Secure Korea (Seoul, South Korea) is a branch of the Company. Its main business activities are sales development and technical support.
- INSIDE Secure S.A. Thailand (Cachoengsao, Thailand) is an agency of the Company. Its main business activity is the oversight of subcontractors responsible for product testing.

8. PROPERTY, PLANTS AND EQUIPMENT

8.1 Real estate property

Vault-IC UK Ltd owns a building, the total surface area of which is 4,533m². It is located at Maxwell Building, Scottish Enterprise Technology Park, East Kilbride, Glasgow G75 0QR in Scotland. Following the decision to move the business to leased office space nearby, the building is currently vacant and efforts to sell it have been undertaken.

The Group does not own any other buildings.

Generally, the Group leases other office space it uses (including the Company's registered offices).

8.2 Environmental issues

8.2.1 General policy concerning the environment

Conscious of current environmental challenges and of its social responsibilities, INSIDE Secure seeks to ensure that its business activities follow the principles of sustainable development, whether directly or via its commercial partners.

As such, INSIDE Secure aims to find common ground between its economic and social growth objectives on the one hand and its efforts to respect the environment by limiting, in particular, the harmful impact it may have on the environment and by managing its natural resources in a rational way.

Since the Group does not carry out any manufacturing activities in its offices (fabless model), it is not exposed to any significant direct risks of environmental harm.
The Group's quality control department is responsible for the management system that handles environmental matters.

An awareness program on environmental protection was organized in fiscal year 2012 for employees based in France. It was not renewed in fiscal year 2013, due to the fact that the Company's business activities did not quite justify it at that time.

There are no provisions or guarantees made to cover risks associated with the environment.

During the fiscal year, the Group did not award any compensation as a result of a court decision on an environmental matter.

8.2.2 Pollution and waste management

Since its business activities are mainly conducted within the tertiary sector, the Group has not taken specific measures to prevent, reduce or remedy any waste released in the air, water or on land that could significantly harm the environment.

The Waste Electrical and Electronic Equipment Directive ("WEEE") (2002/96/CE) allows for manufacturers to organize and finance the collection, processing, and valuation of their products at end-of-life. In order to avoid any related risk of pollution, a specialized third party company is commissioned to reprocess all of the waste resulting from equipment and products.

As such, a procedure was put in place within the Company aimed at the disposal and recycling of the following waste: silicon wafers and micro-packaged chips, electrical and electronic equipment, power cells and batteries, toner and ink cartridges and paper.

In 2013, the Group recycled the following quantities of waste from its French worksites:

- Electric and electronic equipment and silicon wafers	950 kg
- Lead batteries	154 kg
- Batteries	67 kg
- Toner and ink cartridges	41 kg
- Paper	4,054 kg

In 2013, the consolidation in Meyreuil, France of the teams previously based in Aix-en-Provence, France and Rousset, France created an opportunity to recycle a significant amount of electronic equipment, silicon wafers and outdated documents.

Due to the nature of its business activities, the Group does not generate any significant amount of noise pollution.

8.2.3 Sustainable use of resources

Over the course of 2013, the Group's electric power consumption in France and Scotland was the following:

- *France (excluding the Cergy and Montigny-le-Bretonneux worksites, for which data is not available):* 1.333 million kWh

- *Scotland (East Kilbride worksite):* 0.791 million kWh

In August 2013, the Group regrouped all of the staff it initially employed in Aix-en-Provence and Rousset under one roof in a building compliant with thermal regulation RT2012 while boasting high-performance energy features.

The upper section of the building favors access to solar energy via photovoltaic sensors. The building's outer protective layer is highly efficient in controlling heat as it ventilates naturally while supported by reinforced air circulation, which enables the building to maintain a comfortable internal temperature even on very hot days.

In particular, the building stands out relative to its primary energy consumption. Indeed, it offers performance gains of 70% relative to the requirements of RT 2012 in terms of the building's maximum conventional primary energy consumption levels (Pec_{max}).

In addition, in an effort to protect the environment, the building is equipped with efficient energy systems:

- Counter-flow ventilation system with a rotary heat exchanger in order to optimize energy consumption in the building.
- Walls and roof equipped with reinforced thermal isolation.
- Heating/cooling via a direct expansion system.
- 57/27 argon-filled double glazed windows (lets in 57% light and only 27% heat)
- The roof allows for photovoltaic solar power production via an installed solar panel power capacity of 99.75 kilowatts-peak.

The impact of the bioclimatic design on the energy performance of the building can be seen through "Bbio" coefficient (*Besoin Bioclimatique*, or Bioclimatic Requirement). The building's needs (heating/cooling, ventilation, lighting) depend on this Bbio figure. The building boasts a 45% gain on the $Bbio_{max}$ threshold required under the terms of RT2012.

Due to its fabless business model, the Group does not cause any signification impact on land use or water consumption and has not taken any specific measures to improve its efficiency in the use of raw materials.

8.2.4 Climate change

The power consumption of French worksites (excluding that of the buildings in Cergy, France and Montigny-le-Bretonneux, France) has generated 17.3 kg of CO_2 emissions.

Regrouping the teams based in the Aix-en-Provence region under one roof has, amongst other things, eliminated employees' frequent automobile commutes between the two worksites in Aix-en-Provence and Rousset where they used to work.

The power consumption of the East Kilbride worksite in Scotland has generated 104.4 kg of CO_2 emissions.

The Company's travelling policy recommends that employees favor travel by train than by plane for commutes between Marseille and Paris.

In addition, and insofar as possible, the Group encourages its employees to use the telephone conferencing solutions available to them in order to limit travel.

However, the Group has not yet conducted any specific analysis to identify the measures it should implement to adapt to the consequences of climate change on its business activities.

8.2.5 Biodiversity

The Group's various worksites do not carry out the types of activities that could cause direct harm to the biological balance of natural habitats or protected animal and plant species.

9. REVIEW OF THE COMPANY'S INCOME AND FINANCIAL POSITION

The following presentation and analysis must be read along with the Registration Document as a whole and, in particular, the Group's Consolidated Financial Statements for the fiscal years ended December 31, 2011, 2012, and 2013 included in section 20.1 entitled "Historical Financial Information" of the Registration Document.

The Group's Consolidated Financial Statements were prepared in accordance with IFRS (International Financial Reporting Standards) and IFRIC interpretations (International Financial Reporting Interpretations Committee), as adopted by the European Union and mandatory as of December 31, 2010. In accordance with IFRS 1, these IFRS standards were applied to both comparative periods presented therein, subject to any exceptions provided for under the terms of IFRS 1. The Company's Statutory Auditors performed an audit of the Consolidated Financial Statements for the fiscal years ended December 31, 2011, 2012, and 2013.

The Group's Half-year Consolidated Financial Statements as of June 30, 2014 are included in section 20.6 entitled "Interim Financial Information" of the Registration Document.

9.1 General presentation

9.1.1 Overview of the Group's business activities

INSIDE Secure (the "Company") and its subsidiaries (together forming the "Group") design, develop, and sell semiconductors and embedded software that provide security to transactions, content, and digital identification.

On December 1, 2012, the Group acquired Embedded Security Solutions ("ESS"). ESS designs and develops encryption-related security hardware intellectual property (IP) and software for a variety of industries, including the mobile and networking markets. Its revenues are generated through licenses, royalties, services and maintenance fees. In addition, subsequent to the acquisition of Metaforic on April 5, 2014, the software product line grew larger (see below in this section).

Regarding its semiconductor products, the Group operates based on a fabless business model, whereby manufacturing, assembly and testing are outsourced to third-party foundries (companies specializing in the manufacturing of semiconductors) and other outsourcing partners. The Group designs, develops and markets products offering various types of security protection for applications where information is required to be processed, stored or transferred with a high degree of security. The Group's solutions integrate secure architecture microcontrollers, routers, hardware-integrated security, embedded software providing the secure management of incoming and outgoing data, as well as cryptography algorithms. These solutions also rely on the Group's know-how in radio frequency and analog semiconductor design, as well as the Group's expertise in the field of security software and applications.

As a result of the corporate restructuring plan implemented in October 2013, the Group now conducts its business across two complementary divisions, namely the "Mobile Security" and "Secure Transactions" divisions, which target different or complementary markets, products, and solutions, while relying on a shared platform for research and development, intellectual property, industrial transactions, technical support and sales.

9.1.2 Preliminary notes on the Group's financial information and results

The Consolidated Financial Statements for the fiscal year ended December 31, 2013 were prepared in accordance with IFRS (International Financial Reporting Standards) and the IFRIC interpretations, as adopted by the European Union. The main accounting methods are described in Note 2 of the Notes to the Financial Statements established as of December 31, 2013 and the significant accounting estimates and rulings are presented in Note 4 of said Notes. The Half-year Consolidated Financial Statements established as of June 30, 2014, presented in summarized form, were prepared in accordance with international financial standard IAS 34 "Interim Financial Reporting".

Currency in which the Consolidated Financial Statements are presented

The Group selected the US Dollar as the currency in which to present its Consolidated Financial Statements. The US Dollar is the Company's functional currency, and the currency in which the majority of its transactions are denominated. It is the main currency used for the Group's transactions and within the semiconductor industry in transactions between customers and suppliers.

The exchange rates of the US Dollar against the Euro (or "€", or "EUR"), the main currency used by the Group after the US Dollar, are as follows for the 2011, 2012, and 2013 fiscal years and the half-years ended June 30, 2012 and 2013:

Dollar / Euro	December 31, 2011	December 31, 2012	December 31, 2013	June 30, 2013	June 30, 2014
Closing rate	1.2939	1.3194	1.3791	1.3080	1.3658
Average rate	1.3917	1.2858	1.3282	1.3135	1.3705

Scope of consolidation

The Group's scope of consolidation is described in Note 36 of the Notes to the Group's Consolidated Financial Statements, which can be found in section 20.1 entitled "Historical Financial Information" and in Note 26 of the Notes to the Half-year Consolidated Financial Statements, included in section 20.6.1 entitled "Interim Financial Information" of this Registration Document.

Performance indicators not defined under IFRS

In its business analysis, the Group includes the performance indicators defined below, which are not strictly of accounting nature. These indicators are not aggregates defined under IFRS and do not constitute accounting figures used to measure the Group's financial performance. They must be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of strict accounting nature, such as those presented in the Group's Consolidated Financial Statements and their corresponding Notes. The Group currently monitors and intends to keep monitoring these indicators as it considers them relevant in the analysis of its current operating profitability and operating cash flow generation. However, these indicators are not necessarily directly comparable to those of other companies, which may have assigned a different definition or calculation method to indicators with similar names.

The adjusted gross profit is defined as gross profit before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payments expense, and (iv) non-recurring costs associated with business combinations and acquisitions completed by the Group.

The adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payments expense and (iv) non-recurring costs associated with business combinations and acquisitions completed by the Group.

EBITDA is defined as the adjusted operating income/(loss) before any amortization and impairment unrelated to business combinations.

Tables presenting reconciliations between the consolidated income statement figures in this document and the adjusted financial aggregates as defined above are included in Note 6 of the Notes to the Group's Consolidated Financial Statements for the 2011, 2012, and 2013 fiscal years, presented in section 20.1 entitled "Historical financial information", and in Note 26 of the Notes to the Group's

Half-year Consolidated Financial Statements for the half-years ended June 30, 2013 and 2014, presented in section 20.6.1 entitled "Interim financial information" of this Registration Document.

Operating segment information

Financial analyses per operating segment for the 2013 fiscal year and for the first half-year of 2014 are based on the reporting system in force as of October 2013, or the date upon which the operating segments were modified to adapt to the new corporate structure (for more information, please also refer to section 9.1.1 above). The analysis per operating segment for the 2012 fiscal year is based on the four business lines around which the Group was structured at that time.

9.2 Financial information and consolidated income of the Group

9.2.1 Income analysis for the 2013 fiscal year

2013 was a year of transformation for INSIDE Secure with the integration of ESS, the implementation of a broad-ranging reorganization and the strategic realignment of the Group around two business divisions, namely Mobile Security and Secure Transactions. These initiatives did rebuild our offering around a higher margin product mix and lower our cost base, paving the way for the Group to record positive operating income[1] in the second half of 2013.

9.2.1.1 Revenue

(in thousands of US$)	**2013**	**2012**	**2013 vs. 2012**	**2013 vs. 2012 normalized**
Mobile Security	73,797	43,828	68%	7%
Secure Transactions	80,827	78,219	3%	3%
Total	**154,623**	**122,047**	**27%**	**5%**

INSIDE Secure's consolidated revenue for the 2013 fiscal year is equal to US$154,623 thousand, which represents a 27% increase relative to the previous fiscal year (and a 5% increase on a normalized basis[2]). In particular, in the 4th quarter of the 2013 fiscal year, INSIDE Secure performed very well, due to an especially active Mobile Security division and a solid Secure Transactions division.

[1] Regarding EBITDA and adjusted operating income/(loss).

[2] Normalised revenue is defined as INSIDE Secure and ESS's combined revenues, as if the acquisition of ESS had been in effect since January 1, 2012, without correcting for the accounting impact of the acquisition price's distribution.

High-margin revenue deriving from software and technology licenses, royalties and maintenance came to US$32,746 thousand in 2013 (i.e. 21% of revenue), representing a steep increase on the previous year (US$6,928 thousand, i.e. 6% of 2012 revenue):

(in thousands of US$)	**2013**	**2012**	**2013 vs. 2012**	**2013 vs. 2012 normalized**
Revenue from sale of products	121,877	115,120	6%	5%
Revenue from development and license agreements	11,396	6,336	80%	-28%
Royalties and sale of patents (*)	17,765	293	n.a	61%
Maintenance	3,585	298	n.a	11%
Total	**154,623**	**122,047**	**27%**	**5%**

(*) In 2013, royalties amounted to 13,265 thousands of US$ and sale of patents to 4,500 thousands of US$

9.2.1.2 Adjusted operating income (loss)

(in thousands of US$)	**2013**	**2012**	**H2-2013**	**H1-2013**	**H2-2012**
Revenue	154,623	122,047	83,858	70,765	59,847
Adjusted gross profit	**60,260**	**31,439**	**33,410**	**26,850**	**15,823**
As a % of revenue	*39,0%*	*25,8%*	*39,8%*	*37,9%*	*26,4%*
Research and development expenses	(31,903)	(33,218)	(13,796)	(18,107)	(14,922)
As a % of revenue	*-20,6%*	*-27,2%*	*-16,5%*	*-25,6%*	*-24,9%*
Selling and marketing expenses	(20,477)	(17,511)	(9,832)	(10,646)	(8,730)
As a % of revenue	*-13,2%*	*-14,3%*	*-11,7%*	*-15,0%*	*-14,6%*
General and administrative expenses	(10,570)	(8,780)	(5,633)	(4,937)	(4,499)
As a % of revenue	*-6,8%*	*-7,2%*	*-6,7%*	*-7,0%*	*-7,5%*
Other gains / (losses), net	(261)	(2,025)	(788)	(527)	(1,588)
Adjusted operating expenses	**(63,212)**	**(61,534)**	**(30,049)**	**(33,163)**	**(29,739)**
As a % of revenue	*-40,9%*	*-50,4%*	*-35,8%*	-46,9%	-49,7%
Adjusted operating income	**(2,952)**	**(30,095)**	**3,361**	**(6,313)**	**(13,917)**
As a % of revenue	*-1,9%*	*-24,7%*	*4,0%*	*-8,9%*	*-23,3%*

Adjusted gross profit almost doubled (rising from US$31,439 thousand to US$60,260 thousand between 2012 and 2013) and the gross margin also recorded a significant progress, widening from 25.8% of 2012 revenue to 39.0% of 2013 revenue. The gross margin was boosted by the favorable shift in the product mix, especially thanks to the successful integration of ESS, efforts to cut costs and improve selling prices on the Group's other product ranges.

The Group's operating expenses increased only modestly in 2013 (up 2.7%), with the natural increase resulting from the integration of the ESS team (around 80 staff worldwide) offset partially by the initial benefits of the Group's restructuring plan carried out in 2013.

INSIDE Secure's recovery made further progress, with the Group posting US$3,361 thousand in adjusted operating income in the second half of 2013, compared with a loss of US$13,917 thousand one year earlier and a loss of US$6,313 thousand in the first half of 2013.

Over 2013 as a whole, the Group was able to keep its operating loss down to US$2,952 thousand, compared with a loss of US$30,095 thousand in 2012.

(in thousands of US$)	2013	2012	2013 vs. 2012
EBITDA	**2,793**	**(25,122)**	**27,915**
Amortization and depreciation of assets (*)	5,745	4,972	773
Adjusted operating income	**(2,952)**	**(30,095)**	**27,143**
Business combinations	(14,421)	(5,071)	(9,350)
Restructuring expenses	(9,838)	(232)	(9,606)
Share based payments	(555)	(1,880)	1,325
Operating income	(27,766)	(37,278)	9,512
Finance income / (losses), net	790	(258)	1,048
Income tax expense	(584)	51	(635)
Net income	**(27,560)**	**(37,485)**	**9,925**

(*) excluding amortization and depreciation of assets acquired through business combinations

The significant increase in the amortization of assets recognized when the Group completed its acquisitions (included in the Business Combinations line item) is mainly due to the integration of the ESS business as from December 1, 2012. However, this does not have an impact on its cash position.

The reorganization plan implemented during 2013 prompted the recognition of the following expenses and outlays:

- A US$9,838 thousand charge, including an impairment of certain assets related to the sites concerned by the plan (US$1,132 thousand), expenses related to workforce reductions completed in 2013 (US$7,136 thousand) and a provision for restructuring costs to cover the departures of employees affected by the plan (US$1,571 thousand).
- An outlay of around US$7,434 thousand.

The Group's 2013 EBITDA totaled US$+2,793 thousand, compared with a loss of US$25,122 thousand in 2012. During the second half of 2013, EBITDA came to US$6,335 thousand (7.6% of consolidated revenue), compared with a loss of US$3,542 thousand in the first half of 2013 (and a loss of US$11,259 thousand in the second half of 2012).

9.2.1.3 Net Financial Income / Expenses

As of December 31, 2013, financial income was equal to US$ 790 thousand, against a loss of US$ 258 thousand as of December 31, 2012. This was mainly due to the change in the EUR/US$ exchange rate and interest received on the Group's cash investments.

9.2.1.4 Income Tax

Income tax represented an expense of US$ 584 thousand in 2013 against a net income of US$ 51 thousand in 2012. The net income generated in the 2012 fiscal year was mainly due to: (i) the income tax expense incurred due to the profit generated by INSIDE Secure Corporation in the United States, , and (ii) partially offsetting this, the use of a research tax credit for Vault-IC UK Ltd, until now unrecognized, for an amount of US$ 156 thousand.

9.2.1.5 Net Income (loss)

The consolidated net loss (IFRS) for 2013 came to US$27,560 thousand, down from US$37,485 thousand in 2012. The business reorganization plan announced on March 6, 2013 and completed during the year led to the recognition of a US$9,838 thousand non-recurring expense, including a provision for the impairment of certain assets related to worksites targeted by the plan, expenses associated with the employee base reduction finalized in 2013, and a restructuring provision in connection with the final employees leaving the Group as a result of the plan in January 2014 (please also refer to paragraph 9.2.1.2 above for further information).

In addition, the bottom line was depressed by a sharp increase in amortization related to intangible assets (non-cash items) arising from the acquisition of ESS (US$10,946 thousand in 2013).

9.2.1.6 Segment analysis

As at December, 31 2013				
(in thousands of US$)	**Mobile Security**	**Secure Transactions**	**Unallocated (*)**	**Total 2013**
Revenue	73,797	80,826	-	154,623
Contribution to revenue	*47,7%*	*52,3%*	-	*100%*
Adjusted gross profit	36,459	26,336	(2,535)	60,260
As a % of revenue	*49,4%*	*32,6%*	-	*39,0%*
Adjusted operating income	(6,676)	5,895	(2,171)	(2,952)
As a % of revenue	*-9,0%*	*7,3%*	-	*-1,9%*
EBITDA	(5,652)	10,616	(2,171)	2,793
As a % of revenue	*-7,7%*	*13,1%*	-	*1,8%*

As at December, 31 2012				
(en milliers de dollars)	**Mobile Security**	**Secure Transactions**	**Unallocated (*)**	**Total 2012**
Revenue	43,828	78,219	-	122,047
Contribution to revenue	*35,9%*	*64,1%*	-	*100%*
Adjusted gross profit	12,680	20,995	(2,237)	31,439
As a % of revenue	*28,9%*	*26,8%*	-	*25,8%*
Adjusted operating income	(30,920)	3,062	(2,237)	(30,095)
As a % of revenue	*-70,5%*	*3,9%*	-	*-24,7%*
EBITDA	(28,985)	6,099	(2,237)	(25,123)
As a % of revenue	*-66,1%*	*7,8%*	-	*-20,6%*

(*) unallocated expenses correspond mainly to unused capacity

Mobile Security

The Mobile Security division encompasses the Group's expertise in security solutions for mobile platforms. The main applications targeted are: mobile payment, content protection and enterprise security.

The division's revenue predominantly derives from sales of microcontrollers and from licenses and royalties on software and patents. Its 2013 revenue came to US$73,797 thousand, representing an increase of 68.4% on the previous year (and growth of 7% on a normalized basis[1]).

Revenue from royalties reached a high level during the fourth quarter, recording growth of 18% during 2013 compared with the previous year.

The steep improvement in the adjusted gross margin between 2012 (28.9% of revenue) and 2013 (49.4%) was largely attributable to the integration of the ESS product lines and to improved gross margins on NFC semiconductors (owing to the shift in the product mix), and also to the initial

[1] ESS normalised revenue is defined as the combined revenue generated by both ESS and the INSIDE Secure, as if the acquisition were effective as of January 1, 2012, excluding the accounting impacts of the acquisition price's allocation.

revenues from the NFC patent portfolio in line with the Group's strategy of monetizing its NFC technology and related patent portfolio.

Even so, during the second half of 2013, the Group had to write down the value of its inventories of NFC microcontrollers by US$3,617 thousand as a direct result of the difficulties facing the Group's main customer in this segment. Based on the information available, the Group believes it has fully covered the inventory risk related to this customer.

The adjusted operating loss was four times smaller in 2013 than in 2012 (US$(6,676) thousand in 2013 vs. US$(30,920) thousand in 2012). The integration of ESS to a large extent and the reduction of non-ESS operating costs (down 39%) made a highly significant contribution to the increase in operating income. Moreover, the division recorded a profit (adjusted operating income) in the second half of 2013.

Secure Transactions

The Secure Transactions division encompasses the Group's expertise dedicated to address high security applications for smart cards (payment, identity, and conditional access), identification and authentication solutions, connected devices and the internet of things.

This business division builds and markets tailored solutions based on secure microcontrollers, secure firmware and related services. Its 2013 revenue came to US$80,826 thousand, growing 3.3% on the previous year.

The segment's adjusted gross margin advanced significantly, rising from 26.8% in 2012 to 32.6% in 2013, as a result of a richer product/customer mix and cost-cutting efforts.

Adjusted operating income almost doubled in 2013 to $5,895 thousand (from US$3,062 thsouand in 2012) or 7.3% of divisional revenue. Revenue growth and the significant increase in the gross margin more than offset the rise in R&D and in selling and marketing costs.

Full-year 2013 EBITDA totaled US$10,616 (compared with US$6,099 thousand in 2012), representing 13.1% of divisional revenue.

9.2.2 Income analysis for the 2012 fiscal year

9.2.2.1 Revenue

(in thousands of US$)	2012	2011	2012 vs. 2011
Mobile NFC	43,261	47,961	-10%
Secure payments	31,788	43,246	-26%
Digital security	46,158	60,261	-23%
Embedded security solutions	840	-	-
Total	**122,047**	**151,468**	**-19%**

Totaling US$ 122,047 thousand, INSIDE Secure's consolidated revenue for the 2012 fiscal year dropped 19% relative to the previous fiscal year. The Group's revenue includes the ESS business, consolidated as of December 1, 2012. The Group's 2012 normalized revenue[1] was equal to US$ 148,157 thousand.

9.2.2.2 Adjusted operating income (loss) and operating income (loss)

(in thousands of US$)	2012	2011
Revenue	122,047	151,468
Adjusted gross profit	**31,439**	**42,412**
As a % of revenue	*26%*	*28%*
Research and development expenses	(33,218)	(32,746)
As a % of revenue	*-27%*	*-22%*
Selling and marketing expenses	(17,511)	(16,907)
As a % of revenue	*-14%*	*-11%*
General and administrative expenses	(8,780)	(8,810)
As a % of revenue	*-7%*	*-6%*
Other gains / (losses), net	(2,025)	(0)
Adjusted operating expenses	**(61,534)**	**(58,464)**
As a % of revenue	*-50%*	*-39%*
Adjusted operating loss	**(30,095)**	**(16,052)**
As a % of revenue	*-25%*	*-11%*

The adjusted gross profit dropped by US$10,973 thousand in 2012, due to the decrease in revenue and the decrease in the average gross margin resulting from a less favorable product mix (due, in particular, to the decrease in sales in the Digital Security division, which is typically one of the main drivers).

Adjusted research and development expenses grew slightly in 2012 (+1.4%), with greater expenditures allocated to the NFC business (70% against 56% in 2011), which enabled the simultaneous development of several key programs: engineering the latest version of the NFC microcontroller,

[1] *ESS normalised revenue is defined as the combined historical revenues of INSIDE Secure and ESS over the 12 months of the 2012 fiscal year, excluding the accounting impacts related to the change of control over ESS which resulted in the non-recognition of a portion of revenue.*

designing the NFC technology's next generation with Intel, designing the proprietary embedded security element and initial sales of the PicoPulse™ NFC chip (INSIDE Secure's "Booster", or charge modulation technology).

Adjusted selling and marketing expenses, as well as adjusted general and administrative expenses, grew by 2.2% in 2012 relative to 2011, and were lower in the second half-year than the first, excluding the impact of a provision for bad debt in the amount of US$ 678 thousand recorded in the fourth quarter of 2012.

The cost reduction plan launched in in July 2012 started producing results over the fourth quarter of the fiscal year, through a reduction in external charges and, in particular, R&D outsourcing expenses and investments in tangible and intangible assets.

The adjusted operating income (loss) rose from a US$(16,052) thousand loss in 2011 (or 10.6% of revenue) to a US$(30,095) thousand loss in 2012 (or 24.7 of revenue), mainly resulting from the evolution of the NFC business.

As its business began to struggle in the second half-year of 2012, the Group gradually implemented early cost cutting measures in order to reduce its operating expenses, without however undermining the implementation of its innovation program or its major new products (such as the proprietary embedded secure element and the "Pulse" product family based on "Booster" technology).

(in thousands of US$)	**2012**	**2011**	**2012 vs. 2011**
EBITDA	**(25,123)**	**(12,242)**	**(12,881)**
Amortization and depreciation of assets (*)	(4,972)	(3,810)	(1,162)
Adjusted operating income	**(30,095)**	**(16,052)**	**(14,043)**
Business combinations	(5,071)	(5,897)	826
Restructuring expenses	(232)	(514)	282
Share based payments	(1,880)	(2,000)	120
Operating income	(37,278)	(24,462)	(12,816)
Finance income / (losses), net	(258)	1 503	(1,761)
Income tax expense	51	(74)	125
Net income	**(37,485)**	**(23,033)**	**(14,452)**

(*) excluding amortization and depreciation of assets acquired through business combinations

9.2.2.3 Net Financial Income / Expense

As of December 31, 2012, the Group recorded a financial loss in the amount of US$ (258) thousand, against a financial profit of US$ 1,503 thousand as of December 31, 2011, which was mainly due to the EUR/US$ exchange rate fluctuation. The financial income (loss) for the 2012 fiscal year is, for the most part, impacted by the closing rate US Dollar revaluation of cash held in Euros. Net exchange rate gains generated in the 2011 fiscal year were mainly due to a favorable EUR/US$ exchange rate fluctuation in the 2011 fiscal year.

It is worth highlighting that realized operating exchange gains and losses over the year and the impact of the revaluation at the closing rate of operating assets and liabilities denominated in a currency other than the functional currency of the consolidated companies are now recorded under operating income (for further information please refer to section 27 of the Notes to the Financial Statements as of December 31, 2012). This presentation method compliant with IFRS was applied for the first time in 2012.

9.2.2.4 Income tax

The income tax that represented a total expense of US$ 74 thousand in 2011 compared to a net income of US$ 51 thousand in 2012. The net income generated in the 2012 fiscal year was mainly due to: (i) the income tax expense incurred due to the profit generated by INSIDE Secure Corporation in the United States, , and (ii) partially offsetting this, the use of a research tax credit for Vault-IC UK Ltd, until now unrecognized, for an amount of US$ 156 thousand.

9.2.2.5 Net income (loss)

The Group's share of consolidated net income (according to IFRS) for the 2012 fiscal year represented a loss of US$ 37,485 thousand.

9.2.2.6 Segment analysis

The following analysis is based on the reporting system in force in 2012 and applicable until October 2013, or the date upon which the operating segments were modified to adapt to the new corporate structure implemented by the Group (for further information please also refer to section 9.1.1 above). In 2012, the Group was structure around four business lines.

	As at December 31, 2012					
(in thousands of US$)	**Mobile NFC**	**Secure payments**	**Digital security**	**Embedded security solutions**	**Unallocated (*)**	**Total 2012**
Revenue	43,261	31,788	46,158	840	-	122,047
Contribution to revenue	*35%*	*26%*	*38%*	*1%*	*0%*	*100%*
Operating income	(31,757)	(5,022)	2,853	(1,116)	(2,237)	(37,278)
Adjusted operating income	(30,451)	(3,531)	6,412	(288)	(2,237)	(30,095)
As a % of revenue	*-70%*	*-11%*	*14%*	*-34%*		*-25%*

	As at December 31, 2011					
(in thousands of US$)	**Mobile NFC**	**Secure payments**	**Digital security**	**Embedded security solutions**	**Unallocated (*)**	**Total 2011**
Revenue	47,961	43,246	60,261	-	-	151,468
Contribution to revenue	*32%*	*29%*	*40%*	*0%*	*0%*	*100%*
Operating income	(18,251)	(11,489)	8,674	-	(3,396)	(24,462)
Adjusted operating income	(17,258)	(9,271)	13,153	-	(2,676)	(16,052)
As a % of revenue	*-36%*	*-21%*	*22%*			*-11%*

(*) unallocated expenses correspond mainly to unused capacity

Mobile NFC

Revenue totaled US$43,261 thousand in 2012, down 10% versus 2011, mainly due to a strong decline in mobile handset sales by Blackberry, the Group's main customer, and to the postponement until 2013 of their new generation *smartphones* (BlackBerry 10).

Since the Group began the implementation of operating cost reduction measures, the decline in adjusted operating income was less in the 2nd half of 2012, while amounting to US$(30,451) thousand over the entire year (which explains the totality of the Group's loss), against US$(17,258) thousand in 2011.

Beyond the negative impact of the decrease in revenue, this loss was aggravated by increased R&D expenses, namely in new high value-added products, such as the NFC PicoPulse™ (INSIDE Secure's "Booster" technology) or the Group's proprietary embedded security element.

Secure Payments

After a sharp decline in sales in early 2012, this division's revenues recovered during the last months of the year. Contact chip sales for the European EMV market stabilized while contactless chip sales in the US market rose slightly, helping to limit the decline in sales to US$31,788 thousand for the year. However, market dynamics remain unchanged overall: the US contactless payment market is still impacted by the anticipated migration towards a new EMV-type standard.

The adjusted operating loss for this division was reduced to US$3,531 thousand in 2012, down 62% compared with 2011. The loss was also divided by 2.1 in the second half-year of 2012 relative to the first.

Digital Security

In 2012, Digital security sales totaled US$46,158 thousand, down 23% compared with 2011. This is due to several reasons:

- Products designed for electronic document identification experienced a significant drop in sales, an anticipated result of the transition phase on the sale by Atmel of its SMS business and its integration into the Group;
- Secure module sales to various customers were down, due to lower demand in 2012 compared with a strong year in 2011;
- Conditional access products (such as Pay-TV products), posted firm growth, driven in particular by new customers. However, the latter has been insufficient to offset the decline in sales of the product lines mentioned above.

In 2012, the Group increased its marketing and sales efforts aimed at widening the scope of the digital security product and service offering and penetrating markets offering good growth potential (such as anti-counterfeiting, smart metering and machine-to-machine solutions). However, these structural investments have not in 2012 enabled the Group to offset the lower revenues from its legacy businesses.

Adjusted operating income amounted to US$6,412 thousand in 2012, representing 14% of this division's revenue.

Embedded Security Solutions

On December 1, 2012, INSIDE Secure completed the acquisition of Embedded Security Solutions ("ESS"), a security specialist that designs and develops encryption-related security hardware, intellectual property (IP) and software for a variety of industries, including the mobile and networking markets.

Revenues are generated in the form of royalties, license fees and sales of maintenance services. Consolidated as from December 1, 2012, ESS contributed US$840 thousand to the Group's consolidated revenues in 2012. ESS' normalized[1], revenue stands at US$26,950 thousand (against US$25,260 thousand in 2011).

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[1] *ESS normalised revenue is defined as the revenue of the ESS business over the considered period excluding the accounting impacts related to the change of control over ESS which resulted in the non-recognition of a portion of revenue*

In 2013, the revenue, as prepared in accordance with IFRS, will be reduced by US$2,059 thousand due to the change of control of ESS, which led to the elimination of some deferred revenue corresponding to license agreements signed and paid ahead of the divesture.

ESS reported an adjusted operating loss of US$288 thousand. Over a single month however, and given the transition, ESS' adjusted operating income does not give a fair representation of this business division's typical performance.

9.2.3 Income analysis for the half-year ended June 30, 2014

9.2.3.1 Revenue

(in thousands of US$)	H1-2014	H1-2013	2014 vs. 2013
Mobile Security	32,750	26,473	24%
Secure Transactions	29,984	44,292	-32%
Unallocated	1,513	0	
Total	**64,247**	**70,765**	**-9%**

Nota: unallocated amounts corresponds mainly to net non reccuring revenues

Being repositioned around two strategic divisions, the Group started to monetize its NFC technology and intellectual property rights in the 1st half of 2014 while concentrating sales efforts on a cutting edge product range in embedded security. The revenue from this is gradually replacing the volume sales from NFC connectivity components, a large part of which came to an end in the 4th quarter of 2013. As a result, in the 1st half of 2014, consolidated revenue which amounted to US$64,247 thousand showed a decline of 9.3% compared with the 1st half of 2013, but driven by different underlying businesses compared to that period.

The Group also confirmed its position as leader in advanced mobile payment technologies through the acquisition of Metaforic in April 2014.

(in thousands of US$)	H1-2014	H1-2013	2014 vs. 2013
Revenue from sale of products	32,161	57,363	-44%
Revenue from development and license agreements	22,110	5,397	310%
Royalties	8,035	6,193	30%
Maintenance	1,942	1,812	7%
Total	**64,247**	**70,765**	**-9%**

High-margin revenue from licences, royalties and maintenance services amounted to US$32,086 thousand in the 1st half of 2014, and now accounts for 50% of revenue, a strong increase compared with last year (US$13,402 thousand or 19% of revenue). This increase has mainly been driven by the license agreement with Intel in NFC technology and intellectual property.

9.2.3.2 Adjusted operating income (loss)

(in thousands of US$)	**H1 2014**	**H1 2013**
Revenue	64,247	70,765
Adjusted gross profit	**37,822**	**26,850**
As a % of revenue	*58,9%*	*37,9%*
Research and development expenses	(18,133)	(18,107)
As a % of revenue	*-28,2%*	*-25,6%*
Selling and marketing expenses	(10,569)	(10,646)
As a % of revenue	*-16,4%*	*-15,0%*
General and administrative expenses	(6,363)	(4,937)
As a % of revenue	*-9,9%*	*-7,0%*
Other gains / (losses), net	482	527
Adjusted operating expenses	**(34,582)**	**(33,163)**
As a % of revenue	*-53,8%*	-46,9%
Adjusted operating income / (loss)	**3,240**	**(6,313)**
As a % of revenue	*5,0%*	*-8,9%*

Adjusted gross margin improved strongly in the 1st half of 2014 to 58% of revenue, compared with 38% in the same period last year and 40% in the 2nd half of 2013, buoyed by a positive product mix effect and the effects of the 2013 reorganization plan. This strong increase demonstrates the tangible results of the Group’s strategic repositioning to offer a full product range in the high value-added embedded security business.

The decrease of the operating expenses following the implementation of the 2013 reorganization plan was partly offset by the impact of incremental operating expenses relating to the integration of Metaforic into the Group in the 2nd quarter of 2014 and by a decrease of the R&D tax credit (US$761 thousand). In addition, in accounting terms, part of the R&D expenses were capitalized in the balance sheet in 2013 (US$711 thousand) while in the 1st half of 2014, all were recognised as expenses.

Finally, the euro’s appreciation against the dollar also weighed on operating expenses during the 1st half of 2014. At constant exchange rates, operating expenses would have been lower by US$1,266 thousand than those posted in the 1st half of 2014.

Nonetheless, thanks to the sharp increase in gross margin, adjusted operating income rose significantly in the 1st half of 2014 to US$+3,240 thousand (compared with a loss of US$6,313 thousand a year ago).

(in thousands of US$)	H1 2014	H1 2013	2014 vs. 2013
EBITDA	**5,627**	**(3 542)**	**9,169**
Amortization and depreciation of assets (*)	(2,387)	(2,771)	384
Adjusted operating income	**3,240**	**(6 313)**	**9,553**
Business combinations	(8,387)	(6,988)	(1 399)
Restructuring expenses	(314)	(6,883)	6,569
Share based payments	(239)	(376)	137
Operating income	(5,699)	(20,559)	14,860
Finance income / (losses), net	538	(222)	760
Income tax expense	(315)	(221)	(94)
Net income	**(5,477)**	**(21,002)**	**15,526**

(*) excluding amortization and depreciation of assets acquired through business combinations

In the first half-year of 2014, EBITDA amounts to US$ +5,627 thousand (8.8% of consolidated revenues) against US$ (3,542) thousand over the first half-year of 2013. This strong performance enables the Group to generate, for the first time, a positive EBITDA over two consecutive half-years.

9.2.3.3 Net Financial Income / Expense

As of June 30, 2014, financial income totals US$ +538 thousand, against a US$ 221 thousand loss as of June 30, 2013, which is mainly due to the change in the EUR/US$ parity.

9.2.3.4 Net Income (loss)

Consolidated net income (IFRS) for the 1st half of 2014 amounted to a loss of US$5,477 thousand. This marks a strong improvement compared with the prior year (US$21,002 thousand loss in the 1st half of 2013) despite the amortization of assets (non-cash item) recognised on acquisitions (SMS, ESS and, most recently, Metaforic) totalling US$8,384 thousand in the 1st half of 2014..

9.2.3.5 Segment Analysis

(in thousands of US$)	First Half 2014 Mobile Security	Secure Transactions	Unallocated (*)	Total H1 2014
Revenue	32,750	29,984	1,513	64,247
Contribution to revenue	*51,0%*	*46,7%*	-	*100%*
Adjusted gross profit	28,444	7,865	1,513	37,822
As a % of revenue	*86,9%*	*26,2%*	-	*58,9%*
Adjusted operating income	6,749	(5,504)	1,995	3,240
As a % of revenue	*20,6%*	*-18,4%*	-	*5,0%*
EBITDA	7 201	(3,570)	1 995	5 627
As a % of revenue	*22,0%*	*-11,9%*	-	*8,8%*

(*) unallocated amounts correspond mainly to non-recurring revenue

(in thousands of US$)	First Half 2013 Mobile Security	Secure Transactions	Unallocated (*)	Total H1 2013
Revenue	26,473	44,292	-	70,765
Contribution to revenue	*37,4%*	*62,6%*	-	*100%*
Adjusted gross profit	13,797	14,463	(1,410)	26,850
As a % of revenue	*52,1%*	*32,7%*	-	*37,9%*
Adjusted operating income	(9,619)	4,493	(1,187)	(6,313)
As a % of revenue	*-36,3%*	*10,1%*	-	*-8,9%*
EBITDA	(9,101)	6,745	(1,187)	(3,542)
As a % of revenue	*-34,4%*	*15,2%*	-	*-5,0%*

(*) unallocated expenses correspond mainly to unused capacity not allocated to business segments

Mobile Security

At US$32,750 thousand, revenue in the 1st half of 2014 was up 24% on the prior year.

Activity in the second quarter of 2014 was primarily driven by the following:

- Completion of a new NFC technology and intellectual property license agreement with Intel extending the pre-existing 2011 license agreement into a broad and fully paid-up license. At closing INSIDE Secure received US$19,200 thousand in cash from Intel. This payment led to the recognition of an incremental license revenue of US$16,216 thousand in the second quarter of 2014, while respectively US$1,114 thousand, US$999 thousand, and US$938 thousand were recognized as revenue during the fourth quarter of 2013 and first and second quarters of 2014 under the pre-existing agreement.
- A very good performance by the embedded security solutions product line, including in particular royalties, which hit a historical record level.
- The acquisition of Metaforic, which is consolidated since April 5, 2014, date of completion of the acquisition. In June 2014, the Group also signed the first contracts in relation with its HCE[1] mobile payment solution with banks and “payment associations”.

[1] Host Card Emulation. Introduced on Android 4.4 (KitKat) and recently supported by major payment brands, HCE allows for contactless payments (and other services including loyalty programs, building access and transit passes) to be made directly between consumers' banks mobile application and retailers point-of-sale terminals using NFC technology. It allows sensitive data used to facilitate transactions to be securely stored on, and accessed from, cloud servers rather than a mobile device and without the use of a secure element or a SIM card.

Besides, the Group confirms that it has not sold any more NFC components to BlackBerry since the 4th quarter of 2013. Note that such sales amounted to about US$9,343 thousand in the 1st half of 2013 (35% of the division's revenue) and US$35,895 thousand in the whole of 2013 (49% of the division's revenue).

The sharp rise in adjusted gross margin between 2013 (52.1% of revenue) and 2014 (86.9% of revenue) is mainly due to favourable changes in the product mix. In particular, it includes the first revenue from the Groups's NFC technology in line with the Group's strategy which aims to monetise its NFC technology and related intellectual property rights portfolio.

The Mobile Security division had already reached profitability in the 2nd half of 2013 and generated US$6,749 thousand in adjusted operating income in the 1st half of 2014 (compared with a loss of US$9,619 thousand in the 1st half of 2013). This was due to the strong increase in gross profit and, to a lesser extent, the reduction in underlying operating expenses.

The division generated US$7,201 thousand of EBITDA in the 1st half of 2014 (compared with a loss of US$9,101 thousand in the 1st half of 2013).

Overall, the mobile security sector experienced strong traction thanks to the wide reporting of an outbreak of cyber-attacks in recent months. Over the last 18 months, the Group has strengthened its position in the market for embedded security for mobile devices by expanding its range of solutions to applications considered to be the strongest drivers for mobile security: entertainment (digital content), enterprise and financial (mobile payment and eWallets). The Group continues to position itself as the only supplier whose product and solutions offering enable it to target all of these fast growing applications.

At the same time, the Group is actively pursuing its strategy of licensing its NFC technology and patent portfolio.

Secure Transactions

The Secure Transactions division generated US$29,984 thousand in revenue in the 1st half of 2014. This was down substantially on the prior year, mainly because of a continuing decline in the Group's legacy EMV business in Europe (sale of EMV payment chips), and pending the take-off of the EMV market in the US.

In the first half of 2014, the division's adjusted gross margin deteriorated from 32.7% in 2013 to 26.2% in first half of 2014, mainly as a result of the decline in volume delivered in the 1st half of 2014, leading to poorer fixed cost absorption. At the same time, the Group increased its R&D spending to develop future generation products, particularly in the area of new-generation secure microcontrollers, using embedded flash memory, as well as the expansion of its offer of secure software embedded on these semiconductor platforms. These new products under development will target the markets of authentication, as well as securing data and transactions for connected devices and the Internet of Things.

As a result, the division recorded an adjusted operating loss of US$5,504 thousand (compared with an operating income of US$4,493 thousand in 2013), while 1st half 2014 EBITDA amounted to a loss of US$3,570 thousand $3.6 million (compared with a positive income of US$6,745 thousand in 2013).

The Group plans to continue investing in the "Internet of things" and in anti-counterfeiting ("the Internet of secure objects"). It is also continuing with its marketing efforts to take advantage of the implementation of the EMV standard in the US.

9.3 Qualitative and quantitative assessment of the market risks the Group faces

For a description of the Group's exposure to exchange rate and interest rate risks, please also refer to Note 3 of the Notes to the Consolidated Financial Statements included in section 20.1 entitled "*Historical Financial Information*" of the Registration Document (please also refer to sections 4.6.1 and 4.6.2 of the Registration Document).

10. CASH AND EQUITY POSITION

10.1 Equity

10.1.1 Equity and share capital

Note 17 of the Notes to the Group's Consolidated Financial Statements and the table presenting the change in consolidated shareholders' equity prepared according to IFRS, included in the financial statements in Chapter 20.1 entitled "Historical Financial Information" of this Registration Document, provide a description of the change in the Company's share capital and shareholders' equity in the past three fiscal years, respectively.

10.1.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid securities (mainly monetary securities). Such cash and securities are used to finance the Group's operating activities. As of June 30, 2014 and December 31, 2013, the Group's cash and securities classified as cash were mainly invested in financial instruments with a maturity of less than 12 months.

As of June 30, 2014, the Group's cash and cash equivalents totaled US$ 38.8 million against US$ 40.2 million as of December 31, 2013 and US$ 41.8 million as of June 30, 2013. The Group's net cash position[1] totaled US$ 38.1 million as of June 30, 2014 against US$ 39.7 million as of December 31, 2013 and US$ 40.7 as of June 30, 2013.

Over the course of the first half-year of 2014, the Group was able to once again maintain its cash position, due mainly to the cash from operations and to a very strict management of its net working capital and despite significant investments (acquisition of Metaforic settled in cash upon completion of the transaction).

10.1.3 Sources of funding

Since its creation, the Company has been financed through the issuance of new shares as well as, to a lesser extent, the research tax credit reimbursement, grants, and recoupable advances granted, in particular, by Bpifrance.

In 2013, the Company and Natixis Factor renewed the term of Euro and US Dollar factoring agreements implemented in 2011, by extending them for an additional renewable two years, including a deposit and backed by a credit insurance contract. Since the risk of non-recoverability and delays in payment has been transferred to the bank, the receivables transferred under these contracts are no longer recorded in the balance sheet. As of December 31, 2013, the total amount of transferred receivables totals US$ 4,661 thousand (against US$ 12,766 thousand as of December 31, 2012), and cash received net of the factoring reserve amounted to US$ 4,489 thousand (against US$ 12,330 thousand as of December 31, 2012). As of June 30, 2014, the total amount of transferred receivables totaled US$ 4,058 thousand, while cash received net of the factoring reserve amounted to US$ 3,899 thousand.

Even though the Group elected to present its consolidated financial statements in US Dollars, the Company, which has its registered office in France, carries out share capital increases in Euros. Over the course of the first half-year of 2014 and 2013, the Company did not carry out any share capital

[1] Net cash includes cash, cash equivalents and short-term investments, the net amount of financial derivatives, minus debt associated with leasing agreements, bank loans and overdrafts, and debt associated with deferred payments in the context of business combinations. Debt associated with the financing of receivables from the research tax credit (RTC) are not taken into account because they are intended to be settled upon the State's reimbursement of RTC receivables.

increases (with the exception of transactions including the subscription of share warrants in 2013 and the exercise of stock options by the Group's employees in 2014). Over the course of the 2012 fiscal year, the Company carried out several share capital increases. Mainly, in February 2012, the Company completed a share capital increase at the same time as the initial admission of its shares to trading on the Euronext Paris stock exchange, in the amount of US$ 104,552 thousand (EUR 79.5 million), issuance premium included and before deduction of IPO costs directly linked to the transaction and deducted from the issuance premium.

10.2 Cash flow

10.2.1 Analysis of cash flows for the 2013 fiscal year

Financial information selected from consolidated cash flow statement:

	As of December 31,	
(in thousands of US$)	**2013**	**2012**
Cash and cash equivalents at beginning of the year	**66,321**	**20,940**
Net cash generated/ (used) in operating activities	(17,081)	(12,508)
Net cash used in investing activities	(15,075)	(48,509)
Net cash generated by / (used) in financing activities	6,026	106,604
Effect of exchange rate fluctuations (1)	23	(206)
Cash, cash equivalents at end of the year	**40,213**	**66,321**

(1) Element with no impact on cash derived from the conversion to US Dollars of assets and liabilities denominated in other currencies.

10.2.1.1Net cash from operating activities

	As of December 31,	
(in thousands of US$)	**2013**	**2012**
Loss for the year	(27,560)	(37,485)
Adjustments for non cash items	27,020	12,549
Cash generated/ (used) in operations before changes in working capital	**(541)**	**(24,936)**
Changes in working capital :		
Inventories	(580)	5,873
Trade receivables net of trade receivabkes transferred	(3,065)	3,957
Trade and other payables	(1,745)	(4,189)
Other receivables/ others payables,net	(11,279)	6,250
Cash used in changes in working capital	**(16,670)**	**11,891**
Others (Interest received, net, income tax paid)	129	538
Net cash generated (used) in operating activities	**(17,081)**	**(12,508)**

Net cash used in operating activities rose from US$ (12,508) thousand in 2012 to US$ (17,081) thousand in 2013.

Net cash used in operations before changes in working capital dropped from US$ (24,936) thousand in 2012 to US$ (541) thousand in 2013, representing a significant decrease (US$ 24,395 thousand). The marked reduction in cash used in operations (before changes in working capital) is mainly due to the Group's higher operating income. However, this improvement was partly offset by a significant increase in working capital requirements, totaling US$ 28,561 thousand.

The significant increase in working capital requirements in 2013 was mainly due to a combination of the following factors:

- The lower balance of receivables transferred to the factor. As of December 31, 2013, the total amount of receivables transferred totaled US$ 4,661 thousand (against US$ 12,766 thousand as of December 31, 2012), and cash received net of factoring reserve amounted to US$ 4,489 thousand (against US$ 12,330 thousand as of December 31, 2012).
- A US$ 9,266 thousand research tax credit increase for the 2013 fiscal year, pending receipt. In 2012, the Group had received the full reimbursement, in the amount of US$ 4,168 thousand (EUR 3,207 thousand), of the research tax credit acquired for the 2010 fiscal year, which was subject to an audit that did not trigger any adjustments.
- Lastly, and exceptionally, in 2012 a customer had paid the Group a non-refundable advance on order backlog in connection with product orders to be delivered for an amount of US$ 6,460 thousand.

Lastly, the corporate restructuring plan carried out in 2013 led to payments in the amount of US$ 7,411 thousand over 2013.

10.2.1.2Net cash from investing activities

	As of December 31,	
(in thousands of US$)	**2013**	**2012**
Acquisition of ESS, net of cash acquired	(5,188)	(41,635)
Purchases of property and equipment	(4,556)	(2,119)
Purchases of intangible assets	(1,101)	(2,718)
Research and development capitalized costs	(3,402)	(973)
Payments corresponding to intangible liabilities	(1,125)	(1,064)
Disposal of fixed assets	297	-
Net cash used in investing activities	**(15,075)**	**(48,509)**

Year 2013

Since all of the conditions listed in the sales agreement were met, in the first quarter of 2013, INSIDE Secure paid out an additional US$ 5,188 thousand to the seller of ESS, a business acquired in 2012.

Over the course of 2013, the Group acquired tangible and intangible fixed assets in the amount of US$ 5,657 thousand (against US$ 4,837 thousand in 2012). In the context of its corporate restructuring project, the Company combined three worksites in the Aix-en-Provence region into a new and single worksite. As a result, the Company made non-recurring, significant investments to equip and prepare the building, in particular IT network and storage equipment.

Development expenses related to two applied research projects (financed through repayable advances in case of success) for a total amount of US$ 3,402 thousand were also incurred in the 2013 fiscal year (against US$ 973 thousand in 2012) and were recognized in the balance sheet.

Year 2012

In 2012, the Group completed the acquisition of ESS. On the day on which the transaction was effectively finalized, INSIDE Secure paid an amount of US$ 41,635 thousand, net of cash acquired.

10.2.1.3Net cash from financing activities

(in thousands of US$)	As of December 31, 2013	2012
Proceeds from issuance of ordinary shares, net of issuance costs	28	104,950
Direct costs paid related to the IPO	-	(5,840)
Repayable advance	-	2,491
Financing of the Research tax credit	6,676	5,852
Principal repayment under finance lease	(407)	(463)
Treasury shares	87	(501)
Settlement of foreign exchange hedging instruments	(83)	(161)
Bank overdraft	(276)	276
Net cash generated by financing activities	**6,026**	**106,604**

Year 2013

A research tax credit financing contract for the fiscal year ended December 31, 2012, which is recognized as an asset in the “Financial debt – short term” line item of the balance sheet, was implemented in July 2013 with a partner bank. Following the 2013 fiscal year-end, the contract initially signed for one year (July 2014) was extended one additional year to July 2015. The amount financed and paid to the Group totals US$ 6,676 thousand, which represents a financed share of 80%. Interest is paid out monthly over the term of the contract.

Excluding this financing, the Group neither contracted any financial debt nor carried out any significant share capital increases.

Year 2012

In conjunction with its IPO on the NYSE Euronext stock exchange in Paris in February 2012, the Group completed a capital increase of US$ 98.7 million (EUR 75.0 million), net of IPO fees and expenses paid out in 2012.

In 2012, the Group also received US$ 2,491 thousand from Bpifrance relating to research and innovation programs (such advances are repayable only if contractually defined sales targets are met).

Lastly, the financing of the research tax credit, recognized in the balance sheet in 2011, and the term of which is set until June 2015, was implemented in June 2012 with a partner bank. The amount financed by the bank totals US$ 5,852 thousand and corresponds to 90% of the research tax credit receivable. The remaining 10% will be paid to the Group in June 2015 upon expiration of the contract term and, as a result, the financial debt will be extinguished.

10.2.2 Analysis of cash flows for the first half-year of 2014

Financial information selected from the consolidated cash flow statement:

In thousands of US$	6-month period ended June 30, 2014	June 30, 2013
Cash and cash equivalents at beginning of the year	**40,213**	**66,321**
Net cash generated/ (used) in operating activities	3,489	(15,399)
Net cash used in investing activities	(15,361)	(8,545)
Net cash generated by / (used) in financing activities	10,283	(477)
Effect of exchange rate fluctuations (1)	147	(53)
Cash, cash equivalents at end of the period	**38,771**	**41,846**

(1) Element with no impact on cash derived from the conversion to US Dollars of assets and liabilities denominated in other currencies.

10.2.2.1Net cash from operating activities

In thousands of US$	6-month period ended June 30, 2014	June 30, 2013
Loss for the year	(5,477)	(21,002)
Adjustments for non cash items	7,773	15,116
Cash generated/ (used) in operations before changes in working capital	**2,297**	**(5,886)**
Changes in working capital		
Inventories	4,265	(6,213)
Trade receivables net of trade receivabkes transferred	7,671	(3,477)
Trade and other payables	1,078	6,683
Non refundable advance on order backlog	(2,683)	-
Other receivables/ others payables,net	(8,303)	(6,438)
Cash used in changes in working capital	**2,028**	**(9,445)**
Others (Interest received, net, income tax paid)	(836)	(69)
Net cash generated (used) in operating activities	**3,489**	**(15,399)**

In the first half-year of 2014, the cash position can mainly be broken down as follows:

- Current business activities[1] generated US$ 3,760 thousand (against a cash depletion of US$ 10,712 thousand in the first half-year of 2013), which explains the positive shift in results;
- The decrease in working capital requirements freed up US$ 2,028 thousand and as much as US$ 9,634 if the 2013 research tax credit financing contract is included (recognized as a financing transaction), due mainly to a decrease in inventory.

Consequently, the business was able to generate US$ 3,489 thousand (and US$ 11,095 thousand if the 2013 research tax credit financing contract is included) over the course of the first half-year of 2014, against a cash depletion of US$ 15,399 thousand in the first half-year of 2013.

[1] Cash flow from operating activities before change in working capital (US$ +2,297 thousand) and excluding the exceptional payment in the amount of US$ 1,463 thousand in connection with the first quarter departure of the last employees involved in the 2013 corporate restructuring plan (which has not impact on income, since the expense had already been provisioned in 2013).

10.2.2.2 Net cash from investing activities

In thousands of US$	June 30, 2014	June 30, 2013
Acquisition of Metaforic, net of cash acquired	(13,036)	-
Additional payment on ESS acquisition	-	(5,188)
Equity method investments	(952)	-
Purchases of property and equipment	(506)	(1,852)
Purchases of intangible assets	(523)	(382)
Research and development capitalized costs	55	(696)
Payments corresponding to intangible liabilities	(399)	(592)
Disposal of fixed assets	-	165
Net cash used in investing activities	**(15,361)**	**(8,545)**

First half-year of 2014

On April 5, 2014, the Group acquired all of the Metaforic's shares. On the day the transaction took place, INSIDE Secure paid out an amount of US$ 13,050 thousand for the acquisition of 100% of the company's shares and the payment of the company's outstanding debt.

Over the course of the period ended June 30, 2014, the Group also acquired tangible and intangible fixed assets for US$ 1,029 thousand, which is a sharp decrease relative to the first half-year of the previous fiscal year (investments in the amount of US$ 2,234 thousand in 2013).

As of the first half-year of 2014, the Group has not recognized any significant development expenses in the balance sheet, whereas the Group had already recognized US$ 696 thousand in the first half-year of 2013.

First half-year of 2013

Due to the fact that, as the Group had expected, the conditions set forth in the ESS sales agreement were met in full, an additional US$ 5,188 thousand was paid out in the first quarter of 2013.

10.2.2.3 Net cash from financing activities

	6-month period ended	
In thousands of US$	**June 30, 2014**	**June 30, 2013**
Proceeds from issuance of ordinary shares, net of issuance costs	130	28
Repayable advance	2,756	-
Proceeds from / (Repayment of) borrowings, net of issuance costs	7,606	-
Principal repayment under finance lease	(245)	(253)
Treasury shares	36	24
Bank overdraft	-	(276)
Net cash generated by / (used) in financing activities	**10,283**	**(477)**

First half-year of 2014

During the first half-year of 2014, the Group received US$ 2,756 thousand from Bpifrance in connection with research and innovation programs (these advances are recoupable in the event that contractually defined sales targets are reached).

In addition, a research tax credit financing contract for the 2013 fiscal year, recognized in the balance sheet, and the term of which is set until June 2017, was implemented in June 2014 with a partner bank. The amount financed by the bank totals US$ 7,548 thousand and corresponds to 90% of the research tax credit receivable. The remaining 10% will be paid to the Group in December 2017 upon expiration of the contract term and, as a result, the financial debt will be extinguished.

The Company has not completed any share capital increases over the course of the period (other than those associated with Group employees' exercise of stock options.

First half-year of 2013

The Group did not complete any significant financing transactions over the course of the first half-year of 2013.

10.2.3 Off balance sheet commitment

Total off balance sheet commitments for the Group as of June 30 amounted to US$ 5,564 thousand. These commitments are described in Note 23 of the Notes to the Half-year Financial Statements established as of June 30, 2014, included in Chapter 10.6.1 entitled "*Interim Financial Information*".

Total off balance sheet commitments for the Group as of December 31, 2013 amounted to US$ 5,891 thousand, against US$ 28,676 thousand as of December 31, 2012. These commitments are described in Note 33 of the Notes to the Consolidated Financial Statements, included in Chapter 10.1 entitled "Historical Financial Information". In 2012, the Group's most significant off balance sheet commitment related to a wafer purchase agreement whereby the Company committed to purchase a minimum number of wafers from the company LFoundry before September 30, 2014 and for a maximum price of US$ 27,061 thousand. In 2013, the Group had honored all of its commitments to LFoundry, prior to the latter discontinuing all activities and being subject to court-ordered liquidation proceedings in December 2013.

10.3 Information on borrowing conditions and the structure of financing

Beyond the specific case of the financing of its research tax credit receivables (please refer to Note 21 of the Notes to the Consolidated Financial Statements, included in Chapter 10.6.1 entitled "*Interim Financial Information*"), the Group does not borrow as of the filing date of this Registration Document.

10.4 Restriction on the use of capital

None applicable.

10.5 Future necessary sources of financing

In addition to continuing its efforts to improve its operating cash flow generation, the Group plans to continue to enter into financing agreements for its research tax credit receivables as well as lease-financing agreements, in order to cover part of its current IT investment requirements. Albeit marginally, the Group also plans to sign lease agreements to finance part of its needs in engineering and testing equipment. Generally, the Group plans to continue to optimize its financial structure and flexibility by acquiring debt instruments or carrying out share capital increases through the issuance of shares or securities granting access to the share capital.

11. RESEARCH AND DEVELOPMENT, PATENTS, AND LICENSES

11.1 Research and development

11.1.1 A key element in the success of the Group

The Group commits significant resources to its research and development activities, which represents a key element in its success. These investments lead to the creation of new products, the integration of new functionalities in its semiconductors, the development and improvement of its software, while perfecting the security of its products.

The research and development activities of the Group comprises 158 of its employees (for the most part, designers of semiconductors, embedded software and applications developers, security engineers and integration and testing engineers), together with, on average, approximately fifteen developers contracted by engineering companies and service providers. They represent approximately 47% of the Group's employee base and are mainly based in Meyreuil (region of Aix-en-Provence, France), East Kilbride (Scotland), Vught (The Netherlands), Amsterdam (The Netherlands), Glasgow (Scotland), and Helsinki (Finland).

The Meyreuil, East Kilbride, Sophia-Antipolis, Singapore, and Taiwan worksites are ISO 27001 certified (international standard on information security management).

The Group's research and development expenditures (net of the research tax credit and subsidies) totaled US$ 33,953 thousand, US$ 35,370 thousand, and US$ 34,536 thousand in 2013, 2012, and 2011, respectively.

In 2013, gross expenditures relative to the research and development activities of the Group (net of the research tax credit and grants) represented 22% of its consolidated revenue (against 29% in 2012, due mainly to the lower amount of revenue generated in 2012).

11.1.2 The Group's technologies

The technological core of the Group is composed of the following main areas of activity:

- Designing semiconductors: the design of low-power chips, the architecture of microprocessors and of systems-on-chip, analog (radiofrequencies) and digital design, signal processing, security and cryptography;
- Developing software: embedded "real time" operating systems, software, middleware and applications layers and testing protocols; and
- Systems integration and packaging.

From a functional point of view, the core expertise of the Group lies in the areas of secure microcontrollers, with embedded memory and low power consumption, contactless radio technology, data and transactions security, and the architecture of microcontrollers.

The Group has been developing secure semiconductors and embedded software since 1995 and its history is punctuated by major innovations in the industry. In recent years, it has also received numerous awards; this industry recognition highlights the research and development talents of the Group in various technical areas.

As a result of the ESS and Metaforic acquisitions (for further information, please refer to section 5.2 entitled "Investments" of this Registration Document), the Group has enriched its technological expertise with regard to security and, in particular, security software. ESS develops intellectual property and security software using encryption algorithms. As such, ESS develops a wide range of software and toolkits based on set standards, for digital rights management ("DRM"), intended for mobile operators, service providers, and platform integrators on the server side, as well as DRM solutions on the client side for device manufacturers and suppliers of semiconductors, applications software, and platform integrators. The portfolio of ESS also includes security toolkits as well as intellectual property for the design of semiconductors and security processors for security on mobile devices and networks. Metaforic specializes in the development of software using obfuscation[1] technologies and security software specialized in cryptology. Metaforic's software product line offers a high level of protection for payment functions and is intended to provide secure data exchange by relying on an exclusively software-based infrastructure. These solutions protect static, transiting, or dynamic data, and provide communication confidentiality functions to critical applications, offer protection per encryption key and data security, and are able to meet the growing security needs of large companies.

The Group plays a leading role within standardization organizations and a number of other industry organizations. In particular, it is a member of ACSIEL (the French "*Alliance pour les Composants et Systèmes pour l'Industrie Electronique*" or alliance for components and systems for the electronics industry), of the ETSI (European Telecommunications Standards Institute), of the APSCA (Asia Pacific Smart Card Association), of the APTA (American Public Transportation Association), of Eurosmart, of the Global Platform and of the SmartCard Alliance, of the OSPT (Open Standard for Public Transport), of Alliance and of the NFC Forum. The Group is also a member of the ISO and AFNOR and participates in a number of these organizations' workgroups.

11.2 Intellectual property

The Group has a number of intellectual property rights and is committed to actively protect them in the relevant jurisdictions and before the relevant authorities (for further information please refer to sections 11.2.2 to 11.2.5 below). Furthermore, the Group uses the intellectual property rights of third parties and licenses its own technology to third parties (for further information please refer to section 11.2.1 below).

11.2.1 Licenses

Eager to optimize its return on investment, in addition to its own intellectual property the Group's development relies on technology and intellectual property rights licensed by third parties. In particular, this is the case for some technologies integrated in its semiconductors or used in the design of its software. The license agreements are typically non-exclusive and granted at a price determined based on the volume of products or solutions sold by the Group. Generally, they are either entered into for an indefinite period or are automatically renewable so long as the Group continues to pay the corresponding fees and complies with the terms of the license agreement. However, some licenses relative to a specific technology used in the development of a specific product are entered into for a fixed period, typically with the option to renew, being understood that the licensed technology may be replaced by other technologies based on the future evolution of the product.

The main licenses used by the Group are the following:

- License agreement entered into with ARM Limited[2] relating to secure core microcontrollers;
- License agreement entered into with Atmel Corp, executed in the context of the acquisition of Atmel Corp.'s SMS business (for further information, please refer to Chapter 22 entitled "Key Contracts" of the Registration Document, the description of the Core License Agreement between Atmel Corp. and the Company dated September 30, 2010);

[1] Obfuscator technology improves the security of applications by voluntarily making them more difficult to understand and piece together (software obfuscation).[2] ARM Limited is the global leader in the development of semiconductor IP blocks and, in particular, in the supply of core processors used in embedded systems (mobile telephones, in particular).

[2] ARM Limited is the global leader in the development of semiconductor IP blocks and, in particular, in the supply of core processors used in embedded systems (mobile telephones, in particular).

- License agreement signed with CRI relative to certain techniques to defend against attacks (for further information, please refer to Chapter 22 entitled “Key Contracts” of the Registration Document, the description of the Patent License Agreement between Atmel Corp. and Cryptography Research Inc. dated August 12, 2009 and transferred to the Company in the context of the acquisition of Atmel Corp.’s SMS business, and the Tamper Resistance License Agreement between the Company and Cryptography Research, Inc. dated July 1, 2009); and
- License agreement signed with Silicon Storage Technology (“SST”), a subsidiary of Microchip Technology Inc., relative to the ESF3-110 technology and the Flash Cell allowing the Company to, in particular, develop and sell semiconductors that feature Flash memory technology.

11.2.2 Patents

The Company considers that the protection of its intellectual property rights is fundamental in the pursuit of its commercial development. In this context, its ability to register patents in France, Europe, the United States and in the rest of the world is of prime importance.

As from the early years of its development, the Company therefore implemented an active policy aimed at protecting its innovative efforts, its technologies, and its products, by filing patent applications. Typically, the Company files its initial patent applications in France. The second step then involves filing extensions for these patents in Europe and generally, in the United States, in Canada, in China and in Korea.

Patents are granted for 20 years as from the date the patent application is filed.

The Company has built a broad patent portfolio to protect itstechnologies and innovative products. It has also acquired non-exclusive licenses for certain third party patents and intellectual property elements (please refer to section 11.2.1 for further information).

Historically, the Company’s patent portfolio principally covers contactless interfaces and security. At the time of the integration of the SMS business in 2010, the Company acquired an additional patent portfolio principally relating to security and chips architecture. In addition, the portfolio was further extended via the patents acquired through the acquisition of the ESS business in December 2012 (portfolio comprised of 19 patent families) and Metaforic in April 2014 (21 patents and patent requests), principally relating to both secure content transfer and embedded software security.

To date the Company currently holds a portfolio of nearly 700 intellectual property titles in effect.

As of summer 2014, the patent portfolio includes 190 patent families, in line with the Group’s strategy and business activities. They are allocated as follows: 30% relate to contactless interfaces, 30% relate to security, 25% relate to applications and transactional structures, and 15% relate to the architecture of semiconductors.

Some of the Company’s patents and patent applications are particularly significant insofar as they are considered indispensable in meeting market needs or in addressing certain technical obstacles. In addition, some of the Company’s patents have been declared as essential to implementing a standard pursuant to the applicable rules of standardization institutions, such as ETSI. Some of these patents will be in the public domain between 2017 and 2012.

11.2.3 Software

The Group’s software product offering is organized around the following areas:

- Embedded “real time” operating systems
- Embedded software stacks

- Embedded applications
- Software development and testing toolkits
- Testing and test analysis programs, pre-personalization and personalization scripts.

The Group's software and, in particular, its source code (in other words all of a programmer's instructions, written in intelligible form for such programmer) is protected not only by copyright but also as trade secrets (in addition to the protection by patent to the extent possible and subject to strategic considerations).

Most of the Group's software is developed internally – mainly by the Group's employees in the course of the performance of their duties or as a result of the Group's instructions. As a result, the Group owns this software.

Other software was acquired, such as security software (i) based on encryption algorithms, in the context of the acquisition of ESS (please refer to section 6.1.4 of this Registration Document for further information) and (ii) specialized in cryptology, in the context of the acquisition of Metaforic (please refer to section 6.1.4 of this Registration Document for further information).

When it is commercialized, the Group's software is distributed pursuant to license agreements, whereby the Group grants its customers a right to use this software (as opposed to a right of ownership). As such, these agreements contain terms pursuant to which the Group reservesits ownership rights on its software and protects its confidential nature.

11.2.4 Trademarks

The Company owns the following trademarks and trademark applications, which are necessary for the conduct of its business:

The Secure Silicon Solution	INCRYPT
INSIDE – LOGO	INSIDE TECHNOLOGIES
PICOCRYPT	PICOTAG
CONTACTLESS	INSIDE CONTACTLESS
PICOPASS	ACCESSO
eNFC	PICOREAD
MICROREAD	MICROPASS
NATIVE APPLET	WAVE – ME
MAKE THE MOVE (accentuated undulation)	INSIDE CONTACTLESS (black logo)
INSIDE CONTACTLESS (yellow and black logo)	MAKE THE MOVE (light undulation)
Open NFC (logo)	S SECUREAD (logo)
VaultIC	INSIDE SECURE
DRIVING TRUST	C Ad-X (logo)
V Vault /C (logo)	C Ad X2 (logo)
C µAD-X (logo)	m microloyalty (logo)
Twincore	Picopulse (logo)
VaultSecure (logo)	InsideRus

Vault NFC (logo)

BikeSeal (logo)

CapSeal (logo)

Quicksec

Booster (logo)

Combopulse (logo)

VVaultIP (logo)

MicroXsafe (logo)

NFC ID (logo)

Smartread (logo)

65 UNIC (logo)

VaultID(logo)

VaultIP (logo)

These trademarks and trademark applications are protected in France. In some cases, the Company also registered trademarks or filed a trademark applications at the European Community or international level and, in particular, in China, the United States, and Japan.

11.2.5 Domain names

As of the filing date of this Registration Document, the Company has registered and currently owns the following domain names:

insidesecure.com

insidesecure-finance.com

insidecontactless.com

ipsec.com

ipvia.net

ipvia.org

micropass.eu

microread.eu

opennfc.com

open-nfc.com

open-nfc.org

quicksec.com

beepscience.com

dmdlicenser.com

dmdmobile.com

dmdpackager.com

dmdsecure.com

enfc.com

in-club.co.uk

in-club.fr

insidefr.com

insidefr.eu

insidecontactless.eu

insidecontactless.asia

micropass.asia

microread.asia

wave-me.asia

inside-secure.com

embeddedssl.com

insidesecure.co

insidesecure.eu

insidesecure.fr

insidesecure.info

insidesecure.net

insidesecure.org

matrixssl.com

matrixssl.org

peersec.com

peersec.net

peersec.org

peersecnetworks.com

peersecsoftware.com

insidesecure.ru

metaforic.com

metaforic.co.uk

metaforic.co.jp

insidefr.us	insidecontactless.us

11.2.6 Disputes

Please refer to section 20.8 of this Registration Document for further information.

12. TRENDS

The second half of 2014 should confirm the results of the strategic repositioning initiated in 2013 and in particular through:

- Continuing efforts to license its technology and NFC patents, with an intended impact from the second half of 2014;
- Signing new licenses on mobile security embedded products, for applications in content protection as well as enterprise security;
- Pursuing the integration of Metaforic in the Group's product offer and winning new customers after the first contracts signed at the end of the second quarter of 2014 in mobile payment (deployment of HCE solutions as defined by Visa and Mastercard);
- Registering first volumes in the EMV in the U.S. market;
- Pursuing business development in anti-counterfeiting solutions for wine and liquor and luxury goods industries with field trial implementations.

In addition, the Group plans to continue in 2014 to improve its overall gross profit margin[1], owing to a supportive product mix and continued efforts on the cost and selling price fronts.

[1] Adjusted gross profit as a percentage of consolidated revenue

13. PROFIT FORECASTS OR ESTIMATES

The Company does not intend to make profit forecasts or estimates.

14. GOVERNING, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

The Company is a French société anonyme (*joint stock company*) with a Management Board and a Supervisory Board.

14.1 Members of the Management Board and members of the Supervisory Board

14.1.1 Members of the Management Board

Name	Title	Operating duties and other offices held within the Group	Terms of Office
Rémy de Tonnac	Chairman of the Management Board	- INSIDE Secure S.A. (France) - Chairman of the Management Board - INSIDE Secure Corp. (United States) – Chairman of the Board of Directors - INSIDE Secure (Asia) Ltd Pte (Singapore) – Director - Metaforic Inc. (United States) - Director	Initial appointment: March 23, 2006 Date of most recent renewal: May 11, 2011 Term of office expires: at the end of the General Shareholders' Meeting called to approve the financial statements of the fiscal year ended 31 December 2014
Pierre Garnier	Member of the Management Board	Not Applicable	Initial appointment: November 21, 2012 Term of office expires: at the end of the General Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014
Richard Vacher Detournière	Member of the Management Board	- INSIDE Secure S.A. (France) - Member of the Management Board and Chief Financial Officer - Vault-IC UK Ltd (United Kingdom) – Director - INSIDE Secure K.K. (Japan) – Director - INSIDE Secure France S.A.S. – Chief Executive Officer - Metaforic Ltd (United Kingdom) - Director	Initial appointment: October 2, 2008 Date of most recent renewal: May 11, 2011 Term of office expires: at the end of the General Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014

Name	Title	Operating duties and other offices held within the Group	Terms of Office
Pascal Didier	General Manager	- INSIDE Secure S.A. (France) - Member of the Management Board and General Manager and Corporate Secretary - INSIDE Secure France S.A.S. (France) – Permanent representative of the Company who acts as Chairman - INSIDE Secure Corp. (United States) - Director - INSIDE Secure (Asia) Ltd Pte (Singapore) - Director - Vault IC France SAS – Permanent representative of the Company who acts as Chairman - INSIDE Secure K.K. (Japan) – Director - Metaforic Inc. (United States) - Director	Initial appointment: January 31, 2003 Date of most recent renewal: May 11, 2011 Term of office expires: at the end of the General Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014
Simon Blake-Wilson[1]	Member of the Management Board	- INSIDE Secure Corp. (United States) – Chairman, Secretary and Treasurer	Initial appointment: October 23, 2013 Term of office expires: at the end of the General Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014

The professional address of all the members of the Management Board, with the exception of Simon Blake-Wilson, is the corporate headquarters of the Company.
Simon Blake-Wilson's professional address is the address of INSIDE Secure Corp. in the United States.

[1] Via a letter received on August 18, 2014, the Company was informed of Simon Blake-Wilson's resignation. He will be leaving the Group on August 31, 2014.

The management expertise and experience of the Management Board's members is the result of various salaried and managerial positions they have held in the past, which are summarized below.

Rémy de Tonnac
Chairman of the Management Board

Prior to being appointed CEO of the Company in 2006, Rémy de Tonnac was a Venture Partner at Vertex Venture Capital in London. He represented Vertex within numerous technology companies in the firm's portfolio and served as Chairman of the Supervisory Board of the Company from 2002 to 2006. Previously, Rémy carried out several management roles at Gemplus, having joined the smart card provider at its inception in 1987. He initially oversaw sales and marketing operations in France, before becoming Chief Executive Officer for the Asia-Pacific region from 1992 to 1999, based in Singapore. He then moved to San Francisco to fulfill the same function for the Americas region. He was also a member of the Gemplus group's executive committee from 1995 to 2001. He began his career as a technical sales engineer at Compagnie Générale des Eaux (a major French utility company) in 1982, before moving to Thomson Semiconducteurs (which became SGS-Thomson and is now known as STMicroelectronics), where he performed various manufacturing, planning and marketing-related duties. Rémy is a graduate of Lille's Ecole centrale and holds a degree in economics from Lille University.

Pierre Garnier
Chief Operating Officer

Prior to joining INSIDE Secure, Mr. Garnier was Vice President and General Manager at Texas Instruments (TI), where he was in charge of the worldwide baseband business and worldwide wireless strategic programs. At TI, he also managed equity investment and acquisition activities within the wireless ecosystem. Prior to TI, he was Chairman and CEO of Everbee Networks, a company developing systems-on-chips for personal Internet security devices. Before that, Mr. Garnier was General Manager of the Alcatel Microelectronics broadband Access Business, which he founded and turned into a world-leading ADSL chipset maker before it was acquired by STMicroelectronics in 2002. Mr. Garnier is a French national and an alumnus of the Supelec engineering school. He also holds a postgraduate degree in solid-state physics.

Richard Vacher Detournière
General Manager & Chief Financial Officer

Before joining the Company in 2008, Richard Vacher Detournière served as a partner at Siparex, one of France's leading private equity investment groups. He joined Siparex in 1994 and had a key role in more than 25 financing transactions, including leveraged buy-outs, growth capital investments and investments in young, innovative companies. Richard went on to serve as a partner in the information technology sector. Following that, he helped to run SBV Venture Partners in California's Silicon Valley, a venture capital firm co-managed by Siparex. He was Siparex's permanent representative on the boards of thirteen of its portfolio companies, including Nanolase (sold to JDS Uniphase), SoiSic (sold to ARM), Leguide.com (listed on NYSE Alternext Paris), EVE (specializing in hardware/software co-verification) and INSIDE. He also served on the audit committees of several of these companies. He started off his business career in 1990 as a consultant at Price Waterhouse, concentrating on auditing and transaction support services, first in France, then in Central Europe. Richard, a graduate of the Ecole supérieure de commerce in Amiens (France), holds a Master's degree in accountancy and finance.

Pascal Didier
General Manager and Corporate Secretary

Pascal Didier joined the Company in 2003. From 1988 to 2002, he worked for Gemplus, where he carried out the mandate of Vice President for e-Solutions from 2000 to 2002. Involved with Gemplus from its inception onwards, Pascal was part of the management team that set up the firm's North American subsidiary. He went on to occupy various sales and marketing positions within the firm, including Director of Sales Operations, as well as being a member of the executive committee and of the Supervisory Board (representing employee shareholders). He began his career as a designer of integrated circuits and a technical support engineer at Philips Components in France and in the United States, before moving to Thomson Semiconducteurs (which became SGS Thomson and is now STMicroelectronics) to manage smart card marketing in its memory division. Pascal is a graduate of two Parisian institutions, the Ecole polytechnique and the Ecole nationale supérieure des télécommunications.

Simon Blake-Wilson
Executive Vice President of the Mobile Security Business Division & Chief Sales Officer

Before joining INSIDE Secure, Mr Blake-Wilson was Vice President of the Embedded Security Solutions division at AuthenTec (then SafeNet) in 2006. He spent four years addressing security issues for the Federal Aviation Administration. From 1998 to 2002, he worked with Certicom as director of business development and cryptographic research.
Dr. Blake-Wilson is a well-known researcher and authority in wireless security, and the co-inventor of EAP-TTLS, one of the industry's most popular WLAN security solutions. He edited several ANSI standards on Elliptic Curve Cryptography which have been adopted by the US government. He has also been heavily involved with a number of industry standards bodies including Bluetooth, ICAO, IEEE, IETF, and OMA. Dr. Blake-Wilson is a certified information systems security professional, holds a Ph.D. in Information Security and Mathematics from the University of London, and spent a year as a Fulbright scholar visiting Auburn University.

14.1.2 Members of the Supervisory Board

Name	Title	Main offices held outside of the Group	Terms of Office
Patrick Schwager Jones 7057 Valley Green Circle Carmel, CA 93923 United States	Chairman of the Supervisory Board	None applicable	Date of appointment as Member of the Supervisory Board: June 29, 2012 Date of appointment as Chairman of the Supervisory Board: June 26, 2014 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014
Jean Schmitt 92 boulevard Flandrin, 75016 Paris France	Vice-Chairman and independent member of the Supervisory Board	Chairman of Jolt Holding Chief Executive Officer of Jolt Capital Chairman of Hattemer	Date appointed: June 19, 2013 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2015
Alex Brabers c/o GIMV Karel Oomsstraat 37, 2018 Antwerp Belgium	Member of the Supervisory Board	GIMV, Chief Business Operations	Date appointed: June 26, 2014 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2016
Glenn Collinson 56 High Street Chippenham Ely, Cambs, United Kingdom	Independent member of the Supervisory Board	None applicable	Date appointed: June 26, 2014 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2016
Joëlle Toledano 361 rue Lecourbe, 75015 Paris France	Independent member of the Supervisory Board	None applicable	Date appointed: June 29, 2012 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014
Olivier Sichel 5 rue de Monceau, 75008 Paris France	Independent member of the Supervisory Board	Chairman and Chief Executive Officer of Le Guide.com	Date appointed: December 19, 2013 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2014
Muriel Barnéoud 183, rue Lecourbe, 75015 Paris France	Independent member of the Supervisory Board	Chairman and Chief Executive Officer of Docapost	Date appointed: June 26, 2014 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2016

Name	Title	Main offices held outside of the Group	Terms of Office
Bpifrance Participations represented by Thierry Sommelet 56, rue de Lille, 75007 Paris France	Independent member of the Supervisory Board	None applicable	Date appointed: June 19, 2013 Term of office expires: at the end of the Annual Shareholders' Meeting called to approve the financial statements of the fiscal year ended December 31, 2015

The management expertise and experience of the Supervisory Board's members is the result of various salaried and managerial positions they have held in the past, which are summarised below.

Patrick Jones
Chairman of the Supervisory Board, Chairman of the Audit Committee and Member of the Compensation and Nomination Committee
Age: 70 Nationality: American

Patrick Jones is currently Chairman of the board of directors for Lattice Semiconductor (Nasdaq symbol: LSCC), a fabless semiconductor company, and Dialogic Inc. (Nasdaq symbol: DLGC), which provides solutions for mobile operators that optimize network broadband capacity and enhance communication performance. He also sits on the board of directors of Fluidigm (Nasdaq symbol: FLDM), a creator and manufacturer of integrated fluidic systems for biology, of Adionics S.A., a company specialized in water desalination and industrial water waste treatement, and of Vesta Inc., a designer of electronic payment solutions for the telecommunications industry. In addition, he previously sat on the board of many high-tech firms financed by venture capital investors. From 1998 to 2001, Patrick was Senior Vice President and CFO of Gemplus SA (currently integrated into Gemalto), the smart card market leader, for which he successfully oversaw the initial public offering on the New York and Paris stock exchanges. He had previously served as Vice President for Finance and Corporate Controller at Intel and CFO at LSI Logic, a manufacturer of specialized semiconductors. He began his career as an engineer at IBM, before working for Singer Company in Thailand, France and Singapore. He has an MBA in finance from Saint Louis University (United States) and is a graduate of the University of Illinois-Urbana-Champaign (United States).

Jean Schmitt
Vice Chairman of the Supervisory Board, Chairman of the Compensation and Nomination Committee
Age: 49 Nationality: French

Jean Schmitt is Managing Partner of Jolt Capital and Chairman of Hattemer. Before founding JoltTech Capital, from 2001 to 2011 Jean Schmitt was Partner then Managing Partner at Sofinnova Partners. Before that, Jean Schmitt had founded several companies, including SLP InfoWare, one of the worldwide leaders in predictive CRM software for the telecommunications sector, which he sold to Gemplus in 2000. He then held the joint roles of CEO of SLP InfoWare and Vice President for Telecoms Solutions & Applications at Gemplus. Jean Schmitt is currently a member on the board of directors of companies such as Heptagon (Singapore) or Fogale Interactive Technologies (Switzerland). He no longer serves on the boards of Myriad (SIX: MYRN) or Authentec since it was sold to Apple Inc. (NASDAQ: AUTH). Jean Schmitt is a graduate of the Ecole Nationale Supérieure des Télécommunications (ENST) in Paris and holds a postgraduate degree in artificial intelligence. Jean lectures at Telecom ParisTech, Mines ParisTech and at HEC business school.

Alex Brabers
Member of the Supervisory Board, Member of the Compensation and Nomination Committee and Audit Committee
Age: 48 Nationality: Dutch

Alex developed the venture capital activity of Gimv, by investing in new innovative companies, followed by the active support of the management team and eventually exiting either through IPO or trade sale. He built the VC team of Gimv and coached them in developing its place in the European VC ecosystem. Since 2012, Alex is responsible for all investment activity of Gimv. He is a board member of various companies, including, Nomadesk (Belgium), OTN Systems (Belgium), Oree (Israel) and Punch Powertrain (Belgium). Before that, he was a member of the board of directors of Telenet (Belgium), Mobistar (Belgium), Emme (France), Barco (Belgium), Barconet (Belgium), Option (Belgium), Virtensys (UK) and Telos (Canada). Alex Brabers holds a Master degree in Economics from KU Leuven (Belgium).

Glenn Collinson
Member of the Supervisory Board
Age: 51 Nationality: British

The co-founder of Cambridge Silicon Radio Plc. (LSE symbol: CSR), Glenn Collinson oversaw the development of CSR from its formation in 1998 to its listing as a public company in 2004, first as Marketing Director and then as Sales Director until May 2007. He is currently serving as Director of Blu Wireless Technology Ltd, a company developing IP blocs intended for 60 GHz wireless transmission, and of SDL plc, (LSE: SDL), leading company in the worldwide management of customer experience. Other posts Glenn has held include Director of Sonaptic Ltd, from April 2005 to July 2007, when it was sold to Wolfson Microelectronics plc, Director of DiBcom SA from September 2007 to July 2011, Director of Microemissive Displays Group plc. from April to November of 2008, Director of Solar Press Ltd from September 2009 to October 2013, Director of Neul Ltd from September 2010 to June 2013, and Director of Wolson Microelectronics plc. until it was sold to Cirrus Logic Inc. in August 2014. Prior to co-founding CSR, he was Senior Engineer and Marketing Manager at Cambridge Consultants Ltd (1996-1998) and Design Engineer and Marketing Manager at Texas Instruments (1989-1996). He is a member of the Institution of Engineering and Technology and holds a Bachelor of Science in physics and a Master of Science in electronics from Durham University, as well as an MBA from Cranfield University.

Thierry Sommelet
Permanent representative of Bpifrance Participations, Member of the Supervisory Board and Audit Committee
Age: 45 Nationality: French

Thierry Sommelet is Senior Investment Director within the “large and mid cap” department of Bpifrance Participations (formerly known as Fonds Stratégique d’Investissement, or “FSI”). Before joining FSI in 2009 as an Investment Director, Thierry Sommelet was Head of Investments in the *développement numérique des territoires* (Regional Digital Development) service of the *Caisse des Dépôts*, where he was responsible for investments in the digital sector. Thierry’s career began in the financial markets with Crédit Commercial de France (now HSBC), in Paris and New York, where he was in charge of risk management. In 1996, he joined Renaissance Software (now Infinity), a supplier of software to financial institutions, managing its London-based European financial engineering team. From 2000 to 2001, he took charge of development and Internet strategy at media company InfosCE. He then moved to *Caisse des dépôts* in 2002. Thierry Sommelet represents Bpifrance on the board of directors of TDF, Mäder, and Sipartech. His is also a Director of Sipartech, Greenbureau and Cloudwatt. He is a graduate of the ENPC civil engineering school in Paris and earned an MBA from Insead, the international business school.

Olivier Sichel
Member of the Supervisory Board
Age: 47 Nationality: French

Since July 2012, Olivier Sichel is the Chairman and Chief Executive Officer of LeGuide.com, the European leader in online shopping guides. Having joined Sofinnova Partners as a Partner in 2006, he became a venture partner in 2012. He held various operational positions at France Telecom from 1998 to 2000, before being appointed Chief Executive Officer of Alapage.com in 2000, a web-based retail company acquired by Wanadoo, and Chief Executive Officer of Wanadoo in 2002. In 2004, Olivier Sichel managed the reintegration of Wanadoo into the France Telecom group while taking on the management of its “fixed-line and Internet” division. He then carried out the merger of the fixed-line telephone teams with Wanadoo in all of Europe and was, in particular, one of the early contributors to the launch of the Livebox and of VoIP. While at Sofinnova Partners, Olivier invested in OpenERP, Solutions30, Taptu, and Twenga. He has served as a director for Streamezzo (sold to Amdocs), Sprice (sold to TravelPort), and blueKiwi (sold to Atos). He currently serves as director for Solutions30 and Sofipost, and as a non-voting member of the board of directors of Volubill.

Olivier graduated from ESSEC Business School (France) and from ENA (*Ecole Nationale d'Administration*) (France) and is an Inspector of Finance (*inspecteur des finances*) in France.

Joëlle Toledano

Member of the Supervisory Board
Age: 61 Nationality: French

With a PhD in both mathematics and economics, Joëlle Toledano has pursued a career in higher education along with a career in business. She started out as a research associate with the *Centre National de la Recherche Scientifique* (French National Center for Scientific Research) before becoming a lecturer (*maître de conférences*) in Economics at the University of Rouen (France). At the same time, she held various management posts in IT and telecommunications companies. As such, she became Vice-President of Alcatel TITN and of Alcatel-Answare from 1987 to 1989, followed by CEO of CCMC Ressources Humaines. She then joined the La Poste group as Head of Strategy in 1993, before becoming its Head of European and National Regulation in 2001. A professor at the Universités à SUPELEC (Paris) since 2005, Joëlle Toledano was a member of the college of the *Autorité de régulation des communications électroniques et des postes* (ARCEP) from 2005 to late 2011. She is a Director on the board of the "*Résidentiel numérique*" and *Agence Nationale des Fréquences*.

Muriel Barnéoud

Member of the Supervisory Board
Age: 47 Nationality: French

Muriel Barnéoud serves as Chairman, President and Chief Executive Officer of Docapost (a subsidiary of La Poste group with revenues of €450 million and 4,500 employees) specializing in digital and mobile transition of companies and institutions and an expert in document management, digitalization, and security of electronic communications. Muriel Barnéoud joined the La Poste group in 1994 after an initial experience at Arthur Andersen. She went on to become Deputy Chief Executive Officer of Mail with responsibility for production. Muriel Barnéoud was non-executive chairman of two holding companies for the La Poste group's logistics operations (Viapost and STP). She is the chairman of approximately ten boards of directors within the Docapost group. She also sits on the supervisory committee of Xange Private Equity, La Poste's private equity company, and on the board of directors of Sofipost, the La Poste group's holding company. In addition, she is a board member of the *Syntec Numérique* professional association (vendors committee) and of the *Centre National de Référence* (CNR) *Santé à Domicile et Autonomie* (French national organisation set up to facilitate the development and use of information technology for health and dependency-related applications) and is also a member of the management committee for the CNAM Abbé Grégoire foundation. Muriel Barnéoud graduated from the IEP Paris and ENSPTT schools and holds a postgraduate diploma in finance and tax.

14.1.3 Other positions held by the Members of the Management Board and Supervisory Board

Names	Offices currently held (exercised by the authorized legal representative, as the case may be) outside of the Group	Offices held outside the Group over the course of the past five fiscal years that are not longer in effect as of today (exercised by the authorized legal representative, as the case may be)
Rémy de Tonnac		
Pierre Garnier	- Yellovent SAS (France) – Chairman	
Richard Vacher Detournière	- Knowings SA (France) - Director	
Pascal Didier		
Simon Blake-Wilson	- Savvy Security Canada Inc (Canada) - Chairman	
Alex Brabers	- Automation (Belgium) – Director - OTN Systems (Belgium) – Director - Nomadesk (Belgium) – Director - Oree (United States) – Director - Several Investment Vehicles managed by Gimv - EVCA (Belgium) – Director - Punch Powertrain (Belgium) – Director - Festival Van Vlaanderen (Belgium) – Director	- Telenet Communications (Belgium) - Director - Telenet Bidco (Belgium) – Director - Incofin (Belgium) – Director - Telenet (Belgium) (*) – Director - I&I Leuven (Belgium) – Director
Jean Schmitt	- Fogale Interactive Technologies (Switzerland) – Director - Heptagon (Singapore) – Director - Greentropism (France) - Director	- Myriad Group AG (Switzerland) (*) - Director - Sensitive Object (France) - Permanent representative - Purple Labs (France) - Permanent representative - Upek/Authentec (United States) - Director - Sagem (France) (*) – Director - Comprove (Ireland) - Director - Celsius (France) – Director

Names	Offices currently held (exercised by the authorized legal representative, as the case may be) outside of the Group	Offices held outside the Group over the course of the past five fiscal years that are not longer in effect as of today (exercised by the authorized legal representative, as the case may be)
Patrick Schwager Jones	- Lattice Semiconductor Corp (United States) (*) – Chairman of the board of directors - Fluidigm Inc. (United States) (*) - Director - Dialogic Inc. (United States) (*) – Chairman of the board of director - ITESoft SA (France) (*) - Director - Adionics SA – Director - Vesta Inc. (United States) – Director	- Unwired Planet. (United States) (*) – Director - Novell Inc. (United States) (*) - Director - Mobiwire (France) (*) - Director - Epocrates Inc. (United States) (*) – Chairman of the board of directors - Heptagon OY (Finnish company, with registered offices in Zurich), Chairman of the board of directors - Trema (Netherlands) - Director - QRS Corp. (United States) - Director - Mobile365 (United States) Director - Liberate Technologies (United States) – Director - Smarttrust AB (Sweden) – Director
Glenn Collinson	- Blu Wireless Technology Ltd (United Kingdom) – Director - SDL plc. (United Kingdom) (*), Director	- CSR Plc (United Kingdom) (*) - Director - Microemissive Displays Group Plc (United Kingdom) - Director - Dibcom SA (France) – Director - Solar Press Ltd (United Kingdom) - Director - Neul Ltd (United Kingdom) – Director - Wolfson Microelectronics Group Plc (United Kingdom) - Director
Bpifrance Participations Represented by Thierry Sommelet	- Cegedim (France) (*) – Director - Eutelsat (France) (*) – Director - Soprol (France) – Director - TDF (France) (*) – Director - Farinia (France) – Director - Mecachrome (France) – Director - Mader (France) – Director - Cylande (France) – Director - Grimaud (France) – Director - Altrad (France) – Director - Gascogne (France) (*) – Director - De Dietrich (France) – Director - Ercom (France) – Director - Mersen (France) (*) – Director - Gruau (France) – Director	- Assystem (France) (*) – Director - Séché Environnement (France) (*) – Director - 3S Photonics (France) – Director - Dailymotion (France) – Director - Avanquest Software (France) – Director - Windhurst (France) – Director

Names	Offices currently held (exercised by the authorized legal representative, as the case may be) outside of the Group	Offices held outside the Group over the course of the past five fiscal years that are not longer in effect as of today (exercised by the authorized legal representative, as the case may be)
	- NGE (France) – Director - Novasep (France) – Director - Paprec (France) – Director - Talend (France) – Director - Translohr (France) – Director - Vergnet (France) (*) – Director - Viadeo (France) (*) – Director - Constellium (Netherlands) (*) – Director - Eramet (France) (*) – Director - Limagrain (France) – Director - Orange (France) (*) – Director - Sequana (France) (*) – Director - STM (Switzerland) (*) – Director - Medtech (France) (*) – Director - Tinubu Square (France) – Director - Vexim (France) (*) – Director - Voluntis (France) – Director	
Joëlle Toledano	- Résidentiel Numérique (France) – Director - Agence Nationale des Fréquences (ANFR) (France) – Director	
Olivier Sichel	- Sofipost (France) – Director - Cab 5 – 4 - (France) – Director - Solutions30 (France) - (*) – Director - Cité de l'architecture et du patrimoine (France) - Director - OSConseil SAS (France) - Chairman	
Muriel Barnéoud	- Docapost CSP (France) – Chairman of the Supervisory Board - Docapost DPS (France) – Permanent representative of Docapost who also acts as Chairman, Chairman of the Board of Directors - Maileva (France) – Chairman of the Board of Directors - Orsid (France) – Chairman - Docapost BPO (France) – Chairman - CER – Docapost (France) – Chairman - Docapost Conseil (France) – Chairman, Chairman of the Supervisory Board Mediapost Holding (France) – Director	- La Poste Global Mail (France), Director - Proveance (ex SFDOC.4) (France) – Permanent representative of Docapost who also acts as Chairman

Names	Offices currently held (exercised by the authorized legal representative, as the case may be) outside of the Group	Offices held outside the Group over the course of the past five fiscal years that are not longer in effect as of today (exercised by the authorized legal representative, as the case may be)
	- Sofrepost (France) - Director - Viapost (France) – Director - Seres (France) – Permanent representative of Docapost on the Board of Directors - Xange Capital (France) - Permanent representative of Docapost on the Supervisory Board - Sefas Innovation (France) - Permanent representative of Docapost on the Board of Directors - Bretagne Routage (France) – Permanent representative of Docapost who also acts as Chairman - La Vosgienne Industrielle de Mailings (France) - Permanent representative of Docapost who also acts as Chairman	

1. *Olivier Sichel is a member of the Supervisory Board since December 19, 2013*
2. *Sofinnova Partners resigned from the Supervisory Board on December 19, 2013*

Companies carrying the symbol (*) are publicly traded companies.

14.1.4 Statements relative to the members of the Management Board and Supervisory Board

To the Company's knowledge, there is no familial tie between the persons listed above.
To the Company's knowledge, over the past five years none of these persons:

- was found guilty of fraud;
- was associated with a bankruptcy, receivership or liquidation while acting as senior executive or director;
- was banned from exercising management responsibilities;
- was officially and publicly incriminated and/or sanctioned by statutory or regulatory authorities.

14.2 Conflicts of interest at the level of the governing and senior management bodies

As of the date of this Registration Document, and to the Company's knowledge, there is no actual or potential conflict of interest between the private interests and/or other duties of the members of the Management Board and Supervisory Board of the Company and the interests of the Company. The related party transactions are described in Note 34 of the Notes to the Consolidated Financial Statements included in section 20.1 of this Registration Document.

Furthermore, to the Company's knowledge, there is no pact or agreement whatsoever entered into with shareholders, customers, suppliers or other entities by virtue of which one of the members of the Management Board or Supervisory Board of the Company was appointed to his or her position.

Lastly, to the Company's knowledge, as of the date of this Registration Document there is no restriction accepted by the persons described in section 14.1 entitled "Members of the Management Board and members of the Supervisory Board" of this Registration Document concerning the sale of their equity interests in the share capital of the Company.

15. COMPENSATION AND BENEFITS

15.1 Compensation paid to corporate officers

The information included below has been prepared in reference to the AFEP-MEDEF corporate governance code of publicly-traded companies, as updated in June 2013.

Table 1: Overview of the compensation, stock options, and free shares granted to each member of the Management Board (*dirigeant mandataire social*)[(3)]

	Fiscal Year 2012	Fiscal Year 2013
Rémy de Tonnac – Chairman of the Management Board		
Compensation owed for the fiscal year	€ 261,831	€ 407,010
Valuation of the multi-year variable compensation paid during the fiscal year	None	None
Valuation of stock options granted in the fiscal year	None	None
Valuation of shares granted free of charge in the fiscal year	€ 28,564	None
Total	€ 290,395	€ 407,010

	Fiscal Year 2012	Fiscal Year 2013
Pierre Garnier – member of the Management Board [(1)]		
Compensation owed for the fiscal year	€ 113,479	€ 368,668
Valuation of the multi-year variable compensation paid during the fiscal year	None	None
Valuation of stock options granted in the fiscal year	None	None
Valuation of shares granted free of charge in the fiscal year	€ 144,952	None
Total	€ 258,431	€ 368,668

	Fiscal Year 2012	Fiscal Year 2013
Richard Vacher Detournière – member of the Management Board		
Compensation owed for the fiscal year	€ 221,001	€ 272,971
Valuation of the multi-year variable compensation paid during the fiscal year	None	None
Valuation of stock options granted in the fiscal year	None	None
Valuation of shares granted free of charge in the fiscal year	None	None
Total	€ 221,001	€ 272,971

	Fiscal Year 2012	Fiscal Year 2013
Pascal Didier – General Manager, member of the Management Board		
Compensation owed for the fiscal year	€ 172,596	€ 241,654
Valuation of the multi-year variable compensation paid during the fiscal year	None	None
Valuation of stock options granted in the fiscal year	None	None
Valuation of shares granted free of charge in the fiscal year	€ 8,102	None
Total	€ 180,698	€ 241,654

	Fiscal Year 2012	Fiscal Year 2013
Simon Blake-Wilson – member of the Management Board (2)		
Compensation owed for the fiscal year	None	CAN 298,002 and US$ 241,775
Valuation of the multi-year variable compensation paid during the fiscal year	None	None
Valuation of stock options granted in the fiscal year	None	€ 154,103
Valuation of shares granted free of charge in the fiscal year	None	None
Total	None	CAN 298,002 US$ 241,775 and € 154,103

1. *Pierre Garnier joined the Company on August 20, 2012*
2. *Simon Blake-Wilson joined the Group as an employee on May 1, 2013*
3. *Christian Fleutelot left the Company on October 14, 2013. The compensation he received in connection with his duties for the 2012 and 2013 fiscal years amount to EUR 175,853 and EUR 165,899, respectively.*

The Supervisory Board decided that members of the Management Board would be required to hold, in registered form and until the termination of their duties on the Management Board, 10% of the number of shares issued as a result of the exercise of stock options or the effective vesting of free shares.

Table 2: Overview of the compensation of each member of the Management Board(6)

The table below shows the compensation due to members of the Management Board of the Company for the fiscal years ended December 31, 2012 and 2013 and the compensation paid to those members for the said fiscal years.

	Fiscal Year 2012		Fiscal Year 2013	
	Due (1)	Paid (2)	Due (1)	Paid (2)
Rémy de Tonnac – Chairman of the Management Board				
Fixed portion*	€ 218,707	€ 218,707	€ 216,134	€ 216,134
Variable portion* (3)	€ 32,420	€ 48,933	€ 179,737	€ 32,420
Multi-year variable compensation	None	None	None	None
Extraordinary compensation*	None	None	None	None
Attendance fees	None	None	None	None
Benefits in kind*	€ 10,704	€ 10,704	€ 11,139	€ 11,139
Total	€ 261,831	€ 278,344	€ 407,010	€ 252,261

	Fiscal Year 2012		Fiscal Year 2013	
	Due (1)	Paid (2)	Due (1)	Paid (2)
Pierre Garnier (4) – Member of the Management Board				
Fixed portion*	€ 70,641	€ 70,641	€ 193,333	€ 193,333
Variable portion* (3)	€ 40,838	0	€ 175,335	€ 40,838
Multi-year variable compensation	None	None	None	None
Extraordinary compensation*	None	None	None	None
Attendance fees	None	None	None	None
Benefits in kind*	None	None	None	None
Total	€ 113,479	€ 70,641	€ 368,668	€ 234,171

	Fiscal Year 2012		Fiscal Year 2013	
	Due (1)	Paid (2)	Due (1)	Paid (2)
Richard Vacher Detournière – Member of the Management Board				
Fixed portion*	€ 166,657	€ 166,657	€ 166,657	€ 166,657
Variable portion* (3)	€ 43,544	€ 58,148	€ 106,194	€ 43,544
Multi-year variable compensation	None	None	None	None
Extraordinary compensation*	None	None	None	None
Attendance fees	None	None	None	None
Benefits in kind*	€ 120	€ 120	€ 120	€ 120
Total	€ 210,321	€ 224,925	€ 272,971	€ 210,321

	Fiscal Year 2012		Fiscal Year 2013	
	Due (1)	Paid (2)	Due (1)	Paid (2)
Pascal Didier, General Manager – Member of the Management Board				
Fixed portion*	€ 146,786	€ 146,786	€ 145,963	€ 145,963
Variable portion* (3)	€ 25,690	€ 26,434	€ 85,884	€ 25,690
Multi-year variable compensation	None	None	None	None
Extraordinary compensation*	None	None	None	None
Attendance fees	None	None	None	None
Benefits in kind*	€ 9,423	€ 9,423	€ 9,807	€ 9,807
Total	€ 181,899	€ 182,642	€ 241,654	€ 181,460

	Fiscal Year 2012		Fiscal Year 2013	
	Due (1)	Paid (2)	Due (1)	Paid (2)
Simon Blake-Wilson, Member of the Management Board (5)				
Fixed portion*	None	None	CAN 146,854	CAN 146,854
Variable portion* (3)	None	None	CAN 131,516	None
Multi-year variable compensation	None	None	None	None
Extraordinary compensation*	None	None	CAN 19,632 and US$ 241,775	CAN 19,632
Attendance fees	None	None	None	None
Benefits in kind*	None	None	None	None
Total	None	None	CAN 298,002 and US$ 241,775	CAN 166,486

(1) *For the fiscal year*
(2) *Over the course of the fiscal year*
(3) *The variable portion includes annual profit-sharing (intéressement)*
(4) *Pierre Garnier joined the Company on August 20, 2012*
(5) *Simon Blake-Wilson joined the Group as an employee on May 1, 2013*
(6) *Christian Fleutelot left the Group on October 14, 2013.*

* based on a pre-tax gross amount

The variable portion of the compensation paid to executive corporate officers is subject to the completion of specific and predetermined objectives.

Indeed, for the fiscal year ended December 31, 2013, the variable items of compensation paid to Rémy de Tonnac and Pascal Didier, were determined by the Supervisory Board of the Company based on a proposal submitted by the Compensation and Nomination Committee, in accordance with the following criteria:

(i) 80% granted based on completing financial objectives of the Company (revenues, adjusted operating income, cash position)
(ii) the remaining 20% granted based on completing qualitative objectives (key accomplishments for the Company).

For the fiscal year ended December 31, 2013, the variable items of compensation paid to the other members of the Management Board, with the exception of Simon Blake-Wilson, in connection with their respective employment contracts, were determined according to the following criteria:

(i) 80% granted based on completing financial objectives of the Company (revenues, adjusted operating income, cash position)
(ii) the remaining 20% granted based on completing qualitative objectives (key accomplishments for the Company).

For the fiscal year ended December 31, 2013, the variable items of compensation paid to Simon-Blake Wilson in connection with his employment contract was determined according to the following criteria:

(i) 10% granted based on completing financial objectives of the Company (revenues, adjusted operating income, cash position)
(ii) 72% granted based on completing financial objectives set for the ESS business (revenues, adjusted operating income)
(iii) the remaining 18% granted based on completing qualitative objectives (key accomplishments for the ESS business).

Regarding the variable portion of their compensation, the expected level of completion of the quantitative objectives determined for executive corporate officers was established by the Company in a precise manner. However, it is not made public for confidentiality reasons.

In the context of the Company's purchase of the ESS business, an integration bonus of US$ 241,775 was owed to Simon Blake-Wilson at the close of the 2013 fiscal year. It was paid out in the beginning of the 2014 fiscal year.

The calculation of the bonus was based on the following 3 criteria, weighted equally:
- continued employment with the company as of December 31, 2013,
- revenue target for the ESS business to be generated over the course of the 2013 fiscal year, and
- adjusted operating income target for the ESS business to be generated over the course of the 2013 fiscal year.

Regarding benefits in kind, Rémy de Tonnac and Pascal Didier benefit from unemployment insurance for senior corporate executives (*garantie sociale des chefs et dirigeants d'entreprise*).

At the General Shareholders' Meeting dated June 19, 2013, it was decided to set the amount attendance fees awarded to members of the Supervisory Board to EUR 265,000 for the fiscal year ended December 31, 2013, as well as for each subsequent fiscal year, until decided otherwise at the Ordinary Shareholders' Meeting.

Attendance fees and other elements of compensation paid to non-executive corporate officers over the course of the 2012 and 2013 fiscal years are distributed as follows.

Table 3: Table summarizing the attendance fees and other elements of compensation paid to the members of the Supervisory Board

Members of the Supervisory Board	Amounts paid in 2012	Amounts paid in 2013
Alex Brabers		
Attendance fees	€ 20,089	€ 45,000
Other compensation	None	None
Jean Schmitt		
Attendance fees	€ 17,857	€ 40,000
Other compensation	None	None
Patrick Schwager Jones		
Attendance fees	€ 20,089	€ 45,000
Other compensation	None	None
Glenn Collinson		
Attendance fees	€ 11,161	€ 25,000
Other compensation	None	None
Joëlle Toledano		
Attendance fees	€ 11,161	€ 25,000
Other compensation	None	None
Olivier Sichel (1)		
Attendance fees	None	None
Other compensation	None	None
Bpifrance		
Attendance fees	€ 13,393	€ 30,000
Other compensation	None	None
Sofinnova Partners(2)		
Attendance fees	€6,250	€ 25,000
Other compensation	None	None
Ron Black (3)		
Attendance fees	None	None
Other compensation	None	None
Total	€ 100,000	€ 235,000

(1) Olivier Sichel is a member of the Supervisory Board since December 19, 2013
(2) Sofinnova Partners resigned from the Supervisory Board on December 19, 2013
(3) Ron Black resigned from the Supervisory Board on February 28, 2013

Table 4: Stock options granted by the issuer and any company of the group to each executive corporate officer over the course of the fiscal year[(1)]

Name	Name of the plan	Type of stock options	Valuation of the stock options according to the method retained for the consolidated financial statements	Number of stock options granted	Exercise price	Exercise period
Simon Blake-Wilson	*Options février 2013*	Stock options	117,063	100,000	€ 2.54	Exercisable until May 3, 2023 subject to continued employment with the company
Simon Blake-Wilson	*Options juin 2013*	Stock subscription options	37,040	30,000	€ 2.45	Exercisable until August 27, 2023 subject to continued employment with the company
Pierre Garnier	*Options janvier 2014*	Stock subscription options	89,401	100,000	€ 2.11	Exercisable until January 17, 2024 subject to continued employment with the company
Richard Vacher Detournière	*Options juin 2014*	Stock subscription options	Ongoing	35,000	€ 4.21	Exercisable until August 28, 2024 subject to continued employment with the company

(1) The stock options granted to Pierre Garnier in January 2014 and Richard Vacher Detournière in August 2014 are also referenced

Table 5: Stock options exercised by each executive corporate (*dirigeant mandataire social*) officer during the fiscal year

None of the executive corporate officers of the Company has exercised any of the stock subscription or purchase options of the Company or of any other company of its Group over the course of the fiscal year ended December 31, 2013.

Table 6: Shares granted free of charge by the issuer or any company of the group to each corporate officer (*mandataire social*) during the fiscal year

No shares were granted free of charge to corporate officers over the course of the fiscal year ended December 31, 2013.

Table 7: Shares granted free of charge that became available for each corporate officer during the fiscal year

No share granted free of charge became available to the various corporate officers over the course of the fiscal year ended December 31, 2013.

Table 8: History of the stock options granted to corporate officers

Past grants of stock options (1)								
Information on stock subscription options								
Date of the Shareholders' Meeting	October 20, 2005	June 2, 2006	June 2, 2006	June 19, 2007	June 29, 2012	June 19, 2013	June 19, 2013	June 26, 2014
Date of the Management Board meeting	February 17, 2006/ June 2, 2006	June 2, 2006	November 3, 2008	November 3, 2008	May 3, 2013	August 27, 2013	January 17, 2014	August 28, 2014
Name of the plan	Options 2005-2	Options 2006-1	Options 2006-1-B	Options 2007-1-F	Options février 2013	Options juin 2013	Options janvier 2014	Options juin 2014
Aggregate number of shares that can be subscribed by								
Rémy de Tonnac	*51,904*	*48,000*						
Pierre Garnier							*100,000*	
Richard Vacher Detournière			*21,600*	*60,800*				*35,000*
Pascal Didier	*5,040*	*20,000*						
Simon Blake-Wilson					*100,000*	*30,000*		
Expiration date	October 20, 2015	June 2, 2016	June 2, 2016	June 19, 2017	May 3, 2023	August 27, 2023	January 17, 2024	August 28, 2024
Subscription price	€ 3.9425	€ 3.9425	€ 10.0525	€ 10.0525	€ 2.54	€ 2.45	€ 2.11	€ 4.21
Terms and conditions of exercise	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)	Exercisable in full(2)
Number of shares subscribed as of the filing date of this Registration Document	0	0	0	0	0	0	0	0
Aggregate number of canceled or voided stock options	0	0	0	0	75,000	22,500	0	0
Number of outstanding shares to be subscribed as of the filing date of this Registration Document	56,944	68,000	21,600	60,800	25,000	7,500	100,000	35,000

(1) Only those grants that still apply are described

(2) The exercise of options is subject, as applicable, to the status of the Company's employee or officer at the date of the exercise or upon completion of specific objectives established by the Management Board.

Past grants of share warrants				
Information on share warrants [1]				
Date of the Shareholders' Meeting	July 31, 2006	June 30, 2008	June 30, 2010	June 30, 2010
Date of the Management Board meeting	November 20, 2006	December 18, 2008	October 1, 2010	December 29, 2010
Name of the plan	BSA 2006-2	BSA 8	BSA 12	BSA 13
Aggregate number of shares that can be subscribed by				
Rémy de Tonnac			*83,945*	
Richard Vacher Detournière			*65,795*	
Pascal Didier			*40,838*	
Patrick Schwager Jones	*18,400*			*8,000*
Glenn Collinson		*12,800*		*20,000*
Expiration date	November 20, 2016	March 24, 2019	October 1, 2015	December 29, 2015
Subscription price	€ 3.9425	€ 10.0525	€ 4.1872	€ 4.75
Terms and conditions of exercise	Exercisable in full	Exercisable in full	Exercisable in full	Variable depending on holder
Number of shares subscribed as of December 31, 2013	0	0	0	0
Aggregate number of canceled or voided share warrants	0	0	0	0
Number of outstanding shares to be subscribed as of December 31, 2013	18,400	12,800	190,578	28,000

(1) Neither voided share warrants nor share warrants granted to corporate officers who have left the Group are included in this table

Table 9: Stock options granted to the first ten non-executive employee beneficiaries, and stock options exercised by such beneficiaries

Table 9 relative to the stock options granted to the first ten non-executive employee beneficiaries, and the stock options exercised by such beneficiaries is provided in section 17.4 entitled "Financial instruments granting access to the share capital of the Company awarded to the first ten non-executive employee beneficiaries, and stock options exercised by such beneficiaries" of this Registration Document.

Table 10: History of free share grants

History of free share grants (1)							
Information on the shares granted free of charge							
Date of the Shareholders' Meeting	June 16, 2005	October 20, 2005	October 20, 2005	June 30, 2008	June 30, 2010	June 29, 2012	June 29, 2012
Date of the Management Board meeting	July 28, 2005	February 17, 2006	June 2, 2006	November 3, 2008	December 16, 2010	July 26, 2012	October 17, 2012
Aggregate number of shares granted to:							
Rémy de Tonnac			*76,096*		*316,000*	*10,400*	
Pierre Garnier							*120,000*
Richard Vacher Detournière				*20,000*	*106,000*		
Pascal Didier	*9,392*	*6,960*			*64,000*	*2,950*	
Vesting date of the shares	March 6, 2012	February 17, 2008 February 17, 2009 February 17, 2010	June 2, 2008 June 2, 2009 June 2, 2010	November 3, 2010	December 16, 2012	July 26, 2014	October 17, 2014 October 17, 2015 October 17, 2016
Expiration date of the holding period	March 6, 2014	February 17, 2010 February 17, 2011 February 17, 2012	June 2, 2010 June 2, 2011 June 2, 2012	November 3, 2012	December 16, 2014	July 26, 2016	October 17, 2016 October 17, 2017 October 17, 2018
Terms and conditions of exercise	Exercisable in full	Exercisable in full	Exercisable in full	Exercisable in full	Exercisable in full	Exercisable in full	Exercisable in full
Aggregate number of cancelled or voided shares	0	0	0	0	0	0	0
Number of outstanding free shares at fiscal year-end	9,362	6,960	76,096	20,000	486,000	13,350	

(1) Only outstanding and valid grants are described

Table 11

The following table provides further details on the conditions surrounding the compensation and other benefits granted to executive corporate officers:

Members of the Management Board	Employment Contract		Additional Pension Plan		Compensation or benefits owed or likely to be owed as a result of termination of duties or a change in duties		Compensation associated with a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Rémy de Tonnac, Chairman of the Management Board		X		X	X		X	
Term of office began on: *Term of office will end on:*	May 11, 2011 Following the Annual Shareholders’ Meeting approving the financial statements for the fiscal year ended December 31, 2014							
Pierre Garnier Member of the Management Board	X			X		X	X	
Term of office began on: *Term of office will end on:*	November 21, 2012 Following the Annual Shareholders’ Meeting approving the financial statements for the fiscal year ended December 31, 2014							
Richard Vacher Detournière Member of the Management Board	X			X	X		X	
Term of office began on:: *Term of office will end on:*	May 11, 2011 Following the Annual Shareholders’ Meeting approving the financial statements for the fiscal year ended December 31, 2014							
Pascal Didier General Manager and Member of the Management Board	X			X	X		X	
Term of office began on: *Term of office will end on:*	May 11, 2011 Following the Annual Shareholders’ Meeting approving the financial statements for the fiscal year ended December 31, 2014							
Simon Blake-Wilson Member of the Management Board	X		X			X		X
Term of office began on: *Term of office will end on:*	October 23, 2013 Following the Annual Shareholders’ Meeting approving the financial statements for the fiscal year ended December 31, 2014							

Rémy de Tonnac and Pascal Didier benefit from unemployment insurance for senior corporate executives (*garantie sociale des chefs et dirigeants d'entreprise*) subscribed by the Company. For the 2013 fiscal year, the amount of the premium was equal to EUR 20,646.

In the United States, the Company set up a pension plan (401(k)) of which Simon Blake-Wilson is a beneficiary as of January 1, 2014.

Pascal Didier signed an employment contract with the Company on January 10, 2003. As of January 31, 2003, this contract was suspended for the duration of his term as corporate officer.

At its meeting dated February 19, 2013, the Supervisory Board decided to adjust the terms of the severance compensation that Rémy de Tonnac and Pascal Didier benefit from. Each of them has heretofore the right to claim such compensation in the event of:

(i) termination or non-renewal of his term of office as member of the Management Board (or dismissal) for a reason other than gross negligence (*faute lourde*) in the meaning of the jurisprudence of the labor division of the French Supreme Court (*chambre sociale de la cour de cassation*),

(ii) resignation for good cause (either due to a significant reduction in duties and responsibilities, a reduction in compensation (including fixed compensation, benefits in kind, target variable compensation, or severance compensation), or a change in his or her work location to another country, in every case without his or her consent) within six months of a change in control of the Company in the meaning of Article L. 233-3 of the French Commercial Code, or

(iii) termination or resignation of his term of office as member of the Management Board (or dismissal), following a significant disagreement between the Supervisory Board and the Management Board regarding the strategy carried out by the Management Board, irrespective of whether such strategy was carried out pursuant to a change in control of the Company.

The Supervisory Board will determine the amount of severance compensation paid to the member in question in the following way:

Maximum severance compensation will be equal to the sum of the gross fixed compensation received by the member in question over the course of the year preceding that during which his or her resignation, termination, or dismissal took place, plus the gross variable compensation received by the member in question over the course of the two years preceding that during which his or her resignation, termination, or dismissal took place (hereinafter referred to as the "Maximum Amount"), it being hereby understood that the effective date of his or her resignation, termination, or dismissal will be defined as, depending on the case, the date on which the member in question receives the termination letter (or letter of dismissal), or the date on which the Company receives the resignation letter.

The severance payment will be conditioned upon, and its amount will be adjusted based on the arithmetical average of the rate of achievement of the performance criteria used to determine the member in question's variable compensation for the two closed fiscal years preceding the day he is terminated or resigned. If the average is:

- strictly lower than 20%, no severance compensation will be paid out,
- between 20% and 50%, the member in question will receive a severance compensation in an amount equal to the gross fixed compensation for the year in which his or her resignation, termination, or dismissal took place,
- higher than or equal to 50%, the member in question will receive a severance compensation in an amount equal to 100% of the Maximum Amount.

The severance payment will include any dismissal indemnity provided by statutory regulations (including but not limited to the ones provided by applicable laws and any applicable collective bargaining agreement) which may be due to the member in question(for the avoidance of doubt, the severance payment shall not include any payment made pursuant to a non-competition clause, but shall be reduced if necessary so that the sum of the severance payment plus any amount paid pursuant to a non-competition clause does not exceed the two times the member in question's fixed and variable gross compensation for the year when the termination or resignation shall occur, assuming for the determination of the variable portion thereof that any milestones/objectives have been fully achieved. Notwithstanding the above, for the avoidance of doubt, the severance payment shall not be less than any mandatory dismissal indemnity provided by statutory regulations.

It should be noted, insofar as necessary, that no severance compensation will be owed in the event that the term of office of the member in question is terminated or non-renewed, or that the member in question is dismissed or resigns from his or her duties as corporate officer, while remaining an employee of the Group, assuming that he or she is neither subject to a significant reduction in his or her duties, responsibilities, or compensation (including his or her fixed compensation, benefits in kind, target variable compensation, or severance compensation) nor subject to a transfer of his or her work location to another country, and further assuming that such decisions were made without his or her consent.

Severance compensation will be paid within 30 days of the member's effective departure from the Group.

Additionally, the vesting of all options, free shares or other equity incentive instrument held by the meber in question will be accelerated upon such termination or resignation, to the extent possible without any material adverse tax or social consequences for the Inside Secure group.

Richard Vacher Detournière has heretofore the right to claim such compensation in the event of:

(i) termination or non-renewal of his term of office as member of the Management Board (or dismissal) for a reason other than gross negligence (*faute lourde*) in the meaning of the jurisprudence of the labor division of the French Supreme Court (*chambre sociale de la cour de cassation*),

(ii) resignation for good cause (either due to a significant reduction in duties and responsibilities, a reduction in compensation (including fixed compensation, benefits in kind, target variable compensation, or severance compensation), or a change in his work location to another country, in every case without his consent) within six months of a change in control of the Company in the meaning of Article L. 233-3 of the French Commercial Code, or

(iii) termination or resignation of his term of office as member of the Management Board (or dismissal), following a significant disagreement between the Supervisory Board and the Management Board regarding the strategy carried out by the Management Board, irrespective of whether such strategy was carried out pursuant to a change in control of the Company.

The Supervisory Board will determine the amount of severance compensation paid to the member in question in the following way:

Maximum severance compensation will be equal to the aggregate amount of the fixed and variable compensation received by the member in question over the course of the two years preceding that during which his resignation, termination, or dismissal took place (hereinafter referred to as the "Maximum Amount"), it being hereby understood that the effective date of his resignation, termination, or dismissal will be defined as, depending on the case, the date on which the member in question receives the termination letter (or letter of dismissal), or the date on which the Company receives the resignation letter.

The severance compensation will be subject to and the amount adjusted based on the arithmetic average of the rate of achievement of the objectives that determine the variable portion of the compensation of the member in question over the course of the last two fiscal years preceding his resignation, termination, or dismissal. As such, if this average is:

- strictly lower than 50%, no severance compensation will be paid out,
- equal to 50%, the member in question will receive a severance compensation in an amount equal to 75% of the Maximum Amount,
- equal to 100%, the member in question will receive a severance compensation in an amount equal to 100% of the Maximum Amount,

it being hereby specified that within the 50% to 100% range, the severance compensation will be calculated linearly (for example, the member in question will receive 87.5% of the Maximum Amount if the average is equal to 75%).

The severance payment will include any dismissal indemnity provided by statutory regulations (including but not limited to the ones provided by applicable laws and any applicable collective bargaining agreement) which may be due to the member in question(for the avoidance of doubt, the severance payment shall not include any payment made pursuant to a non-competition clause, but shall be reduced if necessary so that the sum of the severance payment plus any amount paid pursuant to a non-competition clause does not exceed the two times the member in question’s fixed and variable gross compensation for the year when the termination or resignation shall occur, assuming for the determination of the variable portion thereof that any milestones/objectives have been fully achieved. Notwithstanding the above, for the avoidance of doubt, the severance payment shall not be less than any mandatory dismissal indemnity provided by statutory regulations.

It should be noted, insofar as necessary, that no severance compensation will be owed in the event that the term of office of the member in question is terminated or non-renewed, or that the member in question is dismissed or resigns from his or her duties as corporate officer, while remaining an employee of the Group, assuming that he or she is neither subject to a significant reduction in his or her duties, responsibilities, or compensation (including his or her fixed compensation, benefits in kind, target variable compensation, or severance compensation) nor subject to a transfer of his or her work location to another country, and further assuming that such decisions were made without his or her consent.

Severance compensation will be paid within 30 days of the member’s effective departure from the Group.

Additionally, the vesting of all options, free shares or other equity incentive instrument held by the meber in question will be accelerated upon such termination or resignation, to the extent possible without any material adverse tax or social consequences for the Inside Secure group.

15.2 Amounts provisioned by the Company for the purpose of covering pension plans, retirement schemes, and other benefits offered to corporate officers

With the exception of provisions for statutory retirement allowances described in Note 23 of the Notes to the Consolidated Financial Statements provided in section 20.1 entitled “Historical Financial Information” of this Registration Document, the Company has not provisioned any sums for the purposes of covering pension plans, retirement schemes, and other benefits offered to the members of the Management Board and Supervisory Board.

The Company did not pay out any signing or severance bonuses to the above-referenced corporate officers.

15.3 Free shares, share warrants and stock options granted to corporate officers

The table below summarizes, as of the filing date of this Registration Document, all of the securities or rights granting access to the share capital that are currently outstanding, regardless of their type, issued by the Company for the benefit of corporate officers. None of the corporate officers have exercised any right granting access to the share capital or any security granting access to the share capital between January 1, 2014 and the filing date of this Registration Document.

	Free share in the vesting period [1][4]	Options 2005-2[2]	Options 2006-1[2]	Options 2006-1-B[2]	Options 2007-1-F[2]	Options février 2013	Options juin 2013	Options janvier 2014	Options juin 2014	BSA 2006-2	BSA 8	BSA 12 [3]	BSA 13	Total number of shares that could be issued following the exercise of these rights [2][3][4]
Rémy de Tonnac	10,400	12,976	12,000									18,500		194,249
Pierre Garnier	120,000							100,000						220,000
Richard Vacher Detournière				5,400	15,200				35,000			14,500		183,195
Pascal Didier	2,950	1,260	5,000									9,000		68,828
Simon Blake-Wilson						100,000	30,000							130,000
Patrick Schwager Jones										4,600			2,000	26,400
Jean Schmitt														0
Alex Brabers														0
Glenn Collinson											3,200		5,000	32,800
Joëlle Toledano														0
Olivier Sichel														0
Muriel Barnéoud														0
BPIFrance Participations														0
Number of shares that could potentially be issued if all such rights were exercised[4]	133,350	56,944	68,000	21,600	60,800	25,000	7,500	100,000	35,000	18,400	12,800	190,578[3]	28,000	757,972

(1) For a detailed description of the terms and conditions of each of the above-mentioned plans, please refer to section 21.1.4 entitled "Authorized Share Capital" of the Registration Document. The figures provided correspond to the number of shares that can be subscribed via the exercise of each right or in connection with the securities granting access to the share capital.
(2) The exercise of each of these options grants the right to the acquisition of 4 common shares.
(3) Each BSA 12 grants the right to subscribe 4.5376 common shares.
(4) The table does not take Christian Fleutelot into account, who left the Company in October 2013.

16. MANAGEMENT AND GOVERNANCE MATTERS

16.1 Management of the Company

16.1.1 The Management Board

The composition of the Management Board and information pertaining to its members are subject to developments presented in Chapter 14 entitled "Governing, Management, and Supervisory Bodies and Senior Management" and Chapter 21.2 entitled "Incorporation Documents and Bylaws" of this Registration Document.

At its meeting dated April 22, 2014, the Management Board approved its internal charter in order to enable the members of the Management Board to participate in the Management Board's meetings via videoconferencing or teleconferencing.

16.1.2 The Supervisory Board

The composition of the Supervisory Board and information pertaining to its members are subject to developments presented in Chapter 14 entitled "Governing, Management, and Supervisory Bodies and Senior Management" and Chapter 21.2 entitled "Incorporation Documents and Bylaws" of this Registration Document.

At its meeting held on March 31, 2011, the Supervisory Board (or the "Board") approved its internal charter, which was amended on November 21, 2012. This charter details, in particular, the rules applicable to the operation of the Board, the rules of conduct, and the obligations of the members of the Supervisory Board of the Company, and the terms and conditions of operation of the Board and the committees. The main provisions of the Board's internal charter are reiterated hereafter.

At its meeting held on March 31, 2011, the Supervisory Board decided to use as its reference the corporate governance code of publicly-traded companies published by the AFEP and MEDEF in December 2008, as reviewed in April 2010 and in June 2013, and approved by the *Autorité des Marchés Financiers* (French financial markets regulator, or "AMF") as a code of reference for corporate governance (the "AFEP-MEDEF Code"). This code is available on the MEDEF website (www.medef.com), among other places.

The goal of the Company is to comply with all of the recommendations contained in the AFEP-MEDEF Code.

To this end, the Company regularly reviews its governance principles based on the AFEP-MEDEF Code's recommendations. Therefore, the Company considers that it complies with the Code's main recommendations, with the exception of the recommendations pertaining to:

- <u>The evaluation of the Supervisory Board's functioning</u>. The Supervisory Board routinely assesses the quality of its functioning. However, there currently is no formal evaluation process in place. The Company plans to implement a formal evaluation process in the future;

- <u>Shareholding by members of the Supervisory Board</u>. It should be noted that some of the Company's Directors hold very few Company shares. The Company plans to recommend that these Directors spend part of their attendance fees to acquire Company shares;

- The general policy for granting stock options and performance shares. There is currently no general policy for granting stock options or performance shares. In addition, the various grants of stock options and free shares that occurred in past fiscal years were not carried out on pre-determined calendar days as recommended under the terms of the AFEP-MEDEF Code. The purpose of these grants has always been to motivate employees and managers who are joining the Group, in particular following any of the Group's takeovers;

- The fixed compensation of executive corporate officers. The compensation paid to executive corporate officers is reviewed every year, not following relatively long periods as recommended under the terms of the AFEP-MEDEF Code. The Company does not follow this recommendation because it believes that it is consistent neither with its current state of development, nor with the characteristic dynamism of target markets, requiring routine reassessments of key objectives and, as a result, of the compensation methods applicable to corporate officers.

In particular, the Company intends to comply with the following recommendations:

- ensuring that the Supervisory Board is composed of and maintains a female presence of at least 20% within a time frame of 3 years and of at least 40% within a time frame of 6 years as from the date on which the securities of the Company were admitted to trading on the Euronext regulated stock exchange in Paris, France,

- ensuring that, by the expiration of the aforementioned 6-year period, whenever the Board is composed of 9 members the difference between the number of members of each gender is not greater than 2.

To this end, the General Shareholders' Meeting dated June 29, 2012 and June 26, 2014 appointed Joëlle Toledano and Muriel Barnéoud as members of the Supervisory Board, respectively.

Lastly, in July 2012, the number of members on the Audit Committee was extended to three, two of which are independent. Therefore, the Audit Committee complies with the recommendations of the AFEP-MEDEF Code according to which an audit committee must be composed of at least 2/3 independent members.

Each Supervisory Board member undertakes to maintain his or her independence of analysis, judgment, and action and to actively participate in the Supervisory Board's work. He or she must inform the Supervisory Board regarding potential conflicts of interest he or she may face. In addition, he or she is aware of applicable regulations associated with the disclosure and use of privileged information and understands that members must refrain from completing transactions with their Company securities after being exposed to privileged information. Each Supervisory Board member must declare to the Company and the AMF all the transactions he or she has directly or indirectly completed with Company securities.

16.1.2.1 Composition of the Supervisory Board

Pursuant to applicable legal and statutory provisions, the Supervisory Board is composed of at least three members and at most nine, appointed by shareholders at the General Shareholders' Meeting for a term of three years. They are eligible for reelection at expiration of their term of office. In the event that a seat becomes vacant, the members of the Supervisory Board may co-opt other members under the conditions set by law and applicable regulations.

In accordance with the terms of its internal charter, the Supervisory Board undertakes to make all efforts to ensure that it is composed of at least a majority of independent members in the meaning of the AFEP-MEDEF Code. Those members of the Board who do not entertain any relationship with the Company, its Group, or its management that could potentially compromise their freedom of judgment are considered independent.

As of December 31, 2013, the Supervisory Board was composed of 7 members. On June 26, 2014, an eighth member was appointed. The Supervisory Board considers that seven of its eight members are independent. Mr. Patrick Jones, Mr. Glenn Collinson, Mr. Jean Schmitt and Mr. Olivier Sichel, Mrs. Joëlle Toledano and Mrs. Muriel Barnéoud, and Bpifrance Participations effectively meet the criteria defined in the AFEP-MEDEF Code, insofar as they:

- are not currently or were not over the course of the past five years, either employees or corporate officers of the Company, and either employees or corporate officers of one of its subsidiaries;
- are not corporate officers of a company in which the Company exercises, either directly or indirectly, a role as director or in which a Company employee appointed as such or a corporate officer of the Company (either currently in office or having been in office during the past five years at least) exercises a role as director,
- are not customers, suppliers, investment bankers, finance bankers (i) that are key for the Company or the Group, or (ii) for which the Company or its Group represent a significant portion of their business,
- do not have any close familial ties with a corporate officer,
- have not acted as auditors of the Company over the course of the past five years, and
- have not been members of the Board of the Company for more than twelve years.

The members of the Supervisory Board who represent significant shareholders of the Company can be considered independent provided they do not participate in the control of the Company. Beyond a 10% share capital and voting rights threshold, the Board must, based on the report delivered by the compensation and nomination committee, systematically review the status of independence of its members while taking into account the distribution of the share capital of the Company and the existence of potential conflicts of interest.

With respect to the above, the Supervisory Board determined that although Bpifrance Participations holds approximately 7.1% of the share capital, it could still be qualified as an independent member.

In addition, at least one of the independent members must have specific skills in finance or accounting in order to be appointed to the Audit Committee, which is the case for Patrick Jones (for further information please refer to the summary of his professional experience in Chapter 14 entitled "Governing, Management, and Supervisory Bodies and Senior Management").

The Supervisory Board is currently considering the creation of a corporate governance committee that is different from the Compensation and Nomination Committee currently in existence, while keeping some of its characteristics.

16.1.2.2 Duties of the Supervisory Board

The Supervisory Board is subject to the provisions of the French Commercial Code, to articles 15 to 17 of the Bylaws of the Company, and to the internal charter it adopted.

In particular, the Supervisory Board is responsible for:

- exercising permanent oversight of the management of the Company by the Management Board,
- appointing those members of the Management Board responsible for defining the strategy of the Group and for managing it,

- setting the compensation of the members of the Management Board,
- authorizing the agreements and commitments discussed in articles L. 225-86 and L. 225-90-1 of the French Commercial Code,
- suggesting statutory auditors for nomination at the General Shareholders' meeting,
- approving the Chairman of the Board's report on corporate governance and internal control.

It checks the quality of information disclosed to shareholders and to the markets.

There are no statutory limitations to the powers of the Management Board.

16.1.2.3 Conditions under which the work of the Supervisory Board was prepared and organized

In order to efficiently participate in the work and deliberations of the Board, each member of the Board requests the documents he or she deem useful. Such requests must be sent to the Management Board or, as the case may be, any other senior executive.

Each member of the Board is allowed to meet with the main executives of the company, provided prior notification is sent the Management Board. The members of the Management Board can attend these meetings unless the Board member in question refuses. The members of the Management Board can speak at any Board meeting.

The Management Board informs the Board on a regular basis regarding the financial position, cash position, financial commitments of the Company and the Group, as well as regarding any significant events that may have occurred.

Lastly, any new member of the Board can request to receive training on the specificities of the Company and its Group, their business activities and their business sectors.

The Board meets as often as necessary in the corporate interest of the Company and at least once per quarter. No later than on the last meeting of the fiscal year, the Board sets the dates of its quarterly meetings to be held in the following fiscal year. The members of the Board are notified by letter, facsimile, or email at least eight (8) days prior to each meeting. The Board can also be convened by any means available, even verbally, if all the active members of the Board are present or represented at the meeting.

All documents, in final or draft form, are sent, handed, or made available to the members of the Board within a reasonable time frame prior to the meeting, in order to inform them regarding the agenda of the meeting and any questions subject to the Board's review.

In addition, at each meeting the Board is updated regarding the financial position, the cash position, and the commitments of the Company.

The members of the Board can attend Board meetings via video-conferencing or any other means of telecommunication. This attendance method is not valid for deciding on the following matters: (i) appointing, terminating, or setting the compensation of members of the Management Board, and (ii) reviewing and auditing the annual financial statements, including the consolidated financial statements, and reviewing the management report including the management report of the Group.

The means put in place must enable the identification of those in attendance and guarantee their effective participation.

The minutes of the meeting lists those members using video-conferencing or any other means of telecommunication to attend the meeting.

Annually, the Board reviews its terms and conditions of operation and, at least once every three years, complete a formal evaluation with the assistance of an external consultant, as the case may be. The purpose of this evaluation is also to ensure that important questions are adequately prepared and debated, and to assess the contribution of each member to the work completed by the Board based on his or her abilities and implication, in particular.

16.1.2.4 Report on the activity of the Board over the course of the 2013 fiscal year

Over the course of the past fiscal year, the Supervisory Board of the Company met 8 times. The Chairman of the Board chaired these meetings, it being specified that the average attendance rate of all members of the Board for the fiscal year was equal to 97%.

16.2 Service contracts existing between the members of the Management Board and the members of the Supervisory Board of the Company

To the Company's knowledge, as of the filing date of this Registration Document, there are no existing service contracts between the members of the Supervisory Board or Management Board and the Company or one of its subsidiaries and providing for the grant of benefits.

16.3 Committees

16.3.1 The Audit Committee

The audit committee (the "Audit Committee") was created in 2006. Its members adopted a new internal charter on March 31, 2011, which was approved by the Supervisory Board that same day.

The goal of the Audit Committee, acting under the exclusive and collective authority of the members of the Supervisory Board of the Company and in order to ensure the quality of internal control procedures and of the reliability of the information provided to shareholders and to the financial markets, is to monitor all issues associated with the establishment and auditing of accounting and financial information and, to this end, in particular:

- to monitor the process under which financial information is prepared,
- to monitor the effectiveness of internal control and risk management systems and, in particular:
  - to evaluate the internal control processes as well as any measures adopted for the purpose of solving any significant potential internal control dysfunctions,
  - to review the annual work plan of the auditors,
  - to assess the relevance of the risk monitoring procedure,
- to monitor the legal auditing of the annual financial statements and consolidated financial statements by the Statutory Auditors and, in particular:
  - to review the assumptions retained in the financial statements, to study the corporate financial statements of the Company and the annual, half-year and, as the case may be, quarterly consolidated financial statements before they are reviewed by the Supervisory Board, while having regularly kept abreast of the financial position, cash position, and commitments of the Company, in particular off-balance sheet data,

    - to assess the merits of the choice in accounting principles and methods, in consultation with the Statutory Auditors,
    - to discuss the merits of the accounting principles and methods retained, the effectiveness of accounting auditing procedures, and all other relevant matters with the members of the Management Board in charge of financial concerns as well as with the Chief Financial Officer, from the end of any given fiscal year to the date on which the Audit Committee will seek to approve the draft version of the annual financial statements,
- to review the significant transactions for which a conflict of interests may have occurred,
- to issue a recommendation on the Statutory Auditors suggested for appointment at the General Shareholders' meeting and to review the conditions applicable to their compensation,
- to monitor the status of independence of the Statutory Auditors and, in particular:
    - to suggest the setting of rules that the Statutory Auditors can resort to with respect to duties other than the auditing the financial statements in order to guarantee the independence of the auditing services of the financial statements provided by such Statutory Auditors in compliance with the law, regulations, and recommendations applicable to the Company, and to ensure that such rules are well applied,
    - to authorize any decision to resort to the Statutory Auditors for work other than the auditing of the financial statements,
- to review the conditions governing the use of financial derivatives,
- to monitor the status of significant disputes on a regular basis,
- to review the procedures implemented by the Company with respect to the receipt, filing, and processing of claims pertaining to accounting matters and accounting audits carried out internally, to issues surrounding the auditing of the financial statements, as well as to documents sent anonymously and confidentially by employees and that may call into question any practices used in accounting or in the auditing of the financial statements, and
- generally, to provide any advice and to formulate any appropriate recommendations regarding the matters set forth above.

If possible, the Audit Committee is composed of at least three members of the Supervisory Board appointed by the Supervisory Board, it being specified that at least two thirds of the members of the Audit Committee must be, insofar as possible, independent members in accordance with the criteria defined in the AFEP-MEDEF Code, which the Company uses as a reference.

In selecting the members of the Audit Committee, the Supervisory Board ensures that they are independent, that at least one independent member of the Audit Committee has specific skills in finance or accounting, and that all the members have basic skills in finance and accounting.

The members of the Audit Committee are:

- Patrick Jones (Chairman, financial expert, and independent member of the Supervisory Board),
- Alex Brabers (member of the Supervisory Board), and
- Thierry Sommelet (permanent representative of Bpifrance Participations, independent member of the Supervisory Board).

These three individuals were selected based on their accounting and financial skills, it being specified that Patrick Jones and Thierry Sommelet also meet the independence criteria retained by the Company and reiterated in the internal charter of the Board.

The Audit Committee can speak with any member of the Management Board of the Company and visit with or interview the heads of operating or functional entities that may be of assistance to the Audit Committee in completing its assignment. Should the Audit Committee choose to do so, it gives prior notice to the Chairman of the Supervisory Board and the Chairman of the Management Board of the Company. In particular, the Audit Committee has the authority to interview persons who participate in the preparation of the financial statements or their auditing (Chief Financial Officer and senior executives in financial management).

The Audit Committee interviews the Statutory Auditors.

The Audit Committee met 6 times over the course of the 2013 fiscal year with an attendance rate of 100%.

16.3.2 Compensation and Nomination Committee

At its meeting dated March 31, 2011, the Supervisory Board of the Company decided to merge two pre-existing committees (the governance committee and the compensation committee) into a single compensation and nomination committee (the "Compensation and Nomination Committee").

The main objectives of the Compensation and Nomination Committee are:

- to make recommendations to the Supervisory Board regarding the persons or entities that should be appointed as members of the Management Board or the Supervisory Board, as the case may be,
- to review the compensation policies implemented by the Group and applicable to senior executives, to make proposals regarding the compensation of members of the Management Board and, as the case may be, of members of the Supervisory Board, and to prepare all reports that the Company must disclose on these matters.

The Compensation and Nomination Committee is, in particular, responsible for the following:

- in regards to nomination matters:
    - Make recommendations to the Supervisory Board on the composition of the Management Board, the Supervisory Board and its committees;
    - Propose annually to the Supervisory Board a list of members who may be qualified as "independent members" pursuant to the standards defined in the AFEP-MEDEF Code, which the Company uses as a reference,
    - Establish a succession plan for the executive officers of the Company and assist the Supervisory Board in the selection and evaluation of members of the Management Board;
    - Prepare a list of persons to recommend for nomination to the Management Board or the Supervisory Board; and
    - Prepare a list of members of the Supervisory Board to recommend for nomination to one of the Supervisory Board's committees.

- in regards to compensation matters:

    - Study the main objectives proposed by senior management regarding compensation of executives who are not corporate officers of the Company, including free allocation of shares and stock options,

    - Review the compensation of executives who are not corporate officers of the Company, including free share plans and stock option plans, pension schemes, welfare plans and benefits in kind;

    - Formulate recommendations and proposals to the Supervisory Board regarding:

        - compensation, pension and welfare schemes, benefits in kind and other pecuniary rights, including in the event that the terms of office of Management Board members are terminated. The Committee proposes amounts and systems of compensation and, in particular, rules for calculation of any variable compensation taking into account the strategy, objectives and results of the Company and market standards;

        - free share plans, stock option plans, and any similar profit sharing mechanism and, in particular, the individual grants to the members of the Management Board,

    - Review the total amount of attendance fees and their distribution among the Supervisory Board members, as well as the conditions of reimbursement of costs that may have been incurred by the members of the Supervisory Board in connection with their duties, if any;

    - Prepare and present reports required under the terms of the internal charter of the Supervisory Board; and

    - Prepare any other recommendation that could be requested by the Supervisory Board or the Management Board regarding compensation.

Generally speaking, the Compensation and Nomination Committee will provide any advice and formulate any appropriate recommendations regarding the matters set forth above.

If possible, the Compensation and Nomination Committee is composed of at least three members of the Supervisory Board appointed by the Supervisory Board, it being specified that no less than the majority of the members of the Audit Committee must be, insofar as possible, independent members in accordance with the criteria defined in the AFEP-MEDEF Code, which the Company uses as a reference.

The members of the Compensation and Nomination Committee are:

- Jean Schmitt (Chairman),

- Alex Brabers (member of the Supervisory Board), and

- Patrick Jones (independent member).

Within the context of its duties, the Compensation and Nomination Committee can submit a request to the Chairman of the Management Board regarding the need for the assistance of any management executive (*cadre dirigeant*) of the Company, the specific skills of which could facilitate the completion of one of the tasks on the agenda.

The Compensation and Nomination Committee met 6 times over the course of the 2013 fiscal year with an attendance rate of 100%.

16.4 Risk management and internal control procedures implemented by the Company

In drafting this section of its report, the Company used the AFEP-MEDEF code as a reference.

16.4.1 General risk management principles

A) Definition

Risk management aims to identify all of the main risks and risk factors that could affect the business activities and processes of the company and to define the means of managing these risks and maintaining them, or to bring them down to an acceptable level for the Company, in particular by setting up preventative measures and controls linked to the internal control system. This process is intended to cover all types of risks and to apply to all the business activities of the Company and the Group.

B) Risk management objectives

The Company adopted the definition of risk management published by the French *Autorité des marchés financiers*, according to which risk management is a leverage mechanism in the management of the Company that contributes to:

- creating and maintaining the value, assets, and reputation of the Company,
- providing added security to the decision-making and processes of the Company in order to promote the reaching of objectives,
- promote consistency between actions and the securities of the Company,
- mobilize employees around a shared understanding of the main risks to which the Company is exposed.

C) Components of the risk management system

The risk controlling method used by the Company is based, on the one hand, on the assessment of the risks within the context of the definition provided in the annual business plan and, on the other, on the elaboration of plans of action aimed at handling these risks.

The main risks associated with the business activities of the Company are described in the Management Board's management report.

Specific plans of action are put in place in order to respond appropriately to the main risks identified. A constant monitoring is also implemented. Financial risks and related controls in place are shared with the Statutory Auditors and the Audit Committee on a regular basis in order to adapt or modify them, as the case may be. The Company continues to elaborate its risk management system. The Company established a risk map in 2012, which provides it with a more systematic monitoring tool.

16.4.2 Relationship between risk management and internal control

The internal control system relies in particular on risk management to identify the main risks that need to be controlled. In the past, the Company has first elaborated and developed an internal control system, whereas the elaboration of the risk management system is more recent. The Company is now involved in reconciling both systems, aiming to identify the terms of controls to which the key processes of the company that could potentially be impacted by risks regarded as "major" are subject.

16.4.3 General internal control principles

A) Definition

Inside Secure uses as a guideline the definition of internal control proposed by the French *Autorité des marchés financiers*, according to which internal control is a system implemented by the Company intended to ensure:

- compliance with laws and regulations of its activities,
- the enforcement of instructions and guidelines set by senior management,
- the proper functioning of the internal processes of the Company,
- the reliability of its financial information,

and, generally, contribute to the monitoring of its activities, the effectiveness of its operations and the efficient use of its resources. Over the course of the fiscal year, the Company continued to implement an internal control system intended to "internally guarantee that the information used and distributed throughout the businesses of the Company is relevant and reliable."

However, the use of internal controls does not constitute an absolute guarantee that the objectives of the Company will be reached, or even that the risk of error or fraud will be fully controlled or eliminated.

B) The components of internal control

<u>Standards</u>

The procedures described below are those of the Company and its subsidiaries, the financial statements of which are consolidated by the global integration method, it being hereby specified that in the context of its development and of the initial listing of its shares on the Euronext regulated market in Paris, France, the Company intends to improve and supplement its existing system by referring to the guidelines contained in the implementation guide for the framework of reference on risk management and internal control adapted to small and mid caps published by the French *Autorité des marchés financiers* on November 18, 2013.

The different actors of the internal control system

The Group's internal control system relies on the Management Board of the Company, its Supervisory Board, its Audit Committee and its Compensation and Nomination Committee. Their composition, functions and operation are described above.

Accounting and financial organization and monitoring

In order to make its financial and accounting information more reliable, the Group has implemented a number of procedures, mainly organized around:

- a three-year business plan,
- an annual budget,
- a monthly consolidated reporting for internal use, enabling the reconciliation of accounting data and forecasts, and expected to improve the quality and reliability of its financial information, it being specified that such reporting is also used for the financial management of the Group, and
- quarterly income and cash position forecast.

Identification of key controls and the monitoring of their implementation

Within the context of the drafting of its risk map in 2012, the Group identified the major risks it is exposed to as a result of the nature of its business activities. The Group identified fifteen processes used in the preparation of its financial information:

- Governance
- Reporting and budgetary procedures
- Research and development activity
- Existence and valuation of stocks
- Recognition of income and customers
- Purchase and suppliers providers
- Payroll and Human Resources
- Procedures for investment and capital expenditures
- Cash and derivatives
- Contractual and legal framework
- Tax matters
- Research tax credits and grants
- Subsidiaries
- Information systems
- Procedures for closing interim and annual financial statements

These processes are listed in an internal control matrix that included 199 key controls during its most recent review in November 2013. Some key controls have revealed internal control weaknesses, which as far as the Company is concerned, did not significantly affect the reliability of its financial information as offsetting controls were implemented. These are areas of improvement for the Group. The Audit Committee reviews the matrix of internal control on an annual basis.

Accounting and financial information system

The Group has established three information systems in order to strengthen its internal control system:

- a management tool for ERP (SAP), the objective of which is to restore financial information in an automated and secure way. This tool has helped to establish a plan of accounts, to improve the traceability of information and create audit trails,

- a tool to monitor research and development projects that enables the monitoring, on a per project basis, of the time spent by researchers on each project and the costs incurred in connection with each project,

- a software package for modeling projected cash flows in order to manage cash projections in connection with accounting and budget control data.

Resources allocated to internal control

Given its size, the Group has not established an internal audit department. Internal control is primarily the responsibility of its financial department. During their visit to sites abroad, its teams review the analyses of the financial statements prepared by the accountants of its subsidiaries. In general, for foreign subsidiaries, the Group relies on outside auditors for the preparation of the financial statements and the annual tax returns in order to maintain an adequate segregation of duties and to ensure proper compliance with and implementation of local legal and tax provisions.

16.4.4 Scope of risk management and internal control

The internal control procedures described herein are applicable to the Company as well as to any of its subsidiaries for which the financial statements are consolidated according to the global integration method.

16.4.5 Corporate bodies responsible for risk management and internal control

The Management Board of the Company is responsible for the identification and processing of essential challenges and defines strategic and operational objectives. It ensures that the strategy is executed and reviews the options contributing to its effective implementation, in particular in the fields of technology, security, and human and financial resources.

The framework of reference used by the Company for its internal control is focused on ensuring that the accounting and financial information is reliable and on compliance with applicable laws and regulations, in particular in the area of preparation of accounting and financial information.

The Management Board is responsible for the supervision of the internal control system of the Company. Since its does not have an internal auditing department, the Management Board entrusts the financial department with the responsibility of identifying the risks and implementing, monitoring, and evaluating the internal control system.

Within the financial department, the chief financial officer, financial controllers, and the financial planning & analysis department are an integral part of the system and work in close collaboration with the various operational departments in order to guarantee an acceptable level of internal control.

Lastly, acting under the authority of the members of the Supervisory Board of the Company and in order to ensure the quality of internal control procedures and of the reliability of the information provided to shareholders and to the financial markets, The Audit Committee monitors all issues associated with the establishment and auditing of accounting and financial information.

16.4.6 Limitations of risk management and internal control and areas of improvement

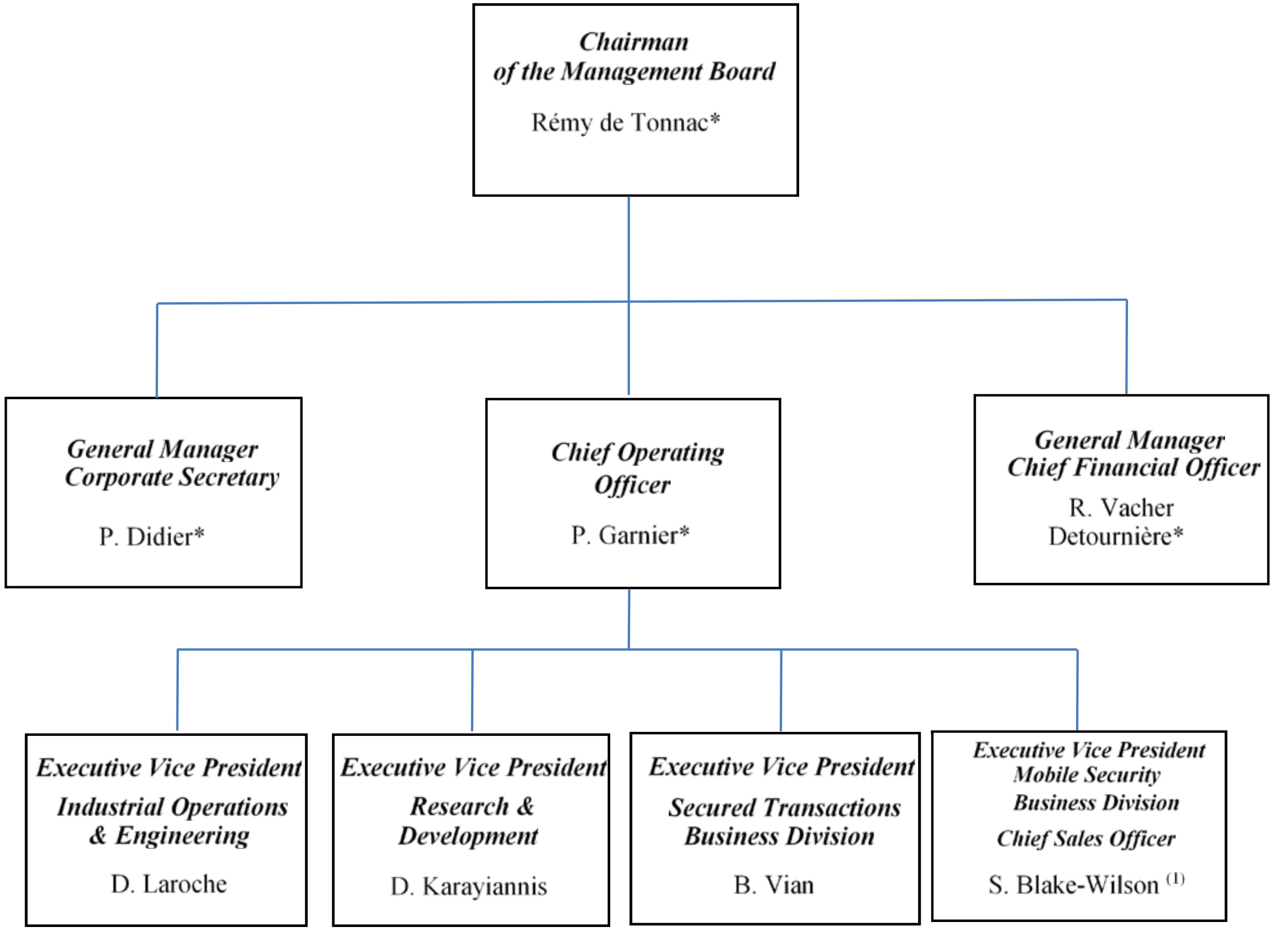
Risk management and internal control represent a constantly improving process. In 2014, the Company intends to test its risk management system and to improve the monitoring of identified plans of action. At the same time, the Company intends to update its internal control system by taking into account changes in its internal structure and its business. The Company also plans to ensure that the internal control system it implemented can cover the risks identified when it established its risk map.

17. EMPLOYEE MATTERS

In essence, the information provided in this Chapter reiterates the information relative to the Group's labor, environmental, and community commitments presented in Section 7 of the Management Report prepared by the Company's Management Board (please refer to the Company's 2013 Annual Financial Report, available on the Company's website at www.insidesecure.com). This information was also the subject of a report prepared by a third party, which is included in Appendix 3 of said Annual Financial Report.

17.1 Corporate information

17.1.1 Organizational chart as of the filing date of this Registration Document



* Member of the management board

(1) Simon Blake-Wilson resigned from his position in the Company on August 18, 2014. He will leave the Group on August 29, 2014.

The Group’s key managers have extensive experience in their respective fields. Their experience is summarized below. For a description of the executive corporate officers’ experience, please refer to section 14.1.1 entitled “Members of the Management Board” of this Registration Document:

Dr. Dimitrios Karayiannis
Executive Vice President of Research & Development

Dr. Dimitrios Karayiannis joined INSIDE Secure in 2012, bringing more than 16 years of hardware, software experience in semiconductor industry including more than 10 years of management experience in product development of Application and BaseBand Processors. He leads the Group’s R&D team and is responsible for the development of all INSIDE Secure products. Prior to joining INSIDE Secure, Dr. Karayiannis held various positions at Texas Instruments in the United States and France. As a member of the senior leadership team at Texas Instruments France, he managed the R&D organization for the Wireless Business Unit. Dr. Karayiannis holds a Ph.D degree in Computer Science from Southern Illinois University.

Damien Laroche
Executive Vice President for Industrial Operations and Engineering

Damien Laroche began working for the company in 2003. He started his professional career as a product engineer at SGS-Thomson (now STMicroelectronics). In 1989, he joined Gemplus as its Engineering Manager, focusing mainly on electrical and physical chip card characterization. Later, as Industrial Manager of Module Assembly, he played a significant role in the construction and launch of the firm's La Ciotat plant in France. In 1996, Gemplus appointed him to the position of Worldwide Industrial Director for Contactless Products. It was in this post that he helped develop contactless card fabrication technologies, such as combi-cards for the transport and access control markets. In addition, he developed RFID tags for laundry services and libraries, and coordinated Gemplus' contactless production sites. Today Damien runs the group's operations, overseeing quality, engineering, logistics and industrial purchasing. He holds a postgraduate degree in microelectronics from the University of Bordeaux.

Bernard Vian
Executive Vice President of the Secure Transaction Business Division

Bernard Vian came to the company via Gemplus, where he held positions in sales and marketing. He also opened Gemplus' Californian office in 1996. As the firm's Applications Service Support Director for North America, a role he performed until 2001, he built strong customer relationships with Visa International and Visa USA. Bernard shaped Gemplus into the world's largest Visa chip card vendor, overseeing the delivery of over twenty million cards to bank issuers as part of the first “VISA Smart Breakthrough Program” in the United States. He then joined INSIDE Secure in 2002 as Business Development Manager, going on to successfully position the MicroPass product on the contactless market. Bernard is a graduate of Marseille's *Institut universitaire des sciences pour l’ingénieur*.

17.1.2 Employees

As of December 31, 2013, the Group had 367 employees.

At closing of the periods in question, the Group's employee base changed as follows:

Per function	December 31, 2013	December 31, 2012
Senior management and administration	46	46
Research and development (*)	189	240
Sales & Marketing (*)	69	78
Operations	63	96
Total	367	460

(*) in the context of the October 2013 corporate restructuring, 14 persons were transferred from the Research & Development function to the Sales & Marketing function for reporting purposes.

Per country (*)	December 31, 2013	December 31, 2012
France	*215*	*254*
Scotland	*39*	*75*
Netherlands	*39*	*37*
Finland	*25*	*20*
Poland	*0*	*6*
Singapore	*4*	*8*
China	*0*	*7*
South Korea	*3*	*4*
Thailand	*4*	*3*
Taiwan	*9*	*9*
Japan	*3*	*0*
United States	*26*	*32*
Germany	*0*	*2*
Philippines	*0*	*0*

(*) in this table, employees are assigned to the various countries based on their home company. It should be noted that an employee working for the Finnish subsidiary of the Company performs her duties mainly in Norway while an employee under contract with the United States works mainly in Canada.

As of the end of the 2012 fiscal year, the employee base growth includes the ESS business's integration into the Group, following the former's acquisition on December 1, 2012 (73 employees at that date, to which were added 4 employees in Japan as of January 7, 2013).

As of July 31, 2014, the Group had 338 employees.

Gender breakdown

		December 31, 2013
Women	France	48
	Outside of France	27
Men	France	167
	Outside of France	125
Total		367

Based on an employee base of 367 employees as of December 31, 2013, the percentage of women is equal to 20%. This gender distribution is mainly due to the types of professions represented within the Group, which historically have been dominated by the male population.

Age breakdown

	< 30 years	Between 30 and 40 years	Between 40 and 50 years	> 50 years
France	23	83	74	35
Outside of France	7	59	57	29
Total	30	142	131	64

The Group's employees have an average age of 41 years. It should be noted that there is a fairly large senior population for a high tech business, since the percentage of employees over 50 is 17%. In France, the rate is 16%.

In order to strengthen its teams on certain projects, the Company regularly employs through staffing agencies that assist in finding temporary employees.

These temporary employees totaled 39 persons as of December 31, 2011, 27 persons as of December 31, 2012, and 11 persons as of December 31, 2013.

Hirings and dismissals

In recent years, the Company has mainly hired candidates with "expert" profiles. Due to their experience, they are able to meet the technological challenges inherent in the markets it conducts business in. Currently, the hiring strategy of the Company is to hire a mix of profiles, with a higher preference for "junior-level" profiles. Apprenticeships and mandatory long-term engineering post-graduate residencies are also a preferred source of recruitment for the Company.

In the France market, the Group hired 11 persons in 2013. The data on new hires completed in other subsidiaries of the Group is currently being prepared. The Group intends to publish a Group-wide indicator for the 2014 fiscal year.

Of all the employees who joined the Group in 2013, 100% of them were recruited with open term employment contracts (*contrat à durée indéterminée*, or "CDI").

Over the course of 2013, the Company implemented a business restructuring plan and reorganized its corporate structure, which led to layoffs in both in France (in the context of a *plan de sauvegarde de l'emploi*, or layoff plan) and internationally.

The geographic distribution of the 82 layoffs completed in 2013 in connection with this corporate downsizing plan is the following:

Country	Number of layoffs
France	24
Scotland	31
Poland	6
Germany	2
United States	6
Singapore	4
China	7
Taiwan	2

In early 2014, 2 additional employees were also laid off in France in connection with this plan.
This corporate restructuring also led to the shutdown of subsidiaries in Poland and China in early 2014.
Wages and salaries

Wages and salaries (charges included) recorded by the Group in the 2013 fiscal year amounted to US$ 54,702 thousand.

Incentive-based compensation

In France, a discretionary profit-sharing agreement (*accord d'intéressement*) was signed with the representatives of the employees of each of the Group's French companies (INSIDE Secure and Vault-IC France).

The purpose of these agreements is to create a direct link between the employee and the Company's performance, while strengthening its belief in promoting common interests.

The agreements in force in the 2013 fiscal year were based on reaching a target operating margin in the second half-year of the 2013 fiscal year and on reaching certain milestones in the development process of new critical products for the Company. Incentive-based compensation was paid to employees of the Group's French companies in 2013.

Health, pension, welfare, and other benefits

INSIDE Secure's employees in France also benefit from various employment benefits:

- Regarding health, the Company guarantees its employees an additional health plan to the general social security plan. In 2012, the additional health plan was redefined and, as a result, the Group's management will incur a larger portion of contributions to this plan;

- Regarding welfare, the protection plan available to employees aims to protect them against life's mishaps: work interruption, disability, or inability to perform. This plan guarantees employees that they will be paid significant bonuses in the event of disability or inability to perform. In the event of death, this plans allows for to be paid to the spouse and an education stipend for each child he or she claims as a dependent;

- In order to help its employees in securing a home, the company became a member of the organization responsible for managing the *1% patronal* (employer loan offering employees a 1% interest rate for the acquisition or construction of one's principal residence). This new membership provides all employees with privileged access to real estate inventory. They also benefit from other advantages aimed at assisting them in leasing or acquiring their place of residence.

17.1.3 Work hours

Within INSIDE Secure, company executives and non-executives (*salariés cadres et non cadres*) work 39 hours per week. They accumulate 0.62 days of overtime per month, or a total of 6.82 days per year.

Employees of Vault-IC France have different scheduling schemes in place:
- Work hours for nearly all company executives is based on day count (218 days) enabling each of them to better organize their work hours and adapt to the duties and responsibilities entrusted to them;
- Non-executive personnel either works 35 hours per week while being allocated 12 RTT days (*réduction du temps de travail*, or extra paid vacation days to promote less work hours, or

“RTT”) or works 39 hours per week while accumulating 0.62 days of overtime per month, or a total of 6.82 days per year;
- Lastly, a certain number of employees responsible for testing the company’s products work according to a schedule of shifts.

Skills management

- As early as 2011, the Group wanted to change its internal structure in order to manage new hires and skills homogeneously across its entire staff and rally groups of varying origin around the same approach regarding professional contributions and their development.

- The new structure launched in December 2013 assigns a position to each job and each contribution level in the organization. It highlights career moves within the sector and across sectors, horizontal and vertical, and between expertise and management.

- The approach covers all of the Group’s employees, excluding corporate officers.
  It is used for all job positions, in all countries, and applies to executive and non-executives.
  The new structure includes 11 groups. Job positions are split into four broad career sectors:
  - Technical
  - Sales
  - Support
  - Management

In addition, the new structure helped to harmonize and provide consistency with the Group’s general remuneration policy (fixed salaries and individual variable portions), by assigning salary ranges to each group in the structure, which are determined based on the real salaries, pay equity management, and market competitiveness. Although it is constantly changing as the company further develops, it provides the general guidelines for its remuneration policy and employment benefits.

Absenteeism

Absenteeism within the company is fairly weak; it is lower than the national averages for the business sector of the Group (source: *5ème baromètre Alma Consulting Group sur l’absentéisme* published in September 2013 – Absenteeism rate of 3.77% for that sector of the industry).

In 2013, the aggregate absenteeism rate in France (including illness and work-related injury) totaled 0.90%. It corresponds to the total number of days absent for illness, or work-related injury or illness, divided by the theoretical number of business days in the year. It does not include leaves of absence for prolonged illness.

17.1.4 Labor relations

The Group assigns special importance to labor relations, in particular when negotiating with employee representatives.

The French companies of the Group, namely INSIDE Secure and Vault-IC France, each have a works council.

INSIDE Secure has a dedicated employee delegation comprised of 6 permanent members and 6 alternates. The most recent elections took place in June 2011. Two labor unions are represented (FO and CFTC) in addition to permanent members “unaffiliated with any labor union”.

Vault-IC France also has a dedicated employee delegation comprised of 2 permanent members and 2 alternates. The most recent elections took place in January 2011. Permanent members are affiliates of the CFE CGC labor union.

In 2013 and 2014, the Group restructured its business, which led to 84 layoffs across the globe. In France, this corporate restructuring was subject to a disclosure/consultation process with INSIDE Secure's Works Council as well as consultation process with INSIDE Secure's CHSCT union. In the Great Britain, a collective consultation took place with employee representatives selected for this purpose.

Mandatory annual negotiations (*négociations annuelles obligatoires*, or "NAO") took place in the French offices of the Group over the course of the 4th quarter of 2013 and early in the 2014 fiscal year. They resulted in the renewal of existing agreements.

Review of collective bargaining agreements

Over the course of the 2013 fiscal year, three collective bargaining agreements were signed with INSIDE Secure's employee representative bodies:

- *Avenant à l'accord d'intéressement du 21 juin 2012* (Amendment to the incentive agreement dated June 21, 2012) – The purpose of this amendment is to define the terms and conditions applicable to calculating the incentive-based compensation for 2013 as it appears in the incentive agreement executed in 2012.
- *Accord résultant de la négociation annuelle obligatoire* (Agreement resulting from the mandatory annual negotiations) – This agreement defines the wage and benefit measures INSIDE Secure should reapply or implement over the course of the 2014 fiscal year.
- *Avenant au Plan d'Epargne pour la Retraite Collectif Interentreprises* (Amendment to the Intercompany Collective Pension Savings Plan) – The amendment confirms membership to PERCO-I HSBC and provides the terms and conditions applicable specifically to the company.

Three agreements were also signed with Vault-IC France's employee representative bodies:

- *Accord d'intéressement* (Incentive Agreement) – It defines the general principles of and terms and conditions for calculating the incentive-based compensation for Vault-IC France's employees.
- *Accord résultant de la négociation annuelle obligatoire* (Agreement resulting from the mandatory annual negotiations) – This agreement defines the wage and benefit measures Vault-IC France should reapply or implement over the course of the 2014 fiscal year.
- *Avenant au Plan d'Epargne pour la Retraite Collectif Interentreprises* (Amendment to the Intercompany Collective Pension Savings Plan) – The amendment confirms membership to PERCO-I HSBC and provides the terms and conditions applicable specifically to the company.

Social activities

The Company contributes to social activities promoted by labor organizations in France pursuant to legal provisions put in place for that purpose. Budgets benefiting social activities promoted by foreign organizations are also in place. These contributions cover, either partly or fully, the participation of employees mainly in athletic, cultural, and musical activities and events.

17.1.5 Health and safety

Every day, the Company works with the members of CHSCT in order to comply with the requirement for and guarantee good work conditions to its employees. The Company complies with applicable legal provisions in this domain.

At the Group level, the number of work-related and traveling injuries, as well as work-related illnesses, is not high.

These are the numbers for France:

	2012	2013
Number of injuries while working	3	0
Number of injuries while traveling	3	3
Number of cases of work-related illnesses	0	0
Frequency rate	0	0
Injury severity rate	0	0

The calculation of the theoretical number of hours worked that was used to determine the frequency and severity rates is based on theoretical format of 39 hours per week for all types of employment contracts.

17.1.6 Training

Professional training within the Group

The annual training program aims to ensure that employees are properly trained to carry out their work responsibilities and offers training focused on skills development.

Training initiatives set up by the Group are typically technical and concern job-related skills. These programs are essential for acquiring the skills to master necessary technical advancements that meet the specificities of the markets in which the Company conducts its business activities. They also help in introducing new professional tools and new work methods. This explains why such programs must be completed as soon as possible and with the best experts / trainers in the field.

Other training initiatives aim to develop cross-disciplinary skills. Here are some examples: (i) learning to work in a cross-disciplinary way in an international multi-worksite environment in which setting challenging goals and ensuring customer satisfaction are top priorities, or (ii) continuing education in the development of linguistic abilities, in particular in English, which is necessary for operating in the international environment of the Company.

In 2013, more attention was given to training initiatives aimed at:

- Strengthening commitments,
- Offering specialty training for certain markets / products
- Acquiring the new technical abilities necessary to support the evolution of the Group's products
- Improving communication within and across teams in a multi-site international environment,
- Continuing education in the development of linguistic abilities, in particular in English, which is necessary for operating in the international environment of the Group,
- Assisting and strengthening project approach and monitoring,
- Favoring the sharing of experiences through organizing cross-disciplinary internal training,
- Professionalizing and assisting internal trainers regarding pedagogical matters,
- Support the introduction of new tools new work methods,
- Promote individual growth development via D.I.F (*droit individuel à la formation*, or individual right to training) (D.I.F includes assertiveness training, change management, better communication in a professional setting).

The goal set by the Group is to ensure that all of its employees can benefit from at least one training initiative per year.

Training partnerships

The Company often utilizes external training initiatives organized with public institutions and organizations (*organismes conventionnés*) and selected pursuant to calls for tenders. Once selected, they become true partners with which the Group works closely to meet its needs in knowledge acquisition and skills development.

The sharing of knowledge

Training within the Group also relies increasingly on the formal sharing of experience through the creation of internal training initiatives. Such internal training initiatives play an important role and the Company acknowledges this transfer of knowledge by ensuring that its internal trainers have the pedagogical skills necessary to complete this task. The professionalization of internal trainers is currently considered a priority.

Training review

Since the training of its staff represents a significant investment for the Group, measuring its effectiveness is necessary. The review process is still most often based on the impressions of participants on the training they received. Although this feedback is necessary, it is not sufficient; this is why the Company wishes to gradually implement a process to enable trainers to evaluate interns based on the knowledge they acquired.

17.1.7 Fair treatment in the workplace

17.1.7.1Gender equality

The Group aims to promote the equality of wages between men and women with similar levels of skill and experience. For that reason, the Company ensures that wages are equal when employees are hired and monitors aggregate wages paid by gender to ensure that wage increases benefit men and women proportionally.

Annual base salary as of December 31, 2013 (does not include seniority bonuses):

Women		Men	
Executives	ETAM	Executives	ETAM
52,096	28,726	65,696	30,745

The difference in salary between men and women in the executives category is, amongst others factors, due to the lack of women in executive management positions in its business sector.

17.1.7.2Anti-discrimination Policy

The Company fights against all forms of personal discrimination.
In order to achieve this, it has implemented the following measures:

- Note on job posts mentioning that the job is available to employees with disabilities
- Monthly monitoring of the equality of access to training for both women and men
- Directing managers to ensure equal access to training for all at the time of creation of their team training program.

17.1.7.3 Hiring and integration of employees with disabilities

The Company offers all of its employment positions to all potential employees without discrimination. Despite this policy, the Company believes that it hires an insufficient number of employees with disabilities, which prompted it to establish a partnership with Agefiph in order to find solutions for meeting its requirement in this area. Commissioning external companies that hire workers with disabilities in the office supplies business is, in particular, another method the Company uses to meet its requirement.

17.1.8 Promotion of and compliance with stipulations in key collective bargaining agreements of the International Labor Organization

As specified in the ethics charter sent via email to all employees of the Group and handed to each new hire, the Group scrupulously complies with national and international laws and, in particular, commits to complying with the standards set by the International Labor Organization relative to preventing child or forced labor. The Group ensures that its commercial partners make the same such commitments.

In addition, INSIDE Secure respects employees' right to be personally involved in political activities, to support the causes of their choice, or to join the labor union of their choice.

17.2 Environmental information

17.2.1 General environmental policy

Conscious of current environmental challenges and of its social responsibilities, INSIDE Secure seeks to ensure that its business activities follow the principles of sustainable development, whether directly or via its commercial partners.

As such, INSIDE Secure aims to find common ground between its economic and social growth objectives on the one hand and its efforts to respect the environment by limiting, in particular, the harmful impact it may have on the environment and by managing its natural resources in a rational way.

Since the Group does not carry out any manufacturing activities in its offices (fabless model), it is not exposed to any significant direct risks of environmental harm.

The Group's quality control department is responsible for the management system that handles environmental matters.

An awareness program on environmental protection was organized in fiscal year 2012 for employees based in France. It was not renewed in fiscal year 2013, due to the fact that the Company's business activities did not quite justify it at that time.

There are no provisions or guarantees made to cover risks associated with the environment.

During the fiscal year, the Group did not award any compensation as a result of a court decision on an environmental matter.

17.2.2 Pollution and waste management

Since its business activities are mainly conducted within the tertiary sector, the Group has not taken specific measures to prevent, reduce or remedy any waste released in the air, water or on land that could significantly harm the environment.

The Waste Electrical and Electronic Equipment Directive ("WEEE") (2002/96/CE) allows for manufacturers to organize and finance the collection, processing, and valuation of their products at end-of-life. In order to avoid any related risk of pollution, a specialized third party company is commissioned to reprocess all of the waste resulting from equipment and products.

As such, a procedure was put in place within the Group aimed at the disposal and recycling of the following waste: silicon wafers and micro-packaged chips, electrical and electronic equipment, power cells and batteries, toner and ink cartridges and paper.

In 2013, the Group recycled the following quantities of waste from its French worksites:

- Electric and electronic equipment and silicon wafers	950 kg
- Lead batteries	154 kg
- Batteries	67 kg
- Toner and ink cartridges	41 kg
- Paper	4,054 kg

In 2013, the consolidation in Meyreuil, France of the teams previously based in Aix-en-Provence, France and Rousset, France created an opportunity to recycle a significant amount of electronic equipment, silicon wafers and outdated documents.

Due to the nature of its business activities, the Group does not generate any significant amount of noise pollution.

17.2.3 Sustainable use of resources

Over the course of 2013, the Group's electric power consumption in France and Scotland was the following:

- *France (excluding the Cergy and Montigny-le-Bretonneux worksites, for which data is not available):* 1.333 million kWh

- *Scotland (East Kilbride worksite):* 0.791 million kWh

In August 2013, the Group regrouped all of the staff it initially employed in Aix-en-Provence and Rousset under one roof in a building compliant with thermal regulation RT2012 while boasting high-performance energy features.

The upper section of the building favors access to solar energy via photovoltaic sensors. The building's outer protective layer is highly efficient in controlling heat as it ventilates naturally while supported by reinforced air circulation, which enables the building to maintain a comfortable internal temperature even on very hot days.

In particular, the building stands out relative to its primary energy consumption. Indeed, it offers performance gains of 70% relative to the requirements of RT 2012 in terms of the building's maximum conventional primary energy consumption levels (Pec_{max}).

In addition, in an effort to protect the environment, the building is equipped with efficient energy systems:

- Counter-flow ventilation system with a rotary heat exchanger in order to optimize energy consumption in the building.
- Walls and roof equipped with reinforced thermal isolation.
- Heating/cooling via a direct expansion system.
- 57/27 argon-filled double glazed windows (lets in 57% light and only 27% heat)

- The roof allows for photovoltaic solar power production via an installed solar panel power capacity of 99.75 kilowatts-peak.

The impact of the bioclimatic design on the energy performance of the building can be seen through "Bbio" coefficient (*Besoin Bioclimatique*, or Bioclimatic Requirement). The building's needs (heating/cooling, ventilation, lighting) depend on this Bbio figure. The building boasts a 45% gain on the $Bbio_{max}$ threshold required under the terms of RT2012.

Due to its fabless business model, the Group does not cause any signification impact on land use or water consumption and has not taken any specific measures to improve its efficiency in the use of raw materials.

17.2.4 Climate change

The power consumption of French worksites (excluding that of the buildings in Cergy, France and Montigny-le-Bretonneux, France) has generated 17.3 kg of CO2 emissions.

Regrouping the teams based in the Aix-en-Provence region under one roof has, amongst other things, eliminated employees' frequent automobile commutes between the two worksites in Aix-en-Provence and Rousset where they used to work.

The power consumption of the East Kilbride worksite in Scotland has generated 104.4 kg of CO2 emissions.

The Company's traveling policy recommends that employees favor travel by train than by plan for commutes between Marseille and Paris.

In addition, and insofar as possible, the Group encourages its employees to use the telephone conferencing solutions available to them in order to limit travel.

However, the Group has not yet conducted any specific analysis to identify the measures it should implement to adapt to the consequences of climate change on its business activities.

17.2.5 Protecting biodiversity

The Group's various worksites do not carry out the types of activities that could cause direct harm to the biological balance of natural habitats or protected animal and plant species.

17.3 Local Community Relations

17.3.1 Territorial, economic, and social impact of the Group's business activities

In France, the Group's business activities require it to call upon a certain number of subcontractors that can supply it with various products and services (designing tools and equipment for its laboratories and testing room, consultancy services (for product development assistance, in particular), front desk personnel, security personnel, and cleaning personnel…).

These subcontractors are mainly located in the vicinity of the Group's registered office in Meyreuil, France. As such, the Group contributes to the development of indirect local employment that supports its business activities.

Until December 2013, the Group was, in particular, outsourcing a significant portion of its wafer production to LFoundry, based in Rousset, France in the Bouches-du-Rhône region. This company's court-ordered liquidation proceedings in late 2013 forced the Group to transfer this outsourced business outside of the country, due to the lack of any other company on the French territory working with the technology required.

17.3.2 Relations with persons or entities with an interest in the company's business activities, in particular social integration associations, education institutions, environmental protection association, consumer associations and local groups

In the Provence-Alpes-Côte-d'Azur region of France, the Group fosters a relationship with several higher education institutions from which it recruits interns and employees.

It is also in contact with some regional research laboratories, the work of which is related to its own business activities.

Due to its "fabless" business model, the Group does not have a decisive territorial, economic, or social impact on local groups or communities.

17.3.3 Subcontracting and suppliers

In an effort to perform at the highest level and to remain competitive, the Company must remain very reactive and flexible. In addition, to grow beyond the limits of its own corporate structure and reinforce these two criteria, the Company has decided to seek external technical assistance. Therefore, as of December 31, 2013, the Group was working with approximately ten external service providers retained through calls for tenders. This technical assistance is mainly exercised in France by companies located, for the most part, in the vicinity of the Company's registered office. For the length of the assignment, the corresponding engineers are integrated into the development teams and work under the supervision of the people responsible for these teams.

Furthermore, since it operates under a fabless model, the Group works with foundries and subcontractors that provide the manufacturing and testing for the products it develops.

All of the revenue generated from the sale of semiconductors is outsourced in this way. It represents 79% of the Group's aggregate revenue in 2013.

The Group pays close attention to the environmental impact of its products and tries to ensure that its production partners comply with environmental regulations. The foundries with which the Group works and the subcontractors responsible for product testing have been ISO 14001 certified (a standard mainly recognized at the international level for environmental management systems) and the majority of subcontractors responsible for assembling its products are certified as well.

The execution of a contract extension (the Technical Supplier Agreement) that defines, in detail, the Company's expectations in technical terms, in quality, and environmentally, is also requested from the various subcontractors.

As such, the Group closely monitors compliance with the various environmental regulations applicable across the globe.

In addition, the Group ensures that its subcontractors are ISO14001 certified and, therefore, have implemented an environmental management system within their organization.

17.3.4 Loyalty practices

The Company carries out its business activities in compliance with rules of integrity. In November 2012, it implemented an ethics charter that defines the principles and values that comprise the fundamental standards of conduct expected of its employees mainly in the following areas:

- Fighting against all forms of discrimination
- Prohibiting anti-competition practices
- Prohibiting child labor and forced labor
- Preserving the confidentiality of information
- Preventing fraud
- Preventing conflicts of interest
- Allowing employees to associate freely and to engage in collective bargaining
- Prohibiting acts of corruption and influence peddling
- Relationship with shareholders and financial markets

When the Group completed its initial public offering, the Ethics Charter was distributed to all employees of the Group in French and English. It is now handed to each new employee of INSIDE Secure.

In April 2012, the Group also distributed an insider-trading policy handbook (*code de déontologie boursière*) to all of its employees. It is also handed to any new employees. The purpose of the insider-trading policy handbook is to provide information to the Group's employees and the people around them regarding their obligations relative to transacting on the stock exchange and preventing the unlawful use or dissemination of privileged information.

Measures taken to promote the health and safety of consumers:

The business activities of the Group are subject to the RoHS directive (*Restriction of the use of certain hazardous substances in electrical and electronic equipment*) (2002/95/EC), which limits the use of six substances that present both health and environmental hazards and that could be used in the manufacturing of electrical and electronic equipment, namely four heavy metals (Hg, Pb, Cd and CrVI) and two flame retardants (PBB and PBDE). Although the Group does not manufacture its own products, the Group ensures that its suppliers and subcontractors comply with this directive. In this context, all of the subcontractors of the Group disclose their RoHS analyses for the products they deliver.

REACH regulations also require information to be disclosed to customers in the event that an SVHC (Substance of Very High Concern) is present in a product at a mass concentration higher than 0.1%. In order to meet its obligations, the Group closely monitors the list of SVHC candidates updated by the European Chemicals Agency (ECHA) and takes the necessary steps with its suppliers to ensure that the products introduced to the market do not contain such substances at higher concentrations than the levels specified. The Group also closely monitors the SVHC list as it appears in Appendix XIV of REACH in order to ensure that the products of the Group do not risk being banned from the market.

As such, the Group places much importance on making sure its suppliers and subcontractors across the globe comply with applicable environmental regulations.

17.3.5 Other projects in support of human rights

In agreement with the collective initiative launched by the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI), the Company ensures that its subcontractors source their supplies in minerals (gold, tungsten, tantalus, and tin) away from the conflict zones of Congo or its associated countries, in which the revenue from these minerals is, in particular, used to finance such local conflicts.

To achieve this, the Group asks the various subcontractors in question to produce a written document certifying that the minerals they use in manufacturing their products are not sourced in such conflict zones.

17.4 Financial instruments granting access to the share capital of the Company awarded to the first ten non-executive employee beneficiaries, and stock options exercised by such beneficiaries

Over the course of the past three fiscal years and from January 1, 2014 to the filing date of this Registration Document, the Company granted 644,490 stock options of the Company ("Options") and 89,990 free shares ("FS") to the ten employees of the Group who hold the largest number of free shares and stock options of the Company granted during the fiscal years in question (collectively referred to as the "Entitlements").

	2011		2012		2013		From January 1, 2014 to the filing date of this Registration Document	
	Options	FS	Options	FS	Options	FS	Options	FS
Date of the Shareholders' Meeting			October 20, 2005 June 2, 2006 June 29, 2012	June 30, 2010 January 20, 2012 June 29, 2012	June 29, 2012 June 19, 2013		June 26, 2014	
Date of the Management Board Meeting			February 17, 2006 June 2, 2006 July 26, 2012	December 16, 2010 April 6, 2012 July 26, 2012 October 17, 2012 December 20, 2012	February 20, 2013 June 20, 2013		July 22, 2014 August 28, 2014	
Number of Entitlements granted to the ten Group employees who have the highest number of Entitlements granted in such way (on aggregate) (1)	0	0	14,490	89,990	265,000	0	365,000	0
Total number of Entitlements exercised/acquired/vested by the ten Group employees who have the highest number of Entitlements exercised/acquired/vested in this way.	0	0	59,017	474,000	0	0		0

(1) While accounting for the four-for-one par value split agreed to at the Extraordinary Shareholders' Meeting dated May 11, 2011.

17.5 Equity and stock options held by corporate officers (*mandataires sociaux*)

As of the filing date of this Registration Document, the direct and indirect equity held by members of the Management Board and Supervisory Board, as well as the number of rights or securities held granting access to the Company's share capital, can be broken down as follows:

	Number of shares	Number of shares that could result from securities or other rights granting access to the share capital (1)	Total
Rémy de Tonnac	396,076	194,249	590,325
Pierre Garnier	0	220,000	220,000
Richard Vacher Detournière	112,582	183,195	295,777
Pascal Didier	95,019	68,828	163,847
Simon Blake-Wilson	0	32,500	32,500
Patrick Schwager Jones	4	26,400	26,404
Alex Brabers	4	0	4
Jean Schmitt	504	0	504
Glenn Collinson	12,111	32,800	44,911
Joëlle Toledano	1,192	0	1,192
Olivier Sichel	0	0	0
Muriel Barnéoud	0	0	0
BPIFrance Participations	2,223,991	0	2,223,991
Total	2,840,983	757,972	3,598,955

(1) A detailed breakdown of these securities and rights can be found in section 15.3 above entitled "Free shares, share warrants, and stock options granted to corporate officers" and a detailed description of the terms of each of these plans is included in section 21.1.4 entitled "Potential share capital" of this Registration Document. The numbers provided correspond to the number of shares that could potentially be subscribed following the exercise of each of these securities or other rights granting access to the share capital of the Company.

17.6 Employee shareholding

As of the filing date of this Registration Document, there is no agreement in place providing for employee shareholding. However, it should be noted that, in the past, the Company completed several grants of free shares and stock options from which some of the Group's employees benefited (for further information, please refer to section 21.1.4 entitled "Potential share capital").

17.7 Statutory profit-sharing (*contrats de participation*) and discretionary profit-sharing (*contrats d'intéressement*)

On June 21, 2012, the Company signed a discretionary profit-sharing agreement (*accord d'intéressement*) with its works council for the fiscal years ended December 31, 2012, 2013 and 2014.

On February 20, 2006, the Company signed a collective agreement creating a company savings plan (*plan d'épargne d'entreprise*), tacitly renewable on an annual basis.

On June 28, 2013, Vault-IC France signed a discretionary profit-sharing agreement (*accord d'intéressement*) with its works council for the fiscal years ended December 31, 2013, 2014 and 2015.

On September 24, 2013, Vault-IC France signed a collective agreement creating a company savings plan (*plan d'épargne d'entreprise*), tacitly renewable on an annual basis.

18. MAJOR SHAREHOLDERS

18.1 Distribution of the share capital and voting rights

For further information please refer to the table in section 21.1.7 entitled “Change in the distribution of the Company’s share capital since December 31, 2011” of this Registration Document.

18.2 Major shareholders not represented on the Supervisory Board

For further information, please refer to the table in section 21.1.7 entitled “Change in the distribution of the Company’s share capital since December 31, 2011” of this Registration Document.

18.3 Voting rights of major shareholders

As of the filing date of this Registration Document, the number of voting rights granted to each shareholder is equal to the number of shares each of them holds.

Due to the fact that Article 7 of law # 2014-384 dated March 29, 2014, aimed at “regaining control over the real economy”, resulted in attaching a double voting right *ipso jure*, unless otherwise specified in the Bylaws, to any fully paid-up shares for which custody in registered form and under the name of the same shareholder can be proven for at least two years, the Company’s General Shareholders’ Meeting was convened in order to decide on whether to change the Bylaws in order to avoid introducing this double voting right.

The General Shareholders’ Meeting adopted this resolution. Therefore, the Company’s Bylaws now explicitly disallow any mechanism granting an *ipso jure* double voting right to shares for which custody in registered form and under the same name can be proven for at least two years.

18.4 Control of the Company

As of the filing date of this Registration Document, there Company does not have a controlling shareholder in the meaning of L. 233-3 of the French Commercial Code.

The Company has not implemented any measures in order to ensure that its control is not exercised in an abusive manner.

To the Company’s knowledge, there is no planned joint action among its shareholders.

18.5 Agreement that may cause a change in control

To the Company’s knowledge, there is no existing agreement that, if implemented, could lead to a change in control of the Company.

18.6 Status of the Company’s share pledges

Not applicable.

19. RELATED PARTY TRANSACTIONS

19.1 Intercompany Agreements

The transfer pricing between the Company and its subsidiaries is subject to agreements governing the nature and conditions for billing costs and expenses. The Company is the Group's main operating company, its subsidiaries are generally support companies that invoice back their services to the Parent Company (or, as the case may be, to sister companies) at prices respecting the principles of full competition.

19.2 Related Party Agreements

Related party transactions are described in Note 34 of the Notes to the Consolidated Financial Statements included in section 20.1 entitled "Historical Financial Information" of the Registration Document, as well as in Note 24 of the Notes to the Half-year Consolidated Financial Statements included in section 20.6 entitled "Interim Financial Information" of this Registration Document.

20. FINANCIAL INFORMATION

20.1 Historical Financial Information

Consolidated income statement

In thousands of US$	Note	Year ended December 31, 2011	2012	2013
Revenue	6, 7	**151,468**	**122,047**	**154,623**
Cost of sales		(112,004)	(93,504)	(106,389)
Gross profit		**39,464**	**28,543**	**48,235**
Research and development expenses	26	(34,536)	(35,370)	(33,953)
Selling and marketing expenses		(18,175)	(18,010)	(20,648)
General and administrative expenses		(9,817)	(9,630)	(10,702)
Other gains / (losses), net	27	(1,398)	(2,811)	(10,698)
Operating loss	**6**	**(24,462)**	**(37,278)**	**(27,766)**
Finance income / (loss), net	30	1,503	(258)	790
Loss before income tax		**(22,959)**	**(37,536)**	**(26,976)**
Income tax expense	31	(74)	51	(584)
Loss for the year		**(23,033)**	**(37,485)**	**(27,560)**
Attributable to:				
Equity holders of the Company		(23,033)	(37,485)	(27,560)

Earnings per share attributable to the equity holders of the Company during the year

	Note	2011	2012	2013
Basic earnings per share	17, 32	(1.06)	(1.19)	(0.81)
Diluted earnings per share	17, 32	(1.06)	(1.19)	(0.81)

Consolidated statement of comprehensive income

In thousands of US$	**Year ended December 31,**		
	2011	**2012**	**2013**
Loss for the year	(23,033)	(37,485)	(27,560)
Actuarial gain / (loss) on retirement benefit obligations	(105)	(345)	345
Non-reclassifiable components of other comprehensive income	**(105)**	**(345)**	**345**
Financial instrument fair value changes	(1,773)	937	353
Currency translation differences	(351)	537	413
Reclassifiable components of other comprehensive income	**(2,124)**	**1,474**	**766**
Other comprehensive income / (loss) for the year, net of tax	(2,229)	1,128	1,111
Total comprehensive loss for the year	**(25,262)**	**(36,357)**	**(26,449)**
Attributable to:			
Equity holders of the Company	(25,262)	(36,357)	(26,449)
Non-controlling interest	-	-	-
Total comprehensive loss for the year	**(25,262)**	**(36,357)**	**(26,449)**

Consolidated balance sheet- Assets

		As at December 31,		
In thousands of US$	**Note**	**2011**	**2012**	**2013**
Goodwill	8	3,251	15,152	15,287
Intangible assets	9	6,877	42,052	32,720
Property and equipment	10	16,812	12,810	10,411
Other receivables	15	7,287	16,163	24,863
Non-current assets		**34,227**	**86,177**	**83,282**
Inventories	13	23,276	17,350	14,830
Trade receivables	14	18,711	16,462	17,521
Other receivables	15	10,474	6,669	7,652
Derivative financial instruments	12	216	145	587
Cash and cash equivalents	16	20,940	66,321	40,213
Current assets		**73,618**	**106,946**	**80,804**
Total assets		**107,845**	**193,124**	**164,086**

Consolidated balance sheet- Equity and liabilities

		As at December 31,		
In thousands of US$	**Note**	**2011**	**2012**	**2013**
Ordinary shares	17	11,369	17,822	17,822
Share premium	17	133,021	225,570	225,599
Other reserves	19	9,772	12,386	14,140
Retained earnings	19	(73,535)	(96,568)	(134,053)
Income / (loss) for the year		(23,033)	(37,485)	(27,560)
Equity attributable to equity holders of the Company		**57,594**	**121,725**	**95,947**
Non-controlling interests		-	-	-
Total equity		**57,594**	**121,725**	**95,947**
Intangible liabilities - Non-current portion	5	11,711	10,635	7,962
Borrowings	21	963	6,902	6,862
Repayable advances	22	852	3,443	3,592
Retirement benefit obligations	23	1,183	1,749	1,596
Non-current liabilities		**14,708**	**22,729**	**20,012**
Intangible liabilities - Current portion	5	1,168	1,583	3,011
Financial instruments	12	1,348	179	215
Trade and other payables	20	29,977	28,335	32,525
Additional payment on ESS acquisition	5	-	5,188	-
Borrowings	21	357	808	7,386
Provisions for other liabilities and charges	24	318	754	2,312
Deferred income	25	2,372	11,822	2,678
Current liabilities		**35,542**	**48,669**	**48,127**
Total liabilities		**50,250**	**71,399**	**68,138**
Total equity and liabilities		**107,845**	**193,124**	**164,086**

Consolidated statement of changes in equity

In thousands of US$	Attributable to equity holders of the Company					Non controlling	Total
	Share capital	Share premium	Other reserves	Retained earnings	Total	interests	equity
Balance at January 1, 2011	**11,342**	**134,873**	**10,001**	**(73,535)**	**82,682**	**-**	**82,682**
Loss for the year	-	-	-	(23,033)	(23,033)	-	(23,033)
Actuarial loss on retirement benefit obligations	-	-	(105)		(105)	-	(105)
Financial instruments at fair value	-	-	(1,773)		(1,773)	-	(1,773)
Currency translation differences	-	-	(351)		(351)	-	(351)
Total other comprehensive income	**-**	**-**	**(2,229)**	**(23,033)**	**(25,262)**	**-**	**(25,262)**
Employees share option scheme :					-		-
Value of employee services	-	-	2,000	-	2,000	-	2,000
Proceeds from shares/ warrants issued	27	419	-	-	446	-	446
Share capital increases during the year	-	-	-	-	-		-
Direct costs paid related to the IPO	-	(2,271)	-	-	(2,271)		(2,271)
Balance as at December 31, 2011	**11,369**	**133,021**	**9,771**	**(96,568)**	**57,594**	**-**	**57,594**
Balance at January 1, 2012	**11,369**	**133,021**	**9,771**	**(96,568)**	**57,594**	**-**	**57,594**
Loss for the year	-	-	-	(37,485)	(37,485)	-	(37,485)
Actuarial loss on retirement benefit obligations	-	-	(345)	-	(345)	-	(345)
Financial instruments at fair value	-	-	937	-	937	-	937
Currency translation differences	-		537	-	537	-	537
Total other comprehensive income	**-**	**-**	**1,128**	**(37,485)**	**(36,357)**	**-**	**(36,357)**
Employees share option scheme :					-		-
Value of employee services	-	-	1,880	-	1,880	-	1,880
Proceeds from shares issued	-	361	-	-	361	-	361
Share capital increases during the year	6,453	98,028	107	-	104,588		104,588
Direct costs paid related to the IPO	-	(5,840)	-	-	(5,840)		(5,840)
Treasury shares	-	-	(501)	-	(501)	-	(501)
Balance as at December 31, 2012	**17,822**	**225,570**	**12,386**	**(134,053)**	**121,725**	**-**	**121,725**
Balance at January 1, 2013	**17,822**	**225,570**	**12,386**	**(134,053)**	**121,725**	**-**	**121,725**
Loss for the year	-	-	-	(27,560)	(27,560)	-	(27,560)
Actuarial loss on retirement benefit obligations	-	-	345	-	345	-	345
Financial instruments at fair value	-	-	353	-	353	-	353
Currency translation differences	-	-	413	-	413	-	413
Total other comprehensive income	**-**	**-**	**1,111**	**(27,560)**	**(26,449)**	**-**	**(26,449)**
Employees share option scheme :							
Value of employee services	-	-	555	-	555	-	555
Proceeds from shares issued	-	28	-	-	28	-	28
Treasury shares	-	-	88	-	88	-	88
Balance as at December 31, 2013	**17,822**	**225,598**	**14,140**	**(161,613)**	**95,947**	**-**	**95,947**

Consolidated cash flow statement

In thousands of US$	Notes	Year ended December 31, 2011	2012	2013
Loss for the year		**(23,033)**	**(37,485)**	**(27,560)**
Adjustments for:				
Depreciation of tangible assets	10	6,829	6,797	5,428
Amortization of intangible assets	9	2,089	2,538	13,865
Impairment of assets acquired as part of acquisition of business	27	1,713	-	379
Impairment of assets	27	-	-	1,132
Reversal of intangible liabilities	27	(829)	-	-
Impairment of receivables	14	(5)	664	414
Impairment of inventories	13	2,824	151	3,100
(Profit) / loss on disposal of assets			(13)	(231)
Share-based payments	18	2,000	1,880	555
Change in retirement benefit obligation	23	281	144	231
Finance income, net		805	18	-
Income tax	31	74	(51)	584
Variation in provisions for risks	24	(354)	421	1,563
Cash used in operations before changes in working capital		**(7,605)**	**(24,936)**	**(541)**
Changes in working capital				
Inventories	13	(9,111)	5,873	(580)
Trade receivables	14	1,013	2,243	5,041
Trade receivables transferred	14	11,052	1,714	(8,106)
Other receivables		(1,748)	(368)	(384)
Research tax credit and grants	15	(6,327)	(2,878)	(9,193)
Trade and other payables		2,535	(4,189)	(1,745)
Non refundable advance on order backlog	25	-	6,460	-
Other payables		(498)	3,036	(1,703)
Cash used in changes in working capital		**11,891**	**11,891**	**(16,670)**
Cash used in operations		**(10,688)**	**(13,046)**	**(17,210)**
Interest received, net		(128)	612	235
Income tax paid		(194)	(74)	(106)
Net cash used in operating activities		**(11,010)**	**(12,508)**	**(17,081)**
Cash flows from investing activities				
Acquisition of ESS, net of cash acquired	5	-	(41,635)	(5,188)
Purchases of property and equipment	10	(4,367)	(2,119)	(4,556)
Purchases of intangible assets	9	(1,029)	(2,718)	(1,101)
Capitalized development costs	9	(1,188)	(973)	(3,402)
Payments corresponding to intangible liabilities	5	(1,409)	(1,064)	(1,125)
Disposal of assets			-	297
Net cash used in investing activities		**(7,993)**	**(48,509)**	**(15,075)**
Cash flows from financing activities				
Proceeds from issuance of ordinary shares, net of issuance costs	17	446	104,950	28
Direct costs paid related to the IPO	17	(2,039)	(5,840)	-
Repayable advance	22	852	2,491	-
Financing of the Research tax credit	21	-	5,852	6,676
Principal repayment under finance lease		(225)	(463)	(407)
Treasury shares		-	(501)	87
Settlement of foreign exchange hedging instruments		-	(161)	(83)
Bank overdraft		-	276	(276)
Net cash generated by / (used) in financing activities		**(965)**	**106,604**	**6,026**
Net increase / (decrease) in cash and cash equivalents		**(19,969)**	**45,587**	**(26,131)**
Cash and cash equivalents at beginning of the year	16	41,178	20,940	66,321
Effect of exchange rate fluctuations		(269)	(206)	23
Cash, cash equivalents at end of the year	**16**	**20,940**	**66,321**	**40,213**
Elements with no cash impact:				
New finance leases		1,093	352	-

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Notes to the consolidated financial statements

1. General information

INSIDE Secure ("the Company") and its subsidiaries (together "the Group") provides comprehensive embedded security solutions for mobile and connected devices. This offer is based on internally developed intellectual property that can be licensed or sold as well as software solutions and semiconductors produced through a fabless business model.

On September 30, 2010, the Group acquired the Secure Microcontroller Solutions (SMS) division of Atmel Corp. ("SMS division of Atmel") which provides semiconductor chips embedded in smart cards, mobile devices, acceptance devices, and infrastructure systems to secure the exchange of transactions for payment, transit, access, ID and other types of secure applications.

On February 17, 2012, shares in the Company were listed on the Euronext exchange in Paris (compartment B) under the Isin code FR0010291245. Proceeds from the issuance of the shares as part of the initial public offering was US$ 104.5 million (€ 79.3 million).

On December 1, 2012, the Group acquired Embedded Security Solutions (''ESS'') which designs and develops encryption-related security hardware intellectual property (IP) and software for a variety of industries, including the mobile and networking markets

The Company is a limited liability company ("société anonyme"). The address of its registered office is Arteparc Bachasson, rue de la carrière de Bachasson, Meyreuil (13590), France.

The consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union. IFRS are available on the website of the European Commission:
http://ec.europa.eu/internal_market/accounting/ias_en.htm

The consolidated financial statements have been prepared under the historical cost convention, except for derivative instruments which include currency forward contracts and options which are shown at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Presentation currency

According to IAS 21 § 38, the Group has elected to present its consolidated financial statements in US Dollars. The US Dollar is the functional currency of the Company and the currency in which the majority of transactions within the Group are denominated. The functional currency for INSIDE

Unless otherwise indicated, all amounts are expressed in thousands of US$

Secure Corporation (USA) is the US Dollar, for INSIDE Secure (Asia) Pte Ltd the Singapore Dollar, for Vault-IC UK Ltd the Pound Sterling, for Vault-IC France SAS, INSIDE Secure B.V (Netherlands), INSIDE Secure Amsterdam B.V and INSIDE Secure Oy (Finland) the Euro, and for INSIDE Secure K.K the Japanese Yen.

The exchange rates of the US Dollar against the Euro, the main currency used by the Group after the US
Dollar, are as follows for the years ended December 31, 2011, 2012 and 2013:

Dollar / Euro	**2011**	**2012**	**2013**
Closing	1.2939	1.3194	1.3791
Average	1.3917	1.2858	1.3282

2.1.2 New and amended standards adopted by the Group

The following new and amended standards whose application is mandatory for the current year from January
1, 2013 do not have a significant impact on the consolidated financial statements for the year ended December 31, 2013:

The accounting policies adopted are consistent with those of the previous financial year, except for the following:

(i) Standards, amendments and interpretations whose application is mandatory from January 1, 2013:

- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income
- IAS 19 Employee Benefits in particular accounting for defined benefit plans
- IFRS 13 Fair Value Measurement
- Amendment to IFRS 7 Disclosures- Offsetting Financial Assets and Financial Liabilities

The standards, amendments and interpretations whose application is mandatory from January 1, 2013 do not have a significant impact on the consolidated financial statements as at December 31, 2013.

(ii) Standards, amendments and interpretations whose application is not mandatory from January 1, 2013 but which could be early adopted are as follows:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangement
- IFRS 12 Disclosure of Interests in Other Entities
- Amendment to IAS 28 Investments in Associates and Joint Ventures
- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 27 Separate Financial Statements
- Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group chose not to early adopt these standards, amendments and interpretations in the consolidated financial statements as at December 31, 2013, and considers that they would not have a significant impact on its results or financial position.

The IASB has published the following standards, amendments and interpretations which could be early adopted from January 1, 2013 but which have not yet been adopted by the European Union:

- IFRS 9 Financial Instruments
- IFRIC 21 Levies

The impact of these standards on the results and financial position of the Group is currently being assessed.

2.2 Consolidation

Subsidiaries are all entities (including special purpose entities, if any) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, including any potential purchase price adjustments. Purchase price adjustments made after the allocation period of 12 months following acquisition date are reevaluated at each closing date at fair value through the income statement Acquisition-related costs are expensed as incurred in the line item ‘‘Other gains / (losses), net”. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has no minority interests or associates.

2.3 Operating segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board that makes strategic decisions. The Management Board is composed of the corporate officers of the Group.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in US Dollars (“$”), which is the Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses relating to exchange differences affecting revenue and operating expenses concluded during the year, as well as the impact of the revaluation at closing rates of operating assets and liabilities denominated in currencies other than the functional currency of the consolidated companies, are recognized in operating result.

Foreign exchange gains and losses relating to financial transactions settled during the year as well as the impact of the revaluation at closing rates of cash denominated from foreign currencies into US Dollars, are
recognized in financial result.

(c) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet line item presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement line item are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized as a separate component of equity in the line item "Currency translation differences"

2.5 Impairment of non-financial assets and cash-generating units

Non-financial assets including intangible and tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing the value in use, with the exception of certain intangible assets dedicated to specific products (see note 2.6), non-financial assets are generally grouped by operating segments identified by the Group which constitutes the lowest level for the definition of a cash-generating unit.

2.6 Goodwill and other intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Management has determined its cash-generating units to be the operating segments which constitute the lowest level for the definition of a cash-generating unit. As part of its reorganization around two operating divisions ("Mobile security" and "Secure transactions"), which took place in 2013, the

Group has regrouped its activities around common technological and operating platforms and a global sales force. However, the operating divisions have different clients and marketing activities and as such they can be considered as two separate CGUs.

(b) Intellectual property licensing royalties

Capitalized intellectual property licensing royalties relate to licenses transferred to the Group as part of the acquisition of ESS, and represent royalties for technology developed and licensed before the transfer date. The portfolio of intellectual property licensing royalties is recognized as an intangible asset as the commercial and technological efforts were made before the business combination. This intangible asset is amortized through the income statement in the line item ''Cost of sales'' as the corresponding revenue is recognized.

(c) Backlog

Backlog corresponds to accumulated unfulfilled purchase or sales order contracts transferred to the Group as part of the acquisition of the SMS division of Atmel Corporation. Backlog is recognised as an intangible asset corresponding to the commercial efforts made before the business combination. This intangible asset is amortized through net income in the line item "Selling and marketing expenses" as the Group operates under a fabless business model and had not incurred any expenses relating to the commercial effort which generated the backlog transferred to it at the date of the business combination.

(d) Acquired patented technologies

Acquired patented technology is shown at acquisition cost less accumulated amortization.

Each acquired technology dedicated to a specific product is individually tested for impairment based on the expected output of the related product whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a technology is not dedicated to a specific product but is widely used, the cash generating unit used for impairment testing is the operating segment in which the technology is used.

When an acquired patented technology is no longer used, the corresponding gross value and accumulated amortization are written off.

Acquired patented technologies are subsequently amortized within the line item "Research and development expenses" when they are used for project engineering design and "Cost of sales" when they are used in production.

(e) Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. This capitalized software includes software transferred as part of business combinations. These costs are amortized over the estimated useful lives of the software.

Costs associated with developing or maintaining computer software programs are expensed as incurred.

(f) Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved solutions) are recognized as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources necessary to complete the development and to use or sell
- the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Research and development expenses financed through repayable advances are capitalized to the extent that the Group has the resources necessary to successfully complete certain precisely defined development programs and will benefit from the future economic advantages, either through the abandonment of the repayable advance or through the cash flows generated by the future sales of products developed.

2.7 Property and equipment

The Group rents a building in East Kilbride (Scotland) under a long lease. This site previously hosted research and development and product engineering activities and has been relocated under the Group's restructuring plan. The Group also rents premises in France, Europe, Asia and the United States under operating leases. Its head office at Meyreuil, near Aix-en-Provence in France, hosts the corporate functions including Sales and marketing, and Research and Development (R&D) activities.

Furniture and other office equipment relate to office and computing equipment.

Equipment comprises technical equipment dedicated to R&D, engineering and testing activities. R&D may result in the making of masks which are considered as the end product of this activity. The costs to design and produce these masks are expensed as incurred within the line item "Research and development expenses". When the design is finalized, the manufacturing of the masks for the purpose of usage during production is assigned to sub-contractors. The associated cost is recognized in fixed assets. In addition, masks acquired as part of a business combination are recognized as equipment in the balance sheet. These masks are subsequently depreciated within the line item "Research and development expenses" when they are used for project engineering design and "Cost of sales" when they are used in production.

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to bring the cost of assets to their residual values over their estimated useful lives, as follows:

☐ Buildings	20 years
☐ Facilities and leasehold improvements	5 to 15 years
☐ Computer and R&D equipment	1 to 3 years

☐ Production equipment	1 to 5 years
☐ Masks acquired through business combination	2 to 5 years
☐ Furniture and other office equipment	3 to 8 years

The assets' residual values deemed material and their useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains / (losses), net" in the income statement.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing the value in use, assets are grouped by operating segment which constitutes the lowest level for the definition of the cash generating unit.

2.8 Impairment of non-current assets

IAS 36 defines the procedures that a company must apply to ensure that the net carrying amount of its assets does not exceed their recoverable amount, i.e. the amount that would be recovered from their use or sale. Aside from goodwill and intangible assets with an indefinite life that systematically undergo annual impairment testing, the recoverable amount of an asset is estimated whenever there is an indication that the asset may be impaired.

Cash-Generating Unit (CGU)

A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. As mentioned above, the Group has regrouped its activities around two operating divisions and has determined that each of these divisions represents a CGU for the purposes of the impairment testing of non-current assets :

- Mobile security: this division gathers the Group's offer in all mobile communication matters, to provide a comprehensive suite of embedded security solutions for all mobile and connected devices. The offer includes intellectual property (IP), software solutions and semi-conductors capable of addressing the growing needs for a full range of security solutions on all mobile platforms, securing M-payments, content, data communications and data storage.

- Secure transactions: this division unites the Group's offer dedicated to address high security issues for smart cards, ID, payments but also all transactions involved in the Machine-to-Machine (M2M) and Internet of Things universe. This division builds tailored solutions based on secure microcontrollers, with embedded secure firmware and associated services.

Impairment indicators

The Group regularly monitors its financial results against its forecasts for all of its businesses and monitors local and global economic indicators. These elements represent, where applicable, impairment indicators.

Determining the recoverable amount

The recoverable amount of an asset is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount, non-current assets are assigned to the CGUs defined above and a value in use calculation is performed. If the value in use is lower than the carrying amount, an impairment loss should be recorded.

The value in use of each activity is based on a projection of discounted estimated cash flows that takes into account the risks specific to the technological nature of the Group's activity.

Changes in market conditions or in the cash flows initially estimated may therefore lead to a review and a change in the impairment losses previously recorded.

Impairment loss

An impairment loss is recorded when the carrying amount of the asset or the CGU to which it belongs exceeds its recoverable amount. Impairment losses are expensed within ‘‘Other gains / (losses), net”.

Except in the case of goodwill, impairment losses recognized in previous years may be reversed if and only if there has been a change in the estimates used to calculate the recoverable amount of the asset since the previous recognition of an impairment loss. Even so, the carrying amount of an asset plus a reversal of an impairment loss cannot exceed the carrying amount that would have been calculated had no impairment been recognized for the asset in previous years.

2.9 Financial assets

2.9.1 Classifications

The Group classifies its financial assets in the following categories: at fair value through profit or loss, as loans and receivables, or as available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except when they have maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Group has no available-for-sale financial assets.

2.9.2 Measurement

Changes in the fair value of monetary securities which are denominated in a currency other than the functional currency (certain monetary securities of the Group are denominated in Euros) and which result from translation differences are recognized in the line item “Finance income / (loss), net”, except for changes in the fair value of monetary securities relating to operating activities such as trade receivables, which are presented in operating result.

2.9.3 Impairment

For the loans, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rates. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement in a line item dependent upon the nature of the loan.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recorded in the income statement in the same line item.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within "Finance income / (loss), net".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within "Finance income /(loss), net".

Derivatives that do not qualify as hedge accounting

Certain derivative instruments do not qualify as hedge accounting. Such derivatives are classified as assets or liabilities at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify as hedge accounting are recognized immediately in the income statement. The income statement impact of such derivatives is presented in the line item "Finance income / (loss), net".

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives	-	-	-	-
Derivatives used for hedging	-	-	216	216
Total assets	**-**	**-**	**216**	**216**
Liabilities				
Trading derivatives	-	-	350	350
Derivatives used for hedging	-	602	396	998
Total liabilities	**-**	**602**	**746**	**1,348**

The following table presents the Group's assets and liabilities that are measured at fair value as at December
31, 2012:

(In thousands of US$)	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives	-	-	-	-
Derivatives used for hedging	-	41	104	145
Total assets	**-**	**41**	**104**	**145**
Liabilities				
Trading derivatives				
Derivatives used for hedging	-	179	-	179
Total liabilities	**-**	**179**	**-**	**179**

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2013:

(In thousands of US$)	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives	-	-	-	-
Derivatives used for hedging	-	328	259	587
Total assets	**-**	**328**	**259**	**587**
Liabilities				
Trading derivatives	-	215	-	215
Derivatives used for hedging	-	-	-	-
Total liabilities	**-**	**215**	**-**	**215**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. No derivative financial instruments fall into this category.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
This category includes currency forward contracts.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This category includes currency options.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the First In First Out (FIFO) method. The cost of semi-finished goods and finished goods comprises wafer purchase costs, assembly sub-contracting expenses, other direct costs, tests and product engineering based on normal operating capacity. It excludes borrowing costs and the impact of unused capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Group also provides inventory allowances for excess and obsolete inventories

2.12 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within “Selling and marketing expenses”. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against “Selling and marketing expenses” in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid securities with original maturities of three months or less and with a negligible risk of change in value.

Short term securities that meet all criteria defined in 2012 by the AMF are classified as cash equivalents.

Bank overdrafts are shown within financial debts in current liabilities on the balance sheet.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Financial debts

Financial debts comprise bank overdrafts that are classified as current liabilities. Financial debts also include finance leases.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from the 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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 only 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 timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Research tax credit and government grants

Research tax credits are provided by various governments to give incentives for companies to perform technical and scientific research. These research tax credits are presented as a reduction of “Research and development expenses” in the income statement when companies that have qualifying expenses can receive such grants in the form of a tax credit irrespective of taxes ever paid or ever to be paid, the corresponding Research and Development effort has been completed and the supporting documentation is available.

These tax credits are included in “Other receivables - current portion” or “non-current” in the balance sheet taking into account the timing of expected cash inflows.

In addition, grants may be available to companies that perform technical and scientific research. Such grants are typically subject to performance conditions over an extended period of time. The Group recognizes these grants in the income statement as a reduction of “Research and development expenses” over the cost of the corresponding research and development program and when confirmation of the grant has been received.

Aid for research and development activities can take the form of repayable advances. A loan which is non-repayable under certain conditions is treated like a government grant (accounted for in the income statement on a pro rata basis as a deduction of research and development expenses) when the organization granting the advance has confirmed that no repayment is required. Otherwise it is classified as a liability.

2.19 Employee benefits

(a) Pension obligations

The Group has both defined benefit (mainly for French employees) and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to equity in the statement of recognized income and expense (SoRIE) in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group provides no other post-employment benefits to its employees.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Bonus plans

The Group recognizes a liability and an expense for bonuses and incentive schemes based on a formula which takes into account the profit allocated to the shareholders of the Group after certain adjustments. The Group recognizes a provision when contractually obliged or if there is a past practice that has created a constructive obligation.

2.20 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the instrument is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the instrument granted:

- including any market performance condition (for example increase in share price) and non-vesting conditions (for example, the requirement for employees to save);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Service and non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest.

The total expense is recognized over the period during which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of instruments that are expected to vest based on these vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the instruments are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the instruments are exercised.

2.21 Provisions

Provisions for claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.22 Intangible liabilities

Intangible liabilities relate to management's estimate of fair value of above market royalty-based intellectual property license agreements for existing or future products, transferred to the Group as part of business combinations. The Group values these license agreements based on their fair value in normal market conditions at acquisition date. When the royalties to be paid exceed their fair value, the Group recognizes an intangible liability corresponding to the discounted value of the difference between the best estimate of the royalties to be paid based on the contract and forecasted sales and the fair value. Intangible liabilities are reversed in the line item "Cost of Sales" on the basis of the number of units using this intellectual property sold during the year compared to the number of units expected to be sold. The assumptions regarding the number of units expected to be sold is revised on a regular basis.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

The Group sells its customers a range of semiconductor platforms, intellectual property, software and services.

(a) Revenue recognition- Sale of products

The Group's products 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 except for customary warranty terms. Revenue is recognized for products upon delivery when title and risk pass, the price is fixed and determinable and collectability is reasonably assured.

(b) Revenue recognition- Service revenue

Revenue from services is recognized over the period when services are rendered and collectability is reasonably assured. Licenses for software that do not require specific development are recognized in revenue when the legal right to use the license has been granted or in accordance with specific contractual conditions.

Revenue corresponding to the development of specific software platforms is recognized using the percentage of completion method as the development process progresses (according to criteria applied on a consistent basis). Under the percentage of completion method, the extent of progress towards completion is measured based on actual costs incurred relative to total estimated costs. Losses on contracts are recognized during the period in which the loss first becomes probable and can be reasonably estimated.

(c) Revenue recognition- Intellectual property licensing royalties

Royalties relate to revenue from technology licensed to certain customers of the Group, and can be fixed and / or variable. Fixed royalties are recognized on a straight-line basis over the contractual periods during which they are generated. Variable royalties are generally based on sales made by customers and are by definition difficult to estimate. To ensure revenue is recorded in the proper accounting period, the Group principally relies on the notifications received from customers. In general notifications are received from customers during the quarter following delivery of goods.

(d) Revenue recognition- Maintenance

As a general rule, the sales of software licenses are accompanied by a maintenance contract that includes regular updates and the providing of technical assistance. Revenue related to maintenance activities is recognized on a straight-line basis over the contractual period.

(e) Revenue recognition- Sale of patents

The development of technologies may give rise to the sale or to the licensing of patents. The sale of a patent is recognized in revenue when title, risks and rewards fully pass to the buyer and specifically when there is no remaining obligation to further develop the underlying technology.

(f) 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.

(g) Collectability

As part of the revenue recognition process, the Group determines whether trade receivables and notes receivable are reasonably assured of collection based on various factors, and whether there has been deterioration in the credit quality of customers that could result in the inability to sell those receivables.

(h) Deferred and unbilled revenue

Deferred revenue includes amounts that have been billed as per contractual terms but have not been recognized as income.

2.24 Cost of sales

Cost of sales is primarily composed of the cost of products, solutions and services sold, including wafer purchase costs, assembly sub-contracting expenses, tests and product engineering, royalties and other direct attributable costs.

2.25 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share are computed by dividing net income attributable to equity holders of the Company by the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

Dilutive instruments are taken into account when, and only when, their dilutive effect decreases earnings per share or increases loss per share from continuing operations.

A reconciliation of the weighted average number of ordinary shares outstanding during the period and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, is presented in note 31.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases for which the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

3. Financial risk management

3.1 Financial risk factors

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management Board provides principles for the overall management of risks such as foreign exchange risk, credit risk and liquidity risk.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from transactions denominated in currencies other than the US dollar, the functional and presentation currency of the Company.

The operating result and cash flows of the Group are affected by foreign exchange rate fluctuations, principally by fluctuations between the Euro and the US Dollar.

For example, the Group estimates that for the year ended December 31, 2013, the impact in absolute terms of a variation of +10% or -10% of this rate would have been - or + US$ 216 thousand on its operating result and – or + US$ 291 thousand on equity. The portion of revenue denominated in US Dollars is more significant than the portion of operating expenses denominated in US Dollars. To mitigate this risk, the Group has implemented a hedging policy to preserve its profitability and cash levels.

The Group mitigates its exposure to foreign currency fluctuations by matching its cash inflows and outflows denominated in the same currency to the extent possible, resulting in a natural hedge. The

Group also uses derivative financial instruments such as currency forward contracts and options to hedge against foreign currency fluctuations.

(b) Credit risk

Credit risk is managed on a Group wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(c) Liquidity risk

Cash flow forecasting is performed by the Finance department. Management monitors rolling forecasts of the
Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Such forecasting takes into consideration the Group's financing plans. The Group treasury invests surplus cash in interest bearing current accounts, time deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

In the fourth quarter of 2011, the Group entered into a factoring contract in Euros and Dollars with Natixis Factor, which includes a deposit and is backed by a credit insurance agreement. The initial contract duration of two years was extended to three years during 2013 and it is still ongoing. Since the risk of non-recoverability and delays in payment has been transferred to the bank, the receivables transferred under these contracts are no longer recorded in the balance sheet.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, gain benefits for partners and maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, repay capital to shareholders or issue new shares.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

The Group derives its revenue principally from sales of products and solutions as well as license-based royalties. The timing of revenue recognition and the amount of revenue actually recognized depends upon the specific terms of each arrangement with customers (transfer of risk) and the nature of the Company's deliverables and obligations. For royalties, the Group generally does not obtain formal confirmation of the level of sales made by customers until the quarter following product delivery. Determination of the appropriate amount of revenue recognized involves certain judgments and estimates that the management believes are reasonable, but actual results may differ from management's estimates.

(b) Intangible assets

Intangible assets include acquired patented technologies, backlog and the recognition of above market royalty-based intellectual property license agreements. Upon acquisition, these assets were recognized at fair value which required certain judgments and estimates that Management believed were reasonable. On a regular basis, the Group reassesses the fair value of these intangible assets, leading to a potential adjustment of the carrying amount through an impairment charge or write-down.

(c) Intangible liabilities

Intangible liabilities relate to license agreements transferred to the Group as part of business combinations under conditions that differ from the market conditions at the date of acquisition. These liabilities are initially recognized at fair value, which requires certain judgments and estimates that Management believes are reasonable. On a regular basis, the Group reassesses the fair value of these intangible liabilities, which could lead to a potential additional provision or provision reversal.

(d) Impairment of non-current assets and goodwill

As mentioned in note 2.8, non-current assets are grouped according to the CGUs defined above and are tested based on their value in use.

Given the Group's 'fabless' production model, assets other than goodwill and intangible assets with an indefinite life represent relatively low amounts. However, in light of the technological nature of the Group's activity and the loss recorded during the year, they are subject to impairment testing performed at CGU level. These impairment tests take into account long-term assets, including goodwill and intangible assets and are based on cash flow projections per CGU.

The cash flow projections used for the "Mobile security" segment take into account a product life ranging between 5 and 7 years, with a peak in activity in the third year. For forecasting purposes, only clearly identified products with established commercial perspectives have been taken into account. Products that have not reached the technical feasibility stage have not been considered. Similarly, research and development expenses corresponding to future developments have not been taken into account in the cash flow projections. No terminal value has been used and the discount rate adopted is 14.5%.

The cash flow projections used for the "Secure transactions" segment take into account a product life of 7 years, with a peak in activity in the third year. For forecasting purposes, only clearly identified products with established commercial perspectives have been taken into account. Products that have not reached the technical feasibility stage have not been considered. Similarly, research and development expenses corresponding to future developments have not been taken into account in the cash flow projections. No terminal value has been used and the discount rate adopted is 14.5%.

The value in use calculation is not particularly sensitive to the discount rate given the relatively short useful lives of the products in question. A change of 1% in the discount rate would have an impact of 3% on the value in use of the "Mobile security" CGU and 4% on the value in use of the "Secure transactions" CGU. The most significant risk would be a delayin the ramp-up of sales. A delay of one year would have a negative impact of 12% on the value in use of the two CGUs.

Based on the above calculations, the Group considers that no impairment of non-current assets is necessary. Sensitivity analyses were performed and did not cast any doubt upon this conclusion.

(e) Share-based payments

The Group grants options to purchase Company's common shares and other equity instruments to management, employees and third parties. The determination of the fair value of share-based compensation on the date they are granted uses an option-pricing model (Monte-Carlo or Black and Scholes) which is affected by assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the fair value of the Company's common shares, the expected common share price volatility over the term of the instrument and current and projected instrument holders' exercise behaviors. There is a significant degree of subjectivity involved when using such option-pricing models to determine share-based compensation under IFRS 2.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(g) Accounting for income tax

The Group is subject to the income tax laws of France and those of the foreign jurisdictions in which it has business operations. These tax laws are often complex and subject to different interpretations by the tax payer and the relevant governmental taxing authorities. The Group must make judgments and interpretations about the application of these tax laws when determining the provision for income taxes.

The Group must also assess the likelihood that each of its deferred tax assets will be realized. Unless there is strong evidence that an entity currently generating losses will become profitable, the policy of the Group is to recognize deferred tax assets only when the tax jurisdiction where it conducts business has generated a taxable profit in two consecutive years.

5. Business combinations

Secure Microcontroller Solutions

On September 30, 2010 the Company acquired Atmel Corporation's (Nasdaq: ATML) Secure Microcontroller Solutions ("SMS") business. This business designs and markets microcontroller products and solutions that protect data contained in embedded memories against a wide variety of attacks and offers firmware and turnkey solutions to customers with no security expertise.

The goodwill recognized upon acquisition amounting to US $2,993 thousand was allocated to the ''Secure Transactions'' operating segment. The Group performed an impairment test at closing and concluded that no impairment of the goodwill was necessary (see note 8).

As part of the allocation of the purchase price consideration, the Group recognized a certain number of identifiable intangible and tangible assets, notably related to patented technologies, backlog and masks. In addition, the Group recognized a liability corresponding to an unfavorable licensing agreement. The impact of the related depreciation and amortization of identifiable tangible and intangible assets, and reversals on intangible liabilities, on the 2011, 2012 and 2013 income statements is as follows (amounts in thousand dollars):

Item (In thousands of US$)	Income statement line item	2011	2012	2013
Depreciation of masks	Cost of sales	(2,835)	(2,462)	(1,266)
Depreciation of masks	Research and development expenses	(552)	(681)	(378)
Amortization of patented technologies	Research and development expenses	(909)	(1,076)	(1,232)
Amortization of backlog	Selling and marketing expenses	(716)		
Reversal of intangible liabilities	Cost of sales	1,409	1,064	1,125
Impact on operating loss		**(3,603)**	**(3,155)**	**(1,751)**
Undiscounting of intangible liabilities	Finance income / (loss), net	(625)	(581)	(522)
Impact on loss for the year		**(4,228)**	**(3,736)**	**(2,273)**

Embedded Security Solutions

On December 1, 2012, the Group acquired Embedded Security Solutions (''ESS''). ESS designs and develops encryption-related security hardware intellectual property (IP) and software for a variety of industries, including the mobile and networking markets. Revenue is generated through licenses, royalties, services and maintenance fees.

As part of the acquisition, research and development and sales and marketing teams were transferred to the Group. The seller also transferred intangible assets, including intellectual property licensing royalties and internally developed software, tangible assets, working capital (notably inventories, trade receivables and social and tax debts related to transferred employees) and cash.

Upon acquisition, INSIDE Secure paid a purchase price of $US 43,256 thousand based on an initial estimate of working capital requirements. Subsequently a reduction on the purchase price amounting to US$ 503 thousand was accorded to the Group to take into account the final amount of this working capital requirement. The payment of this purchase price reduction was received by the Group during the first half of 2013. INSIDE Secure paid an additional amount of US$ 5,188 thousand during the first half of 2013 relating to certain conditions that were fully met as at April 1, 2013.

The goodwill corresponding to the excess of the purchase price consideration (including any potential purchase price adjustments) compared to the combined total of the fair value of the assets acquired, the identifiable intangible assets and the liabilities assumed, amounts to US$ 11,906 thousand, and is mainly attributable to the expertise of the assembled workforce and the expected synergies that will result from the combination of activities. This goodwill is allocated to the ''Mobile Security'' operating segment. The Group performed an impairment test at closing and concluded that no impairment of the goodwill was necessary (see note 8).

On acquisition date, the carrying amount of the net assets transferred represented US$ 2,088 thousand in the accounts of the seller. The Company has performed a final allocation of the purchase price consideration over assets acquired and liabilities assumed.

The value of the identifiable assets and liabilities and the final allocation of the purchase price consideration are summarized below:

	Note	In thousands of US$
Cash paid at closing (before working capital adjustment)		42,813
Estimated working capital adjustment		443
Cash paid at closing		**43,256**
Final working capital adjustment		(503)
Additional payment upon completion of conditions	(1)	5,188
Purchase price consideration (i)		**47,940**

	Net book value	Fair value adjustments		Fair value
Intangible assets	-	33,906	(2)	33,906
Property, plant and equipment	139	-		139
Inventory	99	-		99
Other assets	2,998	(115)	(3)	2,883
Cash and cash equivalents	1,621	-		1,621
Other liabilities	(1,150)	-		(1,150)
Deferred income	(1,619)	155	(4)	(1,464)
Net assets acquired and liabilities assumed (ii)	**2,088**	**33,946**		**36,034**
Goodwill (i) - (ii)				**11,906**

(1) Given that all conditions were met within the period of time specified in the contract, the Group paid an additional purchase price amount of US $5, 188 thousand to the seller during the first half of 2013.

(2) The US$ 33,906 thousand of intangible assets relate to:

a. Intellectual property licensing royalties relating to technologies patented and developed by ESS, amounting to US$ 31, 576 thousand. These licensing royalties were valued using the discounted cash flow method based on an estimated useful life of 5 years for the technologies concerned. Amortization expenses for this intangible asset will be recognized in the income statement in the line item ‘‘Cost of sales’’ as the corresponding revenue is recognized.

b. Software developed internally amounting to US$ 2,330 thousand. This software has been valued based on the cost approach. Amortization expenses for this intangible asset will be recognized in the income statement over a useful life of 3 years.

(3) An additional provision for trade receivables that has been recorded to provide for difficulties in collecting outstanding amounts from certain customers.

(4) Deferred income relating to support and maintenance services have been adjusted to take into account the 10% margin normally recognized on these activities.

As mentioned above, as part of the acquisition of ESS, certain fair value adjustments were made, leading to the revaluation of assets acquired and liabilities assumed. This resulted in the increase in the calculation basis for post-acquisition amortization expenses.

The impact of these adjustments on the different line items in the 2012 and 2013 income statements breaks down as follows (amounts in thousand dollars):

Item (In thousands of US$)	Income statement line item	2011	2012	2013
Amortization of intellectual property licensing royalties	Cost of sales	(230)	(230)	(10,169)
Amortization of internally developed software	Cost of sales	(43)	(43)	(518)
Amortization of internally developed software	Research and development expenses	(22)	(22)	(259)
Impact on operating loss		**(295)**	**(295)**	**(10,946)**
Impact on loss for the year		**(295)**	**(295)**	**(10,946)**

During 2013 the Group recorded certain allowances for doubtful debts that were transferred as part of the acquisition. These allowances amounting to US$ 311 thousand, relating to events occurred before the date of acquisition and identified within the 12 month allocation period, have been recorded against an increase in goodwill.

6. Operating segment information

Management has determined the operating segments based on the reports reviewed by the Management Board that are used to make strategic decisions.

In October 2013, the Group redefined its operating segments so as to adapt to its reorganization and to the new internal reporting system to the management team. The Group now operates around two complementary operating segments, which target different markets, products, solutions and clients whilst maintaining a common platform for research and development, intellectual property, operations, and a global sales force:

- Mobile security: this division gathers the Group's offer in all mobile communication matters, to provide a comprehensive suite of embedded security solutions for all mobile and connected devices. The offer includes IPs, software solutions and semi-conductors capable of addressing the growing needs for a full range of security solutions on all mobile platforms, securing M-payments, content, data communications and data storage.

- Secure transactions: this division unites the Group's offer dedicated to address high security issues for smart cards, ID, payments but also all transactions involved in the M2M and Internet of Things universe. This division builds tailored solutions based on secure microcontrollers, with embedded secure firmware and associated services.

The segment information provided to the Management Board for the reportable segments for the year ended December 31, 2011, is presented taking into account the above mentioned reorganization and breaks down as follows:

(In thousands of US$) As at December 31, 2011	Mobile security	Secure transactions	Common unallocated	Total per management reporting	Reconciliation to IFRS	Consolidated IFRS reporting (audited)
Revenue	47 961	103 507	-	151 468	-	151 468
Adjusted gross profit (*)	10 317	34 771	(2 676)	42 412	-	Non IFRS measure
Operating loss (*)	(18 251)	(2 815)	(3 396)	(24 462)	-	(24 462)
Adjusted operating loss (*)	(17 258)	3 882	(2 676)	(16 052)	-	Non IFRS measure
EBITDA (*)	(16 762)	7 196	(2 676)	(12 242)		Non IFRS measure
Finance income / (loss), net			1 503	1 503	-	1 503
Income tax expense			(74)	(74)	-	(74)
Net loss			**(1 967)**	**(23 033)**	**-**	**(23 033)**

(*) Unallocated amount corresponds to industrial variances (US$ 2,539 thousand) and impairment of assets acquired as part of acquisition of SMS business (US$ 614 thousand).

The segment information provided to the Management Board for the reportable segments for the year ended December 31, 2012, is presented taking into account the above mentioned reorganization and breaks down as follows:

(In thousands of US$) **As at December 31, 2012**	**Mobile security**	**Secure transactions**	**Common unallocated**	**Total per management reporting**	**Reconciliation to IFRS**	**Consolidated IFRS reporting (audited)**
Revenue	43,828	78,219	-	122,047	-	122,047
Adjusted gross profit (*)	12,680	20,995	(2,237)	31,438	-	Non IFRS measure
Operating loss (*)	(33,054)	(1,987)	(2,237)	(37,278)	-	(37,278)
Adjusted operating loss (*)	(30,920)	3,062	(2,237)	(30,095)	-	Non IFRS measure
EBITDA (*)	(28,985)	6,099	(2,237)	(25,123)		Non IFRS measure
Finance income / (loss), net			(258)	(258)	-	(258)
Income tax expense			51	51	-	51
Net loss			**(2,444)**	**(37,485)**	**-**	**(37,485)**

'* Unallocated amount corresponds to industrial variances (US$ 2,237 thousand)

The segment information provided to the Management Board for the reportable segments for the year ended December 31, 2013 is as follows:

(In thousands of US$) **As at December 31, 2013**	**Mobile security**	**Secure transactions**	**Common unallocated**	**Total per management reporting**	**Reconciliation to IFRS**	**Consolidated IFRS reporting (audited)**
Revenue	73,797	80,826	-	154,623	-	154,623
Adjusted gross profit (*)	36,459	26,336	(2,534)	60,261		Non IFRS measure
Operating loss (*)	(18,022)	2,786	(12,531)	(27,766)	-	(27,766)
Adjusted operating loss (*)	(6,676)	5,895	(2,171)	(2,952)		Non IFRS measure
EBITDA (*)	(5,653)	10,616	(2,171)	2,793		Non IFRS measure
Finance income / (loss), net			790	790	-	790
Income tax expense			(584)	(584)	-	(584)
Net loss			**(12,324)**	**(27,560)**	**-**	**(27,560)**

*Unallocated amount corresponds to restructuring charges (US$ 8,706 thousand), industrial variances (US$ 2 534 thousand) and to the impairment of assets acquired as part of acquisition of business (US$ 1,511 thousand).
** Unallocated amount corresponds industrial variances (US$ 2,534 thousand)

Adjusted operating result is not a measure of operating performance or liquidity under IFRS.

Adjusted gross profit is defined as gross profit before (i) amortization of intangible assets relating to business combinations and depreciation of masks acquired as part of a business combination, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted operating result is defined as operating result before (i) amortization of intangible assets relating to business combinations and depreciation of masks acquired as part of a business combination, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted EBITDA is defined as operating result before amortization and depreciation expenses not relating to business combinations.

Adjusted gross profit, adjusted operating result and adjusted EBITDA as presented may not be strictly comparable to measures with similar names as presented by other companies.

The reconciliation from Company reporting to consolidated IFRS reporting (audited) is as follows:

As of December 31, (In thousands of US$)	2011	2012	2013
Gross profit as per IFRS	**39 464**	**28 543**	**48 235**
Share based payments	113	160	74
Amortization and depreciation of acquired assets from SMS	2 835	2 462	1 266
Amortization and depreciation of acquired assets from ESS	-	273	10 687
Adjusted gross profit	**42 412**	**31 438**	**60 261**

As of December 31, (In thousands of US$)	2011	2012	2013
Operating loss as per IFRS	**(24,462)**	**(37,278)**	**(27,766)**
Share based payments	2,000	1,880	555
Amortization and depreciation of acquired assets from SMS	5,012	4,222	2,876
Amortization and depreciation of acquired assets from ESS	-	295	10,946
Impairment of assets acquired as part of acquisition of SMS business	1,713	-	379
Impairment of assets due to restructuring	(829)	-	1,132
Restructuring expenses	-	232	8,706
Direct transaction costs related to acquisitions	514	554	220
Adjusted operating loss	**(16,052)**	**(30,095)**	**(2,952)**
Depreciation and amortization of tangible and intangible assets which are not related to the acquisition of business	3,810	4,972	5,745
EBITDA	**(12,242)**	**(25,123)**	**2,793**

The revenue by geographical region for the years ended December 31, 2011, 2012 and 2013 is as follows:

(In thousands of US$)	Asia	Europe, Middle East Africa, Latin America	North America	Total
2011	14,148	73,548	63,772	151,468
2012	8,436	59,382	54,229	122,047
2013	18,632	60,925	75,066	154,623

Geographically, management has allocated revenue based on the location where the goods are delivered or the services are rendered, except for the sales with three major customers, which were allocated based on the location of their head offices

The top ten customers of the Group represented 65%, 83% and 78% of the total consolidated revenue in 2013, 2012 and 2011 respectively.

Two customers each represented more than 10% of the total consolidated revenue in 2011, 2012 and 2013. This breaks down as follows:

As of December 31, 2011 (In thousands of US$)	Invoiced amount	Segment
Customer 1	45 793	Mobile security
Customer 2	16 109	All segments

As of December 31, 2012 (In thousands of US$)	Invoiced amount	Segment
Customer 1	36 743	Mobile security
Customer 2	13 897	Secure transactions

As of December 31, 2013 (In thousands of US$)	Invoiced amount	Segment
Customer 1	35 895	Mobile security
Customer 2	16 322	Secure transactions

7. Revenue

Revenue for the years 2011, 2012 and 2013 breaks down as follows:

	Year ended December 31,		
(In thousands of US$)	**2011**	**2012**	**2013**
Revenue from sale of products	150,689	115,120	121,877
Revenue from development and license agreements	779	6,336	11,396
Revenue from royalties and sale of patents	-	293	17,765
Revenue from maintenance	-	298	3,585
Total	**122,047**	**122,047**	**154,623**

In August 2011, the Group signed an agreement with Intel Corporation relating to the license of the Group's NFC technology. This agreement included a non exclusive and non transferable license of the Group's NFC technology to Intel, the provision of development, support and engineering services so as to facilitate the integration of its NFC technology into the Intel environment and the sale of chips made by Intel or its subcontractors. Revenues relating to the development phase were recognized using the percentage of completion method based on the specific costs incurred on the project. The corresponding direct development costs were recorded in "Cost of sales". The Group recorded US$ 779 thousand in revenue in 2011 based on the progress of the work performed.

This agreement continued into 2012 and the Group recorded US$ 6,178 thousand in revenue in 2012 based on the progress of the work performed. The "deferred income" amounting to $3,860 thousand recorded as at December 31, 2012 corresponded to prepayments received from Intel Corporation.

The increase in revenue corresponding to development and license agreements, royalties and sale of patents and maintenance in 2013 mainly relates to the consolidation of ESS since December 1, 2012, with 2013 constituting the first full year of consolidation. The amounts in these line items relating to the consolidation of ESS represented US$ 8,571 thousand, US$ 13,047 thousand and US$ 3,585 thousand respectively.

In addition, the Group sold patents for an amount of US$ 4,500 thousand in 2013.

8. Goodwill

Goodwill breaks down as follows:

		As at December 31,		
(In thousands of US$)	**Segment**	**2011**	**2012**	**2013**
SMS business	Secure transactions	3,251	3,246	3,070
ESS business	Mobile security	-	11,906	12,217
Total		**3,251**	**15,152**	**15,287**

The variation of goodwill relating to the acquisition of the SMS business from US$ 3,251 thousand as at December 31, 2011 to US$ 3,246 thousand as at December 31, 2012 and to US$ 3,070 thousand as at December 31, 2013 is exclusively due to foreign exchange rate variations, certain assets acquired and liabilities assumed being accounted for in entities having a functional currency different from the US Dollar.

The variation of goodwill relating to the acquisition of the ESS business from US$ 11,906 thousand as at December 31, 2012 to US$ 12,217 thousand as at December 31, 2013 is exclusively due to trade receivables transferred as part of the acquisition for which certain allowances for impairment were recognized during 2013. These allowances, relating to events occurred before the date of acquisition and identified within the 12 month allocation period, have been recorded against an increase in goodwill.

2013 annual impairment test on goodwill

Goodwill resulting from business combinations is allocated to those cash-generating units or groups of cash-generating units expected to benefit from the synergies created by the business combination. The goodwill relating to the acquisition of SMS is allocated to the cash-generating unit that corresponds to the "Secure transactions" operating segment and the goodwill relating to the acquisition of ESS is allocated to the cash-generating unit that corresponds to the "Mobile security" operating segment.

The recoverable amount of the cash-generating units to which the sets of goodwill have been allocated has been estimated based on their value in use, as described in note 4 "Critical accounting estimates and judgments."

9. Intangible assets

Intangible assets break down as follows:

(In thousands of US$)	Backlog	Patented technologies	Software licenses	Royalties on intellectual property	Internally developed software	Technologies in development	Total
Year ended December 31, 2011							
Opening net book amount	**717**	**5,372**	**553**	**-**	**-**	**-**	**6,641**
Additions	-	-	1,160	-	-	-	**1,160**
Exchange differences	-	-	(24)	-	-	-	**(24)**
Impairment	-	-	-	-	-	-	**-**
Retirement	-	-	-	-	-	-	**-**
Work in progress	-	-	-	-	-	1,188	**1,188**
Amortization charge	(717)	(910)	(462)	-	-	-	**(2,088)**
Closing net book amount	**-**	**4,462**	**1,227**	**-**	**-**	**1,188**	**6,877**
At December 31, 2011							
Cost or valuation	1,544	5,651	4,479	-	-	1,188	**12,862**
Accumulated amortization and impairment	(1,544)	(1,190)	(3,251)	-	-	-	**(5,985)**
Net book amount	**-**	**4,461**	**1,227**	**-**	**-**	**1,188**	**6,877**
Year ended December 31, 2012							
Opening net book amount	-	4,462	1,227	-	-	1,188	**6,877**
Acquisitions	-	-	2,825	-	-	-	**2,825**
Acquisition of business	-	-	-	31,576	2,330	-	**33,906**
Exchange differences	-	-	10	-	-	-	**10**
Impairment	-	-	-	-	-	-	**-**
Disposals (net book amount)	-	-	-	-	-	-	**-**
Work in progress	-	-	-	-	-	973	**973**
Amortization charge	-	(1,076)	(1,167)	(230)	(65)	-	**(2,538)**
Closing net book amount	**-**	**3,385**	**2,895**	**31,346**	**2,265**	**2,161**	**42,052**
At December 31, 2012							
Cost or valuation	-	5,651	7,320	31,576	2,330	2,161	**49,038**
Accumulated amortization and impairment	-	(2,266)	(4,424)	(230)	(65)	-	**(6,985)**
Net book amount	**-**	**3,385**	**2,896**	**31,346**	**2,265**	**2,161**	**42,052**
Year ended December 31, 2013							
Opening net book amount	**-**	**3,385**	**2,895**	**31,346**	**2,265**	**2,161**	**42,052**
Acquisitions	-	-	1,101	-	-	3,382	**4,483**
Exchange differences	-	-	50	-	-	-	**50**
Impairment	-	-	-	-	-	-	**-**
Disposals (net book amount)	-	-	-	-	-	-	**-**
Work in progress	-	-	-	-	-	-	**-**
Amortization charge	-	(1,232)	(1,688)	(10,169)	(777)	-	**(13,865)**
Closing net book amount	**-**	**2,153**	**2,358**	**21,177**	**1,488**	**5,543**	**32,720**
At December 31, 2013							
Cost or valuation	-	5,651	8,498	31,576	2,330	5,543	**53,598**
Accumulated amortization and impairment	-	(3,498)	(6,140)	(10,399)	(841)	-	**(20,878)**
Net book amount	**-**	**2,153**	**2,358**	**21,177**	**1,488**	**5,543**	**32,720**

The backlog acquired as part of the SMS acquisition in 2010 was fully amortized in 2011. The gross value and the accumulated amortization were compensated as at December 31, 2011.

Amortization expenses of US$ 13,865 thousand have been recorded in 2013 within research and development, selling and marketing, and general administration expenses according to the assets' allocation (US$ 2,538 thousand in 2012 and US$ 2,088 thousand in2011).

In 2013, development expenses related to one project for a total amount of US$ 3,382 thousand were capitalized (US$ 973 thousand in 2012 and US$ 1,188 thousand in 2011). This project is financed through repayable advances (see note 22) and through classic grants. Capitalized research expenses correspond only to the project financed through repayable advances.

Finance leases included within intangible assets corresponding to software break down as follows:

(In thousands of US$)	**2011**	**2012**	**2013**
Gross book value	719	826	936
Accumulated amortization	(349)	(529)	(746)
Net book value	**371**	**297**	**191**

10. Property and equipment

Property and equipment breaks down as follows:

(In thousands of US$)	Leasehold improvement	Equipment	Furniture and other office equipment	Masks	Total
Year ended December 31, 2011					
Opening net book amount	**3,408**	**3,518**	**1,473**	**12,153**	**20,552**
Additions	83	3,110	1,875	438	**5,507**
Exchange differences	(117)	(31)	(144)	(340)	**(633)**
Impairment	(614)	-	-	(1,100)	**(1,714)**
Retirement	-	-	-	-	**-**
Work in progress	-	(70)	-	-	**(70)**
Depreciation charge	(824)	(1,652)	(936)	(3,416)	**(6,829)**
Closing net book amount	**1,936**	**4,874**	**2,268**	**7,734**	**16,813**
At December 31, 2011					
Cost or valuation	4,202	9,593	4,627	12,792	**31,214**
Accumulated depreciation	(2,266)	(4,719)	(2,359)	(5,057)	**(14,401)**
Net book amount	**1,936**	**4,874**	**2,268**	**7,734**	**16,813**
Year ended December 31, 2012					
Opening net book amount	**1,936**	**4,874**	**2,268**	**7,734**	**16,813**
Additions	146	998	575	735	**2,454**
Acquisition of business	9	17	114	-	**140**
Exchange differences	66	80	(12)	144	**278**
Impairment	-	-	-	-	**-**
Disposals (net book amount)	-	(16)	28	-	**12**
Work in progress	-	(115)	25	-	**(90)**
Depreciation charge	(472)	(2,288)	(912)	(3,125)	**(6,797)**
Closing net book amount	**1,685**	**3,549**	**2,086**	**5,490**	**12,810**
At December 31, 2012					
Cost or valuation	4,650	10,374	5,519	13,806	**34,348**
Accumulated depreciation	(2,965)	(6,825)	(3,432)	(8,316)	**(21,538)**
Net book amount	**1,685**	**3,549**	**2,086**	**5,490**	**12,810**
Year ended December 31, 2013					
Opening net book amount	**1,685**	**3,549**	**2,086**	**5,490**	**12,810**
Additions	2,194	631	415	1,255	**4,494**
Acquisition of business	-	-	-	-	**-**
Exchange differences	33	99	(56)	267	**343**
Impairment	(1,132)	-	-	(379)	**(1,511)**
Disposals (net book amount)	-	(38)	(9)	(19)	**(66)**
Scrap (net book amount)	(158)	(101)	-	-	**(259)**
Reclassification		190	(190)	-	**-**
Work in progress	-	26	-	-	**26**
Depreciation charge	(406)	(1,673)	(1,320)	(2,030)	**(5,428)**
Closing net book amount	**2,217**	**2,684**	**926**	**4,584**	**10,411**
At December 31, 2013					
Cost or valuation	5,309	9,448	5,752	15,690	**36,199**
Accumulated depreciation	(3,092)	(6,764)	(4,826)	(11,106)	**(25,788)**

Depreciation expenses of US$ 5,428 thousand have been recognized in 2013 within cost of sales, research and development expenses, selling and marketing expenses, and general and administrative expenses according to the assets' allocation (US$ 6,797 thousand in 2012 and US$ 6,829 thousand in 2011).

Lease rentals amounting to US$ 2,313 thousand (US$ 2,318 thousand in 2012 and US$ 2,528 thousand in 2011) relating to the operating lease of buildings and furniture are included in the income statement.

As mentioned in note 27, the value in use of the building at East Kilbride has been impacted by the restructuring plan and it has therefore been written down for an amount of US$ 1,132 thousand.

Finance leases included in property and equipment above are as follows:

(In thousands of US$)	2011	2012	2013
Gross book value	1,412	1,683	1,872
Accumulated depreciation	(155)	(559)	(1,063)
Net book value	**1,257**	**1,124**	**809**

11. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

December 31, 2011 Assets	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale	Total
Derivative financial instruments	-	-	216	-	216
Trade and other receivables	36,472	-	-	-	36,472
Cash and marketable securities	20,550	390	-	-	20,940
Total	**57,022**	**390**	**216**	**-**	**57,628**

Liabilities	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Bank overdrafts	-	-	-	-
Finance lease liabilities	-	-	1,320	1,320
Derivative financial instruments	350	998	-	1,348
Trade and other payables	-	-	29,977	29,977
Total	**350**	**998**	**31,297**	**32,645**

December 31, 2012 **Assets**	**Loans and receivables**	**Assets at fair value through profit and loss**	**Derivatives used for hedging**	**Available for sale**	**Total**
Derivative financial instruments	-	-	145	-	145
Trade and other receivables	39,567	-	-	-	39,567
Cash and marketable securities	63,929	2,392	-	-	66,321
Total	**103,496**	**2,392**	**145**	**-**	**106,033**

Liabilities	**Liabilities at fair value through profit and loss**	**Derivatives used for hedging**	**Other financial liabilities at amortized cost**	**Total**
Bank overdrafts	-	-	276	276
Finance lease liabilities	-	-	1,209	1,209
Derivative financial instruments	-	-	6,225	6,225
Trade and other payables	-	179	-	179
Total	-	-	33,523	33,523
Total	**-**	**179**	**41,233**	**41,412**

December 31, 2013 **Assets**	**Loans and receivables**	**Assets at fair value through profit and loss**	**Derivatives used for hedging**	**Available for sale**	**Total**
Derivative financial instruments	-	-	587	-	587
Trade and other receivables	50,036	-	-	-	50,036
Cash and marketable securities	29,824	10,389	-	-	40,213
Total	**79,860**	**10,389**	**587**	**-**	**90,836**

Liabilities	**Liabilities at fair value through profit and loss**	**Derivatives used for hedging**	**Other financial liabilities at amortized cost**	**Total**
Bank overdrafts	-	-	-	-
Finance lease liabilities	-	-	923	923
Financing of the Research tax credit receivable	-	-	13,325	13,325
Derivative financial instruments	215	-	-	215
Trade and other payables	-	-	32,525	32,525
Total	**215**	**-**	**46,773**	**46,988**

12. Derivative financial instruments

Derivative financial instruments break down as follows:

(In thousands of US$)	**2011**		**2012**		**2013**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Currency forward contracts - cash flow hedges	-	602	41	179	328	-
Currency forward contracts - held for trading		-	-	-	-	-
Currency options - cash flow hedges	216	396	104	-	259	-
Currency options - held for trading	-	350	-	-	-	215
Total	**216**	**1,348**	**145**	**179**	**587**	**215**
Of which current portion	**216**	**1348**	**145**	**179**	**587**	**215**
Of which non current portion	**-**	**-**	**-**	**-**	**-**	**-**

The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

The ineffective portion recognized in the profit or loss that arises from cash flow hedges amounts to a gain of US$ 37 thousand (a loss of US$ 47 thousand in 2012 and a loss of US$ 57 thousand in 2011).

(a) Currency forward contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2013 were US$ 12,300 thousand (US$ 19,551 thousand in 2012 and US$ 17,159 thousand in 2011).

The hedged highly probable forecast transactions denominated in foreign currencies are expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve in equity on forward foreign exchange contracts as at December 31, 2013 are recognized in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

(b) Currency options

The notional principal amounts of the outstanding currency options at December 31, 2013 were US$ 7,000 thousand (US$ 1,979 thousand in 2012 and US$ 8,410 thousand in 2011).

The hedged highly probable forecast transactions denominated in foreign currencies are expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve in equity on currency options as at December 31, 2013 are recognized in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

13. Inventories

Inventories break down as follows:

(In thousands of US$)	**2011**	**2012**	**2013**
Semi-finished and finished goods	27,163	21,389	21,780
Developments in progress	-	-	188
Less: provision for impairment of obsolete items	(3,887)	(4,038)	(7,138)
	23,276	**17,350**	**14,830**

During the course of 2013, the Company built up certain “strategic” inventories in light of the financial difficulties of one of its wafer suppliers, LFoundry. This supplier has now ceased its operations and liquidation procedures were initiated in December 2013. The products concerned are those that only LFoundry was able to manufacture. As at December 31, 2013, the gross value of these inventories amounts to US$ 4,664 thousand and should allow the Group to meet current customer requirements for 2014 and 2015.

Movements on the Group provision for impairment of obsolete inventories are as follows:

(In thousands of US$)	2011	2012	2013
At January 1	(1,063)	(3,887)	(4,038)
Impairment of obsolete items	(4,624)	(3,421)	(4,596)
Inventory written off during the year	955	1,640	907
Unused amounts reversed	845	1,630	590
At December 31	**(3,887)**	**(4,038)**	**(7,138)**

Impairment of obsolete items relates to inventory levels judged in excess, particularly when assessed in relation to backlog as well as obsolete technology. The Group recognized the impairment of inventory in the line item "Cost of sales".

In the second half of 2013, the Group recorded an inventory provision amounting to US$ 3,617 thousand relating to difficulties encountered by the Group's main customer in the NFC microcontroller segment. Based on information available, the Group considers that it has provided for all inventory risk related to this customer.

14. Trade receivables

Net trade receivables break down as follows:

(In thousands of US$)	2011	2012	2013
Trade receivables	18,760	17,175	18,648
Less: provision for impairment of trade receivables	(49)	(713)	(1,127)
Trade receivables, net	**18,711**	**16,462**	**17,521**

Trade receivables break down as follows:

(In thousands of US$)	2011	2012	2013
Trade receivables invoiced	20,824	13,103	18,404
Trade receivables accrued invoices	779	6,809	1,194
Credit notes to be issued	(2,843)	(2,736)	(950)
Trade receivables	**18,760**	**17,175**	**18,648**

Trade receivables that are less than three months past due are not considered for impairment. As at December 31, 2013, trade receivables of US$ 2,695 thousand were overdue but not impaired. These relate to a number of customers for whom there is no history of default.

The ageing analysis of these trade receivables is as follows:

(In thousands of US$)	Total	Not past due	1 to 30 days	30 to 60 days	60 to 90 days	90 to 120 days	Above 120 days
2011	20,824	16,481	2,938	281	5	832	287
2012	13,103	8,482	2,337	1,059	306	65	855
2013	18,404	14,582	675	1,118	535	183	1,311

As at December 31, 2013, trade receivables of US$ 1,127 thousand (US$ 713 thousand as at December 31, 2012 and US$ 49 thousand as at December 31, 2011) were provided for. The impaired receivables mainly relate to one customer.

The provision for impairment of receivables breaks down as follows:

(In thousands of US$)	2011	2012	2013
At January 1	(54)	(49)	(713)
Provision for receivables impairment	-	(677)	(414)
Receivables written off during the year as uncollectible	-	-	-
Unused amounts reversed	5	13	-
At December 31	**(49)**	**(713)**	**(1,127)**

The recording and reversal of a provision for receivables impaired has been included in the line item “Selling and marketing expenses” in the income statement. Amounts recognized in the allowance account are written off when there is no expectation of recovering the related cash amount.

The carrying amounts of the Group’s trade and other receivables are denominated in the following currencies:

(In thousands of US$)	2011	2012	2013
US dollar	21,625	18,131	18,145
Euro	6,019	4,845	6,587
Other currencies	1,590	155	441
	29,235	**23,131**	**25,173**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

In 2011, the Group entered into factoring agreements whereby it transferred certain receivables in Euros and
Dollars to Natixis Factor, including a deposit and backed by a credit insurance contract. The initial duration of these agreements was extended to three years in 2013. Since the risk of non-recoverability and delays in payment has been transferred to the bank, the receivables transferred under these contracts are no longer recorded in the balance sheet.

The amount of receivables transferred with maturities later than December 31 for which substantially all of the risks and rewards have been transferred and which are therefore no longer recorded in the balance sheet within accounts receivable is as follows:

(In thousands of US$)	2012	2013
Trade receivables transferred	12 766	4 661
Factoring reserve	(436)	(172)
Cash received as at December 31,	**12 330**	**4 489**

As at December 31, 2013, the total amount of transferred receivables is US$ 4,661 thousand (US$ 12,766 thousand as at December 31, 2012 and US$ 11,052 thousand as at December 31, 2011).

15. Other receivables

Other receivables break down as follows:

(In thousands of US$)	2011	2012	2013
Deposits	486	1 091	527
Research tax credit	10 952	15 071	24 337
VAT receivables	2 946	1 288	2 596
Pre-payments	1 145	468	736
Factoring reserve	442	436	172
Other receivables	735	1 919	1 049
Prepaid expenses	1 056	2 337	2 116
Credit notes to be received	-	223	984
Other receivables		**22 832**	**32 516**
Other receivables - Non-current portion	*7 287*	*16 163*	*24 863*
Other receivables - Current portion	*10 474*	*6 669*	*7 652*

As the Group is no longer eligible for immediate reimbursement of the Research Tax Credit (RTC) since 2011, the RTC receivable acquired during 2013 is recorded in the line item “Other receivables – Non-current portion”. In accordance with generally accepted accounting principles, the RTC receivable is not discounted.

The Group has maintained the RTC receivables acquired in 2011 for an amount of US$ 7,250 thousand and in 2012 for an amount of US$ 8,521 thousand within “Other receivables – Non-current portion.

Factoring contracts have been implemented with financial institutions (see note 21). They have been recorded in financial debts in accordance with IAS 39 and have the following terms:

i. Research tax credit receivable for 2011: June 2015
ii. Research tax credit receivable for 2012: July 2014 (extended to July 2015 subsequent to the closing as of December 31, 2013)

As a reminder, the research tax credit owed to the Group relative to the 2010 fiscal year, which was audited by the tax authorities and the French Ministry of Research, was repaid to the Group in full on July 4, 2012 in the amount of US$ 4,168 thousand (EUR 3,207 thousand). The tax audit did not lead to any adjustments.

The variation in research tax credit receivable over the year is as follows:

(In thousands of US$)	2011	2012	2013
At January 1	**4 984**	**10 952**	**15 071**
Research tax credit for the year	7 054	8 154	8 566
Cash received related to the research tax credit	(738)	(4 168)	-
Exchange differences	(348)	133	700
As at December 31,	**10 952**	**15 071**	**24 337**

16. Cash and cash equivalents

Cash and cash equivalents break down as follows:

(In thousands of US$)	As at December 2011	As at December 2012	As at December 2013
Cash at bank and on hand	20,550	27,380	23,824
Marketable securities (1)	390	2,392	10,389
Short term securities (2)	-	36,549	6,000
Cash and cash equivalents	**20,940**	**66,321**	**40,213**

(1) Marketable securities correspond to joint investment schemes measured at fair value against profit and loss. These securities are considered as cash equivalents as they are highly liquid, have sensitivity to interest rates of less than 0.25, have a volatility of almost 0 and are part of an investment strategy which excludes shares.

(2) Short term securities correspond to investments which meet the criteria of cash and cash equivalents as defined by the AMF in 2012.

17. Share capital

The variations of share capital break down as follows:

(In thousands of US$ except number of shares)	Number of shares	Ordinary shares	Share premium	Total
As at January 1, 2011	**5,419,405**	**11,342**	**134,873**	**146,215**
Division of par value by 4	16,258,215	-	-	-
Share capital increases	46,704	27	238	265
Subscription of warrants	-	-	181	181
Direct costs paid related to the project of IPO	-	-	(2,271)	(2,271)
As at December 31, 2011	**21,724,324**	**11,369**	**133,021**	**144,390**
Share capital increases	9,560,236	5,039	99,513	**104,552**
Share conversion	1,449,144	764	(764)	**-**
Free shares vesting	1,185,138	614	(614)	**-**
Exercise of stock options	74,720	37	361	**398**
Direct costs paid related to the IPO	-	-	(5,840)	**(5,840)**
Contribution to restricted reserve	-	-	(107)	**(107)**
As at December 31, 2012	**33,993,562**	**17,822**	**225,570**	**243,393**
Subscription of warrants	-	-	28	**28**
As at December 31, 2013	**33,993,562**	**17,822**	**225,599**	**243,421**

Year ended December 31, 2011

In 2011, following the decision of the general meeting of May 11, 2011, the nominal value of the Company's shares was divided by four in order to bring the share price of € 1.60 to € 0.40 and, as a result, to multiply the number of shares by four in order to increase the number of shares from 5,419,405 to 21,677,620.

The Company also carried out a share capital increase as part of the exercise of redeemable warrants through the issue of 46,704 new shares. This operation led to an increase in the share capital of US$ 27 thousand and US$ 238 thousand in share premium.

The total number of outstanding ordinary shares is 21,724,324 as at December 31, 2011 (5,419,405 shares as at December 31, 2010). Each share has a nominal value of € 0.40. All outstanding shares are fully paid.

External costs net of tax incurred in 2011 and directly related to the IPO project are recorded as a reduction of share premium as they concern the issue of new shares and the project was finalized post closing in February 2012.

Year ended December 31, 2012

Since February 17, 2012, shares in the Company are listed on the NYSE Euronext exchange in Paris (compartment B). Proceeds from the issuance of the shares as part of the initial public offering was US$ 104.5million (€79.3 million), which represents a capital increase of €5,039 thousand and an increase in share premium of US$ 99,513 thousand. This operation led to the issue of 9 560 236 new shares.

External costs net of tax incurred by the Company and directly related to the IPO are recorded as a reduction of share premium.

By decision of the General Meeting of January 20, 2012, category D preference shares were converted into ordinary shares. A capital increase was recorded on this date of U$ 764 thousand with an equal decrease in share premium and 1 449 144 new shares were issued.

Free shares whose acquisition was conditional on the realization of the IPO were definitively acquired on March 6, 2012 and on December 16, 2012. The share capital increased by US$ 614 thousand through the issue of 1,185,138 new shares.

The Company also carried out a share capital increase as part of the exercise of certain stock options, through the issuance of 74 720 new shares. This operation led to an increase in the share capital of US$ 37 thousand and US$ 361 thousand in share premium.

The total number of outstanding shares is 33 993 562 as at December 31, 2012 (21 724 324 as at December 31, 2011). Each share has a nominal value of €0.40.All issued shares are paid.

Year ended December 31, 2013

Share purchase warrants were subscribed during the course of 2013 for an amount of US$ 28 thousand.

18. Share-based payments

Share options, free shares and stock purchase warrants (BSA) are granted to management, employees and third parties (service providers). As at December 31, 2013, the following share options, free shares and stock purchase warrants (BSA) were granted by the Company.

Unless otherwise indicated, all amounts are expressed in thousands of US$

As at December 31, 2013 the following share based payments were granted by the Company:

Plan	Date of allocation	Exercise price in $ per share	Vesting / Conditions	Number of instruments	Expiration date
BSA 2007-02	30/08/2007	9,60	3 years - graded vesting	9 200	10/10/2017
BSA 2007-4	30/08/2007	9,60	1 year - graded vesting	3 000	30/08/2017
BSA 2007-4 (2ième tranche)	18/12/2008	10,31	1 year - graded vesting	3 000	18/12/2018
BSA 2006-1	20/11/2006	5,06	1 year - graded vesting	46 704	20/11/2016
BSA 2005-5	17/02/2006	4,68	No vesting period, it can excercised at the date of allocation.	15 732	20/10/2015
BSA 2006-2	20/11/2006	5,06	4 years - graded vesting	18 400	20/11/2016
BSA 2007-3	21/09/2007	9,91	2 years - graded vesting and need to be part of the Advisory Board	4 000	21/09/2017
BSA 2007-3 (2eme tranche)	21/09/2007	9,91	2 years - graded vesting and need to be part of the Advisory Board	4 000	21/09/2017
BSA 8	02/10/2008	13,98	3 years - graded vesting	12 800	02/10/2018
BSA 2005-1	15/06/2006	7,28	No vesting period, it can excercised at the date of allocation.	43 332	15/06/2016
BSA 2005-3	15/06/2006	7,28	No vesting period, it can excercised at the date of allocation.	52 000	15/06/2016
BSA 12	01/10/2010	6,52	No vesting period but conditions exist such as IPO or merger/acquisitions of more than 50% of the Company and the market share price must be higher than €25,5 ($35)	200 000	01/10/2015
Free shares Pool 1	28/07/2005	-	Vesting occurs if: - Exit (Transfer of more than 90% of shares or IPO) - If exit occurs before 2 years, service condition of 2 years =>Minimum 2 years maximum 10 years from 28/07/2005 Number of shares depend on the exit price (between €15 ($21) and €45 ($62))	113 200	NA
Free shares Pool 2	28/07/2005	-	Vesting occurs if: - Exit (Transfer of more than 90% of shares or IPO) - If exit occurs before 2 years, service condition of 2 years =>Minimum 2 years maximum 10 years from 28/07/2005 Number of shares depend on the exit price (between €45 ($62) and €63,75 ($87))	138 264	NA
Adition to pool 2	17/02/2006	-	Vesting occurs if: - Exit (Transfer of more than 90% of shares or IPO) - If exit occurs before 2 years, service condition of 2 year -25% at the end of each years since the allocation date. =>Minimum 2 years maximum 10 years from 17/02/2006 Number of shares depend on the exit price (between €57,51 ($79) and €70 ($96))	69 096	NA

Plan	Date of allocation	Exercise price in $ per share	Vesting / Conditions	Number of instruments	Expiration date
Other free shares	17/02/2006	-	4 years - graded vesting	83 092	NA
Other free shares - Pool A	02/06/2006	-	2 years - graded vesting and to be member of the board	38 048	NA
Other free shares - Pool B	02/06/2006	-	3 years - graded vesting and to be member of the board	19 024	NA
Other free shares - Pool C	02/06/2006	-	4 years - graded vesting and to be member of the board	19 024	NA
Other free shares	03/11/2008	-	4 years - those shares can t be allocated if they lead to own more than 10% of the total of shares	20 000	NA
Other free shares - Pool A	17/12/2010	-	2 years - graded vesting - IPO and market conditions : €25,5 ($35) if IPO within 12 months, €29 ($40) if IPO between 12 and 24 months, €34 ($47) if IPO after 24 months	1 116 000	NA
Other free shares - Pool B	17/12/2010	-	4 years - graded vesting - IPO and market conditions : €25,5 ($35) if IPO within 12 months, €29 ($40) if IPO between 12 and 24 months, €34 ($47) if IPO after 24 months	110 000	NA
Free shares	17/10/2012	-	Graded vesting - 50% after 2 years, 75% after 3 years and 100% after 4 years Average of the stock price for the 20 days preceeding October 17, 2014, must be above €2,30 ($3)	160 000	NA
Free shares	20/12/2012	-	Graded vesting - 50% after 2 years, 75% after 3 years and 100% after 4 years Average of the stock price for the 20 days preceeding October 17, 2014, must be above €3,22 ($4,27)	10 000	NA
Free shares	26/07/2012	-	2 years - Average of the stock price for the 20 days preceeding July 26, 2014, must be above €8,30 ($11,44)	2 200	NA
Free shares	26/07/2012	-	2 years - Average of the stock price for the 20 days preceeding July 26, 2014, must be above €8,30 ($11,44)	4 000	NA
Free shares	26/07/2012	-	2 years - Average of the stock price for the 20 days preceeding July 26, 2014, must be above €8,30 ($11,44)	63 510	NA
SO 2005 - 1 Pool 3	28/07/2005	0,48	4 years - graded vesting, minimum share price of €100 ($137) at exit date.	113 200	16/06/2015
SO 2005 - 1 Pool 4	28/07/2005	0,48	4 years - graded vesting, minimum share price of €120 ($164) at exit date.	102 240	16/06/2015
SO 2005 - 02 first grant	17/02/2006	4,68	4 years - graded vesting.	96 908	20/10/2015
SO 2005 - 02 second grant	02/06/2006	5,05	4 years - graded vesting.	51 904	12/09/2016
SO 2006 - 01	02/06/2006	5,05	4 years - graded vesting.	273 200	02/06/2016
Options 2007-1-F (15 200) et Options 2006-1-B (5 400)	03/11/2008	12,89	5 years - graded vesting and to be member of the board	82 400	19/06/2017
Options 2006-1	02/02/2007	9,19	4 years - graded vesting and to be member of the board	105 200	16/04/2017
SO	26/07/2012	3,76	10 years - graded vesting.	14 490	26/02/2022
Options ESS	20/12/2012	3,84	4 years vesting Part of the options will be granted based on internal performance criteria of the ESS business.	300 000	16/04/2017
SO	20/06/2013	3,75	10 years - graded vesting.	20 000	20/12/2022
SO	27/08/2013	3,28	10 years - graded vesting. Part of the options will be granted based on internal performance criteria of the ESS business.	140 000	23/02/2023

Share based payments are conditional on the holder completing a certain number of years of service (the vesting period). Certain share based payments are exercisable subject to the common share of the Group achieving a certain value. The Group has no legal or constructive obligation to repurchase or settle the share based payments in cash.

The number of stock purchase warrants outstanding and their related weighted average exercise prices are as follows:

	2011		2012		2013	
	Average exercise price in $ per share	Number of financial instruments (in thousands)	Average exercise price in $ per share	Number of financial instruments (in thousands)	Average exercise price in $ per share	Number of financial instruments (in thousands)
As at January 1st	7	348	7	300	7	242
Granted	-	-	-	-	2	20
Void	-	-	10	58	-	-
Exercised	7	(48)	-	-	-	-
Expired			-	-	-	-
As at December 31	**7**	**300**	**7**	**242**	**9**	**262**

20,000 stock purchase warrants were granted in 2013 and none became void in 2013.

The number of options outstanding and their weighted average exercise price are as follows:

	2011		2012		2013	
	Average exercise price in $ per share	**Number of financial instruments (in thousands)**	**Average exercise price in $ per share**	**Number of financial instruments (in thousands)**	**Average exercise price in $ per share**	**Number of financial instruments (in thousands)**
As at January 1st	8	1,172	8	1,132	5	696
Granted	-	-	4	300	4	174
Void	11	(39)	11	661	4	22
Exercised	-	-	5	75	-	-
Expired	-	-	-	-	-	-
As at December 31	**8**	**1,133**	**5**	**696**	**5**	**892**

No stock options were exercised in 2013 (75,000 in 2012, none in 2011). 174,000 stock options were granted in 2013 (300,000 in 2012 none in 2011). 22,000 stock options became void in 2013 (661,000 in 2012, 39,000 in 2011).

The number of free shares outstanding and their weighted average exercise price are as follows:

	2011		2012		2013	
	Average exercise price in $ per share	**Number of free shares (in thousands)**	**Average exercise price in $ per share**	**Number of free shares (in thousands)**	**Average exercise price in $ per share**	**Number of free shares (in thousands)**
As at January 1st	-	1,315	-	1,315	-	810
Granted	-	-	-	680	-	70
Can be sold	-	-	-	-	-	-
Acquired	-	-	-	1,185	-	-
Void	-	-	-	-	-	63
As at December 31	**-**	**1,315**	**-**	**810**	**-**	**817**

In 2013, 70,000 free shares were granted (680,000 in 2012, none in 2011) and none were definitely acquired (1,185,000 in 2012, none in 2011).

The valuation of share options, free shares and stock purchase warrants can be summarized as follows:

Plan	**Valuation model**	**Share price at grant date (US$)**	**Risk free rate**	**Volatility**	**Expected maturity (*)**
BSA 2007-02	B&S	9.6	4.50%	51%	3
BSA 2007-4	B&S	10.275	4.50%	51%	3
BSA 2007-4 (2nd tranche)	B&S	9.325	1.60%	71%	2
BSA 2006-1	B&S	5.3	4.50%	51%	5
BSA 2005-5	B&S	5	3.30%	49%	3
BSA 2006-2	B&S	5.175	3.50%	49%	5
BSA 2007-3	B&S	11.1	4.50%	51%	5
BSA 2007-3 (2nd tranche)	B&S	10.825	3.00%	71%	4
BSA 8	B&S	13.375	1.20%	71%	4
BSA 2005-1	B&S	7.275	4.00%	49%	4
BSA 2005-3	B&S	7.275	4.00%	49%	4
BSA 12	B&S	6.525	1.50%	57%	4
SO 2005 - 1 Pool 3	B&S	0.475	3.30%	49%	10
SO 2005 - 1 Pool 4	B&S	0.475	3.30%	49%	10
SO 2005 - 02 first grant	B&S	4.675	3.50%	49%	6

Unless otherwise indicated, all amounts are expressed in thousands of US$

Plan	Valuation model	Share price at grant date (US$)	Risk free rate	Volatility	Expected maturity (*)
SO 2005 - 02 second grant	B&S	5.05	4.00%	49%	7
SO 2006 - 01	B&S	5.05	4.50%	51%	7
Options 2007-1-F (15,200) and Options 2006-1-B (5,400)	B&S	12.9	3.20%	51%	4
Options 2006-1	B&S	9.175	4.50%	51%	7
Options ESS	B&S	3.84	4.50%	75%	4
Free shares pool 1	Share price at grant date	0.475	NA	NA	NA
Free shares pool 2	Share price at grant date	0.475	NA	NA	NA
Free shares - addition to pool 2	Share price at grant date	4.7	NA	NA	NA
Other free shares	Share price at grant date	4.7	NA	NA	NA
Other free shares	Share price at grant date	4.975	NA	NA	NA
Pool A	Share price at grant date	4.975	NA	NA	NA
Pool B	Share price at grant date	4.975	NA	NA	NA
Pool C	Share price at grant date	4.975	NA	NA	NA
Other free shares	Share price at grant date	12.9	NA	NA	NA
Pool A	MC	6.3	NA	NA	NA
Pool B	MC	6.3	NA	NA	NA
Other free shares	MC	2.8	NA	NA	NA
Other free shares	MC	3.4	NA	NA	NA

MC : Monte-Carlo valuation model

B&S : Black & Sholes valuation model

(*) Determined based on a peer group analysis

19. Retained earnings and other reserves

Retained earnings and other reserves break down as follows:

(In thousands of US$)	2011	2012	2013
As at January 1	(63,533)	(86,795)	(121,668)
Loss for the year	(23,033)	(37,485)	(27,560)
Share based payments	2,000	1,880	555
Actuarial loss on retirement benefit obligations	(105)	(346)	345
Financial instruments at fair value	(1,773)	937	353
Contribution to restricted reserve	-	107	-
Currency translation differences	(351)	537	413
Treasury shares		(501)	88
As at December 31,	**(86,795)**	**(121,668)**	**(147,473)**
Of which:			
Retained earnings	(96,567)	(134,053)	(161,613)
Legal reserve	-	-	-
Restricted reserves	2,553	2,661	2,661
Other comprehensive income	(725)	(135)	564
Share based payments	8,424	10,304	10,860
Currency translation differences	(480)	57	470
Treasury shares	-	(501)	(414)
As at December 31,	**(86,795)**	**(121,668)**	**(147,473)**

In France, companies must transfer 5% of their annual profit to a legal reserve until the reserve reaches 10% of the share capital. The Group having generated losses in the past, no contribution has been made to this reserve.

In October 2012, the Company transferred US$ 107 thousand to restricted reserves to secure the issue of free shares.

20. Trade payables

Trade and other payables break down as follows:

(In thousands of US$)	2011	2012	2013
Trade payables	16,205	12,301	8,661
Accrued expenses	10,910	11,142	10,398
Social security and other taxes	2,596	3,304	7,597
Advances from customers	266	1,588	5,868
Total	**29,977**	**28,335**	**32,524**

The decrease in trade payables in 2013 relates to the decrease in inventoried purchases.

The increase in social security payables is mostly due to the integration of the employees from the acquisition of the ESS business.

In certain cases, when the revenue recognition criteria are not met, the Group may defer the related income which results in an increase in the line item “Advances from customers”.

21. Financial debts

Financial debts break down as follows:

(In thousands of US$)	2011	2012	2013
Non-current			
Research tax credit financing	-	6,225	6,507
Obligations under finance lease	963	677	355
	963	**6,902**	**6,862**
Current			
Research tax credit financing	-	-	6,818
Obligations under finance lease	357	532	568
Bank overdrafts	-	276	-
Total	**1,320**	**7,710**	**14,248**

A factoring contract for the research tax credit receivable for the year ended December 31, 2011, recorded as an asset on the balance sheet, was implemented with a financial institution in June 2012 and its term is June 2015. This financing amounting to US$ 6,507 thousand corresponds to 90% of the research tax credit receivable. The remaining 10% will be paid to the Company in June 2015 at the maturity of the contract. The cash received represents an amount of US$ 5,905 thousand, net of interest and commissions for a total amount of US$ 602 thousand. Interest and commissions have been recognized in prepaid expenses and are spread over the duration of the contract. Given that the financing of the RTC is denominated in Euros, the amount presented on the balance sheet can be affected by exchange rate fluctuations.

A factoring contract for the research tax credit receivable for the year ended December 31, 2012, recorded as an asset on the balance sheet in ‘‘Financial debt- current portion”, was implemented with a financial institution in July 2013. The initial term of one year (July 2014) was extended to July 2015 subsequent to the closing as of December 31, 2013. The amount financed and received represents US$ 6,818 thousand and corresponds to 80% of the research tax credit receivable. Interest is paid monthly over the duration of the contract.

Obligations under finance leases are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

22. Repayable advances

Other debts break down as follows:

(In thousands of US$)	2011	2012	2013
Repayable advances	852	3,443	3,592
Total	**852**	**3,443**	**3,592**
Other payables - Non-current portion	*852*	*3,443*	*3,592*
Other payables - Current portion	-	-	-

The Group benefits from repayable advances from Bpifrance (formerly OSEO) for research and innovation programs. These advances are repayable if and only if the contractually defined commercial objectives are achieved. The Group did not receive any additional repayable advances in 2013. No advance was repaid or recognized as definitively acquired during 2011, 2012 and 2013. The repayment of these advances is subject to revenue objectives being achieved on the related projects. Repayable advances are accounted for at their nominal value and do not bear interest. As the repayable advances are denominated in Euros, the amount recorded on the balance sheet may be affected by exchange rate fluctuations.

23. Retirement benefit obligations

The Group operates a defined benefit pension plan in France and its obligations to employees in terms of retirement benefits are limited to a lump sum payment based on remuneration and length of service, determined for each employee. In the UK the Group operates under a defined contribution plan whereby the Company's liability is limited to its contributions.

The amounts recognized in the balance sheet are determined as follows:

(In thousands of US$)	2011	2012	2013
Present value of unfunded obligations	1,183	1,749	1,596

The movement in the defined obligation over the year is as follows:

(In thousands of US$)	2011	2012	2013
As at January 1	897	1,183	1,749
Current service cost	121	144	231
Interest cost	46	52	55
Actuarial (losses)/gains	109	353	(341)
Exchange differences	10	17	74
Liabilities assumed as part of a business combination	-	-	(172)
As at December 31	**1,183**	**1,749**	**1,596**

The amounts recognized in the income statement are as follows:

(In thousands of US$)	2011	2012	2013
Current service cost	121	144	231
Interest cost	46	52	55
As at December 31	**167**	**196**	**286**

The principal actuarial assumptions used were as follows:

	2011	2012	2013
Discount rate	4.30%	3.00%	3.11%
Salary growth rate (including inflation)	3%	3%	3%
Inflation rate	2%	2%	2%

Assumptions regarding future mortality expectations are set based on data in accordance with published statistics and experience in France.

The liability recognized as at December 31, 2013 takes into account the latest regulations in terms of pension obligations.

The sensitivity of the overall pension liability to changes in the weighted principal assumption is as follows:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease of 0.25 points	Decrease/Increase de 4,5%

Unless otherwise indicated, all amounts are expressed in thousands of US$

24. Provisions for other liabilities and charges

Provisions for other liabilities and charges break down as follows:

(in thousand dollars)	Employee related litigations	Customer claims	Restructuring	Others	Total
As at January 1, 2011	**213**	**397**	**-**	**75**	**685**
Charges / (credited) to the income statement:					
- Additional provisions	-	-	-	-	**-**
- Unused amounts reversed	-	(163)	-	(61)	**(224)**
- Used during the year	-	(130)	-	-	**(130)**
Exchange differences	(8)	(4)	-	(1)	**(13)**
As at December 31, 2011	**205**	**100**	**-**	**13**	**318**
Charges / (credited) to the income statement:					
- Additional provisions	-	299	-	200	**498**
- Unused amounts reversed	-	-	-	-	**-**
- Used during the year	(21)	(57)	-	-	**(78)**
Exchange differences	6	6	-	4	**15**
As at December 31, 2012	**190**	**348**	**-**	**217**	**754**
Charges / (credited) to the income statement:					
- Additional provisions	170	207	1,571	-	**1,948**
- Unused amounts reversed	(221)	(65)	-	-	**(286)**
- Used during the year	(96)	(40)	-	-	**(136)**
Exchange differences	10	22	-	-	**32**
As at December 31, 2013	**53**	**472**	**1,571**	**217**	**2,312**

Employee related litigation

The Group is subject to legal proceedings arising in the ordinary course of business. Management does not expect that the ultimate costs necessary to resolve these matters will have a material adverse effect on the Group's consolidated financial position, result of operations or cash flows.

Provision for restructuring expenses

As announced on March 6, 2013, INSIDE Secure has launched a plan to reorganize its worldwide business activities. This plan aims to reduce operating expenses (as part of the overall redefinition of the Group's strategic priorities in its markets) by lowering administrative and marketing costs, refocusing its research and development activity and improving operational efficiency. As at December 31, 2013, INSIDE Secure has finalized its plan to reduce its workforce both in France and in the various countries covered by the plan. An expense for severance payments and other related costs amounting to US$ 7,136 thousand was recorded in 2013. The Group has also recorded a provision for restructuring expenses amounting to US$ 1,571 thousand relating to the latest departures announced before closing, which are expected to take place during the first half of 2014.

These items have been recorded within 'Other gains / (losses), net' (see note 27).

Other provisions

The Group records research tax credit in the income statement when all conditions described in note 2.17 are respected. In certain cases, all the necessary documentation may not be available. In this case, the corresponding research tax credit is recorded as an asset but the receivable is provided for.

25. Deferred income

Deferred income breaks down as follows:

(In thousands of US$)	2011	2012	2013
Maintenance	-	1,122	1,899
Licenses	2,372	4,240	779
Non refundable advance on order backlog	-	6,460	-
As at December 31,	**2,372**	**11,822**	**2,678**

Deferred income for maintenance mainly relates to ESS business activity.

Deferred income for licenses mainly relates to prepayments received from Intel Corporation.

The Group entered into an agreement with a customer during the second half of 2012 according to which it received an advance related to order backlog to be delivered before June 30, 2013 at the latest. As at December 31, 2013, the Group recognized an amount of US$ 3,777 thousand in revenue, corresponding to the products not delivered within the time period specified in the agreement, with the Group having no further obligation towards the customer. At that date, an amount of US$ 2,683 thousand was recorded in “Advance payments from customers”, as not all of the conditions for revenue recognition had been met at the balance sheet date.

26. Research and development expenses

Research and development expenses break down as follows:

(In thousands of US$)	2011	2012	2013
Research and development expense	41,833	44,101	42,368
Share base payment	328	369	181
Research tax credit	(7,054)	(8,154)	(8,566)
Grants	(571)	(946)	(30)
Total	**34,536**	**35,370**	**33,953**

The amount of the research tax credit varies according to the corresponding research effort, which can fluctuate significantly by period according to the nature and progress of ongoing projects and the grants received.

27. Other gains / (losses), net

Other gains / (losses), net break down as follows:

(In thousands of US$)	2011	2012	2013
Transaction costs related to acquisition of ESS	-	(554)	(220)
Restructuring program linked to acquisition of SMS	(514)	(232)	-
Impairment of assets acquired as part of acquisition of the SMS business	(1,713)	-	(379)
Reversal of intangible liabilities non recurrent	829	-	-
Impairment of assets as a consequence of the restructuring	-	-	(1,132)
Restructuring expenses incurred to date	-	-	(7,136)
Provision for restructruring expenses remaining to be incurred	-	-	(1,571)
Foreign exchange gains/ (losses) on operating activities	-	(2,025)	(557)
Profit on disposal of equipment	-	-	297
Total	**(1,398)**	**(2,811)**	**(10,698)**

The impairment of assets as part of the restructuring plan relates to the write-down of the building at East Kilbride, following the Group's decision during the year to relocate due to onsite workforce reductions, and given that it was unable to identify a market for the sale or rental of these premises.

All of the costs incurred as part of the restructuring plan have been recorded in the line item "Other gains / (losses), net".

Operating exchange gains and losses relate to exchange differences affecting revenue and operating expenses concluded during the year as well as the impact of the revaluation at closing rates of operating assets and liabilities denominated in currencies other than the functional currency of the consolidated companies. The classification of operating exchange gains and losses within other operating losses and gains, net which is the preferred method under IFRS was applied for the first time in 2012.

28. Expenses by nature

Expenses by nature break down as follows:

(In thousands of US$)	2011	2012	2013
Purchase of wafers including inventory variation	71,116	60,020	60,391
Semi finished goods and consumables used	21,649	15,896	18,920
Depreciation, amortization, impairment charges and write offs	4,468	4,972	4,002
Employees and compensation benefits	45,461	47,432	54,702
Restructuring costs	-	-	8,707
Subcontracting and temporary work force	10,318	7,982	5,979
External services	7,030	11,900	9,814
Travel expenses and entertainment	4,103	3,768	3,586
Buildings and office leases	2,950	2,921	3,510
Advertising, promotion and trade shows	1,112	1,158	1,299
Fees, commissions and royalties	5,349	5,835	6,926
Grants and research tax credit	(7,625)	(9,100)	(8,596)
External transaction costs related to acquisition	436	533	179
Amortization and depreciation of acquired assets	6,273	4,517	12,251
Others	3,292	1,491	720
Total	**175,930**	**159,325**	**182,390**

The increase in 2013 in the line item "Employees and compensation benefits" mainly relates to the consolidation of ESS since December 1, 2012. This line item is also impacted by the departures of employees under the restructuring plan.

29. Employee benefit expense

Employee benefit expense breaks down as follows:

(In thousands of US$)	2011	2012	2013
Wages and salaries including termination benefits	30,207	33,715	38,389
Social security costs	11,063	11,697	15,527
Shared based payments	2,000	1,880	555
Retirement benefit obligation	190	141	231
Total	**43,461**	**47,432**	**54,702**

30. Finance income and expense

Finance income and expense breaks down as follows:

(In thousands of US$)	2011	2012	2013
Foreign exchange loss	(4,628)	(1,394)	(320)
Interest expense	(876)	(854)	(271)
Finance costs	**(5,504)**	**(2,248)**	**(591)**
Foreign exchange gain	6,936	1,118	874
Interest income	71	872	506
Finance income	**7,007**	**1,990**	**1,381**
Finance income / (loss) , net	**1,503**	**(258)**	**790**

Foreign exchange gains and losses relating to financial transactions settled during the year, as well as the impact of the revaluation at closing rates of cash denominated in Euros into US Dollars, are recognized in financial result.

31. Income tax expense

The income tax expense breaks down as follows:

(In thousands of US$)	2011	2012	2013
Tax calculated at domestic tax rates applicable to profits in the respective countries			
- France	-	-	(261)
- Netherlands	-	(8)	(223)
- United Kingdom	-	156	-
- USA	(69)	(90)	(43)
- Singapore	-	(0)	-
- Poland	(5)	(8)	(10)
- Japan	-	-	(13)
- Finland	-	-	(34)
	(74)	**51**	**(584)**

The effective income tax charge differs from the theoretical amount that would arise from applying the income tax rate calculated based on rates applicable in France as a result of the following elements:

In thousands of US$	2012	2012	2013
Loss before income tax	(22,959)	(37,536)	(26,976)
Theoretical income tax (tax rate of 34.43%)	7,905	12,924	9,288
Effect of different tax rates in foreign tax jusridictions	(44)	(30)	(130)
Tax effect of			
Unrecognized tax losses during the period	(9,606)	(14,784)	(12,383)
Research tax credit not liable to income tax	2,519	2,644	2,778
Share based payment	(688)	(687)	(191)
Other permanent differences	(159)	37	315
Other taxes	-	(53)	(261)
Effective income tax	**(74)**	**51**	**(584)**

Unless otherwise indicated, all amounts are expressed in thousands of US$

The unrecognized deferred tax assets as at December 31, 2013 amount to US$ 72,835 thousand (US$ 56,773 thousand as at December 31, 2012 and US$ 40,851 thousand as at December 31, 2011) mainly corresponding to the tax effect on the net operating losses carried forward in the French companies which can be used against future taxable profits for an unlimited number of years.

32. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	2011	2012	2013
Loss attributable to equity holders of the Company (in thousand dollars)	(23,033)	(37,485)	(27,560)
Weighted average number of ordinary shares in issue	21,703,410	31,586,909	33,993,562
Basic loss per share ($ per share)	**(1.06)**	**(1.19)**	**(0.81)**

The variation in earnings per share mainly results from the share capital increases realized over the year which have an impact on the weighted average number of shares.

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding with the shares which would be issued as a consequence of the exercising of dilutive financial instruments.

The Group has three categories of dilutive potential financial instruments: free shares, warrants, and stock options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercising of the dilutive instruments:

	2011	2012	2013
Weighted average number of ordinary shares in issue	21,703,410	31,586,909	33,993,562
Adjustments for:			
- Free shares	-	509,870	739,130
- Warrants	34,132	-	-
- Stock options	187,620	-	-
Adjustments for treasury method	(157,506)	-	-
Weighted average number of ordinary shares for diluted earnings per share	21,767,656	32,096,779	34,732,692
Diluted loss per share ($ per share)	**(1.06)**	**(1.17)**	**(0.79)**

The final vesting of certain free shares, warrants and stock options plans was conditional on the occurrence of an initial public offering or a change in control. As the IPO was realized on February 17, 2012, the free shares, warrants and options relating to the plans concerned have been included in the calculation of the diluted earnings per share.

Warrants and stock options related to on-going plans have an exercise price exceeding the share price as at December 31, 2013 and have therefore not been taken into account for the calculation of the diluted earnings per share.

For the purposes of the table above, warrants and stock options are included in the diluted earnings per share calculation through the treasury stock method. The treasury stock method assumes that the proceeds from the exercise of warrants and stock options are used to repurchase common stock.

For accounting purposes, when dilutive instruments have the result that the dilutive loss per share is less than the basic loss per share, the impact of dilutive instruments is not taken into account.

33. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

(In thousands of US$)	2011	2012	2013
Equipment	-	288	39
Intangible assets - Licenses	-	-	-
Total	**-**	**288**	**39**

(b) Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The majority of lease agreements are renewable at the end of the lease period at market rates.

The Group also leases certain equipment under cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(In thousands of US$)	2011	2012	2013
Gross finance lease liabilities - minimum lease payment			
No later than 1 year	1,356	738	1,048
Later than 1 year and no later than 5 years	1,932	199	4,192
Later than 5 years	-	-	612
Total	**3,288**	**937**	**5,852**

The Group entered into an operating lease contract in August 2012 for a building which now serves as its head office. The initial duration of the lease is 6 years. The future lease payments over 6 years are included in the table above.

(c) Other commitments

(In thousands of US$)	2011	2012	2013
Raw material purchasing - LFoundry	48,690	27,061	-
Committed finance lease - Material not yet received	-	-	-
Security bonds	390	390	-
Total	**49,080**	**27,451**	**-**

A Wafer purchase agreement between Atmel Corp. and the Company was signed as part of the acquisition of the SMS division of Atmel on September 30, 2010, whereby the Company committed to partially take on the obligation previously held by Atmel to purchase a minimum number of wafers from the company LFoundry on an annual basis for 48 months beginning on the acquisition date and on a declining basis, at prices predetermined in the contract. As at December 31, 2013, all of the commitments have been respected. LFoundry has now ceased all operations and liquidation procedures were initiated in December 2013.

34. Related party transactions

(a) Transactions with related companies

Three of the members of the Company's Supervisory Board are also members of the Board of Mobiwire (formerly Sagem Wireless, now in liquidation) in 2011. The Group conducted transactions with Mobiwire in the first quarter of 2011. Each transaction was for a non-significant amount and was negotiated without the personal involvement of the Supervisory Board members and Management believes that they were made on an arm's length basis in line with market practices and conditions.

The Group purchases audit and consulting services from the company Leyton & Associés who share a common shareholder with the Group in the investment firm GIMV. These services were negotiated on an arm's length basis, without the involvement of the common shareholder, and amounted to US$ 219 thousand, US$ 201 thousand and US$ 227 thousand for 2013, 2012 and 2011, respectively.

(b) Key management compensation

Key management is composed of Management Board members. The compensation paid or payable to key management for employee services is as follows:

(In thousands of US$)	2011	2012	2013
Salary	1,451	1,519	2,377
Share based compensation expenses	1,184	920	144
Total	**2,635**	**2,439**	**2,522**

35. Events after the reporting period

There are no significant events occurring since December 31, 2013 to report.

36. Consolidated entities

The consolidated financial statements as at December 31, 2013 include the accounts of the Company and the following entities:

Unless otherwise indicated, all amounts are expressed in thousands of US$

Country	Entity	Holding percentage 2011	2012	2013	First consolidation	Acquisition/ creation
USA	INSIDE Secure Corporation	100%	100%	100%	2002	Creation
Singapore	INSIDE Secure (Asia) Pte Ltd	100%	100%	100%	2007	Creation
France	Vault-IC France SAS	100%	100%	100%	2010	Acquisition
United Kingdom	Vault-IC UK Ltd	100%	100%	100%	2010	Acquisition
Poland	INSIDE Secure Sp.z.o.o	100%	100%	100%	2008	Creation
Holland	INSIDE Secure B.V	-	100%	100%	2012	Acquisition
Holland	INSIDE Secure Amsterdam B.V	-	100%	100%	2012	Acquisition
Finland	INSIDE Secure Oy	-	100%	100%	2012	Acquisition
Japan	INSIDE Secure K.K	-	-	100%	2013	Creation

The Group acquired Embedded Security Solutions on December 1, 2012. As part of the transaction which was a combination of an asset and a share deal, the Group acquired 100% of the shares of INSIDE Secure B.V (formerly AuthenTec B.V), which holds 100% of the shares of INSIDE Secure Amsterdam B.V (formerly AuthenTec Amsterdam B.V) and 100% of the shares of INSIDE Secure Oy (formerly AuthenTec Oy), companies dedicated to R&D and product engineering.

In January 2013, the Company created a wholly-owned subsidiary in Japan, INSIDE Secure KK.

20.2 Proforma financial information

Not applicable.

20.3 Financial statements

Not applicable.

20.4 Verification of the annual historical financial information

PricewaterhouseCoopers Audit
63 rue de Villiers
92200 Neuilly-sur-Seine

Antoine Olanda
38 parc du Golf
13856 Aix-en-Provence

The report below is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011, 2012 and 2013

To the Management Board,

In our capacity as statutory auditors of Inside Secure, we have audited the consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 which have been presented in accordance with International Financial Reporting Standards as adopted by the European Union, as attached in chapter 20.1 of this present document.

These consolidated financial statements have been established under the responsibility of the management board. Our role is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements established for the purposes of this reference document, present fairly, and in all material aspects, in accordance with International Financial Reporting Standards as adopted by the European Union, the assets and financial position as at December 31, 2011, 2012 and 2013, and the result of the whole group constituted by all entities included in the consolidation for each of the years then ended.

Neuilly-sur-Seine and Aix-en-Provence, July 31, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Willemin
Partner

Antoine Olanda

20.5 Date of most recent financial information

The most recent financial information available dates from June 30, 2014.

20.6 Interim financial statements

20.6.1 Interim Consolidated Financial Statement as of June 30, 2014

Interim consolidated income statement

In thousands of US$	Note	6-month period ended June 30, 2013	6-month period ended June 30, 2014
Revenue	8	70 765	64 247
Cost of sales		(49 945)	(32 386)
Gross profit		**20 821**	**31 860**
Research and development expenses	19	(19 263)	(18 961)
Selling and marketing expenses		(10 770)	(10 659)
General and administrative expenses		(4 991)	(6 422)
Other gains / (losses), net	20	(6 356)	(1 517)
Operating loss		**(20 559)**	**(5 699)**
Finance income / (loss), net	21	(222)	538
Loss before income tax		**(20 781)**	**(5 162)**
Income tax expense		(221)	(315)
Loss for the period		**(21 002)**	**(5 477)**
Attributable to:			
Equity holders of the Company		(21 002)	(5 477)
Non-controlling interests		-	-
Earnings per share attributable to the equity holders of the Company during the period			
Basic earnings per share		(0,62)	(0,16)
Diluted earnings per share		(0,62)	(0,16)

Interim consolidated statement of comprehensive income

In thousands of US$	**6-month period ended**	
	June 30, 2013	**June 30, 2014**
Loss for the period	(21 002)	(5 477)
Actuarial gain / (loss) on retirement benefit obligations	-	(3)
Non-reclassifiable components of other comprehensive income	**-**	**(3)**
Financial instrument fair value changes	(131)	(372)
Currency translation differences	(313)	79
Reclassifiable components of other comprehensive income	**(444)**	**(293)**
Other comprehensive income / (loss) for the period, net of tax	(444)	(296)
Total comprehensive loss for the period	**(21 446)**	**(5 773)**
Attributable to:		
Equity holders of the Company	(21 446)	(5 773)
Non-controlling interest	-	-
Total comprehensive loss for the period	**(21 446)**	**(5 773)**

Interim consolidated balance sheet – Assets

In thousands of US$	**Note**	**December 31, 2013**	**June 30, 2014**
Goodwill	7	15 287	25 448
Investments accounted for under the equity method		-	862
Intangible assets	10	32 720	31 945
Property and equipment	11	10 411	7 143
Other receivables	13	24 863	28 227
Non-current assets		**83 282**	**93 625**
Inventories	12	14 830	10 857
Trade receivables		17 521	10 550
Other receivables	13	7 652	8 746
Derivative financial instruments		587	57
Cash and cash equivalents	14	40 213	38 771
Current assets		**80 804**	**68 980**
Total assets		**164 086**	**162 605**

Interim consolidated balance sheet – Equity and liabilities

In thousands of US$	**Note**	**December 31, 2013**	**June 30, 2014**
Ordinary shares	15	17 822	17 836
Share premium	15	225 599	225 716
Other reserves		14 140	14 119
Retained earnings		(134 053)	(161 613)
Income / (loss) for the period		(27 560)	(5 477)
Equity attributable to equity holders of the Company		**95 947**	**90 580**
Non-controlling interests		-	-
Total equity		**95 947**	**90 580**
Intangible liabilities - Non-current portion	7	7 962	6 429
Borrowings	16	6 862	21 050
Repayable advances	17	3 592	6 348
Retirement benefit obligations		1 596	1 452
Non-current liabilities		**20 012**	**35 278**
Intangible liabilities - Current portion	7	3 011	3 235
Financial instruments		215	63
Trade and other payables		32 525	28 227
Additional conditional payment	7	-	1 013
Borrowings	16	7 386	500
Provisions for other liabilities and charges	18	2 312	838
Unearned revenues		2 678	2 871
Current liabilities		**48 127**	**36 747**
Total liabilities		**68 138**	**72 025**
Total equity and liabilities		**164 086**	**162 605**

Interim consolidated statement of changes in equity

In thousands of US$	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Ordinary shares	Share premium	Other reserves	Retained earnings	Total		
Balance at January 1, 2013	**17 822**	**225 570**	**12 386**	**(134 053)**	**121 725**	**-**	**121 725**
Loss for the period	-	-	-	(21 002)	(21 002)		(21 002)
Actuarial gain / (loss) on retirement benefit obligations	-	-	-	-	-		-
Financial instrument fair value changes	-	-	(131)	-	(131)		(131)
Currency translation differences	-	-	(313)	-	(313)		(313)
Total other comprehensive income / (loss)	**-**	**-**	**(444)**	**(21 002)**	**(21 446)**	**-**	**(21 446)**
Employee share option scheme:							-
Value of employee services	-	-	375	-	375	-	375
Proceeds from shares / warrants issued	-	28	-	-	28	-	28
Treasury shares	-	-	24	-	24		24
Balance as at June 30, 2013	**17 822**	**225 599**	**12 341**	**(155 055)**	**100 707**	**-**	**100 707**
Balance at January 1, 2014	**17 822**	**225 599**	**14 140**	**(161 613)**	**95 947**	**-**	**95 947**
Loss for the period	-	-	-	(5 477)	(5 477)		(5 477)
Actuarial gain / (loss) on retirement benefit obligations	-	-	(3)	-	(3)		(3)
Financial instrument fair value changes	-	-	(372)	-	(372)		(372)
Currency translation differences	-	-	79	-	79		79
Total other comprehensive income / (loss)	**-**	**-**	**(296)**	**(5 477)**	**(5 773)**	**-**	**(5 773)**
Employee share option scheme:							-
Value of employee services	-	-	239	-	239	-	239
Exercise of stock options	14	117	-	-	130	-	130
Treasury shares	-	-	37	-	37		37
Balance as at June 30, 2014	**17 836**	**225 716**	**14 119**	**(167 091)**	**90 580**	**-**	**90 580**

Interim consolidated statement of cash flow

In thousands of US$	Notes	6-month period ended June 30, 2013	June 30, 2014
Loss for the year		**(21 002)**	**(5 477)**
Adjustments for:			
Depreciation of tangible assets	11	2 752	2 010
Amortization of intangible assets	10	6 908	7 079
Impairment of fixed assets		140	1 684
Impairment of receivables		132	(754)
Impairment of inventories	12	(32)	(291)
Financial result		-	(910)
(Profit) / loss on disposal of property and equipment		(155)	-
Share-based payment		375	239
Change in retirement benefit obligation		(51)	(136)
Income tax		221	315
Variation in provisions for risks	18	4 826	(1 463)
Cash generated by / (used in) operations before changes in working capital		**(5 886)**	**2 297**
Changes in working capital			
Inventories		(6 213)	4 265
Trade receivables		1 252	8 274
Trade receivables transferred		(4 729)	(603)
Other receivables		(585)	(1 117)
Research tax credit and grants		(4 606)	(3 389)
Trade and other payables		6 683	1 078
Non refundable advance on order backlog		-	(2 683)
Other payables		(1 247)	(3 797)
Cash generated by / (used in) changes in working capital		**(9 445)**	**2 028**
Cash generated by / (used in) operations		**(15 330)**	**4 325**
Interest received, net		37	(252)
Income tax paid		(106)	(584)
Net cash used in operating activities		**(15 399)**	**3 489**
Cash flows from investing activities			
Acquisition of business, net of cash acquired		-	(13 036)
Additional payment related to the ESS acquisition		(5 188)	-
Investments accounted for under the equity method			(952)
Purchases of property and equipment	11	(1 852)	(506)
Purchases of intangible assets	10	(382)	(523)
Research and development capitalized costs	10	(696)	55
Payments corresponding to intangible liabilities		(592)	(399)
Disposal of fixed assets		165	-
Net cash used in investing activities		**(8 545)**	**(15 361)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of issuance costs	15	28	130
Repayable advance		-	2 756
Proceeds from / (Repayment of) borrowings, net of issuance costs	16	-	7 606
Principal repayment under finance lease		(253)	(245)
Treasury shares		24	36
Bank overdraft		(276)	
Net cash generated by / (used in) financing activities		**(477)**	**10 283**
Net decrease in cash and cash equivalents		**(24 421)**	**(1 588)**
Cash and cash equivalents at beginning of the year		66 321	40 213
Effect of exchange rate fluctuations		(53)	147
Cash, cash equivalents at end of the period	14	**41 846**	**38 771**
Elements with no cash impact:			
New finance leases		312	-

Notes to the interim consolidated financial statements

Unless otherwise indicated, all amounts are expressed in thousands of US$

Notes to the interim consolidated financial statements

1. General Information

Inside Secure ("the Company") and its subsidiaries (together "the Group") provide comprehensive embedded security solutions for mobile and connected devices. This offer is based on internally developed intellectual property that can be licensed or sold as well as software solutions and semiconductors produced through a fabless business model.

Shares of the Company are listed on the Euronext exchange in Paris (compartment B) under the Isin code FR0010291245.

The Company is a limited liability company ("société anonyme"). The address of its registered office is Arteparc Bachasson, rue de la carrière de Bachasson, Meyreuil (13590), France.

The interim consolidated financial statements for the six month period ended June 30, 2014 were approved by the Management Board on July 30, 2014.

The half-year consolidated financial statements were subject to limited review by the Statutory Auditors.

2. Basis of preparation

The Group has not filed any registration document since its admission to the regulated stock market in 2012. The financial statements published by the company during the last two years include comparisons with previous years. Therefore, in order to facilitate their reading, the Group has prepared financial statements over three years for the purpose of this present registration document. These financial statements are the same as those published for the previous two years, with the exception of Note 8 "Segment information" in which information for 2011 has been amended in order to be presented consistently with the definition of operating segments implemented in October 2013.

These interim consolidated financial statements for the six months ended June 30, 2014 have been prepared in accordance with IAS 34, "Interim financial reporting".

The interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

Presentation currency

The Group has elected to present its consolidated financial statements in US Dollars. The US Dollar is the functional currency of the Company, and the currency in which the majority of transactions within the Group are denominated.

The exchange rates of the US Dollar against the Euro, the main currency used by the Group after the US Dollar, are as follows for the six months ended June 30, 2014 and 2013 and the year ended December 31, 2013:

Euro/ US Dollar	**June 20, 2013**	**December 31, 2013**	**June 30, 2014**
Closing rate	1.3080	1.3791	1.3658
Average rate	1.3135	1.3282	1.3705

3. Accounting policies

The accounting policies adopted by the Group in the interim consolidated financial statements as at June 30, 2014 are consistent with those of the previous fiscal year, except for taxes on income in interim periods which are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Standards, amendments and interpretations whose application is mandatory from January 1, 2014 are as follows:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangement
- IFRS 12 Disclosure of Interests in Other Entities
- Amendment to IAS 28 Investments in Associates and Joint Ventures
- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement

The standards, amendments and interpretations whose application is mandatory from January 1, 2014 do not have a significant impact on the interim consolidated financial statements for the six months ended June 30, 2014.

Standards, amendments and interpretations whose application is not mandatory from January 1, 2014 but which could be early adopted are as follows:

- Amendment to IAS 16/IAS 28 which offers clarification on acceptable methods of depreciation
- Amendment to IAS 19 Defined benefit schemes : staff contributions
- Amendment to IFRS 11 Acquisition of an interest in a joint operation
- Amendments in 2010-2012 IFRS Cycle
- Amendments in 2011-2013 IFRS Cycle
- IFRIC 21, Tax.

The Group chose not to early adopt these standards, amendments and interpretations in the interim consolidated financial statements for the six months ended June 30, 2014, and considers that they should not have a significant impact on its results or financial situation.

The IASB has published the following standards, amendments and interpretations which could be early adopted from January 1, 2014 but which have not yet been adopted by the European Union:

- IFRS 9, Financial instruments ;
- IFRS 14, Regulatory deferral accounts
- IFRS 15, Revenue from contracts with customers

4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended

December 31, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 3).

5. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2013.

There have been no changes in the risk management policies since December 31, 2013.

Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from transactions denominated in currencies other than the US dollar, the functional currency of the Company and the presentation currency of the Group.

The operating result and cash flows of the Group are affected by foreign exchange rate fluctuations, principally by fluctuations between the Euro and the US Dollar.

For example, the Group estimates that the impact in absolute terms of a variation of +10% or -10% of this rate on its operating result for the six months ended June 30, 2014, would have been + / - US$ 280 thousand. The impact on shareholders' equity would have been + / - US$ 359 thousand. To mitigate this risk, the Group has implemented a hedging policy to preserve its profitability and cash levels.

The Group mitigates its exposure to foreign currency fluctuations by matching its cash inflows and outflows denominated in the same currency to the extent possible, resulting in a natural hedge. The Group also uses derivative financial instruments such as currency forward contracts and options to hedge against foreign currency fluctuations.

Credit risk

Credit risk is managed on a Group wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Liquidity risk

Cash flow forecasting is performed by the Finance department. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

6. Seasonality

The analysis of the data relating to the period ended December 31, 2013 and the period ended June 20, 2014 does not show any clear patterns in terms of seasonality aside from a slight structural overweighting in the second half of the year compared to the first. However, bearing in mind the industry in which the Company operates, its revenue can be significantly impacted over a given period by the commercialisation of new products. As such, the financial information relating to the interim periods presented are not necessarily representative of those which are expected for the whole year.

7. Business Combinations

Metaforic

On April 5, 2014, the Group acquired 100% of the shares of the the Metaforic Group, specializing in the development of software obfuscation technologies and encryption-related security, its main focus being on mobile payment and mobile banking markets.

This Group comprises two entities based in England and in the USA. It encompasses research and development teams as well as sales and marketing teams dedicated to the activity, patented technology, tangible assets, working capital (notably inventories, trade receivables and social and tax debts related to transferred employees) and cash.

On completion of the sale, INSIDE Secure transferred a total of US$ 13,050 thousand taking into account an initial estimation of working capital requirements and the reimbursement by the Group of a debt relating to a shareholder loan on behalf of the seller. Subsequently, a reduction on the purchase price amounting to US$ 150 thousand was accorded to the Group in order to account for the final valuation of working capital requirements. The transfer of this price reduction should take place in the second half of 2014. Finally, subject to the achievement of different sales objectives fixed for 2014, the Group could make a maximal additional payment of US$ 4.5 thousand in 2015.

Goodwill represents the excess of the purchase price (including additional payments and price adjustments) over the fair value of the identified assets and liabilities being transferred. Goodwill amounts to US$ 10,039 thousand and is primarily attributable to the assembled workforce being transferred and the expected synergies resulting from the combination of activities. This goodwill has been fully allocated to the "Mobile security" division.

The Group proceeded with a temporary allocation of the purchase price over net assets acquired and liabilities assumed.

The value of identified assets and liabilities, and the initial allocation of the purchase price are presented as follows:

	Note	In thousands of US$
Cash paid at closing		11 557
Reimbursement of a shareholder's loan on behalf of the seller		1 493
Cash paid at closing		**13 050**
Final working capital adjustment		(150)
Fair value of the additional payment conditionnal to the achievement of commercial objectives		1 013
Purchase price consideration (i)		**13 912**

	Net book value	Fair value adjustments		Fair value
Intangible assets	-	4 969	(1)	4 969
Property, plant and equipment	34	-		34
Inventory	-	-		-
Other assets	67	-		67
Cash and cash equivalents	14	-		14
Other liabilities	(893)	-		(893)
Deferred income	(318)	-		(318)
Net assets acquired and liabilities assumed (ii)	**(1 096)**	**4 969**		**3 873**
Goodwill (i) - (ii)				**10 039**

The initial goodwill shown above remains subject to further evolution over the course of the 12 month allocation period authorized by IFRS 3.

(1) Intangible assets amounting to US$ 4,969 thousand correspond to patented technology. This patented technology has been valued using the discounted royalties cash flow method based on an estimated useful life of 5 years for technologies concerned. This intangible asset will be amortized on a straight line basis over its estimated useful life and amortization expenses for this intangible asset will be shown under the line item"Cost of sales".

The impact of the amortization of patented technology during the six month period ended June 30, 2014 amounts to US$ 283 thousand.

The contribution of the Metaforic activity to Group revenue and operating result is not significant for the period.

Embedded Security Solutions

On December 1, 2012, the Group acquired Embedded Security Solutions (''ESS''). ESS designs and develops encryption-related security hardware intellectual property (IP) and software for a variety of industries, including the mobile and networking markets. Revenue is generated through licenses, royalties, services and maintenance fees.

As part of the acquisition, research and development and sales and marketing teams were transferred to the Group. The seller also transferred intangible assets, including intellectual property licensing royalties and internally developed software, tangible assets, working capital (notably inventories, trade receivables and social and tax debts related to transferred employees) and cash.

Upon acquisition, Inside Secure paid a purchase price of $US 43,256 thousand based on an initial estimate of working capital requirements. Subsequently a reduction on the purchase price amounting to US$ 503 thousand was accorded to the Group to take into account the final amount of this working capital requirement. The payment of this purchase price reduction was received by the Group during the first half of 2013. Inside Secure paid an additional amount of US$ 5,188 thousand during the first half of 2013, linked to certain conditions that were fully met as at April 1, 2013. The additional price is shown in the line item 'Acquisition of ESS, additional price paid' in the interim consolidated cash flow statement.

The goodwill corresponding to the excess of the purchase price consideration (including any additions to or potential purchase price adjustments) compared to the combined total of the fair value of the assets acquired, the identifiable intangible assets and the liabilities assumed, amounts to US$ 11,906 thousand, and is mainly attributable to the expertise of the assembled workforce and the expected synergies that will result from the combination of activities. This goodwill is allocated to the ''Embedded Security Solutions'' business. The Group carried out impairment testing as at December 31, 2013 and concluded that there was no need to record impairment on goodwill for possible loss of value.

The impact of amortization of intangible assets for the six month periods ended June 30 , 2014 and 2013 break down as follows (in thousands of US$):

Item	Income statement line item	6-month period ended June 30, 2013	6-month period ended June 30, 2014
Amortization of intellectual property licensing royalties	Cost of sales	(5 084)	(5 015)
Amortization of internally developed software	Cost of sales	(259)	(259)
Amortization of internally developed software	Research and development expenses	(158)	(129)
Impact on operating loss		**(5 501)**	**(5 404)**
Impact on loss for the period		**(5 501)**	**(5 404)**

Unless otherwise indicated, all amounts are expressed in thousands of US$

Secure Microcontroller Solutions

On September 30, 2010 the Group acquired Atmel Corporation's (Nasdaq: ATML) Secure Microcontroller Solutions ("SMS"). This business designs and markets microcontroller products and solutions that protect data contained in embedded memories against a wide variety of attacks and offers firmware and turnkey solutions to customers with no security expertise.

Goodwill recognized at the date of the transaction amounting to US$ 2,993 thousand was assigned in its entirety to "Secured Transactions". The Group carried out impairment testing as at closing December 31, 2013 and concluded that there was no need to record impairment on goodwill for possible loss of value.

Regarding the allocation of the price of acquisition, the Group recognized a certain number of tangible and intangible assets, including; those linked to technology patents, a backlog of orders to be delivered and masks. Furthermore the Group recognized a liability corresponding to a disadvantageous license agreement.

The impact of depreciation and amortization and reversals related to licence agreement liabilities on the income statement for the six months ended June 30, 2014 and June 30, 2013 can be analysed as follows:

Item	Income statement line item	6-month period ended June 30, 2013	6-month period ended June 30, 2014
Depreciation of masks	Cost of sales	(633)	(366)
Depreciation of masks	Research and development expenses	(189)	(109)
Amortization of patented technologies	Research and development expenses	(694)	(538)
Amortization of backlog	Selling and marketing expenses	-	-
Reversal of intangible liability	Cost of sales	592	399
Impact on operating loss		**(924)**	**(615)**
Undiscounting of intangible liabilities	Finance income, net	30	859
Impact on loss for the period		**(894)**	**244**

8. Operating segment information

Management has determined the operating segments based on the reports reviewed by the Management Board that are used to make strategic decisions.

In October 2013, the Group redefined its operating segments so as to adapt to its reorganization and to the new internal reporting system to the management team. The Group now operates around two complementary operating segments, which target different markets, products, solutions and customers whilst maintaining a common platform for research and development, intellectual property, operations, and a global sales force:

- Mobile security: this division gathers the Group's offer in all mobile communication matters, to provide a comprehensive suite of embedded security solutions for all mobile and connected devices. The offer includes IPs, software solutions and semi-conductors capable of addressing the growing needs for a full range of security solutions on all mobile platforms, securing M-payments, content, data communications and data storage.

- Secure transactions: this division unites the Group's offer dedicated to address high security issues for smart cards, ID, payments but also all transactions involved in the M2M and Internet of Things universe. This division builds tailored solutions based on secure microcontrollers, with embedded secure firmware and associated services.

The segment information provided to the Management Board for the reportable segments for the period ended June 30, 2013 and 2014 breaks down as follows:

In thousands of US$ **As at June 30, 2013**	**Mobile security**	**Secure transactions**	**Common unallocated (*)**	**Total per management reporting**	**Reconciliation to IFRS**	**Consolidated IFRS reporting**
Revenue	26 843	43 922	-	70 765	-	70 765
Adjusted gross margin	13 797	14 463	(1 410)	26 850		Non IFRS measure
Operating income				(20 559)	-	(20 559)
Adjusted operating result	(9 619)	4 493	(1 187)	(6 313)		Non IFRS measure
EBITDA	(9 101)	6 745	(1 187)	(3 543)		Non IFRS measure
Financial income - net			(222)	(222)	-	(222)
Income tax			(221)	(221)	-	(221)
Net income / (loss)			**(442)**	**(21 002)**	**-**	**(21 002)**

*Unallocated amount corresponds to restructuring charges (US$ 6,564 thousand), and industrial variances (US$ 1,409 thousand).

In thousands of US$ **As at June 30, 2014**	**Mobile security**	**Secure transactions**	**Common unallocated (*)**	**Total per management reporting**	**Reconciliation to IFRS**	**Consolidated IFRS reporting**
Revenue	32 750	29 984	1 513	64 247	-	64 247
Adjusted gross margin	28 441	7 868	1 513	37 822		Non IFRS measure
Operating income				(5 699)	-	(5 699)
Adjusted operating result	6 749	(5 504)	1 995	3 240		Non IFRS measure
EBITDA	7 201	(3 570)	1 995	5 627		Non IFRS measure
Financial income - net			538	538	-	538
Income tax			(315)	(315)	-	(315)
Net income / (loss)			**223**	**(5 477)**	**-**	**(5 477)**

* Unallocated amount corresponds to non recurring net revenue (US$ 1,513 thousand) and to the impairment of assets acquired as part of the acquisition of business (US$ 1,683 thousand).

Adjusted operating result is not a measure of operating performance or liquidity under IFRS.

Adjusted gross profit is defined as gross profit before (i) amortization of intangible assets relating to business combinations and depreciation of masks acquired as part of a business combination, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted operating result is defined as operating result before (i) amortization of intangible assets relating to business combinations and depreciation of masks acquired as part of a business combination, (ii) potential impairment of goodwill, (iii) expense linked to share-based payments and (iv) non-recurring costs relating to restructuring programs and acquisitions by the Group.

Adjusted EBITDA is defined as operating result before amortization and depreciation expenses not relating to business combinations.

Adjusted gross profit, adjusted operating result and adjusted EBITDA as presented may not be strictly comparable to measures with similar names as presented by other companies.

The reconciliation from Company reporting to consolidated IFRS reporting (audited) is as follows:

	6-month period ended	
(in thousands of US$)	**June 30, 2013**	**June 30, 2014**
Gross profit as per IFRS	**20 821**	**31 860**
Share based payments	54	38
Amortization and depreciation of acquired assets from SMS	633	366
Amortization and depreciation of acquired assets from ESS	5 343	5 274
Amortization and depreciation of acquired assets from Metaforic	-	284
Adjusted gross profit	**26 850**	**37 822**

	6-month period ended	
(in thousands of US$)	**June 30, 2013**	**June 30, 2014**
Operating loss as per IFRS	**(20 559)**	**(5 699)**
Share based payments	377	239
Amortization and depreciation of acquired assets from SMS	1 516	1 014
Amortization and depreciation of acquired assets from ESS	5 472	5 404
Amortization and depreciation of acquired assets from Metaforic	-	283
Restructuring expenses	6 564	(28)
Direct transaction costs related to the acquisition of ESS	179	-
Direct transaction costs related to the acquisition of Metaforic	-	345
Impairment of assets	140	-
Impairment of assets acquired from SMS	-	1 683
Adjusted operating result	**(6 313)**	**3 240**
Depreciation and amortization of tangible and intangible assets which are not related to the acquisition of business	2 771	2 387
EBITDA	**(3 542)**	**5 627**

The revenue by geographical region for the six months ended June 30, 2013 and 2014 is as follows:

(In thousands of US$)	**Asia**	**Europe Middle East, Africa, Latin America**	**North America**	**Total**
6-month period ended June 30, 2013	10 717	33 445	26 603	70 765
6-month period ended June 30, 2014	6 770	21 024	36 453	64 247

Geographically, management has allocated revenue based on the location where the goods are delivered or the services are rendered, except for the sales with three major customers, which were allocated based on the location of their head offices.

The top ten customers of the Group represented 66% of the total consolidated revenue for the period ended June 30, 2013, and 65% of revenue for the period ended June 30, 2014.

Customers individually representing more than 10% of the total consolidated turnover for the six month periods ended June 30, 2014 and 2013 break down as follows:

(In thousands of US$) **6-month period ended June 30, 2013**	**Invoiced amount**	**Segment**
Client 1	9 594	Mobile security
Client 2	8 034	Secure transactions
Client 3	6 947	All segments
Client 4	4 046	Secure transactions
Client 5	3 806	All segments
Client 6	3 342	All segments

(In thousands of US$) **6-month period ended June 30, 2014**	**Invoiced amount**	**Segment**
Client 1	18 430	Mobile security
Client 2	5 910	Secure transactions
Client 3	3 970	Secure transactions
Client 4	3 160	Secure transactions

9. Revenue

Revenue for the six month periods ended June 30, 2013 and 204 breaks down as follows:

	6-month period ended	
In thousands of US$	**June 30, 2013**	**June 30, 2014**
Revenue on products sold	57 363	32 161
Revenue from development and licence agreements	5 397	22 110
Royalties	6 193	8 035
Maintenance	1 812	1 942
Total	**70 765**	**64 247**

Over the period the Group performed services relating to a contract signed in 2011 with Intel Corporation. On June 13, 2014 the Group and Intel Corporation finalized a new licensing agreement relating to INSIDE's technology and NFC patents, thus replacing the previous agreement.

Under the terms of the concluded agreement, INSIDE Secure has:

- Extended the pre-existing worldwide, perpetual license it had with Intel into a broad, royalty-free and fully paid-up license, with INSIDE Secure retaining ownership of most of the related intellectual property assets and rights;

- Transferred to Intel its MicroRead-v5 next-generation NFC hardware and software modem technology currently under development together with certain related tangible and intangible assets, including certain IP assets.

INSIDE Secure received from Intel US$ 19.2 million in cash at closing.

This payment corresponds to the revenue recognized for the initial contract and the new agreements, from which:

- US$ 1,114 thousand was recognized as revenue during the fourth quarter of 2013
- US$ 999 thousand was recognized as revenue during the first quarter of 2014
- US$ 17,087 thousand was recognized as revenue during the second quarter of 2014

10. Intangible assets

Intangible assets break down as follows:

In thousands of US$	Backlog	Patented technologies	Software licenses	Royalties on intellectual property	Internally developed software	Technologies in development	Total
6-month period ended June 30, 2013							
Opening net book amount	-	**3 385**	**2 895**	**31 346**	**2 265**	**2 161**	**42 052**
Additions	-	-	412	-	-	-	**412**
Exchange differences	-	-	(11)	-	-	-	**(11)**
Work in progress	-	-	-	-	-	696	**696**
Depreciation charge	-	(694)	(770)	(5 084)	(388)	-	**(6 937)**
Closing net book amount	-	**2 691**	**2 527**	**26 261**	**1 876**	**2 857**	**36 212**
At June 30, 2013							
Cost or valuation	1 544	5 651	9 253	31 576	2 330	2 857	**53 210**
Accumulated depreciation	(1 544)	(2 960)	(6 727)	(5 315)	(453)	-	**(16 998)**
Net book amount	-	**2 691**	**2 526**	**26 261**	**1 877**	**2 857**	**36 212**
6-month period ended June 30, 2014							
Opening net book amount	-	**2 153**	**2 358**	**21 177**	**1 488**	**5 543**	**32 720**
Additions	-	1 369	17	-	-	-	**1 386**
Acquisition of business	-	4 969	-	-	-	-	**4 969**
Exchange differences	-	-	(1)	-	-	-	**(1)**
Work in progress	-	-	-	-	-	(55)	**(55)**
Depreciation charge	-	(822)	(848)	(5 015)	(388)	-	**(7 074)**
Closing net book amount	-	**7 669**	**1 526**	**16 162**	**1 100**	**5 488**	**31 945**
At June 30, 2014							
Cost or valuation	1 544	11 989	8 505	31 576	2 330	5 488	**61 432**
Accumulated depreciation	(1 544)	(4 320)	(6 979)	(15 415)	(1 230)	-	**(29 488)**
Net book amount	-	**7 669**	**1 526**	**16 161**	**1 100**	**5 488**	**31 945**

Finance leases included in intangible assets break down as follows:

In thousands of US$	December 31, 2013	June 30, 2014
Gross value	936	936
Accumulated amortization	(746)	(835)
Net book value	**191**	**101**

11. Property and equipment

Property and equipment break down as follows:

In thousands of US$	Leasehold improvements	Equipment	Furniture and other office equipment	Masks	Total
6-month period ended June 30, 2013					
Opening net book amount	**1 685**	**3 549**	**2 086**	**5 490**	**12 810**
Additions	30	121	369	732	**1 252**
Exchange differences	(76)	(29)	(49)	(45)	**(200)**
Impairment	-	(140)	-	-	**(140)**
Retirement	-	(248)	(27)	-	**(275)**
Work in progress	912	-	-	-	**912**
Depreciation charge	(279)	(1 087)	(449)	(937)	**(2 752)**
Depreciation retirement	-	248	17	-	**265**
Closing net book amount	**2 272**	**2 413**	**1 947**	**5 240**	**11 873**
At June 30, 2013					
Cost or valuation	5 271	10 381	5 779	14 425	**35 855**
Accumulated depreciation	(2 999)	(7 967)	(3 831)	(9 186)	**(23 982)**
Net book amount	**2 272**	**2 414**	**1 948**	**5 239**	**11 873**
6-month period ended June 30, 2014					
Opening net book amount	**2 218**	**2 684**	**926**	**4 584**	**10 411**
Additions	76	220	197	13	**506**
Acquisition of business	17	-	14	-	**31**
Exchange differences	34	2	3	(43)	**(5)**
Impairment	-	-	-	(1 684)	**(1 684)**
Retirement	-	(217)	(129)	-	**(346)**
Scrap (net book amount)	(13)	(7)	-	-	**(20)**
Work in progress	(8)	-	-	-	**(8)**
Depreciation charge	(227)	(559)	(503)	(721)	**(2 010)**
Depreciation retirement	-	155	114	-	**268**
Closing net book amount	**2 096**	**2 278**	**621**	**2 149**	**7 143**
At June 30, 2014					
Cost or valuation	5 483	9 650	6 033	15 559	**36 724**
Accumulated depreciation	(3 387)	(7 373)	(5 412)	(13 409)	**(29 581)**
Net book amount	**2 096**	**2 277**	**621**	**2 149**	**7 143**

Depreciation expenses of US$ 2,010 thousand have been recognized within cost of sales, research and development expenses, selling and marketing expenses, and general and administrative expenses according to the corresponding assets' allocation (US$ 2,752 thousand for the six months ended June 30, 2013).

Finance leases included in property and equipment above are as follows:

In thousands of US$	December 31, 2013	June 30, 2014
Gross book value	1 872	1 872
Accumulated depreciation	(1 063)	(1 307)
Net book value	**809**	**565**

Expenses relating to the operating lease of buildings and furniture amounting to US$ 909 thousand (US$ 1,498 thousand in the six month period ended June 30, 2013) were accounted for in the income statement for the six months ended June 30, 2014.

12. Inventories

Inventories break down as follows:

(In thousands of US$)	December 31, 2013	June 30, 2014
Semi-finished and finished goods	21 780	17 704
Developements in progress	188	-
Less: provision for impairment of obsolete items	(7 138)	(6 847)
Total	**14 830**	**10 857**

Movements on the Group provision for impairment of obsolete inventories are as follows:

(In thousands of US$)	2013	2014
At January 1	(4 038)	(7 138)
Impairment of obsolete items	(1 237)	(1 239)
Inventory written off during the year	605	907
Unused amounts reversed	664	623
At June 30,	**(4 006)**	**(6 847)**

13. Other assets

Other assets can be analyzed as follows:

(In thousands of US$)	December 31, 2013	June 30, 2014
Deposits	527	501
Research tax credit	24 337	27 726
Pre-payments	2 116	4 519
VAT receivables	2 596	2 555
Other receivables	1 049	880
Prepaid	736	556
Factoring reserve	172	159
Credit notes to be received	984	77
Total	**32 516**	**36 973**
Other assets - Non current portion	*24 863*	*28 227*
Other assets - Current portion	*7 653*	*8 746*

The Group is not eligible to immediate reimbursement of the Research Tax Credit (RTC) the RTC receivable acquired during the period (US$ 3,539 thousand) is recorded in the line item “Other receivables – Non-current portion”. In accordance with generally accepted accounting principles, the RTC receivable is not discounted. The Group has maintained, within “Other receivables – Non-current portion” RTC receivable acquired in 2011 (US$ 7,180 thousand), 2012 (US$ 8, 441 thousand) and 2013 (US$ 8,566 thousand).

Financing has been obtained and put in place with banking partners. It is recognized in financial liabilities in accordance with IAS 39 and has the following respective terms:

- RTC receivable 2011: June 2015
- RTC receivable 2012: July 2015
- RTC receivable 2013: June 2017

14. Cash and cash equivalents

Cash and cash equivalents break down as follows:

(In thousands of US$)	December 31, 2013	June 30, 2014
Cash at bank and on hand	23 824	38 611
Marketable securities (1)	10 389	160
Cash invested in short term securities (2)	6 000	-
Total	**40 213**	**38 771**

(1) Marketable securities correspond to investments in mutual funds measured at fair value against profit and loss. These securities are considered as cash equivalents as they are highly liquid, have sensitivity to interest rates of less than 0.25, have a volatility of almost 0 and are part of an investment strategy which excludes stocks.

(2) Short term securities correspond to investments which meet the criteria of cash and cash equivalents as specified by the AMF in 2012.

15. Share capital and premium

Variations in the number of shares, the share capital and the share premium are as follows:

(In thousands of US$ except number of shares)	Number of shares	Ordinary shares	Share premium	Total
As at January 1, 2013	**33 993 562**	**17 822**	**225 570**	**243 392**
Subscription of BSA	-	-	29	29
As at June 30, 2013	**33 993 562**	**17 822**	**225 599**	**243 421**
As at January 1, 2014	**33 993 562**	**17 822**	**225 599**	**243 421**
Exercise of stock options	**24 276**	14	117	130
As at June 30, 2014	**34 017 838**	**17 836**	**225 716**	**243 551**

During the six month period ended June 30, 2013, stock purchase warrants amounting to US$ 29 thousand were subscribed for.

During the six month period ended June 30, 2014 the Company proceeded with an increase in capital regarding the exercise of stock options by issuing 24,276 new shares. This transaction led to a US$ 14 thousand rise in share capital and a US$ 117 thousand rise in share premium.

16. Financial debts

Financial debts break down as follows:

(In thousands of US$)	December 31, 2013	June 30, 2014
Non-current		
Research tax credit financing	6 507	20 872
Obligations under finance lease	355	177
	6 862	**21 050**
Courant		
Research tax credit financing	6 818	-
Obligations under finance lease	568	500
Bank overdrafts	-	-
Total	**14 248**	**21 550**

The Group entered into factoring contracts with financial institutions for the research tax credit receivable for the years ended December 31, 2011, 2012 and 2013 as shown on the balance sheets. This financing amounting to US$ 20,872 thousand corresponds to 90% of the research tax credit receivable. The remaining 10% will be paid to the Group at the maturity of the contracts. Interest and commissions have been recognized in prepaid expenses and are spread over the duration of the contract. Given that the financing of the RTC is denominated in Euros, the amount presented on the balance sheet can be affected by exchange rate fluctuations. The different terms of the contracts are detailed as follows:

- RTC receivable 2011 : December 2015
- RTC receivable 2012 : July 2015
- RTC receivable 2013 : December 2017

Obligations under finance leases are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

17. Repayable advances

(In thousands of US$)	December 31, 2013	June 30, 2014
Repayable advances Bpifrance	3 592	6 348
Total	**3 592**	**6 348**
Other liabilities - Non current portion	*3 592*	*6 348*
Other liabilities - Current portion	-	-

The Group benefits from repayable advances from Bpifrance (formerly OSEO) for research and innovation programs. These advances are repayable if and only if the contractually defined commercial objectives are achieved. The Group received additional repayable advances over the six month period ended June 30, 2014 amounting to US$ 2,756 thousand. No advance was repaid or recognized as definitively acquired during 2013 or 2014. The repayment of these advances is subject to revenue objectives being achieved on the related projects. Repayable advances are accounted for at nominal value and are non-interest-bearing. They are also recorded in Euros, thus the total amount recorded on the balance sheet may be affected by fluctuations in the exchange rate. Discussions are currently ongoing with Bpifrance relating to the end of a research and development project. The accounting treatment of grants and repayable advances for this project reflects the best estimate of the outcome of these discussions at the balance sheet date.

18. Provisions for other liabilities and charges

Provisions for other liabilities and charges break down as follows:

(in thousands of US$)	Employee related litigations	Customer claims	Restructuring	Others	Total
As at January 1, 2014	**53**	**472**	**1 571**	**217**	**2 312**
Accrued / (reversed) to the income statement:					
- Additional provisions	-	-	-	-	-
- Unused amounts reversed	-	-	-	-	-
- Used during the year	-	-	(1 462)	-	**(1 462)**
Exchange differences	(1)	(4)	(5)	(2)	**(12)**
As at June 30, 2014	**52**	**468**	**104**	**215**	**838**

Employee related litigations

The Group is subject to legal proceedings arising in the ordinary course of business. Management does not expect that the ultimate costs necessary to resolve these matters will have a material adverse effect on the Group's consolidated financial position, result of operations or cash flows.

Provision for restructuring expenses

In 2013, Inside Secure launched a plan to reorganize its worldwide business activities. This plan aimed to reduce operating expenses (as part of the overall redefinition of the Group's strategic priorities in its markets) by lowering administrative and marketing costs, refocusing its research and development activity and improving operational efficiency.

Regarding employee departures which occured during the six month period ended June 30, 2014, severance pay and other associated costs amounting to US$ 1,462 thousand have been recorded for the period. The Group has maintained a provision for restructuring expenses for accompanying residual expenditure amounting to US$ 104 thousand.

These items have been recorded within 'Other gains / (losses), net'.

19. Research and development expenses

Research and development expenses break down as follows:

	6-month period ended	
(in thousands of US$)	**June 30, 2013**	**June 30, 2014**
Research and development expenses	23 977	22 595
Share base payment	142	51
Research tax credit	(4 576)	(3 389)
Grants	(280)	(296)
Total	**19 263**	**18 961**

20. Other (losses)/gains, net

Other (losses)/gains, net break down as follows:

(in thousands of US$)	6-month period ended June 30, 2013	June 30, 2014
Impairment of assets acquired with the SMS business	21	(1 683)
Transaction costs related to the acquisition of ESS	(179)	-
Transaction costs related to the acquisition of Metaforic	-	(342)
Restructuring expenses and provisions	(6 565)	28
Impairment of assets	(140)	-
Foreign exchange gains/ (losses) on operating activities	342	468
Profit on disposal of equipment	165	12
Total	**(6 356)**	**(1 517)**

Operating exchange gains and losses relate to exchange differences affecting revenue and operating expenses concluded during the period as well as the impact of reversed at closing rates of operating assets and liabilities denominated in currencies other than the functional currency of the consolidated companies.

As at June 30, 2014, the Group recorded a depreciation of assets purchased on acquisition of SMS, these assets correspond to masks stored at a supplier under court-ordered liquidation and amount to US$ 1,683 thousand.

21. Finance income and expense

Finance income and expense breaks down as follows:

(in thousands of US$)	6-month period ended June 30, 2013	June 30, 2014
Foreign exchange loss	(383)	(120)
Interest expense	(158)	(322)
Finance costs	**(540)**	**(442)**
Foreign exchange gain	123	46
Interest income	75	23
Reversal of intangible liabilities	120	910
Finance income	**318**	**980**
Finance income / (loss) , net	**(222)**	**538**

Foreign exchange gains and losses relating to financial transactions settled during the period, as well as the impact of the revaluation at closing rates of cash denominated in Euros into US Dollars, are recognized as finance income or expenses.

Interest related to license agreement liabilities corresponds to the unwinding of the discounting effect as well as reversals resulting from the differences between actual sales and forecasted sales which were used to evaluate the liability.

Unless otherwise indicated, all amounts are expressed in thousands of US$

22. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	6-month period ended	
	June 30, 2013	**June 30, 2014**
Loss attributable to equity holders of the Company (in thousand dollars)	(21 002)	(5 477)
Weighted average number of ordinary shares in issue	33 993 562	33 997 172
Basic loss per share ($ per share)	**(0,62)**	**(0,16)**

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding with the shares which would be issued as a consequence of the exercising of dilutive financial instruments.

The Group has three categories of dilutive potential financial instruments: free shares, warrants, and stock options

The number of shares calculated is then compared with the number of shares that would have been issued assuming the exercising of the dilutive instruments:

	6-month period ended	
	June 30, 2013	**June 30, 2014**
Weighted average number of ordinary shares in issue	33 993 562	33 997 172
Adjustments for:		
- Free shares	579 580	739 130
- Warrants	-	-
- Stock options	-	-
Adjustments for treasury method	-	-
Weighted average number of ordinary shares for diluted earnings per share	34 573 142	34 736 302
Diluted loss per share ($ per share)	**(0,61)**	**(0,16)**

Warrants and stock options related to on-going plans have an exercise price exceeding the share price as at June 30, 2014 and have therefore not been taken into account for the calculation of the diluted earnings per share.

For the purposes of the table above, warrants and stock options are included in the diluted earnings per share calculation through the treasury stock method. The treasury stock method assumes that the proceeds from the exercise of warrants and stock options are used to repurchase common stock.

For accounting purposes, when dilutive instruments have the result that the dilutive loss per share is less than the basic loss per share, the impact of dilutive instruments is not taken into account.

23. Commitments

(a) Capital commitments

Capital expenditure contracted for at the date of issuance but not yet incurred is as follows:

(in thousands of US$)	December 31, 2013	June 30, 2014
Equipment	39	41
Intangible assets - Licenses	-	242
Total	**39**	**283**

(b) Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The majority of lease agreements are renewable at the end of the lease period at market rates.

The Group also leases certain equipment under cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(in thousands of US$)	December 31, 2013	June 30, 2014
Gross finance lease liabilities - minimum lease payment		
No later than 1 year	1 048	1 038
Later than 1 year and no later than 5 years	4 192	4 152
Later than 5 years	612	91
Total	**5 852**	**5 281**

In August 2012, the Group entered into a leasing agreement for property which is the base for its registered office. The initial duration of the lease is six years. The future rent payments over six years are detailed in the table above.

(c) Other commitments

(in thousands of US$)	December 31, 2013	June 30, 2014
Raw material purchasing	-	-
Committed finance lease - Material not yet received	-	-
Security bonds	-	-
Royalties due	-	-
	-	-

24. Related party transactions

The Group purchases audit and consulting services from the company Leyton & Associés who share a common shareholder with the Group in the investment firm GIMV. These services were negotiated under normal market conditions, without the involvement of the common shareholder, and amounted to US$ 106 thousand and US$ 116 thousand for the six month periods ended June 30, 2014 and 2013 respectively.

Unless otherwise indicated, all amounts are expressed in thousands of US$

25. Events after the reporting period

No significant events have occurred since the June 30, 2014 report.

26. Consolidated entities

The consolidated financial statements as at June 30, 2014 include the accounts of the Company and the following entities:

Country	Entity	Holding percentage				
		December 31, 2013	June 30, 2014	First consolidation	Consolidation method	Acquisition/ creation
USA	INSIDE Secure Corporation	100%	100%	2002	Global	Creation
Singapore	INSIDE Secure (Asia) Pte Ltd	100%	100%	2007	Global	Creation
France	Vault-IC France SAS	100%	100%	2010	Global	Acquisition
United Kingdom	Vault-IC UK Ltd	100%	100%	2010	Global	Acquisition
Poland	INSIDE Secure Sp.z.o.o	100%	-	2008	Dissolution	Creation
Holland	INSIDE Secure B.V	100%	100%	2012	Global	Acquisition
Holland	INSIDE Secure Amsterdam B.V	100%	100%	2012	Global	Acquisition
Finland	INSIDE Secure Oy	100%	100%	2012	Global	Acquisition
Japan	INSIDE Secure K.K	100%	100%	2013	Global	Creation
USA	Metaforic Corp	-	100%	2014	Global	Acquisition
United Kingdom	Metaforic Ltd	-	100%	2014	Global	Acquisition
Belgium	Selinko SA	-	18%	2014	Equity method	Acquisition

As disclosed above, the Group acquired Embedded Security Solutions on December 1, 2012. As part of the transaction which was a combination of an asset and a share deal, the Group acquired 100% of the shares of Inside Secure B.V (formerly AuthenTec B.V), which holds 100% of the shares of Inside Secure Amsterdam B.V (formerly AuthenTec Amsterdam B.V) and 100% of the shares of Inside Secure Oy (formerly AuthenTec Oy), companies dedicated to R&D and product engineering.

As at April 5, 2014 the Group acquired Metaforic Ltd, which owns one subsidiary Metaforic Inc.

In April 2014 the Group acquired, for an amount of US$ 952 thousand, 18% of capital and voting rights of Selinko SA, a Belgium firm. This investment is accounted for under the equity method. The share of loss in associate for the period is not significant.

20.6.2 Verification of the interim financial information as of June 30, 2014

PricewaterhouseCoopers Audit
63 rue de Villiers
92208 Neuilly-sur-Seine cedex, France

Antoine Olanda
38 parc du Golf
13856 Aix-en-Provence, France

STATUTORY AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL INFORMATION

(Six months ended June 30, 2014)

The report below is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Inside Secure
41 parc Club du Golf
13856 Aix-en-Provence

To the Shareholders,

In compliance with the assignment entrusted to us by the Shareholders Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of Inside Secure, for the six months ended June 30, 2013;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Management Board. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRS as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine and Aix-en-Provence, July 31, 2014

The statutory auditors

PricewaterhouseCoopers Audit Antoine Olanda

Philippe Willemin
Partner

20.7 Dividend distribution

20.7.1 Dividendes paid out in the past three fiscal years

None.

20.7.2 Dividend distribution policy

There currently is no plan to introduce a dividend distribution policy due to the Company's stage of development.

20.8 Court and arbitration proceedings

At times, the Group is exposed to the filing of observations against a certain number of its patent applications or to opposition procedures against some of its patents, in particular its European patents before the European Patent Office. The Group is also exposed to nullity actions filed with the national courts with respect to some of its national patents. Notably, the national parts (in Germany and the United Kingdom) of one of the Group's European patents, as well as the Korean (KR) patent from the same patent family, were subject to nullity actions by an important industrial player against which a infringement action had been asserted in Germany. These actions should be withdrawn as a result of a recent settlement in the Group's favor. Similarly, two other industrial players have initiated actions aimed at obtaining, for the former, on the one hand the nullity of the German part of a European patent containing claims regarding the NFC standard as defined by the NFC Forum and, on the other hand, the revocation of a European patent application and, in reference to the latter, the nullity of the German part of three European patents. Although the Group considers it has solid defenses for its patents and patent applications enabling it to resist such actions, it can neither guarantee the outcome nor exclude that these actions could be onerous and time-consuming for its management.

In addition, in the normal course of business, the Group is exposed to various other claims and litigation, including claims by current and former employees.

As of the filing date of this Registration Document, the Group considers that the potential losses it could incur in connection with such ongoing claims and litigation could not alone have a significant adverse impact on its financial position or profitability, and considers that it provisioned, whenever it deemed it necessary, the sufficient amount of funds to cover its liability based on the information available on the day the financial statements were approved.

Therefore, there are no regulatory, legal, or arbitration proceedings, including any proceedings of which the Company is aware, that are pending or threatened, which could potentially have or have had over the past 12 months, a significant impact on the Company's or Group's financial position or profitability.

20.9 Significant change in the financial or commercial position

To the Company's knowledge, there has been no significant change in the Group's financial or commercial position since June 30, 2014.

21. ADDITIONAL INFORMATION

21.1 Share capital

21.1.1 Amount of share capital

As of the filing date of this Registration Document, the share capital of the Company totals EUR 13,640,539.20, split up into 34,101,348 fully paid-up common shares of par value EUR 0.4 each.

21.1.2 Non-equity securities

Not applicable.

21.1.3 Share repurchase program

The Combined Ordinary and Extraordinary Shareholders' Meeting of the Company dated June 26, 2014 authorized the Management Board to implement, for a period of eighteen months from the date of such Meeting, a share repurchase program under provisions of articles L. 225-209 *et seq.* of the French Commercial Code and the market practices accepted by the AMF.

The principal terms of this authorization are as follows:

- Maximum number of shares to be purchased: 10% of the total number of shares, at any time, being specified that (i) when shares are acquired in order to improve the liquidity of the shares of the Company, the number of shares used to calculate this limit will be the number of shares purchased minus the number of shares sold during the authorized period and (ii) when the shares are acquired to be held and subsequently delivered as payment or in exchange during a merger, division or contribution, the number of shares purchased may not exceed 5% of the total number of shares;

- Objectives of the share repurchase:

  - ensure the liquidity of shares under a liquidity contract to be concluded, as the case may be, with an investment services provider, in compliance with the ethics charter recognized by the *Autorité des marchés financiers*;

  - meet obligations related to stock option plans, free share plans, employee savings plans, or other grants of shares to employees and corporate officers of the Company or of the companies related to it ;

  - deliver shares in connection with the exercise of rights attached to securities giving access to the share capital;

  - acquire shares to be held and subsequently exchanged or used as payment in connection with potential external growth transactions ; or

  - cancel all or part of the shares acquired in this way ;

- maximum purchase price (excluding fees and commission): EUR 10 with an overall cap of EUR 33,000,000.

Consequently to the above, on March 8, 2012, the Company entered into a liquidity agreement with Natixis and allocated EUR 500,000 to it.

Number of shares acquired and sold over the course of the 2013 fiscal year and the first half-year of 2014

In the context of the liquidity agreement, over the course of the 2013 fiscal year,

- 492,159 shares were purchased at the average price of EUR 2.4907, and
- 497,599 shares were sold at the average price of EUR 2.5433.

In the context of the liquidity agreement, over the course of the first half-year of the 2014 fiscal year,

- 721,761 shares were purchased at the average price of EUR 3.6189, and
- 711,714 shares were sold at the average price of EUR 3.6322.

The Company did not repurchase any of its own shares for other reasons.

Number of and value of own shares held as of December 31, 2013 and June 30, 2014

Based on the acquisitions and sales completed over the course of the 2013 fiscal year, the balance of the liquidity agreement was equal to 20 912 shares as of December 31, 2013. As of that date, the value of the portfolio of own shares was equal to EUR 45,797.28, based on the closing price on December 31, 2013, or EUR 2.19.

Based on the acquisitions and sales completed over the course of first half-year of 2014, the balance of the liquidity agreement was equal to 30,959 shares as of June 30, 2014. As of that date, the value of the portfolio of own shares was equal to EUR 145,816.89, based on the closing price on June 30, 2014, or EUR 4.71.

21.1.4 Potential share capital

As of the filing date of this Registration Document, the securities and other currently outstanding financial instruments granting the right to a percentage of the share capital are the following. The exercise of all these securities and financial instruments and the vesting of all free shares would result in the issuance of 1,840,360 additional common shares of the Company.

21.1.4.1 Share warrants (*Bons de souscription d'actions*)

The main characteristics of the currently outstanding share warrants (*bons de souscription d'actions*, or "BSA(s)") issued by the Company are provided in the following table.

Plan name(1)	Date of issue	Total number of warrants	Maximum number of shares resulting from the warrants 1	Unit subscription price of the shares resulting from the warrants	Timeframe for exercising the warrants 2	Expiration date of the warrants
BSA 2005-1	June 16, 2005	1	43,332	€5.77	Fully exercisable	July 8, 2015
BSA 2005-3	June 16, 2005	1	52,000	€5.77	Fully exercisable	July 8, 2015
BSA 2006-2	July 31, 2006	4,600	18,400	€3.9425	Fully exercisable	November 20, 2016
BSA 2007-2	August 30, 2007	2,205	8,820	€7.055	Fully exercisable	June 4, 2019
BSA 2007-3	September 21, 2007 September 21, 2007	1,000 1,000	4,000 4,000	€7.055 €7.055	Fully exercisable Fully exercisable	June 13, 2018 July 3, 2018
BSA 2007-4	August 30, 2007 December 18, 2008	750 750	3,000 3,000	€7.055 €7.055	Fully exercisable Fully exercisable	November 6, 2017 May 4, 2019
BSA 2007-5	December 21, 2007	2,000	8,000	€10.0525	Fully exercisable	August 22, 2018
BSA 8	December 18, 2008	3,200	12,800	€10.0525	Fully exercisable	March 24, 2019
BSA 12	October 1, 2010	50,000	226,878	€4.75	Fully exercisable	October 1, 2015
BSA 13	December 29, 2010	12,500	50,000	€4.75	Varies according to the holders 3	December 29, 2015
		78,007	434,230			

(1) Only currently outstanding BSAs are listed above.

The main characteristics of the BSAs granted to the members of the Management Board and Supervisory Board of the Company are described in the following table (1).

Name	Position	Plan	Date of issue	Total number of warrants	Maximum number of shares resulting from the warrants(1)	Unit subscription price of the shares resulting from the warrants	Timeframe for exercising the warrants(2)	Expiration of the warrants
Rémy de Tonnac	Chairman of the Management Board	BSA 12	October 1, 2010	18,500	83,945	€4.1872	Fully exercisable	October 1, 2015
Pascal Didier	General Manager	BSA 12	October 1, 2010	9,000	40,838	€4.1872	Fully exercisable	October 1, 2015
Richard Vacher Detournière	Member of the Management Board	BSA 12	October 1, 2010	14,500	65,795	€4.1872	Fully exercisable	October 1, 2015
Patrick Schwager Jones	Chairman of the Supervisory Board	BSA 2006-2	July 31, 2006	4,600	18,400	€3.9425	Fully exercisable	November 20, 2016
		BSA 13	December 29, 2010	2,000	8,000	€4.75	Fully exercisable	December 29, 2015
Glenn Collinson	Member of the Supervisory Board	BSA 8	December 18, 2008	3,200	12,800	€10.0525	Fully exercisable	March 24, 2019
		BSA 13	December 29, 2010	5,000	20,000	€4.75	Varies according to the holders(3)	December 29, 2015
				56,800	249,778			

(1) Null and void BSAs and BSAs granted to corporate officers who have left the Group are not included in the above table.

21.1.4.2 Free share grants

As of the filing date of this Registration Document, the Management Board of the Company has granted a total of 2,180,828 free shares to the Group's employees and officers, pursuant to authorizations granted at the General Shareholders' Meetings dated June 16, 2005, October 20, 2005, June 30, 2008 and June 30, 2010.

Pursuant to their terms, as of the filing date of this Registration Document, 1,591,260 shares have definitively vested, 419,568 shares have become null and void, and 170,000 shares have not yet fully vested.

The main characteristics of these free share grants are provided in the table below.

Date of the Shareholders' Meeting authorizing the grant	Date granted by the Management Board	Number of shares granted	Number of voided shares	Number of vested shares	Number of shares in the process of vesting	Vesting Date	Length of the holding period[1]
June 16, 2005	July 28, 2005	92,184 21,016	23,046 0	69,138 21,016	0 0	March 6, 2012 July 28, 2007	2 years 2 years
June 16, 2005	July 28, 2005	112,600 25 664	112,600 0	0 25,664	0	N/A July 28, 2007	N/A 2 years
October 20, 2005	February 17, 2006	83,092	6,088	44,840 16,192 15,972	0	February 17, 2008 February 17, 2009 February 17, 2010	2 years 2 years 2 years
October 20, 2005	February 17, 2006	56,264 12,832	56,264 0	0 12,832	0 0	N/A February 17, 2008	N/A 2 years
October 20, 2005	June 2, 2006	76,096	0	38,048 19,024 19,024	0	June 2, 2008 June 2, 2009 June 2, 2010	2 years 2 years 2 years
June 30, 2008	November 3, 2008	20,000	0	20,000	0	November 3, 2010	2 years
June 30, 2010	December 16, 2010	1,116,000 110,000	0 0	1,116,000 110,000[2]	0 0	December 16, 2012 December 16, 2014	2 years 2 years
January 20, 2012	April 6, 2012	151,370 64,000	151,370 64,000	0 0	0 0	N/A N/A	N/A N/A
June 29, 2012	July 26, 2012	2,200 4,000 63,510	2,200 4,000	0 0 63,510	0 0 0	N/A N/A July 26, 2014	N/A N/A 2 years
June 29, 2012	October 17, 2012	160,000	0	0	80 000 40 000 40 000	October 17, 2014[3] October 17, 2015[3] October 17, 2016[3]	2 years 2 years 2 years
June 29, 2012	December 20, 2012	10,000	0	0	5 000 2 500 2 500	December 20, 2014[4] December 20, 2015[4] December 20, 2016[4]	2 years 2 years 2 years
		2,180,828	419,568	1,591,260	170 000		

(1) The holding period begins on the vesting date of the free shares.
(2) The shares will definitively vest for their holders following the vesting period (on December 16, 2014).
(3) The shares will not definitively vest unless the volume-weighted average of the stock market price of the Company's shares during the 20 French stock market trading days preceding October 17, 2014 is at least equal to EUR 2.3.
(4) The shares will not definitively vest unless the volume-weighted average of the stock market price of the Company's shares during the 20 French stock market trading days preceding December 20, 2014 is at least equal to EUR 3.22.

The main characteristics of the free shares granted to the members of the Management Board of the Company are described in the following table.

Name	Position	Date of issue	Number of allocated shares	Number of vested shares	Number of shares in the process of vesting	Vesting Date	Lock-up period	Number of shares to be kept during the term of office
Rémy de Tonnac	Chairman of the Management Board	June 2, 2006	76,096	38,048	0	June 2, 2008	2 years	-
				19,024	0	June 2, 2009	2 years	-
				19,024	0	June 2, 2010	2 years	-
		December 16, 2010	316,000	316,000	0	December 16, 2012	2 years	10%
		July 26, 2012	10,400			July 26, 2014	2 years	10%
Pascal Didier	General Manager	July 28, 2005	9,392	7,044	0	March 6, 2012	2 years	-
		February 17, 2006	6,960	3,480	0	February 17, 2008	2 years	-
				1,740	0	February 17, 2009	2 years	-
				1,740	0	February 17, 2010	2 years	-
		December 16, 2010	64,000	64,000	0	December 16, 2012	2 years	10%
		July 26, 2012	2,950	2,950	0	July 26, 2014	2 years	10%
Richard Vacher Detournière	Member of the Management Board	November 3, 2008	20,000	20,000	0	November 3, 2010	2 years	10%
		December 16, 2010	106,000	106,000	0	December 16, 2012	2 years	10%
Pierre Garnier	Member of the Management Board	October 17, 2012	120,000	0	60,000	October 17, 2014(1)	2 years	10%
					30,000	October 17, 2015(1)	2 years	10%
					30,000	October 17, 2016(1)	2 years	10%
			731,798	609,450	120,000			

(1) The shares will not definitively vest unless the volume-weighted average of the stock market price of the Company's shares during the 20 French stock market trading days preceding October 17, 2014 is at least equal to EUR 2.30.

21.1.4.3 Stock Options

As of the filing date of this Registration Document, the Management Board of the Company has granted a total of 2,490,932 stock options, each giving right to subscribe to one common share of the Company, to the Group's employees and officers, pursuant to authorizations granted at the General Shareholders' Meetings dated of June 16, 2005, October 20, 2005, June 2, 2006, June 19, 2007, June 30, 2008, June 29, 2012, June 19, 2013, and June 26, 2014.

As of the filing date of this Registration Document, 99,836 stock options have been exercised by their holders, 1,154,966 stock options have become null and void, and 1,236,130 stock options are still outstanding.

The main characteristics of these stock option plans are provided in the table below.

Name of the plan	Date of grant	Number of granted stock options	Number of forfeited stock options	Number of exercised stock options	Maximum number of shares which can be subscribed	Subscription price per unit	Timeframe for exercising the stock options	Expiration date of the vesting period	Expiration date of the stock options
Options 2005-1 (P 3)	July 28, 2005	113,200	113,200	0	0	€ 0.40		July 28, 2009	June 16, 2015
Options 2005-1 (P 4)	July 28, 2005	102,240	102,240	0	0	€ 0.40		July 28, 2009	June 16, 2015
Options 2005-2	February 17, 2006	96,908	6,712	21,770	68,426	€ 3.9425	exercisable in full	February 17, 2010	October 20, 2015
Options 2005-2	June 2, 2006	51,904	0	0	51,904	€ 3.9425	exercisable in full(2)	June 2, 2010	October 20, 2015
Options 2006-1	June 2, 2006	268,800	67,134	76,866	124,800	€ 3.9425	exercisable in full(2)	June 2, 2010	June 2, 2016
Options 2006-1	June 2, 2006	4,400	0	0	4,400	€ 3.9425	exercisable in full	June 2, 2010	June 2, 2016
Options 2006-1	February 2, 2007	93,500	92,300	1,200	0	€ 7.055		February 2,	June 2, 2016
Options 2006-1	February 2, 2007	11,700	0	0	11,700	€ 7.055	exercisable in full	February 2,	June 2, 2016
Options 2007-1-A	August 4, 2007	301,512	301,512	0	0	€ 7.055		August 4, 2011	June 19, 2017
Options 2007-1-A	August 4, 2007	12,336	12,336	0	0	€ 7.055		August 4, 2011	June 19, 2017
Options 2007-1-B	August 4, 2007	189,832	189,832	0	0	€ 7.055		August 4, 2011	June 19, 2017
Options 2007-1-A	September 21, 2007	4,400	4,400	0	0	€ 7.055		September 21, 2011	June 19, 2017
Options 2007-1-C	February 22, 2008	52,000	52,000	0	0	€ 10.0525		February 22, 2012	June 19, 2017
Options 2007-1-D	February 25, 2008	50,800	50,800	0	0	€ 10.0525		February 25, 2012	June 19, 2017
Options 2007-1-E	November 3, 2008	20,000	20,000	0	0	€ 10.0525		November 3, 2012	June 19, 2017
Options 2007-1-F	November 3, 2008	60,800	0	0	60,800	€ 10.0525	exercisable in full(2)	November 3, 2012	June 19, 2017
Options 2006-1-B	November 3, 2008	21,600	0	0	21,600	€ 10.0525	exercisable in full(2)	November 3, 2012	June 2, 2016
Options 2008-1	November 3, 2008	30,000	30,000	0	0	€ 10.0525		November 3, 2012	June 30, 2018
Options juillet 2012	July 26, 2012	2,160	0	0	2,160	€ 3.07	exercisable in full	July 26, 2016	July 26, 2022
Options juillet 2012	July 26, 2012	12,330	0	0	12,330	€ 3.07	exercisable in full	July 26, 2016	January 26, 2022
Options février 2013	February 20, 2013	190,000	0	0	190,000	€ 2.89	47 500 on February 20, 2014(2) 47 500 on February 20, 2015(2) 47 500 on February 20, 2016(2) 47 500 on February 20, 2017(2)	N/A	February 20, 2023
Options février 2013	February 20, 2013	40,000	0	0	40,000	€ 2.89	10 000 on February 20, 2014(2) 10 000 on February 20, 2015(2) 10 000 on February 20, 2016(2) 10 000 on February 20, 2017(2)	N/A	August 20, 2022

Name of the plan	Date of grant	Number of granted stock options	Number of forfeited stock options	Number of exercised stock options	Maximum number of shares which can be subscribed	Subscription price per unit	Timeframe for exercising the stock options	Expiration date of the vesting period	Expiration date of the stock options
Options février 2013	May 3, 2013	100,000	75,000	0	25,000	€ 2.54	25 000 on February 20, 2014(2)	N/A	May 3, 2023
Options juin 2013	June 20, 2013	20,000	15,000	0	5,000	€ 2.85	5 000 on June 20, 2014(2)	N/A	December 22, 2022
Options juin 2013	August 27, 2013	105,000	22,500	0	82,500	€ 2.45	26 250 on August 27, 2014 18 750 on August 27, 2015 18 750 on August 27, 2016 18 750 on August 27, 2017	N/A	August 27, 2023
Options juin 2013	August 27, 2013	35,000	0	0	35,000	€ 2.45	8 750 on August 27, 2014(2) 8 750 on August 27, 2015(2) 8 750 on August 27, 2016(2) 8 750 on August 27, 2017(2)	N/A	February 27, 2023
Options janvier 2014	January 17, 2014	100,000	0	0	100,000	€ 2.11	33 333 on January 17, 2015(2) 33 333 on January 17, 2016(2) 33 334 on January 17, 2017(2)	N/A	January 17, 2024
Options janvier 2014	April 23, 2014	15,000	0	0	15,000	€ 3.66	3 750 on April 23, 2015(2) 3 750 on April 23, 2016(2) 3 750 on April 23, 2017(2) 3 750 on April 23, 2018(2)	N/A	April 23, 2024
Options juin 2014	July 22, 2014	230,000	0	0	230,000	€ 4.54	57 500 on July 22, 2015(2) 57 500 on July 22, 2016(2) 57 500 on July 22, 2017(2) 57 500 on July 22, 2018(2)	N/A	January 22, 2024
Options juin 2014	July 22, 2014	70,000	0	0	70,000	€ 4.54	17 500 on July 22, 2015(2) 17 500 on July 22, 2016(2) 17 500 on July 22, 2017(2) 17 500 on July 22, 2018(2)	N/A	July 22, 2024
Options juin 2014	August 28, 2014	100,000	0	0	100,000	€ 4.21	33 333 on August 28, 2015 33 333 on August 28, 2016 33 334 on August 28, 2017	N/A	August 28, 2024
		2,490,932	1,154,966	99,836	1,236,130				

(1) Concerns residents of France for tax purposes.
(2) The exercise of the stock options is subject to being either an employee or a corporate officer of the Company on the exercise date.

The main characteristics of the stock options plans offered to the members of the Management Board of the Company are described in the following table.

Name	Name of the plan	Date of grant	Number of granted stock options	Maximum number of shares which can be subscribed	Subscription price per unit	Timeframe for exercising the stock options	Expiration date of the vesting period	Number of shares to be kept during the term of office	Expiration date of the stock options
Rémy de Tonnac (Chairman of the Management Board)	Options 2005-2	June 2, 2006	51,904	51,904	€ 3.9425	exercisable in full (1)	June 2, 2010	-	October 20, 2015
	Options 2006-1	June 2, 2006	48,000	48,000	€ 3.9425	exercisable in full (1)	June 2, 2010	-	June 2, 2016
	Options 2007-1-B	August 4, 2007	20,100	0	€ 7.055		August 4, 2011	50%	June 19, 2017
Pascal Didier (General Manager))	Options 2005-1 (P 3)	July 28, 2005	9,392	0	€ 0.40		July 28, 2009	-	June 16, 2015
	Options 2005-1 (P 4)	July 28, 2005	8,484	0	€ 0.40		July 28, 2009	-	June 16, 2015
	Options 2005-2	February 17, 2006	5,040	5,040	€ 3.9425	exercisable in full	February 17, 2010	-	October 20, 2015
	Options 2006-1	June 2, 2006	20,000	20,000	€ 3.9425	exercisable in full (1)	June 2, 2010	-	June 2, 2016
	Options 2007-1-B	August 4, 2007	17,648	0	€ 7.055		August 4, 2011	50%	June 19, 2017
	Options 2007-1-C	February 22, 2008	20,000	0	€ 10.0525		February 22, 2012	-	June 19, 2017
Richard Vacher Detournière (member of the Management Board)	Options 2006-1-B	November 3, 2008	21,600	21,600	€ 10.0525	exercisable in full (1)	November 3, 2012	10%	June 2, 2016
	Options 2007-1-F	November 3, 2008	60,800	60,800	€ 10.0525	exercisable in full (1)	November 3, 2012	10%	June 19, 2017
	Options juin 2014	August 28, 2014	35,000	35,000	€ 4.21	11,666 on August 28, 2015 11,666 on August 28, 2016 11,667 l on August 28, 2017	N/A	10%	August 28, 2024
Pierre Garnier (Member of the Management Board)	Options janvier 2014	January 17, 2014	100,000	100,000	€ 2.11	33,333 on January 17, 2015(1) 33,333 on January 17, 2016(1) 33,334 on January 17, 2017(1)	N/A	10%	January 17, 2024
Simon Blake-Wilson (Member of the Management Board)	Options février 2013	May 3, 2013	100,000	25,000	€ 2.54	25,000 on May 3, 2014	N/A	10%	May 3, 2023
	Options juin 2013	August 27, 2013	30,000	7,500	€ 2.45	7,500 on August 27, 2014	N/A	10%	August 27, 2023
			547,968	439,344					

(1) The exercise of the stock options is subject to being either an employee or a corporate officer of the Company on the exercise date.

21.1.5 Authorized share capital

The delegations and authorizations granted to the Management Board at the General Shareholders' Meetings dated June 19, 2013 and June 26, 2014, which are currently active as of the date of this Registration Document, are summarized below, it being hereby reminded that in order to use these authorizations, the Management Board must request prior approval to the Supervisory Board:

	Validity Period	Maximum nominal amount (in Euros)	Aggregate maximum nominal amount (in Euros)
Delegations and authorizations granted at the General Shareholders' Meeting dated June 19, 2013			
Delegation of power granted to the Management Board to increase share capital by issuing common shares or any securities granting access to the share capital, with preferential subscription right	26 months as from June 19, 2013	6,500,000	6,798,712
Delegation of power granted to the Management Board to increase share capital by issuing common shares or any securities granting access to share capital without preferential subscription rights and public offering as well as with the ability to establish a priority right	26 months as from June 19, 2013	2,651,498	
Delegation of power granted to the Management Board to increase share capital by issuing common shares or any securities granting access to share capital without preferential subscription rights, for the benefit of qualified investors or a restricted circle of investors	26 months as from June 19, 2013	2,651,498, not to exceed 20% of the share capital per 12-month period	
Delegation of power granted to the Management Board to increase the number of securities to be issued in the event of a share capital increase, with or without preferential subscription rights, to be decided based on previous delegations	26 months as from June 19, 2013	not to exceed 15% of the initial amount issued	
Delegation of power granted to the Management Board to issue common shares or securities granting access to the share capital of the Company, in the event of a public offer including an exchange component initiated by the Company	26 months as from June 19, 2013	2,651,498	
Delegation of power granted to the Management Board to increase share capital in order to compensate contributions in kind of shares or securities granting access to the share capital of third-party companies, excluding a public exchange offer	26 months as from June 19, 2013	1,359,742, not to exceed 10% of the share capital as it stands on the date of the considered transaction	
Delegation of power granted to the Management Board to increase share capital by incorporating premiums, reserves, profits or other, by the issue and grant of free shares or by raising the par value of existing shares or by a combination of these two methods	26 months as from June 19, 2013	2,000,000	2,000,000
Delegations and authorizations granted at the General Shareholders' Meeting dated June 26, 2014			
Authorization granted to the Management Board in connection with the Company's share repurchase program	18 months as from June 26, 2014	10% of the share capital	10% of the share capital
Authorization granted to the Management Board to reduce the share capital by way of the cancellation of shares in the context of the authorization to repurchase its own shares	18 months as from June 26, 2014	10% of share capital amount per 24-month period	10% of the share capital amount per 24-month period
Authorization granted to the Management Board to grant stock options	38 months as from June 26, 2014	468,000	495,200
Authorization granted to the Management Board to carry out free grants of existing shares or shares to be issued.	38 months as from June 26, 2014	468,000	

Authorization granted to the Management Board in connection with the issuance of share warrants (*bons de souscription d'actions*) without preferential subscription rights, for the benefit of (i) members and censors of the Supervisory Board in office as of the grant date who are not employees or executives of the Company or one of its subsidiaries	18 months as from June 26, 2014	27,200	

21.1.6 Information on the share capital of any member of the Group that is subject to an option or to a conditional or unconditional agreement to be put under option

As of the filing date of this Registration Document, to the Company's knowledge there are none in existence.

21.1.7 History of the share capital

21.1.7.1 Changes in share capital

The Company was registered with the Trade and Companies Registry on December 29, 1994, with an initial share capital of 1,620,500 francs.

The share capital was subsequently increased several times, reaching EUR 9,581,828.14 on June 16, 2005. A General Shareholders' Meeting held on the same day decided to reduce the share capital of the Company to zero and then to increase it to EUR 1,005,865.60 by the issuance, at par, of 628,666 shares at a price of EUR 1.60 each. Both the reduction and the increase were completed on July 8, 2005.

The table below provides a summary of the changes in share capital since that date.

Date	Operation	Number of shares issued or canceled	Par value (in Euros)	Issuance or contribution premium (in Euros)	Par value of cumulated share capital (in Euros)	Cumulated number of total outstanding shares	Par value (in Euros)
July 8, 2005	Decrease in share capital to zero	(628,666)	(9,581,828.14)	None	0	0	
July 8, 2005	Capital increase by consideration in cash[1]	628,666	1,005,865.60	0	1,005,865.60	628,666	1.60
November 14, 2005	Capital increase by consideration in cash[2]	380,472	608,755.20	5,391,288.24	1,614,620.80	1,009,138	1.60
March 3, 2006	Capital increase by consideration in cash[2]	13,733	21,972.80	194,596.61	1,636,593.60	1,022,871	1.60
March 31, 2006	Capital increase by consideration in cash (exercise of warrants)[3]	190,234	304,374.40	2,695,615.78	1,940,968.00	1,213,105	1.60
June 2, 2006	Capital increase by consideration in kind[4]	35,798	57,276.80	507,257.66	1,998,244.80	1,248,903	1.60
July 19, 2006	Capital increase by consideration in cash (exercise of warrants)[3]	6,865	10,984.00	97,277.05	2,009,228.80	1,255,768	1.60
August 28, 2006	Capital increase by consideration in cash[5]	465,390	744,624.00	12,388,681.80	2,753,852.80	1,721,158	1.60
July 28, 2007	Capital increase by definitive allocation of free shares[4]	11,670	18,672.00	0	2,772,524.80	1,732,828	1.60
September 4, 2007	Capital increase by consideration in cash (exercise of warrants)[6]	232,695	372,312.00	6,194,340.90	3,144,836.80	1,965,523	1.60
December 28, 2007	Capital increase by consideration in cash[7]	411,638	658,620.80	15,893,343.18	3,803,457.60	2,377,161	1.60
December 28, 2007	Capital increase by consideration in cash[7]	164,220	262,752.00	6,340,534.20	4,066,209.60	2,541,381	1.60
February 5, 2008	Capital increase by consideration in cash[7]	45,878	73,404.80	1,771,349.58	4,139,614.40	2,587,259	1.60
February 17, 2008	Capital increase by definitive allocation of free shares[4]	14,418	23,068.80	0	4,162,683.20	2,601,677	1.60
June 2, 2008	Capital increase by definitive allocation of free shares[4]	9,512	15,219.20	0	4,177,902.40	2,611,189	1.60
August 20, 2008	Capital increase by consideration in cash[7]	66,595	106,552.00	2,571,232.95	4,284,454.40	2,677,784	1.60

Date	Operation	Number of shares issued or canceled	Par value (in Euros)	Issuance or contribution premium (in Euros)	Par value of cumulated share capital (in Euros)	Cumulated number of total outstanding shares	Par value (in Euros)
December 17, 2008	Capital increase by consideration in cash[7]	99,478	159,164.80	3,840,845.58	4,443,619.20	2,777,262	1.60
February 17, 2009	Capital increase by definitive allocation of free shares[4]	4,048	6,476.80	0	4,450,096.00	2,781,310	1.60
June 2, 2009	Capital increase by definitive allocation of free shares[4]	4,756	7,609.60	0	4,457,705.60	2,786,066	1.60
July 29, 2009	Capital increase by consideration in cash (exercise of warrants)[4]	12,392	19,827.20	0	4,477,532.80	2,798,458	1.60
February 17, 2010	Capital increase by definitive allocation of free shares[4]	3,993	6,388.80	0	4,483,921.60	2,802,451	1.60
June 2, 2010	Capital increase by definitive allocation of free shares[4]	4,756	7,609.60	0	4,491,531.20	2,807,207	1.60
September 29, 2010	Capital increase by consideration in cash[8]	2,426,017	3,881,627.20	42,212,695.80	8,373,158.40	5,233,224	1.60
October 1, 2010	Capital increase by consideration in cash (exercise of stock options)[4]	210	336.00	2,975.70	8,373,494.40	5,233,434	1.60
November 3, 2010	Capital increase by definitive allocation of free shares[4]	5,000	8,000.00	0	8,381,494.40	5,238,434	1.60
November 8, 2010	Capital increase by consideration in cash[8]	73,077	116,923.20	1,271,539.80	8,498,417.60	5,311,511	1.60
November 30, 2010	Capital increase by consideration in cash[8]	107,894	172,630.40	1,877,355.60	8,671,048.00	5,419,405	1.60
May 11, 2011	Split of the par value of the Company's shares	0	0	0	8,671,048.00	21,677,620	0.40
June 13, 2011	Capital increase by consideration in cash (exercise of warrants)[4]	46,704	18,681.60	165,448.92	8,689,729.60	21,724,324	0.40
February 22, 2012	Conversion of Class D preferred shares to common shares	1,449,144	579,657.60	-	9,269,387.20	23,173,468	0.40
February 22, 2012	Capital increase by consideration in cash (public offering)	8,313,250	3,325,300.00	65,674,675.00	12,594,687.20	31,486,718	0.40
February 24, 2012	Capital increase by consideration in cash (exercise of the overallotment option)	1,246,986	498,794.40	9,851,189.40	13,093,481.60	32,733,704	0.40

Date	Operation	Number of shares issued or canceled	Par value (in Euros)	Issuance or contribution premium (in Euros)	Par value of cumulated share capital (in Euros)	Cumulated number of total outstanding shares	Par value (in Euros)
April 6, 2012	Capital increase by consideration in cash (exercise of stock options)	40,481	16,192.40	360,535.81	13,109,674.00	32,774,185	0.40
April 6, 2012	Capital increase by definitive allocation of free shares	69,138	27,655.20	-	13,137,329.20	32,843,323	0.40
December 20, 2012	Capital increase by definitive allocation of free shares	1,116,000	446,400.00	-	13,583,729.20	33,959,323	0.40
December 20, 2012	Capital increase by consideration in cash (exercise of stock options)	34,239	13,695.60	125,026.6575	13,597,424.80	33,993,562	0.40
July 8, 2014	Capital increase by consideration in cash (exercise of stock options)	24,276	9,710.40	85,997.73	13,607,135.20	34,017,838	0.40
August 25, 2014	Capital increase by definitive allocation of free shares	63,510	25,404.00	-	13,632,539.20	34,081,348	0.40
August 25, 2014	Capital increase by consideration in cash (exercise of warrants)	20,000	8,000.00	35,800.00	13,640,539.20	34,101,348	0.40

1 *Class P preferred shares converted into common shares on October 20, 2005.*
2 *Class A preferred shares carrying the right to subscribe to Class A preferred shares.*
3 *Class A preferred shares.*
4 *Common shares.*
5 *Class B preferred shares carrying the right to subscribe to Class B preferred shares.*
6 *Class B preferred shares.*
7 *Class C preferred shares.*
8 *Class D preferred shares.*

21.1.7.2Changes in the distribution of the share capital of the Company since December 31, 2011

To the Company's knowledge, the Company's share capital distribution has changed in the following way since December 31, 2011.

	Situation as of December 31, 2011		**Situation as of December 31, 2012**		**Situation as of December 31, 2013**		**Situation as of the filing date of the Registration Document**	
	Number of shares	**% of share capital and voting rights**	**Number of shares**	**% of share capital and voting rights**	**Number of shares**	**% of share capital and voting rights**	**Number of shares**	**% of share capital and voting rights**
Members of the Management Board	**138,432**	**0.64%**	**633,072**	**1.86%**	**640,075**	**1.88%**	**617,027**	**1.81%**
Rémy de Tonnac *(Chairman)*	89,968	0.41%	406,494	1.20%	410,474	1.21%	406,476	1.19%
Pascal Didier *(General Manager)*	24,440	0.11%	96,019	0.28%	97,019	0.29%	97,969	0.29%
Richard Vacher Detournière	24,024	0.11%	130,559	0.38%	132,582	0.39%	112,582	0.33%
Pierre Garnier	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Simon Blake Wilson	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Members of the Supervisory Board	**1,620,672**	**7.46%**	**2,447,614**	**7.20%**	**2,448,806**	**7.20%**	**2,437,806**	**7.15%**
Patrick Schwager Jones *(Chairman)*	4	0.00%	4	0.00%	4	0.00%	4	0.00%
Jean Schmitt *(Vice-Chairman)*	4	0.00%	4	0.00%	4	0.00%	504	0.00%
Alex Brabers	4	0.00%	4	0.00%	4	0.00%	4	0.00%
Bpifrance Participations	1,598,720	7.36%	2,423,991	7.13%	2,423,991	7.13%	2,423,991	7.11%
Glenn Collinson	21,940	0.10%	23,611	0.07%	23,611	0.07%	12,111	0.04%
Joëlle Toledano	0	0.00%	0	0.00%	1,192	0.00%	1,192	0.00%
Olivier Sichel	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Muriel Barnéoud	0	0.00%	0	0.00%	0	0.00%	0	0.00%
GIMV	**3,919,880**	**18.04%**	**4,254,171**	**12.51%**	**4,254,171**	**12.51%**	**4,254,171**	**12.48%**
FCPR Sofinnova Capital V	**4,416,912**	**20.33%**	**4,695,488**	**13.81%**	**4,695,488**	**13.81%**	**4,695,488**	**13.77%**
Other shareholders	**11,628,428**	**53.53%**	**21,963,217**	**64.61%**	**21,955,022**	**64.59%**	**22,096,856**	**64.80%**
Total	**21,724,324**	**100.00%**	**33,993,562**	**100.00%**	**33,993,562**	**100.00%**	**34,101,348**	**100.00%**

21.2 Incorporation documents and Bylaws

21.2.1 Corporate purpose

The purpose of the Company is to:

- design, manufacture and sell electronic and computer products, especially in the semiconductor industry, and
- generally, carry out all commercial, financial, securities or real property transactions, related, directly or indirectly, to the purpose of the Company or that may contribute to its development.

21.2.2 Management and supervisory bodies

21.2.2.1 Management Board

21.2.2.1.1 Composition

The Company is managed by a Management Board comprised of at most five members, which exercises its duties under the control of the Supervisory Board.

The members of the Management Board are physical persons. They are not required to be shareholders.

The Supervisory Board appoints them for a four-year term, and nominates one of them as Chairman of the Management Board.

The members of the Management Board cannot be older than sixty-five years of age.

Any member of the Management Board can be reelected.

The Shareholders' Meeting or, as the case may be, the Supervisory Board can remove members of the Management Board from office. If the removal from office is carried out without due cause, it may trigger the payment of damages. In the event that the concerned party had signed an employment contract with the Company, the removal from office as a member of the Management Board does not terminate such employment contract.

The members of the Management Board meet whenever it is in the corporate interest to do so, upon convocation of its Chairman or half of its members, at the meeting location specified by the person calling for the meeting. They can be contacted by any means available, including verbally.

The Management Board's decisions are taken based on a majority vote of the members present at any given meeting. No one within the Management Board can vote by proxy.

21.2.2.1.2 Powers of the Management Board

The Management Board is invested with the broadest powers to act in all circumstances on behalf of the Company. It exercises these powers within the limit of the Company's corporate purpose and subject to those powers expressly attributed by law to the Supervisory Board and the general shareholders' meetings. In relations with third parties, the Company is also bound by the Management Board's acts that fall outside its corporate purpose, unless it can prove that the third party knew that the act exceeded such purpose, or that such third party must have so known in light of the circumstances. The publication of the Company's Bylaws is not in itself deemed sufficient to establish proof of such knowledge.

The Chairman of the Management Board represents the Company in its relations with third parties. The Supervisory Board may also attribute this power of representation to one or more other members of the Management Board who then carry the title of “general manager”. The Chairman of the Management Board and the general manager(s), as the case may be, are authorized to partially delegate their powers to any special agent(s), selected at their discretion.

21.2.2.2 Supervisory Board

21.2.2.2.1 Composition

The Supervisory Board is composed of no less than three and no more than nine members.

An employee of the Company can only be appointed member of the Supervisory Board if his or her employment contract effectively represents an active employment. The number of Supervisory Board members related to the Company through an employment contract cannot exceed one third of its active members.

The term of office for members of the Supervisory Board is three years, and said office expires following the Ordinary Shareholders’ Meeting approving the financial statements for the most recent fiscal year and held in the year during which the term of office expires.

The number of Supervisory Board members who are older than 70 years of age cannot exceed one third of the members in office. Whenever this threshold is crossed while in office, the oldest member is automatically considered as resigning at the end of the next General Shareholders’ Meeting held.

Under the terms of Article 3 of the Supervisory Board’s internal rules, the Supervisory Board must be, insofar as possible, comprised of a majority of independent members. The independence criteria retained by the Company and the other provisions of the Supervisory Board’s internal rules relative to its composition are described in section 16.1.2 entitled “The Supervisory Board” of this Registration Document.

21.2.2.2.2 Operation of the Supervisory Board

The Chairman or Vice-Chairman of the Supervisory Board, or two of its members acting jointly, can convoke its members to a meeting. The notification of meeting can be made by any mean available, in writing or verbally.

The Supervisory Board appoints a Secretary, who need not necessarily be a member of the Board.

The members of the Supervisory Board are convoked to the meeting of the Board by letter, facsimile, or email, providing a description of the meeting’s agenda and sent to each member of the Board no later than eight days before the date set for the meeting. However, the Board can be convened by any means available, even verbally, if all members of the Board in office are present or represented at the meeting.

The Board can only deliberate validly if it was convened according to the stipulations provided for in the preceding paragraph and provided it only discusses those matters listed as on the agenda in the meeting notification, except if all of the Board’s members in office are present or represented and provide their consent.

Decisions are taken based on the quorum and majority conditions set forth in the French Commercial Code.

The Supervisory Board’s deliberations are recorded in minutes prepared and archived in accordance with the terms set forth in the French Commercial Code.

The other main provisions of the Supervisory Board's internal rules pertaining to its operation are described in section 16.1.2 entitled "Supervisory Board" of the Registration Document.

21.2.2.2.3 The Supervisory Board's mission

The Supervisory Board monitors the Management Boards' management of the Company. To this end, at any time of the year, the Supervisory Board may perform the verifications and controls it deems appropriate and obtain from the Management Board any documents that it deems useful in the completion of its assignment.

At least once every quarter, the Supervisory Board receives a report from the Management Board on the status of corporate affairs.

21.2.3 Rights, privileges and restrictions attached to the Company's shares

21.2.3.1 Voting Rights

At the Company's General Shareholders' Meetings, every shareholder has as many voting rights as the number of shares he or she holds or represents. The Company's Bylaws explicitly disallow any mechanism granting an *ipso jure* double voting right to shares for which custody in registered form and under the same name can be proven for at least two years.

21.2.3.2Rights to dividends and profits

Proportionally to the amount of existing shares, each share grants the right to capital ownership and entitlements to the distribution of profits, subject to the par value of the shares and to the various rights assigned to shares of different class.

21.2.3.3Time frame for claiming dividends

Dividends that have not been claimed within a period of 5 years as from the date they are paid out will be transferred for the benefit of the State (Article L. 1126-1 of the French General Code of Ownership for Public Persons, or *code général de la propriété des personnes publiques*).

21.2.3.4Right to the liquidation surplus

Proportionally to the amount of existing shares, each share grants the right to a portion of the liquidation surplus.

21.2.3.5Preferential subscription right

The Company's shares all carry a preferential subscription right for share capital increases.

21.2.3.6Limitations on the right to vote

None applicable.

21.2.3.7Identifiable bearer securities

The shares are held either in registered or bearer form, at the shareholder's discretion. When held in registered form, the shares are registered in a securities account under the conditions and in accordance with the terms set forth by the legal and regulatory provisions in force.

At any time, and in compliance with applicable legal and regulatory conditions, the Company can pay the central custodian in charge of the issuing account of its securities to receive information on the holders of securities granting immediate or future voting rights at its General Shareholders' Meetings, as well as the number of securities held by each of them and, as the case may be, any restrictions that may apply to said securities.

21.2.3.8Share repurchase program

Please refer to section 21.1.3 entitled “Share Repurchase Program” of this Registration Document for further information.

21.2.4 Changes in the rights of shareholders

The rights of shareholders, as they appear in the Company’s Bylaws, can only be amended at an Extraordinary Shareholders’ Meeting of the Company.

21.2.5 General Shareholders’ Meetings

The General Shareholders’ Meeting is open to all shareholders, regardless of the number of shares they own.

Based on the subject matter of the proposed resolutions, ordinary or extraordinary shareholders’ meetings can be convened at any time of the year.

General Shareholders’ Meetings are convened according to the procedure and time frames set by law.

General Shareholders’ Meetings are held at the Company’s registered office or any other location indicated in the notice of meeting.

Each shareholder has the right to request receipt of the documents necessary to enable him or her to speak knowledgeably and make an informed opinion on the management and direction of the Company.

Any shareholder, regardless of the number of shares he or she owns, can participate in General Shareholders’ Meetings, either in person or via proxy by granting the necessary powers to another shareholder, or to his or her spouse or partner with whom he or she has executed a *pacte civil de solidarité* (civil union agreement) or, if the company’s shares are admitted to trading on a regulated market, to any other physical person or legal entity of his or her choice, or to the Company without specifying an agent, or by mailing in his or her vote, in accordance with the legal and regulatory terms and conditions in force.

Ordinary Shareholders’ Meetings are convened regarding decisions that do not modify the Bylaws.

Only Extraordinary Shareholders’ Meetings have the authority to modify stipulations in the Bylaws. However, barring a unanimous shareholder vote, it cannot increase the commitments of shareholders, subject to transactions resulting from an exchange or a consolidation of shares decided on and carried out under normal conditions.

Ordinary and Extraordinary Shareholders’ Meeting deliberate under the quorum and majority conditions set forth in the legal provisions governing each of them, respectively.

21.2.6 Provisions that may delay, defer, or prevent a change in control

The Company’s Bylaws do not provide for any mechanisms able to delay, defer, or prevent a change in control.

21.2.7 Provisions concerning crossing statutory thresholds

None applicable.

21.2.8 Specific provisions governing changes in the share capital

There is no specific provision in the Company's Bylaws that governs changes in its share capital.

21.3 Pledging of the Group's assets or shares

As of the filing date of this Registration Document, the Group has not pledged any shares or assets.

22. KEY CONTRACTS

Beside the contracts entered into in the normal course of the Group's business activities, the Company entered into or took over various significant contracts that would be subject to changes or termination in the event of a change in the control of the Company.

Core license agreement between Atmel Corp. and the Company dated September 30, 2010

In connection with the acquisition of the Atmel SMS business, pursuant to a contract dated September 30, 2010, Atmel granted to the Company several worldwide, non-exclusive, non-transferable royalty bearing licenses under the intellectual property rights owned or licensable by Atmel, and relating to the design of the transferred technologies. The licenses allow for the development, manufacturing, and sale of licensed products ("Secure Microcontrollers" and "Smart Secure Chips" based on Atmel's secure semiconductor AVR core and "Smart Card Readers" based on Atmel's standard AVR core). The licensed products are some of the existing integrated circuits of the SMS business as well as new products with respect to Secure Microcontrollers and Smart Secure Chips. The right to develop new products is limited and subject to different certification and first commercialization deadlines based on the type of product. In addition, the products can only be manufactured by Atmel-approved foundries.

Atmel's liability pursuant to this license is strictly limited to the amount of royalties received by Atmel under the license agreement. The license grant may include third party intellectual property rights for which the Company must obtain proper authorizations.

The contract is in effect for the period during which the Company sells the products using the licensed technologies, it being understood that licenses relating to the development of future products are limited to 3 or 6 years based on the products in question. Since the initial three-year period applicable to Secure Microcontrollers expired on September 30, 2013, the Company cannot continue to develop new Secure Microcontrollers under this license. However, it can continue to sell the licensed products that obtained the necessary certifications as of that date and that were first commercialized before March 31, 2014. Also, until September 30, 2016, the Company can continue to develop and have certified Smart Secure Chips. Each party can terminate the contract in advance in the event that the other party commits a material breach of the contractual terms, voluntarily petitions in bankruptcy, otherwise seeks protection under any law for the protection of debtors, has a proceeding instituted against it under any provision of the United States Federal Bankruptcy Code or equivalent legislation of a foreign jurisdiction which is not dismissed within ninety (90) days, or is adjudged bankrupt, ceases or suspends business, or makes an assignment of the majority of its assets for the benefit of its creditors.

The Company may not transfer the license agreement without Atmel's prior approval. However, Atmel's approval is not necessary in case of transfer of the SMS business or in case of a change of control of the Company, although in such events the conditions of the license could be restricted, in particular with respect to the term of the agreement.

The agreement is governed by the laws of the State of New York and provides that any dispute between the parties shall be submitted to a sole arbitrator chosen by the parties pursuant to the JAMS arbitration rules. (*Comprehensive Arbitration Rules and Procedures of the Judicial Arbitration and Mediation Services*).

Patent License Agreement between Atmel Corp. and Cryptography Research Inc. dated August 12, 2009, transferred to the Company as part of the acquisition of Atmel Corporation's SMS business

Pursuant to this agreement, Cryptography Research Inc. ("CRI") granted a worldwide and non-exclusive license to Atmel (the initial beneficiary of this license) under Differential Power Analysis

(“DPA”) patents and patent applications covering countermeasures against power analysis attacks, excluding patents designated as the CryptoFirewall patents.

Under the terms of this license, Atmel Corp. agreed to pay, in addition to an initial lump sum amount, an annual fee based on the selling price of some of its products. An additional licensing fee could also be due in the event that Atmel acquires a new entity that requires such license and does not already have one.
The liability of the parties is limited as set forth in the agreement and does not cover consequential damages or lost profits. However Atmel is liable for the payment of all licensing fees.

The initial term of the agreement expired on January 1, 2014. Thereafter, the agreement automatically renews for successive one-year periods until the protection afforded by the licensed patents terminates, unless otherwise notified by Atmel 90 days prior to termination. Thus, the contract tacitly renewed for a one-year period as from January 1, 2014. Either party can terminate the agreement in the event the other party (i) commits a material breach of the agreement that has not been cured within 60 days following notice of such breach or (ii) becomes bankrupt, insolvent, subject to an order for liquidation, administration, winding-up or dissolution, or makes an assignment for the benefit of creditors.

CRI may terminate the agreement in the event Atmel provides false royalties reports or challenges a DPA patent.

No party may transfer the agreement without the prior consent of the other party, including in the event of a change of control. In order to transfer the agreement, a Replacement Agreement shall be entered into between CRI and the acquiring entity.

The Company succeeded to Atmel’s rights and obligations under this license agreement in connection with the acquisition of Atmel’s SMS business.

This agreement is governed by the laws of the State of California and is subject to the jurisdiction of the United States District Court for the Northern District of California.

In some cases, however, the parties may choose to submit a dispute to arbitration or any other alternative means of dispute resolution.

Tamper Resistance License Agreement between the Company and Cryptography Research, Inc. dated July 1, 2009

Pursuant to this agreement, CRI granted a worldwide and non-exclusive license to the Company and its subsidiaries controlled as of the date of the agreement, under Differential Power Analysis (“DPA”) patents and patent applications excluding the CryptoFirewall patents, for those Company semiconductors covered by the licensed patents and listed in a schedule to the agreement.

Under the terms of the license, the Company agreed to pay, in addition to an initial lump sum amount, an annual fee based on the selling price of certain of its products. An additional licensing fee could also be due in the event the Company acquires a new entity that requires such a license and does not already have one.

The liability of the parties is limited as set forth in the agreement and does not cover consequential damage or lost profits. The Company is liable for the payment of all licensing fees and CRI is liable with respect to its representations and warranties.

The agreement expires on the later of the fifth anniversary of the agreement and the date on which the last licensed DPA patent expires. Either party can terminate the agreement in the event the other party (i) commits a material breach of the agreement that has not been cured within 60 days following notice of such breach or (ii) becomes bankrupt, insolvent, subject to an order for liquidation, administration, winding-up or dissolution, or makes an assignment for the benefit of creditors. CRI may also terminate the agreement in the event the Company provides false royalties reports or the Company or one of its affiliates challenges a DPA patent.

Finally, as of July 1, 2014, and at each anniversary date of the agreement, i.e. on July 1 of each year, the Company can terminate the agreement with 90 days prior notice, provided that none of the Company's products remain covered by the licensed patents on the termination date of the agreement.

The Company cannot assign the agreement to a third party without the prior consent of CRI, including in the event of a change of control. However, both parties can transfer the agreement to any person acquiring almost all of the assets related to this agreement, either by merger, sale of assets or otherwise, provided that the transferee provides a written commitment to accept and comply with the terms of the agreement. From the date of any assignment, the assignee is deemed as the initial signatory of the agreement.

This agreement is governed by the laws of the State of California and provides that any dispute between the parties shall be submitted to an arbitrator pursuant to the JAMS arbitration rules (*Comprehensive Arbitration Rules and Procedures of Judicial Arbitration and Mediation Services*). However, any dispute regarding the validity, applicability or scope of the DPA patent license shall be resolved by judicial proceedings.

Patent License Agreement for Near Field Communication Technology **between the Company and France Brevets**

The Company and France Brevets entered into a patent license agreement on June 19, 2012. This agreement was subsequently amended on July 12, 2012, December 19, 2012, November 28, 2013, May 2, 2014, and July 29, 2014.

Under the terms of this agreement and its amendments, the Company grants France Brevets a worldwide, exclusive, royalty bearing license to grant non-exclusive licenses to third parties for certain patent families owned by the Company in the field of NFC ("near field communication") technology. This license neither applies to secure elements nor "smart cards", as defined under ETSI standards and under the ISO 7816 standard, nor to "Booster" technology, as claimed under the Company's patents. France Brevets is licensed to institute judicial proceedings to defend the rights attached to the licensed patents.

The license provides that the Company and its affiliates retain the right to directly use the licensed patents, in particular, to manufacture and sell their products.

Except in relation to the transfer of the Company's NFC assets to a third party, France Brevets has a right of first refusal if the Company decides to sell one of the licensed patents.

The license will remain in force until the expiration of the last licensed patent. The Company may terminate the contract *ipso jure*, under certain conditions, especially if France Brevets fails to reach the contractual objectives, if France Brevets breaches its contractual obligations, and/or if, in the context of the potential transfer of the Company's NFC assets, the acquirer wishes to terminate the license subject to the payment of an indemnity to France Brevets.

The contract is governed by French law and is subject to the competent jurisdiction of the courts of Paris, France.

***Amended and restated NFC technology license agreement* between the Company and Intel**

On May 19, 2014, the Company and Intel entered into a license agreement in effect as from June 16, 2014, relating to the NFC technology owned by the Company. This agreement replaces an initial agreement dated August 23, 2011. This agreement and the ancillary agreements were granted in consideration of the payment of US$ 19,200,000 to the Company.

This new agreement broadens the scope of the license rights initially granted to Intel and specifically extends the initial worldwide and perpetual license into to a broader license enabling Intel to freely use Inside's MRv5 technology without any recurring fees. In consideration of this license, Intel paid a one time license fee to the Company upon the closing of this new agreement. The Company remains the owner of most of the intellectual property rights and titles underlying the aforementioned license. The Company transferred to Intel the semiconductor NFC modem and software technology for the next generation MicroRead-v5 product that was under development by the Company, as well as various tangible and intangible assets associated with it, including some intellectual property rights.

Pursuant to an exclusivity undertaking, the Company agreed not to directly or indirectly use or license the licensed technology and some intellectual property rights to a third party (with the exception however of patents) for the development of a standalone NFC microcontroller or a standalone NFC technology that would be substantially similar to the MRv5 product.

The license is transferable by both parties insofar as (i) the third party beneficiary accepts to be bound by the terms of the license agreement, (ii) the rights to the licensed technology and intellectual property rights are transferred to a third party to which the Company assigns the license agreement, and (iii) Intel does not transfer the license agreement to one of the Company's competitors without the prior approval of the Company.

All of the rights associated to any derivative works developed and improvements made by Intel to the transferred technology and licensed technology are the exclusive property of Intel, and the Company and its affiliates are not licensed under aforementioned derivative works and improvements.

In the event of a dispute that cannot be resolved amicably, the license is subject to the laws of the State of New York and to the jurisdiction of the federal courts located in New York City.

23. THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS, AND DECLARATIONS OF INTEREST

None applicable.

24. DOCUMENTS AVAILABLE TO THE PUBLIC

The Bylaws, minutes of General Shareholders' Meetings, and other corporate documents of the Company, as well as historical financial information or any evaluation or statement prepared by an expert at the request of the Company and that must be made available to shareholders in accordance with applicable law, can be accessed free of charge at the registered offices of the Company.

As from the date of the admission of the shares of the Company to trading on the Euronext regulated market in Paris, France, the regulated information in the meaning of the provisions of the AMF's General Regulations will also be available on the Company's website (www.insidesecure.com).

25. INFORMATION ON EQUITY HOLDINGS

Other than the Company's subsidiaries and equity holdings listed in the Group's scope of consolidation as described in the Notes to the Group's Consolidated Financial Statements (please refer to sections 20.1 entitled "Historical Financial Information" and 20.6 entitled "Interim Financial Information" of this Registration Document for further information), the Company and its subsidiaries do not have equity holdings in other companies that could have a significant impact on the valuation of its their assets, financial position, or income.

26. GLOSSARY

Android:	Google's open source operating system and middleware for smartphones, tablet and other mobile devices. For example, it is used in TV sets, alarm clocks, connected watches, car radios, and even cars.
API *(Application Programming Interface):*	set of routines, data structures, object classes, and variables available to computer programs via a software library, an operating system, or a service allowing for interoperability between software components.
Baseband:	in the telecommunications industry, the mechanism that communicates via baseband. For example, in a smartphone, it's the chip responsible for the telephony part of the device. For a TNT password, it's the chip responsible for decoding the channel.
Bluetooth:	short-range, radio frequency, communication technology standard aimed at simplifying connections between electronic devices. It is used primarily with mobile phones, wireless headsets, computers and peripherals.
BYOD *(Bring Your Own Device):*	the act of using personal equipment (mobile phones, tablets, laptop computers) in a professional context.
Chip:	electronic packaged component able to perform one or more electronic functions of varying complexity, often integrating several types of basic electronic components on few square millimeters. Synonymous with integrated circuit.
Cloud computing:	concept of deporting to distant servers the computer processing typically completed on local servers or the user's machine (e.g. computer or mobile phone). Users no longer manage their computer servers, but can still gain access to a growing number of online services without having to manage the underlying infrastructure.
Company:	INSIDE Secure.
Cryptology:	encryption method by which a message is made unintelligible in the absence of an appropriate decryption key. Keys are based on mathematical algorithms.
Design in:	confirmation by a customer, often following a selection process, that a product has been officially selected for development of a project. The customer then forms his project team and starts the design phase of its own product. This design phase lasts, in the case of a mobile phone, between 6 and 12 months ("design-in to design-win" phase).

Design win:	confirmation by a customer, at the end of the design in and testing phase of a product, that a product can be used as part of its solution and, therefore, purchase orders for the product are made in significant volumes.
Dollar, **US Dollar, US$** and **$:**	legal currency in the United States.
DRM (Digital Right Management):	secure technology that enables copyright holders of an object subject to intellectual property (such as an audio, video, or text file) to specify what a user has the right to do with it. Generally, it is used to propose downloads without worrying that the user will distribute the file freely throughout the web.
Dual Interface Technology:	single-chip based technology that allows both contact and contactless payment.
EMV (*Europay Mastercard Visa*):	international security and interoperability standard for payment cards, in force since 1995.
ESS:	Embedded Security Solutions.
Fabless:	business model, for semiconductor company, which consists of outsourcing its manufacturing function to one or more foundries in order to focus on the development and sale of semiconductors.
Fab-lite:	business model, for semiconductor company, which consists of adopting a strategy that combines an in-house manufacturing and the subcontracting of part of the process to third-party foundries.
Finished product:	product that has undergone a transformation in order to provide it with added value and is ready for use by the end customer.
Firmware:	software program embedded in a chip.
Foundry:	company specializing in the manufacturing of semiconductor wafers for third-party companies.
GPS (*Global Positioning System*):	satellite geo-positioning standard created by the U.S. army that enables the location and identification of a compatible device supporting this standard.
Group:	the Company and its subsidiaries.
HCE (Host Card Emulation):	virtual representation of a smart card via software installed on the electronic equipment's main processor.
Inlay:	chip connected to an antenna for contactless applications.

Integrated circuit (IC):	electronic component performing one or more potentially complex electronic functions, often integrating several types of basic electronic components on few square millimeters. Synonymous with chip.
Interoperability:	ability of a product or system based on a standard, to work with other products or systems without restriction of access or implementation.
ISO (*International Organization for Standardization*)**:**	international standards organization composed of representatives from national standards organizations from 158 countries, the mission of which is to establish international standards, called ISO standards, in the industrial and commercial fields.
Machine-to-machine:	combination of information and communication technologies with smart objects able to communicate in order to provide them with the means to interact with the information system without human intervention.
Microcontroller:	integrated circuit incorporating the basic elements in a system such as: a microprocessor core, memory (ROM for program, volatile and non-volatile memories for data), peripherals and input-output interfaces.
Microelectronics:	designing and manufacturing of electronic components initially at the micrometer, now at the nanometer scale. These components are made from semiconductor materials such as silicon.
Microprocessor:	the part of a system that executes instructions and processes program data.
Middleware:	software that creates an information exchange layer between the various applications and/or software layers.
Mobile devices:	mobile handsets, tablets and laptops.
Mobile payment:	payment method enabling transactions from a mobile terminal (e.g. smartphone), with payment being debited to the credit card, the invoice from the operator or an electronic purse. There are three categories of mobile payments: remote payments; proximity payments in front of a terminal (with the NFC technology); or mobile-to-mobile money transfers (peer-to-peer).
Module:	one or several chips packaged together with a number of discrete components (resistors, capacitors, etc.).
NFC (*Near Field Communication*):	Short-range, radio frequency, wireless connectivity standard that enables communication between devices within a short range of each other.

NFC Forum: organization established to accelerate and promote the use of NFC by developing specifications to guarantee interoperability between electronic devices and services and, in general, contributing to a better understanding of the NFC technology and applications. Created in 2004, the Forum now has nearly 140 members, hardware manufacturers, application developers and financial institutions, who are working together to promote the use of NFC in mobile devices, computers and consumer electronics.

Obfuscation: the deliberate act of creating obfuscated code, i.e. source or machine code that is difficult for humans to understand and challenging to hack.

ODM (*Original Design Manufacturer*): in the context of the Group's activities, a company providing development and manufacturing services based on its customers' specifications, and which does not market products to end consumers under its own brand.

OEM (*Original Equipment Manufacturer*): in the context of the Group's activities, a company that sells products under its brand and may, as the case may be, subcontract the development and manufacturing to an ODM.

Open source: software for which the license meets the criteria established by the Open Source Initiative, i.e. offering the possibility of free redistribution and access to source code and derivative works.

Operating system: software that manages hardware and software resources from the device and provides common services for computer programs.

Operator: companies operating in the mobile telecommunications sector running the telecommunication service and offering subscription to this service to the end customer.

OTT (*Over The Top*): content distribution method via internet and without a multiple system operator being involved beyond the ISP's data routing services.

Packaging: package used as the mechanical interface between the component (integrated circuit or IC) itself and the printed circuit or the electronic card, which usually consists of plastic, sometimes of ceramic and less frequently of metal materials.

Peer-to-Peer: communication mode between two terminals using a common communication standard, which enables, among other things, file sharing and multimedia exchanges.

PKI ***(Public Key Infrastructure):*** all of the physical components, human procedures and software needed to manage the life cycle of digital or electronic certificates.

Protocol:	set of rules for establishing a communication between two entities or two systems.
Reference design:	elements and information relating to one system's engineering design, which is meant to be used and copied by others. It includes essential elements of the system, but third parties can modify or improve their designs if necessary.
RFID *(Radio Frequency Identification)*:	technology that allows the remote storage and exchange of data within a short-range based on markers called electronics tags (RFID tags). Electronic tags are small items such as adhesive tags that can be attached to or incorporated in objects, products or even living organisms (animal and human bodies). They include an antenna associated with a chip that enables them to receive and respond to requests issued from a radio transceiver.
Semiconductor:	material that has the same electrical properties as an insulator but can be used as a conductor by adding a small amount of impurities into it, and represents the basic element for microelectronics.
Service de message court (*SMS - Short Message Service*):	mobile telephony standard that allows users to exchange text messages between their mobile handsets and other devices.
SIM card (*Subscriber Identity Module*):	smart card used in mobile handsets to store information specific to the subscriber of a mobile network, particularly for networks such as GSM or UMTS. It can also store applications from the user, its operator or, in some cases, third parties.
Smart card:	flexible card with an embedded integrated circuit designed to process and store data. It contains at least one integrated circuit capable of processing information. The smart card is generally used for authentication or payments.
Smart meter:	meter powered with advanced technologies that identify with increased accuracy, potentially real-time, the energy consumption of a home, building or business, and sends the data directly to a management system using the telephone line or powerline communication. Smart meters allow for real-time preparation of bills and identification of the most costly items for the customer. They can inform the customer for brownouts or losses on the grid and also be remotely programmable and equipped with a remote switching device. Programmable meters are the basic element that allow for significant changes for the entire grid, generically red to as "smart grid".
SMS:	Secure Microcontroller Solutions business acquired by the Company from Atmel on September 30, 2010
Software stack:	a set of programs that work together to produce a result (e.g. an operating system and its applications).

SWP *(single wire protocol)*: protocol that ensures communication between a NFC chip and a SIM card or between a Secure Element and an application processor.

System-on-chip: comprehensive system embedded on a chip that may include memory, one or more microprocessors, interface devices or any other components required to achieve the intended function.

Terminal: electronic device capable of reading data from a payment card, recording a transaction and communicating with a remote authentication secure server.

Token: used in addition to or instead of a password in order to prove that the customer is the one he or she alleges to be. The token acts like an electronic key to gain access to data.

Toolkit: all tools, libraries, and subprograms used to facilitate the creation of computer programs and use interfaces.

Transistor: basic active electronic component used mainly in electronics as a control switch to produce a “0” or a “1”.

USB flash drive: storage device that uses flash memory and connects itself to the USB port of a computer.

VPN *(Virtual Private Network):* extensive private network created by establishing permanent custom connections between corporate networks via public networks in order to share resources among its users.

Wafer: relatively thin slice of semiconductor material such as silicon, from which integrated circuits are made. It is used to support the manufacture of transistor-based microstructures using processed such as doping, etching, deposit of other materials (epitaxy, sputtering, chemical deposit in vapor phase, for example) and photolithography.

Wi-Fi *(Wireless Fidelity):* communication and local network management standard for wireless short-range connectivity (from few centimeters to a hundred meters).

Wireless LAN (wireless network): digital or computing network connecting different devices or systems together through the use of radiofrequency waves. Wi-Fi is the main standard for wireless LAN.

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